

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

BUDGET SECTION

Thursday, August 22, 2002

Interactive Video Network Meeting

Bismarck - 18th Floor, State Capitol, 600 East Boulevard Avenue

Dickinson - Room 104, North Campus, Dickinson State University, 1679 Sixth Avenue West

Edinburg - ITD Room, Edinburg Public School, 600 Fifth Street South

Fargo - Room 183, East Morrow Lebedeff Building, North Dakota State University, Centennial Boulevard

Grand Forks - Room 130, Gamble Hall, University of North Dakota, Centennial Drive

Minot - Room 160, Administration Building, Minot State University, Broadway and University Avenue

Valley City - Room 205, McFarland Hall, Valley City State University, 101 College Street SW

Wahpeton - Room 212, Allied Health Center, North Dakota State College of Science, Fourth Street North

Williston - Room 120, Main Building, Williston State College, 1410 University Avenue

Representative Ken Svedjan, Chairman, called the meeting to order at 10:00 a.m.

Members present: Representatives Ken Svedjan, Ole Aarsvold, Wesley R. Belter, LeRoy G. Bernstein, James Boehm, Merle Boucher, Rex R. Byerly, Ron Carlisle, Jeff Delzer, Pam Guleson, Robert Huether, Keith Kempenich, James Kerzman, Kim Koppelman, Bob Martinson, David Monson, Bob Skarphol, Blair Thoreson, Mike Timm, Francis J. Wald, John M. Warner, Amy Warnke, Janet Wentz; Senators John M. Andrist, Bill Bowman, Randel Christmann, Tony Grindberg, Joel C. Heitkamp, Ray Holmberg, Aaron Krauter, Ed Kringstad, Elroy N. Lindaas, Dave Nething, Larry J. Robinson, Randy A. Schobinger, Ken Solberg, Bob Stenehjem, Harvey Tallackson, Russell T. Thane, Steven W. Tomac

Member absent: Representative Eliot Glassheim

Others present: See attached appendix

It was moved by Senator Robinson, seconded by Representative Delzer, and carried on a voice vote that the minutes of the June 26, 2002, meeting of the Budget Section be approved as distributed.

STATUS OF THE STATE GENERAL FUND

At the request of Chairman Svedjan, Mr. Rod A. Backman, Director, Office of Management and Budget, presented a report on the status of the state general fund. A copy of the information presented is on file in the Legislative Council office. Mr. Backman said North Dakota's unemployment rate for June 2002 was 3.6 percent as compared to 2.9 percent in May 2002.

Mr. Backman presented the following information on the status of the state general fund, based on actual revenue collections through the month of July 2002, and the revised revenue forecast for the remainder of the 2001-03 biennium:

Unobligated general fund balance - July 1, 2001	\$62,240,652
Add	
General fund collections through July 31, 2001	874,502,838
Forecasted general fund revenue for the remainder of the 2001-03 biennium (based on the July 2002 revised revenue forecast)	780,140,683
Total estimated general fund revenue for the 2001-03 biennium	\$1,716,884,173
Less	
2001-03 biennium general fund appropriations	\$1,746,983,713
1.05% allotment - July 2002	(18,343,329)
Department of Human Services - Inter-governmental transfer payment	3,478,509
2001-03 biennium adjusted general fund appropriations	1,732,118,893
Add	
Proposed transfer from Bank of North Dakota	25,000,000
Estimated general fund balance - June 30, 2003 (\$2,229,414 less than the 2001 legislative estimate of \$11,994,694)	\$9,765,280

Mr. Backman said in July 2002, when the new forecast was released, the estimated general fund balance for June 30, 2003, was zero, but because the collections were in excess of the forecast for the month of July, the projected ending balance is now a positive \$9.8 million. Mr. Backman also said he is not interested in transferring or spending the \$25 million Bank of North Dakota transfer immediately. He said what he would like is a motion that would allow for a transfer of up to \$25 million, to be transferred only as needed.

In response to a question from Senator Tomac, Mr. Backman said at this point in time the proposed transfer from the Bank of North Dakota is not necessary to pay bills. However, constitutionally, the state

cannot deficit spend. Therefore, it is imperative to grant the authority for the transfer to prevent the potential of deficit spending. He said if the transfer is not authorized, there are only two alternatives, either a larger allotment or a special session to deal with the shortfall. Representative Belter said it is important to act on this request now so the executive branch knows whether an increase in the allotments is necessary.

In response to a question from Representative Boucher, Mr. Backman said the money does not need to be transferred immediately. This is because for cash flow purposes internal borrowing between federal, special, and the general fund is allowed. He said that whether or not the state draws money from the Bank of North Dakota is totally contingent upon how the collections actually come in on a month-to-month basis.

In response to a question from Representative Boucher, Mr. Backman said to date \$30 million has been transferred from the Bank of North Dakota, and there have not been any transfers from the student loan trust to date.

Mr. Backman said the actual total July 2002 revenues and transfers exceeded the revised forecast by \$10.8 million. Contributing to the excess for the month of July are excess sales tax collections of \$3.8 million, individual income tax of \$2.4 million, and oil and gas production tax collections of \$800,000.

In response to a question from Senator Solberg, Mr. Backman said the additional \$3.5 million in inter-governmental transfer trust funds relates to the state's matching share of the federal pool payments, in excess of the amount anticipated. He said this same amount is also reflected in the revenue amounts and as a result has no effect on the projected June 30, 2003, balance.

In response to a question from Senator Heitkamp, Mr. Backman said committee members should not be surprised the state has a revenue shortfall because of stock market capital losses. He said the surprise is the size of the revenue shortfall. He said he would have presented the revised forecast at the June 26, 2002, Budget Section meeting if it was available, but it was not completed. Senator Heitkamp said he does not support the transfer of the \$25 million until he is convinced Mr. Backman has an accurate forecast. In response, Mr. Backman said that a forecast is just that, it is an estimate of what is expected to happen with tax collections and the state's economy.

In response to a question from Representative Guleson, Ms. Kathy Strombeck, Research Analyst, Tax Department, said the trend in corporate income tax collections is definitely downward and the July 2002 forecast is reflecting additional declines. She said some reasons for the declines are the federal tax law change in March 2002, which costs North Dakota about \$8 million because of bonus depreciation provisions and the net operating loss

provisions. Mr. Backman said about \$6 million of the decline in tax collections is due to the slowdown in the economy on a national and state level. Ms. Strombeck said she would send out reports on corporate audit collections to committee members.

BANK OF NORTH DAKOTA TRANSFER

Mr. Backman continued to say that if the \$25 million transfer from the Bank of North Dakota is not authorized, the Office of Management and Budget will need to order a 2.5 percent allotment, instead of the 1.05 percent allotment.

It was moved by Representative Wald that the Budget Section, pursuant to Section 12 of 2001 House Bill No. 1015, approve the transfer of \$25 million from the Bank of North Dakota to the state general fund.

Representative Belter moved and Representative Carlisle seconded a substitute motion that the Budget Section, pursuant to Section 12 of 2001 House Bill No. 1015, approve the transfer of up to \$25 million from the Bank of North Dakota to the state general fund to the extent necessary to meet the revenue shortfall and that any transfers be made as late as possible in the 2001-03 biennium.

As an amendment to the substitute motion, it was moved by Senator Solberg and seconded by Representative Huether that the Budget Section encourage the 2003 Legislative Assembly to provide for a transfer of any general fund balance on June 30, 2003, to the Bank of North Dakota up to the amount of the \$25 million transferred.

In response to a question from Senator Krauter, Mr. Eric Hardmeyer, President, Bank of North Dakota, said the Bank of North Dakota has projected income of \$31.3 million for calendar year 2002, and it is on track to meet that projection and may even exceed it, having income of \$32 million. However, he cautioned that for the following years he believes that income will be reduced due to interest rate compression. He said the Bank will earn income of about \$2.3 million to \$2.4 million a month for the 2001-03 biennium for a total of \$62.5 million. He said profitability will be reduced over the next 6 to 12 months and will remain at that level until interest rates increase. He said the Bank is forecasting income for calendar year 2003 of between \$28 million and \$29 million. He said the Bank currently has \$170 million of capital, which would be reduced to \$145 million after the transfer of \$25 million.

The motion to amend the substitute motion carried on a roll call vote. Representatives Aarsvold, Bernstein, Boehm, Boucher, Byerly, Delzer, Guleson, Huether, Kerzman, Koppelman, Monson, Thoreson, Timm, Wald, Warnke, and Wentz and Senators Andrist, Bowman, Christmann, Grindberg, Heitkamp, Holmberg, Krauter, Kringstad, Lindaas, Nething, Robinson, Schobinger, Solberg, Stenehjem, Tallackson, Thane, and Tomac voted "aye."

Representatives Svedjan, Belter, Carlisle, Kempenich, Martinson, Skarphol, and Warner voted "nay."

The amended substitute motion that the Budget Section, pursuant to Section 12 of 2001 House Bill No. 1015, approve the transfer of up to \$25 million from the Bank of North Dakota to the state general fund to the extent necessary to meet the revenue shortfall, and any transfers be made as late as possible in the 2001-03 biennium, and the Budget Section encourage the 2003 Legislative Assembly to provide for a transfer of any general fund balance on June 30, 2003, to the Bank of North Dakota, up to the amount of the \$25 million transferred carried on a roll call vote. Representatives Svedjan, Aarsvold, Belter, Bernstein, Boehm, Byerly, Carlisle, Delzer, Huether, Kempenich, Koppelman, Martinson, Monson, Skarphol, Thoreson, Timm, Wald, Warnke, and Wentz and Senators Andrist, Bowman, Christmann, Grindberg, Holmberg, Kringstad, Lindaas, Nething, Robinson, Schobinger, Solberg, Stenehjem, Tallackson, and Thane voted "aye." Representatives Boucher, Guleson, Kerzman, and Warner and Senators Heitkamp, Krauter, and Tomac voted "nay."

HIGHER EDUCATION BUILDING PROJECTS

North Dakota State University - Minard Hall

Chairman Svedjan called on Mr. Dick Rayl, Vice President of Finance and Operations, North Dakota State University, who presented a request to increase other funds spending authority for the North Dakota State University Minard Hall addition project from \$3 million to \$3.4 million pursuant to North Dakota Century Code (NDCC) Section 48-02-20. A copy of the information presented is on file in the Legislative Council office. Mr. Rayl said the 2001 Legislative Assembly appropriated \$3 million for the addition to Minard Hall. However, the bids came in the week of August 12 in the amount of \$3.1 million. He said North Dakota State University would also like to add \$300,000 to the authorized amount for contingencies that may occur during the construction of the addition. He said the additional \$400,000 being requested would come out of auxiliary funds. He said the emergency on this request is the need for additional classroom space. He said if North Dakota State University is not able to award the contracts by late August, then construction will be delayed until next spring.

In response to a question from Representative Koppelman, Mr. Rayl said the lack of time to do a building design is the reason why the projected expenditures were lower than the actual bids.

It was moved by Senator Tallackson and seconded by Representative Thoreson to increase other funds spending authority for the North Dakota State University Minard Hall addition

project from \$3 million to \$3.4 million pursuant to NDCC Section 48-02-20.

In response to a question from Senator Christmann, Mr. Rayl said auxiliary funds are funds that generate earnings from within the campus, such as student fees or charges. Some examples of auxiliary funds are telecommunications, parking, dining services, and the bookstore.

In response to a question from Senator Stenehjem, Mr. Rayl said auxiliary funds are retained on the campus and used to provide services for the students. Therefore, by using the auxiliary funds to fund the addition of classrooms, the funds are being used for students.

The motion carried on a roll call vote. Representatives Svedjan, Aarsvold, Belter, Bernstein, Boehm, Boucher, Carlisle, Guleson, Huether, Kempenich, Kerzman, Koppelman, Martinson, Monson, Thoreson, Timm, Wald, Warner, and Wentz and Senators Andrist, Bowman, Christmann, Grindberg, Heitkamp, Holmberg, Krauter, Kringstad, Lindaas, Nething, Robinson, Schobinger, Solberg, Stenehjem, Tallackson, Thane, and Tomac voted "aye." Representatives Byerly, Delzer, and Skarphol voted "nay."

Carrington Research Extension Center - Feed Mill

Mr. Rayl presented a request for approval to increase other funds spending authority for a feed mill and feedlot at the Carrington Research Extension Center from \$300,000 to \$310,000 pursuant to NDCC Section 48-02-20. A copy of the information presented is on file in the Legislative Council office. Mr. Rayl said the latest bid for the feed mill project was received on August 8, 2002, in the amount of \$301,146. He said North Dakota State University would also like approval for approximately \$8,000 for contingencies. He said the funds for this increase will come from internal reallocation.

It was moved by Representative Huether, seconded by Representative Koppelman, and carried on a roll call vote that pursuant to NDCC Section 48-02-20, the Budget Section approve the request for the approval to increase other funds spending authority for a feed mill and feedlot at the Carrington Research Extension Center from \$300,000 to \$310,000. Representatives Svedjan, Aarsvold, Belter, Bernstein, Boehm, Boucher, Carlisle, Guleson, Huether, Kempenich, Kerzman, Koppelman, Martinson, Monson, Thoreson, Timm, Wald, Warner, and Wentz and Senators Andrist, Bowman, Christmann, Grindberg, Heitkamp, Krauter, Kringstad, Lindaas, Nething, Robinson, Schobinger, Solberg, Stenehjem, Tallackson, Thane, and Tomac voted "aye." Representatives Byerly, Delzer, and Skarphol voted "nay."

COMMITTEE DISCUSSION AND STAFF DIRECTIVES

Representative Byerly asked that at the next Budget Section meeting, the Veterans Affairs Committee report to the Budget Section on the committee's disciplinary actions taken in regard to the commandant of the North Dakota Veterans Home threatening State Department of Health surveyors.

It was moved by Representative Carlisle, seconded by Representative Martinson, and carried on a voice vote that the Budget Section meeting be adjourned subject to the call of the chair. Chairman Svedjan adjourned the meeting at 11:35 a.m.

Stephanie A. Johnson
Fiscal Analyst

Jim W. Smith
Legislative Budget Analyst and Auditor

ATTACH:1