

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

BUDGET SECTION

Wednesday, December 5, 2012
Senate Chamber, State Capitol
Bismarck, North Dakota

Senator Grindberg, Chairman, called the meeting to order at 11:00 a.m.

Members present: Senators Tony Grindberg, Bill Bowman, Ron Carlisle, Robert Erbele, Joan Heckaman, Ray Holmberg, Ralph L. Kilzer, Jerry Klein, Karen K. Krebsbach, Gary A. Lee, Tim Mathern, David O'Connell, Larry Robinson, Mac Schneider, Terry M. Wanzek, Rich Wardner, John Warner; Representatives Chet Pollert, Larry Bellew, Michael D. Brandenburg, Tracy Boe, Al Carlson, Jeff Delzer, Bill Devlin, Mark A. Dosch, David Drovdal, Eliot Glassheim, Bette Grande, Ron Guggisberg, Rick Holman, Keith Kempenich, Gary Kreidt, Bob Martinson, Corey Mock, David Monson, Jon Nelson, Kenton Onstad, Mark Sanford, Bob Skarphol, Roscoe Streyle, Blair Thoreson, Don Vigesaa, Alon Wieland, Clark Williams

Member absent: Representative Kathy Hawken

Others present: See [Appendix A](#)

It was moved by Senator Holmberg, seconded by Senator Robinson, and carried on a voice vote that the minutes of the September 20, 2012, meeting be approved as distributed.

AGENCY REQUEST AUTHORIZED BY THE EMERGENCY COMMISSION

Chairman Grindberg directed the committee to consider the agency request, which has been authorized by the Emergency Commission and forwarded to the Budget Section pursuant to North Dakota Century Code (NDCC) Section 54-16-04.1. The information relating to the requests was provided to Budget Section members prior to the meeting.

It was moved by Senator O'Connell, seconded by Representative Nelson, and carried on a roll call vote that pursuant to NDCC Section 54-16-04.1 the Budget Section approve the following request, which has been approved by the Emergency Commission:

- **Attorney General (Request #1808) - Request for \$206,200 from the state contingencies appropriation for the operating expenses line item (\$64,200) to reimburse political subdivisions for prosecution witness fees and related expenses and for the litigation fees line item (\$142,000) for estimated expenses associated with ongoing legal cases (\$74,600) and for costs of arbitration hearings related to the multistate arbitration hearings concerning funds due the state**

from the Master Settlement Agreement with tobacco companies (\$67,400).

Senators Grindberg, Bowman, Carlisle, Erbele, Heckaman, Holmberg, Kilzer, Klein, Lee, Mathern, O'Connell, Robinson, Schneider, Wanzek, Wardner, Warner and Representatives Pollert, Bellew, Boe, Brandenburg, Delzer, Dosch, Glassheim, Grande, Guggisberg, Holman, Kempenich, Kreidt, Mock, Monson, Nelson, Onstad, Sanford, Skarphol, Streyle, Thoreson, Vigesaa, Wieland, and Williams voted "aye." No negative votes were cast.

UPPER GREAT PLAINS TRANSPORTATION INSTITUTE REPORT

Chairman Grindberg called on Dr. Denver Tolliver, Director, Upper Great Plains Transportation Institute, to present a report ([Appendix B](#)) on transportation infrastructure needs pursuant to Section 1 of 2011 Senate Bill No. 2325. Mr. Tim Horner and Mr. Alan Dybing of the Upper Great Plains Transportation Institute were also available to answer questions. Dr. Tolliver said the study utilizes the National Bridge Inventory for North Dakota and bridge replacement costs based on bridge reconstruction projects in 2011 and 2012. The study identified 474 bridges that are structurally deficient out of a total of 2,667 county and township bridges. He said estimated replacement costs for the 474 bridges totals \$288 million. He said all replacement costs are listed by county and include inspections and removal of debris. In addition to these costs, he said bridge maintenance is estimated to total \$2.37 million per biennium.

The age distribution of county and township bridges (excluding culverts) is summarized below.

Age (Years)	Number of Bridges	Percent	Cumulative Number	Cumulative Percent
≤ 10	113	4.2%	113	4.2%
> 10 and ≤ 25	392	14.7%	505	18.9%
> 25 and ≤ 50	1,169	43.8%	1,674	62.8%
>50 and ≤ 75	704	26.4%	2,378	89.2%
> 75	289	10.8%	2,667	100.0%

Age is the time elapsed since original construction or reconstruction.

Dr. Tolliver reviewed estimated costs of county and township road improvement needs based on the study. Estimated costs for the 2013-15 biennium are summarized on the following schedule:

Region	2013-15 Biennium
Oil-producing counties	
County	\$444 million
Township	78 million
Total	\$522 million
Other counties	
County	\$213 million
Township	100 million
Total	\$313 million
Statewide	
County	\$657 million
Township	178 million
Total	\$835 million

Mr. Dybing described the process the Upper Great Plains Transportation Institute used to formulate estimation costs of the overview of the county and township road infrastructure investment needs.

In response to a question from Representative Delzer, Mr. Dybing said that the paved roadmaps are current as of October 2012.

Copies of the Upper Great Plains Transportation Institute study are available in the Legislative Council office.

The Budget Section recessed for lunch at 12:00 noon and reconvened at 1:00 p.m.

STATUS OF THE STATE GENERAL FUND

Chairman Grindberg called on Ms. Pam Sharp, Director, Office of Management and Budget, to present a report ([Appendix C](#)) on the status of the general fund.

Ms. Sharp presented the following information on the status of the state general fund for the 2011-13 biennium based on revenue collections through October 2012 and recommendations included in the 2013-15 executive budget:

Unobligated general fund balance - July 1, 2011		\$996,832,711
Estimated revenue		\$4,893,613,146 ¹
Expenditures		
Original appropriations - One time	(\$629,895,435)	
Contingent appropriations - One time	(73,000,000)	
Original appropriations - Ongoing	(3,533,791,025)	
Adjustments for emergency clauses	519,254	
Supplemental appropriations	(68,327,808) ²	
Transportation funding distributions	(100,000,000)	
Unspent authority/adjustments	30,000,000	
Total expenditures		(\$4,374,495,014)

Ending balance before transfers		\$1,515,950,843
Transfers and adjustments		
Transfer to highway fund	(\$620,000,000)	
Transfer to housing incentive fund	(30,000,000)	
Transfer to property tax fund for 2013-15	(53,832,720)	
Transfer to property tax fund for 2013-15	(318,551,118)	
Transfer to property tax fund for 2015-17	(372,383,838)	
Transfer to budget stabilization fund	(52,201,124) ³	
Total transfers and adjustments		(\$1,446,968,800)
Estimated general fund balance - June 30, 2013		\$68,982,043

¹Based on actual revenues through October 31, 2012, and estimated revenues for the remainder of the biennium using the November 2012 revenue forecast.

²Recommended supplemental (deficiency) appropriations include:

Department of Human Services	\$20,900,000
Department of Transportation	41,500,000
State Department of Health	626,000
Department of Public Instruction - Professional development grant program	45,000
Department of Public Instruction - Rapid enrollment grant program	3,100,000
Job Service North Dakota	5,847
Highway Patrol	402,000
Tax Commissioner	981,855
Attorney General	40,000
Minot State University	52,745
State Fair Association	674,361
Total estimated turnback/deficiency appropriations	\$68,327,808

³Transfer based on recommended 2013-15 biennium general fund appropriations and the statutory cap of 9.5 percent of appropriations, as defined in NDCC Section 54-27.2-01.

In response to a question from Representative Skarphol, the Legislative Budget Analyst and Auditor said the transfer at the end of the 2011-13 biennium will be limited to 9.5 percent of the 2013-15 biennium general fund budget as approved by the Legislative Assembly in 2013. He said the staff would review the statutory provisions relating to transfer to the budget stabilization fund.

EXECUTIVE BUDGET REVENUE FORECAST

Ms. Sharp presented the following information on the executive revenue forecast for the 2011-13 and the 2013-15 bienniums:

	2011-13 Biennium Revised Forecast	2013-15 Biennium Executive Forecast	Change From 2011-13 Revised Forecast
Tax types			
Sales and use tax	\$2,131,700,016	\$2,523,121,000	\$391,420,984
Motor vehicle excise tax	255,579,505	311,544,000	55,964,495
Individual income tax	883,137,013	926,128,000	42,990,987

	2011-13 Biennium Revised Forecast	2013-15 Biennium Executive Forecast	Change From 2011-13 Revised Forecast
Corporate income tax	372,161,771	380,492,000	8,330,229
Insurance premium tax	78,642,395	81,019,362	2,376,967
Financial institutions tax	7,293,160	7,300,000	16,840
Oil and gas production gross tax	179,259,7416	133,834,000	(45,425,416)
Oil extraction tax	120,740,313	166,166,000	45,425,687
Gaming	11,309,769	11,174,696	(135,073)
Cigarette and tobacco tax	54,485,013	57,953,000	3,467,987
Wholesale liquor tax	17,255,477	18,674,000	1,418,523
Coal conversion tax	39,425,126	39,300,000	(125,126)
Mineral leasing fees	34,781,711	19,000,000	(15,781,711)
Departmental collections	71,934,254	74,840,398	2,906,144
Interest	14,166,716	32,666,716	18,500,000
Total revenues before transfers	\$4,271,861,655	\$4,783,213,172	\$511,351,517
Transfers			
State Mill profits - Transfer	\$7,645,978	\$1,704,300	(\$5,941,678)
Lottery	12,500,000	11,000,000	(1,500,000)
Property tax relief sustainability fund	295,000,000	0	(295,000,000)
Strategic investment and improvements fund	305,000,000	0	(305,000,000)
Gas tax administration - Transfer	1,485,000	1,777,360	292,360
Miscellaneous	120,513	0	(120,513)
Total transfers	\$621,751,491	\$14,481,660	(\$607,269,831)
Total revenues and transfers	\$4,893,613,146	\$4,797,694,832	(\$95,918,314)

ESTIMATED OIL TAX COLLECTIONS

Ms. Sharp presented the following information on oil estimated tax collections for the 2011-13 and 2013-15 bienniums:

	Revised 2011-13	Estimated 2013-15
Oil and gas impact grant fund	\$100,000,000	\$214,000,000
Oil and gas research fund	4,000,000	4,000,000
Distributions to cities and counties (current law)	246,249,571	287,491,000
Additional distributions to counties (proposed)	0	232,844,000
North Dakota outdoor heritage fund (proposed)	0	20,000,000
Tribal allocations	161,760,357	191,400,000
Legacy fund	1,186,063,144	1,716,030,381
Foundation aid stabilization fund	195,052,983	273,476,675
Common schools trust fund	195,052,983	273,476,675

Resources trust fund	390,105,967	541,483,816
Renewable energy development fund (proposed)	0	2,734,767
Energy conservation fund	0	2,734,767
General fund share	300,000,000	300,000,000
Property tax relief fund	341,790,000	341,790,000
State disaster fund	22,000,000	22,000,000
Strategic investment and improvements fund	687,549,226	704,860,669
Total	\$3,829,624,231	\$5,128,322,750
Price range (price per barrel)	\$70	\$75-80
Production range (barrels)	425,000-830,000	830,000-850,000

IRREGULARITIES IN THE FISCAL PRACTICES OF THE STATE

Pursuant to NDCC Section 54-14-03.1, Ms. Sharp presented the following information on irregularities in the fiscal practices of the state:

Agency	Amount	Reason
Department of Corrections and Rehabilitation	\$213,000	Court-ordered settlement agreement. Severance pay - Robert Heier.

STATE AGENCY APPLICATIONS FOR FEDERAL GRANTS

Pursuant to NDCC Section 54-27-27, Ms. Sharp reported that state agencies have not submitted any new federal grant applications since the September 20, 2012, report.

2013-15 EXECUTIVE BUDGET Proposed Statutory Changes Affecting Revenues

Ms. Sharp presented major 2013-15 executive budget proposed statutory changes affecting anticipated revenues for the 2013-15 biennium.

Ms. Sharp said the Governor's proposed individual income tax relief measure will reduce 2013-15 state general fund revenue by \$100 million by reducing rates by 25 basis points in each tax bracket. Current rates range from 1.51 to 3.99 percent. Proposed rates range from 1.26 to 3.74 percent.

Ms. Sharp said the Governor's proposed corporate income tax relief measure will reduce 2013-15 state general fund revenue by \$25 million and reduce rates by approximately 6.2 percent in each tax bracket. Current rates range from 1.68 to 5.15 percent. Proposed rates range from 1.58 to 4.84 percent.

Ms. Sharp said the Legislative Assembly in 2011, during the November special session, expanded the housing incentive fund tax credit to a maximum of \$15 million per biennium. The Governor recommends a further expansion to \$20.0 million per biennium, which will reduce individual income tax collections by an additional \$5 million for the 2013-15 biennium.

Ms. Sharp highlighted the Governor's recommendation for restructuring the formula that allocates oil and gas gross production taxes between the state and political subdivisions to substantially increase the county share and simplify the formula. The current law provides a formula with five tiers. The proposed formula includes only two tiers. The

proposed formula will allocate the first \$5 million each year directly to the counties. All remaining revenues will be shared 75 percent to the state and 25 percent to the counties.

Ms. Sharp said the Governor is recommending a permanent increase in the oil and gas impact fund allocation from \$100 million to \$150 million per biennium and proposes that \$25 million of that amount be designated for schools. For the 2013-15 biennium only, the Governor recommends a one-time allocation of \$64 million to the impact fund--\$60 million designated for oil-impacted airports and \$4 million designated for oil-impacted institutions of higher education.

Ms. Sharp said the Governor's budget includes an allocation of 10 percent of oil and gas gross production taxes, up to \$10 million per year, to the proposed North Dakota outdoor heritage fund.

Ms. Sharp said the Governor proposes that 1 percent of resources trust fund revenues from oil tax collections be further allocated 50 percent to the renewable energy development fund and 50 percent to the energy conservation fund. The resources trust fund receives 10 percent of oil extraction tax collections, estimated to total \$547 million for the 2013-15 biennium. The proposed allocation will provide the resources trust fund with revenues totaling \$541.5 million for the 2013-15 biennium after \$2.7 million is allocated to the renewable energy development fund and \$2.7 million to the energy conservation fund.

ECONOMIC OUTLOOK FOR THE UNITED STATES AND NORTH DAKOTA

Chairman Grindberg called on Mr. Steven G. Cochrane, Managing Director, Moody's Analytics, to present information ([Appendix D](#)) regarding the economic assumptions included in the executive budget revenue forecast for the 2013-15 biennium; the United States and global economic outlook; the North Dakota economic outlook; including oil prices and agriculture commodity prices; the impact of the state's oil industry on state revenues; and projections for the value of the dollar and its effect on the North Dakota economy.

Mr. Cochrane listed the following assumed federal policy changes as major factors on the United States economy:

1. Expiration of the payroll tax holiday will be allowed to occur.
2. Expiration of the emergency unemployment insurance program will be allowed to occur.
3. Bush Era tax cuts will expire for households that earn over \$250,000 annually.
4. A tax increase as part of the Affordable Care Act will take effect in 2013.
5. Sequestration within fiscal policy will be eliminated and will be replaced by a long term framework for budget reform over the next 10 years.

Mr. Cochrane said that if all assumptions happen as forecasted, the economy will avoid the likelihood of recession or temporary downturn.

Mr. Cochrane identified positive economic growth indicators. He said the first positive indicator is wide corporate profit margins, borrowing costs are low indicating that the cost of capital is low--encouraging business investment spending, and companies have low debt structure/debt service ratios. He said the United States financial system is strong, capital asset ratios are high, bank portfolios are sound--with strong loan quality, and the quality of mortgage lending is improving. In addition, he said, United States household balance sheets and consumer credit are improving.

Mr. Cochrane discussed the value of the United States dollar. He said the United States dollar will experience modest depreciation compared to the yen and the euro. He said the Chinese and the Canadian currencies are projected to strengthen compared to the United States dollar, which would encourage export growth.

Mr. Cochrane discussed the global effects on agricultural prices. He said the crop prices are currently relatively high. He said the average United States Department of Agriculture soybean prices are \$14 per bushel and wheat is \$8 per bushel. He said the United States could experience a reduction to farm commodity prices if weather normalizes in 2013.

In response to a question from Senator Carlisle, Mr. Cochrane said inflation-related risks are minimal due to stable energy prices and relatively high unemployment. He said changes could arise if the United States labor market improves.

Mr. Cochrane discussed current conditions in North Dakota. He said less oil drilling in recent months has slowed job growth, yet the North Dakota unemployment rate remains at 3 percent.

In a response to a question from Representative Skarphol, Mr. Cochrane said he will address oil companies' plans for future oil exploration and activity in North Dakota for the February 2013 report.

In a response to a question from Representative Delzer, Mr. Cochrane said the growth of the labor force and labor market determine the level of salaries and wages. He said the possibility of unemployment decreasing to 2 percent in North Dakota will put additional upward pressure on the growth rate of salaries and wages in North Dakota due to the lack of available workforce.

Mr. Cochrane said agriculture along with commodity prices is doing well in North Dakota. He said North Dakota farm proprietor income now exceeds nonfarm proprietor income for the first time since the 1970s.

Mr. Cochrane discussed the outlook for North Dakota. He said North Dakota's payroll/employment growth will continue to outpace the United States; however, it will begin to slow because labor needs are decreasing in the oil industry and the lack of available workforce. Mr. Cochrane said wage growth is

projected to continue to rise in 2013. He said energy and agriculture commodity prices will strengthen in 2014 and taxable sales and purchases growth will slow but still exceed 10 percent per year over the next three years.

2013-15 EXECUTIVE BUDGET RECOMMENDATIONS

Chairman Grindberg called on Ms. Sheila Peterson, Fiscal Management Division Director, to present information regarding the 2013-15 executive budget. Ms. Peterson reviewed the 2013-15 executive budget recommendations for state employee compensation and benefits, information technology, one-time budget investments, capital projects, and bonding for capital projects. She said the executive budget includes funding to continue to pay the full cost of health insurance premiums for state employees. She said the budgeted cost for health insurance is \$982 per month per employee, a 10.7 percent increase compared to the 2011-13 biennium monthly rate of \$887. She said the recommended state employee compensation package provides a 3 to 5 percent average salary increase, effective July 1, 2013, and a 3 to 5 percent average salary increase, effective July 1, 2014. She said the salary increases are to be based on merit and are not to be given across the board. She said the compensation package also includes funding to address salary equity issues among agencies.

Ms. Peterson said the executive budget recommendation for large information technology projects totals \$46 million, of which \$8.7 million is from the general fund.

Ms. Peterson said the executive budget recommendation for capital projects totals \$346 million, of which \$182 million is from the general fund. She said none of the capital projects recommended in the 2013-15 biennium require bonding to be repaid from the general fund.

Mr. Joe Morrisette, Budget Analyst, Office of Management and Budget, presented information on the executive budget recommendation for the Department of Public Instruction. He said the executive recommendation includes \$2.19 billion to the Department of Public Instruction, of which \$1.04 billion is from the general fund. He said the executive recommendation replaced the state school aid (\$927 million) and mill levy reduction (\$342 million) line items with a new integrated formula payment line item totaling \$1.8 billion, of which \$1.1 billion is from the general fund. He said the 2013-15 amount is an increase of \$527 million over the combined appropriations of the state school aid and the mill levy reduction grants for the 2011-13 biennium.

Mr. Morrisette discussed the executive budget recommendation for the Department of Career and Technical Education. He said the recommendation provides \$22.1 million for grants secondary and post-secondary career technical education programs. He said an additional \$500,000 is provided to increase

career and technical education program reimbursements and an additional \$1 million is provided to increase and expand career and technical education course offerings. He said grant funding is increased by \$1 million to provide support for the establishment of one new virtual career and technical education center.

Mr. Morrisette discussed the executive budget recommendation for the Department of Corrections and Rehabilitation. He said the recommendation provides \$210.6 million in total funding, including \$180 million from the general fund. The executive budget recommendation includes 20 new FTE positions, 14 FTE positions of which will staff the expanded prison and 6 FTE are parole and probation officers to staff the increasing workload relating to offenders needing supervision. He said the executive budget recommendation includes \$32.1 million to continue contracted services with county and regional jails and private entities. He said the executive budget recommendation provides \$21.2 million as a continuation for contract treatment and transition programming. He said the need to contract for general housing beds is eliminated due to the opening of the new prison. He said there is a continuation of \$9 million for the Dakota Women's Correctional and Rehabilitation Center in New England for the 2013-15 biennium.

Mr. Morrisette discussed the executive budget recommendation for the State Historical Society. He said the recommendation includes \$18.5 million, of which \$15.3 million is from the general fund, and 6 FTE positions for management and security as the State Historical Society prepares for the opening of the first gallery in September 2013 and phased gallery openings, with the last gallery opening in November 2014. He said executive budget recommendation also includes \$250,000 for traveling exhibits including the Governor's gallery.

Ms. Tammy Dolan, Budget Analyst, Office of Management and Budget, presented information on the executive budget recommendation for the University System. She said the recommendation is based on a funding model involving a cost-based fixed amount for completed student credit hours. She said total funding for this model is \$76.1 million, consisting of \$21 million to equalize the existing funding level to the highest existing per student credit-hour that is currently funded in each of the three institutional tiers--two-year colleges, four-year colleges, and research institutions and \$55.1 million that is considered an inflationary factor to be applied equally to all campuses. She said the \$55.1 million includes increases for salaries and retirement, enhancements to campus mental health services, and enhanced campus security.

Ms. Dolan noted the executive budget recommendation includes increasing the academic and technical scholarship program to \$13.7 million from the current \$10 million. She said this will allow the lifetime scholarship per student to increase to

\$10,000 from the current \$6,000. She said the recommendation provides the North Dakota University System office with seven new FTE positions.

In response to the question from Representative Glassheim, Ms. Dolan said a higher education institution will not receive funding under the new formula for a student who withdraws from all classes during a college semester.

Ms. Dolan discussed the executive budget recommendation for major one-time investments in higher education. She said the recommendation provides \$178 million for capital projects, \$30 million for the creation of the education challenge fund, \$1.5 million for a new program start-up fund that would provide funding for a portion of the start-up costs for a new academic program or technical program on university campuses, and \$7.4 million for the expanding class sizes at the University of North Dakota School of Medicine and Health Sciences.

Ms. Dolan presented information on the executive budget recommendation for the Department of Commerce. She said the recommendation includes \$124.6 million, of which \$56.3 million is from the general fund. She said the recommendation provides \$12 million from the general fund for the Research ND program. She said the executive budget provides \$5 million for grants to political subdivisions for childcare facilities, \$2.6 million for the North Dakota Trade Office, \$1 million to the North Dakota planning initiative to provide statewide technical assistance programs to communities for overall growth planning, and \$1 million to continue pursuing Federal Aviation Administration designation of an unmanned aerial airspace integration test site. She said the recommendation provides \$2 million for workforce enhancement grants to two-year colleges and \$1.3 million for large tourism infrastructure grants.

Ms. Dolan presented information on the executive budget recommendation for the Agricultural Experiment Station and the North Dakota State University Extension Service. She said the recommendation includes the following:

- Research capacity enhancements - \$1.2 million.
- Summer internship programs - \$250,000.
- Construction of Hettinger and Carrington Agronomy Laboratories - \$4.3 million.
- 4-H Camp renovations - \$500,000.
- Livestock stewardship - \$370,000.

Mr. Tad Torgerson, Budget Analyst, Office of Management and Budget, presented information on the executive budget recommendation for the Industrial Commission. He said the executive budget includes \$4.3 million for 23.69 FTE positions relating primarily to oil and gas activities.

Mr. Torgerson discussed the executive budget recommendation for the Highway Patrol. He said the recommendation includes \$63.6 million, including \$49.8 million from the general fund. He said the executive budget provides one-time funding of \$6.7 million, of which \$5.8 million is from the general fund, for the construction of an emergency vehicle operations course and an indoor weapons training range for the law enforcement training academy. He said the recommendation authorizes 15 FTE positions--6 FTE motor carrier officer positions to increase weight enforcement and 9 FTE positions for traffic troopers providing coverage across the state.

Representative Delzer asked the Legislative Council staff to provide information during the legislative session on agency vacant FTE positions in November and December 2012 as part of the vacant positions report.

Mr. Torgerson discussed the executive budget recommendation for the State Water Commission. He said the recommendation includes \$827.1 million, including \$17.8 million from the general fund. He said the recommendation provides \$15 million as a transfer to the community water facility revolving loan fund which is a revolving loan fund that is administered by the Bank of North Dakota for water projects. Also included in the recommendation is \$60 million to pay off State Water Commission outstanding bonds.

Mr. Torgerson discussed the executive budget recommendation for the Department of Transportation. He said the recommendation includes \$2.7 billion, including \$10 million from the general fund. He said the executive budget provides \$1.16 billion in one-time funding by transferring funds from the general fund to the highway fund to enhance state highway investments including extraordinary state highway maintenance, truck routes, and construction of underpasses. He said the recommendation also includes \$142 million from the highway fund for county road reconstruction needs to support oil and gas production and distribution in North Dakota.

Ms. Lori Laschkewitsch, Budget Analyst, Office of Management and Budget, presented information on the executive budget recommendation for the State Department of Health. She said the recommendation includes \$186.2 million, including \$46 million from the general fund. She said the recommendation includes

Executive Budget Recommendation			
Agency	Total Funds	General Fund	FTE Positions
Branch research centers	\$33,746,878	\$17,725,012	115.04
Extension Service	54,088,058	28,650,644	258.26
Northern Crops Institute	3,874,651	2,074,344	12.00
Main Research Center	110,293,322	57,037,737	351.49
Agronomy Seed Farm	1,474,961	0	3.00
Total	\$203,477,870	\$105,487,737	779.79

Ms. Dolan said the 2013-15 executive budget includes \$11.7 million for the following initiatives ranked highest by the State Board for Agricultural Research and Education:

- Crop development and protection - \$2.2 million.
- Replacement of oil revenues at Dickinson Research Center - \$800,000.
- Soil, health, productivity, and land management - \$2.1 million.

grants totaling \$1.2 million to the health districts in oil-impacted counties. She said the recommendation also provides funding for a pilot community paramedic and community health care worker program of which \$141,600 is one-time funding and \$135,000 is for ongoing expenses due to the shortage of emergency services ambulance volunteers in certain districts. She said the recommendation also includes an increase in funding to local public health units in the non-oil-producing counties of \$750,000.

Ms. Laschkewitsch presented information on the executive budget recommendation for the Department of Human Services. She said the recommendation includes \$2.8 billion, including \$1.2 billion from the general fund. She said the recommendation includes \$1.2 million for guardianship services for developmental disabilities and aging population. She said the recommendation includes an additional \$800,000 for senior service providers' congregate meals. She said the recommendation also includes an additional \$93.4 million from the general fund for Medicaid and related programs due to the federal medical assistance percentage decreasing to 50 percent.

SPECIFIC EXEMPT COMMODITIES AND SERVICES

Chairman Grindberg called on Ms. Sherry Neas, State Procurement Manager, Office of Management and Budget, to report on the specified commodities and services exempted from the procurement requirements of NDCC Chapter 54-44.4 ([Appendix E](#)). Ms. Neas said the Office of Management and Budget has exempted one service and no commodities from the state procurement system in July 2012. She said the Commission on Legal Counsel for Indigents provides legal services for its clients. Current rules exempt contracts for hiring professional witnesses to provide professional services or testimony related to existing or probable lawsuits in which the state may become a party. She said this rule will be expanded to include contracts related to indigent defense services.

Ms. Neas said the administrative rules related to state procurement--North Dakota Administrative Code Article 4-12--that became effective in August 2004 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.

DEPARTMENT OF CORRECTIONS AND REHABILITATION Status of the North Dakota State Penitentiary Project

Chairman Grindberg called on Mr. Dave Krabbenhoft, Department of Corrections and Rehabilitation, to present information ([Appendix F](#)) on the status of the State Penitentiary project. Mr. Krabbenhoft said to date, the department has spent \$52 million of the \$64 million total project budget. He said the project remains on budget. He said the projected completion date remains March 2013.

STATE DEPARTMENT OF HEALTH Status of Clean Air Act Litigation

Chairman Grindberg called on Mr. Dave Glatt, Chief of the Environmental Health Section, Department of Health, to present information ([Appendix G](#)) on expenses relating to United States Environmental Protection Agency (EPA) litigation. Mr. Glatt said the department's 2011-13 biennium appropriation includes \$1 million to defray expenses associated with legal action against the EPA. He said \$500,000 of the \$1 million appropriated is from the general fund and \$500,000 is a line of credit at the Bank of North Dakota. He said to date, approximately \$548,000 has been spent from the general fund by the department relating to legal action against the EPA as part of actions taken under the Clean Air Act.

Mr. Glatt discussed the two consolidated challenges to the EPA's regional haze rule for North Dakota. He said the state did relinquish its decisionmaking authority regarding appropriate control technology for the Great River Energy Facility to the EPA. He said the state believes the EPA was incorrect in arbitrarily rejecting the modeling protocol developed by the state to assess visibility impairment. He said the state is also questioning the EPA's approval of only certain aspects of the state's plan.

INDUSTRIAL COMMISSION Status of Hydraulic Fracturing Litigation

Chairman Grindberg called on Mr. Lynn Helms, Director, Department of Mineral Resources, to present information ([Appendix H](#)) on the status of litigation with the EPA. Mr. Helms discussed the state's concern with the federal guidance relating to hydraulic fracturing as proposed. He said the states that have adopted hydraulic fracturing rules that include chemical disclosure, well construction, and well bore pressure testing should be explicitly exempted from the guidance. He said the EPA's definition of diesel fuel is too broad and the EPA made no attempt to identify dangerous concentrations of these materials. He said the guidance is written for enhanced oil recovery wells or disposal wells completed with certain methodologies. He said contacts within the EPA have informed him the final guidance document

is being drafted and will not be published until spring of 2013.

INSURANCE COMMISSIONER Status of Patient Protection and Affordable Care Act

Chairman Grindberg called on Ms. Rebecca Ternes, Deputy Insurance Commissioner, to present information ([Appendix I](#)) on the status of the Patient Protection and Affordable Care Act. Ms. Ternes discussed the proposed rules, guidance, and notice of rulemaking. She said the commissioner and several insurance department staff participate in conference calls regarding health care reform and information unique to North Dakota's insurance regulatory process, stakeholders, and marketplace.

TOBACCO PREVENTION AND CONTROL COMMITTEE

Chairman Grindberg announced that the report ([Appendix J](#)) from the Tobacco Prevention and Control Executive Committee regarding the implementation of the comprehensive tobacco prevention and control plan pursuant to Section 2 of the 2011 House Bill No. 1025 was distributed to each member's desk.

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

The meeting adjourned subject to the call of the chair at 3:56 p.m.

Brittani Quick
Fiscal Assistant

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:10