BUDGET COMMITTEE ON GOVERNMENT FINANCE

The Budget Committee on Government Finance was assigned four areas of responsibility. House Concurrent Resolution No. 3045 directed a study of the current budget process, the results of the program-based performance budgeting pilot project, budget reforms in other states, and the feasibility of developing a legislative budget. House Concurrent Resolution No. 3002 directed a study of the state's investment process as it relates to the state bonding fund and fire and tornado fund and the monitoring of the performance of all investments of the State Investment Board and the Board of University and School Lands. Senate Concurrent Resolution No. 4019 directed a study of transportation funding. The committee was also assigned the responsibility of monitoring the status of state agency appropriations.

Committee members were Senators David E. Nething (Chairman), Rod St. Aubyn, Bob Stenehjem, and Harvey D. Tallackson and Representatives Rick Berg, Jeff W. Delzer, Bette Grande, Roy Hausauer, Keith Kempenich, Matthew M. Klein, William E. Kretschmar, Ronald Nichols, Elwood Thorpe, Ben Tollefson, and Gerry Wilkie.

The committee submitted this report to the Legislative Council at the biennial meeting of the Council in November 1998. The Council accepted the report for submission to the 56th Legislative Assembly.

BUDGET PROCESS STUDY

House Concurrent Resolution No. 3045 directed the Legislative Council to study the current budget process including:

1. The results of the program-based performance budgeting pilot project.
2. Budgeting reforms in other states.
3. How agency and institution appropriation balances at the end of the biennium should be handled.
4. The benefits that new information technology could provide in budget development and budget presentation.
5. The effect of budget recommendations on future biennial budgets.
6. The detailed information supporting agency budget requests and the executive budget recommendation.
7. Alternative budgeting methods that use performance reviews to evaluate proposed agency budgets.
8. The feasibility of developing a legislative budget (Legislative Council directive).

Background

The committee reviewed the history of the fiscal process in North Dakota. The committee learned that in the 1960s, the Legislative Assembly determined that the state needed to improve its fiscal processes. As a result, the Office of Management and Budget (OMB) was established, the state accounting system was created, the Governor was given the opportunity to recommend a budget to the Legislative Assembly, and the Legislative Budget Analyst and Auditor position of the Legislative Council was created to provide staff services to the Legislative Assembly on the budget. Major issues that led to these changes include:

1. The number of agency expenditures made without legislative oversight.
2. Appropriations that continued beyond the end of each biennium.
3. The number of continuing appropriations.

Since then, the Budget Section has often asked for improvements in the supporting information included in budget requests and the executive budget. The Budget Section has stressed the need for budget changes to be categorized as new programs, workload changes, inflationary increases, or by other categories to assist in analyzing the budget. The Legislative Assembly has stressed the importance of monitoring full-time equivalent (FTE) employees of state agencies and state government in total.

The committee reviewed the current budgeting process. The committee learned that state agencies prepare their budget requests based on the previous biennium's authorized budget levels. Changes to the previous level are identified and explained. Agencies' budget requests are prepared by program and by object code, such as salaries and wages, operating expenses, etc., for each program. The Office of Management and Budget reviews the budget requests and revenue forecasts and develops the executive budget recommendation presented to the Legislative Assembly at the organizational session in December. The Office of Management and Budget also prepares the bills for introduction to the Legislative Assembly necessary to implement the executive budget recommendations, including agency appropriation bills, bills containing proposed revenue changes, and bills making organizational or other changes recommended in the executive budget. The Legislative Assembly holds public hearings, considers, and acts on these appropriation bills as well as other bills containing appropriations or affecting revenues in order to develop the biennial state budget for North Dakota by the close of the legislative session.

Legislative Budget

The committee considered the feasibility of developing a legislative budget.

North Dakota and Other States

The committee reviewed previous legislative budget discussions occurring in North Dakota and budget processes in other states that involve a legislative budget being introduced as an alternative to the executive budget. The committee learned that in 1981, the Legislative Assembly considered, but did not approve, Senate Bill No. 2426 that would have provided for a legislative budget to be developed by a subcommittee of the Budget Section. Of the other states reviewed, the committee learned that four states--Arizona, Colorado, New Mexico, and Texas develop legislative budgets as an alternative to the executive budget.

In Arizona, the legislative budget is prepared primarily by legislative staff and leadership from September through December before each

legislative session. Both the executive recommendation and the legislative budget are presented to the legislature during the first week of the regular session.

In Colorado, a joint budget committee, consisting of six members, is responsible for developing the legislative budget from November through March by meeting three to four days per week. The executive budget is the starting point for the joint budget committee to develop its legislative budget.

In New Mexico, the legislative budget is prepared from September through December of each year preceding the legislative session by a 16-member interim Legislative Finance Committee. The committee meets three to four days per week from September through December to develop the budget with the assistance of the legislative fiscal staff. Both the executive and legislative budgets are presented to the legislature on the first day of the regular session which begins in January.

In Texas, the legislative budget is prepared from March through December of each even-numbered year by the Legislative Budget Board staff. Legislative leadership provides staff with general budget guidelines, but a legislative committee does not oversee the development of the legislative budget. The legislative budget in Texas is the primary budget document considered by the full legislature during the session. Although the Governor may recommend a detailed executive budget, recent Texas governors have made general budget recommendations for the legislature to consider rather than a comprehensive detailed executive budget.

Legislative Budget Procedures

The committee considered procedures that could be involved in the development of a legislative budget. The committee considered additional budget-related activities that could occur during the interim and during the session to result in the completion of a legislative budget by the close of the legislative session.

Interim enhancements would expand interim budget-related activities of the legislative branch through the Legislative Council's committee structure. The Legislative Council budget committees could:

1. Monitor the implementation of agency budgets, including legislative intent items.
2. Conduct selected agency program reviews or studies.
3. Conduct budget tours.
4. Receive agency and public testimony regarding the implementation of an agency's current budget and development of the next biennial budget.
5. Provide input for agency budget development.
6. Review agency budget requests.
7. Identify major budget issues and priorities.
8. Request specific budget-related information to be prepared by agencies and presented to Appropriations Committees during the next legislative session.
9. Make observations and report major budget findings.
10. Make budget recommendations.
11. Monitor revenue collections and be involved in preliminary revenue estimate development for the next biennium.

Legislative session activities would result in completing the legislative budget by the close of the regular session as follows:

1. The Legislative Assembly would use the Legislative Council's budget report, agency budget requests, the executive budget recommendation, and analyses prepared by the legislative fiscal staff to develop the legislative budget by the close of the regular session.
2. The Legislative Assembly would adopt or develop its legislative revenue forecast considering the recommendations of the Legislative Council and the executive budget revenue forecast recommendation.
3. Appropriation bills would be prepared by the Appropriations Committees during the session rather than being introduced in support of the executive budget recommendation. The Appropriations Committees would have available for consideration in the development of the appropriation bills, agency budget requests, the executive budget recommendation, Legislative Council budget recommendations and priorities, legislative budget initiatives and priorities, and additional budget-related information prepared by agencies as a result of interim committee work.
4. After the close of the session, the legislative fiscal staff would prepare a report on the approved legislative budget which would include supporting information, including a comparison to the executive budget.

Interim Committees and Activities

The committee received a report from the Legislative Council staff indicating that the Legislative Council may need to create a legislative budget committee and four interim budget committees to review, analyze, and evaluate programs, budgets, and budget requests of agencies in order to develop budget recommendations to assist the Legislative Assembly in approving a legislative budget by the close of the legislative session.

The following types of activities could be assigned to the interim committees:

1. The monitoring of the implementation of agency budgets as approved by the Legislative Assembly.
2. The monitoring of income and expenditures of agencies compared to their projected income and expenditures.
3. The reviewing of agency programs as directed by the legislative budget committee.
4. The conducting of budget-related studies as directed by the Legislative Assembly or the legislative budget committee.
5. The visiting of state institutions (budget tours).
6. The consideration of alternative budget scenarios for an agency.
7. The reviewing, analyzing, and evaluating of programs and activities of an agency.

8. The reviewing of agency program goals and objectives and the monitoring of their progress toward achieving the goals and objectives.
9. The reviewing of performance measures of agencies and monitoring their actual performance.
10. The reviewing of agency budget requests.
11. The reviewing of input from agency personnel and the public regarding agency budgets and performance.
12. The identification of legislative priorities relating to agency budgets.
13. The identification of major budget issues the Legislative Assembly should consider addressing.
14. The development of budget-related recommendations.
15. The monitoring of general fund revenue collections of the current biennium.
16. The monitoring of special fund revenues and balances and federal fund receipts of the current biennium and project revenues and receipts for the subsequent budgeting cycle.
17. The development of, in cooperation with the Tax Department and OMB, recommendations relating to general fund revenue projections for the subsequent budgeting cycle.
18. The reporting of findings and recommendations to the legislative budget committee.

It is anticipated that the legislative budget committee and other interim budget committees would focus on major agency issues, legislative concerns, budget initiatives, and alternative budget scenarios rather than recommending a specific funding level for an entire agency's budget.

Estimated Cost

The estimated biennial cost of travel and per diem for the legislative budget committee and four interim budget committees totals $141,080. The estimated biennial cost of two additional fiscal staff positions and one support position to meet the additional demand for staff services totals $298,402. These estimates could be more or less depending on:

1. The extent to which studies now assigned to interim budget committees are done by the committees created to assist the legislative budget committee.
2. The number and length of meetings of these new committees. The estimate assumes a similar meeting schedule as current interim budget committees.
3. The extent to which studies now assigned to interim budget committees are conducted by other Legislative Council committees or by additional Legislative Council committees.

The schedule below presents the detail of these cost estimates:

	Estimated Biennial Cost
Salaries and wages	
Committee member per diem	$57,690
Permanent employees - Three FTE	246,974
Total	$304,664
Operating expenses	
Committee member travel	$83,390
Data processing	24,128
Other	12,300
Total	$119,818
Equipment	$15,000
Total	$439,482

If statutory changes are made providing for the Legislative Council to develop a comprehensive legislative budget proposal for presentation at the organizational session, an estimated two additional interim budget committees, four additional staff positions, and related per diem, travel, and other operating and equipment funding would be needed. The fiscal impact of this proposal would total $971,041, or $531,559 more than the proposal reviewed above involving only budget-related recommendations.

Benefits and Concerns

The committee discussed benefits and concerns of developing a legislative budget and receiving testimony from state agency representatives regarding this topic. Major items heard and discussed include:

1. The need for legislators to receive budgetary information earlier to assist in making budgetary decisions.
2. Concern regarding the limited amount of time available during the legislative session for legislators to adequately address budget concerns. Additional time spent prior to the session would be valuable in analyzing agency budgets during the session.
3. Developing a legislative budget would, to a greater extent, involve legislators not serving on Appropriations Committees in the budgeting process.
4. Because of the interim budget activities, Appropriations Committee members might be more familiar with budget information which could potentially speed up the process during the session.
5. Being involved in agency budget development and reviewing budget requests prior to the session will familiarize legislators with agency

budgets and could especially benefit legislators who may serve on Appropriations Committees for the first time.
6. More legislators would be involved in the budgeting process and the minority party would have more input in budget development.
7. Legislators might refrain from recommending programs that differ from those included in the executive budget because of the way a change is reported in relation to the executive budget. The development of a legislative budget may allow more legislative initiatives to be considered.
8. At times leadership now is put in a position of reacting to changes made to the executive budget rather than speaking to a legislative position. A legislative budget may allow legislative initiatives to be considered equally with the executive budget
9. Under the current budget process, the Legislative Assembly reacts to budget issues and recommendations rather than being proactive in developing budget recommendations to address budget issues through the development of a legislative budget.
10. In the development of a legislative budget, agency performance should be considered and included as supporting information for budget recommendations.
11. Concern that activities involved in a legislative budget will duplicate activities of OMB.
12. Concern regarding the additional amount of time legislators would spend meeting prior to the session.
13. Concern that extensive interim committee work will need to be done at the same time as a number of legislators will be campaigning for reelection.
14. Concern that agencies may need to work with two sets of budget guidelines if the Legislative Assembly also sets budget guidelines.
15. Concern that estimated costs may increase substantially in future years if legislative budget development is expanded to include specific recommendations in all areas of the state budget.

Recommendations

The committee recommends Senate Bill No. 2031 to provide for a legislative budget that includes the following:

1. The Legislative Council would create a legislative budget committee to coordinate and direct activities involved in the development of budget recommendations to assist the Legislative Assembly as it develops the final legislative budget. The legislative budget committee composition would be determined by the Legislative Council. With the advice of the legislative budget committee, the Legislative Council would create additional committees to assist the legislative budget committee in performing its duties and responsibilities. This will allow for greater involvement by the Legislative Assembly and allow more legislators to have input in the budgeting process of state government. A goal of the budgeting process is to include historic and anticipated agency performance as supporting information for budget recommendations.
2. The legislative budget committee would:
    - Develop by June 1 of the year preceding the legislative session, a preliminary legislative budget report, subject to Legislative Council approval. The report would include goals for revenues, major appropriations, and the ending general fund balance for the next biennium.
    - Develop budget guidelines and parameters, subject to Legislative Council approval, for the interim budget committees to utilize in the development of their budget recommendations.
    - Advise the Legislative Council on the interim budget committee structure needed to address legislative budget issues.
    - Assign budget-related studies identified by the Legislative Assembly (in a concurrent resolution or section of a bill) to the interim budget committees. The legislative budget committee could assign other budget-related studies it determines necessary to interim budget committees during the interim.
    - Assign program reviews it determines necessary to other committees designated by the Legislative Council to have budget responsibilities.
    - Review, analyze, and evaluate budgets, budget requests, programs, and activities of state agencies, institutions, and departments.
    - Monitor agency performance by using performance measures when appropriate.
    - Develop budget forms, guidelines, or requests for supporting data that agencies would have to include in their budget requests. These forms, guidelines, or other requests would be incorporated by OMB into the budget request forms and budget guidelines issued by OMB for the agencies to use when preparing their budget requests. Agencies would continue to prepare only one request.
    - Conduct hearings it determines necessary to perform its duties and responsibilities. Interim committees designated by the Legislative Council to have budget responsibilities would also hold hearings necessary to assist the legislative budget commit- tee in performing its duties and responsibilities. Hearings could be held jointly with OMB's executive budget hearings.
    - Review and approve any reports or recommendations of the interim committees as designated by the Legislative Council.
    - Develop budget-related recommendations to assist the Legislative Assembly as it develops policy and provides appropriations for the operations of state government. The recommendations could relate to the state budget or any part of the state budget, including general fund revenues and appropriations, special funds or federal funds, funding or operations of state agencies, and assistance to political subdivisions.
    - Present a report on its budget-related recommendations to the Legislative Council in November and to the Legislative Assembly.
    - Provide assistance during the legislative session as requested by legislative leadership.
3. Agencies, including OMB and the Tax Department, would be required to cooperate with legislative committees and provide requested information, including economic and revenue projection information.
4. The Governor would continue to present the executive budget at the organizational session.
5. The appropriation bills would be prepared by the Appropriations Committees during the session rather than being introduced in support of the executive budget recommendations. A section is added providing that the Legislative Assembly is to adopt rules to provide for the consideration of budget recommendations made by the Governor and the Legislative Council and to provide for preparation of appropriation bills by the Appropriations Committees based on hearings during the legislative session on agency budget requests.
6. The fiscal staff, under the supervision of the Legislative Budget Analyst and Auditor, would provide staff services to the legislative budget committee and associated committees to assist these committees in performing their duties and responsibilities. Services by other members of the Legislative Council staff would also be available to provide such assistance as may be necessary for the Legislative Council to carry out these provisions. The fiscal staff would continue to analyze the executive budget and would provide comparisons to the budget recommendations resulting from the interim work prior to the start of the legislative session. After the close of each legislative session, the fiscal staff would prepare a report on the legislative budget as approved by the Legislative Assembly.

Performance Budgeting

Pilot Project

The committee reviewed the history of the program-based performance budgeting pilot project. The commit- tee learned that the 1993-94 interim Budget Section requested that OMB ask all agencies and institutions to include, to the extent possible, service efforts and accomplishments in the 1995-97 budget request forms and to use this information to support the executive budget. The Office of Management and Budget developed a pilot project to incorporate service efforts and accomplishments into the budgeting process. The Office of Management and Budget chose the 14 agencies listed below to be involved in the program-based performance budgeting pilot project for the 1995-97 biennium.

1. OMB.
2. Information Services Division.
3. State Auditor.
4. Central Services Division.
5. Board of University and School Lands.
6. Department of Human Services - Aging Services - Vocational Rehabilitation.
7. Insurance Department.
8. Securities Commissioner.
9. Highway Patrol.
10. Department of Corrections and Rehabilitation - Parole and Probation.
11. Department of Economic Development and Finance.
12. Department of Tourism.
13. Parks and Recreation Department.
14. Department of Transportation.

Budget requests of these pilot agencies included information in support of meeting statewide and agency goals, objectives, and strategies. Under each major program of the agency, goals, objectives, and strategies are listed as well as the description and justification of the strategy and performance measures, including outcome, output, efficiency, effectiveness, and explanatory measures. The appropriation bills for these agencies included program line items rather than object code line items.

The 1995 Legislative Assembly chose to appropriate funds on a program basis for 9 of the 14 pilot agencies as follows:

1. OMB.
2. Information Services Division.
3. State Auditor.
4. Central Services Division.
5. Board of University and School Lands.
6. Highway Patrol.
7. Department of Corrections and Rehabilitation - Parole and Probation.
8. Parks and Recreation Department.
9. Department of Transportation.

The remaining five agencies received object code line item appropriations but were expected to continue to monitor and strive to achieve their performance measure goals and objectives. These agencies include:

1. Department of Human Services - Aging Services - Vocational Rehabilitation.
2. Insurance Department.
3. Securities Commissioner.
4. Department of Economic Development and Finance.
5. Department of Tourism.

The 1995-96 interim Budget Section reviewed reports on the pilot project and asked OMB to continue to work with only the nine agencies in the development of the 1997-99 biennium budget requests and executive recommendation and that those agencies be subject to program reviews. In addition, the Budget Section asked that the appropriation bills for the 1997 Legislative Assembly for the agencies with program line items include a separate section identifying the amounts for salaries and wages, operating expenses, equipment, and grants for each agency. The 1997 Legislative Assembly continued the program line item appropriations for the nine pilot agencies and object code line item appropriations for the remaining five agencies and asked that they continue to monitor their performance measures.

Status of Pilot Project

The committee heard reports from agencies involved in the program-based performance budgeting pilot project regarding its benefits, concerns, and usefulness. Agencies reporting included OMB, Central Services Division, Insurance Department, Department of Transportation, and the State Auditor's office. Major comments made include:

1. A statewide strategic planning process should be developed by the legislative and executive branches to meet budgetary and program evaluation needs and to evaluate state agency performance.
2. Appropriation bills should include each agency's mission, goals, and objectives and, when applicable, performance measures.
3. More comprehensive agency program reviews and program authorization reviews should be conducted.
4. The Legislative Assembly should appropriate moneys by program, and state agencies should allocate costs to programs to reflect their true costs.
5. Although the state has not received a substantial amount of input from residents or customers in the development of the state's strategic plan, more input will be sought if performance budgeting becomes the primary budgeting method for North Dakota.

6. Performance measure information is used by state agencies to assist in obtaining federal grants.
7. Legislative decisions on agency funding should be related to the effect the funding decision has on the performance of an agency.
8. Performance budgeting benefits include:
    - Requiring agencies to do strategic planning in order to develop specific measures relating to goals and objectives.
    - Requiring management to be accountable for fulfilling the purpose of the agency and achieving its goals in addition to being accountable for the amount of financial resources used.
    - Allowing management flexibility in using financial resources to achieve goals.
    - Assisting management in planning for future needs and identifying possible problems by tracing performance measures.
9. It is difficult for agencies to meet performance measures that it has no control over, such as agencies that are dependent upon federal funds to operate their programs.
10. In some instances, measures do not accurately reflect departmental activities.
11. Concern was expressed regarding the amount of data collection and report preparation that is required as a part of the project.
12. It is important to develop meaningful and useful performance measures.
13. Each agency should develop a strategic business plan before implementing performance budgeting.
14. It is important to educate employees on the use of performance measures and to include employees in the development of measures.
15. Concern was expressed that information gathered and reported is not useful to the agency.
16. The Office of Management and Budget does not plan to prepare any further performance measure reports pertaining to the pilot project unless a report is specifically requested.

Other States

The committee reviewed the status among other states in the development of performance measures as part of the budgeting process, the use of performance measures by legislators, the extent to which performance measures are monitored, and how the results are reported to the legislature. The committee learned that all 16 states reviewed, to some extent, are utilizing performance measures. In some states, state law requires agencies to develop performance measures while in others it is a part of the budget preparation process. While performance measures are a more recent development in most states and a few of the states indicated that the measures may be used more in the future, most states indicated that from a legislative perspective, the performance measure information is not being used as anticipated when the performance measure concept was first initiated. Exceptions include Montana, Texas, Florida, and Louisiana. Montana reported that 13 state agencies are involved in a performance budgeting pilot project, and for these agencies, the performance measures are included in agency appropriation bills. Texas began performance budgeting in 1992 and provides its appropriations by goal and strategy line items. The appropriations bill in Texas includes performance measures for each goal and strategy of an agency. In Florida, agencies are beginning to implement performance budgeting which involves a three-year implementation process for each agency. The performance information is included in budget documents and incorporated into the appropriation bills during the session. In Louisiana, state agencies include their performance measures in budget documents, and the measures are included in agency appropriation bills.

Other Considerations

Other information received and discussed by the committee regarding performance budgeting includes:

1. Program budgeting provides the mechanics for setting priorities of agencies, but the current performance budgeting system lacks accountability.
2. Adequate education needs to be provided to users of performance budgeting information.
3. It is important that the Legislative Assembly be involved in setting appropriate measures for agencies.
4. Performance budgeting causes agencies to evaluate their operations.
5. There are concerns that actual performance measure data available to the Legislative Assembly for decisionmaking may not be current
6. Information was presented on performance budgeting received by the Legislative Council staff at a performance budgeting conference in Texas entitled *Managing for Results - Decisionmaking in the Age of Accountability*. Major items presented include:
    1. Performance-based budgeting provides a report card on agency performance.
    2. The number of measures should be limited to those of most importance and those that are pertinent to decisionmaking.
    3. The federal government is becoming more involved and is beginning to require states to provide performance information relating to federal funds received.
    4. Adequate training is necessary for those involved in performance budgeting.
    5. Funding will drive agency actions before performance measures.
    6. Measures should not be used for which the agency has no control.
    7. Base line data and benchmarks for comparison purposes when evaluating data reported should be developed.

Recommendations

The committee recommends that if the program-based performance budgeting pilot project continues, that the Appropriations Committees review agency performance and create, with agency input, performance measures for these agencies.

In Senate Bill No. 2031, providing for a legislative budget, the committee included a provision providing that a goal of the budgeting process is to include historic and anticipated agency performance as supporting information for budget recommendations.

Other Budgeting Issues

Other budgeting issues considered by the committee include:

1. How agency and institution appropriation balances at the end of a biennium should be handled.
2. The benefits that new information technology could provide in budget development and budget presentation.

3. The effect of budget recommendations on future biennial budgets.
4. The detailed information supporting agency budget requests and the executive recommendation.
5. Alternative budgeting methods that use performance reviews to evaluate proposed agency budgets.
6. Other budgeting issues.

How Agency and Institution Appropriation Balances at the End of the Biennium Should be Handled

The committee identified 13 sections of appropriation bills approved by the 1997 Legislative Assembly allowing agencies to continue appropriation authority beyond the close of the budget cycle. Ten of these sections allowed agencies to continue appropriation authority beyond the 1995-97 biennium. Three of the sections authorize agencies to continue 1997-99 appropriations beyond June 30, 1999. The amount of authority continued beyond June 30, 1997, totaled $8,060,622. This amount is in addition to agency capital improvements carryover authorized by the Office of Management and Budget pursuant to North Dakota Century Code Section 54-44.1-11 which for the 1995-97 biennium appropriations totaled $2,511,602.

The committee's review of selected other states revealed that most other states' policies are similar to those of North Dakota which provide that any unspent appropriation authority is canceled at the close of the budget cycle unless an exception is provided by the Legislative Assembly. States with differing policies include Iowa, South Dakota, Michigan, and Oklahoma. Iowa allows agencies to retain 25 percent of their unspent appropriation authority relating to general operating funding that may be spent for technology improvements during the next budgeting cycle. South Dakota allows federal or other funds to be continued for one year, if approved, and allows general fund authority to be continued for one year to pay for contractual obligations, if approved. Any other unspent general fund authority is canceled at the close of the budget cycle, and funds in the amount of the unspent authority are transferred to a budget reserve fund up to a cumulative maximum of five percent of the state's general fund appropriation. Michigan deposits funds equal to the amount of its unspent general fund appropriation authority in Michigan's budget stabilization fund. Oklahoma agencies may continue appropriation authority but the estimated unspent amount is used to reduce appropriations for the subsequent budget cycle.

Major committee discussion and other testimony received by the committee regarding how to handle unspent appropriation authority at the end of the biennium include:

1. The policy of the Legislative Council staff has been to advise that any unspent authority at the end of each budget cycle should be canceled, and if necessary funds be reappropriated for the following biennium. This allows the Legislative Assembly the opportunity to review unspent authority and its use. If too much carryover authority is approved, the biennial state budget will not be accurate and the Appropriations Committees may find it too difficult to determine funding priorities if agencies have access to funds in carryover accounts.
2. In the past, the Legislative Assembly has authorized certain agency appropriations to continue beyond the close of the biennium based on the merit of each request.
3. The Office of Management and Budget has introduced legislation in the past which would have allowed agencies to keep a portion of their unspent appropriation authority for one-time expenditures; however, the Legislative Assembly did not approve the proposal.
4. If the state had a system for measuring agency performance, allowing agencies to retain a portion of their unspent appropriations could be an incentive for improving agency performance.
5. Transferring an amount equal to the state's unspent appropriation authority to a budget reserve fund at the end of each biennium might provide funding stability if budget reductions become necessary in the future due to revenue shortfalls.
6. The Legislative Assembly should retain control of agency appropriations by canceling appropriation authority at the close of the budget cycle.

Determine the Benefits that New Information Technology Could Provide in Budget Development and Budget Presentation

The committee reviewed technology that may improve budget presentations including:

1. Overheads.
2. Slides.
3. Computer-generated presentations.
4. Audio.
5. Video.
6. Additional supporting information available at the hearing to respond to questions.
7. Ability to have interactive video access to experts or other groups to provide information to the committee.

The committee discussed budgetary information that should be available on-line including:

1. Reports of OMB including budget requests, budget recommendations, budget summary, and others.
2. Reports from the Legislative Council staff including budget status, fiscal impact reports, agency summaries, budget analysis reports, and others.
3. Agency information including testimony, supporting documents, and other agency information.
4. Fiscal notes.

The committee heard a report on changes being considered to the Legislative Council's budget status system. The system, used for monitoring the development of the state budget during the legislative session, is being considered for enhancements to be compatible with OMB's Statewide Integrated Budget and Reporting (SIBR) System as well as the Legislative Assembly's personal computer based system, and to provide additional information to legislators and others on the development of the state budget. The committee learned that because of the amount of time needed for the development of the system, it would not be developed until the 1999-2000 interim if funding is again approved by the Legislative Assembly.

The Effect of Budget Recommendations on Future Biennial Budgets

Items affecting future budgets considered by the committee include:

1. One-time revenues.
2. One-time expenditures.
3. New program expenditures.
4. Discontinued program expenditures.
5. Leases or other contractual obligations of agencies, if continued beyond one biennium.
6. Delayed effective date legislation.

The committee discussed ways to present the effect of budget recommendations on future budgets by:

1. Requiring this information to be included on budget request forms.
2. Requiring this information to be included in executive budget documents.
3. Continuing to include this information in fiscal notes.
4. Encouraging the Legislative Assembly, when possible, to include this information in its budget-related documents.

Other Budgeting Issues

Other budgeting issues considered by the committee and reports and information received by the committee include:

1. In addition to the review of budgeting methods in other states discussed previously in this report, the committee also reviewed other states' budgeting methods relating to general budgeting, revenue forecasting, appropriation bills, agency flexibility to move funds between line items, budget monitoring or program reviews conducted between legislative sessions, involvement of legislators not serving on appropriations in the budgeting process, and fiscal notes.
2. A report comparing original legislative general fund revenue estimates for the biennium to actual collections for the 1981-83 biennium through the 1995-97 biennium. The committee learned that the percentage variances during this period ranged from (15.6 percent) to 3.8 percent.
3. The committee reviewed legislative fiscal staff services among the states. The committee learned that legislative fiscal staff services provided for state legislatures varies among the states. Some states, such as North Dakota, South Dakota, Vermont, West Virginia, and Wyoming, have four or five fiscal staff professionals each while Michigan has 46 fiscal staff professionals, and Texas has 99 fiscal staff professional positions. In 14 of the 50 states, the state provides funding for each legislator to hire the legislator's own full-time professional staff.
4. The committee reviewed zero-based budgeting and its use in North Dakota and other states. The committee learned that the purpose of zero-based budgeting is to reevaluate and reexamine all programs and expenditures for each budget cycle by analyzing workload and efficiency measures to determine priorities or alternative levels of funding for each program or expenditure. Through this system, each program is justified in its entirety each time a new budget is developed. In North Dakota, the 1977-78 Budget Section reviewed zero-base budgeting, and although North Dakota did not adopt zero-base budgeting as its primary budgeting tool, a number of its components were incorporated into budget request forms used by agencies over the years in preparation of their budget requests submitted to OMB and to the Legislative Assembly. These components include:
   - Preparing decision packages that identify agency services that would be provided at a funding level less than 100 percent of an agency's current funding level, usually 80 or 90 percent.
   - Requiring agencies to submit a 95 or 97 percent budget request compared to current funding levels.
   - Ranking agency activities in priority order above a certain level.
   - Identifying program goals and objectives.
   - Explaining the effect of not funding an activity within an agency.

   Other states that report utilizing zero-base budgeting to some extent in their budget preparation process include Colorado, Iowa, Nebraska, and Oregon. Colorado utilizes zero-base budgeting for the preparation of approximately six agency budgets and intends to increase the number of agencies each year. The other three states, Iowa, Nebraska, and Oregon, use a modified zero-base budgeting system that does not require agencies to prioritize all of their programs. However, an agency may be required to prioritize programmatic funding being requested over a certain percentage of the current funding level or to prepare reduction decision packages to show the programmatic funding reductions in priority order if a funding level of less than 100 percent is approved.
5. The committee reviewed a recommendation made by the Public Administration Service, a consultant assisting the Budget Committee on Human Services in its study of the Department of Human Services, to improve budget presentations of the Department of Human Services. The recommendation provides that budget presentations for committees of the Legislative Assembly be presented as a "budget in brief" that includes the following:
   - Review the Governor's guidance under which the budget is being submitted.
   - Identify the overall goals of the department for the biennium, identifying any significant changes from the previous biennium and reasons for the change.
   - Highlight pertinent trends, projections, and influences on the budget.
   - Provide an overall high-level summary of the expenditures necessary to support the goals and identify federal, state, local, and private shares.
   - Provide a high-level summary of projected revenue by revenue source.
   - Identify specific initiatives that result in improved services, increased efficiencies and effectiveness, and those that support special projects.
   - Identify new programs and major modifications to existing ones and the reason for the change.
   - Identify programs and services that are candidates for elimination and why. Describe the impact of eliminating these programs.
   - Provide rhetorical questions and answers and how a legislator can obtain additional information.

   Committee discussion regarding other budget issues includes:
6. Concern regarding the lack of fiscal note supporting information for legislators to use in reviewing the accuracy of fiscal notes.

7. Support for budget tours and the possibility of enhancing budget tours and strengthening budget monitoring systems in order to inform more legislators on agency budgets.
8. The possibility of combining zero-base budgeting and performance budgeting to provide valuable information for agencies and the Legislative Assembly.
9. Both performance budgeting and zero-base budgeting attempt to achieve the same goal52;to examine programs independently to determine benefits received. By using these systems, the Legislative Assembly may make more informed decisions on funding levels for specific programs.
10. If the Legislative Assembly approves the development of a legislative budget, supporting information prepared by agencies will need to be made available to the Legislative Assembly to a greater extent than currently provided.
11. Simplified budget reports are needed that legislators can use to relay budget information to their respective caucuses and constituencies.

Recommendations

The committee expresses support for the Department of Human Services using the budget presentation format listed below recommended by the Public Administration Service and approved by the Budget Committee on Human Services and recommends that the Legislative Assembly be supportive of other agencies making their budget presentations using a similar format:

1. Review the Governor's guidance under which the budget is being submitted.
2. Identify the overall goals of the department for the biennium, identifying any significant changes from the previous biennium and reasons for the change.
3. Highlight pertinent trends, projections, and influences on the budget.
4. Provide an overall high-level summary of the expenditures necessary to support the department's goals and identify federal, state, local, and private shares.
5. Provide a high-level summary of projected revenue by revenue source.
6. Identify specific initiatives that result in improved services, increased efficiencies and effectiveness, and those that support special projects.
7. Identify new programs and major modifications to existing ones and the reason for the change.
8. Identify programs and services that are candidates for elimination and why. Describe the impact of eliminating these programs.
9. Provide rhetorical questions and answers and how a legislator can obtain additional information.

The committee recommends that, as future changes are made to the budgeting process, the following items be considered as part of those changes:

1. The involvement of new technology in budget presentations that may include:
    - Overheads.
    - Slides.
    - Computer-generated presentations.
    - Audio.
    - Video.
    - Additional supporting information available at the hearing to respond to questions.
    - Ability to have interactive video access to experts or other groups to provide information to the committee.
2. The availability of budgetary information on-line that may include:
    - Office of Management and Budget reports, including budget requests, budget recommendations, budget summaries, and other budgetary information.
    - Legislative Council staff reports, including budget status, fiscal impact reports, agency summaries, budget analysis reports, and other budgetary information.
    - Agency information, including testimony, supporting documents, and other information.
    - Fiscal notes.
3. The effect of budget recommendations that involve one-time revenues, one-time expenditures, new program expenditures, discontinued program expenditures, leases or other contractual obligations, and delayed effective date legislation on future budgets by:
    - Requiring this information to be included on budget request forms.
    - Requiring this information to be included in executive budget documents.
    - Continuing to include this information in fiscal notes.
    - Encouraging the Legislative Assembly, when possible, to include this information in its budget-related documents.
4. Adequate information be provided supporting agency budget requests, executive budget recommendations, statements of purpose of amendment, and fiscal notes.

INVESTMENT PROCESS STUDY

House Concurrent Resolution No. 3002 directed the Legislative Council to study the state's investment process as it relates to the state bonding fund and the fire and tornado fund and to monitor the performance of all investments of the State Investment Board and the Board of University and School Lands.

Bonding Fund and Fire and Tornado Fund Investments

The bonding fund was created in 1915 and is maintained for bond coverage of public employees. The bonding fund is managed by the Insurance Commissioner, and the amount of coverage provided to each state agency is determined by the commissioner based on the amount of money and property handled and the opportunity for default. North Dakota Century Code (NDCC) Section 26.1-21-09 provides that premiums for bond coverage are to be determined by the Insurance Commissioner but may be waived if the state bonding fund balance is in excess of $2.5 million. No premiums have been charged, possibly since 1953, because the bonding fund's balance has exceeded $2.5 million.

The fire and tornado fund originated in 1919 and is maintained to insure various political subdivisions and state agencies against loss to public buildings and permanent fixtures. North Dakota Century Code Section 26.1-22-14 requires that if the fire and tornado fund balance is less than $12 million, the Insurance Commissioner must increase assessments on policies.

The committee learned that the July 1, 1997, bonding fund balance was $3,882,000 and on August 31, 1998, the balance was $3,936,000. The July 1, 1997, fire and tornado fund balance was $14,869,000 and on August 31, 1998, the balance was $15,653,000.

The committee reviewed investment returns for the bonding fund and fire and tornado fund as follows:

	Total Return	
Period	**Bonding Fund**	**Fire and Tornado Fund**
Fiscal year 1996	6.98%	6.45%
Fiscal year 1997	9.49%	9.67%
Fiscal year 1998	14.33%	14.38%
First quarter of fiscal year 1999	-3.5%	-3.6%

The committee learned that the State Investment Board is responsible for investing the moneys of the bonding fund and fire and tornado fund under the direction of the Insurance Department.

The committee learned that on August 1, 1997, the State Investment Board, with the approval of the Insurance Department, changed the investment policy of the bonding fund and the fire and tornado fund. Previously, the investment policy provided for short-term fixed income and cash equivalent investments for the moneys of the bonding fund and fire and tornado fund. Under the new policy, the State Investment Board pooled the moneys of the various insurance-related funds, including the bonding fund, fire and tornado fund, insurance regulatory trust fund, petroleum tank release compensation fund, risk management fund, National Guard tuition trust find, and the workers' compensation fund into an insurance trust. By pooling the funds, moneys of the bonding fund and fire and tornado fund may be invested in longer-term investments because a larger pool of funds is available to meet cash flow needs. The following schedule shows the previous asset allocation of the bonding fund and the fire and tornado fund:

Asset Class	Bonding Fund	Fire and Tornado Fund
Equities	10%	10%
Fixed income	20%	30%
Cash equivalents	70%	60%
Total	100%	100%

The schedule below presents the new asset allocation of the bonding fund and fire and tornado fund:

Asset Class	Percentage
Large capital domestic equity	15%
Small capital domestic equity	5%
Convertible bonds	10%
International equity	10%
Fixed income	50%
Cash equivalents	10%
Total	100%

The committee learned that while the new investment policy is still fiscally conservative, it is more aggressive in the investment of its funds which should improve investment returns.

The committee learned that the Insurance Department and the State Investment Board with the assistance of a consultant, developed and reviewed various investment policy scenarios that would meet their investment goals and yet maintain the safety and liquidity of the funds to meet statutory requirements. The new investment policy resulted from these discussions.

The committee learned that the value of the insurance trust, the investment pool containing the funds of the bonding fund, fire and tornado fund, workers' compensation fund, and other insurance-related funds, in November 1997 totaled $637.2 million, $30 million of which was in cash equivalent investments, and in August 1998, the trust had assets totaling $678.2 million, $52.7 million of which was in cash equivalent investments.

The committee received information on the various types of investments of the bonding fund and fire and tornado fund as follows:

1. Large capital domestic equity - Invested in S&P 500 index fund and managed by State Street.
2. Small capital domestic equity - Managed by Nicholas-Applegate in growth companies that demonstrate earnings acceleration, sustainable growth, and positive relative price momentum.
3. Convertible bonds - Managed by the Trust Company of the West and invested in high-quality fixed income instruments that are convertible to equity.
4. International equity - Managed by Capital Guardian Trust, which conducts extensive research and uses a portfolio management team system of segment specialists.
5. Fixed income - Managed by the Bank of North Dakota and Western Asset Management. Both managers are restricted to investment grade securities.
6. Cash equivalents - Managed by the Bank of North Dakota and involves money market securities that provide liquidity and risk reduction.

The committee considered an option for increasing investment returns on the bonding fund and the fire and tornado fund. The committee considered adding provisions in statute that would enable the Insurance Commissioner to invest more fire and tornado fund and bonding fund moneys in longer term investments by authorizing the Insurance Commissioner to obtain loans from the Bank of North Dakota to pay major claims or other major payments that may arise until the moneys invested are available. The committee determined that because the moneys in the bonding fund and the fire and tornado fund are now commingled with other insurance-related funds for investment purposes, the State Investment Board is easily able to make cash available for required distributions from these funds. Even very large distributions would not likely cause the need for security liquidations because the cash equivalent amount in the insurance trust is over $30 million.

The committee also considered the possibility of lowering the statutory minimum balances of these funds, which for the bonding fund is $2.5 million and for the fire and tornado fund is $12 million. By lowering these minimum balances, a more aggressive investment strategy could be considered for these funds which could potentially increase returns beyond those projected under the current investment strategy; however, the potential for greater losses also increases. The commit- tee reviewed three investment scenarios52; scenario 1 is the current investment policy, scenario 2 is a somewhat more aggressive policy, and scenario 3 is even more aggressive. The committee reviewed projected returns of these scenarios under a normal investment environment, a pessimistic environment, and an optimistic environment. Under each scenario, the fire and tornado fund begins with a balance of $16,162,000 while the bonding fund begins with a balance of $4,038,000.

	Asset Allocation		
Asset Class	**Scenario 1**	**Scenario 2**	**Scenario 3**
Large capital United States equity	15%	30%	35%
Small capital United States equity	5%	15%	20%
Convertible bonds	10%	10%	10%
International equity	10%	15%	15%
Fixed income	50%	20%	15%
Cash equivalents	10%	10%	5%
Total	100%	100%	100%

		Fire and Tornado Fund		
Environment	**Years**	**Scenario 1**	**Scenario 2**	**Scenario 3**
Normal	1	$17,422,636	$17,551,932	$17,600,418
	2	$18,796,406	$19,054,998	$19,184,294
Pessimistic	1	$14,691,258	$14,044,778	$13,753,862
	2	$13,576,080	$12,396,254	$11,814,422
Optimistic	1	$18,521,652	$18,861,054	$19,038,836
	2	$21,253,030	$22,044,968	$22,465,180

		Bonding Fund		
Environment	**Years**	**Scenario 1**	**Scenario 2**	**Scenario 3**

Normal	1	$4,352,964	$4,385,268	$4,397,382
	2	$4,696,194	$4,760,802	$4,793,106
Pessimistic	1	$3,670,542	$3,509,022	$3,436,338
	2	$3,391,920	$3,097,146	$2,951,778
Optimistic	1	$4,627,548	$4,712,346	$4,756,764
	2	$5,309,970	$5,507,832	$5,612,820

The committee learned that if the balance in the fire and tornado fund would become less than $12 million, the Insurance Commissioner would calculate the amount necessary to provide a $12 million balance in the fund and increase the premium on each policy of the fund for the next year by the percentage necessary to return the fund to a $12 million level. If the bonding fund balance would become less than $2.5 million, premiums, as determined by the Insurance Commissioner, would be charged and collected until the fund balance is $3 million, at which time premiums would again be waived. Currently, premiums are not charged on the bonding fund because the balance is above the $2.5 million level.

Although the stock market dropped substantially during the first quarter of fiscal year 1999, at the end of August 1998, the bonding fund balance was $3,936,000, $1,436,000 more than the minimum balance requirement of $2.5 million. The fire and tornado fund balance at the end of August 1998 was $15,653,000, $3,653,000 more than the minimum balance requirement.

The committee reviewed fiscal year-end balances and claims paid relating to the bonding fund and fire and tornado fund since 1991 as follows:

Balances		
Fiscal Year Ending	**Fire and Tornado Fund**	**Bonding Fund**
1996	$14,546,818	$3,722,552
1995	$13,384,455	$3,477,185
1994	$20,557,570	$5,966,324
1993	$23,883,277	$6,391,757
1992	$21,995,864	$6,019,814
1991	$18,526,923	$5,444,202

Claims		
Fiscal Year Ending	**Fire and Tornado Fund**	**Bonding Fund**
1996	$4,400,111	$320,261
1995	1,713,796	207,840
1994	847,867	173,673
1993	758,117	30,726
1992	429,257	50,406
1991	523,108	0
Total	$8,672,256	$782,906

Other State Investment Office Investments

The committee monitored the investments of the State Investment Board. The following schedule presents investment returns for funds invested by the State Investment Board:

Investment Performance (Percentages)				
Fund	**Fiscal Year 1996**	**Fiscal Year 1997**	**Fiscal Year 1998**	**Fiscal Year 1999 - First Quarter[1]**
Insurance Trust				
Consolidated	9.32	16.07	15.22	-5.42
Workers' compensation	9.50	16.57	15.82	-5.59

Fire and tornado	6.45	9.67	14.38	-3.60
Bonding	6.98	9.49	14.33	-3.50
Insurance regulatory trust	9.05	11.18	11.62	-3.13
Petroleum tank release compensation	8.18	12.66	13.26	-4.14
Risk management	N/A	N/A	12.39	1.26
Veterans' postwar trust	N/A	N/A	15.97 (6 mos.)	-12.48
Pension Trust				
Consolidated	15.85	19.48	14.71	-7.15
Public Employees Retirement System	16.09	19.71	16.07	-5.40
Teachers' fund for retirement	15.63	19.29	14.05	-8.27
Bismarck police	14.45	18.24	17.29	-5.01
Bismarck employees	14.50	18.25	17.35	-4.94
Job Service	24.70	27.89	22.36	-9.80
[1] September returns are unreconciled and are subject to change.				

Board of University and School Lands Investments

The committee monitored investments of the Land Department. The committee learned that the Land Department administers the following permanent educational trust funds:

- Common schools.
- North Dakota State University.
- School for the Blind.
- School for the Deaf.
- State Hospital.
- Ellendale - Income earned on the Ellendale trust fund is allocated equally to the School for the Blind, Dickinson State University, Minot State University, Minot State University - Bottineau, Veterans Home, State Hospital, and State College of Science.
- Valley City State University.
- Mayville State University.
- Youth Correctional Center.
- State College of Science.
- School of Mines - Income earned by the School of Mines trust fund is distributed to the University of North Dakota.
- Veterans Home.
- University of North Dakota.

The Land Department also administers investments of the capitol building fund, coal development trust fund, and the lands and minerals trust fund.

The committee learned that the long-range goal of Land Department investments is to increase both principal and income at a rate greater than or equal to the rate of inflation. To accomplish this goal, the Board of University and School Lands intends, over the next 8 to 12 years, to increase the percentage of assets invested in the equity and convertible securities from approximately 39 percent of total assets to approximately 50 to 60 percent.

The committee learned that the purpose of the Land Department's fixed income assets is to generate long-term, predictable income and cash flows needed to meet the board's distribution goals. The purpose of the Land Department's equity and convertible securities investments is to provide the fund growth needed to increase both trust assets and distributions at a rate greater than or equal to inflation.

The committee received information on turnover ratios, total return, realized income and gains, and expense ratios for each fund manager utilized by the board. The committee learned that the fee rate paid by the Land Department on its fiscal year 1997 investments averaged .31 percent and .30 percent in fiscal year 1998.

The committee received information from the Land Department on its total permanent educational trust assets, its asset allocation percentages, and investment returns as follows:

	June 30, 1996	June 30, 1997	June 30, 1998	September 30, 1998 (Estimate)
Total assets	$389,000,000	$427,690,000	$465,115,000	$443,216,000
	Asset Allocation Percentages			

Fixed income	63.8%	60.0%	57.2%	59.9%
Cash equivalents	1.0%	1.0%	1.0%	1.8%
Convertible securities	7.4%	9.0%	9.6%	9.0%
Small/Mid-capital equities	7.4%	9.0%	9.6%	8.4%
Large capital equities	13.0%	12.0%	13.0%	12.2%
International securities	7.4%	9.0%	9.6%	8.7%
Total	100%	100%	100%	100%

Investment Returns	Fiscal Year 1997	Fiscal Year 1998
Permanent educational trust assets:		
Fixed income	7.79%	7.77%
Equity and convertible securities	19.77%	16.78%
Capitol building fund	5.07%	5.19%
Lands and minerals trust fund	5.56%	6.04%
Coal development trust fund	5.38%	4.22%

Bank of North Dakota Returns

The committee received information from the Bank of North Dakota on interest rates paid on state deposits. The following schedule compares the Bank of North Dakota rates to other North Dakota financial institutions and the United States Treasury:

Length of Investment	Average North Dakota Financial Institution	Bank of North Dakota	United States Treasury Rates
90 days	4.38%	4.13%	5.10%
180 days	5.18%	4.29%	5.26%
One year	5.34%	5.50%	5.42%
Two years	5.61%	5.75%	5.73%
Three years	5.78%	5.85%	5.81%
Four years	5.85%	5.90%	5.87%
Five years	6.00%	6.00%	5.92%

The committee learned that because Bank of North Dakota profits are transferred to the general fund, based on the Bank of North Dakota's 1996 earnings, the state will receive an additional 7.5 percent return on its investments.

Other Information

The committee learned that the 1995-96 interim committee that studied the investment process was informed that the reason the bonding fund received low investment returns was because the majority of its investments were short term to accommodate any legislative transfers of bonding fund moneys to the general fund.

The committee reviewed investment study findings from the 1995-96 interim. The committee learned that based on a survey of state agencies asking for suggestions to improve investment returns on state investments, the following major suggestions were received:

1. Allow for additional investment options.
2. Change the responsibility for investing funds.
3. Keep more or all of the earnings on the fund instead of the earnings going to the general fund.
4. Increase Bank of North Dakota interest rates.

Recommendations

The committee recognized that bonding fund and fire and tornado fund investment returns increased substantially in fiscal year 1998 as a result of the change in investment policy, and the committee makes no recommendations regarding its state investment process study.

TRANSPORTATION FUNDING STUDY

Senate Concurrent Resolution No. 4019 directed the Legislative Council to study the adequacy of transportation funding in North Dakota.

North Dakota Highway System

North Dakota has 167 miles of public roads for every 1,000 people in the state. The Department of Transportation is responsible for maintaining and improving 7,379 miles of state highways, including 2,723 miles of state highways that are on the national highway system. The state highway system consists of seven percent of the total public roads in North Dakota but carries approximately 61 percent of the total vehicle miles traveled. The following schedule presents North Dakota road miles:

System	Miles
National highway system	2,723
State highway system	4,656
County roads	19,464
Township roads	56,258
Local city streets	3,730
Trails	19,818
Total	106,649

Roads are generally designed for a 20-year life. The average age of the North Dakota highway system is 17 years. Approximately 40 percent of the state's highways are over 20 years old. To maintain the 20-year cycle of surface improvements to the state system, the department would need to resurface or reconstruct approximately 400 miles each year. During the past five years, the department has resurfaced or reconstructed approximately 180 miles per year.

The following schedule provides average improvement costs on the state highway system:

Improvement	Cost Per Mile (1997)
Seal coat (by contract)	$13,000
Four-inch asphalt overlay	$150,000
Asphalt surfacing reconstruction (includes subgrade repair and resurfacing)	$370,000
Total reconstruction (includes grading and asphalt surfacing)	$550,000
Interstate concrete recycling (two lanes in one direction)	$950,000

Highway Revenues and Distributions

The committee reviewed highway-related revenues and the distribution of those funds. The committee learned that the major sources of state funding for highways in North Dakota are motor vehicle fuel taxes, special fuel taxes, special fuel excise taxes, and motor vehicle registration fees.

The North Dakota motor vehicle fuel tax and special fuel tax are 20 cents per gallon; however, three cents of these taxes is scheduled to expire on January 1, 2000, unless a change is made by the 1999 Legislative Assembly.

A one-cent gas tax over the 20 cents per gallon raises an estimated $3.5 million per year or $7 million per biennium. A one-cent special fuels (diesel) tax over the current 20 cents per gallon raises an estimated $1.5 million per year or $3 million per biennium. Of the $10 million total for a biennium, $6.3 million or 63 percent is deposited in the state highway fund and $3.7 million or 37 percent is distributed to cities and counties.

A $1 increase in motor vehicle registration fees is estimated to generate $750,000 per year or $1.5 million per biennium. Of the $1.5 million total for the biennium, $945,000 or 63 percent is deposited in the state highway fund and $555,000 or 37 percent is distributed to cities and counties.

The committee learned that state agencies other than the Department of Transportation that were appropriated funding from the highway tax distribution fund or the highway fund for the 1997-99 biennium include the Highway Patrol ($22 million), Agricultural Products Utilization Commission ($1.5 million), Game and Fish Department ($200,000), and the Parks and Recreation Department ($200,000). The following schedules present the estimated 1997-99 sources and uses of funds of the highway tax distribution fund and estimated 1997-99 sources and uses of funds of the state highway fund:

Highway Construction Priorities and Plans

The committee reviewed the prioritization process relating to highway construction projects and the highway construction projects planned for 1998, 1999, and 2000. The committee learned that the following factors are considered when prioritizing highway projects:

1. Pavement condition.
2. Maintenance costs.
3. Truck volume.
4. Major traffic generators.
5. Low spring load restrictions to commercial and industrial facilities.
6. Route continuity resulting from spring load restrictions.
7. Public comments.

The committee learned that the department plans on making 151 miles of improvements to the state highway system in 1998, 142 miles in 1999, and 152 in 2000. Regarding urban projects, a total of $37 million of projects is currently scheduled to be completed in fiscal years 1998 and 1999. Approximately $26 million of this amount will be provided from federal funds.

Highway Revenue Considerations

The committee reviewed the major sources of funding for highways in North Dakota and surrounding states. The committee learned that major sources of funding for highways in North Dakota and Minnesota are motor vehicle fuel taxes and motor vehicle registration fees. These funds are distributed to cities, counties, and the state based on a percentage formula. South Dakota's major sources of funding for highways include motor vehicle fuel taxes, motor vehicle excise taxes, motor vehicle registration fees, and county wheel taxes. Montana's major sources of funding for highways include motor vehicle fuel taxes and gross vehicle weight fees that are a component of motor vehicle registration fees. The committee reviewed the following schedule comparing motor vehicle fuel tax rates and motor vehicle registration fees among these states:

1998 Motor Fuel Tax Rates and Motor Vehicle Registration Fees

	Motor Fuel Tax Rates (per gallon)			Motor Vehicle Registration Fees			
	Gasoline	Diesel Fuel	Gasohol	Passenger Car[1]	Pickup[2]	Tractor Trailer[3]	Farm Truck[4]
North Dakota	$.20	$.20	$.20	$70	$58	$1,036	$207
South Dakota	$.21	$.21	$.19	$30	$30	$1,457	$126
Montana	$.27	$.2775	$.27	$342	$484	$1,522	$695
Minnesota	$.20	$.20	$.20	$235[5]	$315[5]	$1,760	$322

[1] A 1997 car with a purchase price of $20,000 and a weight of 3,400 pounds.

[2] A 1997 pickup with a purchase price of $25,000 and an unladen weight of 4,000 pounds and 8,000 pounds gross vehicle weight.

[3] A 1997 large commercial truck with a purchase price of $100,000 and a combined gross weight of 80,000 pounds.

[4] A 1997 twin-drive tandem-axle 4.5-ton truck with a box and hoist with a $50,000 purchase price and licensed at 46,000 pounds.

[5] Registration fees in Minnesota are based on the make and model and the manufacturer's suggested retail price (MSRP) for the vehicle. The amounts shown are for a 1997 midsized passenger vehicle with an MSRP of $20,000 and a 1997 half-ton pickup with an MSRP of $25,000.

NOTE: All vehicles are being licensed in 1998 for the second year.

The committee learned that gasoline and gasohol consumption in North Dakota has declined by approximately nine percent from 1979 to 1996, even though the annual vehicle miles of travel have increased by almost one billion miles during this time. Revenue from the sale of gasoline and gasohol has increased by 100 percent primarily because of increasing state motor fuel taxes from eight cents per gallon in 1979 to 20 cents per gallon in 1996.

The committee heard presentations suggesting legislation to change the point of fuel tax collections from the retailer to the terminal. The committee learned that a number of states that have made this change report an increase in fuel tax collections as a result. The committee learned that the Tax Department is researching the possibility of making this change. The Tax Department is uncertain of the fiscal impact that may result in North Dakota, but the department believes its administrative costs may be reduced. If the point of taxation is changed to the terminal level, only 20 companies rather than 550 would be involved in submitting these taxes. As a result, the department could conduct more frequent audits of these 20 companies than it does now on the 550. Currently, approximately 40 to 70 of the 550 dealers are audited each year.

The committee heard a presentation from representatives of the North Dakota Petroleum Marketers Association indicating it is not in support of changing the point of taxation on gasoline, but suggested other ways to increase highway revenues including:

1. The Tax Department should crosscheck information it has available to verify that the taxes being remitted are correct.
2. The Tax Department should audit diesel fuel refunds being submitted for accuracy.
3. The Highway Patrol should check on-road vehicle fuel tanks for dyed fuel. Dyed fuel is only to be used in off-road vehicles.

The committee learned that the Tax Department will have the ability to crosscheck information submitted to detect incorrect returns beginning in

August 1998.

County and City Highway Needs

The committee heard reports from representatives of the North Dakota League of Cities and North Dakota Association of Counties on transportation funding and needs. The committee learned that in total, county and township roads comprise over 75,000 miles and that estimated 1997 revenues available for maintenance and improvements on these roads total $46 million statewide. The testimony indicated that counties have an average of $600 of dedicated state and local revenue for every mile of road.

The committee heard information on the number of bridges under county responsibility and the estimated maintenance costs of county roads. The committee learned that counties need an additional $15 million of revenues per year to meet their road and bridge maintenance needs.

The committee received information from the North Dakota League of Cities based on a survey of cities with populations over 3,000 to determine their current transportation needs and available funding. Based on this information, the committee learned that all 13 cities indicated a shortfall in revenues to meet street improvement needs. Major issues presented to the committee by the North Dakota League of Cities include:

1. Replacement of expensive equipment is becoming beyond the reach of many cities.
2. The current distribution formula for state highway funds that has been in place for 20 years does not reflect the current funding needs of cities and counties.
3. The state needs to prioritize the construction of truck routes around cities.

The committee learned that $108 million of urban projects have been identified but are currently not scheduled because of the unavailability of funds.

Federal Highway Funds 1997-99 Biennium

The committee reviewed the distribution of federal highway funds received by North Dakota. The committee learned that federal funds are generally allocated as follows:

Program	Percentage
Interstate system	30%
Remaining state highways	25%
Counties	11.6%
Urban areas[1]	16%
Miscellaneous programs[2]	17.4%

[1] Includes 13 cities with a population of 5,000 or more.

[2] Miscellaneous programs include bridge replacement on the state and urban system, rail signals, safety projects, transportation enhancements, state planning and research, and metropolitan planning.

The committee learned that the previous federal highway bill--the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA)--expired on September 30, 1997, and that federal highway funds would be provided at a much lower level through a six-month extension act until the new highway bill was passed. As a result, the department used advanced construction for $26.5 million worth of projects during the summer of 1998 until the federal highway bill was enacted. Advanced construction involves the department contracting for more highway projects than federal funding is available for. The state provides money for the entire cost of the project with the assumption that the federal funds will be available for reimbursing the state for the federal share at a later date when the new highway bill is approved.

TEA21

The committee learned that Congress passed the Transportation Equity Act for the 21st Century (TEA21) on May 22, 1998, and President Clinton signed the bill on June 9, 1998.

Under the previous federal highway bill, North Dakota received approximately .62 percent of the total federal highway funds, and under the new bill, North Dakota will receive approximately .65 percent. As a result, North Dakota will receive about $1.83 for every dollar that it submits in federal motor fuel taxes.

The committee learned that federal funds for highway construction will be provided to the state under the following major categories:

1. Interstate - For interstate highway projects.
2. National highway system - For highways in the state designated as major roads or principal arterials. Approximately 2,700 miles of North Dakota highways have this designation, including the interstates and all or portions of Highways 2, 5, 12, 13, 23, 52, 57, 81, 83, 85, 200, and 281.
3. Surface transportation program - For the remainder of the state highway system and for federal funds provided to cities and counties.

The TEA21 is a six-year bill and includes highway funding apportionments to the states for each of those years; however, because the amounts actually available to the states (obligational authority) must be appropriated each year by Congress, based on previous appropriations, the department expects its obligational authority to be somewhat less than the apportionments contained in TEA21. The following schedules present the estimated federal fund apportionments and estimated obligational authority for various highway funding categories for the years 1996 through 2003:

North Dakota Federal Highway Fund Apportionments for the Years 1996 Through 2003

(Amounts Shown in Millions)

Federal Fiscal Year	Interstate	National Highway	Surface Transportation	Bridge	Recreation and Priority/Demo Projects	Other	Total
FY1996 (actual)	$18.2	$21.4	$38.3	$5.4	$11.6	$13.5	$108.4
FY1997 (actual)	$20.5	$24.4	$41.8	$6.2	$13.2	$16.5	$122.6
FY1998 (actual)	$22.2	$58.5	$26.8	$7.7	$2.6	$30.4	$148.2
FY1999 (estimate)	$25.6	$68.2	$30.0	$8.7	$3.5	$33.8	$169.8
FY2000 (estimate)	$25.9	$69.1	$30.3	$8.8	$4.2	$34.6	$172.9
FY2001 (estimate)	$26.5	$70.5	$31.0	$9.0	$4.2	$35.1	$176.3
FY2002 (estimate)	$27.0	$71.9	$31.5	$9.3	$4.5	$35.4	$179.6
FY2003 (estimate)	$27.5	$73.6	$32.2	$9.5	$4.5	$35.6	$182.9

North Dakota Federal Highway Fund Obligational Authority for the Years 1996 Through 2003

(Amounts Shown in Millions)

Federal Fiscal Year	Interstate	National Highway	Surface Transportation	Bridge	Recreation and Priority/Demo Projects	Other	Total
FY1996 (actual)	$18.2	$21.7	$39.7	$10.5	$8.2	$13.8	$112.1
FY1997 (actual)	$20.6	$24.8	$39.4	$6.7	$9.4	$9.7	$110.6
FY1998 (actual)	$20.5	$51.0	$30.6	$1.5	$1.4	$26.6	$131.6
FY1999 (estimate)	$25.6	$68.2	$28.8	$5.2	$4.5	$25.8	$158.1
FY2000 (estimate)	$25.9	$69.1	$20.3	$9.7	$0.8	$33.3	$159.1
FY2001 (estimate)	$26.5	$70.5	$31.0	$8.0	$11.9	$25.1	$173.0
FY2002 (estimate)	$27.0	$71.9	$31.5	$8.6	$2.2	$25.6	$166.8
FY2003 (estimate)	$27.5	$73.6	$32.2	$8.7	$7.6	$25.2	$174.8

The following schedules present the estimated distributions by year and by biennium of federal highway funds to the state, counties, and cities, and associated matching requirements under TEA21 with comparative numbers shown for fiscal years 1996 and 1997:

State, County, and City Matching Requirements for the Years 1996 Through 2003

(Amounts Shown in Millions)

Federal Fiscal Year	Federal Funds to State[1]	Required State Match[1]	Federal Funds to Counties	Required County Match	Federal Funds to Cities	Required City Match	Federal Funds to Others	Required Match	Total Federal Funds	Total Required Match
FY1996 (actual)	$74.3	$15.2	$19.9	$4.9	$16.1	$2.7	$1.8	$0.5	$112.1	$23.3
FY1997 (actual)	$76.7	$15.4	$12.4	$3.1	$19.7	$3.8	$1.1	$0.3	$109.9	$22.6

FY1998 (actual)	$104.1	$19.9	$12.9	$3.2	$16.8	$2.7	$1.0	$0.3	$134.8	$26.1
FY1999 (estimate)	$109.9	$24.2	$21.6	$5.4	$24.6	$4.6	$2.0	$0.5	$158.1	$34.7
FY2000 (estimate)	$112.3	$21.5	$18.6	$4.7	$26.2	$5.7	$2.0	$0.5	$159.1	$32.4
FY2001 (estimate)	$124.5	$27.2	$19.6	$4.9	$26.8	$3.6	$2.1	$0.6	$173.0	$36.3
FY2002 (estimate)	$115.8	$23.2	$20.2	$5.0	$28.6	$6.0	$2.2	$0.5	$166.8	$34.7
FY2003 (estimate)	$125.3	$25.9	$20.7	$5.2	$26.6	$5.1	$2.2	$0.6	$174.8	$36.8

[1] Includes the state share on projects that may involve the state and a city or the state and a county.

North Dakota Highway Funding State, County, and City Matching Requirements for the 1997-99, 1999-2001, and 2001-03 Bienniums

(Amounts Shown in Millions)

Biennium	Federal Funds to State[1]	Required State Match[1]	Federal Funds to Counties	Required County Match	Federal Funds to Cities	Required City Match	Federal Funds to Others	Required Match	Total Federal Funds	Total Required Match
1997-99	$180.8	$35.4	$25.3	$6.3	$36.5	$6.5	$2.1	$0.5	$244.7	$48.7
1999-2001	$222.2	$45.7	$40.2	$10.0	$50.8	$10.3	$4.0	$1.0	$317.2	$67.0
2001-03	$240.2	$50.4	$39.8	$10.0	$55.4	$9.6	$4.4	$1.1	$339.8	$71.1

[1] Includes the state share on projects that may involve the state and a city or the state and a county.

Additional Matching Funds Needed

The Department of Transportation estimates the need for an additional $20 million of state highway fund revenues for the 1999-2001 biennium to provide adequate funding for the state highway construction program funding provided under TEA21 and other department needs. If the additional funding is provided solely from a motor fuel tax increase, the department estimates that a 23.3 cent per gallon motor fuel tax rate would be needed, 3.3 cents more than the current rate of 20 cents per gallon. If the additional funding is provided solely from motor vehicle registration fees, these fees would need to be increased by approximately $21 per year.

To match the increase in federal highway funds to cities and counties, the Department of Transportation estimates that cities will need an additional $4 million in matching funds per biennium and counties will need an additional $4 million in matching funds per biennium. Under traditional state highway fund distributions, if increased revenues provide the $20 million of additional funding estimated to be needed by the department, cities and counties will receive an adequate amount of increased funding to provide for their additional matching requirements.

1999-2001 BUDGET REQUEST

The committee received information on the Department of Transportation's 1997-99 budget and its 1999-2001 budget request. The following schedule provides a comparison of the department's 1999-2001 budget request to its 1997-99 budget by major program:

Department of Transportation 1999-2001 Budget Request

	1999-2001 Budget Request[1]	1997-99 Budget	Increase (Decrease)
Administration	$21,437,907	$22,383,770	($945,863)
Motor vehicle	10,504,277	7,094,615	3,409,662
Driver's license	9,142,707	8,950,358	192,349
Highways	543,728,642	489,965,256	53,763,386
Fleet Services	34,608,151	30,662,535	3,945,616
Total	$619,421,684	$559,056,534	$60,365,150
Federal funds	$361,865,767	$308,354,061	$53,511,706
Special funds	257,555,917	250,702,473	6,853,444

Total	$619,421,684	$559,056,534	$60,365,150
[1] Includes $82.2 million of optional adjustment requests of the Department of Transportation.			

Major budget changes included in the Department of Transportation's 1999-2001 budget request are listed on the following schedule:

	Federal Funds	Special Funds	Total
Base budget changes:			
Pay plan adjustments (includes cost to continue the July 1, 1998, three percent salary increase for both years of the 1999-2001 biennium)	$2,238,807	($1,422,382)	$816,425
Reductions made to comply with the Governor's 95 percent budget guideline		(6,372,719)	(6,372,719)
Costs to continue current operations	(12,628,680)	(3,666,047)	(16,294,727)
Subtotal (base budget changes)	($10,389,873)	($11,461,148)	($21,851,021)
Optional adjustment requests:			
Additional federal highway construction funds available under TEA21 (Transportation Equity Act for the 21st Century)	$63,901,579	$14,027,175	$77,928,754
Restoration of out-of-state travel funding reduced by 25 percent in the 95 percent budget request		107,214	107,214
New license plate issue		2,827,623	2,827,623
Automate an additional 10 driver's license sites. Currently, 26 of the 44 sites are automated. The remaining eight sites would be eliminated.		100,000	100,000
Teleconference system for the department's central office and its eight district offices		162,080	162,080
Workstations for one division in the central office and one district		108,000	108,000
Expand the Devils Lake shop and replace an additional seven section buildings		982,500	982,500
Subtotal (optional adjustments)	$63,901,579	$18,314,592	$82,216,171
Total budget changes	$53,511,706	$6,853,444	$60,365,150
NOTE: For informational purposes only, the estimated cost of a three percent per year salary increase for the 1999-2001 biennium for employees of the Department of Transportation totals $3,827,153, $2,104,934 of which is federal funds and $1,722,219 of special funds. This funding is not reflected in the amounts on this schedule.			

Public Transit

The committee reviewed funding for public transportation programs in the state. The committee learned that 47 public transportation systems operate in North Dakota. Major sources of funding for these programs include federal funds, state public transportation funds, city or county mill levy revenues, fees, and donations. The state provides public transportation aid to these programs from funds generated from a $1 fee on motor vehicle registrations. The fee generates approximately $750,000 per year. These public transportation funds are disbursed annually based on a formula included in NDCC Section 39-04.2-04. The formula provides that transportation providers in each county are entitled to receive up to $6,100 per year plus a per capita amount determined by the director of the Department of Transportation based on the population in the county. If more than one transportation provider operates in a single county, the formula-generated amount must be divided among the providers. If no transportation provider is operating in a county, no funding is provided to that county.

Federal funds distributed to public transportation providers include urban transit grants and rural transit grants. Bismarck, Fargo, and Grand Forks are eligible to receive urban transit grants, while other areas of the state are eligible for rural transit grants. Bismarck, Fargo, and Grand Forks receive their federal transit funds directly from the federal government, while other areas of the state receive their federal funds through the Department of Transportation. The federal funds distributed by the state are allocated to individual programs based on need, ridership, geographic size, and funding history. The federal funds require a 50 percent state or local match if used for operating and a 20 percent match if used for capital equipment purchases. The state funds do not require any local match but may be used by the provider as a match for the federal funds.

The committee learned that under TEA21 a substantial increase is expected in public transit funds. The following schedule presents the actual federal transit funding distributed in fiscal years 1997 and 1998 and estimated funding to be provided for public transportation systems in the state under TEA21 through fiscal year 2003:

Fiscal Year	Bismarck	Fargo	Grand Forks	Rural	Total
FY1997 (actual)	$413,373	$597,844	$422,327	$569,817	$2,003,361[1]
FY1998 (actual)	$504,681	$729,898	$515,611	$554,818	$2,305,008[1]
FY1999 (estimate)	$555,520	$803,425	$567,551	$1,121,982	$3,048,478[2]
FY2000 (estimate)	$603,492	$872,804	$616,562	$1,209,632	$3,302,490[2]
FY2001 (estimate)	$652,418	$943,564	$666,547	$1,299,025	$3,561,554[2]
FY2002 (estimate)	$701,096	$1,013,964	$716,279	$1,387,963	$3,819,302[2]
FY2003 (estimate)	$750,221	$1,085,012	$766,468	$1,477,720	$4,079,421[2]

[1] Amounts shown are for the state fiscal year ending June 30 of each year.

[2] Amounts shown are for the federal fiscal year ending September 30 of each year.

NOTE: The amounts shown for years 1999 through 2003 are the apportionments included in TEA21. The actual amounts that will be available to North Dakota must be appropriated each year by Congress and may be less than the amount apportioned in TEA21.

The committee heard testimony from public transportation providers and consumers of public transportation regarding the following issues, suggestions, and concerns:

1. The need for a $1 increase in motor vehicle registration fees dedicated for public transportation aid. Currently, $1 of each motor vehicle registration fee is dedicated to public transportation aid. With the proposed increase, $2 would be dedicated for public transportation aid. Reasons given for needing the additional funding include:
    - Additional matching funds will need to be provided by public transportation providers in order to receive additional federal funds available for public transit under TEA21.
    - The need for expanded service hours especially during evenings and weekends.
2. Transportation difficulties encountered by the elderly and persons with disabilities especially in rural areas of the state.
3. The need for public transportation services on evenings and weekends to allow individuals relying on public transportation systems to obtain employment.
4. Even with the reasonable fares charged by public transportation providers, the fares can be a financial burden for low-income individuals.
5. Although North Dakota serves the most people with disabilities per capita of any state in the nation, it is estimated that only one-third of the eligible population is receiving services of the transit system.
6. It is difficult for individuals relying on public transportation systems to be involved in social activities that usually occur on evenings and weekends because of the lack of public transportation during these times.

Other Reports and Committee Considerations

The committee reviewed the status of the multistate infrastructure bank approved by the 1997 Legislative Assembly. The Legislative Assembly authorized the director to cooperate with other states to establish, maintain, and operate a multistate infrastructure bank for highway project funding. The director may transfer up to 10 percent of eligible federal highway construction funds and the required state match to the bank, and the funding may be used as determined by the members of the multistate infrastructure bank as authorized by law. The committee learned that the Department of Transportation has developed the bank along with South Dakota, Nebraska, and Wyoming to assist in financing transportation projects. Because of the bank, the department has received an additional $1.7 million of federal funds for highway projects which has been deposited in the multistate infrastructure bank along with the $.4 million of required state match.

The committee reviewed the status of the Department of Transportation's aircraft. The 1997 Legislative Assembly provided that the Department of Transportation evaluate the continued use of its 1977 model Cessna airplane, including an analysis of the cost of continued maintenance and repair of the plane and options for replacement which may include selling or trading the airplane and leasing or purchasing a new or used airplane. The department was to present a report on its evaluation to the Budget Section by November 1998. The department's cost study indicated that two engines will need to be replaced in three to four years at an estimated cost of $126,000. The department reported to the Budget Section in June 1998 that it entered into a two-year lease on a King Air 200 aircraft with an option to buy at any time during the contract. The monthly lease payments on the plane are $66,650.

The committee heard a report from the Associated General Contractors expressing concern that highway fund moneys are being used for nonhighway purposes and suggesting that the Highway Patrol be provided funding from the general fund rather than the highway fund. The testimony indicated that because these highway funds are not available to the Department of Transportation, the department's ability to provide adequate maintenance and improvements on the highway system is greatly reduced.

The committee heard a presentation by representatives of the North Dakota Motor Carriers Association indicating that the trucking industry plays a vital role in North Dakota's economy. The committee heard that an estimated $12,956 of federal and state taxes are paid per year on an 80,000 pound tractor/semitrailer with an annual mileage of 100,000 miles. To provide additional funding for highways in North Dakota, the Motor Carriers Association suggested that 50 percent of the funding for the Highway Patrol be provided from the general fund and 50 percent from the highway fund rather than the current method of funding the Highway Patrol almost entirely from the highway fund.

The committee learned that since the passage of the North American Free Trade Agreement (NAFTA), North Dakota has seen a tremendous

increase in truck traffic at the border crossings. In 1997 298,500 trucks entered North Dakota from Canada compared to 151,500 in 1990.

The committee discussed highway funding issues. Major items discussed include:

1. The Department of Transportation has expressed the need to continue the three-cent per gallon motor vehicle fuel tax (20 cents compared to 17 cents) that is scheduled to expire on January 1, 2000, and the need for an additional $20 million of state highway fund revenues per biennium to be used for matching additional federal funds and other department needs.
2. The possibility of reducing the number of miles of paved roads in the state which would improve the maintenance cycle on remaining roads in the system.
3. In order to provide additional highway funding in North Dakota, all funding options should be considered including increasing fuel taxes, increasing motor vehicle registration fees, and reprioritizing the use of funds currently collected.
4. Concern that over 5,000 miles of county roads are paved. The maintenance costs required on paved roads are much greater than on unpaved roads.
5. Additional funding may be made available for highway construction if a portion of funding for the Highway Patrol is provided from sources other than the highway fund.
6. The need expressed by public transportation providers and consumers for increasing the motor vehicle registration fee dedicated for public transportation by $1, from $1 to $2, to match additional federal funds and to expand services.

Recommendations

The committee made no recommendations regarding its transportation funding study.

BUDGET MONITORING

Status of the State General Fund

The committee heard reports from OMB regarding the status of the state general fund. The committee learned that the revised revenue forecast for the 1997-99 biennium anticipates revenues exceeding the legislative forecast by $50.2 million. At the committee's last meeting, the committee learned that the projected June 30, 1999, general fund balance is $58.9 million, $48 million more than the $10.9 million estimate made at the close of the 1997 Legislative Assembly. This projected balance is based on actual revenues collected through September 30, 1998, and original revenue projections for the remainder of the biennium.

The committee received a report prepared by the Legislative Council staff on major fiscal issues affecting the 1999-2001 biennium general fund budget, including preliminary revenue estimates, deficiency appropriations, and funding needing to be continued from 1997-99 authorizations. Incorporating these preliminary estimates, the report indicated an estimated June 30, 2001, general fund balance of $14 million.

Agency Compliance With Legislative Intent

The committee received a report prepared by the Legislative Council staff on state agency compliance with legislative intent for the 1997-99 biennium. The report is based on information gathered by the Legislative Council staff during visitations with agency administrators and fiscal personnel in early 1998. The report contains information on agency compliance with legislative intent, agency changes, budget concerns, staff changes, and other areas regarding agency operations and appropriations. In addition, the report includes a number of analyses of special funds, including their projected June 30, 1999, balance as compared to the projection made at the close of the 1997 legislative session.

Status of Appropriations of Major Agencies

Since the 1975-76 interim, a Legislative Council interim committee has been assigned the responsibility of monitoring the status of major state agency and institution appropriations. The Budget Committee on Government Finance was assigned this responsibility for the 1997-98 interim. The committee's review emphasized the expenditures of major state agencies, including the institutions of higher education and the charitable and penal institutions, the foundation aid program, and major program appropriations of the Department of Human Services.

In summary, the reports given to the committee regarding budget monitoring indicated the following:

1. Actual general fund expenditures for the Department of Human Services through August 1998 for the TANF (temporary assistance for needy families) program were $671,000 less than the original budget. Actual developmental disabilities grants through May 1998 were $252,000 less than the original budget. The department's estimate of traditional medical assistance expenditures for the biennium total $132.7 million, $1.2 million less than the department's revised estimate.
2. Total expenditures at the charitable and penal institutions for the first year of the 1997-99 biennium were $76,065,190, $2,735,005 (3.5 percent) less than the estimated expenditures of $78,800,195. Total revenues for the same period were $33,033,217, $1,116,611 (3.5 percent) more than the estimated revenues of $31,916,606.
3. For the first year of the 1997-99 biennium, the average monthly student, resident, and inmate population at the charitable and penal institutions averaged 1,862.6, 52.4 fewer than the estimated population of 1,915. The average monthly FTE positions for the same institutions totaled 1,494.12, 40.5 fewer than the estimated FTE level of 1,534.62.
4. Total expenditures at the institutions of higher education for the first year of the 1997-99 biennium were $220,742,074, which was $11,622,988 (five percent) less than estimated expenditures of $232,365,062. Income for the year totaled $75,307,270, or $4,105,016 (5.2 percent) less than estimated income of $79,412,286.
5. For the first year of the 1997-99 biennium, FTE student enrollment at the institutions of higher education totaled 28,308 students, 902 (3.1 percent) less than estimated FTE student enrollment of 29,210 students.
6. The following schedule compares estimated and actual foundation aid program payments for the 1997-99 biennium:

	1997-99 Biennium Appropriation	1997-98 Actual Payments	1998-99 Estimated Payments	Estimated Remaining Balance
Statutory per student payments	$501,886,540	$241,817,263	$249,706,447[2]	$10,362,830
Less mill levy and excess fund balance deduct	72,298,601	35,629,288	36,967,986[3]	(298,673)
General fund per student payments	$429,587,939[1]	$206,187,975	$212,738,461	$10,661,503
Transportation payments	36,768,320	17,882,508	18,000,000	885,812
Total general fund - Foundation aid program	$466,356,259	$224,070,483	$230,738,461	$11,547,315[4]

[1] Appropriation for per student payments - Section 11 of 1997 House Bill No. 1013 provided that up to $300,000 of the amount appropriated for foundation aid must be used by the Department of Public Instruction to provide payments to school districts for educating students with limited English proficiency, pursuant to North Dakota Century Code (NDCC) Section 15-40.1-07.7.

[2] Statutory per student payments - 1998-99 - The estimated 1998-99 per student payments are based on a 1.5 percent decline in weighted student units from 1998-99, as estimated by the Department of Public Instruction.

[3] Mill levy and excess fund balance deduct - 1998-99 - Due to an increase in the statewide property valuation, the 1998-99 mill deduct will be approximately $36.77 million, $100,000 more than the amount used to calculate the foundation aid appropriation. The excess fund balance deduct (NDCC Section 15-40.1-06) for 1998-99 is currently estimated to be approximately $200,000, $100,000 more than the amount used to calculate the appropriation.

[4] Estimated remaining balance - The estimated June 30, 1999, remaining foundation aid balance is approximately $11.5 million, which, if distributed as foundation aid per student payments, will result in an additional payment of approximately $95 per weighted student.

7. The following schedule compares estimated and actual per student payments, tuition fund distributions, and weighted student units for the 1997-99 biennium:

	Legislative Estimate	Actual 1997-98 and Current Estimate 1998-99	Actual/Current Estimate Increase (Decrease) From Legislative Estimate
1997-98			
Per student payments	$1,954	$1,954	$0
Tuition fund distributions	204	216	12
Total payments	$2,158	$2,170	$12
Weighted student units	125,691	123,791	(1,900)
1998-99			
Per student payments	$2,032	$2,032	$0
Tuition fund distributions	204	216	12
Total payments	$2,236	$2,248	$12
Weighted student units	125,585	121,967	(3,618)

Oil Reports

The committee received periodic reports on oil tax revenues, oil production, oil market prices, and other oil issues during the interim. For fiscal year 1998, oil and gas production tax collections were $15,744,939, or $1,099,426 less than the estimated collections of $16,844,365. Oil extraction tax collections for fiscal year 1998 were $9,373,217, or $2,691,783 less than estimated collections of $12,065,000. Production for fiscal year 1998 was 36,741,294 barrels, 699,797 barrels more than the estimated production of 36,041,497. Average price per barrel during fiscal year 1998 was $14.02, which was $4.10 less than the estimated price per barrel for the year of $18.12.

BUDGET TOURS

During the interim, the Budget Committee on Government Finance functioned as a budget tour group of the Budget Section and visited the Youth Correctional Center, State Penitentiary, Roughrider Industries, Missouri River Correctional Center, James River Correctional Center, State Hospital, proposed site of the Jamestown Bypass Highway Project, and Bismarck State College. The committee heard about

institutional needs for major improvements and problems institutions or other facilities may be encountering during the interim. The tour group minutes are available in the Legislative Council office and will be submitted in report form to the Appropriations Committees during the 1999 legislative session.