

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

BUDGET SECTION

Wednesday, December 16, 2015

Senate Chamber, State Capitol

Bismarck, North Dakota

Senator Gary A. Lee, Chairman, called the meeting to order at 10:00 a.m.

Members present: Senators Gary A. Lee, Bill L. Bowman, Ron Carlisle, Robert Erbele, Joan Heckaman, Ralph Kilzer, Jerry Klein, Tim Mathern, David O'Connell, Larry J. Robinson, Mac Schneider, Terry M. Wanzek, Rich Wardner; Representatives Larry Bellew, Wesley R. Belter, Tracy Boe, Randy Boehning, Mike Brandenburg, Al Carlson, Jeff Delzer, Eliot Glasheim, Ron Guggisberg, Kathy Hogan, Keith Kempenich, Gary Kreidt, Bob Martinson, Corey Mock, Jon O. Nelson, Kenton Onstad, Chet Pollert, Mark Sanford, Jim Schmidt, Peter F. Silbernagel, Roscoe Streytle, Blair Thoreson, Don Vigesaa

Members absent: Senators Ray Holmberg, Karen K. Krebsbach, Ronald Sorvaag; Representatives Mark A. Dosch, Richard G. Holman, David Monson, Robert J. Skarphol

Others present: Brad Bekkedahl, State Senator, Williston
Senator Donald Schaible, member of the Legislative Management
Representative Jason Dockter, member of the Legislative Management
Representative Marvin Nelson, member of the Legislative Management
See [Appendix A](#) for additional persons present

It was moved by Senator Robinson, seconded by Senator O'Connell, and carried on a voice vote that the minutes of the September 23, 2015, meeting be approved as distributed.

NEW REVENUE FORECAST

Ms. Pam Sharp, Director, Office of Management and Budget, presented information on the process for preparing a new revenue forecast. She said November 2015 revenue collections were \$40 million less than projections for the month, and a total of \$152 million less than projections for the first 5 months of the 2015-17 biennium. She said the Office of Management and Budget (OMB) has decided to prepare a new revenue forecast for the 2015-17 biennium with the assistance of Moody's Analytics. She said OMB met with Moody's Analytics in November 2015 to discuss the status of oil rigs, oil wells, and other activity in the oil industry. She said activity in the global market has resulted in agriculture and oil prices being lower than anticipated. She said sales tax revenue is \$163 million less than projected for the first 5 months. She said the forecast anticipated wells being drilled and completed, but companies are actually drilling wells and not completing them. She said there are currently 1,100 wells drilled, but not completed. She anticipates the new revenue forecast to be completed by mid to late January 2016. She said the intent is to complete the new revenue forecast as timely as possible, because if an allotment is necessary, the agencies will have more time to make necessary changes. She said the new revenue forecast will cost \$12,000.

Ms. Sharp provided examples of potential budget allotments and budget stabilization fund transfers based on various revenue shortfall levels. She said if the revenue shortfall is \$400 million, OMB anticipates an allotment of less than 2.5 percent. She said if the shortfall is \$500 million, OMB anticipates an allotment of 2.5 percent and a transfer of approximately \$30 million from the budget stabilization fund. She said if the shortfall is \$600 million, OMB anticipates an allotment of 2.5 percent and a transfer of approximately \$130 million from the budget stabilization fund. She said the foundation aid stabilization fund has a balance of \$644 million as of November 30, 2015, which will be used to offset any state school aid budget allotment.

In response to a question from Representative Onstad, Ms. Sharp said if the new revenue forecast projects general fund revenues to be at least 2.5 percent less than the legislative forecast, a transfer from the budget stabilization fund can occur at the request of the Governor. She said OMB anticipates an allotment of approximately 2.5 percent would occur prior to any transfers from the budget stabilization fund.

Senator Schneider said the state should be better prepared to respond to revenue volatility. He expressed concern regarding the lack of access to moneys in a number of special funds, including the common schools trust fund, and the foundation aid stabilization fund to address revenue shortfalls.

Representative Carlson suggested that OMB consider budget allotments in excess of 2.5 percent depending on the amount of budget shortfall projection.

Representative Carlson expressed concern regarding the involvement of Moody's Analytics in the preparation of the new revenue forecast. Ms. Sharp said OMB and Moody's Analytics will review the price of oil and current economic indicators will be taken into consideration. She said typically OMB utilizes more conservative assumptions than Moody's Analytics.

In response to a question from Senator Wardner, Ms. Sharp said only agencies receiving general fund appropriations will be affected by an allotment. She said each agency may determine the reductions necessary to meet the allotment amount.

In response to a question from Representative Glassheim, Ms. Sharp said a 2.5 percent budget allotment would result in reduced general fund spending of approximately \$150 million.

In response to a question from Representative Streyle, Ms. Sharp said the state's current contract with Moody's Analytics was recently renewed for 2 years. She said the contract may be renewed one more time for another 2 years before a request for proposal would be necessary. She said Moody's Analytics was the only bidder during the most recent request for proposal.

In response to a question from Representative Streyle, Ryan Rauschenberger, Tax Commissioner, said the large trigger became effective for 1 month beginning December 1, 2015. He said the trigger will only have a minimal effect on revenues because the horizontal well portion of the large trigger was repealed on November 30, 2015.

In response to a question from Representative Streyle, Mr. Rauschenberger said if the 2015 Legislative Assembly would not have made changes to the oil extraction tax laws, the horizontal well incentive would have exempted oil extraction taxes during the first 24 months on all production from horizontal wells after which the rate would have been resulting in an average tax rate of 1.1 percent, compared to a top rate without these changes of 6.5 percent.

In response to a question from Representative Belter, Ms. Sharp said the original forecast assumed oil prices would range from \$42 to \$53 per barrel. She said the state's average price was \$36 per barrel in October 2015.

Representative Carlson asked the Legislative Council staff to provide information on the authority of the Governor and state agencies to choose not to spend funds appropriated by the Legislative Assembly for a specific purpose.

Representative Carlson suggested that if budget allotments are ordered, each agency should seek ways to become more efficient.

ECONOMIC INDICATORS

Ms. Sharp presented information ([Appendix B](#)) on key economic indicators, including consumer prices, money markets, personal income, commodity prices, unemployment, employment growth, personal income, energy prices and production, and interest rates.

STATUS OF THE 2015-17 BIENNIUM GENERAL FUND

Ms. Sharp presented information ([Appendix C](#)) on the status of the general fund for the 2015-17 biennium.

Ms. Sharp presented the following information on the status of the general fund as of November 30, 2015, for the 2015-17 biennium:

Unobligated general fund balance - July 1, 2015		\$729,529,389
Balance obligated for authorized carryover from the 2013-15 biennium		147,653,143
Total beginning general fund balance - July 1, 2015		\$877,182,532
Add		
General fund collections through November 2015	\$1,552,042,286	
Forecasted general fund revenue for the remainder of the 2015-17 biennium	3,934,193,658	
Total revenues		5,486,235,944
Total available		\$6,363,418,476
Less		
Legislative appropriations - One-time	(\$1,173,663,758)	
Legislative appropriations - Ongoing	(4,852,498,920)	

Department of Transportation contingent appropriation	(20,000,000)	
Authorized carryover from the 2013-15 biennium	(147,653,143)	
2015-17 emergency appropriations utilized in the 2013-15 biennium	9,858,196	
Total appropriations		(6,183,957,625)
Estimated ending general fund balance - June 30, 2015		\$179,460,851 ¹

¹Pursuant to North Dakota Century Code Section 54-27.2-02, any end-of-biennium balance in excess of \$65 million must be transferred to the budget stabilization fund, up to a cap of 9.5 percent of general fund appropriations.

Ms. Sharp presented information ([Appendix D](#)) on actual and forecasted 2015-17 biennium general fund revenue compared to the 2015 Legislative Assembly forecast and compared to the 2013-15 biennium. She said sales tax revenue collections were \$50 million less than the legislative forecast for the month of November and a total of \$163 million less than legislative forecast for the first 5 months of the biennium.

Representative J. Nelson suggested updates on K-12 student enrollment numbers at upcoming Budget Section meetings.

IRREGULARITIES IN THE FISCAL PRACTICES OF THE STATE

Pursuant to Section 54-14-03.1, Ms. Sharp presented information ([Appendix E](#)) on irregularities in the fiscal practices of the state. She presented the following fiscal irregularities for the period August 2015 through October 2015:

Agency	Fiscal Irregularity	Amount
Commission on Legal Counsel for Indigents	2 months of temporary increase for serving as acting supervisor of the Williston office due to a vacancy	\$1,500.00
Tax Department	3 months of temporary increase due to vacancy	\$600.00
State Department of Health	2 months of temporary increase due to the maternity leave of a coworker	\$577.96
Department of Human Services	3 months of temporary increase to supervise an addiction student	\$657.00

STATE AGENCY APPLICATIONS FOR FEDERAL GRANTS

Ms. Sharp presented information ([Appendix F](#)) on state agencies that applied for federal grants estimated to be \$25,000 or more pursuant to Section 54-27-27. She said for the period September 23, 2015, through December 16, 2015, the following agencies have applied for a federal grant estimated to be \$25,000 or more:

Agency	Time Period of Grant	Amount
Department of Veterans' Affairs	October 2015 through June 2016	\$1,264,612

Ms. Sharp said for the period September 23, 2015, through December 16, 2015, the following agencies were awarded a federal grant estimated to be \$25,000 or more:

Agency	Time Period of Grant	Amount
Attorney General's office	October 2015 through March 2016	\$453,800

STATE BOARD OF HIGHER EDUCATION - SEMI-ANNUAL PROJECT VARIANCE REPORTS

Ms. Sharp presented semiannual project variance reports ([Appendix G](#)) on State Board of Higher Education projects pursuant to Section 15-10-47. She said the report includes project variances for the period July 2013 through June 2015.

GENERAL FUND AND OIL TAX REVENUE SCENARIOS

At the request of Chairman Lee, the Legislative Budget Analyst and Auditor presented the following:

- The [2015-17 Biennium Revenue - Monthly Summary](#) on general fund revenue and oil tax revenue collections and allocations.
- The [2015-17 Biennium General Fund Budget - Current Status and "What If" Scenarios](#).
- A [Moody's Analytics Report on Economic and Consumer Credit Analytics - North Dakota](#).

In response to a question from Representative Kempenich, the Legislative Budget Analyst and Auditor said the Legislative Council will continue to provide revenue updates once the new revenue forecast is complete.

In response to a question from Representative Delzer, the Legislative Budget Analyst and Auditor said for the 2015-17 biennium, ongoing spending increased by approximately \$450 million of which approximately \$100 million was related to cost-to-continue items. He said the Legislative Council will review the cost-to-continue items and update the Budget Section at a future meeting.

Mr. Adam Mathiak, Fiscal Analyst, Legislative Council, presented information on oil and gas tax collections and a memorandum entitled [2015-17 Biennium Oil Tax Revenue - "What If" Scenario](#).

Representative Mock asked for information on the estimated effect on the North Dakota oil industry of Congressional action allowing oil exports.

Representative Schneider asked for information on the effect on oil and gas tax collections of reducing the long-term oil revenue projections which compares the oil extraction tax rate from 6.5 percent to 5 percent.

Representative Carlson asked for information on the effect on oil and gas tax collections of repealing the large oil extraction tax rate trigger.

AGENCY REQUESTS APPROVED BY THE EMERGENCY COMMISSION

Chairman Lee directed the Budget Section to consider agency requests ([Appendix H](#)), which have been authorized by the Emergency Commission and forwarded to the Budget Section pursuant to Chapter 54-16. Ms. Sharp provided information regarding the following requests that have been authorized by the Emergency Commission and require consideration by the Budget Section:

- **Department of Veterans' Affairs (Request #1870)** - Request is to increase federal funds spending authority by \$64,253 in the Department of Veterans' Affairs line item. The funding is for providing transportation services to veterans or purchasing vehicles to transport veterans.
- **Department of Veterans' Affairs (Request #1871)** - Request is to increase federal funds spending authority by \$1,264,612 in the Department of Veterans' Affairs line item. The funding is for purchasing wheelchair accessible vans, operation of the vans, and providing reimbursements to subrecipients providing medical-related transportation services.
- **Job Service North Dakota (Request #1873)** - Request is for \$240,000 from the state contingencies appropriation for operating expenses (\$50,000) and salaries and wages (\$190,000) to maintain staffing through January 2016 related to the functionality of the new automated system for unemployment insurance claim services for employers and workers.

It was moved by Representative J. Nelson, seconded by Representative Hogan, and carried on a roll call vote that pursuant to Chapter 54-15 the Budget Section approve the Department of Veterans' Affairs Requests #1870 and #1871, which have been approved by the Emergency Commission. Senators Lee, Bowman, Carlisle, Erbele, Heckaman, Kilzer, Klein, Mathern, O'Connell, Robinson, Schneider, Wanzek, and Wardner and Representatives Bellew, Belter, Boe, Boehning, Brandenburg, Carlson, Delzer, Glassheim, Guggisberg, Hogan, Kempenich, Kreidt, Martinson, Mock, J. Nelson, Onstad, Pollert, Sanford, Schmidt, Silbernagel, Streyle, Thoreson, and Vigessaa voted "aye." No negative votes were cast.

In response to a question from Representative Carlisle, Ms. Sharp said the Job Service North Dakota request for state contingencies funding will allow the agency to maintain current staffing levels through January 2016.

Representative Delzer expressed concern regarding providing state funds to a primarily federally funded agency like Job Service North Dakota. He said this would be a major policy change.

In response to a question from Senator Kilzer, Cheri Giesen, Director, Job Service North Dakota, said operational changes will be made but she does not expect to request any additional funding from the state contingencies appropriation.

Senator Wardner expressed support for approving the Job Service North Dakota request. He said not approving the request could delay unemployment payments to individuals who have been laid off in the state, especially the large number of individuals being laid off in the oil industry.

In response to a question from Senator Bowman, Ms. Giesen said the unemployed individuals will still receive their benefits, but those benefits may be delayed.

It was moved by Senator O'Connell, seconded by Representative Glassheim, and failed on a roll call vote that pursuant to Chapter 54-15 the Budget Section approve the Job Service North Dakota Request #1873, which has been approved by the Emergency Commission. Senators Heckaman, Klein, Mathern, O'Connell, Robinson, Schneider, and Wardner and Representatives Glassheim, Guggisberg, Hogan, Mock, J. Nelson, and Onstad voted "aye." Senators Lee, Bowman, Carlisle, Erbele, Kilzer, and Wanzek and Representatives Bellew, Belter, Boe, Boehning, Brandenburg, Carlson, Delzer, Kempenich, Kreidt, Martinson, Pollert, Sanford, Schmidt, Silbernagel, Streyle, Thoreson, and Vigesaa voted "nay."

HUB CITY ALLOCATION USE OF OIL AND GAS GROSS PRODUCTION TAX FUNDING

City of Williston

Mr. Brad Bekkedahl, Finance Commissioner, Williston, presented information ([Appendix I](#)) regarding Williston's use of funds received from hub city allocations from the oil and gas gross production tax under Section 57-51-15. He said the funds are being used for infrastructure projects, including road projects and water and sewer projects. He said 2013-15 biennium gross production tax revenues were \$62.6 million and infrastructure construction expenditures were \$72.2 million. He said Williston's debt has increased from \$131.7 million in 2014 to \$214.8 million in 2015.

In response to a question from Representative Onstad, Mr. Bekkedahl said Williston's property taxes have increased due to increases in property valuations. He said Williston had a 0 percent tax rate increase in the base budget for the current year.

City of Dickinson

Mr. Shawn Kessel, City Administrator, Dickinson, said the increases in the hub city allocations from oil and gas gross production tax have been vital to Dickinson. He said the decrease in oil activity has not reduced the need for investment in western North Dakota. He said citizens of Dickinson have incurred \$4,500 of debt per capita in the past three years totaling \$122 million in long-term debt with annual debt obligations of over \$5 million. He said Dickinson has made \$55.4 million in investments from September 2014 through August 2015, receiving \$15.5 million in revenue from the oil and gas gross production tax.

Mr. Craig Kubas, City Engineer, Dickinson, presented information ([Appendix J](#)) regarding Dickinson's use of funds received from hub city allocations from the oil and gas gross production tax under Section 57-51-15. He said the funds are being used for 16 civil service buildings and infrastructure projects, including a public safety facility, a salt brine storage building, road projects, a public works facility, a water reclamation facility, and water and sewer projects.

City of Minot

Ms. Cindy Hemphill, Finance Director, Minot, presented information ([Appendix K](#)) regarding Minot's use of funding received from hub city allocations from the oil and gas gross production tax under Section 57-51-15. She said Minot's debt per capita has increased from \$2,017 to \$3,678. She reviewed the major projects for which the funding has been used, including sewer system upgrades and improvements and airport-related projects.

LEGACY AND BUDGET STABILIZATION FUND ADVISORY BOARD REPORT

Representative Kempenich, Chairman, Legacy and Budget Stabilization Fund Advisory Board, presented a status report ([Appendix L](#)) regarding the investment of funds in the legacy fund and budget stabilization fund pursuant to Section 21-10-11. He said the balance of the budget stabilization fund as of September 30, 2015 was \$575.7 million, of which \$10 million is invested in cash equivalents, \$91 million is invested in certificate of deposits with the Bank of North Dakota, and \$474.7 million is invested in short-term fixed income securities with Babson Capital Management and JP Morgan Chase & Co. He said the market value of the legacy fund as of June 30, 2015, was \$3,328,600,152 and fund investments have averaged 3.24 percent net of fees since inception.

In response to a question from Senator Wardner, Representative Kempenich estimated legacy fund interest income at \$90 million to \$100 million per year.

THREE AFFILIATED TRIBES USE OF OIL AND GAS TAX RECEIPTS

Mr. Whitney Bell, Chief Financial Officer, Three Affiliated Tribes of the Fort Berthold Reservation, presented information ([Appendix M](#)) regarding fees, expenses, and charges the tribe imposes on the oil industry and essential infrastructure projects completed by the Three Affiliated Tribes using oil and gas tax receipts pursuant to Section 57-51.2-02. He reviewed fiscal year 2015 expenditures of \$106,236,000, which include expenditures for environmental protection (\$2,212,000), infrastructure (\$91,233,000), and public safety (\$12,791,000). He said the Three Affiliated Tribes of the Fort Berthold Reservation anticipates \$61.2 million in expenditures and \$147.2 million in revenue for fiscal year 2016.

In response to a question from Representative Schmidt, Mr. Bell said the Bureau of Reclamation water projects are ongoing projects and it is anticipated that all projects will be completed by the end of this fiscal year.

In response to a question from Representative J. Nelson, Mr. Bell said Bureau of Reclamation funds are used for both constructing projects and operational costs. He said several water projects have been delayed because of the current level of revenues.

In response to a question from Senator Mathern, Mr. Bell said the Three Affiliated Tribes of the Fort Berthold Reservation are investing in programs regarding drug addiction, including a new drug treatment facility, which is anticipated to be completed in 2017. He said the drug treatment facility is a joint project with the federal Indian Health Services.

NORTH DAKOTA STATE UNIVERSITY MINARD HALL PROJECT

Mr. Dan Hull, Special Assistant Attorney General, North Dakota State University, presented information ([Appendix N](#)) regarding the status of the Minard Hall project at North Dakota State University (NDSU) pursuant to Section 27 of 2015 House Bill No. 1003. He said NDSU has expended \$4,654,854 as a result of the building collapse and NDSU agreed to a settlement of \$3,020,000 resulting in \$1,634,853.52 of unreimbursed costs. He said on December 10, 2015, the State Board of Higher Education approved NDSU's request to seek a deficiency appropriation from the 2017 Legislative Assembly for the unreimbursed costs.

In response to a question from Representative Kempenich, Mr. Hull said of the \$4.7 million in costs incurred due to the collapse, \$3.8 million is related to costs for repairs and \$900,000 is related to costs of forensic studies, expert witnesses, and legal assistance.

NORTH DAKOTA STATE UNIVERSITY MAIN RESEARCH CENTER FLOODED LANDS STUDY

Dr. Ken Grafton, Director, North Dakota Agricultural Experiment Station, presented information ([Appendix O](#)) regarding the flooded lands study relating to the recovery of grasslands affected by Souris River flooding pursuant to Section 16 of 2015 House Bill No. 1020. He said Souris River flooding caused \$5 million in damages to landowners. He said the study will continue into the 2015-17 biennium.

Representative Schmidt suggested the report be made available to the City of Minot because of the potential downstream effects of the Minot flood control project.

NORTH DAKOTA AGRICULTURAL EXPERIMENT STATION - ANNUAL FULL-TIME EQUIVALENT POSITION REPORT

Dr. Grafton presented information ([Appendix P](#)) regarding full-time equivalent (FTE) position adjustments made at the North Dakota Agricultural Experiment Station main research center and branch research centers pursuant to Section 4-05.1-05. He said the main research center added 5.00 FTE positions between July 1, 2014, and June 30, 2015, and 1.30 FTE positions since June 30, 2015, for a total of 360.15 FTE positions as of November 30, 2015. He said the branch research centers added 2.00 FTE positions between July 1, 2014, and June 30, 2015, and reduced (.25) FTE positions since June 30, 2015, for a total of 115.69 FTE positions as of November 30, 2015. He said the Agronomy Seed Farm did not change any FTE positions.

NORTHERN CROPS INSTITUTE - ANNUAL FULL-TIME EQUIVALENT POSITION REPORT

Mr. Mark Weber, Director, Northern Crops Institute, provided written testimony ([Appendix Q](#)), which was presented by Dr. Grafton regarding FTE position adjustments made at the Northern Crops Institute pursuant to Section 4-05.1-05. He said the Northern Crops Institute has had 12 FTE positions filled over the past two bienniums with no adjustments.

NORTH DAKOTA STATE UNIVERSITY EXTENSION SERVICE - ANNUAL FULL-TIME EQUIVALENT POSITION REPORT

Mr. Chris Boerboom, Director, North Dakota State University Extension Service, presented information ([Appendix R](#)) regarding FTE position adjustments made at the NDSU Extension Service pursuant to Section 4-08-10. He said NDSU Extension service added 1.41 FTE positions between July 1, 2014, and June 30, 2015, and reduced (.45) FTE positions since June 30, 2015, for a total of 264.87 FTE positions as of November 30, 2015.

UPPER GREAT PLAINS TRANSPORTATION INSTITUTE - ANNUAL FULL-TIME EQUIVALENT POSITION REPORT

Mr. Tim Horner, Program Director, Upper Great Plains Transportation Institute, presented information ([Appendix S](#)) regarding FTE position adjustments made for the Upper Great Plains Transportation Institute pursuant to Section 15 of 2015 House Bill No. 1020. He said the Upper Great Plains Transportation Institute added .50 FTE positions between July 1, 2014, and June 30, 2015, and 2.00 FTE positions since June 30, 2015, for a total of 57.48 FTE positions as of November 30, 2015.

STATE BOARD OF HIGHER EDUCATION - REORGANIZATION OF NORTH DAKOTA UNIVERSITY SYSTEM OFFICE PLAN

Dr. Mark Hagerott, Chancellor, North Dakota University System, presented information ([Appendix T](#)) regarding the State Board of Higher Education's request for Budget Section approval of the board's plan for the reorganization of the Commissioner of Higher Education's office, and request Budget Section approval for the \$1 million contingent appropriation pursuant to Section 4 of 2015 House Bill No. 1003. He said the plan is designed to improve the effectiveness of the University System office. He said \$993,000 of the \$1 million is to:

- Help students graduate faster and to help serve the state's workforce needs (\$360,000);
- Correct policy inconsistencies (\$368,000); and
- Increase operational efficiency (\$265,000).

Dr. Hagerott said the plan could be implemented in phases. He said phase one totals \$400,000 and would be expended to:

- Help students graduate faster and to help serve the state's workforce needs (\$200,000);
- Correct policy inconsistencies (\$150,000); and
- Increase operational efficiency (\$50,000).

Representative Streyle suggested delaying action on the request until the next Budget Section meeting.

Senator Mathern commented on the value of higher education in North Dakota and expressed concerns that delaying action on the State Board of Higher Education's request could hinder the board from addressing the state's needs.

Representative Carlson expressed support for delaying action on the request. He suggested the board office consider billing the campuses for a portion of these costs and using salary savings from vacant positions and employee turnover.

It was moved by Representative Streyle, seconded by Senator Carlisle, and carried on a roll call vote that the Budget Section delay action on the State Board of Higher Education's request for approval of the board's plan and \$1 million contingency funding until the next Budget Section meeting. Senators Lee, Bowman, Carlisle, Erbele, Kilzer, Klein, Wanzek, and Wardner and Representatives Bellew, Belter, Boehning, Brandenburg, Carlson, Delzer, Glassheim, Kempenich, Kreidt, Martinson, J. Nelson, Pollert, Sanford, Schmidt, Silbernagel, Streyle, Thoreson, and Vigesaa voted "aye." Senators Heckaman, Mathern, O'Connell, Robinson, and Schneider and Representatives Boe, Guggisberg, Hogan, Mock, and Onstad voted "nay."

DEPARTMENT OF COMMERCE CENTERS OF EXCELLENCE AND CENTERS OF RESEARCH EXCELLENCE

Mr. Christopher Kalash, Commercialization Manager, Office of Innovation and Entrepreneurship, Department of Commerce, provided information ([Appendix U](#)) regarding the annual audit of centers of excellence recipient's awarded funds pursuant to Section 15-69-05 and the centers of research excellence recipient's awarded funds pursuant to Section 54-65-03. He said \$57.8 million of state centers of excellence funds and \$214.2 million in nonstate funds have generated a total economic impact of an estimated \$751 million.

Mr. Kalash said each centers of excellence award is monitored for a period of 6 to 10 years. Centers are reviewed after a period of at least 3 full fiscal years. He said the review includes determining whether the centers are having the desired economic benefits. Centers of excellence and centers of research excellence participants and the Centers of Excellence Commission assessment include:

Center of Excellence and Center of Research Excellence	Audit Results
NDSU - Center for Advanced Electronics Design and Manufacturing	No findings identified
NDSU - Center for Surface Protection	No findings identified
Lake Region State College - Dakota Precision Ag Center	No findings identified
NDSU - Center for Agbiotechnology: Oilseed Development	No findings identified
University of North Dakota (UND) Research Foundation - Center of Excellence in Life Sciences and Advanced Technology	No findings identified
UND - Unmanned Aircraft Systems Center of Excellence	No findings identified
Dickinson State University Strom Center for Entrepreneurship and Innovation - Institute for Technology and Business	Report not received
NDSU - Center for Biopharmaceutical Research and Production	No findings identified
NDSU - Center for Integrated Electronic Systems	No findings identified
NDSU - Center for Sensors, Communication, and Control	No findings identified
UND - Center of Excellence in Space Technology and Operations	No findings identified
UND Research Foundation - Center for Passive Therapeutics	No findings identified
UND - Petroleum Research, Education, and Entrepreneurship Center	Three findings identified
UND - SUNRISE BioProducts Center of Excellence for Chemicals, Polymers, and Composites from Crop Oils	No findings identified
NDSU - Center for Advanced Technology Development and Commercialization	No findings identified
Dakota College at Bottineau - Entrepreneurial Center for Horticulture	One finding identified
UND - Unmanned Aircraft Systems Software Curriculum and Development	One finding identified
UND - Unmanned Aircraft Systems Research, Education, and Training Enhancement Grant	One finding identified
UND - Law Enforcement and Public Safety Agency Small Unmanned Aircraft Systems Course	No findings identified
UND Certified Flight Instructor - V2 Aerospace, Inc., Technical Assistance Request	No findings identified
NDSU - Material and Nanotechnology Center	No findings identified
NDSU - Research 1 Expansion	No findings identified
UND - Grand Forks Air Force Base Realignment Business Transition	One finding identified
UND Center for Innovation - Certificate Programs for Motion Video and Activity-Based Intelligence Analysis	No findings identified
NDSU - Center for Life Sciences Research and Applications	No findings identified
UND - Center for Avian Therapeutics for Infectious Diseases	No findings identified
NDSU - Center for Biobased Materials, Science and Technology	No findings identified
UND - Limited Deployment Cooperative Airspace Project	No findings identified
NDSU - Limited Deployment Cooperative Airspace Project	No findings identified
UND - Global Hawk Sensor Operator Part Task Trainer	No findings identified
UND Center for Innovation Foundation - Joint Distributed Common Ground System	No findings identified
UND - Unmanned Aircraft Systems Airspace Initiative (Phase 2)	No findings identified
UND - Airspace Integration Team - Unmanned Aircraft Systems National Test Site (Phase I, II, III)	No findings identified
UND Certified Flight Instructor - Enhanced Use Lease for Grand Forks Air Base III	No findings identified
UND Certified Flight Instructor - Enhanced Use Lease for Grand Forks Air Base IV	One finding identified
Bismarck State College - National Energy Center of Excellence	No longer reporting
UND Energy and Environmental Research Center - National Center for Hydrogen Technology	No longer reporting
Williston State College - Petroleum Safety and Technology Center	No longer reporting
Valley City State University - Enterprise University	No longer reporting

HOUSING FINANCE AGENCY - HOUSING INCENTIVE FUND UPDATE

Ms. Jolene Kline, Executive Director, Housing Finance Agency, presented information ([Appendix V](#)) on progress being made to address the housing needs of essential service workers in the oil-impacted areas of the state. She said there have been no changes since the September 23, 2015, report in which it was reported that 24 projects have been awarded approximately \$35 million from the housing incentive fund. She said the projects reduced the number of existing housing units owned by political subdivisions by 6 units, and units master leased by essential worker employers decreased by 94 units.

STATE FIRE MARSHAL EXPENDITURES

Mr. Ken Sisk, State Deputy Fire Marshal, presented information ([Appendix W](#)) regarding expenditures by certified fire departments, district funds received from the insurance tax distribution fund, and reserve fund balances pursuant to Section 18-04-02. He said a certification packet was mailed in August 2015 to each fire service within the state. He said 320 reports have been received, and he anticipates receiving the remaining 50 reports in the near future. He said the reporting departments identified receiving \$6,780,000 and expending \$5,620,000 with \$1,160,000 remaining to be spent. He said of the Insurance Department reported \$7,268,193 of insurance tax distribution funds were distributed in 2014.

In response to a question from Representative Delzer, Mr. Sisk said the State Fire Marshall is not collecting information regarding the ending reserve fund balances of fire departments, only information regarding funds received from the insurance tax distribution fund.

In response to a question from Representative M. Nelson, Mr. Sisk said insurance premiums are affected by the response times of fire departments. He said if a fire department does not have adequate equipment, it will effect insurance premiums.

In response to a question from Representative Delzer, Mr. Raymond Lambert, State Fire Marshal, said information regarding each department's ending fund balance is not currently reported. He said he would review the possibility of collecting and making that information available to the Budget Section.

INDUSTRIAL COMMISSION - CORE LIBRARY EXPANSION PROJECT REPORT

Mr. Ed Murphy, State Geologist, Department of Mineral Resources, presented information ([Appendix X](#)) regarding the use of funding provided for the core library expansion project, including the amounts spent to date and the amounts anticipated to be continued into the 2017-19 biennium, and on the progress of the project pursuant to Section 25 of 2015 House Bill No. 1014. He said the project is being conducted under the construction manager at-risk process and has a guaranteed maximum price of \$13,633,902 of which \$624,787 has been spent to date. He said no funds are anticipated to be continued into the 2017-19 biennium.

In response to a question from Senator Bowman, Mr. Murphy said due to changes and advancements in technology, core samples will need to be stored on an ongoing basis for the foreseeable future.

COMMITTEE DISCUSSION AND STAFF DIRECTIVES

Representative Delzer expressed concern that the legislative branch is not involved in the approval of a new revenue forecast as it is during the session. He said the Legislative Assembly should consider legislation which would require legislative approval of any new revenue forecasts. He also suggested the Legislative Assembly may wish to consider the appropriate percentage of budget allotments prior to the Governor accessing the budget stabilization fund.

Chairman Lee announced the next meeting of the Budget Section is tentatively scheduled for Wednesday, March 16, 2015.

No further business appearing, Chairman Lee adjourned the meeting at 2:45 p.m.

Allen H. Knudson
Legislative Budget Analyst and Auditor

Chris Kadrmas
Fiscal Analyst

ATTACH:24