

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1282

2005 HOUSE APPROPRIATIONS

HB 1282

2005 HOUSE STANDING COMMITTEE MINUTES

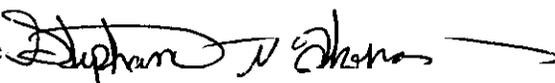
BILL/RESOLUTION NO. HB1282

House Government Performance Division

Conference Committee

Hearing Date January 20, 2005

Tape Number	Side A	Side B	Meter #
1	X		2208-End
		X	1-3329

Committee Clerk Signature 

Minutes: **Chair Carlson** opened hearing for HB1282, relating to budget reports to the legislative assembly.

Jim Smith, Legislative Council: Section I and 2. (SEE HB 1282)

Sheila, OMB: The section in our bill required agencies to bring from continuing appropriations, directly to you. We updated our computer system, and developed a screen that would give agencies a set format for continuing appropriations.

Chair Carlson: What percent do you think is in here, excluding Higher Ed?

Sheila: Excluding Higher Ed, I think we would have the bulk of them.

Chair Carlson: How hard would it be for them to transfer to this type of format?

Sheila: If this bill passes, then we would go to those entities to ask them if some changes would make it work better for them.

Rep. Skarphol: Excluding higher Ed, how many non state agencies continuing appropriation do we have out there that are not reportable?

Sheila: The commodity groups, there's about 8-10, and the state fair.

Rep. Monson: How big a job is it for those agencies that are not on the system to use that bar system, and report to us if we required them to do that?

Sheila: These groups are very small staffed, they'd have to learn very complex software.

Chair Carlson: For example, Attorney General's Office, do they have the ability to move money to other areas?

Sheila: I'd actually have to go read the century code.

Gordy Smith, Audit Manager. (SEE WRITTEN TESTIMONY)

Rep. Monson: Is it proper for them to have a negative balance in this appropriation?

Gordy: That should raise questions in scrutiny from a auditing or accounting standpoint.

Rep. Skarphol: The new language makes reference to some information that's asked for. Would you think about potential additions to this list that would make it generate the kind of information we're thinking about?

Gordy: If there's any negative fund balances, explain them. When looking at justification, I want to say, why can't I operate with a fixed appropriation like everybody else.

Rep. Glassheim: Do you audit all these funds?

Gordy: Some of these we do.

Chair Carlson: The Historical Society and the concession fund, money they make for profit, does that roll back into their fund?

Sheila: I think you would find that at one of there special fund revenue sources in their budget.

Chair Carlson: Do you feel all the funds like this are worth while?

Karlene: Yes.

Rep. Skarphol: Oil and gas has another entity, that they work in conjunction with. Last session they were afraid that our functional consolidation would jeopardize their relationship with this outfit. Do you recall anything about that?

Karlene: What we were working with there is a Ground Water Protection Council, a group of about 25 states that came together to develop the database for the Administration of the Underground Ejection Control System.

Rep. Skarphol: Is there a cost to have that relationship?

Karlene: I am not aware if there is.

Laura Glatt, Chancellor for Administrative Affairs. (SEE WRITTEN TESTIMONY)

Rep. Monson: Do you, as an office, require those campuses to ever report those individually, or do you give them total flexibility to spend revenue they generate from their dorms to supplement their food contract line items?

Laura: The board requires each of the campuses to prepare a comprehensive annual budget, where in the spring of each year the board sets guidelines for the completion of that annual budget, and the campuses prepare the budget, which we review.

Rep. Monson: So you think it's OK if UND's food services are half a million dollars in the whole, and they're supplementing it with their dorm stuff?

Laura: If a campus is running a negative fund balance, there is an audit requirement as part of the annual audit that negative fund balances have to be reported.

Rep. Skarphol: Don't you think best practices would dictate that you would document that in the records for those particular appropriations, so that the next person can just look at the record?

Laura: Certainly there are financial records at the institutional level, where you can track where those expenditures are from.

Rep. Monson: Did you say that you might take from one campus, and move to a different campus?

Laura: Definently not.

Rep. Skarphol: I understand that there are multiple thousands of funds in higher Ed, some continuing, and some not. When I here one institution has 5,000 funds in the state of North Dakota, I find that to be a bit disturbing. How many continuing appropriations of fund funds, and how many funds are not funded by continuing appropriations?

Laura: This was an issue at interim, because of the inherent limitations of that software, we ended up with the number of funds we have.

Rep. Skarphol: When the activity is done, does that fund not diappear?

Laura: Yes, it should disappear.

Rep. Skarphol: As far as the money that may be continuing, do you have any idea?

Laura: Everything except our state general fund appropriations fall under the category of continuing appropriations.

Rep. Skarphol: On this particular sheet, how many authorized continuing appropriations would you gestimate were involved?

Laura: Actually, there all included in one bill, in one legislative section of statute.

Rep. Skarphol: How do you segregate them, within an institution. Is it up to the institution or is there a uniform format across all institutions that's required by you in the recording of these?

Laura: There is a Uniform Reporting Format, which we gave to the campuses.

Chair Carlson: Does your reports show carry over?

Laura: The campuses will also report on that to appropriations committees when they stand before you.

Rep. Monson: When you said appropriates sources of funds, are you talking about just general funds then, or are you talking about the continuing appropriations?

Laura: For the carry over provision, it's only general funds. In terms of ending fund balance, as for the continuing appropriation, you'll see those ending fund balances on their continuing appropriations reports.

Chair Carlson: So you would like to be excluded from this?

Laura: Yes we would.

Chair Carlson: A topic of another bill we have is a discussion on off budget FTE's, is this the proper place that we also would include here in our list that if any of these continuing appropriations include off budget FTE's. Would that also be reported?

Jim Smith: Yes, I believe so.

Chair Carlson: Is that the only place we find them, continuing appropriations off budget FTE's?

Sheila: Your commodity groups don't do a budget, in the same way that all of the regular state agencies do.

Chair Carlson: Even though they are called off budget, are they technically state employees?

Sheila: Yes.

Rep. Skarphol: It doesn't list the commodity groups. That was a discussion about trying to implement a different format for them to manage the money that they produce, was anybody

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House Government Performance Division

Bill/Resolution Number HB 1282

Hearing Date January 20, 2005

involved in those discussions?

Gordy: As I remember, I think the commodity groups resisted. That's something we tried to do an audit on, to see what you would save, instead of having ten or eleven executive directors, you'd have one.

Rep. Monson: We had a bill the other day that had a new section 10 put in, and I think it was Sheila that said it really wouldn't fit. Is that the case with this one?

Sheila: There are several bills that add a new section ten, and a code revisor. Should you pass all three of them, you really won't show up with three sets of ten.

Closed Hearing.

*Govt Performance
1282*

General Discussion

- Committee on Committees
- Rules Committee
- Confirmation Hearings
- Delayed Bills Committee
- House Appropriations
- Senate Appropriations
- Other

Date January 27, 2005

Tape Number

1

Side A

X

B Side

Meter #

1840-5690

Committee Clerk Signature

Stephan N Thomas

Minutes: **Vice Chairman Skarphol** opened the general discussion hearing on HB 1282, relating to budget reports to the legislative assembly.

General Discussion of Amendment 50539.0101. (SEE AMENDMENT)

Sheila, OMB: The bill passed last time, the amendment said the agency must report to the legislators. They did a consistent process. When they had a meeting with Senate appropriations, all campuses brought budget numbers by campus by fund group.

Rep. Glasheim: Do they report to OMB?

Sheila: Their budget request comes to us through bars.

1282

Rep. Skarphol: FTE's supported by continuing appropriations, need to know employee numbers, and whether their on or off budget.

Sheila: In the amendment drafted, it talks about that.

Rep. Monson: Are these people off budget state employees? Do they get state health insurance? If so, how many people are actually in that system?

Sheila: Yes, they are state employees. You have already authorized those expenditures in another statute. It's in the budget process.

Rep. Monson: So we really just say, here's the money. Here's the authority to raise money on the state fair. Overall, it's totally off budget. We have no idea if their spending that money wisely.

Rep. Skarphol: Let's use the Attorney General, Do they have any other continuing appropriations?

Sheila: Yes, they have the on call. All the continuing appropriations are off budget. There are not any that are both.

Rep. Monson: What do you think, as far as, Higher Education?

Sheila: Moving Target. If 50 students show up for class, they have to find a teacher to teach it. They have a temporary pool of dollars.

Rep. Skarphol: I think it's fine for now. I will move amendment 0101.

Rep. Monson: I second.

Rep. Skarphol: I move HB 1282 as amended.

Rep. Monson: I second.

Closed General Discussion Hearing.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1282
Required Continuing Appropriations Information

House Appropriations Full Committee

Conference Committee

Hearing Date February 1, 2005

Tape Number
2

Side A
X

Side B

Meter #
#18.4 - #32.2

Committee Clerk Signature



Minutes:

Rep. Ken Svedjan, Chairman opened the hearing on HB1282.

Rep. Bob Skarphol explained that the goal of this bill is to get a summary report of all of the continuing appropriations that are out there. It is in these continuing appropriations that we will find many of the off-budget FTE's we've been looking for.

Rep. Bob Skarphol moved to accept amendment 0101.

Rep. Keith Kempenich seconded.

Rep. Bob Skarphol what the amendment does is expands the number of entities that would give us this information. We also added that they needed to let us know when the authority for these appropriations was granted. Another addition was to give us information on expenditures for the number of employee positions and an explanation of any negative fund balances. This is an attempt to expand the information we receive and to get it in a consistent format that we can quickly scan and understand.

Rep. Ken Svedjan, Chairman called for a voice vote to accept amendment 0101. Motion carried.

Rep. Jeff Delzer commented that this section of the Century Code is being amended by another bill that is also on the house floor. Rep Delzer asked what happens if the two amendments conflict with one another.

Roxanne Woeste from Legislative Council answered that if both bills passed the code advisor would be responsible for making sure that the code properly reflects both bills as passed. If the bills conflict with one another it is the last bill passed that takes precedent.

Rep. Bob Skarphol move a Do Pass As Amended on HB1282

Rep. Francis J. Wald seconded.

Rep. Larry Bellew asked if he could get a definition of continuing appropriation authority.

Rep. Bob Skarphol explained that continuing appropriations for agencies that have a recurring need for a line of credit. We're trying to refine the use of these and to track them.

Rep. David Monson commented that continuing appropriations are usually in special funds where money comes in and goes right back out again so they use continuing appropriations authority so they don't have to legislative consent every time the money needs to go back out again.

Rep. Larry Bellew asked if these continuing appropriations were statutory or if we are the ones who authorize the agencies.

Rep. Ken Svedjan, Chairman explains that there are numbers of examples of continuing appropriations that exist throughout the state government in the "continuing appropriations" book drawn up by the Legislative Council. The legislature has granted that continuing

appropriation authority over the years. Part of the reason for this coming up is the self need for us to get a better handle on the nature and scope of continuing appropriations in state government. The amendments that have been made to this bill will help to gather this information in a consistent format that can be viewed easily to help us decide a number of things such as whether or not the continuing appropriation should continue, or should changes be made to it while it continues in the future, or whatever.

Rep. David Monson explained that the continuing appropriations book has over 300 appropriations listed and that doesn't include higher education.

Rep. Al Carlson commented that the off-budget FTE's show up in these as well and we found that there were approximately \$2.1 million dollars in salaries in these off-budget FTE's however if you ask them if they are state employees they say they are because they receive all the state benefits. We need to track these so we get a current count of state employees.

Rep. Jeff Delzer asked if all off-budget FTE's were entitled to the same raises and benefits given to the other state employees.

Rep. Al Carlson answered that they are considered state employees so my guess is yes, but we did not specifically ask them if they were entitled to the same 4 and 4 increase that other state employees might receive.

Rep. Bob Skarphol commented that 14 of these off-budget employees are with the forest service and they have administrators that decide whether or not they got raises, but the ones that concern me are the ones like the North Dakota Wheat Commission that has a board that runs it and could authorize any raise they wanted through these continuing appropriations and we don't have a say in that because all authorization comes from their board.

Rep. Ken Svedjan, Chairman called for further discussion on the motion. Seeing none
Chairman Svedjan called for a roll call vote on the Do Pass As Amended motion on HB1282.
Motion carried with a vote of 21 yeas, 0 neas, and 2 absent. Rep Skarphol will carry the bill to
the house floor.

Rep. Ken Svedjan, Chairman closed the discussion on HB 1282.

Date: Jan 20, 2005
Roll Call Vote #:

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1282

House Government Performance Committee

Check here for Conference Committee

Legislative Council Amendment Number S0539.0101

Action Taken DO PASS, AS Amended

Motion Made By Rep. Skarphol Seconded By Rep. Monson

Representatives	Yes	No	Representatives	Yes	No
Chairman Carlson	X		Rep. Glassheim	X	
Vice Chairman Skarphol	X				
Rep. Monson	X				

Total (Yes) 4 No 0

Absent 0

Floor Assignment Rep. Skarphol

If the vote is on an amendment, briefly indicate intent:

Date: **February 1, 2005**
Roll Call Vote #: **1**

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB1282

House Appropriations - Full Committee

Check here for Conference Committee

Legislative Council Amendment Number 50539.0101

Action Taken **DO PASS AS AMENDED**

Motion Made By **Rep. Skarphol** Seconded By **Rep. Wald**

Representatives	Yes	No	Representatives	Yes	No
Rep. Ken Svedjan, Chairman	X		Rep. Bob Skarphol	X	
Rep. Mike Timm, Vice Chairman	X		Rep. David Monson	X	
Rep. Bob Martinson	X		Rep. Eliot Glassheim	X	
Rep. Tom Brusegaard	X		Rep. Jeff Delzer	X	
Rep. Earl Rennerfeldt	AB		Rep. Chet Pollert	X	
Rep. Francis J. Wald	X		Rep. Larry Bellew	X	
Rep. Ole Aarsvold	X		Rep. Alon C. Wieland	X	
Rep. Pam Gulleason	X		Rep. James Kerzman	AB	
Rep. Ron Carlisle	X		Rep. Ralph Metcalf	X	
Rep. Keith Kempenich	X				
Rep. Blair Thoreson	X				
Rep. Joe Kroeber	X				
Rep. Clark Williams	X				
Rep. Al Carlson	X				

Total Yes **21** No **0**

Absent **2**

Floor Assignment **Rep. Skarphol**

If the vote is on an amendment, briefly indicate intent:

GP - Do Pass As Amended - Skarphol

REPORT OF STANDING COMMITTEE

HB 1282: Appropriations Committee (Rep. Svedjan, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (21 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1282 was placed on the Sixth order on the calendar.

Page 1, line 8, after the underscored comma insert "including the agriculture commodity groups and state fair association. The higher education institutions shall provide summary information in the same manner as presented to the fifty-ninth legislative assembly."

Page 1, line 9, replace "including" with "The report must include"

Page 1, line 10, after the first underscored comma insert "when the authority was provided,"

Page 1, line 12, after "biennium" insert ", including expenditures for and number of employee positions and an explanation of any negative fund balances"

Re-number accordingly

2005 SENATE APPROPRIATIONS

HB 1232

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1282

Senate Appropriations Committee

Conference Committee

Hearing Date February 24, 2005

Tape Number	Side A	Side B	Meter #
1	a		894

Committee Clerk Signature



Minutes:

Vice Chairman Grindberg opened the hearing on HB 1282.

Representative Bob Skarphol, District 2, presented testimony in support of HB 1282. He discussed the purpose of HB 1282, indicating it was developed to provide information early in the sessions to develop policy. He indicated a summary of all state agency continuing appropriations are documented. He indicated this helps the agencies do self-analysis.

Representative David Monson, District 10, testified in support of HB 1282. He indicated there was a change in the original bill and this now includes commodity groups. This makes reports available in one place, if there is a need to review them, and they don't have to make verbal presentations.

Questions were raised regarding the reporting, because at one time the legislature had gotten away from getting these reports, who puts the document together, concerns that information is

available upon request to anyone, concerns about whether all reports come out because of bills, would this be providing succinct information and is format the same.

Laura Glatt, Vice Chancellor for Administrative Affairs, ND University System, testified in opposition to HB 1282. She distributed information showing a continuing appropriations overview of funds. She indicated this is another bill to produce a reporting requirement that is information already supplied which was in HB 1003 last session and engrossed SB 2003 which has already passed. This creates an additional burden to staff to compile information.

Questions were raised as to whether there are any departments in higher education that have employees that are not documented and whether a bill is necessary to obtain the requested information.

Pam Sharp, Office of Management and Budget, testified on HB 1282. She indicated that the legislature requested two years ago that agencies supply information about continuing appropriations. That form was supplied for agencies to use and OMB can obtain information as requested.

No further questions.

Vice Chairman Grindberg closed the hearing.

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1282

Senate Appropriations Committee

Conference Committee

Hearing Date April 14, 2005

Tape Number	Side A	Side B	Meter #
1	a		1,347 - 1588

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on HB 1282 ~~on the~~ ^{the} State Fair Budget.

Senator Schobinger motioned a **DO NOT PASS** on HB 1282, **Senator Lindaas** seconded. A

roll call vote was taken resulting in 13 yes, 1 no and 1 absent. The motion carried and

Senator Schobinger will carry the bill.

Chairman Holmberg closed the hearing.

Date 14
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 1282

Senate SENATE APPROPRIATIONS

Committee

Check here for Conference Committee

Legislative Council Amendment Number

Action Taken

ONP

Motion Made By Schob

Seconded By Lindaas

Senators	Yes	No	Senators	Yes	No
CHAIRMAN HOLMBERG	✓		SENATOR KRAUTER	✓	
VICE CHAIRMAN BOWMAN	✓		SENATOR LINDAAS	✓	
VICE CHAIRMAN GRINDBERG			SENATOR MATHERN	✓	
SENATOR ANDRIST	✓		SENATOR ROBINSON	✓	
SENATOR CHRISTMANN	✓	✓	SEN. TALLACKSON	✓	
SENATOR FISCHER					
SENATOR KILZER	✓				
SENATOR KRINGSTAD	✓				
SENATOR SCHOBINGER	✓				
SENATOR THANE	✓				

Total (Yes) 13 No 1

Absent

Floor Assignment Schobinger

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
April 14, 2005 11:23 a.m.

Module No: SR-69-8139
Carrier: Schobinger
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1282, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **DO NOT PASS** (13 YEAS, 1 NAY, 1 ABSENT AND NOT VOTING). Engrossed HB 1282 was placed on the Fourteenth order on the calendar.

2005 TESTIMONY

HB 1282

North Dakota University System
House Appropriations Government Performance Committee
Testimony on HB1282, January 20, 2005
Laura Glatt, Vice Chancellor for Administrative Affairs

I appeared before your committee on Tuesday of this week, in opposition to HB1304 and requested an exemption for the NDUS. I appear before you today asking the same as it relates to HB1282 and for the same reasons: 1.) it is not consistent with the Roundtable and subsequent legislative action in support of flexibility with accountability; and, 2.) it imposes another reporting process and the use of precious staff resources which we do not believe adds value to our education and economic development mission.

For several years, the legislature has provided continuing appropriation authority to the NDUS in recognition of the vast sources of funding required to support our campus operations, including: auxiliary revenues, grants and contracts, tuition, private donations, and federal financial aid. Below is a summary by fund group of these non-state general fund sources of revenues, along with their purpose, sources, uses, and restrictions or designation:

Continuing Appropriations: Overview of Funds

Fund Group	Purpose	Source of Funds (Examples)	Uses of Funds (Examples)	Net Assets Generally Restricted by, or Designated For
Auxiliary Services	Provide services such as housing, dining and bookstore to students and constituents	<ul style="list-style-type: none"> • Room and board charges • Book/supply sales • Parking permits • Facility rental fees 	<ul style="list-style-type: none"> • Daily operations • Debt service • Facility repair & replacement 	<ul style="list-style-type: none"> • Bond covenants • Working capital • Emergency reserves • Major repairs • Building additions
Tuition Collections	Support campus operations (combined with state general funds)	<ul style="list-style-type: none"> • Student tuition 	<ul style="list-style-type: none"> • Core campus operations • Capital improvements 	<ul style="list-style-type: none"> • Core campus mission
Other Institutional Funds	Fund self-supporting programs or supplement programs partially funded from the general fund or tuition collections	<ul style="list-style-type: none"> • Student fees • Indirect cost recovery • Continuing ed fees • Ticket sales • Service centers • Interest income 	<ul style="list-style-type: none"> • Student activities • Instructional programs • Marketing/recruitment • Seed money for new grants • Debt service 	<ul style="list-style-type: none"> • Bond covenants • Working capital • Emergency reserves • Major repairs • Student groups • Self-support programs
Scholarships & Fellowships	Provide funding for needs-based and merit-based financial aid	<ul style="list-style-type: none"> • Donors • Institutional funds • Foundations 	<ul style="list-style-type: none"> • Scholarships • Fellowships • Financial aid 	<ul style="list-style-type: none"> • Donor terms • Students
Grants & Contracts	Perform contracted services to advance research and training programs	<ul style="list-style-type: none"> • Federal • State • Private 	<ul style="list-style-type: none"> • Research • Training • Program development 	<ul style="list-style-type: none"> • Grant terms
Loan Funds	Provide financing to students to assist with college costs	<ul style="list-style-type: none"> • Federal • State • Interest Income 	<ul style="list-style-type: none"> • Loans to students • Loan center operations 	<ul style="list-style-type: none"> • Federal/state policies • Students
Plant Funds	Provide funds for repair and replacement projects and capital asset debt service	<ul style="list-style-type: none"> • Donors • Institutional funds • Student fees • Interest income 	<ul style="list-style-type: none"> • Construction projects • Debt service • Repair and replace capital assets 	<ul style="list-style-type: none"> • Donor terms • Bond covenants
Endowment Funds	Hold principal and expend earnings of gifts and endowed funds	<ul style="list-style-type: none"> • Donors • Investment Earnings 	<ul style="list-style-type: none"> • Scholarships • Academic programs 	<ul style="list-style-type: none"> • Donor terms • Core campus mission

These funds are used to provide services not covered by general funds, such as housing, food services and bookstores. These other funds are also used to enhance instruction and to support campus research and public service activities. Longer term these funds are used to fund repair and replacement of state and non-state funded capital assets and to provide adequate capital and operating reserves, among other things. It is a sound business practice to maintain a reserve balance and is required for favorable credit rating to secure long-term financing.

These funds are audited by the Office of the State Auditor as part of the annual financial statement audit. Fund balances are reported in the NDUS Annual Financial Report in several categories including unrestricted, restricted and investment in capital assets. This distinction is important since many of these fund balances are restricted by bond covenants, donors, terms of grants and contracts or other requirements and cannot be used for other sources. A copy of this Annual Financial Report is readily available.

Financing the NDUS is a lot like buying a car. State general fund appropriations pay for the engine and the transmission. Funds from other fund sources add the body and wheels. Without these funds, the car wouldn't make it down the road. In other words, we ask for your support of a continuing appropriation authority for these NDUS funds; however, we oppose the additional reporting requirement since this information is readily available in the NDUS Annual Financial Report.

Thank you and we would be happy to answer any questions.

STATE AUDITOR
ROBERT R. PETERSON



PHONE
(701) 328-2241
FAX
(701) 328-1406

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVE. - DEPT. 117
BISMARCK, ND 58505

**TESTIMONY BEFORE THE HOUSE
APPROPRIATIONS COMMITTEE-GOVERNMENT PERFORMANCE DIVISION
January 20, 2005**

House Bill No. 1282

Testimony - Presented by Gordy Smith
Audit Manager

Chairman Carlson and members of the committee, my name is Gordy Smith. I am here to testify on House Bill No. 1282.

The State Auditor's Office is neutral on this piece of legislation. However, we feel that this type of information can be very useful to decision makers and would make an analysis of the continuing appropriations in the state easier since this type of information would be gathered and readily available.

Since some of these continuing appropriations were granted by the Legislature many years ago, legislators may find it worthwhile to review the justification for them. The Legislature may find that the justifications for certain continuing appropriations are no longer strong enough to warrant maintaining them and that changes are needed. In some instances, a continuing appropriation would remove some of the incentives to restrain spending. Requiring the information called for in the bill would seem appropriate to provide the Legislature with pertinent information to help make this decision.

During the past biennium an audit of the Wheat Commission revealed that it had spent a significant amount of money in excess of its resources. The Attorney General issued an opinion that indicated this was not allowed by the agency's continuing appropriation. While the vast majority of this money was spent on a long running lawsuit, a fixed appropriation may have meant that more legislative input would have been needed prior to incurring those expenses and/or the agency may not have felt they had the authority to move forward without further legislative approval.

There are issues related to a continuing appropriation (such as "off-budget FTE"s") that the Legislature could also consider addressing. One of the audits we conducted of a state agency revealed that it had an off budget FTE. We were unable to obtain the total number of off budget FTE in state government. I believe this should be reviewed and legislators should determine if they want these reported as other FTE are, or separately reported and identified.

One aspect of the agencies with continuing appropriations that legislators may be interested in is the fund balance at fiscal year end. There are instances where there are substantial amounts of moneys in fund balance for the agencies with a continuing appropriation. There are all kinds of policy-related issues relating to these balances. For example, should the entity build up large reserves while continuing to charge customers the same fee for services provided or should some sort of fee reduction be instituted? As the policy making branch of government, the Legislature may decide that it should have more input into those types of policy related issues.

Mr. Chairman that would conclude my testimony, I would be happy to answer any questions.

**North Dakota University System
Senate Appropriations Committee
Testimony on Engrossed HB1282, January 24, 2005
Laura Glatt, Vice Chancellor for Administrative Affairs**

I appear before you today to oppose the reporting provisions of HB1282. This bill imposes another reporting requirement above and beyond the NDUS agreed-upon accountability measures mandated by the legislature in HB1003 (2003). These additional reporting requirements draw precious staff resources away from other priorities that result in better service to students and the public.

For several years, the legislature has provided continuing appropriation authority to the NDUS in recognition of the vast sources of funding required to support our campus operations, including: auxiliary revenues, grants and contracts, tuition, private donations, and federal financial aid. Below is a summary by fund group of these non-state general fund sources of revenues, along with their purpose, sources, uses, and restrictions or designation:

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Fund Group	Purpose	Source of Funds (Examples)	Uses of Funds (Examples)	Net Assets Generally Restricted by, or Designated For
Auxiliary Services	Provide services such as housing, dining and bookstore to students and constituents	<ul style="list-style-type: none"> • Room and board charges • Book/supply sales • Parking permits • Facility rental fees 	<ul style="list-style-type: none"> • Daily operations • Debt service • Facility repair & replacement 	<ul style="list-style-type: none"> • Bond covenants • Working capital • Emergency reserves • Major repairs • Building additions
Tuition Collections	Support campus operations (combined with state general funds)	<ul style="list-style-type: none"> • Student tuition 	<ul style="list-style-type: none"> • Core campus operations • Capital improvements 	<ul style="list-style-type: none"> • Core campus mission
Other Institutional Funds	Fund self-supporting programs or supplement programs partially funded from the general fund or tuition collections	<ul style="list-style-type: none"> • Student fees • Indirect cost recovery • Continuing ed fees • Ticket sales • Service centers • Interest income 	<ul style="list-style-type: none"> • Student activities • Instructional programs • Marketing/recruitment • Seed money for new grants • Debt service 	<ul style="list-style-type: none"> • Bond covenants • Working capital • Emergency reserves • Major repairs • Student groups • Self-support programs
Scholarships & Fellowships	Provide funding for needs-based and merit-based financial aid	<ul style="list-style-type: none"> • Donors • Institutional funds • Foundations 	<ul style="list-style-type: none"> • Scholarships • Fellowships • Financial aid 	<ul style="list-style-type: none"> • Donor terms • Students
Grants & Contracts	Perform contracted services to advance research and training programs	<ul style="list-style-type: none"> • Federal • State • Private 	<ul style="list-style-type: none"> • Research • Training • Program development 	<ul style="list-style-type: none"> • Grant terms
Loan Funds	Provide financing to students to assist with college costs	<ul style="list-style-type: none"> • Federal • State • Interest Income 	<ul style="list-style-type: none"> • Loans to students • Loan center operations 	<ul style="list-style-type: none"> • Federal/state policies • Students
Plant Funds	Provide funds for repair and replacement projects and capital asset debt service	<ul style="list-style-type: none"> • Donors • Institutional funds • Student fees • Interest income 	<ul style="list-style-type: none"> • Construction projects • Debt service • Repair and replace capital assets 	<ul style="list-style-type: none"> • Donor terms • Bond covenants
Endowment Funds	Hold principal and expend earnings of gifts and endowed funds	<ul style="list-style-type: none"> • Donors • Investment Earnings 	<ul style="list-style-type: none"> • Scholarships • Academic programs 	<ul style="list-style-type: none"> • Donor terms • Core campus mission

These funds are used to provide services not covered by general funds, such as housing, food services and bookstores. These other funds are also used to enhance instruction and to support campus research and public service activities. Longer term these funds are used to fund repair and replacement of state and non-state funded capital assets and to provide adequate capital and operating reserves, among other things. It is a sound business practice to maintain a reserve balance and is required for favorable credit rating to secure long-term financing.

These funds are audited by the Office of the State Auditor as part of the annual financial statement audit. Fund balances are reported in the NDUS Annual Financial Report in several categories including unrestricted, restricted and investment in capital assets. This distinction is important since many of these fund balances are restricted by bond covenants, donors, terms of grants and contracts or other requirements and cannot be used for other sources. A copy of this Annual Financial Report is readily available.

Financing the NDUS is a lot like buying a car. State general fund appropriations pay for the engine and the transmission. Funds from other fund sources add the body and wheels. Without these funds, the car wouldn't make it down the road.

SB2003 as passed by the Senate sustains the continuing appropriation authority which has been in place for years. Thank you for that support. We also ask for your support in removing the NDUS from the reporting provisions of this bill.

Thank you and I would be happy to answer any questions.

What Are Short-Term Uses of These Funds?

Short-term uses include supplementing state general fund appropriations that support the core campus functions of teaching, research and public service and providing day-to-day cash flow for the campus functions that generate income. For example, a campus bookstore purchases books throughout the summer to sell during the fall semester. It uses previously generated revenues to make these purchases and to provide working capital to support operations during months when cash flow is limited due to the cyclical nature of operations.

Are Year-End Balances in These Funds Readily Accessible?

While fiscal year-end balances include some cash, these fund balances include other assets not easily converted to cash, such as investments, accounts receivable, notes receivable and inventories. Operating cycles create significant balance fluctuations during the fiscal year. As a result, although some funds are not yet expended as of the end of the fiscal year, they are generally designated for specific uses.

Can These Funds Be Substituted for General Fund Appropriations?

No, doing so may breach state and federal grant and financial aid regulations, bond covenants, donor agreements and other restrictions and commitments.

Many funds that fall into the category of continuing appropriations legally can be used only for the purposes designated by the donor, grantor or bond agreement. For example, research funding can be used only for the designated research, and student fees pledged

specifically for the payment of principal and interest on bonds incurred for construction of student housing must be used for that purpose.

Some funds are not restricted by an external source, but are designated for the purpose for which the revenue was generated. For example, student lab fees are used to purchase materials and supplies for the particular lab for which the fee was collected.

How Is the NDUS Held Accountable for These Funds?

The NDUS financial statements, including continuing appropriations fund balances, are audited annually by the Office of the State Auditor. Fiscal year-end continuing appropriations fund balances are reported on the financial statements in several categories of net assets, including unrestricted, restricted and investment in capital assets.

The unrestricted net assets category includes, by accounting standards' definition, fund balances not restricted by an external source. But, as outlined in this brochure, continuing appropriations fund balances included in this net assets category are designated for specific purposes by funding source or campus management.

This brochure was prepared, in part, in support of the continuing appropriations reporting requirement of Senate Bill 2015, Section 34 enacted by the 58th Legislative Assembly in 2003.

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NDUS Continuing Appropriations

A Key Component of
Higher Education Funding

NORTH DAKOTA
UNIVERSITY SYSTEM

The Vital Link to a Brighter Future

May 2004

Continuing Appropriations: Moving the NDUS Down the Road to a Brighter Future

Financing the North Dakota University System is a lot like buying a car. State general fund appropriations pay for the engine and the transmission. Funds from other sources add the body and the wheels.

Without these funds, the car wouldn't make it down the road. In other words, continuing appropriations are essential to the basic function of NDUS colleges and universities.

What Does the Term "Continuing Appropriations" Mean?

Continuing appropriations describes all non-general fund dollars generated by the North Dakota University System.

Unlike general funds, which the Legislative Assembly appropriates by line item and dollar amount in the NDUS budget bill, non-general fund dollars (other than those specifically appropriated for capital projects) are appropriated in a broad legislative statement referred to as a continuing appropriations clause. This clause gives the State Board of Higher Education authority to generate and spend these funds each biennium.

Examples of funds included in continuing appropriations authority are room and board charges, tuition, student fees, bookstore and food service revenues, grants, gifts and contracts.

Why Are Continuing Appropriations Allocated This Way?

The Legislative Assembly has recognized the importance of providing this authority to the

Continuing Appropriations: Overview of Funds

Fund Group	Purpose	Source of Funds (Examples)	Uses of Funds (Examples)	Net Assets <input type="checkbox"/> Restricted by <input checked="" type="checkbox"/> Designated For
Auxiliary Services	Provide services such as housing, dining and bookstore to students and constituents	<ul style="list-style-type: none"> • Room and board charges • Book/supply sales • Parking permits • Facility rental fees 	<ul style="list-style-type: none"> • Daily operations • Debt service • Facility repair & replacement 	<ul style="list-style-type: none"> ■ Bond covenants ◆ Working capital ◆ Emergency reserves ◆ Major repairs ◆ Building additions ◆ Core campus mission
Tuition Collections	Support campus operations	<ul style="list-style-type: none"> • Student tuition 	<ul style="list-style-type: none"> • Core campus operations • Capital improvements 	<ul style="list-style-type: none"> ◆ Core campus mission
Other Institutional Funds	Fund self-supporting programs or supplement programs partially funded from the general fund or tuition collections	<ul style="list-style-type: none"> • Student fees • Indirect cost recovery • Continuing ed fees • Ticket sales • Service centers • Interest income 	<ul style="list-style-type: none"> • Student activities • Instructional programs • Marketing/recruitment • Seed money for new grants • Debt service 	<ul style="list-style-type: none"> ■ Bond covenants ◆ Working capital ◆ Emergency reserves ◆ Major repairs ◆ Student groups ◆ Self-support programs
Scholarships & Fellowships	Provide funding for needs-based and merit-based financial aid	<ul style="list-style-type: none"> • Donors • Other institutional funds • Foundations 	<ul style="list-style-type: none"> • Scholarships • Fellowships • Financial Aid 	<ul style="list-style-type: none"> ■ Donor terms ◆ Students
Grants & Contracts	Perform contracted services to advance research, teaching and service programs	<ul style="list-style-type: none"> • Federal • State • Private 	<ul style="list-style-type: none"> • Research • Training • Program development 	<ul style="list-style-type: none"> ■ Grant terms
Loan Funds	Provide financing to students to assist with college costs	<ul style="list-style-type: none"> • Federal • State • Interest income 	<ul style="list-style-type: none"> • Loans to students • Loan center operations 	<ul style="list-style-type: none"> ■ Federal/state policies ◆ Students
Plant Funds	Provide funds for repair and replacement projects and capital asset debt service	<ul style="list-style-type: none"> • Donors • Other institutional funds • Student fees • Interest income 	<ul style="list-style-type: none"> • Construction projects • Debt service • Repair and replace capital assets 	<ul style="list-style-type: none"> ■ Donor terms ■ Bond covenants ■ Grant terms
Endowment Funds	Hold principal and expend earnings of gifts	<ul style="list-style-type: none"> • Donors • Investment Earnings 	<ul style="list-style-type: none"> • Scholarships • Academic programs 	<ul style="list-style-type: none"> ■ Donor terms ◆ Core campus mission

SBHE consistent with the *Roundtable Report* recommendation to grant the University System "flexibility with accountability."

How Are Continuing Appropriations Used?

From each campus's instructional mission grows the need to provide additional services not covered by general funds, such as housing, food services and bookstores.

Other funds are generated to enhance instruction and to support campus research and public service, the three-pronged campus mission. Continuing appropriations are essential to the total educational experience.

What Are Long-Term Uses of These Funds?

Long-term uses of these funds include repair and replacement of state and non-state-funded capital assets.

Also, it is sound business practice to maintain a reserve balance equal to several months of operating expenses, and proof of an adequate balance is required for the credit rating review needed to secure long-term financing. To maintain a sound credit rating, the institution must maintain adequate reserves to fund repair and replacement costs, daily operations and debt service requirements.