

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

BUDGET COMMITTEE ON GOVERNMENT FINANCE

Monday, October 12, 1998

Harvest Room, State Capitol and Jack Science Center, Bismarck State College
Bismarck, North Dakota

Senator David E. Nething, Chairman, called the meeting to order at 9:00 a.m. in the Harvest Room, State Capitol.

Members present: Senators David E. Nething, Bob Stenehjem; Representatives Rick Berg, Jeff W. Delzer, Bette Grande, Roy Hausauer, Keith Kempenich, Matthew M. Klein, Elwood Thorpe, Gerry Wilkie

Members absent: Senators Rod St. Aubyn, Harvey D. Tallackson; Representatives William E. Kretschmar, Ronald Nichols, Ben Tollefson

Others present: See attached appendix

Chairman Nething announced that without objection, the minutes of the previous meeting be approved.

BUDGET MONITORING

Ms. Pam Sharp, Deputy Director, Office of Management and Budget, presented a report on the status of the general fund. Ms. Sharp said the current estimate of the June 30, 1999, general fund balance is \$58.9 million, \$48.1 million more than the \$10.8 million estimate made at the close of the 1997 Legislative Assembly. Ms. Sharp said this projection is based on actual revenues collected through September 30, 1998.

Mr. Chester E. Nelson, Jr., Legislative Budget Analyst and Auditor, Legislative Council, asked whether recent changes in the farm economy will affect the preliminary revenue forecast for the 1999-2001 biennium. Ms. Sharp said it appears the Asian economic crisis will have more of an impact on North Dakota than initially anticipated. She said the revenue forecast being prepared for the executive budget recommendation will take this into account, and revenues may be less than the preliminary revenue forecast.

Representative Berg suggested that the Office of Management and Budget monitor agency expenditures and estimate unspent appropriation authority for the biennium for inclusion in the general fund status report.

Mr. Jim Smith, Assistant Legislative Budget Analyst and Auditor, Legislative Council, presented a memorandum entitled *Department of Human Services TANF and Medical Assistance Grants*. Mr. Smith presented the following schedule summarizing actual expenditures to date and savings (excess costs) compared to the original budget for the temporary assistance for needy families (TANF) program, traditional medical assistance, and developmental disabilities grants:

Program	Original Budgeted Expenditures to Date		Actual Expenditures to Date		Savings (Excess Costs) to Date	
	Total Funds	General Fund	Total Funds	General Fund	Total Funds	General Fund
TANF (August 1998)	\$23,156,997	\$2,892,120	\$16,438,406	\$2,221,603	\$6,718,591	\$670,517
Traditional medical assistance (August 1998)	259,123,357	64,321,976	251,478,967	68,405,204	7,644,390	(4,083,228)*
Developmental disabilities grants (May 1998)	51,170,084	17,211,366	51,286,178	16,959,187	116,094	252,179
Total all programs	\$333,450,438	\$84,425,462	\$319,203,551	\$87,585,994	\$14,479,075	(\$3,160,532)

* Although the comparison to the original budget indicates the department will spend \$4 million more than budgeted, the latest estimate indicates the department will spend a total of \$132.7 million from the general fund for Medicaid, \$1.2 million **less** than the **revised estimate**.

Mr. Paul Kramer, Senior Fiscal Analyst, Legislative Council, presented a memorandum entitled *Comparison of Estimated and Actual FTE Positions, Expenditures, Revenues, and Populations at the Charitable and Penal Institutions for the Period July 1, 1997, Through June 30, 1998*. Mr. Kramer said total

expenditures at the charitable and penal institutions for the period July 1, 1997, through June 30, 1998, were \$76,065,190, \$2,735,005 (3.5 percent) less than the estimated expenditures of \$78,800,195. Total revenues for the same period were \$33,033,217,

\$1,116,611 (3.5 percent) more than the estimated revenues of \$31,916,606.

Mr. Kramer said for the first 12 months of the biennium, the average monthly student, resident, and inmate population of the charitable and penal institutions averaged 1,862.6, 52.4 fewer than the estimated population of 1,915. The average monthly FTE positions for the same institutions totaled 1,494.12, 40.5 fewer than the estimated FTE level of 1,534.62.

The Legislative Council staff presented a memorandum entitled *Comparison of Estimated and Actual Expenditures, Revenues, and Enrollments at the Institutions of Higher Education for the Period July 1, 1997, Through June 30, 1998*. The Legislative Council staff said expenditures at the institutions of higher education for the period July 1, 1997, through June 30, 1998, totaled \$220,742,074, \$11,622,988

(five percent) less than estimated expenditures of \$232,365,062. Income for the year totaled \$75,307,270, \$4,105,016 (5.2 percent) less than estimated income of \$79,412,286. The Legislative Council staff said FTE student enrollment for the first year totaled 28,308 students, 902 students (3.1 percent) less than estimated FTE student enrollment of 29,210 students.

Mr. Joe Morrissette, Senior Fiscal Analyst, Legislative Council, presented a memorandum entitled *Status Report on Foundation Aid and Other Payments to School Districts*. Mr. Morrissette presented the following schedule comparing estimated and actual per student payments, tuition fund distributions, and weighted student units for the biennium:

	Legislative Estimate	Actual 1997-98 and Current Estimate 1998-99	Actual/Current Estimate Increase (Decrease) From Legislative Estimate
1997-98			
Per student payments	\$1,954	\$1,954	\$0
Tuition fund distributions	204	216	12
Total payments	\$2,158	\$2,170	\$12
Weighted student units	125,691	123,791	(1,900)
1998-99			
Per student payments	\$2,032	\$2,032	\$0
Tuition fund distributions	204	216	12
Total payments	\$2,236	\$2,248	\$12
Weighted student units	125,585	121,967	(3,618)

Mr. Morrissette presented the following schedule comparing estimated and actual foundation aid program payments for the 1997-99 biennium:

	1997-99 Biennium Appropriation	1997-98 Actual Payments	1998-99 Estimated Payments	Estimated Remaining Balance
Statutory per student payments	\$501,886,540	\$241,817,263	\$249,706,447 ²	\$10,362,830
Less mill levy and excess fund balance deduct	72,298,601	35,629,288	36,967,986 ³	(298,673)
General fund per student payments	\$429,587,939 ¹	\$206,187,975	\$212,738,461	\$10,661,503
Transportation payments	36,768,320	17,882,508	18,000,000	885,812
Total general fund - Foundation aid program	\$466,356,259	\$224,070,483	\$230,738,461	\$11,547,315 ⁴

¹ Appropriation for per student payments - Section 11 of 1997 House Bill No. 1013 provided that up to \$300,000 of the amount appropriated for foundation aid must be used by the Department of Public Instruction to provide payments to school districts for educating students with limited English proficiency, pursuant to North Dakota Century Code (NDCC) Section 15-40.1-07.7.

² Statutory per student payments - 1998-99 - the estimated 1998-99 per student payments are based on a 1.5 percent decline in weighted student units from 1998-99, as estimated by the Department of Public Instruction.

³ Mill levy and excess fund balance deduct - 1998-99 - due to an increase in the statewide property valuation, the 1998-99 mill deduct will be approximately \$36.77 million, \$100,000 more than the amount used to calculate the foundation aid appropriation. The excess fund balance deduct (NDCC Section 15-40.1-06) for 1998-99 is currently estimated to be approximately \$200,000, \$100,000 more than the amount used to calculate the appropriation.

⁴ Estimated remaining balance - the estimated June 30, 1999, remaining foundation aid balance is approximately \$11.5 million, which if distributed as foundation aid per student payments, will result in an additional payment of approximately \$95 per weighted student.

BUDGET PROCESS STUDY

The Legislative Council staff presented a memorandum entitled *Budget Process Study - Issues to Address*. The Legislative Council staff reviewed committee activities and information relating to the following budget issues identified in House Concurrent Resolution No. 3045 directing the committee's study of the budgeting process:

1. Review the results of the program-based performance budgeting pilot project. The program-based performance budgeting pilot project began in North Dakota during the 1993-94 interim and involved 14 agencies. Currently, nine agencies receive program appropriations, and all 14 agencies involved in the pilot project continue to review and monitor their performance measures. States most involved in performance budgeting include Florida, Louisiana, Montana, and Texas.
2. Review how agency and institution appropriation balances at the end of a biennium should be handled. The Legislative Council staff identified 13 sections of appropriation bills that allow agencies to continue appropriation authority beyond the close of a budget cycle. Ten of these sections allow agencies to continue appropriation authority beyond the 1995-97 biennium, and three sections authorize agencies to continue 1997-99 appropriations beyond June 30, 1999. The amount of authority continued beyond June 30, 1997, totaled \$8,060,622. This amount is in addition to the capital improvements carryover authorized by the Office of Management and Budget pursuant to NDCC Section 54-44.1-11 which for 1995-97 appropriations totaled \$2,511,602. A review of selected other states reveals that most other states' policies are similar to that of North Dakota which provides that any unspent appropriation authority is canceled at the close of a budget cycle unless an exemption is provided by the Legislative Assembly.
3. Determine the benefits that new information technology could provide in budget development and budget presentation. Possible benefits in new technology on budget development and budget presentations include:
 - a. Budget presentation methods involving new technology may include:
 - (1) Overheads.
 - (2) Slides.
 - (3) Computer-generated presentations.
 - (4) Audio.
 - (5) Video.

- (6) Additional supporting information available at the hearing to respond to questions.
- (7) Ability to have interactive video access to experts or other groups to provide information to the committee.
- b. Budgetary information that should be available on-line may include:
 - (1) Office of Management and Budget reports:
 - (a) Budget requests.
 - (b) Budget recommendations.
 - (c) Budget summary.
 - (d) Other.
 - (2) Legislative Council staff reports:
 - (a) Budget status.
 - (b) Fiscal impact report.
 - (c) Agency summaries.
 - (d) Budget analysis reports.
 - (e) Other.
 - (3) Agency information:
 - (a) Testimony.
 - (b) Supporting documents.
 - (c) Other.
 - (4) Fiscal notes.
4. Consider the effects of budget recommendations on future biennial budgets.
 - a. Items to consider may include:
 - (1) One-time revenues.
 - (2) One-time expenditures.
 - (3) New program expenditures.
 - (4) Discontinued program expenditures.
 - (5) Leases or other contractual obligations of agencies if continued beyond one biennium.
 - (6) Delayed effective date legislation.
 - b. Ways to present the effects of budget recommendations on future budgets may be to:
 - (1) Require this information to be included on budget request forms.
 - (2) Require this information to be included in executive budget documents.
 - (3) Continue to include this information in fiscal notes.
 - (4) Encourage the Legislative Assembly, when possible, to include this information in its budget-related documents.
5. Review the detailed information supporting agency budget requests and the executive budget recommendation. Types of information to support budgets to be addressed may include:
 - a. Budget request information.
 - b. Budget recommendation information.

- c. Statement of purpose of amendment information.
- d. Fiscal note information.

Representative Delzer asked whether the Office of Management and Budget will prepare a performance report at the close of the 1997-99 biennium for the agencies involved in the pilot project. Ms. Arvy Smith, Office of Management and Budget, said the last report completed was for fiscal year 1997. She believes the pilot agencies may include some performance information in their budget requests; however, she does not anticipate the Office of Management and Budget will prepare a performance measure report for the 1997-99 biennium unless specifically requested to do so.

Mr. Nelson said his position relating to unspent appropriation authority has been that any unspent authority at the end of a budget cycle should be canceled, and if necessary, reappropriated for the following biennium. He said this allows the Legislative Assembly the opportunity to review unspent authority and its use. He said if too much carryover authority is approved, the biennial state budget will not be accurate and the Appropriations Committees may find it difficult to determine funding priorities if agencies have access to funds in carryover accounts.

Senator Nothing said in reviewing the past exceptions authorized by the Legislative Assembly, it appears that the Legislative Assembly approves each carryover request.

Senator Nothing asked the Office of Management and Budget for comments regarding unspent appropriation authority. Ms. Smith said in the past, the Office of Management and Budget has introduced legislation that would allow agencies to keep a portion of their unspent appropriation authority for one-time expenditures; however, she said the Legislative Assembly did not approve this proposal.

Representative Berg indicated that if the state had a system for measuring agency performance, allowing agencies to retain a portion of their unspent appropriations could be an incentive for improving agency performance.

Representative Wilkie noted that some other states transfer their unspent appropriation authority to a budget reserve fund. He suggested this option be considered to provide funding stability if budget reductions become necessary in the future.

Representative Delzer expressed support for the Legislative Assembly retaining control of agency appropriations by canceling appropriation authority at the close of a budget cycle.

Senator Nothing said that an important use of new information technology is to provide better budget information to legislators not serving on Appropriations Committees.

Representative Berg expressed support for simplifying budget reports so legislators not on Appropriations Committees and citizens can understand the

state budget. He suggested preparing an executive summary budget report to provide this type of information.

Regarding budget presentations, Mr. Nelson said the Budget Committee on Human Services, which contracted with the Public Administration Service in its study of the Department of Human Services, identified methods of improving budget presentations of the Department of Human Services. He said this may be appropriate for other agencies as well.

Senator Nothing indicated the committee may wish to encourage agencies to present their budget proposals in a simplified manner in order to provide the Appropriations Committees with a synopsis of what the agency has accomplished, what has worked and what has not, and what the agency intends to do with the funding requested and why.

Representative Kempenich expressed support for budgetary changes being available to legislators as they occur in the Appropriations Committees. Mr. Nelson said a long-range goal of the budgeting process is to make appropriations changes based on current activities, trends, and transactions, rather than historic information. He expressed concern regarding reporting appropriations and revenue changes too quickly. He said a number of appropriations and revenue changes need to be reconciled before they are reported due to numerous changes occurring that affect the same appropriation or revenue type.

Mr. Smith reviewed the Public Administration Service recommendation regarding presentation of the Department of Human Services budget to legislative committees during the session. He said the recommendation was approved by the Budget Committee on Human Services and provides that budget presentations for committees of the Legislative Assembly be presented as a "budget in brief" that includes the following format:

1. Review the Governor's guidance under which the budget is being submitted.
2. Identify the overall goals of the department for the biennium, identifying any significant changes from the previous biennium and reasons for the change.
3. Highlight pertinent trends, projections, and influences on the budget.
4. Provide an overall high-level summary of the expenditures necessary to support the department's goals and identify federal, state, local, and private shares.
5. Provide a high-level summary of projected revenue by revenue source.
6. Identify specific initiatives that result in improved service, increased efficiencies and effectiveness, and those that support special projects.
7. Identify new programs and major modifications to existing ones and the reason for the change.

8. Identify programs and services that are candidates for elimination and why. Describe the impact of eliminating these programs.
9. Provide rhetorical questions and answers and how a legislator can obtain additional information.

Representative Kempenich expressed support for the proposed presentation format. He said it would be helpful if all agencies provided similar presentations.

Representative Berg expressed support for the recommendation of the Public Administration Service. He indicated that a "budget in brief" for an agency could be useful for legislators presenting information at caucus meetings.

Senator Nething expressed concern regarding the lack of supporting information for legislators to use in reviewing the accuracy of fiscal notes.

Senator Nething commented on information used to support agency budget requests and indicated that if the Legislative Assembly develops its own budget in addition to the executive budget, supporting information prepared by agencies will need to be made available to the Legislative Assembly to a greater extent than it currently is.

It was moved by Representative Berg, seconded by Representative Grande, and carried on a voice vote that the committee expresses support for the Department of Human Services using the budget presentation format listed below recommended by the Public Administration Service and approved by the Budget Committee on Human Services and recommends that the Legislative Assembly be supportive of other agencies making their budget presentations using a similar format.

1. Review the Governor's guidance under which the budget is being submitted.
2. Identify the overall goals of the department for the biennium, identifying any significant changes from the previous biennium and reasons for the change.
3. Highlight pertinent trends, projections, and influences on the budget.
4. Provide an overall high-level summary of the expenditures necessary to support the department's goals and identify federal, state, local, and private shares.
5. Provide a high-level summary of projected revenue by revenue source.
6. Identify specific initiatives that result in improved service, increased efficiencies and effectiveness, and those that support special projects.
7. Identify new programs and major modifications to existing ones and the reason for the change.

8. Identify programs and services that are candidates for elimination and why. Describe the impact of eliminating these programs.
9. Provide rhetorical questions and answers and how a legislator can obtain additional information.

Representative Berg suggested the Appropriations Committees create performance measures for agencies involved in performance budgeting during the session.

Mr. Nelson expressed concern regarding the amount of time it would take Appropriations Committees to create performance measures for agencies during the session.

It was moved by Representative Berg, seconded by Representative Grande, and carried on a voice vote that if the program-based performance budgeting pilot project continues, that the Appropriations Committees review agency performance and create, with agency input, performance measures for these agencies.

It was moved by Senator Stenehjem, seconded by Representative Kempenich, and carried on a voice vote that as future changes are made to the budgeting process, that the following items be considered as part of those changes:

1. The involvement of new technology in budget presentations that may include:
 - a. Overheads.
 - b. Slides.
 - c. Computer-generated presentations.
 - d. Audio.
 - e. Video.
 - f. Additional supporting information available at the hearing to respond to questions.
 - g. Ability to have interactive video access to experts or other groups to provide information to the committee.
2. The availability of budgetary information on-line that may include:
 - h. Office of Management and Budget reports including budget requests, budget recommendations, budget summaries, and other budgetary information.
 - i. Legislative Council staff reports including budget status, fiscal impact reports, agency summaries, budget analysis reports, and other budgetary information.
 - j. Agency information including testimony, supporting documents, and other information.
 - k. Fiscal notes.
3. The effect of budget recommendations that involve one-time revenues, one-time expenditures, new program

expenditures, discontinued program expenditures, leases or other contractual obligations, and delayed effective date legislation on future budgets by:

- i. Requiring this information to be included on budget request forms.
 - m. Requiring this information to be included in executive budget documents.
 - n. Continuing to include this information in fiscal notes.
 - o. Encouraging the Legislative Assembly, when possible, to include this information in its budget-related documents.
4. That adequate information be provided supporting agency budget requests, executive budget recommendations, statement of purpose of amendment information, and fiscal note information.

INVESTMENT PROCESS STUDY

Mr. Steve Cochrane, Investment Director, Retirement and Investment Office, presented information on the status of investments of the Retirement and Investment Office. Mr. Cochrane said investments during the first quarter of fiscal year 1999 have had negative returns. He said the bonding fund experienced a 5.88 percent negative return and the fire and tornado fund a 5.89 percent negative return. As of the end of August, he said, the bonding fund balance was \$3,936,000, \$1,436,000 more than the minimum balance requirement of \$2,500,000. At the end of August 1998, Mr. Cochrane said the fire and tornado fund had a balance of \$15,653,000, \$3,653,000 more than the minimum balance requirement of \$12 million.

Mr. Cochrane presented the following schedule showing investment returns for the various funds invested by the Retirement and Investment Office for fiscal year 1997, fiscal year 1998, and for the first quarter of fiscal year 1999.

Investment Performance (Percentages)			
Fund	Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999 - First Quarter ¹
Insurance Trust			
Consolidated	16.07	15.22	-5.42
Workers' compensation	16.57	15.82	-5.59
Fire and tornado	9.67	14.38	-3.60
Bonding	9.49	14.33	-3.50
Insurance regulatory	11.18	11.62	-3.13
Petroleum tank release compensation	12.66	13.26	-4.14
Risk management	N/A	12.39	1.26
Veterans postwar trust	N/A	15.97 (6 mos.)	-12.48
Pension Trust			
Consolidated	19.48	14.71	-7.15
Public Employees Retirement System	19.71	16.07	-5.40
Teachers' Fund for Retirement	19.29	14.05	-8.27
Bismarck police	18.24	17.29	-5.01
Bismarck employees	18.25	17.35	-4.94
Job Service	27.89	22.36	-9.80

¹ September returns are unreconciled and are subject to change.

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

Mr. Bob Olheiser, Executive Director, Board of University and School Lands, presented a report on the status of investments of the Land Department. Mr. Olheiser reported that the total asset value of \$465.1 million on June 30, 1998, has been reduced to an estimated \$443.2 million on September 30, 1998. He said equity and convertible securities experienced a -12.12 return for the first quarter of fiscal year 1999. However, he said, since the asset allocation plan was implemented in August 1995, equity and convertible securities have had an annualized rate of return of 12.46 percent which is 2.46 percent more than projected when the plan was initiated.

Mr. Olheiser said the Board of University and School Lands will be refinancing its developmental disability loans, which were loans made by the

common schools trust fund at a rate of 10.2 percent. He estimated that the rate after refinancing will be 7.5 percent.

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

The committee recessed for lunch at 12:00 noon and reconvened at 12:45 p.m.

TRANSPORTATION FUNDING STUDY

Mr. Marshall W. Moore, Director, Department of Transportation, reported on the status of highway funding, including the needs of the state, cities, and counties for additional funding to match federal highway funds. Mr. Moore said the total federal aid apportionments that North Dakota will receive increases from \$110 million in 1997 to almost \$175 million in 2003.

Mr. Moore said the Department of Transportation received an average of \$75 million per year in federal funds during 1996 and 1997, and based on the new federal legislation, the department will receive approximately \$125 million per year by 2003 or an increase of approximately \$50 million per year. He said cities and counties will also receive an increase in federal funds under the Transportation Equity Act for the 21st Century (TEA21). He said the cities' share will increase to approximately \$25 million per year for 1998 through 2003 compared to an average of \$17.8 million per year in 1996 and 1997. Mr. Moore said the counties' share will increase to approximately \$19 million per year for 1998 through 2003 compared to an average of \$12.4 million per year in 1997 and 1998.

Mr. Moore estimates that the Department of Transportation will need an additional \$10 million in state matching funds per year or approximately \$20 million during the next biennium to match the anticipated increase in federal funding. To match the increase in federal highway funds, Mr. Moore estimates that cities

will need \$2 million of additional matching funds per year and counties will need \$2 million per year in additional matching funds.

Mr. Moore said if the additional revenue needed to match the federal funds is received through the state highway tax distribution fund, approximately \$32 million of new funds will need to be generated during the next biennium. Of the \$32 million, the department would receive \$20.2 million, the counties would receive \$7.3 million, and the cities would receive \$4.5 million.

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

The Legislative Council staff presented a memorandum entitled *North Dakota Highway Funding Under the Transportation Equity Act for the 21st Century*.

The Legislative Council staff reviewed the following schedule showing the estimated federal fund obligation authority for various highway funding categories for the years 1996 through 2003:

Federal Fiscal Year	Interstate	National Highway	Surface Transportation	Bridge	Recreation and Priority/Demo Projects	Other	Total
FY 1996 (actual)	\$18.2	\$21.7	\$39.7	\$10.5	\$8.2	\$13.8	\$112.1
FY 1997 (actual)	\$20.6	\$24.8	\$39.4	\$6.7	\$9.4	\$9.7	\$110.6
FY 1998 (actual)	\$20.5	\$51.0	\$30.6	\$1.5	\$1.4	\$26.6	\$131.6
FY 1999 (estimate)	\$25.6	\$68.2	\$28.8	\$5.2	\$4.5	\$25.8	\$158.1
FY 2000 (estimate)	\$25.9	\$69.1	\$20.3	\$9.7	\$0.8	\$33.3	\$159.1
FY 2001 (estimate)	\$26.5	\$70.5	\$31.0	\$8.0	\$11.9	\$25.1	\$173.0
FY 2002 (estimate)	\$27.0	\$71.9	\$31.5	\$8.6	\$2.2	\$25.6	\$166.8
FY 2003 (estimate)	\$27.5	\$73.6	\$32.2	\$8.7	\$7.6	\$25.2	\$174.8

The Legislative Council staff reviewed the following schedule showing estimated federal fund

receipts and state, county, and city matching requirements under TEA21:

Biennium	Federal Funds to State ¹	Required State Match ¹	Federal Funds to Counties	Required County Match	Federal Funds to Cities	Required City Match	Federal Funds to Others	Required Match	Total Federal Funds	Total Required Match
1997-99	\$180.8	\$35.4	\$25.3	\$6.3	\$36.5	\$6.5	\$2.1	\$0.5	\$244.7	\$48.7
1999-2001	\$222.2	\$45.7	\$40.2	\$10.0	\$50.8	\$10.3	\$4.0	\$1.0	\$317.2	\$67.0
2001-03	\$240.2	\$50.4	\$39.8	\$10.0	\$55.4	\$9.6	\$4.4	\$1.1	\$339.8	\$71.1

¹ Includes the state share on projects that may involve the state and a city or the state and a county.

The Legislative Council staff said the Department of Transportation estimates the need for an additional \$20 million of state highway fund revenues to provide adequate funding for the highway construction program funding provided under TEA21. If the additional funding is provided solely from a motor vehicle fuel tax increase, the department estimates that a 23.3 cent per gallon motor fuel tax rate would be needed, 3.3 cents more than the current rate of

20 cents per gallon. If the additional funding is provided solely from motor vehicle registration fees, these fees would need to be increased by approximately \$21 per year.

The Legislative Council staff presented the following information on the Department of Transportation 1999-2001 budget request:

	1999-2001 Budget Request ¹	1997-99 Budget	Increase (Decrease)
Administration	\$21,437,907	\$22,383,770	(\$945,863)
Motor vehicle	10,504,277	7,094,615	3,409,662

	1999-2001 Budget Request ¹	1997-99 Budget	Increase (Decrease)
Driver's license	9,142,707	8,950,358	192,349
Highways	543,728,642	489,965,256	53,763,386
Fleet Services	34,608,151	30,662,535	3,945,616
Total	\$619,421,684	\$559,056,534	\$60,365,150
Federal funds	\$361,865,767	\$308,354,061	\$53,511,706
Special funds	257,555,917	250,702,473	6,853,444
Total	\$619,421,684	\$559,056,534	\$60,365,150

¹ Includes \$82.2 million of optional adjustment requests of the Department of Transportation.

Department of Transportation Major Budget Changes Included in Its 1999-2001 Budget Request			
	Federal Funds	Special Funds	Total
Base budget changes:			
Pay plan adjustments (includes cost to continue the July 1, 1998, three percent salary increase for both years of the 1999-2001 biennium)	\$2,238,807	(\$1,422,382)	\$816,425
Reductions made to comply with the Governor's 95 percent budget guideline		(6,372,719)	(6,372,719)
Costs to continue current operations	(12,628,680)	(3,666,047)	(16,294,727)
Subtotal (base budget changes)	(\$10,389,873)	(\$11,461,148)	(\$21,851,021)
Optional adjustment requests:			
Additional federal highway construction funds available under TEA21	\$63,901,579	\$14,027,175	\$77,928,754
Restoration of out-of-state travel funding reduced by 25 percent in the 95 percent budget request		107,214	107,214
New license plate issue		2,827,623	2,827,623
Automate an additional 10 driver's license sites. Currently, 26 of the 44 sites are automated. The remaining eight sites would be eliminated.		100,000	100,000
Teleconference system for the department's central office and its eight district offices		162,080	162,080
Workstations for one division in the central office and one district		108,000	108,000
Expand the Devils Lake shop and replace an additional seven section buildings		982,500	982,500
Subtotal (optional adjustments)	\$63,901,579	\$18,314,592	\$82,216,171
Total budget changes	\$53,511,706	\$6,853,444	\$60,365,150

NOTE: For informational purposes only, the estimated cost of a three percent per year salary increase for the 1999-2001 biennium for employees of the Department of Transportation totals \$3,827,153, \$2,104,934 of which is federal funds and \$1,722,219 of special funds. This funding is not reflected in the amounts on this schedule.

The Legislative Council staff presented information on motor vehicle registration fees collected in calendar years 1996 and 1997 by vehicle category. The Legislative Council staff said motor vehicle registration fee collections totaled \$44.3 million in calendar year 1996

and \$47.3 million in calendar year 1997.

The Legislative Council staff presented the following schedule showing estimated federal transit funding provided for public transportation systems in the state under TEA21:

North Dakota Highway Funding Federal Transit Funding for the Years 1997 Through 2003					
Fiscal Year	Bismarck	Fargo	Grand Forks	Rural	Total
FY 1997 (actual)	\$413,373	\$597,844	\$422,327	\$569,817	\$2,003,361 ¹
FY 1998 (actual)	\$504,681	\$729,898	\$515,611	\$554,818	\$2,305,008 ¹
FY 1999 (estimate)	\$555,520	\$803,425	\$567,551	\$1,121,982	\$3,048,478 ²
FY 2000 (estimate)	\$603,492	\$872,804	\$616,562	\$1,209,632	\$3,302,490 ²
FY 2001 (estimate)	\$652,418	\$943,564	\$666,547	\$1,299,025	\$3,561,554 ²
FY 2002 (estimate)	\$701,096	\$1,013,964	\$716,279	\$1,387,963	\$3,819,302 ²
FY 2003 (estimate)	\$750,221	\$1,085,012	\$766,468	\$1,477,720	\$4,079,421 ²

¹ Amounts shown are for the state fiscal year ending June 30 of each year.
² Amounts shown are for the federal fiscal year ending September 30 of each year.

NOTE: The amounts shown for years 1999 through 2003 are the apportionments included in TEA21. The actual amounts that will be available to North Dakota must be appropriated each year by Congress and may be less than the amount apportioned in TEA21.

The Legislative Council staff distributed a program summary of the public transportation aid fund which

receives funding from a \$1 fee on motor vehicle registrations.

Senator Stenehjem asked for the estimated revenue that will be generated from administrative rule changes affecting highway-related fees. Mr. Moore said there will not be a major change in revenues resulting from these administrative rule changes.

Ms. Shirley Brennen, Minot, commented on the need for additional funding for public transportation systems that provide services to the elderly and people with disabilities. She said because public transportation providers do not provide evening and weekend services it is difficult for individuals relying on these systems to become employed or involved in social activities. She asked the committee to consider recommending a \$1 increase in the motor vehicle registration fee dedicated for public transportation. Ms. Brennen distributed a petition with 320 signatures expressing support for increasing motor vehicle registration fees by \$1, from \$1 to \$2 for public transportation systems. Copies of Ms. Brennen's testimony and the petitions are on file in the Legislative Council office.

Mr. Brian Korte, Minot, commented on public transportation systems. He said most jobs offered to people with disabilities are minimum wage jobs and require work on evenings and weekends. He said there is a need for public transportation services on evenings and weekends.

Ms. Kathleen M. Lane, Minot, commented on the need for additional funding for public transportation systems. Ms. Lane said she recently moved to Velva and finds it difficult to receive transportation services to and from Minot without being required to stay overnight in Minot and return the following day. She said it is a financial burden for her to pay for a motel stay when traveling to Minot for various purposes.

Ms. Mary Edwards, Minot, commented on the need for additional public transportation services. She said it is very difficult to obtain employment without a reliable source of transportation to-and-from work.

Mr. Rick Thoms, Executive Director, Souris Basin Transportation, Minot, commented on public transportation systems. He expressed support for increasing the fee for public transportation from \$1 to \$2 per motor vehicle registration to provide additional funding for public transportation providers to use to match the additional federal funds that will become available under TEA21. A copy of his testimony is on file in the Legislative Council office.

Senator Nething suggested that if a bill is introduced to the 1999 Legislative Assembly increasing funding for public transportation systems, the public transportation providers should submit information to the Legislative Assembly identifying the need for the additional funds and how public transportation services will be changed if additional funding is provided.

Mr. Darrell Michalenko, Superintendent, Minot City Bus Service, commented on the need for additional

public transportation funding in the state. He said if the additional funding is approved, the Minot city bus could provide an additional route or extend its service hours to the residents of Minot.

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

Regarding the transportation funding study, Chairman Nething said the committee has:

1. Received testimony on the need for a \$1 increase in motor vehicle registration fees for public transportation systems.
2. Received information from the Department of Transportation indicating the need to continue the three cent motor vehicle fuel tax that is scheduled to expire on January 1, 2000, to be used for matching additional federal funds.
3. Discussed changing the point of taxation on motor fuel taxes.

Representative Thorpe said the committee has been made aware of transportation difficulties for the elderly and persons with disabilities especially in rural areas of the state.

Representative Kempenich indicated that additional funding for highways in the state may need to be provided from a combination of revenue sources, including motor vehicle fuel taxes, motor vehicle registration fees, and other sources.

Senator Stenehjem suggested that additional funding may be made available for highway construction if a portion of funding for the highway patrol was provided from sources other than the highway fund.

Mr. Nelson distributed a report on options and major fiscal issues affecting the state of North Dakota's 1999-2001 biennium general fund budget. Mr. Nelson said based on preliminary revenue estimates and potential funding requirements for the 1999-2001 biennium, the estimated July 1, 2001, general fund balance may be \$14 million.

It was moved by Representative Hausauer, seconded by Senator Stenehjem, and carried that the chairman and the staff of the Legislative Council be requested to prepare a report and the bill draft recommended by the committee and to present the report and recommended bill draft to the Legislative Council. Senators Nething and Stenehjem and Representatives Delzer, Grande, Hausauer, Kempenich, Klein, Thorpe, and Wilkie voted "aye." No negative votes were cast.

The committee traveled to Bismarck State College and conducted a tour of the Jack Science Center, the Sykes Student Success Center, and Schafer Hall.

Mr. Dave Clark, Bismarck State College, said with the completion of the Jack Science Center, the college is now in Phase 1 of remodeling Schafer Hall. He said the 1997 Legislative Assembly provided \$965,000 for Phase 1 of the project which will include the remodeling of 10,600 square feet on the second

and third floors on the east side of the building and also the central stair area on the first floor.

Mr. Clark said Phase 2 of the project involves remodeling approximately 33,000 square feet of the existing building and adding 7,700 square feet for music, a stairwell, and for housing the college's information services staff. He said the estimated cost of Phase 2 is \$4.3 million. He said this amount is included on the State Board of Higher Education's priority list for the 1999-2001 biennium and will be requested for approval from the 1999 Legislative Assembly.

Dr. Donna Thigpen, President, Bismarck State College, reported Bismarck State College's fall 1998 headcount enrollment at 2,594 and its fall 1998 student FTE count at 2,082. Dr. Thigpen said approximately one-third of local graduating seniors attend Bismarck State College. She said based on projected graduates from the Bismarck public school system, headcount enrollment at Bismarck State College is projected to be 2,800 by the year 2000.

Dr. Thigpen commented on the programs and services at Bismarck State College. She said although student numbers at the college are reported at approximately 2,000, the college actually served over 16,000 people during the 1997-98 academic year. She said this is a 15 percent increase from the previous year.

Dr. Thigpen said the college provides a number of cooperative programs with other higher education institutions, including graduate programs offered from the University of North Dakota; bachelor's degree programs in criminal justice and business management provided by Minot State University; bachelor's degree programs in university studies, English, and composite social studies offered by Dickinson State University; a nursing program offered by the North Dakota State College of Science; and a legal assistance program offered by the University of North Dakota - Lake Region.

Mr. Clark commented on the college's 1999-2001 budget request. He said in the 95 percent budget request, the college has eliminated 11 positions including eight instructional positions and three support services positions. He said as a result, two programs have been eliminated—the small business management program and the adult farm management program.

Mr. Clark said in the needs-based budget, the college has reinstated these two programs as well as seven of the 11 positions eliminated. He said funding relating to the other four positions has been reallocated to other priorities, including additional funding for salary increases as directed by the State Board of Higher Education, providing more instructors in programs with growing enrollment, and for new programs.

Mr. Clark compared the college's 1999-2001 budget request to its 1997-99 budget. He said the

request totals \$30.1 million, \$2.5 million more than the 1997-99 budget of \$27.6 million. He said of these amounts, \$14.5 million in the 1999-2001 budget request is from the general fund, which is approximately \$300,000 less than the \$14.8 million from the general fund included in the 1997-99 budget.

Mr. Clark said as part of the college's capital improvements request for the next biennium, \$91,000 of special assessments are included in the request.

Mr. Clark commented on major capital improvement projects included in the 1999-2001 budget request. He said the Schafer Hall renovation project totals \$4.3 million, of which \$3.7 million is being requested from state funds and \$600,000 is from local or private funds. He said the college is requesting to issue revenue bonds of \$250,000 to renovate its student union. He said the bonds will be repaid from a 50 cent per credit hour fee paid by students.

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

It was moved by Representative Grande, seconded by Senator Stenehjem, and carried that the meeting be adjourned sine die.

The meeting was adjourned at 4:40 p.m.

Allen H. Knudson
Senior Fiscal Analyst

Chester E. Nelson, Jr.
Legislative Budget Analyst and Auditor

ATTACH:1