

# NORTH DAKOTA LEGISLATIVE COUNCIL

## Minutes of the

### BUDGET SECTION

Wednesday, June 14, 2006  
Senate Chamber, State Capitol  
Bismarck, North Dakota

Representative Ken Svedjan, Chairman, called the meeting to order at 9:00 a.m.

**Members present:** Representatives Ken Svedjan, Ole Aarsvold, Larry Bellew, Rick Berg, Merle Boucher, Ron Carlisle, Al Carlson, Jeff Delzer, Eliot Glassheim, Pam Gulleason, Keith Kempenich, James Kerzman, Matthew M. Klein, Bob Martinson, Ralph Metcalf, David Monson, Chet Pollert, Earl Rennerfeldt, Bob Skarphol, Blair Thoreson, Mike Timm, Francis J. Wald, Alon C. Wieland, Clark Williams; Senators John M. Andrist, Bill L. Bowman, Randel Christmann, Tom Fischer, Ray Holmberg, Ralph L. Kilzer, Aaron Krauter, Ed Kringstad, Elroy N. Lindaas, Tim Mathern, David O'Connell, Larry J. Robinson, Randy A. Schobinger, Harvey Tallackson

**Members absent:** Representatives Tom Brusegaard, Scot Kelsh, Joe Kroeber; Senators Michael A. Every, Tony Grindberg, Bob Stenehjem, Russell T. Thane

**Others present:** See Appendix A for additional persons present.

**It was moved by Representative Berg, seconded by Representative Wald, and carried on a voice vote that the minutes of the March 8, 2006, meeting of the Budget Section be approved as distributed.**

#### STATUS OF THE STATE GENERAL FUND

At the request of Chairman Svedjan, Ms. Pam Sharp, Director, Office of Management and Budget, presented a report on the status of the general fund. A copy of the information presented is on file in the Legislative Council office.

Ms. Sharp said the nonseasonally adjusted consumer price index in April was 3.5 percent, which is up .1 percent for the month and unchanged compared to April 2005. She said personal income rose 2.4 percent during the first quarter of 2006, which is slightly lower than the 2.6 percent average for calendar year 2005. She said crop prices rose by 4.6 percent in the first quarter of 2006 compared to the first quarter of 2005. Ms. Sharp said North Dakota's unemployment rate in April 2006 was 3.3 percent, which is slightly higher than the March 2006 rate of 3.2 percent but slightly lower than the 3.4 percent rate from April 2005. She said North Dakota's rate was considerably lower than the national unemployment rate of 4.7 percent for April 2006. Ms. Sharp said oil production in March 2006 averaged over 105,000 barrels per day, which is up

from the February average production of just over 103,000 barrels per day. She said drilling permit activity slowed to 21 new drilling permits issued in March 2006, compared to 49 permits issued in February 2006 and 55 permits issued in January 2006. She said the current rig count is 39 rigs, compared to 20 rigs operating one year ago. Ms. Sharp said the average price for North Dakota crude oil is currently around \$63 per barrel, up significantly from average prices of around \$54 per barrel in February and March 2006. She said some producers are seeing their oil discounted by more than \$20 per barrel due to limited pipeline capacity and difficulty in transporting the crude oil to available refineries.

Ms. Sharp presented the preliminary information on the status of the state general fund for the 2005-07 biennium based on revenue collections through May 31, 2006 (actual numbers will be presented in the June issue of the Office of Management and Budget newsletter):

Unobligated general fund balance - July 1, 2005	\$68,563,347
Add	
General fund collections through May 31, 2006	994,983,524
Forecasted general fund revenue for the remainder of the 2005-07 biennium (based on the 2005 legislative forecast)	1,069,294,154
Total estimated general fund revenue for the 2005-07 biennium	\$2,132,841,025
Less	
2005-07 biennium general fund appropriations	1,989,452,623
Estimated general fund balance - June 30, 2007 (\$133,092,871 more than the 2005 legislative estimate of \$10,295,531)	\$143,388,402 <sup>1</sup>

<sup>1</sup>The estimated ending balance does not include potential deficiency appropriations. As of May 31, 2006, the Office of Management and Budget identified \$15,037,185 in potential deficiency appropriation requests that may be presented to the 2007 Legislative Assembly--Division of Emergency Services state match relating to the 1997 Grand Forks flood (\$1,203,217), Division of Emergency Services state match relating to the 2005 severe winter snowstorm (\$485,288), Division of Emergency Services state match relating to 2006 Red River Valley flooding (\$848,680), Department of Corrections and Rehabilitation (\$4,500,000), Department of Human Services (\$3,000,000), and North Dakota University System utilities (\$5,000,000).

Ms. Sharp said the potential deficiency request for the Department of Corrections and Rehabilitation of \$4.5 million includes approximately \$3.9 million for the Prisons Division. She said this amount includes approximately \$2.5 million related to the Dakota Women's Correctional and Rehabilitation Center in New England.

In response to a question from Representative Timm, Ms. Sharp said the deficiency request for the Department of Corrections and Rehabilitation is due to increasing populations for both male and female inmates. Representative Wald said the female population has increased by approximately 40 inmates which resulted in additional costs that were not contemplated by the 2005 Legislative Assembly.

Ms. Sharp said the deficiency request for the Department of Human Services is related to the sex offender program at the State Hospital. She said additional staff is needed to ensure the safety of the patients and the employees. Ms. Sharp said there may be a deficiency request for Mayville State University of approximately \$800,000 to \$900,000.

Ms. Sharp said preliminary general fund revenues and transfers for the first 11 months of the 2005-07 biennium were approximately \$148 million more than estimated in the March 2005 legislative forecast. She said the variance was due to increases in sales tax (\$25.8 million), individual income tax (\$41.8 million), corporate income tax (\$56.6 million), oil and gas production tax (\$18.1 million), interest income (\$5.6 million), mineral leasing fees (\$4.2 million), and cigarette and tobacco tax (\$2.6 million).

Ms. Sharp said the \$71 million cap for oil and gas production and extraction tax collections has been reached so no additional oil tax collections will be deposited in the general fund during the 2005-07 biennium. She said \$26 million in oil tax collections has been transferred to the permanent oil tax trust fund through May 2006. Ms. Sharp said the legislative forecast estimated monthly oil tax revenues of \$3 million to \$3.5 million. She said actual oil tax revenues have been ranging from \$7 million to \$12 million per month. She said if the oil tax margins exceed forecast at \$4 million to \$5 million, an additional \$52 million to \$65 million in revenue will be generated through the remainder of the 2005-07 biennium.

Ms. Sharp said several appropriations are paid from the permanent oil tax trust fund. She said \$15,119,831 in loan repayments has been made for centers of excellence. She said this amount includes \$119,831 in interest. She said the Department of Human Services was appropriated \$3.6 million for the Medicaid management information system (MMIS). She said \$32,000 has been spent on the project. She said she does not anticipate the Department of Human Services to spend more than \$1 million on the project in the 2005-07 biennium. Ms. Sharp said there is a \$55.3 million transfer from the permanent oil tax trust fund to the general fund. She said \$30 million

has been transferred to the general fund to date. Ms. Sharp said there is a \$350,000 appropriation for the International Peace Garden that has not been provided.

In response to a question from Representative Wald, Ms. Sharp said the Office of Management and Budget will be having a conference call with the consultant, Economy.com. She said the consultant will be asked to explain the rationale behind its assumptions on its economic indicators.

In response to a question from Representative Svedjan, Ms. Sharp said the budget stabilization fund is at the statutory maximum of 5 percent of the general fund appropriation, or \$99.5 million, and, as a result, interest earned is being deposited in the general fund. She said the balance in the common schools trust fund is \$759 million.

In response to a question from Representative Svedjan, Ms. Sharp said departmental collections are a "catchall" for any fees or revenues deposited by agencies into the general fund.

### **TOBACCO SETTLEMENT PROCEEDS**

Ms. Sharp presented information on the status of tobacco settlement proceeds received by North Dakota. A copy of the information presented is on file in the Legislative Council office. Ms. Sharp said the total received in April 2006 was \$21.1 million. She said North Dakota was expecting to receive \$22.9 million. She said commitments for the water development trust fund for the 2005-07 biennium include \$7.8 million for bond payments, \$13 million for water project contracts, and \$9 million for administrative expenses. She said the fund had a beginning balance of \$13 million and will collect approximately \$20 million as its share of the tobacco settlement proceeds through the remainder of the 2005-07 biennium.

### **REVENUE FORECAST PROCESS**

Ms. Sharp presented information relating to the revenue forecast process used by the Office of Management and Budget. She said the preliminary forecast process begins in late May 2006 with the Tax Department providing historical tax information to Economy.com. Economy.com will issue a tax base forecast in June 2006. She said the Advisory Council on Revenue Forecasting will meet on June 20, 2006, and the preliminary revenue forecast will be finalized in July 2006.

Ms. Sharp said the executive revenue forecast process will begin in late September/October 2006 with the Tax Department providing the most recent historical tax information to Economy.com. In mid-October 2006, Economy.com will issue an updated tax base forecast. She said the Advisory Council on Revenue Forecasting will meet again in late October 2006 and the executive revenue forecast, along with executive budget recommendations, will be presented at the legislative organizational session in early December 2006.

Ms. Sharp said the legislative revenue forecast process begins in late January 2007 with the Tax Department again providing the most recent historical tax information to Economy.com. Economy.com will issue an updated tax base forecast in mid-February. She said the Advisory Council on Revenue Forecasting will meet in late February 2007 with a finalized legislative revenue forecast presented to the Legislative Assembly in early March 2007.

In response to a question from Representative Boucher, Ms. Sharp said the budget stabilization fund balance could only increase if the Legislative Assembly raises the statutory maximum cap.

In response to a question from Representative Carlson, Ms. Sharp said agencies have been asked to submit hold-even budgets for the 2007-09 biennium, with optional packages for additional spending requests. She said the Office of Management and Budget is not anticipating a certain growth rate for government, such as tying the rate to the consumer price index. She said agency budgets are due by July 15, 2006, but some agencies will be granted an extension.

In response to a question from Representative Carlson, Ms. Sharp said the July 15 deadline works well because it allows the budget analysts to work on the smaller agency budgets before the larger agency budgets are submitted at a later date.

Representative Carlson said the Office of Management and Budget, when developing the 2007-09 biennium budget, needs to consider whether the government can sustain the level of funding that will be established in the budget in future bienniums.

In response to a question from Representative Aarsvold, Ms. Sharp said she is unsure what the procedure would be if the obligations exceeded revenue in the water development trust fund. She said she would review the statute and provide information to the Budget Section.

In response to a question from Senator Andrist, Senator Fischer said the Devils Lake Outlet is not operational. He said the State Water Commission has applied to the State Department of Health for another water quality permit. He said high water tables are causing nutrients, phosphorus, and nitrates to lower water quality.

Chairman Svedjan requested the State Water Commission be asked to appear at the October meeting of the Budget Section to provide information on the status of the Devils Lake Outlet, including an explanation of operating costs and other expenditures, and the water development trust fund.

In response to a question from Representative Berg, Ms. Sharp said the historical tax information used for tax base forecasting would not be as accurate if the legislative forecast was provided to the Legislative Assembly in February rather than March. She said the Office of Management and Budget could provide a monthly forecast update to the Legislative Assembly each month during the session but it would

be expensive to have Economy.com do multiple forecasts.

In response to a question from Representative Berg, Ms. Sharp said she will review the possibility of providing the legislative forecast to the Legislative Assembly earlier in the session, possibly by early February. Chairman Svedjan requested Ms. Sharp to provide the information relating to this issue at the October 2006 Budget Section meeting.

Representative Berg presented a memorandum relating to sustainable spending in government. He said there are two points of information in the memorandum. He said the first point relates to a financial plan for a prospective six-year period. He said this issue passed in the House and the Senate but the Governor removed it when he signed the bill. He said the Governor felt this is something that could be accomplished in the budget process. He said the second point will require agencies to identify one-time budget investments that will result in savings or efficiencies and other one-time expenditure items.

**It was moved by Representative Berg, seconded by Representative Klein, and carried on a roll call vote that the Budget Section, pursuant to North Dakota Century Code Section 54-44.1-07 relating to the form of budget data, requests the Office of Management and Budget to direct agencies, as they develop their 2007-09 biennium budget requests, to identify one-time budget investments that will result in long-term budget savings or efficiencies and other one-time expenditure items and that the Office of Management and Budget include these in the executive budget information provided to the 60th Legislative Assembly in December 2006, including an indication by amount and funding source, of those that are being recommended in the executive budget.** Representatives Svedjan, Aarsvold, Bellew, Berg, Carlisle, Carlson, Glassheim, Gulleason, Kempenich, Kerzman, Klein, Martinson, Metcalf, Pollert, Rennerfeldt, Skarphol, Thoreson, Timm, Wald, Wieland, and Williams and Senators Andrist, Bowman, Christmann, Fischer, Holmberg, Kilzer, Krauter, Kringstad, Lindaas, Mathern, O'Connell, Robinson, Schobinger, and Tallackson voted "aye." No negative votes were cast.

### **OIL PIPELINE TRANSPORTATION**

Mr. Lynn Helms, Director, Oil and Gas Division, Industrial Commission, presented information regarding oil pipeline transportation issues, oil production, and oil prices. A copy of the information presented is on file in the Legislative Council office. Mr. Helms said the Canadian oil supply is expected to triple over the next 13 years. He said the Canadian oil can be produced at \$12 per barrel. He said Canada has a minimum of a 100-year supply of oil at a production rate of 4.5 million barrels a day. Mr. Helms said this is good for the United States as it will mean a long-term supply of oil. However, he said, markets will be disrupted as Canada tries to find a way to get

the oil to a refinery. He said it takes 2,000 cubic feet of natural gas to produce a barrel of oil. He said this will consume 60 percent of the natural gas that Canada can produce. He said natural gas imports to the United States will diminish which will impact the price of natural gas. He said there will be an impact on water resources as it takes two to five barrels of water to produce one barrel of oil.

Mr. Helms said demand for Canadian oil for asphalt declines in the winter months so approximately 31 percent of the Canadian oil supply will end up in United States refineries impacting North Dakota crude oil prices. He said Canada is building pipelines to move oil to the Gulf Coast. He said the oil will come through North Dakota and refineries along the way will convert to Canadian crude oil. He said the Canadian oil will make its way to Oklahoma, which is the hub for distributing oil.

In response to a question from Representative Boucher, Mr. Helms said the pipelines to the west and to the south of North Dakota are full of Canadian crude oil. He said North Dakota crude oil will either have to be refined in North Dakota or be moved by pipelines to the east.

In response to a question from Representative Boucher, Mr. Helms said North Dakota refineries are required by Environmental Protection Agency mandates to produce ultra-low sulfur diesel and ultra-low sulfur gas. He said the mandates required expenditures of \$1 million for every 1,000 barrels processed per day. He said the refinery in Mandan spent over \$55 million to put in sulfur removal equipment. He said this makes it possible and more economical for the refinery to process the cheaper Canadian crude oil.

In response to a question from Representative Svedjan, Mr. Helms said the Express pipeline and the Enbridge pipeline are owned by Canadian companies. He said the two largest purchasers of North Dakota crude oil are Canadian companies.

In response to a question from Representative Boucher, Mr. Helms said he anticipates China to become involved in ownership of refineries and pipelines in North Dakota.

Mr. Helms said Keystone plans to build a pipeline which could move approximately 500,000 barrels of crude oil per day from Alberta to Illinois. He said the second phase of the pipeline includes plans to increase the capacity to 600,000 barrels per day. He said this plan could mean business opportunities for North Dakota. Mr. Helms said the Minnesota pipeline will bring Canadian crude oil to the refineries south of Minneapolis, which is where the North Dakota crude oil is processed. He said this will result in the conversion of the Koch and Marathon refineries to Canadian crude oil. He said North Dakota must be prepared for this so the state does not lose its last place to have its oil processed.

In response to a question from Senator Mathern, Mr. Helms said most of the North Dakota crude oil

moves through the Enbridge pipeline from Trenton to Minnesota.

In response to a question from Representative Boucher, Mr. Helms said he is unaware of any import tariffs against foreign oil.

Mr. Helms said the Federal Energy Regulatory Commission is considering revising its oil pipeline policy to become consistent with its natural gas pipeline policy. He said the natural gas policy has much greater control over tariffs and imports of foreign natural gas.

Mr. Helms said the discounting of North Dakota oil has diminished substantially in May 2006. He said tax revenues were \$14.4 million less during the four-month period because of discounting from January through April 2006. This amount was calculated using statewide average discount prices, average production amounts, and average oil tax rates.

In response to a question from Representative Skarphol, Mr. Helms said the Tax Department and the Attorney General's office conducted research on the discounting issue. Mr. Helms said the Oil and Gas Division identified oil purchasers, transporters, and producers. He said the Tax Department is limited to investigating related party transactions. He said the Tax Department is currently reviewing three related party transactions in Bowman County. He said this review has already resulted in a payment of \$65,000 to the Tax Department.

In response to a question from Senator Bowman, Mr. Helms said mineral rights owners lost approximately one and a half times the amount of revenue the state lost during the discounting period, or approximately \$22 million.

Mr. Helms said there is not enough pipeline capacity out of North Dakota for refined products. He said even if the Mandan refinery had the entire market for North Dakota gasoline and diesel, North Dakota would need to ship one-third of its refined capacity out of state. He said North Dakota only consumes approximately 40,000 barrels per day.

Mr. Helms said short-term solutions will include expanding pipeline capacity. He said the problems of limited pipeline capacity experienced this winter should not be as bad next winter. He said long-term solutions must include finding a way to partner with the Keystone pipeline and work with the MinnCan pipeline to ensure there are markets for North Dakota crude oil.

Mr. Helms said the limited pipeline capacity has affected the production rate, the active rig count, and the return of wells to production. He said North Dakota can do several things to improve the oil situation, including working with Enbridge and the Federal Energy Regulatory Commission to expand the pipeline system, increasing the minimum quality required on the Enbridge pipeline system to create a preference for North Dakota crude oil, helping companies access the Keystone pipeline project, expanding the Mandan Tesoro refinery, and building new refineries in the Williston Basin area. He said

there are costs associated with the solutions. He said the Keystone pipeline project will cost \$250 million. He said expanding the Mandan refinery will cost approximately \$600 million to \$1 billion.

Mr. Helms said North Dakota could create a pipeline transportation authority. He said Wyoming has a Natural Gas Pipeline Authority which has been successful. He said the pipeline transportation authority could partner with industry to build gas and oil pipelines so the North Dakota oil would no longer be discounted.

In response to a question from Representative Skarphol, Mr. Helms said the Wyoming pipeline authority is allowed to participate in consortiums with other states for pipeline ownership.

In response to a question from Representative Delzer, Mr. Helms said he will provide the Budget Section with a list of proposed refinery expansions in the United States and Canada.

In response to a question from Representative Timm, Mr. Helms said the Public Service Commission has siting authority to allow Canadian companies to build pipelines in North Dakota. He said the commission's authority is limited to where the pipeline is located. He said the Federal Energy Regulatory Commission determines the need for the pipeline.

In response to a question from Representative Skarphol, Mr. Helms said he is unaware of any federal regulations prohibiting a state from limiting the extent of eminent domain granted to a company for the construction of a pipeline. He said limiting eminent domain could prohibit companies from wanting to construct pipelines in the state.

Representative Skarphol requested the Legislative Council staff to review federal regulations regarding granting eminent domain for pipelines owned by foreign companies.

In response to a question from Representative Svedjan, Mr. Helms said he is aware that a related bill draft has been prepared by the Legislative Council staff at the request of Representative Wald. He said Representative Wald requested a task force be organized which would include members of the Wyoming pipeline authority. He said the task force would review the bill draft to ensure all necessary areas are considered.

## **2005-07 CENTERS OF EXCELLENCE APPLICATIONS**

Mr. Allen H. Knudson, Assistant Legislative Budget Analyst and Auditor, Legislative Council, presented a memorandum entitled [Summary of 2005-07 Centers of Excellence Applications - Round 3](#), a copy of which is attached as Appendix B.

In response to a question from Senator Mathern, Ms. Sharp said the entire award for each centers of excellence project is paid at the start of the project.

In response to a question from Representative Delzer, Representative Svedjan said the Office of Management and Budget should review future budgets of institutions who have been awarded

funding for a center of excellence to ensure the institution is not using appropriated funds for continuation of the project.

Representative Carlson asked why the entire award is paid in one installment. He said the funds should be paid as phases of the project are completed and based on the budgets presented in the request. He said the state is borrowing funds and paying interest to the Bank of North Dakota while the institutions are getting their funds before the funds are needed.

### **Centers of Excellence Commission**

Mr. Mark Nisbet, Chairman, Centers of Excellence Commission, Fargo, presented information regarding the funding award recommendation for the centers of excellence. He said the commission recommended the following project for a funding award totaling \$1.15 million:

- Dickinson State University - Center for Entrepreneurship and Rural Revitalization - \$1,150,000.

Mr. Nisbet said the Centers of Excellence Commission forwarded the recommended project to the Emergency Commission for consideration. He said the Emergency Commission favorably recommended and forwarded the request to the Budget Section for its consideration and approval.

### **Center for Entrepreneurship and Rural Revitalization**

Dr. Lee Vickers, President, Dickinson State University, presented information regarding the Dickinson State University Center for Entrepreneurship and Rural Revitalization. He said the purpose of the center is to promote economic development. He said the four objectives of the center are:

1. Promote entrepreneurship, leadership, and community development;
2. Spur the creation of wealth;
3. Address outmigration and the decline of rural communities in southwestern North Dakota; and
4. Mobilize the region's resources.

Dr. Vickers said the proposal requests funding for the establishment and operation of the Institute of Technology and Business. He said the proposed institute will initially focus on a keystone project that will allow Killdeer Mountain Manufacturing to expand its aerospace manufacturing business. He said the institute's collaboration with Killdeer Mountain Manufacturing is projected to create 80 to 120 jobs in the first five years.

Mr. Don Hedger, President, Killdeer Mountain Manufacturing, provided testimony regarding the Killdeer Mountain Manufacturing Company. He said the company is a contract manufacturing firm that performs high-quality electronic manufacturing in three small communities in North Dakota. He said the center of excellence at Dickinson State University will

provide the experienced leadership teams needed for economic development in the small communities.

In response to a question from Representative Carlson, Ms. Sharp said it is the Office of Management and Budget's interpretation that by approving the projects in excess of \$15 million, the Emergency Commission and the Budget Section were also giving the Office of Management and Budget approval to borrow the additional \$5 million for funding centers of excellence.

The legislative budget analyst and auditor said Section 13 of 2005 Senate Bill No. 2018 requires Emergency Commission and Budget Section approval before the Office of Management and Budget can borrow the additional \$5 million.

Chairman Svedjan said the Governor's office will be notified of the need to call a meeting of the Emergency Commission to consider a request from the Office of Management and Budget for borrowing authority of \$5 million from the Bank of North Dakota for funding centers of excellence.

**It was moved by Representative Wald, seconded by Representative Carlisle, and carried on a roll call vote that pursuant to North Dakota Century Code Section 15-69-02, the Budget Section approve the following center of excellence funding award request which has been recommended by the Centers of Excellence Commission and considered by the Emergency Commission:**

- **Centers of Excellence Commission (Request #1588) - Dickinson State University Center for Entrepreneurship and Rural Revitalization - \$1,150,000.**

Representatives Svedjan, Aarsvold, Bellew, Berg, Carlisle, Carlson, Glassheim, Guleson, Kempenich, Kerzman, Klein, Martinson, Metcalf, Monson, Pollert, Rennerfeldt, Thoreson, Timm, Wald, and Wieland and Senators Andrist, Bowman, Fischer, Holmberg, Kilzer, Krauter, Kringstad, Lindaas, Mathern, O'Connell, Robinson, Schobinger, and Tallackson voted "aye." Senator Christmann voted "nay."

### **AGENCY REQUESTS AUTHORIZED BY THE EMERGENCY COMMISSION**

Chairman Svedjan directed the committee to consider agency requests which have been authorized by the Emergency Commission and forwarded to the Budget Section, pursuant to North Dakota Century Code Sections 54-16-04, 54-16-04.1, 54-16-04.2, and 54-16-09. The information relating to the requests was provided to the Budget Section prior to the meeting and is on file in the Legislative Council office.

Chairman Svedjan said the Department of Human Services Request #1596 will be discussed separately because the Emergency Commission approved the request with the stipulation that the agency provide additional information to the Budget Section supporting the request.

**It was moved by Representative Carlson, seconded by Senator Krauter, and carried on a voice vote that pursuant to North Dakota Century Code Sections 54-16-04, 54-16-04.1, 54-16-04.2, and 54-16-09, the Budget Section approve the following requests which have been approved by the Emergency Commission:**

- **Aeronautics Commission (Request #1589) - To increase special funds spending authority and the capital assets line item by \$600,000 to accept federal funds from the Federal Aviation Administration for the capital assets line item (\$600,000) for reconstruction of the runway at the International Peace Garden airport.**
- **Game and Fish Department (Request #1590) - To increase special funds spending authority by \$189,700 to accept federal funds from the United States Department of Agriculture Animal and Plant Health Inspection Service for the operating expenses line item (\$189,700) to collect samples for monitoring avian influenza in waterfowl, shorebirds, and other migratory birds and chronic wasting disease from dead or sick deer.**
- **Department of Emergency Services (Request #1591) - To increase special funds spending authority by \$361,346 and the salaries and wages line item (\$32,850) and the grants line item (\$328,496) to accept federal funds from the predisaster mitigation grant program for administration and support of grant awards and for planning grants to Billings, Burleigh, and Cass Counties and the city of Medora.**
- **Department of Emergency Services (Request #1593) - To increase special funds spending authority by \$6,903,780 to receive federal funds (\$6,055,100) under the Robert T. Stafford Disaster Relief and Emergency Assistance Act and state disaster loan proceeds (\$848,680) for the salaries and wages line item (\$100,000), operating expenses line item (\$270,000), and grants line item (\$6,533,780) for costs related to flooding occurring in the Red River Valley in 2006.**
- **Adjutant General (Request #1594) - To increase special funds spending authority and the Army Guard contracts line item by \$16.6 million to accept federal funds from the National Guard Bureau for the construction of a field maintenance shop in Minot (\$12.3 million) and a weapons of mass destruction civil support team building at Fraine Barracks in Bismarck (\$4.3 million).**
- **Adjutant General (Request #1595) - To transfer \$85,000 from the state contingency fund for costs incurred by the North Dakota National Guard for flood relief in Grand**

**Forks, Walsh, and Pembina Counties in April 2006 (\$130,853) and estimated costs for the Ward County search in May 2006 (\$22,150). Total costs of \$153,003, less National Guard emergency funds of \$68,458, result in a shortfall of \$84,545. (Approved by the Emergency Commission with the stipulation that the state's contingency fund be reimbursed when the agency receives offsetting federal funds.)**

- **North Dakota Veterans Home (Request #1598) - To increase special funds spending authority from additional resident rent revenue and the operating line item by \$116,000 to purchase medications for the Veterans Home pharmacy.**

Mr. Alex Schweitzer, Superintendent, State Hospital, presented information regarding the Department of Human Services Request #1596 relating to additional full-time equivalent (FTE) positions for the sex offender unit at the State Hospital. A copy of the information presented is on file in the Legislative Council office.

Mr. Schweitzer said the sex offender units at the State Hospital currently house 49 sex offenders, of which 37 are in commitment status, 9 have been recommended for commitment, and 3 are being evaluated. He said the two sex offender units are over capacity by seven patients. He said the hospital also has referral information for seven additional sex offenders who need to be evaluated within three months.

Mr. Schweitzer said the State Hospital has experienced two major incidents at the sex offender unit within the last nine months. He said one offender "eloped" and one offender attacked a staff member. He said the hospital is admitting very difficult and dangerous patients who require additional safety and security measures. He said the capacity issues and the increased level of dangerous and difficult patients have resulted in the need for additional space and staff. He said the hospital plans to open a third sex offender unit with a capacity for 20 patients in July 2006. He said the hospital has filled the 11 FTE positions approved by the Emergency Commission and the Budget Section at their March 2006 meetings. He said the estimated cost for the 11 FTE positions approved at the March 2006 Budget Section meeting is \$500,000.

In response to a question from Senator Christmann, Mr. Schweitzer said the increase in civil commitments is partly due to an increased public safety awareness by communities, law enforcement, and state's attorneys.

In response to a question from Senator Christmann, Mr. Schweitzer said all admissions to the sex offender unit are inmates that have been released from the prison system.

In response to a question from Representative Berg, Mr. Schweitzer said increases in salary costs for the 2007-09 biennium will be approximately \$650,000

per year for the 19 FTE positions added this biennium. He said additional staff will be needed if all 20 beds in the third unit are filled.

In response to a question from Representative Glassheim, Mr. Schweitzer said he does not know if there has been a decrease in sex offense crimes because of civil commitments.

Representative Glassheim asked the Department of Corrections and Rehabilitation provide information at a future Budget Section meeting regarding the effect civil commitments have had on the number of inmates incarcerated for sex offenses.

Representative Metcalf said there are several states that do not have civil commitment of sex offenders. He asked the Legislative Council staff to provide information on what these states are doing in lieu of civil commitment.

**It was moved by Representative Pollert, seconded by Representative Boucher, and carried on a voice vote that pursuant to North Dakota Century Code Chapter 54-16, the Budget Section approve the following request which has been approved by the Emergency Commission:**

- **Department of Human Services (Request #1596) - To add eight additional FTE positions for the State Hospital sex offender program. These positions are in addition to the 11 FTE positions approved for the State Hospital sex offender program at the March 2006 Budget Section meeting.**

### **MINOT STATE UNIVERSITY - BOTTINEAU CHANGE IN SCOPE OF PROJECT**

Mr. Jim Borkowski, Director, Financial Affairs, Minot State University - Bottineau, provided information regarding a change in the scope of the Thatcher Hall addition project pursuant to North Dakota Century Code Section 48-02-20. A copy of the information presented is on file in the Legislative Council office. Mr. Borkowski said the university is requesting authorization to combine the Thatcher Hall addition project with the racquetball court project, which is an addition to the athletic wing of Thatcher Hall. He said combining the two projects would result in the estimated cost for the racquetball project being reduced by \$43,000. He said funds for the project are being provided by a private donor.

**It was moved by Senator O'Connell, seconded by Representative Boucher, and carried on a voice vote that the Budget Section, pursuant to North Dakota Century Code Section 48-02-20, approve the Minot State University - Bottineau request to change the scope of the Thatcher Hall addition project.**

### **STATE BOARD OF AGRICULTURAL RESEARCH AND EDUCATION**

Mr. Jerry Effertz, Chairman, State Board of Agricultural Research and Education, provided information regarding the status of the board pursuant to North Dakota Century Code Section 4-05.1-19(10).



A copy of the information presented is on file in the Legislative Council office. Mr. Effertz said significant progress has been made on programs initiated by the 59th Legislative Assembly. He said several capital improvement projects are nearing completion. He said over \$1 million in matching funds was raised for the North Central Research Center agronomy laboratory and greenhouse. Mr. Effertz said the board has developed a priority list to address future issues which includes keeping the infrastructure current and aggressively addressing pest management. He said the board will continue its investment in research because North Dakota agriculture provides \$3.5 billion annually in cash receipts. He said the report provided to the committee includes the strategic plan for the board entitled "Grow 21: Enhancing North Dakota's Economy Through Agriculture."

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

### **AGENCY REQUEST AUTHORIZED BY THE EMERGENCY COMMISSION**

Chairman Svedjan presented minutes from a special meeting of the Emergency Commission held on June 14, 2006, to consider a request from the Office of Management and Budget to secure a \$5 million loan from the Bank of North Dakota for funding centers of excellence. He directed the committee to consider the request which was authorized by the Emergency Commission and forwarded to the Budget Section, pursuant to Section 13 of 2005 Senate Bill No. 2018.

**It was moved by Representative Klein, seconded by Representative Thoreson, and carried on a voice vote that the Budget Section approve the following agency request that was forwarded to the Budget Section, pursuant to Section 13 of 2005 Senate Bill No. 2018:**

- **Office of Management and Budget (Request #1599) - To receive borrowing authority of \$5 million to secure a loan from the Bank of North Dakota for funding centers of excellence-approved projects as provided for in Section 13 of 2005 Senate Bill No. 2018.**

### **STATE BOARD OF HIGHER EDUCATION**

Ms. Laura Glatt, Vice Chancellor, Administrative Affairs, North Dakota University System, provided information relating to the allocation of the higher education equity pool and the status of the higher education review of the long-term finance plan, pursuant to Sections 9 and 17 of 2005 Senate Bill No. 2003 and the status of utilities budgets for the institutions of higher education for the 2005-07 biennium. A copy of the information presented is on file in the Legislative Council office.

### **Higher Education Equity Pool**

Ms. Glatt said 2005 Senate Bill No. 2003 provided \$2 million to be used to address equity at higher education institutions and other campus needs. She said legislation provided that distribution of funds could not be made until January 1, 2006. She said several options were developed and reviewed with the campuses. She said on January 19, 2006, the State Board of Higher Education approved the allocation of \$300,000 to the University of North Dakota, \$400,000 each to Bismarck State College and Lake Region State College, and \$900,000 to North Dakota State University.

### **Higher Education Review of Long-Term Finance Plan**

Ms. Glatt said Section 17 of Senate Bill No. 2003 required the State Board of Higher Education to conduct a review of the long-term finance plan, including a review of peer institutions and a review of the allocation of funds between equity and parity during the 2005-06 interim. She said a committee consisting of campus representatives assisted the University System with the review. She said a review was also completed by a consulting firm, MGT of America, Inc., for the Higher Education Committee. Ms. Glatt said the committee submitted a comprehensive report and recommendations to the State Board of Higher Education in May 2006. She said the board adopted several recommended changes to the long-term finance plan, many of which are consistent with the MGT of America, Inc., recommendations. Ms. Glatt noted recommendations 9, 10, and 17 because she considered them to be major issues. She said recommendations 9 and 10 relate to changing the allocation of parity and equity money. She said the formula for distributing equity funding will be changed to a weighting calculation that is based on both dollar and percentage differentials in peer benchmarks. She said recommendation 17 removes the direct appropriations for agricultural research and extension services from North Dakota State University (NDSU) but includes the UND School of Medicine and Health Sciences at the University of North Dakota for purposes of calculating benchmarks.

Ms. Glatt said the recommendations were included in the development of the North Dakota University System 2007-09 biennium budget request. She said the budget request will include a \$10 million pool to address equity differentials.

In response to a question from Representative Wald, Ms. Glatt said it is difficult to determine the effect on the benchmark by removing the agricultural research and extension services from NDSU because there are interrelated components between the budgets. She said even though the legislature appropriates money for agricultural research and extension in a separate bill from NDSU, there are some expenditures in the NDSU budget that help support agricultural research and extension.



Representative Wald said there are also expenditures made by the agriculture budget that support NDSU.

Representative Skarphol requested the University System provide a list of peer institutions for each campus and the state contribution for each peer institution. He also requested information relating to the share of general fund budget allocation for higher education for each peer state and institution.

Ms. Glatt noted that North Dakota is ranked near the top in spending per capita for higher education but is ranked near the bottom in spending per student.

In response to a question from Representative Wald, Ms. Glatt said peer groups were recommended by MGT of America, Inc. She said MGT of America, Inc., used 150 variables in determining valid peer groups. She said campuses had input in selecting their peer institutions.

Senator Holmberg said the MGT of America, Inc., report to the Higher Education Committee includes a section on peer selection. He said the report is available in the Legislative Council office. He said the Higher Education Committee will be discussing the report at its July 13, 2006, meeting.

In response to a question from Representative Boucher, Ms. Glatt said the University System provided a report to the State Board of Higher Education which outlined the effect of utility deficiencies on tuition increases. She said Mayville State University will increase its tuition by 9.5 percent, which will generate approximately \$150,000 but will leave a shortfall of approximately \$350,000 for Mayville. She said Bismarck State College will increase its tuition by 9.5 percent but only 2 percent will go toward the utility deficiency.

In response to a question from Senator Kilzer, Ms. Glatt said the estimated utility deficiency for all institutions was \$6.5 million at the beginning of winter. She said the deficiency estimate dropped to \$5 million because of the mild winter.

Representative Berg said the issue of equity needs to be addressed in the long-term finance plan so the burden of higher education costs is not continually increased for taxpayers and students.

### **Status of Utilities Budgets**

Ms. Glatt said utility estimates, updated in March 2006, indicate the University System will experience a utility shortfall of over \$5 million in the 2005-07 biennium. She said the impact by campus varies significantly due to differences in heating sources. She said campuses have had to absorb the cost increases by reallocating resources from other areas of their budgets or pass the cost increases to the students through tuition increases. She said the University System intends to request a deficiency appropriation to offset the cost increases. Ms. Glatt said the University System will continue to update the utility estimates throughout the remainder of the 2005-07 biennium.

Representative Delzer requested the Legislative Council staff provide information regarding any past deficiency appropriations for utilities. He said allowing a deficiency request for the University System may result in other agencies also requesting utility deficiencies.

In response to a question from Representative Skarphol, Ms. Glatt said a list could be provided which identifies actions taken by campuses to lower utility costs. She said measures being taken include engaging in performance update contracts for heating systems, lowering room temperatures, and closing facilities over long holiday breaks.

In response to a question from Representative Monson, Ms. Glatt said some campuses have increased tuitions beginning with the fall 2006 semester. She said some tuition increases are as high as 9 to 9.5 percent.

Representative Aarsvold said Mayville State University has eliminated four positions and some programs on campus to compensate for the increased energy costs.

Ms. Glatt said campuses have been instructed to look for alternative energy sources, such as wind energy or water source heat.

In response to a question from Senator Mathern, Ms. Glatt said the State Board of Higher Education has historically issued three budgets. She said the Governor would typically mandate what type of budget to prepare such as a hold-even budget or a 95 percent budget. She said the board has a constitutional responsibility to issue a needs-based budget. She said the University System also prepares a third budget somewhere between the Governor's request and the needs-based budget. Ms. Glatt said the Governor asked the State Board of Higher Education to prepare a budget request limited to a \$33 million increase in state general fund money for the 2007-09 biennium. She said the board considered the request but instead is submitting a budget request that would restore the university back to 21 percent of the state general fund budget, largely at the urging of private sector members of the roundtable. Ms. Glatt said the University System will be submitting one budget request with a general fund increase of \$63 million for the 2007-09 biennium.

### **RISK MANAGEMENT WORKERS' COMPENSATION PROGRAM**

Ms. Sharp presented information regarding the status of the risk management workers' compensation program. A copy of the information presented is on file in the Legislative Council office. Ms. Sharp said 2001 legislation established a single workers' compensation account for all state entities. She said the Risk Management Division of the Office of Management and Budget administers the program. She said for coverage periods beginning July 1, 2001, the Risk Management Division entered into deductible contracts with Workforce Safety and Insurance for 143 consolidated accounts. She said the deductible

amount selected was \$100,000 per claim. She said results for the five coverage years beginning July 1, 2001, through June 6, 2006, are:

Nonconsolidated guaranteed cost program premium and assessments		\$19,850,412
Risk Management Division deductible premium paid to Workforce Safety and Insurance	\$7,595,455	
Risk Management Division paid losses through June 6, 2006	5,365,751	
Risk Management Division pending losses (reserves)	1,077,109	
Risk Management Division combined deductible premium and losses		14,038,315
Estimated savings for a five-year period		\$5,812,097

Ms. Sharp said the three-year period savings from two years ago was approximately \$2.2 million. She said the Risk Management Division has implemented programs to pass the savings on to agencies with effective risk management strategies. She said the discount dollars returned to agencies as a result of the implementation of safety programs totaled \$1.3 million. She said the Risk Management Division recently implemented a dividend dollar program to return money back to agencies based on their loss history. She said \$362,000 has been returned to agencies through this program.

In response to a question from Representative Wald, Mr. Barry Schumacher, Workforce Safety and Insurance, said if a claim is denied, charges would not be assessed to the risk management account but if a claim is accepted and determined to be a compensable claim, claim costs would be charged to the risk management account.

In response to a question from Senator Mathern, Mr. Schumacher said Workforce Safety and Insurance employees are covered under the risk management workers' compensation program.

### **DEPARTMENT OF EMERGENCY SERVICES Department Reorganization**

Major General Michael J. Haugen, Adjutant General, Department of Emergency Services, presented information regarding positions affected by the reorganization of the Department of Emergency Services and justification for any prior salary increases, pursuant to Section 10 of 2005 House Bill No. 1016. A copy of the information presented is on file in the Legislative Council office. Major General Haugen said salary increases were analyzed on an individual basis by the Office of Management and Budget Human Resource Management Services Division. He said although administrative rules were not originally followed, all salary increases were determined to be within guidelines except for one position. He said that individual is no longer with the

agency. He said guidelines have been developed to ensure administrative rules are followed in the future. He said controls have been put in place to ensure there is a "paper trail" to support salary increase actions. Major General Haugen requested the Budget Section authorize the spending authority of \$213,493 of federal funds for salary increases.

In response to a question from Representative Carlson, Major General Haugen said the salary increases have remained in place for all except two positions. He said salaries were adjusted downward for the directors of the two divisions within the Department of Emergency Services once they became appointed positions. He said the salary increases were funded mainly through homeland security funding. Major General Haugen said he expects to see a reduction in homeland security funding from \$10 million to \$8 million. He said the department has reduction-in-force procedures in place if the department would continue to lose homeland security funding.

In response to a question from Representative Skarphol, Mr. Gordy Smith, Performance Audit Manager, State Auditor's office, said the State Auditor's office was not involved in the salary increase review conducted by Human Resource Management Services. He said no written justification for the increases was available to auditors during a performance audit of the Department of Emergency Services.

Representative Wald requested Mr. Gordy Smith address this issue at a Legislative Audit and Fiscal Review Committee meeting.

**It was moved by Senator Robinson, seconded by Senator Tallackson, and carried on a roll call vote that the Budget Section, pursuant to Section 10 of 2005 House Bill No. 1016, approve the expenditure of \$213,493 by the Department of Emergency Services for salary increases.** Representatives Svedjan, Aarsvold, Bellew, Berg, Boucher, Carlisle, Glassheim, Gulleon, Kerzman, Klein, Martinson, Metcalf, Wald, and Wieland and Senators Bowman, Christmann, Fischer, Krauter, Kringstad, Lindaas, Mathern, O'Connell, Robinson, Schobinger, and Tallackson voted "aye." Representatives Delzer, Kempenich, Monson, Pollert, Rennerfeldt, Skarphol, Thoreson, and Timm and Senators Andrist and Kilzer voted "nay."

### **Use of Federal Homeland Security Funds**

Mr. Greg Wilz, Director, Homeland Security Division, Department of Emergency Services, presented information relating to the use of federal homeland security funds at the state and local levels pursuant to Section 7 of 2005 House Bill No. 1016. A copy of the information presented is on file in the Legislative Council office. Mr. Wilz said the 2005 homeland security funding was allocated on a base percentage rate plus population. He said the grant required 80 percent of the funds to be passed through to local units of government. He said the department

distributed the 2005 funds to jurisdictions through a series of funding formulas based upon threat, vulnerability, and capability of compliance with the state's strategy at that time. He said local jurisdictions were provided the flexibility to determine spending based upon federal grant guidance. Mr. Wilz said for 2006 grant guidance, the Department of Homeland Security established eight national priorities which must be considered when spending 2006 grant funds.

Mr. Wilz said the budget needs of the department are significant. He said the department is migrating the state radio system from an analog system to a digital system. He said there has not been a grant year in which funds were sufficient to pay for the complete project. He said this has resulted in the department entering into a lease/purchase contract where funds are spent annually for the project. He said the department has spent approximately \$19 million to purchase digital radios for local jurisdictions across the state. He said the last "gap analysis" indicates there is still \$21 million needed for digital radios for first responders.

In response to a question from Representative Kempenich, Mr. Wilz said the department has asked for an indepth review by the Department of Homeland Security of the department's programs and grant activity.

In response to a question from Representative Carlson, Mr. Russ Timmreck, Director, Division of State Radio, said approximately \$60 million is needed to complete the migration project.

In response to a question from Representative Carlson, Mr. Timmreck said an additional five towers are needed to eliminate areas across the state where there is no transmission capability. He said the cost per tower is approximately \$500,000.

Representative Skarphol said the report provided by the department does not identify how the homeland security funds were spent at the local level for all related years. Mr. Wilz said he will provide information at the next Budget Section meeting.

## **STATE AGENCY UNCLAIMED PROPERTY**

The Legislative Council staff distributed a letter from the Unclaimed Property Division of the Land Department. The letter states a mailing was sent to 12 agencies in December 2005 regarding claims for property belonging to those agencies. The letter identified the agencies have one year to respond to the mailings and therefore the Unclaimed Property Division does not have a list of properties for the committee to act on at this time. Chairman Svedjan requested this item be placed on the agenda for the December 2006 meeting of the Budget Section.

## **DEPARTMENT OF TRANSPORTATION**

Mr. David Sprynczynatyk, Director, Department of Transportation, provided information relating to additional FTE positions that have been hired for highway construction pursuant to Section 4 of 2005 Senate Bill No. 2012. A copy of the information

presented is on file in the Legislative Council office. Mr. Sprynczynatyk said a maintenance and engineering services comprehensive plan was developed to provide a safe and reliable transportation system. He said the plan also calls for a total of 200 additional miles to Highway 2 by 2008. He said the department conducted an analysis and determined it was more cost-effective to hire additional staff to complete the work than to outsource the work to the private sector. He said the Emergency Hiring Council approved the department's request for four new FTE positions in January 2006. He said the four positions will be equipment operators in the Tioga section of the Williston district. He said two of the four positions have been filled and two have been offered to candidates and are expected to be filled by July 15, 2006.

Mr. Sprynczynatyk said the passage of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) provided a 30 percent increase in funding over the Transportation Equity Act for the 21st Century (TEA-21) and also requires greater staff coordination, planning, monitoring, and consultation efforts with the Federal Highway Administration and others. He said the department conducted an analysis and determined it was more cost-effective to hire additional staff to meet the requirements than to outsource the work to the private sector. He said the Emergency Hiring Council approved the department's request for three new FTE positions in March 2006. He said one engineering position has been filled. He said the department expects to fill another engineering position and a planning position by July 15, 2006.

In response to a question from Senator Bowman, Mr. Sprynczynatyk said the Department of Transportation has seen a 20 percent increase in construction costs which resulted in the department delaying \$25 million of 2006 projects until 2007. He said approximately \$100 million in 2007 projects will be delayed until 2008. He said part of the Highway 12 project was delayed because bids were 40 percent over engineering estimates.

After the June 14, 2006, meeting of the Budget Section, the Department of Transportation provided information to the legislative budget analyst and auditor regarding the cost-effectiveness of hiring additional FTE positions in lieu of entering into contracts. A copy of the information is on file in the Legislative Council office.

## **JOB SERVICE NORTH DAKOTA**

Mr. Larry Anderson, Project Sponsor, Job Service North Dakota, presented information regarding the status of the agency's unemployment insurance computer system modernization procurement planning. A copy of the information presented is on file in the Legislative Council office. Mr. Anderson said prior to releasing a request for proposal (RFP) for the system's development, Job Service conducted a review of the project for the purpose of making a

decision regarding the project direction. He said the following options were considered in the review:

- Release an RFP for the entire system.
- Release an RFP for the benefits system with the tax system as an optional bid. If no tax system is selected, an additional RFP would be issued at a later date.
- Maintain, enhance, and upgrade the current system.
- Delay the project until there are more systems available in the marketplace.

Mr. Anderson said as a result of the review, both the project's core team and the executive steering committee determined the appropriate direction for the project would be to maintain, enhance, and upgrade the current system. He said the decision was recommended to the Governor's office and Mr. Bill Goetz, Chief of Staff, Governor's office, concurred with the decision.

Mr. Anderson said the available balance from the 2005 Senate Bill No. 2016 Reed Act appropriation of \$525,000 is \$212,193.25. He said expenditures from the appropriation have been used for development of the business and system requirements, including system use cases. He said these requirements will be used as the basis for all future modernization efforts. He said the agency will use the remaining appropriations from the Reed Act to create the transition plan and fund the employer registration system. He said the estimated cost for the transition plan is \$82,000 and the employer registration enhancement will cost approximately \$162,000. He said Job Service intends to provide the 60th Legislative Assembly with a transition plan as to how to proceed with the modernization effort and to request Reed Act funding to conduct the 2007-09 biennium projects.

## DEPARTMENT OF HUMAN SERVICES

### Medicaid Management Information System

Ms. Maggie Anderson, Director, Medical Services, Department of Human Services, presented information regarding the status of the MMIS computer system project. A copy of the information presented is on file in the Legislative Council office. Ms. Anderson said the department submitted the proposed MMIS contract with Affiliated Computer Services, Inc., (ACS) Government Healthcare Solutions to the Centers for Medicare and Medicaid Services (CMS) for approval. She said the department expects to sign a contract within the next several weeks to begin Phase 1 of the project. She said the department has requested competitive bids for an independent analysis of the options identified at the March 8, 2006, Budget Section meeting and anticipates selecting a vendor by the end of June 2006. She said the project team plans to explore joint development with nearby states and had drafted a request for information to solicit interest in outsourcing the billing and payment components. She said the Information Technology Department will assist with

the development of the new MMIS project and has been engaged in preliminary work for the project.

In response to a question from Senator Kilzer, Ms. Anderson said the department is one to two weeks behind in payment for claims submitted electronically and 30 to 45 days behind in paying paper claims. She said specialty claims, such as those for surgical procedures, are reviewed manually because the system does not have the capability.

In response to a question from Representative Svedjan related to processing payments prior to the reduction in the federal medical assistance percentage, Ms. Anderson said the department monitors the number of claims in suspense to ensure the number remains low. She said particular attention is paid to claims with high dollar amounts.

Representative Berg said the Department of Human Services needs to move more quickly and a legitimate analysis needs to be done of all the options identified by the Budget Section.

## POWERS AND DUTIES OF BUDGET SECTION

The legislative budget analyst and auditor presented a bill draft [\[70012.0100\]](#) that would eliminate reference to the Budget Section in eight sections of the North Dakota Century Code and a memorandum entitled [Summary of the Bill Draft Relating to the Duties and Responsibilities of the Budget Section](#). The legislative budget analyst and auditor reviewed each section that would be amended in the bill draft.

**It was moved by Representative Wald, seconded by Senator Mathern, and carried on a voice vote that the bill draft relating to the duties and responsibilities of the Budget Section be amended to remove the section related to the State Board of Agricultural Research and Education.**

## CORRESPONDENCE FROM ETHANOL PLANTS

The legislative budget analyst and auditor distributed correspondence received, pursuant to North Dakota Century Code Section 4-14.1-07.1, from a North Dakota ethanol plant receiving production incentives from the state. The correspondence relates to the Archer Daniels Midland Company plant in Walhalla and indicates the plant produced a profit for the year ending December 31, 2005, after deducting the payments received from the North Dakota ethanol production incentive program. A copy of the correspondence is on file in the Legislative Council office.

## BUDGET TOUR REPORTS

The following reports on budget tours conducted by the Budget Committee on Higher Education were distributed to the committee:

- Tuesday, March 14, 2006 - State College of Science.
- Wednesday, March 15, 2006 - North Dakota State University.
- Thursday, April 13, 2006 - Valley City State University.
- Wednesday, May 10, 2006 - Minot State University.
- Wednesday, May 10, 2006 - Minot State University - Bottineau.
- Thursday, May 11, 2006 - Lake Region State College.

The following reports on budget tours conducted by the Budget Committee on Human Services were distributed to the committee:

- Wednesday, May 31, 2006 - South Central Human Service Center, Jamestown.
- Wednesday, May 31, 2006 - State Hospital, Jamestown.
- Wednesday, May 31, 2006 - Veterans Home, Lisbon.
- Thursday, June 1, 2006 - Northeast Human Service Center, Grand Forks.

- Thursday, June 1, 2006 - Developmental Center, Grafton.

### **COMMITTEE DISCUSSION AND STAFF DIRECTIVES**

Chairman Svedjan said the next Budget Section meeting is planned for October 4, 2006.

The committee adjourned subject to the call of the chair at 3:40 p.m.

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Becky Keller  
Fiscal Analyst

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Jim W. Smith  
Legislative Budget Analyst and Auditor

[ATTACH:2](#)