

GOVERNMENT FINANCE COMMITTEE

The Government Finance Committee was assigned the following responsibilities:

- Study the volatility of state revenue sources pursuant to Section 35 of House Bill No. 1015 (2017).
- Study the delivery and cost of the Department of Transportation's (DOT) State Fleet Services for state agencies pursuant to Section 9 of Senate Bill No. 2001 (2017).
- Study the funding mechanisms and options available to DOT, political subdivisions, and public transportation providers, for road construction, maintenance, other transportation infrastructure needs, and transit services pursuant to Section 12 of Senate Bill No. 2012 (2017).
- Review state budget information, including monitoring the status of revenues and appropriations pursuant to a Legislative Management directive.
- Receive an annual report from DOT regarding information collected from transportation network companies during each biennium pursuant to North Dakota Century Code Section 39-34-05.
- Receive a semiannual report from the Department of Commerce regarding the status of the program to establish and administer an unmanned aircraft systems test site in cooperation with the University of North Dakota, the Aeronautics Commission, Adjutant General, and private parties appointed by the Governor pursuant to Section 54-60-28.
- Receive a report from DOT before July 1, 2018, regarding the results of the study on the manner in which DOT provides snow and ice control services on the state highway system pursuant to Section 10 of Senate Bill No. 2012 (2017).
- Receive a report from DOT before July 1, 2018, on the study of options to consolidate transportation facilities within Williams County and the Williston district headquarters pursuant to Section 11 of Senate Bill No. 2012 (2017).
- Receive a report from DOT and the Information Technology Department by June 30, 2018, of the results of the study on benefits of allowing wireless telecommunication infrastructure within state highway rights of way and any requirements of allowing the installation may be in the public interest, pursuant to Section 14 of Senate Bill No. 2012 (2017).
- Receive a report from the Industrial Commission by July 1, 2018, regarding the results and recommendations of the gain-sharing program study, pursuant to Section 30 of Senate Bill No. 2014 (2017).

Committee members were Senators Ronald Sorvaag (Chairman), John Grabinger, Jordan Kannianen, Lonnie J. Laffen, Gary A. Lee, and Terry M. Wanzek and Representatives Rick C. Becker, Joshua A. Boschee, Jeff Delzer, Ron Guggisberg, Craig Headland, Corey Mock, Mike Nathe, Gary Paur, Brandy Pyle, Shannon M. Roers Jones, Mike Schatz, and Don Vigesaa.

The committee submitted this report to the Legislative Management at the biennial meeting of the Legislative Management in November 2018. The Legislative Management accepted the report for submission to the 66th Legislative Assembly.

STUDY OF REVENUE VOLATILITY

The committee was assigned a study of the volatility of state revenue sources. The study was to include:

- The volatility of the tax base and revenue sources, including ongoing expenditures.
- The volatility and sustainability of elementary and secondary education funding, including the general fund, common schools trust fund, and foundation aid stabilization fund.
- An assessment of the ending fund balances in the general fund, budget stabilization fund, and foundation aid stabilization fund, the adequacy of the foundation aid stabilization fund relative to revenue sources, and an analysis of the other trust funds.
- Historical revenue for all years for which quality data is available.

Background Information

Ongoing tax and fee revenues of the general fund include sales and use tax, motor vehicle excise tax, individual income tax, corporate income tax, insurance premium tax, cigarette and tobacco tax, oil and gas gross production tax, oil extraction tax, coal conversion tax, gaming tax, wholesale liquor tax, mineral leasing fees, interest income, and departmental collections.

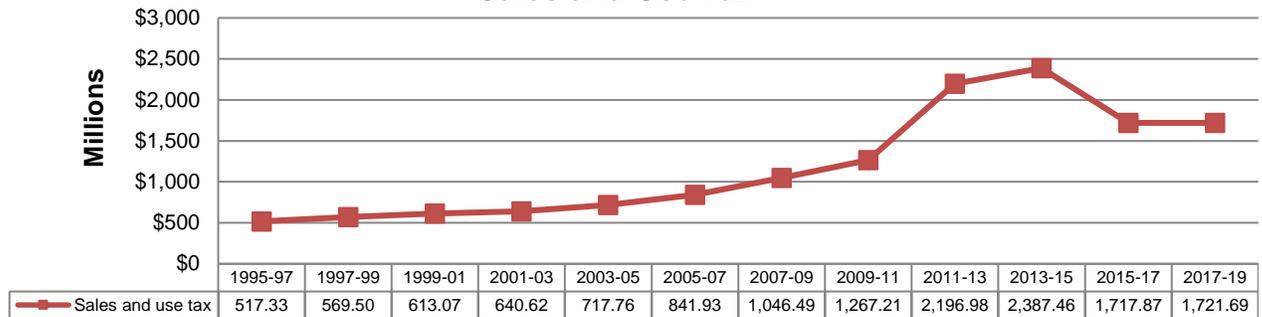
Sales and Use Tax and Motor Vehicle Excise Tax Revenue

The committee reviewed taxable sales and purchases. The schedule below compares taxable sales and purchases for the first quarter of 2018 to the first quarter of 2017.

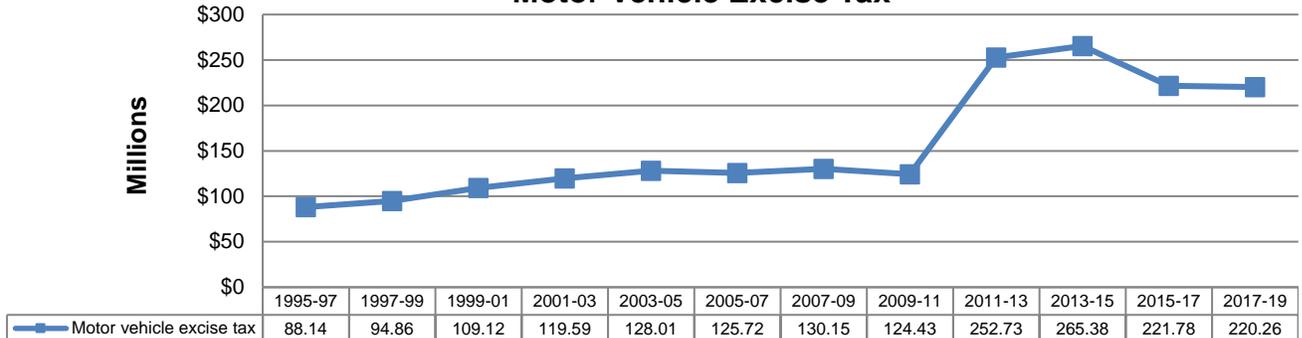
	2017 1 st Quarter	2018 1 st Quarter	Increase (Decrease)	Percentage Change
Counties - Total	\$2,357,208,102	\$2,409,592,303	\$52,384,201	2.22%
Consolidated and out-of-state	1,339,215,849	1,639,835,120	300,619,271	22.45%
North Dakota - Total	\$3,696,423,951	\$4,049,427,423	\$353,003,472	9.55%

The committee reviewed general fund revenues resulting from sales and use tax and the motor vehicle excise tax. The charts below compare general fund revenues from sales and use tax and motor vehicle excise tax collections for the 1995-97 biennium through the 2017-19 biennium. The 2017-19 biennium amounts are estimated based on actual general fund revenue collections for July 2017 through September 2017, and forecasted amounts for the remainder of the biennium.

Sales and Use Tax



Motor Vehicle Excise Tax



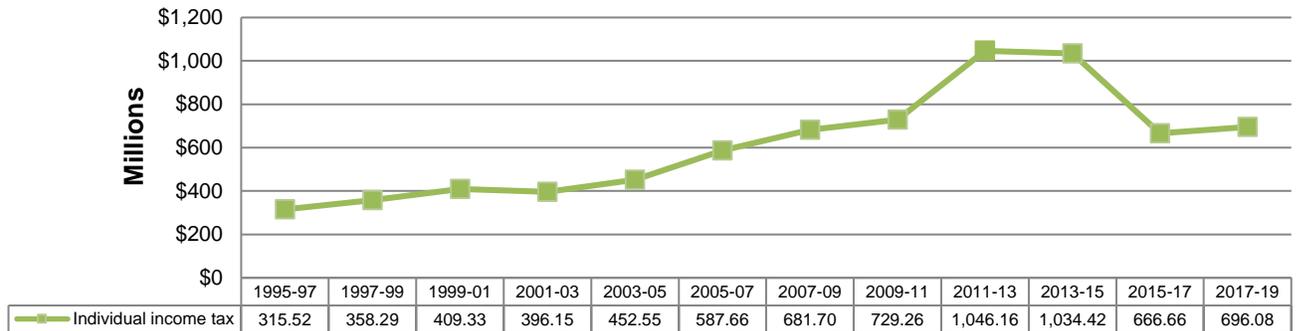
The committee received information from the State Tax Commissioner regarding trends in sales and use tax collections, including the collections from Bismarck, Fargo, and Grand Forks. Historically, sales and use tax collections for the eastern and western parts of the state trend similarly, but now are diverging. Sales tax collections from the retail sector have decreased while collections from wholesale trade and mining and oil extraction are increasing. The committee was informed a strong United States dollar leads to fewer Canadians shopping in North Dakota, which has a negative effect on retail sales.

The committee received information regarding the estimated fiscal impact on sales tax collections due to the United States Supreme Court decision in *South Dakota v. Wayfair, Inc.* The decision allows the state to collect sales tax from companies that sell online to North Dakota residents even if the company does not have a physical presence in the state. The Legislative Assembly approved Senate Bill No. 2298 (2017), which requires companies with \$100,000 in gross sales or 200 transactions of online sales to register and collect sales tax even if the company does not have a physical presence in the state. The committee received updates from the Tax Department on the status of implementing provisions of the bill. The committee was informed 500 companies had registered and that all affected companies must register and begin collecting and remitting tax by October 1, 2018. Online retail companies also are required to collect the local portion of the sales and use tax. The Tax Department estimates \$10 million to \$15 million in additional sales and use tax revenue will be collected in the 2019-21 biennium due to the *South Dakota v. Wayfair, Inc.*, decision. Because Amazon and Walmart already have been remitting sales and use taxes, no changes are anticipated in sales and use tax collections from these larger companies that have a physical presence in the state.

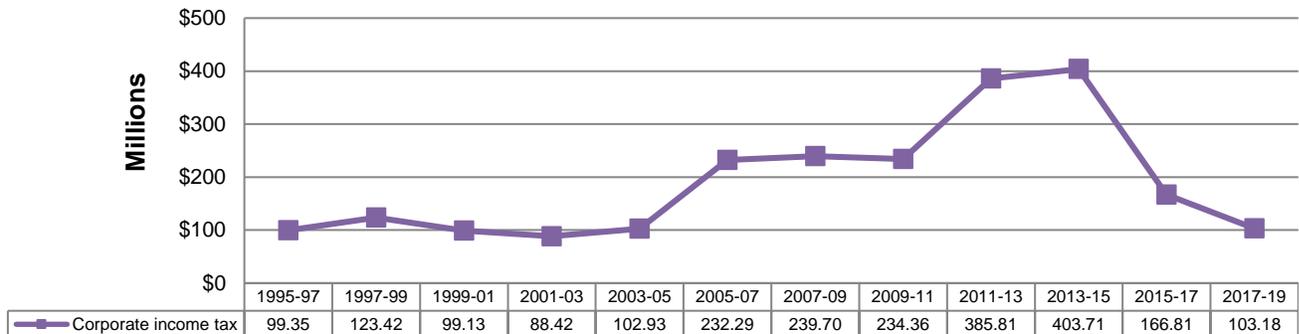
Individual and Corporate Income Tax Revenue

The committee reviewed general fund revenues resulting from individual and corporate income taxes. The charts below compare general fund revenues from individual and corporate income tax collections for the 1995-97 biennium through the 2017-19 biennium. The 2017-19 biennium estimate is based on actual general fund revenue collections for July 2017 through September 2017, and forecasted amounts for the remainder of the biennium.

Individual Income Tax



Corporate Income Tax



The committee reviewed federal income tax changes resulting from Congress approving the federal Tax Cuts and Jobs Act of 2017 regarding individual income tax. The Act maintains seven individual income tax brackets, but changes tax rates in each bracket. The standard deduction increased from \$6,350 to \$12,000 for individuals and from \$12,700 to \$24,000 for married filing joint returns, personal and dependent exemptions were removed, and the child tax credit was increased from \$1,000 to \$2,000. The state and local tax deduction is now limited to \$10,000. The Act reduces the corporate income tax rate, effective after December 31, 2017, to 21 percent compared to a variable schedule and allows a 20 percent passthrough deduction for individuals with business income from a qualified passthrough entity. The Tax Department estimates the changes to the federal tax laws will result in a reduction to 2019-21 biennium North Dakota income tax revenues from individuals and corporations by \$28.9 million.

The committee received information from the Tax Department regarding the effect of the phase-in of the single sales factor corporate income tax apportionment method as authorized in Senate Bill No. 2292 (2015). The committee was informed 104 corporate income tax filers have changed their weighted sales tax factor as authorized by the 2015 Legislative Assembly and these filers are estimated to have saved \$2 million in state corporate income tax by changing their sales factor method.

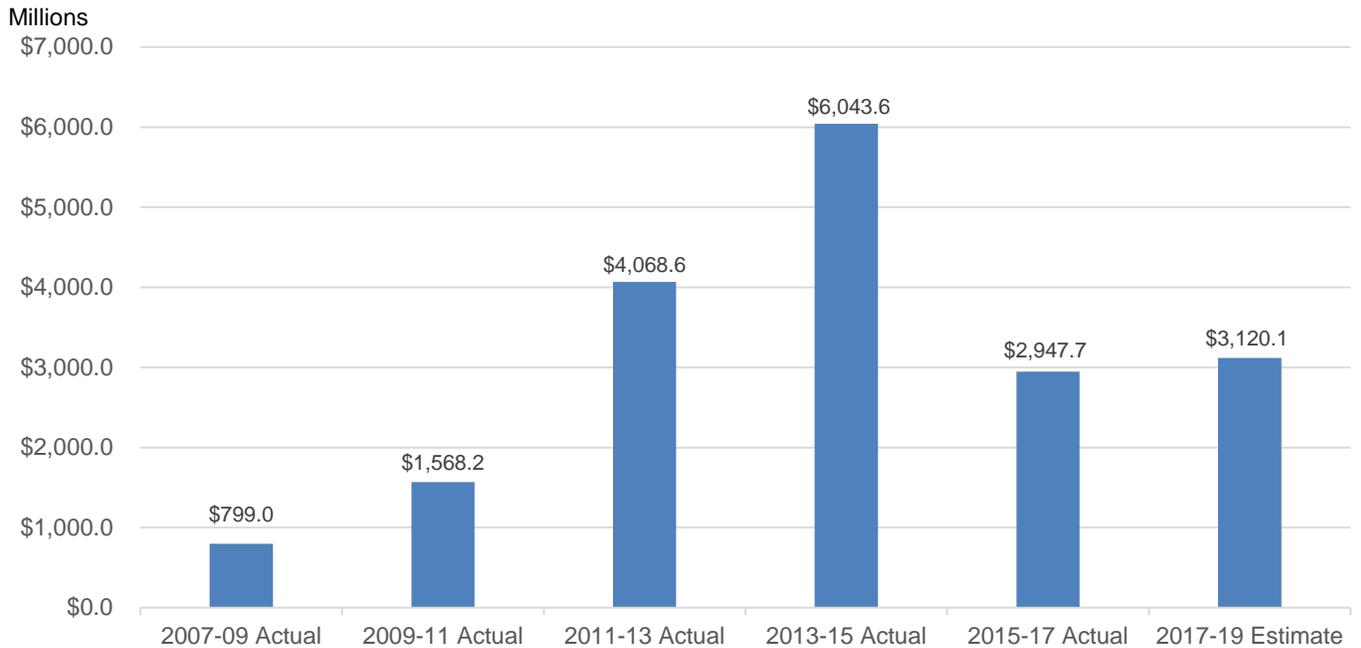
Insurance Premium Tax Revenue

The committee reviewed insurance premium tax revenue. Insurance premium tax collections have been less than projected to date during the 2017-19 biennium. The Insurance Department reported changes in property valuations affect insurance premium tax collections in the following year. In 2009 there were 48,000 licensed insurance providers in the state and in 2018, there were 75,000. Based on Office of Management and Budget's (OMB) September 2018 revenue forecast, insurance premium tax collections are anticipated to be approximately \$109.3 million in the 2017-19 biennium, \$20.3 million less than the legislative estimate made at the close of the 2019 legislative session and \$105.5 million for the 2019-21 biennium.

Oil and Gas Tax Revenue

The committee reviewed oil tax revenues and oil price variations.

The chart below provides information on total oil and gas gross production tax and oil extraction tax revenues from the 2007-09 biennium through the 2017-19 biennium forecast.



The schedule below provides information on West Texas Intermediate (WTI) oil prices for the 1995-97 biennium through the 2017-19 biennium forecast.

WTI Oil Prices



North Dakota oil is discounted in comparison to WTI crude oil prices. The 2016 weighted average discount was \$7.71 and from June 2017 through December 2017 the weighted average discount was \$4.53, resulting in a \$3.18 per barrel improvement since the Dakota Access Pipeline (DAPL) became operational. As a result, \$73.1 million in additional state revenue was realized.

The Legislative Assembly has attempted to reduce the effect of volatility in oil revenues by setting up the "bucket system" in which oil tax revenues are deposited into various funds up to specified amounts. The current allocations to the state "buckets" are as follows:

1. General fund - First \$200 million
2. Tax relief fund - Next \$200 million
3. Budget stabilization fund - Next \$75 million
4. General fund - Next \$200 million

5. Lignite research fund - 20 percent of next \$100 million, up to \$3 million
6. Strategic investment and improvements fund - 80 percent or 100 percent of the next \$100 million
7. State disaster relief fund - Next \$20 million if the fund's balance does not exceed \$20 million
8. Strategic investment and improvements fund - Any remaining revenues

The committee received information regarding the status of oil and gas development in the state and projected future development. The committee was informed the lack of available fracking crews is hindering production as the drilling of new wells is outpacing the fracking of wells. The committee learned 70 rigs may be operating in the state by the end of the 2017-19 biennium and 75 rigs by the end of the 2019-21 biennium. The Department of Mineral Resources estimates each well generates \$57,000 in sales tax related to drilling and \$94,000 in sales tax related to completion. Testimony indicated efficiencies have been realized in drill bit technology along with down hole motor technology, and the industry has developed technology that allows real time communication with the drill bit, which decreases the time to drill a well. The committee was informed a major constraint on the oil industry is natural gas capture requirements that will increase from 85 to 88 percent on November 1, 2018.

The committee reviewed the possibility of using oil puts to reduce revenue volatility. The Office of Management and Budget may request the purchase of oil and gas tax revenue put options through the State Investment Board under Section 54-44-16. According to the testimony, purchasing put options is similar to buying insurance and a premium is paid to protect against oil prices dropping. If the state would purchase a put option for an oil price of \$47 per barrel, the premium cost for July 2019 through June 2020 would be \$3.85 per barrel or 8.2 percent of the price per barrel. The committee reviewed an example of purchasing crude oil put options, which would cost \$48.6 million to protect \$1.2 billion of revenue for 18 months.

The committee received information regarding prices, volatility, and risk for government budget-related revenues. In 2015, Mexico began utilizing oil price hedges by purchasing options to lock-in prices at \$76.40 as a result of its experience in the decline in oil prices. The resulting market for Mexico's oil averaged \$49.78 per barrel providing it with an additional \$26.62 per barrel when it exercised its oil options. The committee was informed Russia also is using this strategy.

The committee received information indicating Alberta, Canada studied hedging its oil revenue but determined it was better to address revenue volatility through fund management rather than hedging. Texas has used a collar method of hedging. The collar strategy utilizes the purchase of puts and calls, in which the cost of the put is offset by the sale of a call. Although these strategies can limit revenue volatility, the committee was informed the strategies also may result in more cost than gain.

Other Revenue

The committee reviewed other revenues including cigarette and tobacco tax, coal conversion tax, gaming tax and pari-mutuel tax, wholesale liquor tax, mineral leasing fees, interest income, and departmental collections.

Utah's Budget Stress Testing

The committee reviewed Utah's experience in stress testing its state budget. Budget stress testing includes projecting potential revenue loss scenarios and identifying the "buffers" or available resources that can limit the impact of the revenue loss.

Public School Education Funding

The committee reviewed elementary and secondary education funding. The 2017 Legislative Assembly appropriated \$2,015,904,163, of which \$1,409,357,258 is from the general fund for state school aid. The following table provides funding from the general fund for state school aid since the 2009-11 biennium:

Biennium	General Fund
2009-11	\$1,098,077,143
2011-13	\$1,223,111,478
2013-15	\$1,695,374,000
2015-17	\$1,668,257,237
2017-19	\$1,409,357,258

The committee reviewed the common schools trust fund. Distributions from the common schools trust fund are based on a percentage of the 5-year average value of trust assets, excluding the value of lands and minerals. The unaudited fund balance of the common schools trust fund was \$4,215,227,543 as of December 31, 2017. The 2017-19 biennium distributions from the fund total \$288,264,000. The common schools trust fund has been providing an increasing amount for state school aid as follows:

- 2009-11 biennium - \$77,178,000
- 2011-13 biennium - \$92,514,000
- 2013-15 biennium - \$130,326,000
- 2015-17 biennium - \$206,134,000
- 2017-19 biennium - \$288,264,000

The committee reviewed the foundation aid stabilization fund. The foundation aid stabilization fund provides funding to replace any general fund reductions for state school aid caused by an allotment or budget reduction due to a revenue shortfall. The June 30, 2019, balance in the foundation aid stabilization fund is estimated to be \$379.6 million.

Conclusion

The committee makes no recommendation regarding the study of revenue volatility.

STUDY OF STATE FLEET SERVICES

The committee was assigned a study of the delivery and cost of DOT's State Fleet Services for state agencies. The study must include a review of the department's cost of services, staffing, and billing processes and identify improvements to the efficiency and effectiveness of the State Fleet Services that will result in reduced costs for state agencies.

Background Information

Section 24-02-03.3 requires DOT to operate a central vehicle management system to regulate the operation, maintenance, and management of all motor vehicles owned or leased by the state. The section also requires every state agency, institution, department, board, bureau, and commission, unless exempted by the Director of DOT, to use the system. Each state agency utilizing a vehicle from State Fleet Services pays a fee to State Fleet Services for the cost of the vehicle, including operating costs and the fees are based on the estimated costs of acquiring and maintaining the vehicle. State Fleet Services manages approximately 3,500 vehicles with 9 full-time equivalent positions and one temporary employee.

Agency Survey

The committee conducted a survey of state agency use of State Fleet Services. Of the 56 agencies surveyed, 48 responded to the survey. The surveys identified agencies overall were pleased with State Fleet Services; however, the following areas of concern were identified:

- Changing rates make it difficult to budget on a biennial basis.
- Agencies using specialty vehicles expressed concern regarding depreciation and costs related to changing vehicle equipment when the vehicles are replaced.
- Vehicle drop off and pick up can be an issue because of hours of operation.
- Inability to use the vehicle to travel to a store or restaurant while traveling for multiple-day meetings or conferences is inconvenient.

State Fleet Operations

The committee reviewed costs related to state fleet operations. The committee learned:

- In total, State Fleet vehicles travel approximately 1.2 million miles per biennium.
- Fuel is included in the operating rates for the use of Fleet Services vehicles.
- Vendors provide future prices for 3 years for fuel.
- A vehicle is assigned to an agency if the use is expected to be in excess of 5,000 miles per year.
- Approximately 400 new vehicles are purchased annually.
- The budget for State Fleet Services for the 2017-19 biennium is approximately \$71 million with operating costs of \$36.3 million and capital asset costs of \$34.7 million.

The committee reviewed State Fleet Services rates for selected vehicle types. The schedule below lists select vehicle types and mileage rates charged in the 2017-19 biennium and anticipated charges for the 2019-21 biennium.

Biennium Fleet Motor Pool Vehicle Budget Guidelines		
Vehicle Type	2017-19 Operating and Depreciation Rate (per mile)	2019-21 Operating and Depreciation Rate (per mile)
Mini passenger van	\$0.61	\$0.52
Sedan/wagon	\$0.42	\$0.43
Heavy pickup/van/full-size utility	\$0.76	\$0.65
Highway Patrol vehicle	\$0.66	\$0.69

Privatization of State Fleet Services

The committee reviewed the potential to privatize all or a portion of State Fleet Services. The committee was informed Enterprise Holdings Inc. (EHI) works with many states to help identify efficiencies in motor pool operations and could assist the state with fiscal responsibility, efficiency, technology, safety, and employee satisfaction. Enterprise Holdings Inc. conducted a preliminary review of North Dakota's State Fleet and determined EHI could improve the cost-effectiveness of Fleet Services. Areas of opportunity for savings include a reduction of the motor pool to eliminate limited-use vehicles, providing flexibility in fleet size, and addressing vehicle choice.

Conclusion

The committee makes no recommendation regarding the study of State Fleet Services.

STUDY OF TRANSPORTATION-RELATED FUNDING

The committee was assigned a study of the funding mechanisms and options available to DOT, political subdivisions, and public transportation providers, for road construction, maintenance, other transportation infrastructure needs, and transit services.

Background Information

The committee reviewed constitutional and statutory requirements for transportation revenue; the legislative history of the motor vehicle fuels tax, special fuels excise tax, and motor vehicle registration fees; the history of DOT revenue; the history of fuel consumption and miles traveled in North Dakota; transportation funding mechanisms available to political subdivisions; and transportation funding mechanisms available to public transportation providers.

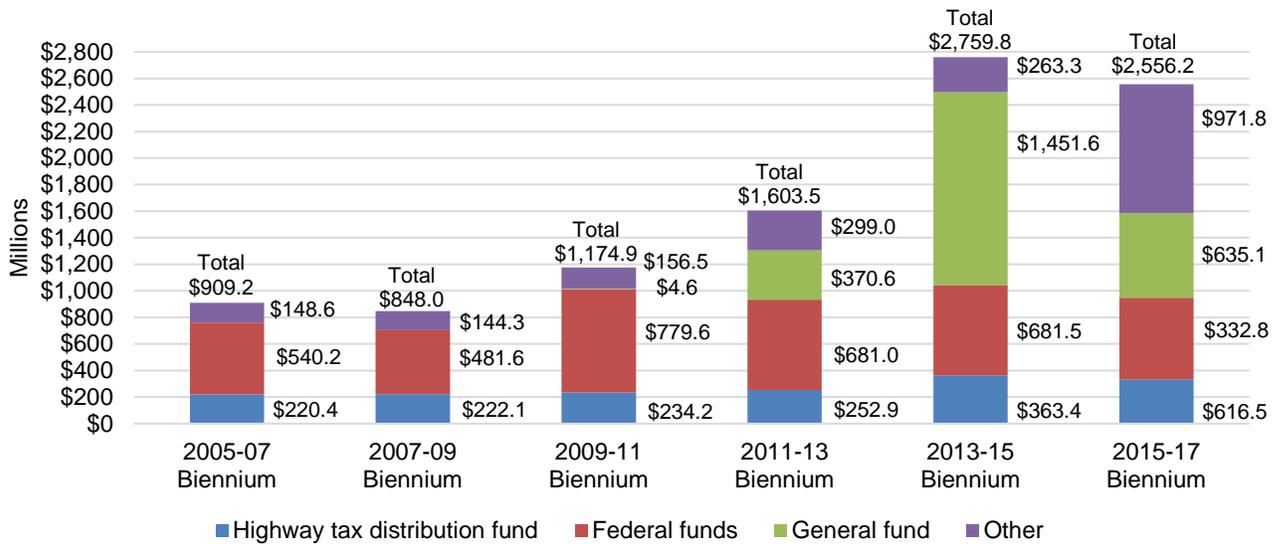
The state motor fuels tax is 23 cents per gallon. Revenues generated from motor fuels taxes and motor vehicle registration fees are deposited in the highway tax distribution fund and allocated as follows:

- State highway fund - 61.3 percent
- Counties - 22.0 percent
- Cities - 12.5 percent
- Townships - 2.7 percent
- Public transportation fund - 1.5 percent

The following table and chart compare DOT revenues from the 2005-07 biennium through the 2015-17 biennium.

State Highway Fund Revenues (Amounts Shown in Millions)							
Source	2005-07 Biennium	2007-09 Biennium	2009-11 Biennium	2011-13 Biennium	2013-15 Biennium	2015-17 Biennium	2017-19 Biennium Estimate
Highway tax distribution fund	\$220.4	\$222.1	\$234.2	\$252.9	\$363.4	\$332.8	\$321.5
Federal funds	540.2	481.6	779.6	681.0	681.5	616.5	673.4
General fund			4.6	370.6	1,451.6	635.1	
Other ¹	148.6	144.3	156.5	299.0	263.3	971.8	208.0
Total	\$909.2	\$848.0	\$1,174.9	\$1,603.5	\$2,759.8	\$2,556.2	\$1,202.9

¹Other revenue sources include new and used dealer fees, truck regulatory driver's license fees, fleet services, credit card fees, record access fees, hay bids, road materials, and other miscellaneous fees. The amount shown for the 2015-17 biennium includes funding from the strategic investment and improvements fund for enhanced highway investments and distributions to counties.



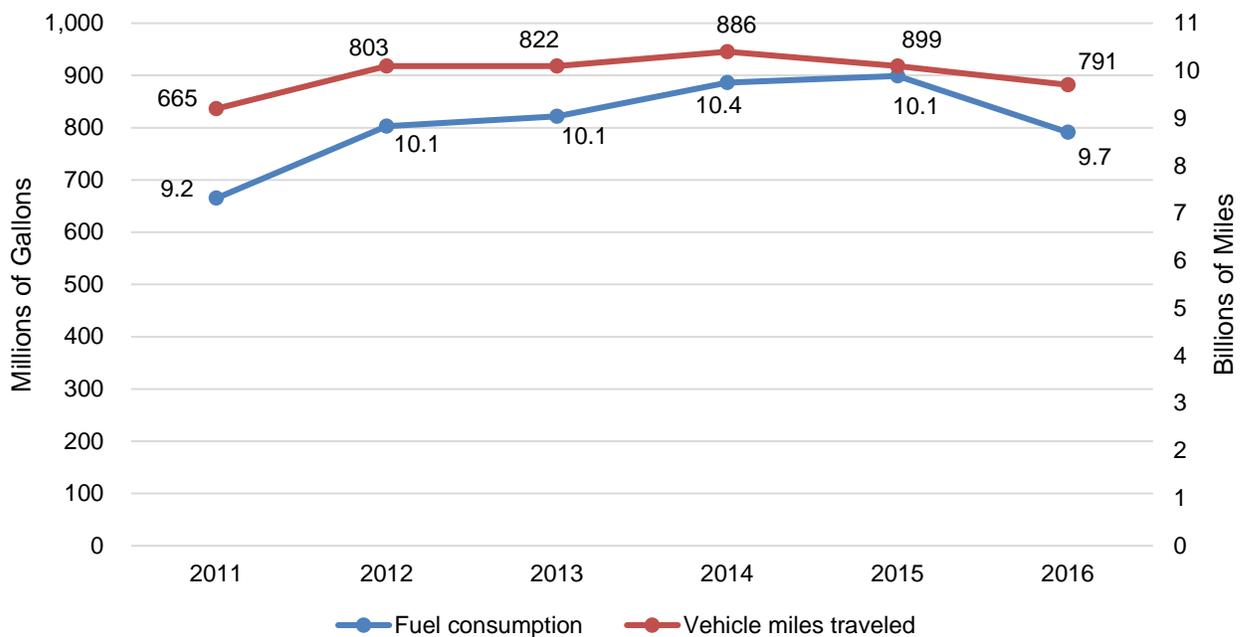
Political subdivisions receive funding through special state funding distributions, allocations from the highway tax distribution fund revenues, property tax assessments, other sales and use taxes, bonding and financing, and federal funds received through DOT.

Public transportation providers receive funding from special state funding distributions, the highway tax distribution fund, user fees, bonding and financing, and federal funds from the Federal Transit Administration.

HISTORY OF FUEL CONSUMPTION AND MILES TRAVELED IN NORTH DAKOTA

The following table and chart compare annual fuel consumption to vehicle miles traveled from calendar years 2011 through 2016.

	Fuel Consumption and Miles Traveled (Calendar Years) (Amounts Shown in Millions)					
	2011	2012	2013	2014	2015	2016
State fuel consumption	665	803	822	886	899	791
State vehicle miles traveled	9,166	10,093	10,100	10,437	10,079	9,740



Road and Transportation Needs

The committee received information from DOT, counties, and cities regarding transportation needs. Based on the Upper Great Plains Transportation Institute's road needs studies, the state has a \$450 million per year shortfall in funding for needed road projects and counties and townships have a \$495 million per year funding shortfall for needed road projects. For cities, funding from the state aid distribution fund has decreased 24 to 49 percent depending on the city, and state highway tax distribution revenue has decreased 16 to 17 percent in the last 2 years.

Federal Transportation Funding

The committee received information regarding federal transportation funding. The committee was informed North Dakota's level of federal highway funding has remained relatively constant over the last 10 years and DOT does not anticipate any significant changes during the 2019-21 biennium. The department anticipates receiving \$673 million of federal highway funds in the 2019-21 biennium, which would require state matching funds of \$170 million, of which \$116 million would be from state sources and \$54 million from local sources. Based on current projections, representatives of the department believe the department will not have sufficient funds to match the federal highway funds available for the 2019-21 biennium.

Future of Motor Fuels Tax

The committee received information relating to the future of the motor fuels tax. The committee received information indicating due to continuing increases in fuel efficiency and a shift to electric vehicles, motor fuels tax revenue will decrease while miles traveled will increase. Between 2008 and 2014, the average fuel efficiency of cars increased by 22 percent. A Bloomberg Energy study of electric vehicles indicates electric vehicles will consist of 34 percent of new vehicle sales by 2040. Information provided to the committee indicated states, in the short term, can increase motor fuels taxes, but the increase will not solve the growing disparity between fuel consumption and miles traveled, and in the long term, states will need to focus on alternative revenue sources.

Other State's Transportation Funding Options

The committee reviewed transportation funding options used by other states. The committee reviewed the following methods used by other states to provide additional funding for transportation projects--dedicated general sales taxes, the use of public-private partnerships to finance projects, road-use charges, and tolling.

Options for Additional Highway-Related Revenues

The committee received information on potential additional revenue sources for the state highway fund including the estimated annual revenue the options could generate:

- Motor fuel tax - A one cent per gallon motor fuel tax increase would generate an estimated \$7.4 million per year, of which \$4.5 million would be deposited in the state highway fund.
- Vehicle registration fees - A \$10 increase in annual registration fees would generate an estimated \$10 million per year, of which \$6.1 million would be deposited in the state highway fund.
- Fuel sales tax - A percent tax levied by the state at the point of fuel purchase. Based on a \$2.50 average cost per gallon of fuel and an average annual consumption of 734 million gallons, a 1 percent fuel sales tax would generate \$18.35 million per year, of which \$11.25 million would be deposited in the state highway fund.
- Nonfuel sales tax - A percent tax charged on goods and services dedicated for transportation funding. Based on 2016 sales tax collections, a one-tenth of a percentage general sales tax dedicated to transportation would generate an estimated \$30 million per year of which \$18.39 million would be deposited in the state highway fund.
- Vehicle sales excise tax (state) - A percent tax charged on the purchase of a new or used vehicle. Based on 2016 motor vehicle sales, the motor vehicle excise tax generates an estimated \$105 million per year. If this revenue was deposited in the highway tax distribution fund rather than the general fund, it would provide the state highway fund \$64.37 million after distributions.
- Per-mile tax - A per-mile tax, also known as vehicle miles traveled tax, is a tax based on the number of miles a vehicle is driven. A per mile tax would require an electronic reporting mechanism, annual mileage checks, or self-reporting. The Western Association of State Highway and Transportation Officials has been discussing the use of vehicle miles traveled as a method for generating revenue to support transportation infrastructure and methods to coordinate across state borders. A revenue estimate is not available.
- Value capture - Value capture utilizes the concept that a public investment such as transportation infrastructure may increase adjacent land value. Value capture would convert a portion of the increased property value resulting from new transportation infrastructure as revenue through some taxation method. The revenue would be used for transportation purposes. A revenue estimate is not available.

Design-Build and P3 Construction Methods

The committee reviewed the design-build construction methods and public-private partnership (P3) construction methods. The committee was informed most construction projects in the United States are design-bid-build construction projects in which a design firm is hired and the project is submitted for bidding at which time a builder is selected. In the design-build construction method, one firm is selected for both the design and construction portions of the project. According to testimony, the design-build method of construction is beneficial when cost is less important than time. This method removes the bidding process, which takes time.

The P3 method of construction is the design-build method with the firm also providing financing. This type of project can be attractive when the owner does not have money available. An example is a toll road in which the firm designs, builds, finances, and enters a long-term contract to operate and collect revenues from the use of the road.

Section 24-02-45.1 authorizes the Director of DOT to enter cooperative agreements with private entities for the construction of an item on the state highway system, which will benefit the private entity and the traveling public. The committee received a report indicating DOT has entered these types of agreements generally with a city or county. The city or county receives funds from the private entity and the project is constructed with the funds received by the city or county. The Department of Transportation has participated in small PPP projects, but larger projects, which could include tolls, would need to be considered and approved by the Legislative Assembly.

The committee received information from other interested persons regarding the design-build delivery method of construction for highway projects. Major comments and concerns include:

- The design-build method reduces competition.
- The design-build method limits opportunities for subcontractors to participate in a project.
- When public funds are used on a project, all organizations should have an opportunity to bid on the project.

Department of Transportation Fees and Related Costs

The committee received information regarding fees charged and costs incurred for certain DOT functions. According to the testimony, the actual cost to produce and deliver a set of license plates is \$9.95, including \$5.95 for the plates and \$4.00 for postage. The department charges a fee of \$5.00 for a set of plates, which is set in statute.

The state's cost to produce a driver's license is \$21.25 and the fee charged is \$15.00. The fee amount is set in statute. The committee was informed DOT would need to increase the 6-year driver's license fee by \$26, from \$15 to \$41 to generate sufficient revenue to cover the cost of producing a driver's license.

Conclusion

The committee makes no recommendation regarding the study of transportation-related funding.

STATE BUDGET INFORMATION

The Chairman of the Legislative Management assigned the committee various budget-related duties, including monitoring state revenues and expenses.

Status of the General Fund and Selected Special Funds

The committee received updates regarding the status of the general fund and selected special funds. The following is a summary of original and revised 2017-19 biennium general fund and selected special fund ending balance estimates:

Fund	Estimated Balance - June 30, 2019 (Revised as of June 2018)	Estimated Balance - June 30, 2019 (Original Legislative Forecast)	Balance Variance from the Original Legislative Forecast
General fund	\$191,190,274 ¹	\$50,443,629	\$140,746,645
Budget stabilization fund	\$113,958,668	\$75,000,000	\$38,958,668
Legacy fund	\$5,562,354,964	\$5,131,779,229	\$430,575,735
Foundation aid stabilization fund	\$379,608,902	\$377,795,150	\$1,813,752
Tax relief fund	\$182,300,000	\$182,300,000	\$0
Strategic investment and improvements fund (undesignated)	\$456,395,311	\$372,560,249	\$83,835,062

¹Estimate as of August 2018.

2017-19 Preliminary General Fund Revenue Forecast

The committee received information regarding OMB's revised general fund revenue forecast for the 2017-19 biennium and the preliminary 2019-21 biennium general fund revenue forecast. The following schedule compares the forecasts:

Ongoing General Fund Revenue Forecasts					
Tax Type	2017-19 Biennium			2019-21 Biennium	
	2017-19 Biennium Original Legislative Estimates	September 2018 Revised 2017-19 Biennium Forecast	Change	2019-21 Biennium Preliminary Forecast	Change From 2017-19 Biennium Revised Forecast
Sales and use	\$1,701,747,285	\$1,722,635,206	\$20,887,921	\$1,894,204,000	\$171,568,794
Motor vehicle excise	220,003,000	231,144,237	11,141,237	245,972,000	14,827,763
Individual income	698,728,000	757,683,125	58,955,125	806,483,000	48,799,875
Corporate income	102,088,415	164,894,170	62,805,755	95,486,000	(69,408,170)
Insurance premium	129,637,121	109,325,897	(20,311,224)	105,500,000	(3,825,897)
Gaming	7,301,480	6,528,321	(773,159)	6,850,000	321,679
Cigarette and tobacco	53,247,000	52,054,548	(1,192,452)	48,281,000	(3,773,548)
Wholesale liquor	18,083,000	17,877,575	(205,425)	18,757,000	879,425
Coal conversion	39,564,000	41,937,227	2,373,227	38,032,000	(3,905,227)
Mineral leasing fees	30,500,000	31,930,066	1,430,066	32,000,000	69,934
Departmental collections	81,983,864	83,429,676	1,445,812	84,000,000	570,324
Interest	8,000,000	7,944,852	(55,148)	8,200,000	255,148
Total	\$3,090,883,165	\$3,227,384,900	\$136,501,735	\$3,383,765,000	\$156,380,100

Oil and Gas Tax Revenues and Allocations

The committee received information regarding OMB's revised estimate of oil and gas production and oil extraction revenues and allocations for the 2017-19 biennium and OMB's preliminary estimates for the 2019-21 biennium.

Estimated Allocations of Oil and Gas Production and Oil Extraction Taxes					
	2017-19 Biennium Legislative Estimates	September 2018 Revised 2017-19 Biennium Forecast	Change	2019-21 Biennium Preliminary Forecast	Change From 2017-19 Biennium Revised Forecast
Legacy fund	\$865,827,862	\$1,243,174,990	\$377,347,128	\$1,309,762,247	\$66,587,257
Tribal share	233,972,756	440,328,146	206,355,389	463,632,654	23,304,508
Oil and gas research fund	10,000,000	10,000,000	0	10,000,000	0
Oil and gas impact grant fund	29,145,670	28,353,446	(792,224)	5,000,000	(23,353,446)
Political subdivisions	499,644,769	666,578,370	166,933,601	679,911,951	13,333,581
Abandoned well reclamation fund	8,435,599	8,399,588	(36,011)	15,000,000	6,600,412
North Dakota outdoor heritage fund	10,871,198	10,799,177	(72,021)	31,539,766	20,740,589
Foundation aid stabilization fund	130,926,961	179,803,662	48,876,701	193,100,610	13,296,948
Common schools trust fund	130,926,961	179,803,662	48,876,701	193,100,610	13,296,948
Resources trust fund	258,653,919	356,407,324	97,753,405	382,001,221	25,593,897
Energy conservation grant fund	200,000	200,000	0	1,200,000	1,000,000
Renewable energy development fund	3,000,000	3,000,000	0	3,000,000	0
General fund	400,000,000	400,000,000	0	300,000,000	(100,000,000)
Tax relief fund	200,000,000	200,000,000	0	200,000,000	0
Strategic investment and improvements fund	256,459,929	775,396,416	518,936,487	964,257,750	188,861,334
Budget stabilization fund	75,000,000	75,000,000	0	75,000,000	0
Energy impact fund	4,000,000	4,000,000	0	0	(4,000,000)
Lignite research fund	3,000,000	3,000,000	0	3,000,000	0
State disaster relief fund	0	0	0	0	0
Total	\$3,120,065,624	\$4,584,244,781	\$1,464,179,156	\$4,829,506,809	\$245,262,028

Other Budget-Related Reports Received

The committee received Legislative Council reports including the *State Budget Actions for the 2017-19 Biennium* report, the *2017-19 Biennium Report on Compliance With Legislative Intent*, and the *June 2018 Analysis of Major State Trust Funds for the 2015-17 and 2017-19 Bienniums*.

TRANSPORTATION NETWORK COMPANIES REPORT

The committee received the annual report from DOT regarding information collected from transportation network companies pursuant to Section 39-34-05.

Section 39-34-05 requires transportation network companies to report the following information to DOT:

- A list of political subdivisions in which the transportation network company operates;

- The number of accidents reported to the transportation network company during the passenger on-board stage; and
- The number and types of traffic violations and other violations reported to the transportation network company during the passenger on-board stage.

Section 39-34-05 also requires DOT to report the information collected from the transportation network companies to the Legislative Management.

A transportation network company, as defined in Section 26.1-40.1-01, means a person operating in this state which enables prearranged transportation services for compensation using an online-enabled application or platform to connect passengers with independent participating drivers using a personal vehicle.

The Department of Transportation reported the following:

- Political subdivisions in which a transportation network company operates:

Uber: Alice, Almont, Amenia, Argusville, Arthur, Ayr, Bismarck, Braddock, Briarwood, Buffalo, Casselton, Davenport, Emerado, Fargo, Flasher, Frontier, Gardner, Gilby, Glen Ullin, Grand Forks, Grandin, Hague, Harwood, Hazelton, Hebron, Horace, Hunter, Inkster, Kindred, Larimore, Leonard, Lincoln, Linton, Mandan, Manvel, Mapleton, New Salem, Niagara, North River, Northwood, Oxbow, Page, Prairie Rose, Reile's Acres, Regan, Reynolds, Strasburg, Thompson, Tower City, West Fargo, and Wing

Lyft: Baldwin, Bismarck, Fargo, Grand Forks, Hickson, Mandan, Menoken, Thompson, and West Fargo

- The number of accidents reported to the transportation network company during the passenger on-board stage:
Uber--Six
Lyft--None
- The number and types of traffic violations and any other violations reported to the transportation network company during the passenger on-board stage:
Uber--None
Lyft--None

SNOW AND ICE CONTROL SERVICES REPORT

The committee received a report from DOT regarding the results of the study on the manner in which DOT provides snow and ice control services on the state highway system pursuant to Section 10 of Senate Bill No. 2012 (2017).

The Department of Transportation reported it reviewed its existing locations, population centers, public health facilities, and schools, and applied a 25-mile radius around existing section locations to help identify redundancies and to identify potential improvements. The study found the need for 327 routes and the optimization model created uniform cycle times based on levels of service across the state, resulting in an estimated 19 percent reduction in mileage and an 8 percent reduction in plowing time in comparison to the DOT's previous cycle times and routes. The study cost \$200,000 to \$210,000 and the state owns the program to conduct further modeling as necessary.

WILLIAMS COUNTY AND WILLISTON DISTRICT TRANSPORTATION FACILITY CONSOLIDATION REPORT

The committee received a report from DOT on the study of options to consolidate transportation facilities within Williams County and the Williston district headquarters pursuant to Section 11 of Senate Bill No. 2012 (2017).

The Department of Transportation reported it determined the consolidation of facilities would not be beneficial due to the cost of the infrastructure needed.

WIRELESS TELECOMMUNICATION INFRASTRUCTURE REPORT

The committee received a report from DOT and the Information Technology Department of the results of the study on benefits of allowing wireless telecommunication infrastructure within state highway rights of way and what, if any, requirements of allowing the installation may be in the public interest, pursuant to Section 14 of Senate Bill No. 2012 (2017).

The Department of Transportation reported the study was a cooperative study with the Information Technology Department. As a result of the study, the departments recommend companies work with adjacent landowners and only consider right-of-way access if there is no other alternative. According to the study, cellular companies have been

submitting requests to install equipment within state highway rights of way and the companies find it more cost-effective to install small transmitters on existing structures along the highway. The DOT indicated the items, if approved, would be installed or constructed on the area of the right of way furthest from the roadway.

UNMANNED AIRCRAFT SYSTEMS TEST SITE REPORT

The committee received reports from the Department of Commerce regarding the status of the program to establish and administer an unmanned aircraft systems test site in cooperation with the University of North Dakota, the Aeronautics Commission, Adjutant General, and private parties appointed by the Governor pursuant to Section 54-60-28.

The Department of Commerce reported the initial congressional mandate in 2012 was to expire in February 2017, but because of the federal Safety and Security Act of 2016, the program was extended through September 30, 2019. The test site is working with the Federal Aviation Administration and Xcel Energy Inc. to test and enable beyond visual line-of-sight approval for Xcel Energy to conduct transmission line inspections using unmanned aircraft systems. The National Aeronautics and Space Administration has recognized the test site as a research partner.

GAIN-SHARING PROGRAM REPORT

The committee received a report from the Industrial Commission regarding the results and recommendations of the gain-sharing program study of the Mill and Elevator, pursuant to Section 30 of Senate Bill No. 2014 (2017).

As a result of the study, the Industrial Commission reported the gain-sharing program at the Mill and Elevator is financially feasible. The study included an earnings analysis along with consideration of compensation data comparisons and other financial and nonfinancial aspects of maintaining the gain-sharing program. According to the report, although not required, 25 percent of the employees at the Mill and Elevator work 7 days a week because the mill operates 24 hours every day. The employees have chosen to operate on three shift rotations rather than four shift rotations and the Mill and Elevator uses the option to work 7 days a week as a tool to improve employee efficiency and to retain employees.