

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

BUDGET COMMITTEE ON GOVERNMENT FINANCE

Wednesday and Thursday, June 24-25, 1998
State Penitentiary, Bismarck, and Harvest Room, State Capitol
Bismarck, North Dakota

Senator David E. Nething, Chairman, called the meeting to order at 1:30 p.m. at the State Penitentiary.

Members present: Senators David E. Nething, Rod St. Aubyn, Bob Stenehjem; Representatives Rick Berg, Jeff W. Delzer, Bette Grande, Roy Hausauer, Keith Kempenich, Matthew M. Klein, William E. Kretschmar, Ronald Nichols, Elwood Thorpe, Ben Tollefson, Gerry Wilkie

Member absent: Senator Harvey D. Tallackson

Others present: Elaine Little, Tim Schuetzle; Department of Corrections and Rehabilitation, Bismarck

Marshall W. Moore, Department of Transportation, Bismarck

Rod Backman, Office of Management and Budget, Bismarck

Scott Engmann, Steve Cochrane; Retirement and Investment Office, Bismarck

Bob Olheiser, Land Department, Bismarck

Rick Clayburgh, Gary Anderson; Tax Department, Bismarck

Connie Sprynczynatyk, North Dakota League of Cities, Bismarck

Nancy Wilath, Grand Forks

Bruce Furness, Fargo

Fred Bott, Devils Lake

See attached appendix for additional persons present.

BUDGET TOUR

Ms. Elaine Little, Director, Department of Corrections and Rehabilitation, presented statistical information on the State Penitentiary inmate population. Ms. Little presented the following schedule of the inmate population in June of each year:

Table with 2 columns: Year (1993-1998) and Inmate Population (573-907)

Ms. Little presented the following schedule comparing inmate admissions of selected offenses from 1993 to 1997:

Table with 3 columns: Offense (Violent, Sex, Drug, Property offenders), 1993, 1997

Ms. Little noted the large increase in the number of drug offenders being admitted to the Penitentiary since 1993. She said in 1990, 35 percent of prison inmates were incarcerated because of a property offense. She said that percentage has now decreased to 24 percent because of the increases in other categories.

Regarding lengths of sentences, Ms. Little said in 1990, 15 percent of the Penitentiary population was serving sentences of 10 or more years. She said in 1998, 21 percent of the Penitentiary population is serving sentences of 10 or more years.

Senator St. Aubyn asked for information on the number of federal inmates or inmates from other states that are housed at the Penitentiary. Ms. Little said currently 13 federal or Alaskan inmates are housed at the Penitentiary. She said North Dakota is housing 45 inmates in an Appleton, Minnesota, facility and 50 inmates in county jails across the state. Ms. Little said by July 3 all but about 15 inmates will be housed either at the Penitentiary, the Missouri River Correctional Center, or the James River Correctional Center. She said the Penitentiary and Missouri River Correctional Center can hold 600 inmates while the James River Correctional Center currently has a capacity of 240 inmates.

Ms. Little said the department intends to develop options to address the increasing prison population without jeopardizing public safety and to minimize necessary budget increases. She said this information will be available for the 1999 Legislative Assembly.

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

Mr. Tim Schuetzle, Prisons Division Director, Department of Corrections and Rehabilitation, presented information on the status of the Prisons Division 1997-99 biennium budget. He said the Prisons Division includes the State Penitentiary, the Missouri River Correctional Center, and the James

River Correctional Center. He said the department currently projects the need for a \$720,000 deficiency request to meet expenses of the 1997-99 biennium. He said reasons for the deficiency include:

1. More inmates than projected have been sentenced to the Penitentiary. The 1997 Legislative Assembly projected the inmate population would increase from 813 in July 1997 to 912 in June 1999. He said the June 1998 inmate population is 907.
2. The James River Correctional Center construction was delayed by approximately eight months which resulted in more inmates being housed in county jails and out-of-state facilities for a longer period of time. He said this resulted in a projected savings in the salaries and wages line item of \$1.4 million because the department did not hire staff to operate the facility; however, operating expenses are projected to be \$2.1 million more than expected because the department contracted with private facilities and counties to house the inmates that would have been placed in the James River Correctional Center.

Mr. Schuetzle updated the committee on the construction of the James River Correctional Center. He said the total cost of the facility is estimated at \$6.3 million and provides 240 medium security beds. He said by July 1, 160 male prisoners and 52 female prisoners should be housed at the James River Correctional Center.

Mr. Schuetzle said unexpected costs were incurred as part of the project. He said these costs related to asbestos removal (\$60,000), additional plumbing renovations (\$52,000), replacement of a compressor (\$48,000), and a tunnel collapse during construction (\$60,000). He said the department plans to pay for these unexpected expenses by delaying two projects that were approved by the 1997 Legislative Assembly at the Penitentiary. He said funding for these projects will again be requested for the 1999-2001 biennium. He said the two projects delayed are:

1. A \$107,000 microwave detection system and other security features for the south end of the prison.
2. Additional double fence on the north side of the Penitentiary for \$160,000.

He said except for construction of a Roughrider Industries building at the James River Correctional Center, the facility will be completed by July 1. He said the Roughrider Industries building will be constructed when a decision is made on the type of industry that will be placed at the facility.

Mr. Schuetzle commented on the 1997-99 budget concerns. He said the department on July 1, 1998, will have the ability to accommodate virtually all of its inmates within its facilities. However, if the population

continues to increase as it has recently, he said, the department will again be boarding inmates at county jails by the fall of 1998. He said the department's contracts with the county jails and the Appleton facility in Minnesota are expiring at the end of this month. In negotiations with these facilities, he said, it appears a large increase is being requested from these facilities from the current daily rate of \$40 per inmate per day to a rate of \$60 per inmate per day.

Regarding staff, Mr. Schuetzle said the Penitentiary's administrative segregation area has been expanded from 20 cells to 36 cells during this biennium. He said because more violent types of inmates are being placed at the Penitentiary, he anticipates the administrative segregation area will need to be expanded into the second floor of the west cellhouse before the end of this biennium. Nationwide, he said, states average 10 percent of their prison population in segregation areas, which would require 90 segregation cells for North Dakota. He said if the expansion is needed, an additional three FTE positions will also be needed to manage these inmates.

Mr. Schuetzle commented on the Penitentiary's 1999-2001 biennium needs. He said the prison population growth will need to be addressed in some manner. He said by the 1999 legislative session, the department will present a plan to safely incarcerate the additional inmates.

Mr. Schuetzle presented the following capital project requests for the 1999-2001 biennium:

Missouri River Correctional Center multipurpose building	\$1,600,000
Fence around Roughrider Industries Building A	\$160,000
Microwave detection system	\$107,000
Replacement of east cellhouse	\$13,500,000
Sprinkler system at James River Correctional Center gym and forensic unit	\$181,000
Toilets in forensic unit at James River Correctional Center	\$55,000
Parking lot improvements at State Penitentiary, Missouri River Correctional Center, and James River Correctional Center	\$400,000
Renovation of space to expand administrative segregation unit	\$434,000

Mr. Schuetzle anticipates requesting equipment funding to begin a telemedicine program between the Penitentiary and the James River Correctional Center, additional funding for treatment personnel/social workers and a chaplain at the James River Correctional Center, an additional case manager for the orientation unit at the Penitentiary, and driver positions for the Missouri River Correctional Center.

Mr. Schuetzle said the Missouri River Correctional Center houses 14 minimum security women inmates and 136 minimum security male inmates. He said the center has a staff of 19.

The committee conducted a tour of the State Penitentiary, Roughrider Industries, and the Missouri River Correctional Center.

The committee recessed at 5:00 p.m. and reconvened at 9:00 a.m. on Thursday, June 25, 1998, in the Harvest Room, State Capitol, Bismarck.

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

### **BUDGET MONITORING**

Mr. Rod Backman, Director, Office of Management and Budget, presented a general fund status report for the 1997-99 biennium. Mr. Backman said through May 1998, general fund revenues have exceeded the legislative forecast by \$34.3 million. As a result, he said, the projected June 30, 1999, general fund balance is \$45.1 million.

Mr. Backman commented on the estimated state costs relating to the 1997 Red River Valley flooding. He said it is anticipated that \$15 million to \$18 million will be requested from the 1999 Legislative Assembly to repay Bank of North Dakota loans relating to the 1997 flood.

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

Senator St. Aubyn commented that the \$15 million to \$18 million projection may be low considering the potential for additional costs at the University of North Dakota to address concerns with the steam line system.

Mr. Jim Smith, Assistant Legislative Budget Analyst and Auditor, presented a report on agency compliance with legislative intent. Mr. Smith said the report contains information gathered by the Legislative Council staff during visitations with agency administrators and fiscal personnel in early 1998. He said the report contains information on agency compliance with legislative intent, agency changes, budget concerns, staffing changes, and other areas regarding the agency operations and appropriations. In addition, he said, the report includes a number of analyses of special funds, including their projected June 30, 1999, balance as compared to the projection made at the close of the 1997 legislative session.

Chairman Nething asked that the staff provide information to the committee on the status of the Public Service Commission's valuation fund.

Representative Delzer asked for information on income and expenditures of the Wheat Commission. Mr. Chester E. Nelson, Jr., Legislative Budget Analyst and Auditor, said that any Wheat Commission reports filed with the Legislative Assembly or Legislative Council will be provided.

### **BUDGET PROCESS STUDY**

Mr. Nelson provided a summary of the process that could be involved in the development of a legislative budget by the close of a legislative session. He

said as provided for in the bill draft, the Legislative Council would create a legislative budget coordinating committee to direct and oversee the activities of interim budget committees in reviewing agency budgets and budget requests for the purpose of developing budget recommendations in select areas for presentation to the Legislative Council and, subsequently, to the Legislative Assembly. He said these recommendations would be used to assist the Appropriations Committees and the entire Legislative Assembly in developing the final legislative budget by the close of the legislative session.

The Legislative Council staff presented a bill draft providing for a legislative budget and a memorandum summarizing the provisions of the bill draft. The Legislative Council staff reviewed the major provisions included in the bill draft as follows:

1. The Legislative Council would create a legislative budget committee to coordinate and direct activities involved in the development of budget recommendations to assist the Legislative Assembly as it develops the final legislative budget. The legislative budget committee composition would be determined by the Legislative Council. With the advice of the legislative budget committee, the Legislative Council would create additional committees to assist the legislative budget committee in performing its duties and responsibilities. This would allow for greater involvement by the Legislative Assembly and allow more legislators to have input in the budgeting process of state government.
2. The legislative budget committee would:
  - a. Develop budget guidelines and parameters, subject to Legislative Council approval, for the interim budget committees to utilize in the development of their budget recommendations.
  - b. Advise the Legislative Council on the interim budget committee structure needed to address legislative budget issues.
  - c. Assign budget-related studies identified by the Legislative Assembly (in a concurrent resolution or section of a bill) to the interim budget committees. The legislative budget committee could assign other budget-related studies it determines necessary to interim budget committees during the interim.
  - d. Assign program reviews it determines necessary to other committees designated by the Legislative Council to have budget responsibilities.
  - e. Review, analyze, and evaluate budgets, budget requests, programs, and activities of state agencies, institutions, and departments.

- f. Monitor agency performance by utilizing performance measures, when appropriate.
  - g. Develop budget forms, guidelines, or requests for supporting data that agencies would have to include in their budget requests. These forms, guidelines, or other requests would be incorporated by the Office of Management and Budget (OMB) into the budget request forms and budget guidelines issued by OMB for agencies to use when preparing their budget requests. Agencies would continue to prepare only one request.
  - h. Conduct hearings it determines necessary to perform its duties and responsibilities. Interim committees designated by the Legislative Council to have budget responsibilities would also hold hearings necessary to assist the legislative budget committee in performing its duties and responsibilities. The hearings could be held jointly with OMB's executive budget hearings.
  - i. Review and approve any reports or recommendations of the interim committees as designated by the Legislative Council.
  - j. Develop budget-related recommendations to assist the Legislative Assembly as it develops policy and provides appropriations for the operations of state government. The recommendations may relate to the state budget or any part of the state budget, including general fund revenues and appropriations, special funds or federal funds, funding or operations of state agencies, and assistance to political subdivisions.
  - k. Present a report on its budget-related recommendations to the Legislative Council in November and to the Legislative Assembly.
  - l. Provide assistance during the legislative session as requested by legislative leadership.
3. Agencies, including OMB and the Tax Department, would be required to cooperate with legislative committees and provide requested information, including economic and revenue projection information.
  4. The Governor would continue to present the executive budget at the organizational session.
  5. The appropriation bills would be prepared by the Appropriations Committees during the session rather than being introduced in support of the executive budget

recommendation. A section is added providing that the Legislative Assembly adopt rules to provide for the consideration of budget recommendations made by the Governor and the Legislative Council and for the preparation of appropriation bills by the Appropriations Committees based on hearings during the legislative session on agency budget requests.

6. The fiscal staff, under the supervision of the legislative budget analyst and auditor, would provide staff services to the legislative budget committee and associated committees to assist these committees in performing their duties and responsibilities. Services from other members of the Legislative Council staff would also be available to provide such assistance as may be necessary for the Legislative Council to carry out these provisions. The fiscal staff would continue to analyze the executive budget and provide comparisons to the budget recommendations resulting from the interim work prior to the start of each legislative session and at the close of the session would prepare a report on the legislative budget as approved by the Legislative Assembly.

Representative Klein expressed concern that provisions of the bill draft duplicate current activities of OMB and that additional time will be required by legislators to serve on these new interim committees.

Senator Nething said the bill draft allows for more legislators to be involved in the budgeting process and allows the minority party more input in budget development.

Mr. Nelson said the staff attempted to avoid duplication by allowing for the coordination of budget hearings between the interim committees and OMB and requiring a coordination of budget request guidelines and forms.

Representative Delzer suggested these interim committees could address agency programs that should be considered in preparing 90 or 95 percent budget options. He said during the last session a number of programs that were included as optional adjustment requests were integral to the agency operations and should have been included in the agency's base budget rather than as an optional adjustment.

Representative Berg suggested that more specific performance budgeting concepts be included in the bill draft.

Representative Delzer asked how the number of appropriation bills and their content would be determined if the bills are no longer prepared by OMB. Mr. Nelson said those decisions would be made by the Appropriations Committees during the session.

The Legislative Council staff presented a memorandum entitled *Legislative Budget - Committees*,

*Activities, and Costs.* The Legislative Council staff said it is anticipated that the Legislative Council would create a legislative budget committee and four interim budget committees to review, analyze, and evaluate programs, budgets, and budget requests of agencies in order to develop budget recommendations to assist the Legislative Assembly in approving a legislative budget by the close of the legislative session.

The Legislative Council staff reviewed the following activities that may be assigned to the interim committees:

1. Monitor the implementation of agency budgets as approved by the Legislative Assembly.
2. Monitor income and expenditures of agencies compared to their projected income and expenditures.
3. Review agency programs as directed by the legislative budget committee.
4. Conduct budget-related studies as directed by the Legislative Assembly or the legislative budget committee.
5. Visit state institutions (budget tours).
6. Consider alternative budget scenarios for an agency.
7. Review, analyze, and evaluate programs and activities of an agency.
8. Review agency program goals and objectives and monitor their progress toward achieving the goals and objectives.
9. Review performance measures of agencies and monitor their actual performance.
10. Review agency budget requests.
11. Receive input from agency personnel and the public regarding agency budgets and performance.
12. Identify legislative priorities relating to agency budgets.
13. Identify major budget issues the Legislative Assembly should consider addressing.
14. Develop budget-related recommendations.
15. Monitor general fund revenue collections of the current biennium.
16. Monitor special fund revenues and balances and federal fund receipts of the current biennium and project revenues and receipts for the subsequent budgeting cycle.
17. Develop, in cooperation with the Tax Department and OMB, recommendations relating to general fund revenue projections for the subsequent budgeting cycle.
18. Report to the legislative budget committee on findings and recommendations.

The Legislative Council staff said the estimated biennial cost of travel and per diem for the legislative budget committee and four interim budget committees totals \$141,080. The estimated biennial cost of two additional fiscal staff positions and one support position to meet the additional demand for staff services

totals \$298,402. These estimates could be more or less depending on:

1. The extent to which studies now assigned to interim budget committees are done by the committees created to assist the legislative budget committee.
2. The number and length of meetings of these new committees. The estimate assumes a similar meeting schedule as current interim budget committees.
3. The extent to which studies now assigned to interim budget committees are done by other Legislative Council committees or by additional Legislative Council committees.

The schedule below presents the detail of these cost estimates:

	<b>Estimated Biennial Cost</b>
Salaries and wages	
Committee member per diem	\$57,690
Permanent employees - Three FTE	246,974
Total	\$304,664
Operating expenses	
Committee member travel	\$83,390
Data processing	24,128
Other	12,300
Total	\$119,818
Equipment	\$15,000
<b>Total</b>	<b>\$439,482</b>

The Legislative Council staff said if statutory changes are made providing for the Legislative Council to develop a comprehensive legislative budget proposal for presentation at the organizational session, an estimated two additional interim budget committees, four additional staff positions, and related per diem, travel, and other operating and equipment funding would be needed. The fiscal impact of this proposal would total \$971,041, \$531,559 more than the proposal reviewed above involving only budget-related recommendations.

Representative Berg said the purpose of the legislative appropriation process is to prioritize the needs of the public, to hold agencies accountable, and to address any changes from projected income and expenditures. He said while the options are available for the Legislative Assembly to prepare its own budget or to consider and change an executive budget recommendation, the Legislative Assembly needs to focus its efforts on prioritizing government services that are reflective of the citizens' needs.

Representative Delzer expressed concern that extensive interim committee work will need to be done at the same time as a number of legislators will be campaigning for reelection.

Mr. Backman commented on the proposed bill draft and suggested that the provision providing for legislative input on the budget guidelines be made earlier than January prior to the legislative session to

allow OMB time to make programming changes in its budgeting system.

The committee recessed for lunch at 12:05 p.m. and reconvened at 1:00 p.m.

The Legislative Council presented a memorandum entitled *Performance Budgeting Information*. The Legislative Council staff said the memorandum summarizes information presented at a performance budgeting conference entitled *Managing for Results - Decisionmaking in the Age of Accountability*. The Legislative Council staff highlighted the key points made at the conference including:

1. Performance-based budgeting provides a report card on agency performance.
2. Limit the number of measures to those of most importance and those that are pertinent to decisionmaking.
3. The federal government is becoming more involved and is beginning to require states to provide performance information relating to federal funds received.
4. Adequate training is necessary for those involved in performance budgeting.
5. Funding will drive agency actions before performance measures.
6. Measures should not be used for which the agency has no control.
7. Develop baseline data and benchmarks for comparison purposes when evaluating data reported.

**INVESTMENT PROCESS STUDY**

Mr. Steve Cochrane, Investment Director, Retirement and Investment Office, presented a report on the status of investments of the fire and tornado fund and bonding fund. Mr. Cochrane presented the following schedule showing investment returns for the first 10 months of fiscal year 1998:

Asset Class	Allocation Policy	Funds Total Return
Large capital domestic equity	15%	29.8%
Small capital domestic equity	5%	18.9%
Convertible bonds	10%	19.9%
International equity	10%	4.6%
Fixed income	50%	9.3%
Cash equivalents	10%	4.7%
	100%	13.5%

Mr. Cochrane said the value of the insurance trust of the Retirement and Investment Office as of April 30, 1998, was \$718.3 million.

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 projected the June 30, 1998, asset value of the 13 permanent educational trusts managed by the Land Department at \$448.1 million.

Mr. Olheiser presented the following asset allocations of the permanent educational trusts projected for June 30, 1998:

Asset Class	Allocation Policy
Fixed income	58.4%
Cash equivalents	1.0%
Convertible securities	9.3%
Small midcapital equities	9.4%
Large capital equities	12.6%
International securities	9.3%
Total	100.0%

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

**TRANSPORTATION FUNDING STUDY**

Mr. Marshall W. Moore, Director, Department of Transportation, presented a status report on federal highway funds available to North Dakota and on other transportation issues. Mr. Moore said Congress passed the Transportation Equity Act for the 21st Century (TEA 21) on May 22, 1998, and President Clinton signed the bill on June 9, 1998.

Mr. Moore said North Dakota's annual apportionment under the new federal highway bill averages \$171.5 million for each year 1998 through 2003. He said this is approximately \$55 million more per year than North Dakota has been receiving. He said under the previous federal highway bill, North Dakota received approximately .62 percent of federal highway funds. Under the new bill, he said, North Dakota will receive approximately .65 percent. He said North Dakota will receive about \$1.83 for every dollar that it submits in federal motor fuel taxes.

Mr. Moore said federal funds for highway construction are provided to the state in the following major categories:

1. Interstate - For interstate highway projects.
2. National Highway System (NHS) - For highways in the state designated as major roads or principal arterials. Approximately 2,700 miles of North Dakota highways have this designation, including the interstates and all or portions of Highways 2, 5, 12, 13, 23, 52, 57, 81, 83, 85, 200, and 281.
3. Surface transportation program - For the remainder of the state highway system and will likely be the source of federal funds provided to cities and counties.

Mr. Moore said that while 40 percent of North Dakota's highways are on the interstate or national highway system, approximately 58 percent of the federal funds available under the new federal highway bill are available for improvements on these systems. He said one concern regarding the new bill is funding available for the surface transportation program. In North Dakota, he said, this program comprises 60 percent of the state highway system, and under the new bill only 23 percent of the funds are available for

the surface transportation program. He is hopeful that the department will be allowed to transfer some federal funds between programs to meet the additional needs in the surface transportation program.

Mr. Moore presented the following schedule showing North Dakota's apportionment under the new federal highway bill:

Year	Inter-state Maintenance	National Highway System	Surface Transportation Program	Bridge	Congestion Management/Air Quality	Trails	Metropolitan Planning	High Priority Projects	Minimum Guarantee	Grand Total
1998	22.7	59.9	33.1	7.8	6.5	0.3	0.8	2.3	13.9	147.3
1999	26.1	69.6	38.4	8.9	7.3	0.4	0.9	3.1	15.1	169.8
2000	26.6	70.5	38.9	9.0	7.4	0.5	0.9	3.7	15.6	173.1
2001	27.0	72.0	39.7	9.2	7.6	0.5	1.0	3.7	15.6	176.3
2002	27.5	73.4	40.5	9.4	7.7	0.6	1.0	3.9	15.6	179.6
2003	28.1	75.1	41.3	9.5	7.9	0.6	1.0	3.9	15.5	182.9
Total	158.0	420.5	231.9	53.8	44.4	2.9	5.6	20.6	91.3	1029.0

Mr. Moore said under the previous highway bill, approximately 25 percent of the federal funds received were distributed to counties and cities.

Mr. Moore presented the following schedule showing the estimated additional state matching funds that will be needed for the years 1999 through 2003 in order to match available federal highway funds:

Year	Additional State Match Required (\$ millions)
1999	9.7
2000	10.3
2001	10.7
2002	11.1
2003	11.5

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

Representative Grande asked whether matching funds are available for fiscal year 1998 construction. Mr. Moore said while North Dakota's 1998 federal apportionment totals \$147.3 million, the department anticipates spending only \$130 million during the 1998 construction season. He said the department does have short-term borrowing available through the Bank of North Dakota to complete the 1998 season, if necessary. He said the need for additional funds will occur in fiscal year 1999.

Senator Stenehjem asked for the amount a \$1 increase in motor vehicle registration fees will generate. Mr. Moore said a \$1 increase in motor vehicle registration fees generates approximately \$700,000 per year.

Representative Delzer asked the Legislative Council staff to provide information to the committee on the distribution of revenues generated from motor vehicle registration fees and gas taxes.

Mr. Claire Vigesaa, Highway 281 Association, Carrington, stressed the importance of the Jamestown bypass which received funding as a high priority project in the new federal highway bill.

Mr. Rick Clayburgh, Tax Commissioner, commented on the possibility of changing the point at which fuel is taxed from the dealer level to the terminal. Mr. Clayburgh said while the department is researching the possibility of making this change, it is neither in support nor against the proposal.

Mr. Clayburgh said a number of other states have changed their point of taxation to the terminal level and have experienced an increase in revenues as a result. He said the department is in the process of surveying these other states to collect information on the reasons why revenues increased after this change was made.

Mr. Clayburgh said he is unaware of what the fiscal impact would be in North Dakota if this change was made but said it may result in less administrative costs to the department. He said currently approximately 550 dealers are involved in submitting taxes. If the point of taxation is changed to the terminal level, he said, only 20 companies would be involved in submitting these taxes.

Representative Wilkie asked if the department believes state revenue is currently being lost due to the point of taxation method used in North Dakota. Mr. Gary Anderson, Tax Department, said while currently the department audits 40 to 70 of the 550 dealers per year, if the point of taxation was changed, more frequent audits would be conducted of the 20 companies involved.

Representative Delzer asked if the change would apply to diesel fuel. Mr. Anderson said this change would apply only to gasoline.

Mr. Art Wheeler, North Dakota Petroleum Marketers Association, commented on the possibility of changing the point at which fuel is taxed from the dealer level to the terminal level.

Mr. Wheeler said the North Dakota Petroleum Marketers Association does not support changing the point of taxation on gasoline. He suggested ways to increase revenues without changing the point of taxation including:

1. The Tax Department has information available to verify that the taxes being remitted

are correct; however, the department has not yet used this information.

2. The Tax Department should audit diesel fuel refunds being submitted for accuracy.
3. The Highway Patrol should check onroad vehicle fuel tanks for dyed fuel. He said dyed fuel is only to be used in offroad vehicles.

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

Mr. Clayburgh commented that beginning in August, the Tax Department will have the ability to cross-check information submitted to detect incorrect returns. He said the department audits industrial users claiming refunds of special fuels taxes paid but does not have the resources available to audit farmers based on their refund requests.

Ms. Connie Sprynczynatyk, North Dakota League of Cities, commented on transportation funding and needs of cities. She said the League of Cities surveyed cities with populations over 3,000 to determine their current transportation needs and available funding. She said of these 13 cities, all indicated a shortfall in revenues to meet street improvement needs.

Ms. Sprynczynatyk said major issues identified include:

1. Replacement of expensive equipment is becoming beyond the reach of many cities.
2. The current distribution formula for state highway funds that has been in place for 20 years does not reflect the current funding needs of cities and counties.
3. The state needs to prioritize the construction of truck routes around cities.

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

Mr. Bruce Furness, Mayor, Fargo, commented on Fargo's street needs. He said the city has projected \$260 million of street improvement needs over the next 15 years. He said the city anticipates collecting \$15 million from city sales tax collections that can be devoted to street projects. Mr. Furness suggested changing the gas tax distribution formula to address the population trends that have become more urban rather than rural over the past 20 years.

Mr. Fred Bott, Mayor, Devils Lake, commented on street improvement needs in Devils Lake. He said the high elevation of Devils Lake has created additional demands on funding available for road projects in the area.

Chairman Nething asked that the League of Cities inform the committee of any proposal to change the highway funding distribution formula.

Chairman Nething announced the next committee meeting is tentatively scheduled for September 1-2, 1998, in Jamestown.

Ms. Carol Anderson, West River Transportation, Bismarck, commented on state aid for public transportation. Ms. Anderson said the state currently imposes

a \$1 fee on each motor vehicle registration which it uses to provide grants to public transit systems across the state. She said the new federal highway bill provides additional federal funds for transit systems but requires a state or local match. She asked the committee to consider recommending a \$1 increase in the motor vehicle registration fee allocated to public transportation aid from \$1 to \$2 per registration. She said this would provide an estimated \$750,000 per year in additional funding. A copy of the report is on file in the Legislative Council office.

Senator St. Aubyn asked the Legislative Council staff to provide information on surrounding states' gas taxes and motor vehicle registration fees for the committee at its next meeting.

Ms. Petra Clemens, Grand Forks, commented on the need for evening bus service in Grand Forks to assist people in their transportation needs to and from work.

Ms. Nancy Wilath, Grand Forks, expressed the need for evening transportation services in Grand Forks. Ms. Wilath said the cost of a taxi is excessive for people with lower-paying jobs if they are relying on taxis for transportation to and from work.

Mr. Bobby Vogel, Grand Forks, testified that it is difficult to obtain evening work or attend evening training programs in Grand Forks because public transportation services do not provide services after 6:30 p.m.

Ms. Shirley Brennan, Minot, asked the committee to consider recommending an increase in funding for public transportation systems to allow expanded public transportation services to evenings and weekends.

Mr. Jamie Rodahl, Williston, asked the committee to consider increasing funding for public transportation systems in the state that provide services to the elderly and disabled.

Mr. William Petit, Minot, commented positively on the good system of public transportation in Minot and asked the committee to consider increasing funding to allow the public transportation systems to expand their hours.

Senator St. Aubyn asked the Legislative Council staff to provide information on funding for public transportation systems in the state, including funding provided by the state, counties, and cities, and their methods of providing the funds.

Representative Delzer suggested funds may be available under the welfare-to-work programs to assist in public transportation systems. Senator St. Aubyn asked the Legislative Council staff to provide the written information provided on the public transportation systems to the chairman of the Welfare Reform Committee.

Mr. Allan Peterson, rural Fargo, commented on transportation needs of the disabled. Mr. Peterson said because he lives in a rural area, he must rely on friends and family for his transportation needs. He

asked the committee to consider increasing funds available for public transportation systems in the state.

Ms. Darcy Andahl, Bismarck, commented on public transportation needs and funding. Ms. Andahl said in 1997, the Bis-Man Transit provided approximately 600 rides per day. She said for low-income individuals even the reasonable fare charged by the Bis-Man Transit is sometimes difficult to afford. She asked the committee to consider recommending an increase in funding for public transportation systems in North Dakota.

Copies of the testimony are on file in the Legislative Council office.

The committee adjourned subject to the call of the chair at 4:05 p.m.

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Allen H. Knudson  
Senior Fiscal Analyst

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

ATTACH:1