

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

BUDGET AND FINANCE COMMITTEE

Thursday, February 14, 2008
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Al Carlson, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Al Carlson, Ole Aarsvold, Jeff Delzer, Bob Skarphol, Clark Williams; Senators Tony Grindberg, David O'Connell, Larry J. Robinson

Members absent: Representatives Rick Berg, Merle Boucher, Bob Martinson, Ken Svedjan; Senators Randel Christmann, Ray Holmberg, Elroy N. Lindaas, Bob Stenehjelm

Others present: Jim W. Smith, Director, Legislative Council

See attached [appendix](#) for additional persons present.

It was moved by Senator Grindberg, seconded by Senator O'Connell, and carried on a voice vote that the minutes of the previous meeting be approved as distributed.

GENERAL FUND STATUS REPORT

Ms. Pam Sharp, Director, Office of Management and Budget (OMB), presented information on the status of the general fund and major revenue variances to date. Ms. Sharp said the June 30, 2009, general fund balance is currently estimated to be \$189.4 million, which is \$170.7 million more than the estimated June 30, 2009, general fund balance made at the end of the 2007 legislative session of \$18.7 million.

Ms. Sharp said through January 2008, \$51.6 million of oil tax revenues has been deposited in the permanent oil tax trust fund in addition to the \$71 million already deposited in the general fund from oil tax revenues. She said the current price of oil is approximately \$83 per barrel and oil production in the state is currently 129,000 barrels per day.

Ms. Sharp said general fund revenues for the 2007-09 biennium through January 2008 are \$93.6 million or 13.1 percent more than estimated.

Ms. Sharp provided a schedule showing oil and gas tax and mineral royalty allocations to cities and counties for fiscal years 2006 and 2007. She said these revenue allocations to cities and counties totaled \$33.2 million for fiscal year 2006 and \$35.5 million for fiscal year 2007.

Ms. Sharp said for fiscal year 2008 through December 2007 oil and gas tax and mineral royalty allocations to cities and counties have totaled \$26.4 million. A copy of the report is on file in the Legislative Council office.

Representative Delzer asked for information on the impact of oil activity on sales tax collections. Ms. Kathryn Strombeck, Research Analyst, Tax Department, provided the third quarter 2007 *North Dakota Sales and Use Tax Statistical Report*. She said taxable sales and purchases from mining and oil extraction activities during the third quarter of 2007 totaled \$113.4 million which is \$58.4 million or 106.1 percent more than taxable sales and purchases relating to this activity during the third quarter of 2006. A copy of the report is on file in the Legislative Council office.

In response to a question from Representative Skarphol, Ms. Sharp said she will provide the committee with information on oil and gas tax and mineral royalty allocations to Dunn and Mountrail Counties by month for the current fiscal year.

Chairman Carlson said the committee will review preliminary estimates of total general fund revenues for the remainder of this biennium and receive information on projected end-of-biennium balances of major state funds at future meetings.

OTHER BUDGET INFORMATION

Ms. Sharp presented information on the North Dakota University System's 2005-07 biennium unspent appropriation authority. She said the unspent authority of approximately \$224,000 related to funding not needed for making University System bond payments during the 2005-07 biennium.

REVENUE FORECASTING PROCESS

Ms. Sharp presented the timeline of activities involved in the preparation of the July 2008 preliminary revenue forecast as follows:

- May 2008 - Tax Department sends historical data to Economy.com.
- May or June 2008 - Receive tax base forecast from Economy.com.
- June 2008 - Discussions with Economy.com as necessary.
- June 2008 - Advisory Council on Revenue Forecasting meets to review Economy.com assumptions and provide feedback on North Dakota industries and economy.
- June/July 2008 - Development of revenue forecast based on tax-based forecast from Economy.com and input from the Advisory Council on Revenue Forecasting.

- July 2008 - Finalize preliminary revenue forecast.

A copy of the report is on file in the Legislative Council office.

OTHER BUDGET INFORMATION

The Legislative Council staff distributed a *North Dakota State Data Center Population Bulletin* providing information on federal government expenditures to North Dakota in federal fiscal year 2005. The bulletin indicates that North Dakota received \$6.6 billion in funds from the federal government in federal fiscal year 2005. A copy of the bulletin is on file in the Legislative Council office.

The Legislative Council staff presented a memorandum entitled [Budget Stabilization Fund Transfers - Actual and Projected](#). The memorandum provides information on budget stabilization fund transfers during the 2003-05 and 2005-07 bienniums and potential transfers at the end of the 2007-09 biennium.

The Legislative Council staff said House Bill No. 1429 (2007) increases, effective July 1, 2009, the maximum balance allowed in the budget stabilization fund from 5 percent to 10 percent of the general fund budget approved by the most recent session of the Legislative Assembly. Pursuant to North Dakota Century Code (NDCC) Section 54-27.2-02, the budget stabilization fund transfer occurs at the end of the biennium after cancellation of unexpended appropriations under Section 54-44.1-11. Section 54-44.1-11 states that appropriations cancel 30 days after the close of each biennial period. The close of the 2007-09 biennium is June 30, 2009; therefore, 30 days later is July 30, 2009. Because Section 2 of House Bill No. 1429 becomes effective on July 1, 2009, the provisions of the bill will affect the budget stabilization fund transfers occurring at the end of the 2007-09 biennium.

Ms. Roxanne Woeste, Assistant Legislative Budget Analyst and Auditor, presented a memorandum entitled [Budget and Fiscal Trends - Additional Information](#). The memorandum provides budget-related information on higher education, Department of Human Services, and total full-time equivalent positions. She said the average biennial total general fund and tuition and fee revenue increase for higher education for the 1997-99 through 2005-07 bienniums is 13.8 percent. She said the budgeted number of North Dakota residents on Medicaid in nursing facilities has declined by an average of 1.6 percent each biennium since 1997-99.

Ms. Woeste said the number of anticipated North Dakota residents accessing home and community-based care under the Department of Human Services programs has increased by an average of 11.7 percent per biennium over the last 10 years; however, for the 2007-09 biennium, she said, the number of clients is anticipated to decline by 1.2 percent.

Representative Skarphol asked the Legislative Council staff, to the extent available, to provide

information on national trends relating to the number of nursing and home and community-based care clients and related spending.

Representative Delzer asked the Legislative Council staff to provide information comparing budget amounts to actual expenditures for nursing home and home and community-based care programs of the Department of Human Services for recent bienniums.

Ms. Woeste presented a memorandum entitled [Common Schools Trust Fund - Related Constitutional and Statutory Provisions - Assets and Distributions](#). The memorandum summarizes selected constitutional and statutory provisions relating to money deposited in and distributions from the common schools trust fund and the investment of money in the common schools trust fund; actual and projected assets, distributions, and investment returns of the common schools trust fund; and information regarding the state tuition fund.

Ms. Woeste said the balance in the common schools trust fund, excluding land and mineral values, on July 1, 2007, totaled \$884.7 million. She said it is anticipated that \$76.2 million will be distributed from the tuition trust fund for state aid to schools during the 2007-09 biennium. Of this amount, \$66.8 million is from transfers from the common schools trust fund and \$9.4 million from fines for violation of state laws.

In response to a question from Representative Delzer, Ms. Woeste said the Legislative Council staff will provide information on whether all collections from fines are deposited in the common schools trust fund.

In response to a question from Senator O'Connell, Ms. Woeste said the Legislative Council staff will provide information on amounts collected from fines and deposited in the tuition trust fund by county.

Ms. Becky Keller, Fiscal Analyst, Legislative Council, presented a memorandum entitled [Department of Corrections and Rehabilitation](#). The memorandum provides information relating to male and female inmate population trends through 2017, general fund appropriation trends through 2017, major areas of general fund appropriation increases for the 2007-09 biennium, and the number of inmates incarcerated for drug offenses.

Ms. Keller said based on historic inmate trends, in the year 2017 North Dakota can anticipate 1,741 male and 310 female inmates.

Regarding general fund appropriation projections based on historic appropriation trends, Ms. Keller said the Department of Corrections and Rehabilitation budget is estimated to total \$188 million in the 2015-17 biennium.

Ms. Keller said that based on Department of Corrections and Rehabilitation information as of November 13, 2007, of the 1,439 total number of inmates, 505 are in the prison system for a drug offense. Of this number, she said, 70 are female and 435 are male.

In response to a question from Senator Robinson, Ms. Keller said the Legislative Council staff would provide information on the historic percentage of inmates in the prison system for a drug offense.

Representative Skarphol suggested the department compile more information on offenders, including past and current criminal charges.

The Legislative Council staff presented a memorandum entitled Consumer Price Index. The memorandum provides information on the methodology used to prepare and information included in the consumer price index (CPI). The Legislative Council staff said the CPI is calculated by the United States Department of Labor Bureau of Labor Statistics. The index is the measure of the average change over time and prices paid by consumers for goods and services in 87 urban areas in the United States. It is based on the expenditures of residents of urban and metropolitan areas. It does not include the spending of persons living in rural nonmetropolitan areas or farm families. According to representatives of the North Dakota State Data Center in Fargo, there is no organization that calculates inflation or consumer price increases specific for North Dakota. The Bureau of Labor Statistics, as part of the CPI, does publish an index for nonmetropolitan urban areas with populations of less than 50,000 for the Midwest region which includes North Dakota. This index would be the nearest representative index for North Dakota. However, in discussions with representatives of the Bureau of Labor Statistics, none of the data used to calculate any of the indexes is collected from North Dakota.

The Legislative Council staff presented a memorandum entitled State Aid to Political Subdivisions - Other Political Subdivision Revenue. The Legislative Council staff said the memorandum provides information on state assistance to political subdivisions and revenue sources of schools, cities, counties, and other political subdivisions.

The Legislative Council staff said the statewide average number of mills levied in 2005 for property taxes payable in 2006 was 401.66. Each mill generates approximately \$1.7 million statewide. State assistance to political subdivisions for the 2005-07 biennium totaled \$1.1 billion or \$550 million per year. In terms of mills, this assistance was equivalent to levying 323.5 mills statewide in 2006.

The Legislative Council staff presented the following schedule listing the revenue sources for North Dakota schools for the 2005-06 school year as reported by the Department of Public Instruction:

Local sources		
Taxes	\$329,756,271	43.8%
Tuition	27,739,816	
Transportation	401,829	
In lieu of taxes	1,216,023	
Other	18,629,531	
Total local sources	\$377,743,470	
Sources received through counties		
Oil and gas	\$8,602,450	1.5%
Coal production	2,447,780	
Coal conversion	1,191,765	
Other	1,117,542	
Total sources received through counties	\$13,359,537	

State sources		
Tuition apportionment	\$35,503,747	39.7%
Pupil aid	234,583,328	
Transportation	16,213,012	
Teacher compensation	24,551,020	
Vocational education	3,678,285	
Special education	21,734,607	
Other	5,919,236	
Total state sources	\$342,183,235	
Federal sources	\$120,778,330	14.0%
Other sources	8,680,504	1.0%
Total - All sources	\$862,745,076	100%

The Legislative Council staff presented the following schedule providing the total 2006 property taxes payable for cities, counties, townships, and miscellaneous districts as reported by the Tax Department:

Cities	\$173,172,195
Counties	158,899,366
Townships	12,038,404
Miscellaneous districts	15,179,509
Total property taxes	\$359,289,474
Total state aid to cities, counties, townships, and miscellaneous districts	\$192,700,000 ¹
Total state aid as a percentage of total property taxes	53.6%

¹This amount is 50 percent of the 2005-07 biennium appropriations and allocations for direct assistance to political subdivisions, excluding schools.

The Legislative Council staff presented the following schedule based on information provided by the North Dakota Association of Counties identifying major county revenue sources for calendar year 2004:

	Statewide	Percentage
Taxes	\$131,775,070	43%
Licenses and permits	1,905,025	1%
State aid distribution fund	17,866,652	6%
State highway tax distribution fund	31,657,494	10%
Other state and federal sources	70,849,563	23%
Charges for services	31,543,417	10%
Miscellaneous	17,984,405	7%
Total	\$303,581,626	100%

The Legislative Council staff presented the following schedule based on information provided by the North Dakota League of Cities identifying the combined major revenue sources for the cities of Bismarck, Dickinson, Fargo, Grand Forks, Jamestown, and Minot for calendar year 2006:

	Select Cities	Percentage
Property taxes	\$39,237,706	30%
State sources	15,369,224	12%
Fees/fines/licenses	34,018,604	26%
City sales tax/transfers	20,298,648	15%
Other	22,569,909	17%
Total	\$131,494,091	100%

Representative Aarsvold commented that although the information presented indicates that approximately 44 percent of school funding is provided at the local level, there is a wide variation among school districts

in the percentage of school-related revenues generated at the local level.

Representative Skarphol suggested the committee receive information from the Department of Public Instruction at its next meeting on school-related costs of federal mandates compared to the federal funding provided to North Dakota schools.

The Legislative Council staff presented a memorandum entitled [Oil and Gas Gross Production Tax Allocations to Political Subdivisions - 2005-07 and 2007-09 Biennium Projections](#). The Legislative Council staff presented the following schedule comparing oil and gas gross production tax allocations to political subdivisions for the 2007-09 biennium to the 2005-07 biennium:

	2005-07	2007-09	Increase (Decrease)	Percentage Change
February 2007 legislative forecast	\$55,785,763	\$45,717,861	(\$10,067,902)	(18.0%)
2007 legislative action	0	7,900,000	7,900,000	N/A
Final legislative estimate	\$55,785,763	\$53,617,861	(\$2,167,902)	(3.9%)

The Legislative Council staff said the primary reason for the anticipated 2007-09 biennium reduction in these allocations is due to an anticipated decline in oil prices during the 2007-09 biennium. Oil prices were forecasted to average \$40.68 per barrel for the 2007-09 biennium compared to \$56.34 per barrel for the 2005-07 biennium. The Legislative Council staff said if oil prices exceed projections during the 2007-09 biennium by an average of \$20 per barrel, political subdivisions' oil and gas gross production tax allocations could total approximately \$66 million for the 2007-09 biennium, an increase of \$10.2 million compared to the 2005-07 estimate of \$55.8 million and \$12.4 million more than the 2007-09 final legislative estimate of \$53.6 million.

Representative Skarphol asked the Legislative Council staff to project the total amount of oil and gas gross production tax allocations to political subdivisions based on current prices and a range of oil production in North Dakota based on recent trends.

Representative Delzer suggested the committee review oil and gas gross production tax allocations to specific counties since there is a wide variation in the amount of oil and gas gross production tax collections allocated to the various counties.

Mr. Joe Morrisette, Budget Analyst, Office of Management and Budget, provided information on cost to continue budget request items; definitions of extraordinary repairs, capital projects, and deferred maintenance; and how expenditures for extraordinary repairs are compared to budgeted amounts.

Mr. Morrisette said cost to continue items can refer to either adjustments made by OMB to determine an agency's base budget limit, or to certain types of entries made by an agency to input its budget into the budget analysis and reporting system. He said OMB analyzes each agency's current appropriation and makes adjustments based on one-time funding, cost to continue current salary levels, and other adjustments to arrive at the agency's base budget limit. He said certain agencies, such as the Department of Human Services and the Department of Corrections and Rehabilitation, are allowed an adjustment to their base budget limit due to changing caseloads, clients, or number of inmates.

Mr. Morrisette said that none of the base budget adjustments allowed by OMB involve inflationary

increases or increases in anticipation of increased rates for facilities, utilities, Fleet Services, or information technology.

Mr. Morrisette said agencies enter cost to continue budget change items in their budget request to reflect current salaries, the removal of all capital assets funding, and other adjustments approved by OMB. He said these changes are summarized in the budget changes report. In addition, he said, narrative information is submitted by agencies to explain their cost to continue adjustments.

Mr. Morrisette said for budget request purposes, the definition of a capital project is one that involves significant funding amounts. He said a significant funding amount is defined as:

- More than 2 percent of the agency's total building value;
- More than \$500,000; or
- More than 50 percent of the capital assets line item requested.

Mr. Morrisette said extraordinary repairs are defined as relatively large expenditures that benefit more than one operating cycle or period. If a repair will benefit several periods or extends the useful life of the asset, he said, then the funding should be budgeted as an extraordinary repair within the capital assets line item. He said extraordinary repairs include all repairs to buildings and infrastructure involving dollar amounts in excess of \$5,000 that are nonrecurring in nature and increase the value or service life of the asset.

Mr. Morrisette said the term deferred maintenance is not defined in the budget request guidelines. He said it is the maintenance and repairs that have been deferred or postponed, typically due to budget constraints. He said the 2007-09 executive budget included a one-time investment to address deferred maintenance items at various state agencies and institutions. He said these amounts were included as part of extraordinary repairs.

Regarding comparing actual expenditures for extraordinary repairs to budgeted amounts, Mr. Morrisette said budget documents contain a comparison in total between the current and upcoming biennium appropriations for extraordinary repairs. He said for the upcoming biennium only, potential extraordinary repair projects are listed for each

agency; however, appropriations for extraordinary repairs are considered a pool to be managed by each agency to address both planned and emergency repairs as they arise. For this reason, he said, it is likely that budgeted repair projects and actual projects completed during a biennium will vary. Therefore, he said, OMB does not compare actual expenditures for specific extraordinary repair projects to budgeted amounts. A copy of the report is on file in the Legislative Council office.

Representative Carlson suggested OMB more clearly identify costs and explanations of specific cost to continue items in budget documents.

Representative Skarphol suggested OMB provide more specific information on actual expenditures for extraordinary repairs by project.

Senator Robinson suggested the extraordinary repair formula used by OMB be reviewed to determine if it is accurate for identifying funding needed to maintain facilities.

Representative Carlson asked how OMB determines the amount recommended for addressing deferred maintenance at state facilities. Ms. Sharp said OMB considers the extraordinary repairs formula amount, agency requests, and how much funding is available.

Representative Carlson suggested OMB develop a long-range funding plan for extraordinary repairs and deferred maintenance needs.

Based on the committee's discussion of extraordinary repairs and deferred maintenance, the Legislative Council staff suggested preparing a report for the committee providing information for the 2007-09 biennium on extraordinary repairs being made by agencies compared to the projects approved by the 2007 Legislative Assembly and anticipated deferred maintenance and extraordinary repair requests for the 2009-11 biennium. Chairman Carlson asked the Legislative Council staff to prepare this information for the committee at a future meeting.

Representative Skarphol asked the OMB to provide information to the committee at its next meeting identifying the anticipated agency extraordinary repairs funding requests for the 2011-13 biennium if the 2009 Legislative Assembly would provide funding to address all deferred maintenance during the 2009-11 biennium.

Representative Skarphol asked OMB to provide information to the committee at its next meeting on the extent to which maintenance and upkeep of foundation-owned buildings are considered or included in funding formulas or state agency budgets.

Representative Delzer suggested the long-range plan for maintenance and repairs of state facilities should be determined by the Legislative Assembly.

In response to a question from Representative Aarsvold, Ms. Sharp said the OMB budget staff works with the state facility planner to determine maintenance needs and funding recommended for facility maintenance and repairs.

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

STATE REVENUES AND REVENUE FORECASTING

Mr. Lynn Helms, Director, Department of Mineral Resources, provided information on oil production and prices, North Dakota oil pipeline capacity, and the division's role in preparing the state's revenue forecast. Mr. Helms said of North Dakota's 16 major oil-producing counties, Dunn and Mountrail Counties have had significant increases in oil production within the last year. He said in 2007, 128 producing wells were added in the Bakken Formation in western North Dakota.

In response to a question from Representative Delzer, Mr. Helms said Bowman County, which is producing approximately 55,000 barrels of oil per day, will reach its maximum amount of oil and gas production tax allocations in February 2008.

Mr. Helms said significant oil activity is occurring in the state because the price per barrel of oil exceeds \$80 per barrel. He said if oil prices drop below \$60 per barrel, North Dakota would most likely experience a significant reduction in oil exploration.

Regarding oil pipeline capacity, Mr. Helms said until the year 2010, oil pipeline capacity in North Dakota will vary and oil discounts will occur periodically. He said in 2010, based on current plans of companies to increase their pipeline capacity, North Dakota should have adequate pipeline capacity, but it will depend on total North Dakota oil production at that time.

Mr. Helms said since December 2005 oil discounts have resulted in the loss of an estimated \$19.1 million of oil-related tax revenue. He said oil discounts in Bowman County are approximately 1.5 times the statewide average discount.

Representative Skarphol said the Canadian province of Alberta plans to increase its oil production in future years which will also impact North Dakota oil pipeline capacity.

Mr. Helms presented a graph projecting North Dakota oil production and prices. He said depending on the price of oil and oil reserves available in the state, it is possible that total oil production in the state could exceed 175,000 barrels per day in the next few years. He said if this occurs, additional electricity would be required to provide the power necessary for this level of production.

In response to a question from Representative Carlson regarding discussions of a new or expanded oil refinery in the state, Mr. Helms said if a new or expanded refinery is built, a pipeline would be needed to transport the refined product, most likely to Rapid City, South Dakota, and then to Omaha, Nebraska. He said a new refinery would take at least 10 years to build.

In response to a question from Representative Williams, Mr. Helms said a new pipeline would take five or more years to complete; however, if the state was involved, the time to complete either a pipeline or a new oil refinery would be reduced.

Representative Skarphol suggested that other options exist for using crude oil to produce valuable products other than gasoline.

Mr. Helms commented on the Oil and Gas Division's role in OMB's revenue forecasting process. Mr. Helms said the division compiles production data and projections for future volumes. He said the division also compiles price forecasts used in operator economics, researches price forecasts, and provides information and opinions at OMB's Revenue Advisory Committee meetings. A copy of the report is on file in the Legislative Council office.

Ms. Strombeck said that oil tax allocations to Dunn County for January and February 2008 were \$414,714 and distributions to Mountrail County for the same months were \$639,427.

Ms. Strombeck commented on the Tax Department's role in the state's revenue projection process. Ms. Strombeck said activities of the Tax Department include:

- Work with OMB and Economy.com to determine a current United States macro forecast outlook.
- Supply updated historical tax statistics to Economy.com, including taxable sales and purchases by industry sector, including:
 - Taxable sales of automobiles.
 - Adjusted gross income reported by farmers.
 - Adjusted gross income reported by others.
 - Corporation's North Dakota share of taxable income.
 - Statewide oil production.
 - Tesoro-posted fuel price.
 - Wholesale liquor gallons by type.
- Prepare graphs and charts of forecasted tax bases for review by OMB's Revenue Advisory Committee.
- Meet with OMB's Revenue Advisory Committee.
- Input tax base information into in-house cashflow models, which use existing tax law rates and distributions to forecast state general fund revenue collections by month.

A copy of the report is on file in the Legislative Council office.

AGENCY BUDGET INFORMATION

Ms. Catherine A. Forsch, Director of Operations, Tax Department, commented on the status of the new integrated tax processing system. She said the integrated tax processing system was approved by the 2005 Legislative Assembly. She said the department was authorized \$14 million for the project during the 2005-07 biennium. She said the 2007 Legislative Assembly approved using savings from the project for the following one-time funding items:

- Support and maintenance of the system during the 2007-09 biennium - \$1.7 million.
- Administration of the homestead and income tax property tax credit - \$1.1 million.

Ms. Forsch said the department anticipates the funding approved by the 2007 Legislative Assembly to be adequate for the purposes provided.

Ms. Donnita Wald, Tax Department, commented on implementation of provisions of 2007 Senate Bill No. 2032 relating to the homestead property tax credit and property tax income tax credits. She said the department has provided educational materials, including brochures and information on the department's web site to assist taxpayers in claiming the credits. She said the department has also provided education to tax preparers and counties. She said the department has developed the ND-3 tax form to be used by individuals who do not pay income tax to claim the property tax income tax credit. For these individuals, she said, a certificate is provided that may be redeemed at the resident's county. The counties have three options:

1. Provide a credit on the property tax payment for the resident.
2. Provide cash equivalent to the amount of the credit.
3. Provide cash equivalent to the amount of the credit when reimbursed by the state.

Ms. Wald said as of February 8, 2008, of the 6,479 taxpayers who have filed their income taxes, the average property tax income tax credit has been \$162 and total claims have been almost \$1 million. She said only five taxpayers have claimed more than the maximum credit of \$1,000.

Mr. David C. Skalsky, Assistant Director, State Historical Society, presented information regarding the status of the society's 2007-09 biennium budget, one-time funding items, fundraising efforts of the Heritage Center expansion project, and deferred maintenance. Mr. Skalsky said through December 2007 the State Historical Society has spent \$4.3 million or 23 percent of its total appropriation of \$18.8 million.

Mr. Skalsky said one-time funding items for the 2007-09 biennium include:

- Capital projects - \$4.8 million.
- Lincoln Bicentennial - \$50,000.
- Marketing - \$75,000.
- Snow angel marketing - \$10,000.
- Medal of Honor memorial - \$30,000.
- Chateau de Mores - \$45,000.

Mr. Skalsky presented a schedule on the status of capital asset expenditures. He said total expenditures through December 2007 have totaled \$70,000. He said the majority of expenditures will occur during the summer of 2008.

Regarding federal funding changes, Mr. Skalsky said the only significant change in federal funding during the current biennium is the loss of a \$250,000 Save America's Treasures grant previously awarded for the restoration and preservation of the hospital building at the Fort Totten State Historic Site.

Regarding potential budgetary changes for the 2009-11 biennium, Mr. Skalsky said with the acquisition of the Cold War State Historic Site during this biennium, the society anticipates the need for an

additional \$280,000 per biennium for operating the site.

Regarding fundraising for the Heritage Center expansion project, Mr. Skalsky said that as of January 31, 2008, the foundation has \$1.9 million in written pledges and an additional \$700,000 in verbal commitments for a total of approximately \$2.6 million. He said while progress has been made in raising funds for the project, full fundraising potential will not be realized until the Legislative Assembly officially authorizes the project and provides state funding. He said many donors have made their pledges contingent on legislative authorization of the project and related state funding. A copy of the report is on file in the Legislative Council office.

Mr. Francis Ziegler, Director, Department of Transportation, presented information regarding the status of the department's 2007-09 biennium budget, the status of federal funds compared to amounts anticipated by the 2007 Legislative Assembly, and deferred maintenance issues on North Dakota roads and bridges and Department of Transportation facilities.

Mr. Ziegler said actual federal highway construction funds for the 2007 construction season totaled \$240 million, \$19 million more than the \$221 million the state anticipated receiving. Although the department originally anticipated receiving \$224 million for the 2008 construction season, he said, the latest information the department received from the Federal Highway Administration indicates North Dakota will again receive federal funding beyond original estimates.

Mr. Ziegler expressed concern regarding the impact of inflation on the department's budget. He said because of major price increases in oil-based materials, steel, concrete, equipment, and building materials, North Dakota's overall construction index increased by 45 percent from 2001 to 2007. He said unless the price of crude oil declines, the department

anticipates a continuing increase in the cost of construction.

Mr. Ziegler commented on the federal Real ID Act. He said Real ID is a nationwide effort intended to prevent terrorism, reduce fraud, and improve the reliability of identification documents issued by state governments. He said the state requested and was approved for an extension of time for compliance with the requirements of the Real ID Act through December 31, 2009. By then, he said, the state must upgrade the security of its license systems to include a check for legal presence of all applicants and to ensure that illegal aliens cannot obtain a Real ID license. He said if the state, by December 31, 2009, can demonstrate it is making progress with compliance, the state can apply for an extension through May 11, 2011.

Regarding anticipated budget changes for the 2009-11 biennium, Mr. Ziegler said the department is in the early planning stages of developing its budget request. He said the department does again anticipate requesting funding to rewrite its driver's license system. He anticipates the cost of this project to be between \$8 million and \$10 million. A copy of the report is on file in the Legislative Council office.

In response to a question from Representative Skarphol, Mr. Ziegler said although problems occurred recently relating to individuals receiving their motor vehicle registration renewal notices, the department has implemented procedures that will assure that these notices will be delivered in the future.

Chairman Carlson announced the next committee meeting will be tentatively scheduled in April 2008.

The committee adjourned at 3:30 p.m.

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:1