

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

BUDGET COMMITTEE ON GOVERNMENT SERVICES

Tuesday, January 15, 2002
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Jeff Delzer, Chairman, called the meeting to order at 9:05 a.m.

Members present: Representatives Jeff Delzer, Ron Carlisle, Rachael Disrud, Mark A. Dosch, James Kerzman, Frank Klein, Matthew M. Klein, Myron Koppang, Dave Weiler, Robin Weisz; Senators Duaine C. Espgaard, Ralph L. Kilzer, Gary A. Lee, Judy Lee, Elroy N. Lindaas, Harvey Tallackson

Member absent: Representative Clara Sue Price

Others present: See attached appendix

It was moved by Representative Carlisle, seconded by Senator Tallackson, and carried on a voice vote that the minutes of the previous meeting be approved as distributed.

BUDGET MONITORING

Ms. Pam Sharp, Deputy Director, Office of Management and Budget, presented a report on the status of the state general fund. Ms. Sharp said the June 30, 2003, ending general fund balance is projected to be \$6.9 million, \$5.1 million less than the \$12 million ending general fund balance estimated at the close of the 2001 legislative session.

Ms. Sharp said through December 31, 2001, general fund revenues are one-tenth of 1 percent or \$421,437 more than estimated in the 2001 legislative revenue forecast and 5.7 percent or \$19,900,000 more than the same period during the 1999-2001 biennium.

Ms. Sharp said the December 2001 revised general fund revenue forecast for the 2001-03 biennium is \$1.71 billion, \$14.8 million less than the \$1.69 billion forecast estimated at the close of the 2001 legislative session. A copy of the information presented is on file in the Legislative Council office.

In response to a question from Representative Delzer, Ms. Sharp said the national consumer price index is expected to average 2.9 percent in 2001, whereas the consumer price index anticipated in the 2001-03 budget was 2.2 percent.

In response to a question from Representative Delzer, Ms. Sharp said financial institutions tax collections are \$299,000 less than projected for the month of December 2001 due to one large refund.

In response to a question from Representative Delzer, Ms. Sharp said the gaming tax collections through December 31, 2001, are \$6.2 million,

\$1.7 million more than estimated in the 2001 legislative revenue forecast of \$4.5 million, primarily due to one out-of-state individual who has been gambling large amounts on parimutuel horse racing.

In response to a question from Representative Koppang, Ms. Sharp said the Office of Management and Budget is confident the Bank of North Dakota will be able to transfer \$60 million of reserves to the general fund despite low interest rates.

In response to a question from Representative Delzer, Ms. Sharp said the revised 2001-03 general fund revenue forecast for oil and gas production tax and oil extraction tax collections is the same as the forecast made during the 2001 legislative session because total tax collections are still anticipated to exceed \$62 million. She said collections in excess of \$62 million are deposited into the oil tax trust fund. She said the revised 2001-03 biennium projections for deposits into the oil tax trust fund is \$5.4 million, \$3.6 million less than the \$9 million forecasted at the end of the 2001 legislative session.

In response to a question from Senator Espgaard, Ms. Sharp said it is anticipated the Mill and Elevator will transfer \$6 million of profits to the general fund during the 2001-03 biennium; however, that transfer probably will not occur until June 2003.

In response to a question from Representative Delzer, Ms. Sharp said the revised 2001-03 revenue forecast of \$16.4 million in interest collections, \$4.6 million less than the \$21 million forecasted during the 2001 legislative session, relates to lower Bank of North Dakota interest earnings.

Chairman Delzer said at future Budget Committee on Government Services meetings he would like the Office of Management and Budget to provide a comparison of the actual revenue collections to both the forecast made at the close of the 2001 legislative session and the December 2001 revised forecast.

In response to a question from Representative Delzer, Ms. Sharp distributed a memorandum providing the year-to-date counties' share of coal severance tax collections of \$3,418,268 for fiscal year 2002 as compared to the same time period for fiscal year 2001 of \$3,388,358. She said counties receive revenues based on 15 percent of the installed capacity component of the coal conversion tax.

Ms. Roxanne Woeste, Legislative Council fiscal analyst, presented a memorandum entitled *Oil Production, Oil Market Price, and Oil Tax Revenue Information for the 2001-03 Biennium*, which provides information on the statutory provisions relating to oil and gas gross production tax, oil extraction tax, the permanent oil tax trust fund, and information on oil production and oil market prices. Ms. Woeste said through November 30, 2001, general fund revenues from oil and gas production taxes are \$1,541,585 below estimates. She said general fund revenues from the oil extraction taxes are \$871,472 below estimates for the same period.

Ms. Woeste said in December 2001 the average price per barrel of oil was \$14.23, \$7.96 less than the forecast price of \$22.19 per barrel. She said oil production in November 2001 totaled 2,557,449 barrels, 202,041 barrels less than the estimated production of 2,759,490 barrels. She said through October 2001, 89 oil wells have been drilled in calendar year 2001, 80 of which are producing wells. She said the average number of oil rigs in North Dakota in December 2001 was 13.

In response to a question from Representative M. Klein, Ms. Woeste said there were 3,298 producing oil wells in North Dakota as of November 30, 2001.

RISK-ASSOCIATED BEHAVIOR PROGRAMS

Tobacco Settlement Trust Fund Collections

The Legislative Council staff presented a memorandum entitled *Analysis of the Tobacco Settlement Trust Fund for the 1999-2001 and 2001-03 Bienniums*. The Legislative Council staff said as of December 31, 2001, \$60.2 million has been received by the state and deposited in the tobacco settlement trust fund. During the first six months of the 2001-03 biennium, \$7.3 million of tobacco settlement collections have been received by the state. Total tobacco settlement trust fund collections are projected to be \$52.5 million for the 2001-03 biennium, and the tobacco settlement trust fund collections are allocated among the community health trust fund, the common schools trust fund, and the water development trust fund, pursuant to North Dakota Century Code (NDCC) Section 54-27-25 as follows:

Fund	1999-2001 Actual Transfers From Tobacco Settlement Trust Fund	2001-03 Actual Transfers to Date From Tobacco Settlement Trust Fund	2001-03 Projected Remaining Transfers From Tobacco Settlement Trust Fund
Community health trust fund (10%)	\$5,290,078	\$729,658	\$4,520,125
Common schools trust fund (45%)	23,805,353	3,283,459	20,340,561
Water development trust fund (45%)	23,805,353	3,283,459	20,340,561
Total transfers from the tobacco settlement trust fund	\$52,900,784	\$7,296,576	\$45,201,247

In response to a question from Representative Delzer, the Legislative Council staff said North Dakota is projected to receive four main tobacco settlement trust fund payments during the 2001-03 biennium--\$17.9 million in January 2002 and 2003 and \$18.7 million in April 2002 and 2003.

In response to a question from Representative Delzer, the Legislative Council staff said as of December 31, 2001, the State Water Commission has made bond payments of approximately \$1,500,000; \$930,000 of that amount is principal. The State Water Commission has requested an 18-month schedule from Grand Forks on its water project funding needs and the status of Grand Forks funding needs, and plans for a state outlet at Devils Lake will determine future State Water Commission bonding requirements.

Community Health Grant Program

At the request of Chairman Delzer, Ms. Kathleen Mangskau, Tobacco Prevention and Control Program Administrator, State Department of Health, presented a report on the status of the implementation of the community health grant program, pursuant to Section 2 of 2001 Senate Bill No. 2380. A copy of the information presented is on file in the Legislative Council office. Ms. Mangskau said the State Department of Health has provided information and guidance to local public health administrators regarding the implementation of the school, community, and state aid grant programs. She said the department conducted training for local public health unit administrators, tobacco site coordinators, and local coalition leaders to provide them with the tools available for community assessment, planning, and priority setting as well as information on evidence-based tobacco control methods for proven, effective programs and outcomes. She said the department participated in a strategic planning session with local health unit representatives to determine partnering opportunities and

priorities to most efficiently and effectively use tobacco grant funds.

Ms. Mangskau said as of January 2002, the State Department of Health has distributed \$352,509 of additional state aid from 2001 Senate Bill No. 2380 to local public health units. In response to a question from Representative Delzer, Ms. Mangskau said the \$352,509 of state aid distributed is part of the 20 percent of the community health trust fund appropriation granted to public health units to supplement existing state aid from other sources. She said local public health units determine the use of state aid grants; however, the department requires units to report on how the moneys are spent.

In response to a question from Representative Carlisle, Ms. Mangskau said the youth risk behavior survey results indicate a slight decline in the number of North Dakota students using tobacco. She said there is a separate study indicating increasing retail tobacco sales to minors.

In response to a question from Representative M. Klein, Ms. Mangskau said local governmental units were provided funding estimates for community and school grants in June and September 2001. She said the advisory committee will be meeting on January 28, 2002, to finalize the details on grants to local governmental units.

Ms. Mangskau said 11 local entities have requested information regarding city and county pilot cessation programs. She said a pilot cessation program application for Minot city employees was received, approved, and funded at \$16,000. She said the program began operation on December 1, 2001.

Senator J. Lee expressed concerns about the delays in implementing the community health grant program and encouraged the State Department of Health to distribute the grants to the local public health units as soon as possible.

In response to a question from Representative Delzer, Ms. Mangskau said the youth risk behavior survey is a national survey with "protocols" built in to achieve accurate results. She said the survey covers a wide variety of subject areas. She distributed the youth risk behavior survey to the committee members, a copy of which is on file in the Legislative Council office.

In response to a question from Senator J. Lee, Ms. Mangskau said a majority of tobacco site coordinators have indicated community grant programs are still being developed. She said the State Department of Health plans to send out the guidelines to the local health units in March 2002. She said the department will then accept and review applications and distribute the funds to the local public health units.

In response to a question from Representative Delzer, Ms. Mangskau said the Centers for Disease Control and Prevention (CDC) best practices for comprehensive tobacco control programs will be used as the guidelines for the local health units.

Senator J. Lee said it was the intent of the 57th Legislative Assembly to let local public health units determine the use of the tobacco grant funds. She said delays in implementing the community health grant program will make it difficult for the 58th Legislative Assembly to assess the effectiveness of tobacco control programs.

In response to a question from Representative F. Klein, Ms. Mangskau said small public health units may not have sufficient staffing to implement a tobacco control program. She said the State Department of Health is encouraging local public health units to work together in developing tobacco control programs.

At the request of Chairman Delzer, Ms. Mangskau distributed a list of the Community Health Grant Program Advisory Committee members.

In response to a question from Representative Disrud, Ms. Mangskau said it is the intent of the State Department of Health to fund each tobacco plan as submitted rather than wait until all plans are received.

Chairman Delzer requested the State Department of Health provide at the next meeting of the Budget Committee on Government Services the details of the actual use of the \$4.7 million appropriation from the tobacco settlement trust fund, details on the grants to local health units and the units' uses of the grants, the guidelines provided by the department to local public health units, and a status report on the advisory committee activities.

Grants to Regional and Tribal Affiliates

Chairman Delzer called on Ms. Karla Mittleider, Administrative Assistant, Children's Services Coordinating Committee, who presented a report on grants to the eight regional tribal and four tribal affiliates for risk-associated behavior programs. A copy of the information presented is on file in the Legislative Council office. Ms. Mittleider said the total grants awarded to regional and tribal affiliates for the first year of the 2001-03 biennium was \$627,680.50.

In response to a question from Senator Tallackson, Ms. Mittleider said the regional and tribal affiliates are subject to a grant application process to receive funding for risk-associated behavior programs.

HOUSING DEVELOPMENT FUND

Chairman Delzer called on Mr. Paul Rechlin, Executive Director, Lewis and Clark CommunityWorks, for a report regarding the organization, funding, and purposes of the Lewis and Clark CommunityWorks dream fund. Mr. Rechlin said Lewis and Clark CommunityWorks is a nonprofit corporation created in 1995 with the primary goal of creating a revolving loan fund for affordable housing. He said Lewis and Clark CommunityWorks received a charter in September 2000 from the Neighborhood Reinvestment Corporation, a congressionally

chartered nonprofit organization. He said this charter provided North Dakota access to a secondary market that purchases the types of loans made by Lewis and Clark CommunityWorks. He said Lewis and Clark CommunityWorks has currently raised \$1.1 million in cash and pledges for the revolving loan fund.

In response to a question from Representative Delzer, Mr. Rechlin said the dream fund anticipates lending \$3 million to \$6 million in the next three to four years, which will not meet the total affordable housing needs in the state.

In response to a question from Representative Delzer, Mr. Rechlin said the primary objective of the dream fund is to provide affordable single-family housing. He said the dream fund serves individuals who do not qualify for government housing development programs.

Senator J. Lee asked Mr. Rechlin to provide a written copy of his testimony to committee members.

In response to a question from Senator J. Lee, Mr. Rechlin said the housing development fund is primarily for multifamily housing projects in communities of 8,000 or less experiencing housing shortages due to economic development. He said rental units in North Dakota are very affordable; however, home ownership is very expensive in comparison to the rest of the nation. He said the need for rental housing in rural North Dakota is minimal.

In response to a question from Senator J. Lee, Mr. Rechlin said the secondary market for the dream fund will only purchase loans for single-family housing units; however, Lewis and Clark CommunityWorks has accessed tax credits to fund low-income multifamily housing units.

In response to a question from Representative Delzer, Mr. Rechlin said the housing development fund legislation limits investments in housing development funds to banks and does not allow writeoffs. He said banks would be required to make a large investment at a high level of risk.

The legislative budget analyst and auditor read a letter from Mr. James D. Schlosser, Executive Vice President, North Dakota Bankers Association, indicating he would be unable to attend the meeting. A copy of the letter is on file in the Legislative Council office. In the letter, Mr. Schlosser said he was unaware of any organization or group working with North Dakota financial institutions to develop a housing development fund.

In response to a question from Representative Delzer, the legislative budget analyst and auditor said NDCC Chapter 6-12 provides for the creation of a housing development fund during the first four taxable years beginning after December 31, 1998. He said the legislation relating to the housing development fund will expire as of December 31, 2002.

Chairman Delzer called on Mr. Joel Gilbertson, Executive Vice President, Independent Community Banks of North Dakota, who presented information

regarding the establishment of housing development funds in North Dakota. Mr. Gilbertson said the housing development fund was established to provide multifamily housing units in rural areas experiencing economic development. He said testimony for the housing development fund legislation indicated a new business was planning to locate in Grafton, creating a need for additional housing.

Mr. Gilbertson said an unsuccessful effort was made to provide Community Reinvestment Act credit for banks participating in the housing development fund program. He said multifamily housing projects require a minimum of 12 to 18 units to generate sufficient cashflow for financing. He said in small towns there are homes available for sale in the \$20,000 to \$25,000 price range. He said the rent on a new housing unit would be more expensive than the payments made to purchase a home.

Senator Tallackson said the housing development fund was the result of Marvin Windows creating 500 additional jobs in Grafton; however, the deinstitutionalization of the Grafton Developmental Center resulted in the loss of 800 jobs. He said there actually is a housing surplus in Grafton.

Senator Espegard said economic development does not necessarily mean people will move into a small town as people often commute from other nearby locations.

Senator J. Lee said rather than trying to rewrite the existing legislation on the housing development fund it might be best to just let it expire. Senator Espegard said affordable housing is different in every community. He said it is difficult to write legislation that addresses all affordable housing needs.

STATUS OF STATE INVESTMENT BOARD INVESTMENTS

At the request of Chairman Delzer, Mr. Steve Cochrane, Executive Director, Retirement and Investment Office, and Investment Director, State Investment Board, presented a status report on investments, earnings, and future investment plans for the State Investment Board. A copy of the information presented is on file in the Legislative Council office. Mr. Cochrane said the State Investment Board is responsible for 10 separate funds. He said these funds are combined into two trusts--the pension trust for qualified plans and the insurance trust for nonqualified investments.

Mr. Cochrane said there currently is \$2.45 billion in the State Investment Board pension trust.

In response to a question from Representative M. Klein, Mr. Cochrane said the State Investment Board takes a conservative approach to investing in the private equity market. He said the private equity market covers a wide area of investments, including initial public offerings.

In response to a question from Representative Delzer, Mr. Cochrane said the actual return on the

pension trust was a negative 5.93 percent for the fiscal year ended June 30, 2001, representing the actual weighted average. He said the related asset class benchmark fiscal year 2001 return was a negative 8.29 percent.

In response to a question from Representative Delzer, Mr. Cochrane said the Teachers' Fund for Retirement realized a cumulative five-year return as of June 30, 2000, of 94.8 percent in comparison to the actuarial expected return of 46.9 percent for the same period. He said even if market trends continue to remain low, the Teachers' Fund for Retirement will be able to pay future benefits.

Mr. Cochrane said the insurance trust fund consists of \$1.02 billion of assets, \$930 million representing the workers' compensation fund. He said 58 percent of the insurance trust is invested in domestic bonds. He said the insurance trust realized a 1.3 percent gain for the fiscal year ended June 30, 2001.

Chairman Delzer requested the State Investment Board to provide at a September 2002 Budget Committee on Government Services meeting the actual June 30, 2000, June 30, 2001, and current balances for the pension and insurance trust funds. He also requested the State Investment Board to provide a status report on the health care trust fund.

In response to a question from Representative M. Klein, Mr. Cochrane said the Bank of North Dakota is the State Investment Board's largest investment manager. He said the State Investment Board also uses the Lewis and Clark Private Equities LP as an investment manager, which has a Fargo branch office. He said the State Investment Board annually meets with its investment managers to evaluate their performance and continually monitors the investment managers for compliance with guidelines. He said in addition, the State Investment Board employs a third-party investment consultant to conduct a quarterly performance report on the investment managers. He said managers will be terminated if they are not meeting the expectations of the State Investment Board.

In response to a question from Senator J. Lee, Mr. Cochrane said the State Investment Board has not invested in the Dakota venture capital fund in Fargo. Senator Espeland said the Dakota venture capital fund is currently a closed fund.

In response to a question from Representative M. Klein, Mr. Cochrane said the State Investment Board had a very minimal exposure to Enron stock value losses in one of its commingled Standard and Poors 500 funds.

STATUS OF BANK OF NORTH DAKOTA INVESTMENTS

At the request of Chairman Delzer, Mr. Eric Hardmeyer, President, Bank of North Dakota, presented a status report on investments, profits, and future

investment plans for the Bank of North Dakota. A copy of the information presented is on file in the Legislative Council office. Mr. Hardmeyer said the Bank of North Dakota will show a profit of approximately \$33 million for the year ended December 31, 2001. He said the Bank is forecasting profits to be approximately \$31.3 million for the year ended December 31, 2002. He said the primary reason for the decrease in income is reduced interest earned on current investments.

Mr. Hardmeyer said 2001 House Bill No. 1015 provides that during the 2001-03 biennium, the Industrial Commission will transfer up to \$60 million from the earnings and accumulated undivided profits of the Bank of North Dakota to the general fund. He said in addition, 2001 House Bill No. 1015 provides that if the general fund revenue collections do not meet the March 2001 forecast, the Industrial Commission shall transfer to the general fund up to an additional \$25 million from the Bank of North Dakota.

In response to a question from Representative Delzer, Mr. Hardmeyer said the Bank of North Dakota is forecasting approximately \$62 million of income for the 2001-03 biennium. He said the \$25 million contingency to the general fund would come primarily from the Bank's equity. He said the Bank earns approximately \$50,000 annually on each \$1,000,000 of equity.

In response to a question from Senator Espeland, Mr. Hardmeyer said the capital ratio for the Bank of North Dakota is approximately 8.8 percent as of December 31, 2001. He said the Bank is anticipating very minimal asset growth for the year ended December 31, 2002.

In response to a question from Senator Espeland, Mr. Hardmeyer said the Bank of North Dakota is very well capitalized and exceeds industry averages.

In response to a question from Representative Delzer, Mr. Hardmeyer said the asset mix at the Bank of North Dakota has changed significantly in the last 10 years. He said the Bank as of December 31, 2001, has approximately \$1.3 billion in outstanding loans, which has grown over \$1 billion in the last 10 years. He said the Bank carries a loan loss reserve of \$23 million. In addition, approximately 56 percent of the loan portfolio is guaranteed by the federal government. He said this equates to a 4 percent loan loss reserve for the Bank in comparison to a 1 percent to 1.5 percent loan loss reserve for most banks.

Mr. Hardmeyer said the Bank of North Dakota investment portfolio had a December 31, 2001, market value of approximately \$329.6 million. He said the average yield on the investments is 3.51 percent. He said the majority of the investment portfolio is in short-term money markets.

In response to a question from Senator Espeland, Mr. Hardmeyer said the home loan bank accepts student loans as collateral. He said the Bank of North

Dakota has borrowed approximately \$400 million of the \$700 million borrowing capacity available from the home loan bank. He said the Bank does not anticipate significant borrowings from the home loan bank during calendar year 2002.

STATUS OF LAND DEPARTMENT INVESTMENTS

At the request of Chairman Delzer, Mr. Gary Preszler, Commissioner, Land Department, presented a status report on the permanent educational trust fund, including the income and uses of the funds and the departments receiving income from the funds; and the common schools trust fund, including income, expenses, and additions of the fund and future projections for the fund. A copy of the information presented is on file in the Legislative Council office. Mr. Preszler said revenue is generated for the permanent educational trust fund through prudent management of trust assets, consisting of over 714,000 surface acres, over 2.5 million mineral acres, and over \$565 million in permanent educational trust fund financial assets.

Mr. Preszler said interest and dividends are the primary source of distributable income for the 13 permanent education trusts. He said in accordance with NDCC Section 15-03-05.1, the capital gains earned on the permanent trust investment portfolio are also available to distribute to beneficiaries, although they must be amortized to income over a 10-year period. He said distributions from the common schools trust fund, the largest of the permanent funds, have increased from \$45.7 million during the 1995-97 biennium to almost \$57.8 million for the 2001-03 biennium. He said current projections indicate that approximately \$3.8 million of available amortized capital gains will be needed to meet budgeted distributions from the common schools trust fund for the 2001-03 biennium. He said the 1999 and 2001 Legislative Assemblies passed beneficiary budgets that included larger distributions from the other 12 permanent trusts than provided for in the Board of University and School Lands' asset allocation/distribution plan. He said distributions for the 2001-03 biennium are about 18 percent more than the distribution amounts proposed by the Board of University and School Lands.

In response to a question from Senator Espgaard, Mr. Preszler said the growth in assets in the common schools trust fund primarily consists of return on investments, tobacco settlement moneys, mineral royalties, and bonuses.

In response to a question from Representative Delzer, Mr. Preszler said the value of the investments in the permanent educational trust fund decreased during the fiscal year ended June 30, 2001. He said much of the lost value in the investments has been recaptured during the fourth quarter of calendar year 2001.

In response to a question from Representative Weisz, Mr. Preszler said the projected fiscal year ending 2025 balance in the common schools trust fund is \$2.167 billion, including 45 percent of the tobacco settlement collections. He said without the tobacco moneys being added to the common schools trust fund the fiscal year ending 2025 balance would be approximately \$1.656 billion. He said the tobacco settlement moneys will provide an additional \$215 million in distributions to schools through the fiscal year ended 2025. He said the 2001 Legislative Assembly appropriated larger distributions from the common schools trust fund than the Board of University and School Lands' allocation/distribution plan. He said, however, the balance of the common schools trust fund will be larger in 25 years even with the larger appropriated distributions than there would be without the 45 percent of funding from the tobacco settlement trust fund.

In response to a question from Representative Delzer, Mr. Preszler said the Board of University and School Lands' projected distributions from the common schools trust fund after the 2001-03 biennium are based on the distribution of 100 percent of current earnings, excluding capital gains.

Chairman Delzer requested an updated performance report from the Board of University and School Lands regarding the 13 permanent educational trust funds for a September 2002 meeting of the Budget Committee on Government Services.

RECRUITMENT AND RETENTION BONUS PILOT PROGRAM

Chairman Delzer called on Ms. Kim Wassim, Senior Personnel Officer, Central Personnel Division, who presented a report regarding the implementation, progress, and bonuses provided under the bonus pilot program as directed in Section 1 of 2001 House Bill No. 1120. A copy of the information presented is on file in the Legislative Council office. Ms. Wassim said as of January 15, 2002, seven agencies have adopted policies for recruiting and/or retention bonuses, including the Department of Human Services, Department of Transportation, Information Technology Department, Bank of North Dakota, Highway Patrol, Job Service North Dakota, and Department of Corrections and Rehabilitation.

In response to a question from Representative M. Klein, Ms. Wassim said the Central Personnel Division created a sample policy that was provided to state agencies. She said, however, each agency drafts its own policy and provides a copy to the Central Personnel Division.

In response to a question from Representative Koppang, Ms. Wassim said the larger agencies are utilizing the recruitment and retention bonus pilot programs; however, some smaller agencies have developed policies but not given out bonuses. Representative Koppang said he is concerned that small

agencies do not have the funding available to provide recruitment and retention bonuses without a specific appropriation.

In response to a question from Representative Delzer, Ms. Wassim said agencies are to define in the policy the positions eligible for the recruitment and retention bonuses.

Department of Human Services

Ms. Laurie Sterioti Hammeren, Director, Human Resource, Department of Human Services, said the Department of Human Services has not provided any new recruitment or retention bonuses since the October 2001 Budget Committee on Government Services meeting. She said, however, the department does plan to provide additional recruiting bonuses for registered nurses at the State Hospital.

In response to a question from Senator Espegard, Ms. Sterioti Hammeren said seven retention bonuses were provided to addiction counselors. She said the retention bonuses are one-time payments for a one-year service period. She said there is a regional shortage of addiction counselors. She said the Department of Human Services does not intend to give additional retention bonuses to the addiction counselors next year. Chairman Delzer requested a report during a September 2002 Budget Committee on Government Services meeting from each agency providing recruitment and retention bonuses on the current employment status of employees who have received recruitment and retention bonuses.

Highway Patrol

Captain Bryan Klipfel, Administrative Services Commander, Highway Patrol, said the Highway Patrol has decided to provide referral bonuses rather than recruitment and retention bonuses. He said the Highway Patrol has experienced a 55 percent drop in trooper applicants between 1995 and 2000. He said the policy provides for a monetary award for those employees who recruit troopers to the Highway Patrol. He said employees are provided a \$500 bonus for referring an applicant who is hired and makes it through the academy training. He said in case of a tie or more than one officer referral, the bonus will be divided among the employees involved. A copy of the information presented is on file in the Legislative Council office.

In response to a question from Representative Delzer, Captain Klipfel said the Highway Patrol requires troopers to have a four-year college degree or a two-year college degree with work experience.

Department of Transportation

Mr. Tom D. Freier, Deputy Director, Department of Transportation, said the Department of Transportation has provided recruiting bonuses to 32 individuals, primarily in engineering and information technology fields. He said the individuals received 1.5 months

salary and agreed to stay with the department for two years. He said one-half of the bonus is paid at the start of employment and one-half is paid after one year. A copy of the information presented is on file in the Legislative Council office.

In response to a question from Representative Carlisle, Mr. Freier said the Department of Transportation is currently trying to fill positions for the 2002 construction season. He said he is hopeful the recruitment bonus program will allow for the Department of Transportation to have continued success in recruiting college graduates.

In response to a question from Senator Espegard, Mr. Freier said the Department of Transportation does not plan at this time to implement a retention bonus plan. He said the department has offered recruitment bonuses to approximately one-third of the new employees hired since implementing the recruitment bonus plan.

In response to a question from Representative M. Klein, Mr. Freier said the recruitment bonuses were funded from savings realized from vacant positions.

In response to a question from Senator Kilzer, Mr. Freier said the Department of Transportation has made improvements in meeting employee needs which has resulted in lower employee turnover.

Senator Espegard said he is concerned that after the two-year period covered by the recruitment bonus the employee will experience an effective pay cut. Mr. Freier said the retention bonus is not included as part of the employee's base salary; however, it can be a valuable tool to assist an employee in relocating.

In response to a question from Representative Disrud, Mr. Freier said the 2001 Legislative Assembly did provide funding for salary adjustments for targeted job positions within the Department of Transportation.

Representative M. Klein said employees who have been provided recruitment bonuses by the Department of Transportation may, within a two-year period, receive job promotions or assume additional duties that would also increase salary levels.

In response to a question from Senator J. Lee, Mr. Freier said the recruitment bonuses provided have been associated with classifications such as engineers and technicians and not to individuals. He said the department withholds the right to stop providing recruitment bonuses if vacancy levels within the classifications decrease.

Bank of North Dakota

Mr. Hardmeyer said the Bank of North Dakota has provided two retention bonuses to individuals in the Information Technology Department who were vital in establishing the Bank's e-business initiative. He said he would like the recruitment and retention bonus pilot program to be available to unclassified positions.

Chairman Delzer said the Budget Committee on Government Services will conduct a budget tour of

West Central Human Service Center during the April 2002 meeting. He said the Budget Committee on Government Services will have a two-day meeting in July 2002 beginning with a budget tour of the International Peace Garden and concluding the next day in Minot with a budget tour of the State Fair and North Central Human Service Center.

The committee adjourned subject to the call of the chair at 3:20 p.m.

Donald J. Wolf
Fiscal Analyst

Jim W. Smith
Legislative Budget Analyst and Auditor

ATTACH:1