

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

BUDGET SECTION

Wednesday, December 8, 2010
Senate Chamber, State Capitol
Bismarck, North Dakota

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

Members present: Senators Ray Holmberg, Bill Bowman, Randel Christmann, Robert Erbele, Tom Fischer, Tony Grindberg, Ralph L. Kilzer, Karen K. Krebsbach, David O'Connell, Larry Robinson, Mac Schneider, Ryan M. Taylor, Terry M. Wanzek, Rich Wardner, John Warner; Representatives Larry Bellew, Michael D. Brandenburg, Al Carlson, Jeff Delzer, Mark A. Dosch, David Drovdal, Eliot Glassheim, Kathy Hawken, Lee Kaldor, Jerry Kelsh, Keith Kempenich, Matthew M. Klein, Gary Kreidt, Joe Kroeber, Bob Martinson, Ralph Metcalf, David Monson, Jon Nelson, Chet Pollert, Bob Skarphol, Blair Thoreson, Don Vigesaa, Alon Wieland, Clark Williams

Members absent: Senator Bob Stenehjem; Representative Stacey Dahl

Others present: See [Appendix A](#)

AGENCY REQUESTS AUTHORIZED BY THE EMERGENCY COMMISSION

Chairman Holmberg 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 (NDCC) Section 54-16-04.1. The information relating to the requests was provided to Budget Section members prior to the meeting.

It was moved by Senator Grindberg, seconded by Senator Robinson, and carried on a roll call vote that pursuant to NDCC Section 54-16-04.1 the Budget Section approve the following requests, which have been approved by the Emergency Commission:

- **Attorney General (Request #1754) - Request for \$92,000 from the state contingencies appropriation for the litigation fees line item (\$38,000) for anticipated expenditures during the remainder of the 2009-11 biennium and the operating expenses line item (\$54,000) for anticipated reimbursements to city and county governments for prosecution witness fees for the remainder of the 2009-11 biennium.**
- **Department of Transportation (Request #1755) - Request to increase spending authority by \$14,130,000 of federal funds under the American Recovery and Reinvestment Act of 2009 (ARRA). The funds will be used to construct the North**

Central Regional Economic Growth Intermodal Port Connector project in Minot.

- **Game and Fish Department (Request #1756) - Request to increase spending authority in the grants line item by \$687,000 of federal funds from the United States Fish and Wildlife Service for a portion of costs associated with the reconstruction of the Clausen Springs Dam. Total project cost is estimated to be \$2,077,554 with the remaining funds provided by the State Water Commission, Barnes County Water Resource District, and Red River Joint Water Resource District.**
- **Adjutant General (Request #1757) - Request to increase special funds spending authority by \$3 million of federal funds from the Federal Emergency Management Agency (FEMA), for the operating expenses line item (\$3 million) for monitoring and inspection of damaged sites relating to three presidentially declared disasters in 2010-- the January winter storm, spring flooding, and the April ice storm.**
- **Adjutant General (Request #1758) - Request to increase special funds spending authority by \$8,343,750 of federal funds from FEMA pursuant to natural disaster emergency provisions within Sections 54-16-09 and 54-16-04.2 for the grants line item (\$8,343,750) for expenditures related to the 2010 spring flooding.**
- **Secretary of State (Request #1762) - Request to increase special funds spending authority by \$149,129 from the agency's general services operating fund for the salaries and wages line item (\$82,629) and the operating expenses line item (\$66,500) for staff overtime related to the development of the agency's software project and increased demand for agency services.**
- **Office of Management and Budget (Request #1764) - Request to increase spending authority by \$120,000 of federal funds from the Department of Commerce received under the ARRA energy efficiency grant program. The funds will be used to replace lamps and ballasts in the judicial wing of the Capitol.**

Senators Holmberg, Bowman, Christmann, Erbele, Fischer, Grindberg, Kilzer, Krebsbach, O'Connell, Robinson, Schneider, Taylor, Wanzek, Wardner, and Warner and Representatives Bellew, Brandenburg, Delzer, Dosch, Drovdal, Hawken, Kaldor, Kempenich, Kreidt, Martinson, Metcalf, Monson, Nelson, Pollert, Skarphol, Vigesaa, Wieland, and Williams voted "aye." No negative votes were cast.

Regarding Emergency Commission Request #1766, Ms. Sheila Peterson, Director of Fiscal Management, Office of Management and Budget, informed the Budget Section that an increase in the crime rate in Williston has affected campus security. She said emergency funding is requested to better protect the campus against potential crime. She explained that if the request is approved, \$508,000 of the contingency appropriation would remain available. Representative Skarphol explained his request to discuss this item separately was to raise awareness of the potential negative effects associated with increased populations in oil-impacted areas of the state.

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

- **Williston State College (Request #1766) - Request is for \$55,000 from the 2009-11 state contingencies appropriation to contract for a part-time security presence on campus from November 2010 through June 2011. The funding will be used along with \$44,960 of internally reallocated funds from the college's budget to contract for part-time security services.**

Senators Holmberg, Bowman, Christmann, Erbele, Fischer, Grindberg, Kilzer, Krebsbach, O'Connell, Robinson, Schneider, Taylor, Wanzek, Wardner, and Warner and Representatives Bellew, Brandenburg, Delzer, Dosch, Drovdal, Glassheim, Hawken, Kaldor, Kelsh, Kempenich, Klein, Kreidt, Kroeber, Martinson, Metcalf, Monson, Nelson, Pollert, Skarphol, Thoreson, Vigesaa, Wieland, and Williams voted "aye." No negative votes were cast.

ADJUTANT GENERAL REPORTS

Chairman Holmberg called on Major General David Sprynczynatyk, Adjutant General, to provide information ([Appendix B](#)) regarding a request for Budget Section approval to spend funds from the state disaster relief fund pursuant to provisions of 2009 Senate Bill No. 2012 for the following:

- Up to \$2,005,000 to match federal disaster relief funds relating to the April 2010 ice storm. A portion of this amount will repay a Bank of North Dakota loan that was borrowed for this purpose (\$900,000).
- Up to \$1,112,500 to match federal disaster relief funds relating to 2010 spring flooding.

Major General Sprynczynatyk explained the authority to expend money from the state disaster relief fund is necessary to provide the required portion of state matching funds to obtain federal funds for the April 2010 ice storm and the 2010 spring flooding. In response to a question from Representative Delzer, he informed the Budget Section that with this spending authority, all outstanding disaster-related debt with the Bank of North Dakota would be repaid.

It was moved by Representative Kreidt, seconded by Representative Skarphol, and carried on a roll call vote that the Budget Section pursuant to 2009 Senate Bill No. 2012 approve the Adjutant General request to use state disaster relief funds to pay the state matching requirement relating to the April 2010 ice storm (\$2,005,000, including \$900,000 to repay a Bank of North Dakota loan) and the 2010 spring storm (\$1,112,500). Senators Holmberg, Bowman, Christmann, Erbele, Fischer, Grindberg, Kilzer, Krebsbach, O'Connell, Robinson, Schneider, Taylor, Wanzek, Wardner, and Warner and Representatives Bellew, Brandenburg, Delzer, Dosch, Drovdal, Glassheim, Hawken, Kaldor, Kelsh, Klein, Kreidt, Kroeber, Metcalf, Monson, Nelson, Pollert, Skarphol, Thoreson, Vigesaa, Wieland, and Williams voted "aye." No negative votes were cast.

Disaster Relief Funding

Major General Sprynczynatyk reported that of the \$43 million available in the state disaster relief fund provided by 2009 Senate Bill No. 2012, expenditures as of October 2010 total \$12.95 million. He said expenditures to date include \$5.38 million for emergency snow removal grants, \$2 million for the April 2010 ice storm, \$1.5 million for the January 2010 winter storm, \$1.4 million for the 2009 flood disaster, \$2 million for the 2010 flood disaster, and \$675,952 for the state match on disasters prior to 2009. He said projected expenditures for the remainder of the 2009-11 biennium include \$4.1 million for the 2009 flood, \$2 million for disasters prior to 2009, \$1.45 million for the April 2010 ice storm, \$307,634 for the January 2010 winter snowstorm, and \$673,000 for the 2010 flood. He said the estimated June 30, 2011, balance in the state disaster relief fund is \$21.7 million.

Major General Sprynczynatyk provided a report on 2009 flood disaster relief grants that provide 50 percent of the local share. The report identifies the estimated state share by grant applicant awarded pursuant to 2009 Senate Bill No. 2012. Grant awards total \$3.16 million.

Major General Sprynczynatyk provided information on the total funding by funding source for each disaster being paid for during the 2009-11 biennium, including a map showing disaster recovery expenditure amounts by political subdivisions. He said disaster expenditures for the 2009-11 biennium through October 2010 total \$149.4 million, including

\$5.8 million from the general fund, \$7.8 million from special funds, and \$135.8 million from federal funds.

Major General Sprynczynatyk provided a comparison of 2009 flood estimates versus actual expenditures through October 2010. He said initial 2009 flood costs were estimated at \$181.2 million and through October 2010, expenditures have totaled \$117.5 million.

NORTH DAKOTA UNIVERSITY SYSTEM - CHANGE IN SCOPE OF PROJECTS

Chairman Holmberg called on representatives of the North Dakota University System to present information regarding a request for Budget Section approval of changes to the following project authorizations pursuant to NDCC Section 48-01.2-25.

Bismarck State College

Mr. Dave Clark, Executive Vice President, Bismarck State College, presented the following requests ([Appendix C](#)) for Budget Section approval of changes to the Technical Center renovation project:

- Change in the scope of the project to include corridor flooring, door and hardware replacement, and wall treatments in the Interactive Video Network rooms at an estimated cost of \$150,000, which is within current budget authority.
- Increase project authorization from \$3,409,500 to \$3,526,138 from a Department of Commerce grant (\$76,638) and matching funds (\$40,000).

Mr. Clark informed the Budget Section that the actual bid for the Technical Center renovation project was 74 percent of the estimated cost. He said Bismarck State College is requesting to use the remaining budget authority to include corridor flooring, door and hardware replacement, and wall treatments in the Interactive Video Network rooms for the renovation project. He said because these items were not in the original request, adding them to the project constitutes a change in the scope and therefore requires Budget Section approval. He also asked the Budget Section to increase the project authorization by \$116,638 to install a new paint station that would allow for the use of water-based paint for the automotive collision program located within the Technical Center. He explained the new paint station would be paid for by a Department of Commerce workforce enhancement grant (\$76,638) and matching funds from private sources (\$40,000).

In response to a question from Senator Grindberg, Mr. Clark said that a portion of the required matching funds of the workforce enhancement grant would be provided through supplies and consumables (\$36,638), which are not capitalized as part of the renovation project cost.

In response to a question from Representative Delzer, Mr. Clark said if the request is not approved, the project will most likely not meet its planned completion date of June 2011.

It was moved by Representative Glassheim, seconded by Representative Monson, and carried on a roll call vote that the Budget Section pursuant to NDCC Section 48-01.2-25 approve the Bismarck State College request for a change in the scope of the Technical Center project to include corridor flooring, door and hardware replacement, and wall treatments in the Interactive Video Network rooms at an estimated cost of \$150,000. Senators Holmberg, Bowman, Erbele, Fischer, Grindberg, Krebsbach, O'Connell, Robinson, Schneider, Taylor, Wanzek, and Wardner and Representatives Bellew, Brandenburg, Delzer, Dosch, Drovdal, Glassheim, Hawken, Kaldor, Kelsh, Kempenich, Kreidt, Kroeber, Metcalf, Monson, Nelson, Pollert, Skarphol, Vigesaa, Wieland, and Williams voted "aye." Senator Christmann and Representatives Klein and Thoreson voted "nay."

It was moved by Representative Glassheim, seconded by Representative Dosch, and carried on a roll call vote that the Budget Section pursuant to NDCC Section 48-01.2-25 approve the Bismarck State College request for an increase in project authorization from \$3,409,500 to \$3,526,138 from a Department of Commerce grant (\$76,638) and matching funds (\$40,000). Senators Holmberg, Bowman, Christmann, Erbele, Fischer, Grindberg, Krebsbach, O'Connell, Robinson, Schneider, Taylor, Wanzek, and Warner and Representatives Bellew, Dosch, Glassheim, Hawken, Kaldor, Kelsh, Kempenich, Klein, Kreidt, Kroeber, Metcalf, Nelson, Pollert, Skarphol, Vigesaa, Wieland, and Williams voted "aye." Representatives Brandenburg, Delzer, Drovdal, Monson, and Thoreson voted "nay."

University of North Dakota

Ms. Alice Brekke, Vice President for Finance and Operations, University of North Dakota (UND), Grand Forks, presented a request ([Appendix D](#)) for Budget Section approval to increase the project authorization and scope of the Northern Plains Center for Behavioral Research project to include classroom technology equipment and related infrastructure at an estimated cost increase of \$194,000 from available departmental institutional funds. She said this request is in addition to a request approved in June 2010 for additional technology items.

It was moved by Representative Glassheim, seconded by Senator Robinson, and carried on a roll call vote that the Budget Section approve the UND request to increase the project authorization and scope of the Northern Plains Center for Behavioral Research project to include classroom technology equipment and related infrastructure using \$194,000 of available departmental institutional funds. Senators Holmberg, Bowman, Erbele, Fischer, Grindberg, Krebsbach, O'Connell, Robinson, Schneider, Taylor, Wanzek, Wardner, and Warner and Representatives Bellew, Glassheim, Hawken, Kaldor, Kelsh, Kempenich, Klein, Kreidt,

Kroeber, Metcalf, Monson, Nelson, Pollert, Skarphol, and Williams voted "aye." Senator Christmann and Representatives Brandenburg, Delzer, Dosch, Drovdal, Thoreson, Vigasaa, and Wieland voted "nay."

2009-11 CENTERS OF EXCELLENCE APPLICATIONS

Chairman Holmberg called on Mr. Mark Nisbet, Chairman, Centers of Excellence Commission, Fargo, to present a centers of excellence project for consideration by the Budget Section ([Appendix E](#)). Mr. Nisbet said the Centers of Excellence Commission is requesting Budget Section approval of \$3,015,000 in total funding for the proposed centers of excellence project. He informed the Budget Section that the Emergency Commission voted unanimously to approve the proposed center of excellence.

North Dakota State University - Center for Biopharmaceutical Research and Production 2.0

Dr. Satish Chandran, Director, Center for Biopharmaceutical Research and Production, North Dakota State University, Fargo, informed the Budget Section that the Center for Biopharmaceutical Research and Production (CBRP) 2.0 is an extension of the 2008-approved CBRP center of excellence ([Appendix F](#)). He said in 2008 CBRP was established to perform market-driven research and development of vaccines that address unmet medical needs in commercially relevant areas. He said the center is currently seeking additional funds to further its initial successes, as well as complement them by developing internal capabilities in nonvaccine-related biotherapeutics. He said CBRP will work with both in-state and out-of-state biotech companies on drug development. He said CBRP efforts will focus on new and enhanced products that will advance through clinical development, with the ultimate goal of commercialization and sale in the marketplace. The center will move research from NDSU, UND, and other area institutions into businesses to create new high-tech jobs for North Dakota. He said the proposed center of excellence would bring new economic as well as academic opportunities to the state.

Dr. Dean L. Bresciani, President, North Dakota State University, Fargo, stated support for the proposed center of excellence and expressed the intent of collaboration among universities. Mr. Chuck Peterson, Dean, Pharmacy, Nursing, and Allied Sciences, North Dakota State University, Fargo, expressed support for the proposed center of excellence, stating Dr. Chandran presents great opportunity in his expertise, leadership, and talent to attain market share in the biotech field. Also on hand

for questions was Mr. David S. Bradley, Associate Professor Chair, University of North Dakota School of Medicine and Health Sciences, Grand Forks.

Mr. Kevin McKinnon, President, Greater Fargo Moorhead Economic Development Committee, Fargo, expressed his support for the proposed center of excellence and the research opportunities the center could bring in the field of biopharmaceuticals to the area.

Mr. Richard Glynn, Avianex, Fargo, expressed support for the proposed center of excellence stating investment in the center would provide the state with great benefits in years to come.

Mr. Shane C. Goettle, Commissioner, Department of Commerce, informed the Budget Section of requirements specific to this proposed center of excellence that must be met prior to disbursement of funding. He said the Department of Commerce set a specific condition that a sublicense agreement between CBRP and private partner Altravax be signed for the molecularbreeding technology for a single disease area. In addition, a third party must evaluate the value of the sublicense and determine that the value is at least \$3 million. In response to a question from Representative Delzer, Mr. Goettle said centers of excellence are generally allowed the duration of the biennium to meet requirements and are periodically evaluated to determine that planned targets are being met.

It was moved by Senator Grindberg, seconded by Representative Hawken, and carried on a roll call vote that the Budget Section pursuant to NDCC Section 15-69-02 approve the funding award recommendation for the NDSU CBRP 2.0 made by the Centers of Excellence Commission which has been recommended for approval by the Emergency Commission. Senators Holmberg, Bowman, Christmann, Erbele, Fischer, Grindberg, Krebsbach, O'Connell, Robinson, Wanzek, Wardner, and Warner and Representatives Bellew, Brandenburg, Delzer, Dosch, Drovdal, Glassheim, Hawken, Kempenich, Klein, Kreidt, Kroeber, Metcalf, Monson, Nelson, Pollert, Thoreson, Vigasaa, Wieland, and Williams voted "aye." No negative votes were cast.

The Budget Section recessed for lunch at 12:35 p.m. and reconvened at 1:00 p.m.

STATUS OF THE STATE GENERAL FUND

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

Ms. Sharp presented the following information on the status of the state general fund for the 2009-11 biennium based on revenue collections through October 2010:

Unobligated general fund balance - July 1, 2009		\$361,843,514
Add		
General fund collections through October 31, 2010	\$1,945,602,968	
Forecasted general fund revenue for the remainder of the 2009-11 biennium	1,033,035,851	
Total estimated general fund revenue for the 2009-11 biennium		\$2,978,638,819
Balance obligated for authorized carryover from the 2007-09 biennium		\$76,383,530
Estimated total available		\$3,416,865,863
Less		
2009-11 biennium general fund ongoing appropriations	(\$2,970,380,754)	
2009-11 biennium general fund one-time appropriations	(278,984,727)	
Contingent appropriation for centers of excellence (2009 SB 2018)	(5,000,000)	
Contingent appropriation for school district transportation (2009 HB 1013)	(5,000,000)	
Balance obligated for authorized carryover from the 2007-09 biennium	(76,383,530)	
Recommended supplemental appropriations	(1,868,904) ¹	
Total appropriations and estimated deficiency requests		(\$3,337,617,915)
Estimated transfer to the budget stabilization fund		(\$4,620,406) ²
Add		
Estimated unspent authority		5,000,000
Estimated general fund balance - June 30, 2011		\$79,627,542
¹ Recommended supplemental (deficiency) appropriations include:		
Disabled veterans credit	(\$461,000)	
Homestead tax credit	(1,349,000)	
Valley City State University	(58,904)	
		(\$1,868,904)
² This estimated transfer is based on the required balance in the budget stabilization fund as determined by general appropriations in the Governor's recommended 2011-13 budget.		

Ms. Sharp presented the following information on the status of the permanent oil tax trust fund for the 2009-11 biennium:

Beginning permanent oil tax trust fund balance - July 1, 2009	\$489,727,017
Add	
Revenue collections through fiscal year 2010	429,798,186
Forecasted revenues for fiscal year 2011 (based on the December 2010 executive budget forecast)	460,410,671
Total estimated funds available for the 2009-11 biennium	\$1,379,935,874
Less expenditures and transfers	
Transfer to the general fund pursuant to 2009 HB 1015	(\$140,000,000)
Transfer to the general fund for the mill levy reduction program pursuant to 2009 SB 2199	(295,000,000)
Transfer to the property tax relief sustainability fund pursuant to 2009 SB 2199	(295,000,000)
Appropriations pursuant to 2009 HB 1015, 1305, and 1394 and SB 2003 and 2020	(16,175,100)
Appropriation authority continued from previous biennium	(9,426,158)
Recommended 2009-11 supplemental transfer	(4,233,000)
Estimated permanent oil tax trust fund balance - June 30, 2011	\$620,101,616

Ms. Sharp said \$71 million in oil and gas tax revenue has been deposited in the general fund, and currently all oil and gas tax collections allocated to the state for the 2009-11 biennium are being deposited in the permanent oil tax trust fund. Through October 2010, oil tax collections totaling \$429.8 million have been transferred to the permanent oil tax trust fund. She said deposits totaled \$43.2 million in October 2010. She said if the deposits remain at this level for the remainder of the biennium, the ending balance in the permanent oil tax trust fund could be \$620.1 million.

Ms. Sharp presented information on general fund revenue collections for October 2010 and the 2009-11 biennium to date. She said general fund revenues collected biennium to date are .6 percent more than the legislative forecast. She said interest income has exceeded estimates by \$10.1 million, or 64.3 percent. She said biennium to date motor vehicle excise tax collections have also exceeded estimates by \$21.5 million, or 38.9 percent.

ESTIMATED 2009-11 BIENNIUM UNSPENT APPROPRIATION AUTHORITY

Ms. Sharp said the executive budget estimate of 2009-11 biennium unspent general fund appropriation authority of \$5 million is less than prior bienniums due in part to the Office of Management and Budget including authorization in appropriation bills to continue selected 2009-11 biennium general fund appropriations into the 2011-13 biennium. This provision was included in the appropriation bills of the Department of Human Services for federal medical assistance percentage (FMAP) funding (\$13 million),

the Department of Corrections and Rehabilitation for unspent construction authority (\$1.6 million), the Department of Commerce for unspent Great Plains Applied Energy Research Center funding which is recommended to be deposited in the centers of excellence fund (\$5 million), and the School for the Deaf for unspent Trades Building funding which is recommended to be used for health and safety code repairs (\$835,000).

IRREGULARITIES IN THE FISCAL PRACTICES OF THE STATE

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

Agency	Amount	Reason
Retirement and Investment Office	\$8,044	Temporary workload adjustments for May-October 2010 due to the death of the former executive director
Tax Department	\$1,000	Temporary workload adjustment for July-August due to the absence of Operations Division director

TOBACCO SETTLEMENT PROCEEDS

Ms. Sharp presented information on the status of tobacco settlement proceeds received by North Dakota. She said total payments received to date are \$305.4 million, and the next payment is anticipated to be received in April 2011. She said funds are deposited into two accounts as directed in the initiated measure adopted by voters in November 2008. She said the April 2010 payment totaled \$33.1 million, of which \$20.8 million was deposited in the tobacco settlement trust fund and \$12.3 million was deposited in the tobacco prevention and control trust fund. A summary of recent collections is:

	Tobacco Settlement Trust Fund (Amounts Shown In Millions)	Tobacco Prevention and Control Trust Fund (Amounts Shown In Millions)	Total (Amounts Shown In Millions)
April 2009	\$25.0	\$14.1	\$39.1
April 2010	20.8	12.3	33.1
Total	\$45.8	\$26.4	\$72.2

2011-13 EXECUTIVE BUDGET REVENUE FORECAST

Ms. Sharp presented the executive budget revenue forecast for the 2011-13 biennium; one-time revenues, including beginning balance; and proposed statutory changes affecting revenues. She said the estimated June 30, 2011, general fund balance is \$79.6 million and 2011-13 general fund revenues are estimated to total \$3.3 billion, resulting in an estimated \$3.4 billion available for the 2011-13 biennium. She said the recommended general fund appropriations for the 2011-13 biennium total \$3.3 billion, of which \$3.2 billion relates to ongoing appropriations and \$110.5 million to one-time appropriations. She said

the estimated June 30, 2013, general fund balance is \$55.7 million.

Ms. Sharp said permanent oil tax trust fund revenues for the 2009-11 biennium are estimated to total \$608.3 million based on oil prices that range from \$67 to \$75 and production assumptions that range from 315,000 barrels per day to 425,000 barrels per day through fiscal year 2013. She said the revenues, added to the estimated June 30, 2011, balance of \$620.1 million, would result in funds available in the permanent oil tax trust fund of \$1.228 billion. She said recommended appropriations and transfers total \$996 million, resulting in an estimated June 30, 2011, balance of \$232.4 million in the permanent oil tax trust fund.

Chairman Holmberg said a determination on the date for the Legislative Assembly to receive the updated revenue forecast during the legislative session will be determined by the Appropriations Committees and leadership during the first week of the 2011 legislative session.

Ms. Sharp presented information regarding statutory changes affecting revenues that are proposed in the executive budget. She said statutory changes include an individual income tax collection reduction of \$50 million, a change to the maximum amount deposited in the oil and gas impact grant fund from \$8 million to \$100 million per biennium, and a proposal that 25 percent of motor vehicle excise tax collections be allocated to the highway tax distribution fund rather than the general fund.

APPROPRIATION BILL FORMAT FOR THE 2011 LEGISLATIVE SESSION

Ms. Sharp reviewed a sample of the appropriation bill format for the 2011 legislative session. She said there are no proposed changes to the bill format for the 2011 legislative session. She presented a three-column format that includes full-time equivalent (FTE) employee amounts.

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

Ms. Sharp presented information ([Appendix H](#)) regarding ARRA, including an update of funding information and the number of state employees who have been employed using federal stimulus funding.

ARRA Funding Update

Ms. Sharp provided a listing of ARRA funding to political subdivisions, including airports, cities, counties, fire districts, housing authorities, nonprofit organizations, private entities, school districts, state agencies, tribes, and water districts. She said awards total \$720.2 million, of which \$366.9 million has been received through September 2010. She said a total of 3,679.22 jobs were reported as having been created or retained by the recipients of the funding.

State Employees Employed Using Federal Stimulus Funding

Ms. Sharp provided a listing of the number of state employees who have been employed using federal stimulus funding. She said 81.15 FTE state employees are reported as being paid from ARRA funding, of which 34.45 were existing positions that will revert to the original funding source, 38.95 were temporary positions that will be eliminated, and 7.53 were new positions that will be requested to be continued.

ECONOMIC OUTLOOK FOR THE UNITED STATES AND NORTH DAKOTA

Chairman Holmberg called on Mr. Steven G. Cochrane, Managing Director, Moody's Analytics--formerly known as Moody's Economy.com--to present information ([Appendix I](#)) regarding the economic assumptions included in the executive budget revenue forecast for the 2011-13 biennium; the North Dakota economic outlook, including oil prices and agriculture commodity prices; the impact of the state's oil industry on state revenues; the effect on state revenues of projected changes in the number of acres included in the federal conservation reserve program; projections for the value of the dollar and its effect on the North Dakota economy; and the effect on state revenues of Congress not extending the federal income tax cuts approved in 2001 and 2003 that are scheduled to expire at the end of 2010.

Mr. Cochrane said the national economy is expected to grow at a gross domestic product rate above 3 percent through the end of 2010. The gross domestic product is expected to decrease to 2.7 percent in 2011 and increase above 3 percent in 2012 as the economy continues to grow and strengthen. He said two-thirds of the nation fell into recession in December 2007. Economic growth is expected to decline in 2011 as the effects of the federal fiscal stimulus begin to decrease. He said negative factors affecting economic growth include the European debt crisis weighing heavily on investor sentiment, employers' willingness to hire is dormant, and the housing foreclosure crisis continues.

Mr. Cochrane highlighted some positive economic growth indicators. He said corporate profits are on the rise and business balance sheets are solid indicating an ability to hire, household debt is falling--increasing disposable income, and consumer credit is improving with the number of household liabilities 30 to 90 days delinquent decreasing.

Mr. Cochrane said the forecast is based on the assumption that federal tax reductions approved in 2001 and 2003, that are scheduled to expire at the end of 2010, will be extended. He said if tax compromises currently being considered by Congress are approved, including a 2 percent reduction in payroll tax for the first \$106,000 of payroll and the proposed extension of unemployment insurance benefits, higher growth rates over the next two years would be expected, decreasing again in 2012. He

said major economic drivers have changed. He said consumers will play less of a role in directing the economy and exports and investment will play a larger role. He said exports are increasingly important for North Dakota's economy.

In response to a question by Representative Skarphol, Mr. Cochrane said the likelihood the United States would again enter a recession is less likely than it was five months ago. He said key indicators have improved over levels experienced 2 to 3 years ago, including investment spending, increased exports, and productivity.

In response to a question by Representative Dosch, Mr. Cochrane said inflation over the next 12 months is not expected to change substantially. He expects it to remain in the 1 percent to 1.5 percent range.

Mr. Cochrane said North Dakota is only one of two states that have economies considered to be expanding. The only other state is Alaska. Factors considered in the analysis include employment, industrial production, residential construction permits, and residential home prices. He said wage and salary income within the state are strong and above levels at the onset of the national recession. He said the consumer credit delinquency rate within the state is below the United States and Plains states averages.

Mr. Cochrane highlighted the growth in oil drilling activity within the state as a key economic driver. He said that despite drilling activity being at an all-time high, oil prices are not at that same peak and have decreased considerably since peaking in 2008 at \$130 per barrel. He said drilling activity being this far ahead of prices could have negative implications. He provided the Budget Section with a chart illustrating the correlation between mobile home shipments and rig counts. He noted the positive impact each additional mobile home has on the economy, as additional citizens move into the state.

2011-13 EXECUTIVE BUDGET RECOMMENDATIONS

Chairman Holmberg called on Ms. Peterson to present information regarding the 2011-13 executive budget. She reported on the 2011-13 executive budget recommendations for information technology, one-time budget investments, state employee compensation and benefits, capital projects, and bonding for capital projects. She said the budget includes funding to continue to pay the full cost of health insurance premiums for state employees. She said the budgeted cost for health insurance is \$887 per month per employee, a 7.4 percent increase compared to the 2009-11 biennium monthly rate of \$826. She said the recommended state employee compensation package provides a 3 percent average salary increase, effective July 1, 2011, and a 3 percent average salary increase, effective July 1, 2012. She said the salary increases are to be based on merit and equity and are not to be given across the board. She said the compensation package also

includes salary equity funding of \$1,618,112, of which \$518,112 is from the general fund, to address salary equity issues for certain agencies--Attorney General's office, State Department of Health, Industrial Commission, and Department of Transportation. She said agencies will have flexibility to use salary equity funding to address salary issues relating to the competitive employment market, salary issues in targeted occupations, and internal agency and interagency salary equity issues.

Ms. Peterson said the executive budget recommendation for large information technology projects totals \$30.1 million, of which \$5.9 million is from the general fund.

Ms. Peterson said the executive budget recommendation includes \$110.5 million in one-time funding investments.

Ms. Peterson said the executive budget recommendation for capital projects totals \$169.2 million, of which \$57 million is from the general fund.

Ms. Peterson said none of the capital projects recommended in the 2011-13 biennium require bonding. Based on statutory bond payment guidelines, the state could issue bonds of up to \$32.75 million for the 2011-13 biennium and still be within statutory guidelines.

Mr. Joe Morrisette, Budget Analyst, Office of Management and Budget, presented information on the executive budget recommendation for the Department of Public Instruction. He said the recommendation of \$919.5 million for state school aid is an increase of \$94.3 million of new funding and \$9 million of carryover authority from the 2009-11 biennium for a total percentage increase of 11.4 percent. He said included in the school aid increase is \$54.3 million to continue payment levels and formula changes enacted by the 2009 Legislative Assembly and \$7.5 million for an alternative teacher compensation system pilot project. In addition, he said, funding for special education contracts was increased by \$500,000 and funding for transportation aid was increased by \$5 million.

Mr. Morrisette discussed the executive budget recommendation for the Governor's office. He said the recommendation includes \$25.3 million, of which \$3.4 million is from the general fund. He said the recommendation provides \$65,000 for the Governor's transition in and transition out expenses. He said the recommendation also includes \$21.5 million from the federal education jobs fund program to be granted to the Department of Public Instruction and distributed to school districts using the school aid formula.

Mr. Morrisette discussed the executive budget recommendation for the Department of Corrections and Rehabilitation. He said the recommendation provides \$192.1 million in total funding, including \$161.6 million from the general fund. He said the prison expansion project, authorized by the 2009 Legislative Assembly, is expected to be completed by December 2012. The executive budget

recommendation includes 66 new FTE positions to be filled in October 2012, enabling new staff to be trained prior to offenders occupying the new facility. He said the executive budget recommendation includes \$32.1 million to continue contracted services with county and regional jails and private entities. He said the budget for contracted services and programming is increased by \$3.2 million based on contract rate increases and an inmate population that is estimated to grow at a rate of 2 percent per year.

Mr. Morrisette discussed the executive budget recommendation for the Department of Career and Technical Education. He said the recommendation increases general fund grants by nearly \$2 million to provide \$20 million for grants to support career and technical education programs. He said an additional \$400,000 is provided to increase career and technical education program reimbursements, and an additional \$400,000 is provided to expand career and technical education course offerings. He said grant funding is increased by \$1 million to provide support for the establishment of one new virtual career and technical education center.

Mr. Morrisette discussed the executive budget recommendation for the State Historical Society. He said the recommendation includes \$16.6 million, of which \$13.1 million is from the general fund.

Mr. Morrisette discussed the executive budget recommendation for the Game and Fish Department. He said the recommendation includes \$64.7 million, with no funding from the general fund. He said the recommendation includes \$8.4 million, an increase of \$1.4 million, for landowner payments through the Private Land Initiative, maintaining public hunting access to over 1 million acres. He said the recommendation also provides \$1 million for in lieu of tax payments to political subdivisions for department-owned lands.

Mr. Tad Torgerson, Budget Analyst, Office of Management and Budget, presented information on the executive budget recommendation for the Highway Patrol. Mr. Torgerson said the recommendation includes \$50.4 million, including \$38.3 million from the general fund. He said the executive budget recommendation provides one-time funding of \$4.1 million, of which \$3.6 million is from the general fund, for the construction of an emergency vehicle operations course and an indoor weapons training range for the Law Enforcement Training Academy. He said the recommendation authorizes 3 FTE motor carrier officer positions to increase weight enforcement in western North Dakota. He said the recommendation also provides one-time funding of \$1.2 million, of which \$1.1 million is from the general fund, to replace analog radio equipment with digital repeaters for patrol vehicles.

Mr. Torgerson discussed the executive budget recommendation for the State Water Commission. He said the recommendation includes \$458.9 million, including \$15.2 million from the general fund. He said the recommendation provides \$7.3 million in ARRA

authority for the Southwest Pipeline Project. He said the recommendation also authorizes 1 FTE position and \$219,614 from the general fund for a Water Development Division director.

Mr. Torgerson discussed the executive budget recommendation for the Department of Transportation. He said the recommendation includes \$1.5 billion, including \$5.9 million from the general fund. He said the executive budget provides \$228.6 million in one-time funding from the permanent oil tax trust fund for extraordinary state highway maintenance needs and an additional \$142 million in one-time funding from the permanent oil tax trust fund for county road reconstruction needs to support oil and gas production and distribution in North Dakota. He said this funding is based on a needs assessment study conducted by the Upper Great Plains Transportation Institute that resulted in a four-year plan to reconstruct both paved and unpaved county roads affected by the increase in oil and gas production. He said the Department of Transportation will allocate funding based on the priorities identified in the study, as well as observed road conditions. He said the executive budget also increases funding for state, county, city, and township infrastructure needs by allocating 25 percent of the motor vehicle excise tax to the highway tax distribution fund, an increase of approximately \$46.3 million.

Ms. Lori Laschkewitsch, Budget Analyst, Office of Management and Budget, presented information on the executive budget recommendation for the Information Technology Department. Ms. Laschkewitsch said the recommendation includes \$164.4 million, including \$19.1 million from the general fund. She said the recommendation includes \$4.8 million to continue funding for the statewide longitudinal data system and Center for Distance Education tuition subsidy for North Dakota students. This funding includes 3 FTE positions and \$3.2 million from the general fund for staffing, hosting, and ongoing maintenance of the statewide longitudinal data system and provides \$1.4 million from the general fund for tuition subsidy to North Dakota students enrolling in online courses. She said the recommendation provides \$8.9 million for the health information exchange, including 3 FTE positions. She said the recommendation provides an additional \$5 million from the Bank of North Dakota to the health information planning loan fund to provide low-interest loans to health care entities.

Ms. Laschkewitsch presented information on the executive budget recommendation for the State Department of Health. She said the recommendation includes \$186.5 million, including \$28 million from the general fund. She said the recommendation includes \$1 million for suicide prevention funding, an increase of \$741,493 from the general fund, for grants to communities. She said the recommendation provides \$1 million of additional grants for 21 domestic violence agencies for a total of \$1.7 million. She said the recommendation also provides \$300,500 from the

general fund in addition to \$304,332 from the community health trust fund for total funding of \$654,332 for the Women's Way program that provides screening for breast and cervical cancer to low-income, uninsured and underinsured clients.

Ms. Laschkewitsch presented information on the executive budget recommendation for the Veterans' Home. She said the recommendation includes \$20.8 million, including \$5.7 million from the general fund. She said the recommendation includes \$25,000 to complete the landscaping around the new Veterans' Home, \$75,000 to repair drainage, and \$55,000 from the general fund to repair the irrigation system from flooding damage.

Ms. Laschkewitsch presented information on the executive budget recommendation for the Department of Human Services. She said the recommendation includes \$2.6 billion, including \$927.4 million from the general fund. She said the recommendation includes \$104.9 million from the general fund due to FMAP decreasing to 55.4 percent.

Ms. Tammy Dolan, Budget Analyst, Office of Management and Budget, presented information on the executive budget recommendation for the University System. She said the recommendation includes an increase of \$82 million in ongoing funding and \$46 million in one-time funding for the 11 campuses. Funding was provided to enable the University System to maintain current tuition levels at two-year institutions and to limit tuition increases to no more than 2.5 percent per year at four-year institutions. She said the executive budget recommendation provides funds for the academic and technical education scholarship program estimated at \$10 million on a continuing basis from the lands and minerals trust fund.

Ms. Dolan presented information on the executive budget recommendation for the Department of Agriculture. She said the recommendation includes \$22 million, including \$8.4 million from the general fund. She said the recommendation includes \$288,347 from the general fund for 1 FTE position and related operating expenses for the sustainable agriculture program. She said the recommendation includes additional general fund support for the State Board of Animal Health of \$71,168 in lieu of additional game and fish funds.

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

Executive Budget Recommendation			
Agency	Total Funds	General Fund	FTE Positions
Branch research centers	\$28,812,789	\$13,935,208	95.49
Extension Service	48,744,454	25,615,644	255.75
Northern Crops Institute	3,347,307	1,692,582	11.00
Main Research Center	97,897,571	53,923,996	329.26
Agronomy Seed Farm	1,435,168	0	3.00
Total	\$180,237,289	\$95,167,430	694.50

Ms. Dolan said the 2011-13 executive budget appropriates the final \$7 million from the general fund to complete construction of the research greenhouse complex. She said the recommendation includes \$887,800 for the Soil Conservation Committee, an increase of \$50,000 over the previous biennium. In addition to the ongoing operational costs for the Main Research Center, branch research centers, Extension Service, and the Agronomy Seed Farm, she said, the recommendation includes a funding increase of \$4.9 million for the following items ranked highest by the State Board for Agricultural Research and Education:

- Greenhouse utilities - \$173,622.
- Soil, health, productivity, and land management - \$2.1 million.
- Technical support (salaries, operating, and equipment) - \$2.3 million.
- Livestock stewardship - \$250,000.

Ms. Dolan presented information on the executive budget recommendation for the Department of Commerce. She said the recommendation includes \$134.7 million, including \$46 million from the general fund. She said recommendation creates a new Office of Energy Development and authorizes \$600,000 from the general fund and 2 new FTE positions. She said the recommendation invests \$20 million from the general fund for centers of excellence in research, infrastructure, entrepreneurship, and workforce. She said the executive budget provides \$489,000 from the general fund to enhance the North Dakota Trade Office operations.

SPECIFIC EXEMPT COMMODITIES AND SERVICES

Chairman Holmberg called on Ms. Sherry Neas, State Procurement Manager, Office of Management and Budget, to report on the specified commodities and services exempted from the procurement requirements of NDCC Chapter 54-44.4 ([Appendix J](#)). Ms. Dolan said the Office of Management and Budget has exempted no new commodities and services from the state procurement system. She said the administrative rules related to state procurement--North Dakota Administrative Code Article 4-12--that became effective in August 2004 identify commodities and services that are not procurements, such as professional memberships and grants, and identifies exemptions to the rules. She said the list of exemptions also identifies commodities and services that are subject to other statutes for the procurement or selection process, such as appointments of a special or an assistant attorney general, public improvements, concessions, and engineers.

STATUS OF THE CENTERS OF EXCELLENCE FUND

Mr. Justin Dever, Manager, Office of Innovation and Entrepreneurship, Department of Commerce, presented information ([Appendix K](#)) on the centers of

excellence fund pursuant to Section 28 of Senate Bill No. 2018. Mr. Dever said the centers of excellence fund is a special fund in the state treasury, all money in the fund is appropriated to the department on a continuing basis pursuant to NDCC Chapter 15-69-06, and interest earned on money in the fund must be credited to the fund. He said the cash balance of the centers of excellence fund as of October 31, 2010, was \$26.9 million and outstanding commitments total \$22.3 million, leaving an available balance of \$4.6 million. Of the available balance, \$1.3 million is for enhancement grants in the 2009-11 biennium and \$3.3 million is for centers of excellence grants in the 2009-11 biennium. With the December 2010 approval of the CBRP 2.0 center of excellence, the available centers of excellence fund balance is \$285,000.

DEPARTMENT OF HUMAN SERVICES Status of Medicaid Management Information System

Ms. Jennifer Witham, Director, Information Technology Services, Department of Human Services, presented information ([Appendix L](#)) regarding the status of the Medicaid management information system project. Ms. Witham said the new system is expected to be operational by June 1, 2012.

Ms. Witham provided the following project funding summary:

Description	Budget	Spent Through August 2010	Remaining
General fund	\$3,643,133	\$2,651,033	\$992,100
Federal funds	55,218,418	33,365,088	22,853,330
Other funds	3,667,820	1,865,280	1,802,540
Total project	\$62,529,371	\$37,881,401	\$24,647,970

Ms. Witham said that as of December 6, 2010, there were 26,707 Medicaid claims in suspense. In response to a question from Representative Pollert, she said 80 percent of claims are outstanding 30 days or less, 10 percent are 30 to 90 days, and less than 10 percent are aged over 90 days.

VETERANS' HOME

Chairman Holmberg called on Mr. Russ Handegard, construction project manager, Veterans' Home, to present a summary report ([Appendix M](#)) regarding the status of the Veterans' Home construction project pursuant to 2009 Senate Bill No. 2007. Mr. Handegard said everything required on the exterior of the project is complete, and the finish of the interior is progressing at a consistent pace. He said the monthly progress billings indicate the project is approximately 91 percent complete as of the end of November. He said the project is on budget with total estimated construction costs of \$35.3 million, leaving \$251,007 remaining in contingency funds.

In response to a question from Representative Delzer, Mr. Handegard said the date of occupancy is subject to inspection approvals. Partial occupancy of 12 residents is required for federal inspection, and the State Department of Health must approve this partial

occupancy. He said the State Department of Health has actively been involved as the project progressed. He estimated a representative has been onsite at least twice each month to ensure problems are addressed during the construction phase. He said federal funds reimbursement for the project is contingent on federal inspection approval.

HIGHWAY PATROL COMMERCIAL VEHICLE INFORMATION SYSTEMS AND NETWORKS

Colonel James J. Prochniak, Superintendent, Highway Patrol, presented information ([Appendix N](#)) regarding the status of implementation of the commercial vehicle information systems and networks pursuant to 2009 Senate Bill No. 2011. Colonel Prochniak said the commercial vehicle information systems and networks is a collection of information systems and communication networks that support commercial vehicle operations and is managed by the Federal Motor Carrier Safety Administration. He said the commercial vehicle information systems and networks program provides a framework that enables state and federal government agencies, the motor carrier industry, and other parties engaged in commercial vehicle operations safety assurance and regulation to exchange and use information to improve safety and security and to conduct business transactions electronically. He said the 2009 Legislative Assembly directed the Highway Patrol to proceed with the implementation of the commercial vehicle information exchange window system, including preparations necessary to allow for the automated issuance of highway permits, and provided \$100,000 from the general fund to complete the initial implementation process. He said a request for proposal was issued, and McFarland Management of Boise, Idaho, in association with Iteris, Inc., was awarded the contract for the commercial vehicle information systems and networks study. He said the contract was awarded for \$80,595. He said \$6,092 was spent on advertising for the project, \$11,755 was utilized to pay for commercial vehicle information systems and networks grant application planning, and the remaining \$1,158 will not be spent.

HOUSING FINANCE AGENCY - PILOT PROJECT STATUS

Chairman Holmberg called on Mr. Michael A. Anderson, Executive Director, Housing Finance Agency, to present information ([Appendix O](#)) on the status of a pilot project to provide incentives for private sector investment in single-family residential dwelling units and multifamily housing facilities in difficult-to-develop areas of the state pursuant to provisions of Section 17 of 2009 Senate Bill No. 2014. Mr. Anderson said the Housing Finance Agency committed \$400,000 of its reserves to conduct the pilot project. He said a request for proposal was developed and approved by the agency's advisory

board and the Industrial Commission in October 2009, issued in December 2009, and required submittals by February 2010. The Housing Finance Agency limited awards to \$100,000 per approved project and planned to provide 50 percent of awards to single-family projects and 50 percent to multifamily projects. He said 14 project proposals were submitted requesting \$1,063,634 for projects totaling \$22.3 million. Of the proposals, 10 were multifamily projects representing 6 new construction and 4 renovation projects and 4 were new construction single-family projects. He said seven projects--one single-family and six multifamily--were approved with total project construction costs of \$6.7 million.

Mr. Anderson said the level of response to the pilot project is indicative of not only the need for housing in rural North Dakota, but potential for housing development in such areas. He said the pilot project proved that providing an incentive for local investment can spur housing development in difficult-to-develop areas. He said the pilot project demonstrated significant leveraging power, utilizing \$400,000 of public funds to generate \$6.8 million in housing-related economic activity--a nearly 17-to-1 ratio. He expressed support for continuing the program but said additional funding to the agency would need to be provided as the pilot project was not included in the executive budget recommendations. In response to a question from Representative Delzer, he said of the projects not approved, he was not aware of any that were continued or completed.

TOBACCO PREVENTION AND CONTROL COMMITTEE

Chairman Holmberg called on Ms. Jeanne Prom, Executive Director, Center for Tobacco Prevention and Control Policy, to present information ([Appendix P](#)) regarding the implementation of the comprehensive tobacco prevention and control plan pursuant to 2009 House Bill No. 1015. Ms. Prom said the 2009-11 biennium appropriation for the Tobacco Prevention and Control Committee is \$12.9 million. She said through October 2010, the Tobacco Prevention and Control Committee spent \$4.5 million of its appropriation, including \$4.2 million for grants and professional fees provided to local communities to address the tobacco use problem at the local level.

In response to a question from Representative Wieland, Ms. Prom said of the agency's planned objectives for the 2009-11 biennium, the agency has exceeded projections regarding the number of smokers who use the Tobacco Quitline and for the number of tobacco-free campuses.

Representative Delzer requested a more-detailed itemized listing be prepared showing expenditures to date, including vendor name and expenditure amount.

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

The meeting adjourned subject to the call of the chair at 4:35 p.m.

Sara E. Chamberlin
Fiscal Analyst

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:16