

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

BUDGET SECTION

Wednesday, December 8, 2004
 Senate Chamber, State Capitol
 Bismarck, North Dakota

Representative Ken Svedjan, Chairman, called the meeting to order at 11:05 a.m.

Members present: Representatives Ken Svedjan, Ole Aarsvold, Larry Bellew, Rick Berg, Merle Boucher, Thomas Brusegaard, Ron Carlisle, Al Carlson, Jeff Delzer, Eliot Glassheim, Pam Guleson, Scot Kelsh, Keith Kempenich, James Kerzman, Matthew M. Klein, Joe Kroeber, Bob Martinson, Ralph Metcalf, David Monson, Chet Pollert, Earl Rennerfeldt, Bob Skarphol, Blair Thoreson, Mike Timm, Francis J. Wald, Alon Wieland, Clark Williams; Senators John M. Andrist, Bill L. Bowman, Randel Christmann, Michael A. Every, Tom Fischer, Tony Grindberg, Ray Holmberg, Ralph L. Kilzer, Aaron Krauter, Ed Kringstad, Elroy N. Lindaas, Tim Mathern, David O'Connell, Larry J. Robinson, Randy A. Schobinger, Bob Stenehjem, Russell T. Thane

Member absent: Senator Harvey Tallackson

Others present: See attached appendix

**2005-07 EXECUTIVE BUDGET
 REVENUE FORECAST**

Chairman Svedjan called on Ms. Pam Sharp, Director, Office of Management and Budget, to present information on the executive budget revenue forecast for the 2005-07 biennium and the status of the state general fund for the 2003-05 and 2005-07 bienniums. A copy of the information presented is on file in the Legislative Council office.

Ms. Sharp said the projected June 30, 2005, balance of the general fund is approximately \$126.7 million, which is the highest ending general fund balance in 20 years. She presented the following information on the status of the state general fund:

| | |
|---|-----------------|
| Unobligated general fund balance - July 1, 2003 | \$14,790,311 |
| Add | |
| Estimated general fund collections (based on December 2004 executive budget revenue forecast) | 1,857,107,907 |
| Jobs and Growth Tax Relief Reconciliation Act of 2003 payments | 50,000,000 |
| Jobs and Growth Tax Relief Reconciliation Act of 2003 - Enhanced Medicaid federal medical assistance percentage | 6,456,581 |
| Total estimated general fund revenue for | \$1,913,564,488 |

| | |
|--|-----------------|
| the 2003-05 biennium | |
| Less | |
| 2003-05 biennium general fund appropriations | 1,803,661,161 |
| Proposed deficiency appropriations | 10,886,000 |
| 2003-05 biennium adjusted general fund appropriations | \$1,814,547,161 |
| Add | |
| Estimated agency turnback | 12,900,000 |
| Estimated general fund balance - June 30, 2005 (\$116,454,729 more than the 2003 legislative estimate of \$10,252,909) | \$126,707,638 |
| Add | |
| Estimated general fund revenue for the 2005-07 biennium | 1,890,447,500 |
| Total estimated general fund resources for the 2005-07 biennium | \$2,017,155,138 |
| Less | |
| Recommended general fund appropriations for the 2005-07 biennium | 2,007,001,269 |
| Estimated general fund balance - June 30, 2007 | \$10,153,869 |

Ms. Sharp said the June 30, 2005, balance in the permanent oil tax trust fund is projected to be approximately \$41.6 million and the state general fund is estimated to receive approximately \$84.3 million in oil and gas tax revenues during the 2005-07 biennium.

In response to a question from Representative Svedjan, Ms. Sharp said no funds are anticipated to be transferred to the permanent oil tax trust fund for the 2005-07 biennium, as the executive recommendation proposes to change the \$71 million limit on general fund revenues from oil and gas taxes to \$84.5 million. Therefore, she said all of the state's share of revenue from oil and gas taxes in the 2005-07 biennium, which is estimated to be approximately \$84.3 million, would be deposited in the general fund and none would be transferred to the permanent oil tax trust fund.

In response to a question from Representative Wald, Ms. Sharp said the price per barrel of oil used for the oil extraction tax and oil and gas gross production tax revenue estimates for the remainder of the 2003-05 biennium and for the 2005-07 biennium are approximately \$40 per barrel by the end of state fiscal year 2005, approximately \$37 per barrel at the beginning of fiscal year 2006 decreasing to approximately

\$26 per barrel by the end of fiscal year 2006, and approximately \$24 to \$25 per barrel for the beginning of fiscal year 2007.

In response to a question from Representative Timm, Ms. Sharp said the \$5 million transfer from the Mill and Elevator to the general fund is anticipated to take place at the end of the 2003-05 biennium.

Ms. Sharp said the executive forecast estimates an increase in total general fund revenues and transfers for the 2005-07 biennium of approximately \$82 million from the 2003 legislative forecast. Ms. Sharp said the increases in estimated general fund revenues for the 2003-05 and 2005-07 bienniums are primarily attributable to increases in sales and use taxes. She said motor vehicle excise tax and individual income taxes are also increasing. Ms. Sharp said for the 2005-07 biennium, the executive recommendation proposes the Bank of North Dakota and Mill and Elevator transfers to the general fund to remain at the same amounts as the 2003-05 biennium, which are \$60 million and \$5 million, respectively. Ms. Sharp said the executive recommendation proposes to increase the transfer from the land and minerals trust fund from the 2003-05 biennium amount of \$2 million to \$5 million for the 2005-07 biennium.

In response to a question from Senator Holmberg, Ms. Sharp said the Mill and Elevator's profits are anticipated to be over \$5 million for the 2003-05 biennium, so the transfer to the general fund can be made from the profits.

Ms. Sharp said deficiency general fund appropriations requests for the 2003-05 biennium total approximately \$10.9 million as shown below:

| Agency | Potential Deficiency Appropriation |
|--|------------------------------------|
| Information Technology Department | \$1,070,000 |
| Attorney General (prosecution witness fees and crime lab costs) | 110,000 |
| University of North Dakota (1997 flood) | 371,000 |
| North Dakota State University (2000 flood) | 1,500,000 |
| Veterans Home | 200,000 |
| Division of Emergency Management (disaster repayments) | 6,275,000 |
| Division of Emergency Management (Deep Creek fire) | 110,000 |
| Department of Corrections and Rehabilitation (male inmate population increase) | 1,250,000 |
| Total | \$10,886,000 |

Representative Berg said that during the budget process, the Legislative Assembly may reduce appropriation amounts from the executive recommendation, but the appropriation provided by the Legislative Assembly is still an increase in the amount of funding when compared to the previous biennium's appropriation. He said a concern arises when the appropriation bills are introduced to reflect the executive budget and the legislative reductions are viewed as "cuts" when

they are actually an increase in funding compared to the current appropriation. Therefore, in order to address this concern, Representative Berg said the committee should consider a motion to change the form of appropriation bills to contain two sections. He said one section would reflect a base level of funding not to exceed the appropriations approved by the previous Legislative Assembly and a second section that would include enhanced funding.

It was moved by Representative Berg, seconded by Representative Timm, and carried on a roll call vote that the Budget Section, pursuant to North Dakota Century Code (NDCC) Section 54-44.1-07 relating to the form of budget data, request the Office of Management and Budget to prepare the appropriation bills for introduction to the 2005 Legislative Assembly in a format that provides:

- **In Section 1 of each bill, an agency's base level funding in an amount that does not exceed the agency's 2003-05 legislative appropriation, by line item and funding source, adjusted for one-time funding provided for the 2003-05 biennium.**
- **In Section 2 of the bill, any enhanced funding being recommended by the Governor for the agency for the 2005-07 biennium by line item and funding source.**

Representatives Svedjan, Aarsvold, Bellew, Berg, Brusegaard, Carlson, Delzer, Glassheim, Gulleon, Kelsh, Kempenich, Kerzman, Kroeber, Metcalf, Monson, Pollert, Rennerfeldt, Skarphol, Thoreson, Timm, Wald, Wieland, and Williams and Senators Andrist, Bowman, Christmann, Every, Fischer, Grindberg, Holmberg, Kilzer, Krauter, Kringstad, Lindaas, Mathern, O'Connell, Robinson, Schobinger, Stenehjerm, and Thane voted "aye." No negative votes were cast.

Senator Robinson said the 2005 Legislative Assembly should receive a brief summary of Emergency Commission actions during the interim for each agency so the Legislative Assembly is aware of additional funding authorized for each budget in addition to the legislative appropriation.

ECONOMIC OUTLOOK FOR THE UNITED STATES AND NORTH DAKOTA

At the request of Chairman Svedjan, Mr. Steve Cochrane, Economist, Economy.com, Philadelphia, Pennsylvania, presented a report on economic assumptions included in the North Dakota executive budget revenue forecast for the 2005-07 biennium. A copy of the information presented is on file in the Legislative Council office. Mr. Cochrane said the economy has been improving since 2002. He said economic conditions, based on employment and industrial production through October 2004, are moderate to expanding for most of the United States, including North Dakota. He said businesses are flush

and debt burdens are falling, which is prompting investments and more hiring.

Mr. Cochrane said the Midwest still struggles to achieve job growth, but North Dakota's payroll employment maintains expansion. He said North Dakota's personal income growth beats most of the Midwest and steady job growth is in North Dakota's near-term outlook. He said North Dakota had high farm income from 2003 to 2004 and farm commodity prices are past their peak.

Mr. Cochrane said the United States and global investment spending will support manufacturing and manufacturers are confident. He said the decreasing value of the dollar generates export potential.

Mr. Cochrane said the elevated energy prices have had a positive impact for North Dakota. He said the delinquency rate on first mortgages for North Dakota is low. He said there is some imbalance in North Dakota's housing market as the number of building permits is larger than household formations but the house price appreciation in North Dakota is still nearly half the amount of the United States average.

In response to a question from Representative Skarphol, Mr. Cochrane said he will provide information relating to the factors taken into account when calculating household formations for each state.

Mr. Cochrane said overall, the outlook for North Dakota's economy for the next few years looks reasonably good. He said North Dakota has a well-balanced economy and has several positive driving factors.

The committee recessed for lunch at 12:00 noon and reconvened at 12:55 p.m.

AGENCY REQUESTS AUTHORIZED BY THE EMERGENCY COMMISSION

Chairman Svedjan directed the committee to consider agency requests which have been authorized by the Emergency Commission and forwarded to the Budget Section pursuant to NDCC Sections 54-16-04.1, 54-16-04.2, and 54-16-09. The information relating to the requests was distributed to Budget Section members prior to the meeting and is on file in the Legislative Council office. Committee members requested that Emergency Commission Request #1533 relating to the Department of Agriculture be handled separately.

It was moved by Senator Robinson, seconded by Representative Carlisle, and carried on a voice vote that the Budget Section approve the following requests that have been authorized by the Emergency Commission and forwarded to the Budget Section pursuant to NDCC Sections 54-16-04.1, 54-16-04.2, and 54-16-09:

- **Division of Emergency Management (Request #1528) - To receive \$91,125 from the Emergency Commission contingency fund and to increase spending authority to**

accept the funds to provide payment to the United States Department of Agriculture Forest Service for interagency suppression and support costs incurred on state and private lands related to fires at Magpie Camp, Whitetail, and Deep Creek.

- **Game and Fish Department (Request #1529) - To increase federal funds spending authority by \$100,000 to accept federal funds from the United States Fish and Wildlife Service state wildlife grant program for the grants line item (\$100,000) to fund a temporary science coordinator position at the Nature Conservancy (January 1, 2005, through June 30, 2005) to provide guidance to agency biologists charged with the development and delivery of the state's comprehensive wildlife conservation strategy.**
- **Game and Fish Department (Request #1530) - To increase spending authority by \$100,000 to accept federal funds from the Federal Aid in Sportfish Restoration Act (\$75,000) and from the game and fish operating fund (\$25,000) for the capital improvements line item to repair leaking fish-rearing ponds located at the Garrison Dam National Fish Hatchery to prevent a decrease in their production capacity.**
- **Department of Career and Technical Education (Request #1531) - To increase federal funds spending authority by \$138,586 to accept federal funds from the United States Department of Education transition to teaching in North Dakota grant for the operating line item (\$138,586) for professional development and planned support designed to develop highly qualified teachers from the existing pool of eligible individuals.**
- **Department of Career and Technical Education (Request #1532) - To increase federal funds spending authority to accept \$355,000 of federal funds from the United States Department of Labor incentive grant for the operating line item (\$147,375) and the grants line item (\$207,625) to expand opportunities for students in several areas related to career and technical education.**

At the request of Chairman Svedjan, Ms. Sharp presented information relating to the Department of Agriculture Request #1533 to add two full-time equivalent (FTE) positions for the State Board of Animal Health funded through the United States Department of Agriculture from the National Identification Information Act. Ms. Sharp said the two positions are only authorized through the end of the 2003-05 biennium, and the Department of Agriculture

will need to request the 2005 Legislative Assembly to authorize the positions to continue into the 2005-07 biennium and beyond. She said the Emergency Commission added a stipulation to the request that the positions are only authorized as long as they are federally funded. She said the two positions are for a veterinarian and a data entry person.

Representative Kerzman said the two positions should be authorized because they are for a program that is very important for North Dakota.

It was moved by Senator Mathern, seconded by Senator Every, and carried on a voice vote that the Budget Section approve the following request which has been authorized by the Emergency Commission:

- **Department of Agriculture (Request #1533) - To add two FTE positions for the State Board of Animal Health. The Emergency Commission (September 29, 2004) and Budget Section (October 5, 2004) previously approved \$515,000 of additional federal funds spending authority from the United States Department of Agriculture which will be used to fund the positions. The additional FTE positions were not included in the original request because of uncertainty at that time of whether the funding will continue; however, the department has since learned the grant will continue beyond the 2003-05 biennium. The Emergency Commission added the stipulation that the FTE positions are only authorized as long as the positions are federally funded.**

2005-07 EXECUTIVE BUDGET RECOMMENDATIONS

At the request of Chairman Svedjan, Ms. Sheila Peterson, Director, Fiscal Management Division, Office of Management and Budget, introduced the executive budget analysts and discussed the availability of the executive budget summary and detail books for legislators. Ms. Peterson reported on the 2005-07 executive budget recommendations for capital projects and state employee compensation and benefits. She said the budget will allow the state to continue to fully fund health insurance for all state employees. She said the budgeted cost for health insurance is \$559 per month per employee. She said this is a 14.4 percent increase over the 2003-05 biennium and the total increased cost to the state will be approximately \$14.3 million from all funds. She said the recommended state employee compensation package includes a funded 4 percent salary increase, effective July 1, 2005, and a funded 3 percent salary increase, effective July 1, 2006. She said the recommendation includes authorizing agencies to give an additional 1 percent salary increase on July 1, 2006, if they are able to fund the increase from efficiencies

within their budgets. She said the compensation package also includes a \$5 million equity fund, of which \$2.5 million is from the general fund, to be used to move employees' salaries closer to the market salaries for those positions that are furthest behind the market. She said the executive recommendation includes an additional \$1 million from the general fund for the Department of Corrections and Rehabilitation for a salary equity pool to partially address salary equity issues relating to correctional officers. She said the Department of Corrections and Rehabilitation will also be eligible for the \$5 million equity pool in addition to the \$1 million equity pool within its budget. She said the total compensation package cost is approximately \$52.3 million, of which approximately \$23.9 million is from the general fund.

Ms. Peterson said the executive recommendation for the capital assets budget is comprised of the following five categories:

| | |
|---|----------------------|
| Capital projects | \$159,361,488 |
| Extraordinary repairs | 14,948,923 |
| Other capital improvements | 572,843,419 |
| Equipment over \$5,000 | 39,285,730 |
| Information technology equipment over \$5,000 | 10,984,567 |
| Total | \$797,424,127 |

Ms. Peterson said the budget includes 11 state agencies and institutions with capital projects that are financed from bonding, for a total of approximately \$22.8 million. She said the projected general fund bond payments for the recommended \$22.8 million of bonding is within the statutory limit of 10 percent of the equivalent of 1 percent sales, use, and motor vehicle excise tax pursuant to NDCC Section 54-17.2-21. She said the agencies and projects are:

| | |
|--|-------------|
| Office of Management and Budget | \$3,155,000 |
| Fire suppression system in the Capitol tower | |
| Attorney General's office | 3,632,691 |
| • Crime lab building addition and remodeling (\$3,551,491) | |
| • Crime lab building addition - DNA forensic scientist (\$81,200) | |
| North Dakota State University | 3,500,000 |
| Hazardous material handling and storage | |
| State College of Science | 736,000 |
| Electrical distribution - Phase II of IV | |
| Dickinson State University | 4,100,557 |
| Murphy Hall renovation addition (Stage II) | |
| Department of Human Services | 455,000 |
| • Developmental Center - Cedar Grove Building roofing (\$135,000) | |
| • Developmental Center - Collette Gym roofing and pool filtration system (\$105,000) | |
| • State Hospital - Electrical transformer replacement (\$40,000) | |
| • State Hospital - Child adolescent building roof repairs (\$65,000) | |
| • State Hospital - Water tower repairs and painting (\$110,000) | |
| Department of Corrections and Rehabilitation | 3,586,510 |
| • James River Correctional Center - ET building improvements (\$980,000) | |

| | |
|---|---------------------|
| <ul style="list-style-type: none"> • James River Correctional Center - Programs building code improvements (\$584,000) • Missouri River Correctional Center - Multipurpose building (\$2,022,510) | |
| Branch research centers North Central Research Center - Agronomy laboratory and greenhouse | 440,000 |
| Main Research Center Research greenhouse complex | 2,000,000 |
| State Historical Society Chateau de Mores visitor center renovation and addition | 800,000 |
| Parks and Recreation Department Turtle River State Park administrative office replacement | 350,000 |
| Total capital projects financed with bonding | \$22,755,758 |

In response to a request from Representative Delzer, Ms. Peterson said she will provide the 2005 Legislative Assembly with a list of the projects recommended for bonding.

In response to a question from Representative Skarphol, Ms. Peterson said the recommended \$22.8 million of projects funded with bonding falls within the sales tax limit because sales tax is growing considerably and the bond payment structure allows payments to extend further into the future.

In response to a question from Representative Carlisle, Ms. Peterson said the Governor's recommendation of \$50 million for centers of excellence is proposed to be financed by borrowing funds from the Bank of North Dakota, not through bond issuance.

Representative Skarphol said he does not believe it is appropriate for the state to borrow funds from the Bank of North Dakota to finance the centers of excellence.

In response to a question from Representative Carlisle, Ms. Peterson said the Bank of North Dakota will be repaid through funding from the Department of Commerce in an amount of \$5 million per biennium.

Representative Skarphol suggested the Budget Section request an Attorney General's opinion regarding the constitutionality of borrowing funds from the Bank of North Dakota to finance the centers of excellence.

It was moved by Representative Skarphol, seconded by Representative Delzer, and carried on a voice vote that the Budget Section request an Attorney General's opinion regarding whether the Governor's proposal in the 2005-07 biennium executive budget to borrow up to \$50 million from the Bank of North Dakota as a source of funding for the centers of excellence is, in effect, deficit spending and therefore not allowable.

At the request of Chairman Svedjan, Ms. Celeste Kubasta, Office of Management and Budget, presented information on the executive recommendations for the Department of Human Services, including the Developmental Center and State Hospital. Ms. Kubasta said the executive budget recommendation approves the department budget to maintain

existing services and provides for rebasing of nursing home payments. She said the approved federal Medicaid assistance payments reimbursement rates are 67.49 percent for fiscal year 2005, 65.85 percent for fiscal year 2006, and 63.23 percent for fiscal year 2007. She said the executive budget recommendation approves a Medicaid management information system rewrite for \$29.2 million, of which \$3.7 million is from the general fund, and approves a 2 percent increase for providers.

Ms. Kubasta discussed the executive budget recommendations for the Department of Transportation. She said the recommendation provides an additional \$6 million match for \$399.4 million in federal formula funds in the 2005-07 biennium. She said the recommendation includes a proposed \$15 increase for motor vehicle registration fees, which will be used to match the increase in federal funds.

Ms. Kubasta discussed the executive budget recommendations for the higher education institutions. She said the recommendation provides funding for operating and extraordinary repairs for the campus budgets, creates a \$2 million student financial assistance grant - child care component, and provides \$1.3 million of additional general fund money for student financial assistance grants. She said three capital projects are proposed to be funded by the general fund, including a science lab renovation at Lake Region State College for \$343,875; bleacher replacement at Valley City State University for \$282,000, of which \$250,000 is from the general fund; and seed processing facility renovations at the North Dakota Forest Service for \$65,000.

Ms. Kubasta discussed the executive budget recommendations for the agriculture and economic development agencies. She said the executive recommendation for agricultural research recommends a general fund increase of \$3.7 million, or 7 percent, over the 2003-05 adjusted appropriation. She said the recommendation includes approximately \$300,000 and two FTE positions for a beef initiative, approximately \$24,000 for linking crops to livestock development, and approximately \$60,000 for an ethanol and malting barley initiative at the Dickinson Research Center.

In response to a question from Representative Brusegaard, Ms. Kubasta said the Office of Management and Budget will provide him with information regarding the distribution of the environmental range protection fund.

In response to a request from Senator Bowman, Ms. Kubasta said she will provide him with a schedule of the Department of Transportation matching funds raised to obtain additional federal funds for the 2003-05 and 2005-07 bienniums at the 2005 legislative session.

In response to a request from Representative Skarphol, Ms. Kubasta said she will provide a

schedule of the annual gas consumption for the state since 1990 at the 2005 legislative session.

At the request of Chairman Svedjan, Mr. Joe Morrisette, Office of Management and Budget, presented information on the executive budget recommendations for the Department of Public Instruction. He said the recommendation increases per student payments by 3.9 percent for the first year of the biennium and by 3.7 percent for the second year, which increases per student payments from the current level of \$2,623 to \$2,726 for 2005-06 and to \$2,826 for 2006-07. He said the recommendation increases the general fund appropriation for state school aid per student and transportation payments by \$22.8 million, for a total of \$512.2 million for the 2005-07 biennium. He said the recommendation includes \$2 million for incentives to districts entering into joint powers agreements to encourage school district cooperation and efficiency. He said the recommendation also increases the general fund appropriation for revenue supplement payments by \$2.5 million and increases tuition apportionment payments by \$2.1 million, or 3 percent.

Mr. Morrisette discussed the executive budget recommendations for the State Library. He said the recommendation increases state aid to public libraries by \$155,693, or 18.4 percent, which provides a total state aid to public libraries of \$1 million, a level that has not been achieved since the 1991-93 biennium. He said the recommendation also increases funding for online reference resources by \$200,000, which will expand the number of online resources available to all library patrons in the state.

Mr. Morrisette discussed the executive budget recommendations for the School for the Deaf and North Dakota Vision Services - School for the Blind. He said the recommendation includes funding for teacher salary increases pursuant to the composite schedule for state teachers developed by Human Resource Management Services.

In response to a question from Representative Delzer, Mr. Morrisette said the executive budget recommendation for the Department of Corrections and Rehabilitation also includes funding for teacher salary increases for the teachers at the Youth Correctional Center.

Mr. Morrisette discussed the executive budget recommendations for the Highway Patrol. He said the recommendation provides for the elimination of all remaining fixed weigh and inspection stations due to the success of mobile enforcement teams and weigh-in-motion technology. He said the recommendation authorizes one additional FTE patrol officer to serve as head of security for the Capitol complex; transfers four FTE positions related to Capitol security, as well as related operating expenses for contracted security services, from the Office of Management and Budget to the Highway Patrol; and authorizes four existing FTE positions currently assigned to weigh and

inspection stations to be used for a northern border security initiative, which is 100 percent federally funded. He said the recommendation provides \$200,000 from the general fund for the purchase of new case management software used by Highway Patrol officers and provides \$7.5 million from the highway tax distribution fund for the operation of the Highway Patrol.

In response to a question from Representative Carlson, Mr. Morrisette said he will provide information regarding the Highway Patrol's new case management software and whether the project has been coordinated with the Information Technology Department.

Mr. Morrisette discussed the executive budget recommendations for the Department of Corrections and Rehabilitation. Mr. Morrisette said the recommendation provides the Department of Corrections and Rehabilitation with an overall general fund increase of \$19.4 million from the 2003-05 biennium appropriation, including \$1 million for a salary equity pool to partially address salary equity issues relating to correctional officers. He said approximately \$2.1 million of the general fund increase is for increased costs related to housing the female inmates at the Dakota Women's Correctional Rehabilitation Center in New England and approximately \$1.9 million of the increase is to replace the loss of one-time federal funds used for the transition center. He said the recommendation provides a total of 31.10 new FTE positions, including 8.5 FTE positions to treat and monitor violent sexual offenders, 3 FTE positions for the establishment of a new assessment program, and 8 new treatment FTE positions to better address the treatment needs of offenders.

In response to a request from Representative Carlson, Chairman Svedjan said a schedule of all new FTE positions recommended for state agencies, excluding higher education, will be included in the Legislative Council's *Analysis of the 2005-07 Executive Budget* and will be available to the Legislative Assembly at the start of the 2005 legislative session.

Mr. Morrisette discussed the executive budget recommendations for the Game and Fish Department. He said the recommendation approves five new FTE positions to deal with increased workload relating to the management of game animals and the licensing of resident and nonresident hunters. He said the recommendation provides \$550,000 to the Department of Agriculture for services provided by the United States Department of Agriculture Wildlife Services and for the State Board of Animal Health services, which is the same amount as was provided by the 2003 Legislative Assembly. He said the recommendation provides \$122,000 to the Parks and Recreation Department for state park boat ramp maintenance and repairs, which is also the same amount as was provided by the 2003 Legislative Assembly.

Mr. Morrisette discussed the executive budget recommendations for the Parks and Recreation Department. He said the recommendation provides \$617,772 for initiatives relating to the Lewis and Clark Bicentennial event, which is a decrease in funding from the 2003-05 biennium appropriation due to the upcoming completion of the bicentennial. He said the recommendation provides approximately \$2.6 million for capital projects at various state parks, of which \$640,000 is from the general fund, and provides \$250,000 from the general fund for planning efforts relating to the construction of a mediation center at the International Peace Garden.

Mr. Morrisette discussed the executive budget recommendations for the State Water Commission. He said the recommendation eliminates the transfer of funds from the water development trust fund to the general fund and provides that the agency's administrative and support services program will be funded primarily from the general fund and the water and atmospheric resources program will be funded entirely from special and federal funds. He said the recommendation authorizes two FTE positions and related operating costs for the operation of the Devils Lake Outlet.

MEDICAL ASSISTANCE PROGRAM

At the request of Chairman Svedjan, Mr. David J. Zentner, Director, Medical Services, Department of Human Services, presented an update on the status of the medical assistance program. A copy of the information presented is on file in the Legislative Council office. Mr. Zentner said based on current expenditure trends it will be necessary for the department to use the entire \$8 million from the general fund that became available due to the temporary increase in the federal medical assistance percentage in order for the department to provide necessary services to the most vulnerable citizens. He said the enhanced federal medical assistance percentage ended as of June 30, 2004, and although it is necessary to use the \$8 million that became available from the general fund, the Department of Human Services anticipates general fund turnback of approximately \$11 million at the end of the 2003-05 biennium. Mr. Zentner said the current federal matching rate is 67.49 percent and this rate will remain in place until September 30, 2005. He said the federal medical assistance percentage for federal fiscal year 2006 will be 65.85 percent, which is a slight increase from the rate previously anticipated. He said the estimated percentage for federal fiscal year 2007 is lower than previously anticipated at 63.23 percent and this change was incorporated into the department's 2005-07 biennium budget request.

Mr. Zentner said from August 2003 through October 2004, or approximately 65.2 percent of the biennium, 71.3 percent of the appropriation for Medicaid grants has been spent and 59.4 percent of the appropriation for developmental disability grants has

been spent. He said hospital expenditures continue to far exceed original estimates. He said as of the end of October 2004, the department had spent about \$48.1 million for inpatient services, which is approximately \$10 million more than originally estimated, and the department anticipates spending \$16.8 million by the end of the 2003-05 biennium, which is approximately \$4.7 million more than the general fund amount included in the department's appropriation. He said physician services have also increased dramatically and the department anticipates spending \$8.3 million, which is \$1.8 million more from the general fund than originally anticipated. He said the primary reason for the increase in expenditures is the result of an increase in the utilization of physician services by Medicaid recipients.

Mr. Zentner said the caseload for the Medicaid program has remained between 52,000 and 53,000 recipients since October 2003. He said the trend continues a slight decline over the course of the 2003-05 biennium, and as of the end of October 2004, a total of 52,117 individuals were eligible to receive full Medicaid benefits. He said the department also provides limited coverage for payment of Medicare Part B premiums and in some cases Medicare coinsurance and deductible amounts for another 1,589 Medicare enrollees who are not eligible for the regular Medicaid program.

Mr. Zentner said the Department of Human Services continues to make progress in reducing the backlog of claims in the department's Medicaid payment system. He said as of the end of October 2004, there were 17,912 claims in the suspense status, compared to almost 62,000 suspended claims in October 2003.

SPECIFIC EXEMPT COMMODITIES AND SERVICES

Chairman Svedjan called on Ms. Sherry Neas, State Procurement Office, Office of Management and Budget, to report on the specified commodities and services exempted from the procurement requirements of NDCC Chapter 54-44.4 pursuant to Section 42 of Senate Bill No. 2015 (2003). A copy of the information presented is on file in the Legislative Council office. Ms. Neas said the Office of Management and Budget has exempted few commodities and services from the state procurement system. She said new administrative rules related to state procurement, North Dakota Administrative Code Article 4-12, became effective in August 2004. She said the new rules identify commodities and services that are not procurements, such as professional memberships and grants, and identifies exemptions to the rules. She said the list of exemptions also identifies commodities and services that are subject to other statutes for the procurement or selection process, such as appointments of a special or an assistant

attorney general, public improvements, concessions, and engineers.

Ms. Neas said the Office of Management and Budget also promulgated rules related to the commodities and services that can be purchased without a competitive process in accordance with NDCC Section 54-44.4-05. She said the purchase of commodities or services costing less than \$2,500 can be purchased after obtaining only one quote, provided the price is fair and reasonable. If an agency requests to purchase a commodity or service costing more than \$2,500 that is not specifically listed in the laws or rules, then the agency must complete an Alternate Procurement Request form. The agency head or designee can approve these requests up to an amount of \$25,000, and the Office of Management and Budget State Procurement Office approves all requests over \$25,000. She said these noncompetitive purchases are subject to all other state procurement practices related to reporting of service contracts, risk management, and contracting.

In response to a question from Representative Skarphol, Ms. Neas said a purchase of less than \$2,500 only requires one bid quote, a purchase costing between \$2,500 and \$25,000 requires three bid quotes, and a purchase of \$25,000 or more requires the full competitive process.

In response to a question from Representative Skarphol regarding state agency purchases between \$2,500 and \$25,000, Ms. Neas said the Office of Management and Budget does not keep track of those purchases.

TRADE PROMOTION AUTHORITY

Chairman Svedjan called on Ms. Susan Geib, North Dakota Trade Office, to present information regarding the Trade Promotion Authority established pursuant to Sections 21 and 22 of House Bill No. 1019 (2003). A copy of the information presented is on file in the Legislative Council office. Ms. Geib said a vendor was chosen through the request for proposal process and the contract was awarded to the District Export Council. She said the contract has four phases--identify barriers, make recommendations, raise private sector funds, and prepare a report for the Department of Commerce and the 2005 Legislative Assembly.

Ms. Geib said there are 400 North Dakota exporters and North Dakota exports goods worth \$2.8 billion to 115 foreign markets. She said North Dakota is ranked 46 out of the 50 states in merchandise exports and Wisconsin, Minnesota, and Iowa are ranked in the top 25 states for exports. She said the merchandise North Dakota exports is concentrated in two industries--machinery and food. She said areas of opportunity for North Dakota trade include value-added agriculture growth areas and service exports. She said trade missions can be a viable source of economic benefit and the past two trade missions

have provided \$14 million in incremental revenue for approximately nine North Dakota companies.

Ms. Geib said North Dakota's export expansion barriers are:

- Transport - Road weight limits and intermodal transport.
- Regulation - Excessive paperwork/regulation that extends export process to excessive length.
- Expertise - Lack of reliable export service network.
- Opportunity - Lack of strong market research to illustrate opportunities for North Dakota products.
- Expansion capital - Lack of capital to finance expansion.

Ms. Geib said recommendations include that a North Dakota Trade Office team be developed to address the identified barriers and proactively collaborate between North Dakota's 400 qualified exporters and the reliable professional export service network currently under development to provide exporters with proactive trade expansion efforts, market opportunity research staff, online export certification curriculum, three trade missions per year, easily accessible and reliable network of export service professionals, public relations and advocacy staff, and information systems. Ms. Geib said trade efforts have failed in the past due to lack of research to identify qualified exporters and export services professionals, a lack of professional international business experience and skills, a lack of adequate funding, a lack of collaboration among trade-related entities, and a lack of systems to measure success. She said recommendations include formulating a trade office team of six individuals with a strong mix of experience to collaborate with exporters, trade-related organizations, and export service professionals. She said the required funding for the recommendation is \$1.1 million, of which \$500,000 is proposed to come from private funding from export professionals and exporters; \$500,000 from state funding (included in the 2005-07 executive budget); and \$100,000 from grant funding.

Representative Berg said the 2003 Legislative Assembly appropriated \$75,000 from the state general fund to the Department of Commerce for operating costs of the Trade Promotion Authority for the 2003-05 biennium.

COMMITTEE DISCUSSION AND STAFF DIRECTIVES

It was moved by Senator Robinson, seconded by Representative Delzer, and carried on a voice vote that the Budget Section meeting be adjourned subject to the call of the chair.

Representative Berg, Acting Chairman, adjourned the meeting at 3:10 p.m.

Stephanie A. Johnson
Fiscal Analyst

Jim W. Smith
Legislative Budget Analyst and Auditor

ATTACH:1