

GOVERNMENT FINANCE COMMITTEE

The Government Finance Committee was assigned the following responsibilities for the 2021-22 interim:

- Section 44 of House Bill No. 1015 (2021) directed a study of the classified state employee compensation system.
- Section 1 of House Bill No. 1031 (2021) directed a study of state agency fees.
- Section 4 of House Bill No. 1494 (2021) directed a study of law enforcement and correctional officer recruitment and retention.
- Section 13 of Senate Bill No. 2021 (2021) directed a study of information technology budgeting.
- A study of state revenues and state revenue forecasts, pursuant to Legislative Management directive.
- A study of the Emergency Commission and Budget Section approval process, pursuant to Legislative Management directive.
- A study of the cash management of state funds, pursuant to Legislative Management directive.
- A review and monitoring of the state budget, pursuant to Legislative Management directive.
- The Legislative Management delegated to the committee the responsibility to receive the following reports:

Reports from the Office of Management and Budget (OMB) regarding executive branch employees who received a cumulative salary increase of 15 percent or more since March 31, 2021, (North Dakota Century Code Section 54-44-04).

Reports from the Department of Commerce regarding the status of the unmanned aircraft systems test site program and the beyond visual line of sight unmanned aircraft system program (Sections 54-60-28 and 54-60-29.1).

A report from the Bank of North Dakota regarding the status of infrastructure funds, including the infrastructure revolving loan fund, legacy infrastructure loan fund, and water infrastructure revolving loan fund (Senate Bill No. 2014 (2021) § 36).

A report from the Department of Commerce regarding the results and recommendations of the department's study of environmental, social, and governance policies (Senate Bill No. 2291 (2021) § 2).

Committee members were Representatives Michael Howe (Chairman), Pamela Anderson, Jeff Delzer, Jared C. Hagert, Gary Kreidt, Lisa Meier, Corey Mock, Dave Nehring, Gary Paur, Mike Schatz, Jim Schmidt, Steve Vetter, and Don Vigesaa and Senators Brad Bekkedahl, Richard Marcellais, and Ronald Sorvaag.

CLASSIFIED STATE EMPLOYEE COMPENSATION SYSTEM STUDY Overview

The committees studied the classified state employee compensation system during the 2021-22 interim. The study was required to include a review of the development and determination of pay grades and classifications.

The Human Resource Management Services (HRMS) Division of OMB is responsible for establishing a unified system for state employee job classifications pursuant to North Dakota Century Code Chapter 54-44.3. North Dakota Administrative Code Article 4-07 contains the rules relating to the classified state employee compensation system. The policies, rules, and procedures developed by HRMS address the classification and compensation plans, salary administration, personnel administration actions, and compliance with federal laws for merit personnel systems. In addition, the federal government requires certain state agencies and units of local government to operate under a merit system of personnel administration because of the federal funds they receive for the programs they administer.

Committee Considerations

The committee received information on previous studies of the state employee compensation system, including studies in the 1997-98, 2005-06, and 2009-10 interims. During the 2009-10 interim, the Government Services Committee contracted with the Hay Group for \$100,000 to evaluate the state employee compensation system. The Hay Group recommended simplifying the classification system, decreasing the salary ranges in each classification, including performance and equity components in salary adjustments, and developing a compensation philosophy statement. Based on the recommendations, the Government Services Committee contracted with the Hay Group for \$198,000 to implement the changes to the classified employee compensation system during the 2009-11 biennium and recommended House Bill No. 1031 (2011) to codify a compensation philosophy statement.

The Office of Management and Budget provided information on changes to the classified state employee compensation system, including changes to the classifications. The changes to the system were not presented to the 2021 Legislative Assembly but were approved by the State Personnel Board. As a part of the changes, OMB combined the classifications to reduce the system from 850 classifications across 22 pay levels to 100 standardized roles within 16 job families across 10 pay levels. New salary ranges were established to provide more flexibility to state agencies for setting starting pay levels, but salary equity funding may be requested if state employees are below the mid-points in the new salary ranges.

The committee received information from OMB regarding the results of a state employee benefits survey. The top response for the most valued compensation reward was fully paid health insurance while the top response for most desired change was more competitive pay.

Job Service North Dakota provided information on the labor market in North Dakota and comparisons to other states. In March 2022, North Dakota's unemployment rate was 3.3 percent, and there were 17,806 job openings. Based on 2021 salary and wage data, the average annual wage in North Dakota was \$53,380 compared to \$60,480 in Minnesota and \$46,810 in South Dakota.

The committee received information from the Department of Human Services, Information Technology Department (ITD), Department of Corrections and Rehabilitation (DOCR), and Retirement and Investment Office regarding recent classification and reclassification requests since the implementation of the changes to the classification system in July 2020. The Department of Human Services had 204 classifications and reclassifications for the 18-month period following the classification system changes compared to 130 for the 18-month period before the classification system changes while ITD had 68 classifications and reclassifications for the 18-month period following the classification system changes compared to 23 for the 18-month period before the changes. In 2021, DOCR had a turnover rate of 30 percent, and the primary reason correctional officers leave is related to a higher salary with another employer. Based on comments from the state agencies, the classification system changes provide more flexibility with pay ranges but do not address compensation issues. Employee feedback indicated the compensation ratios are less relevant with the broader pay ranges.

Recommendation

The committee makes no recommendation regarding the study of the classified state employee compensation system.

STATE AGENCY FEES STUDY

Overview

House Bill No. 1031 (2021) required the Legislative Management to assign one or more interim committees the responsibility to study state agency fees. As codified in Century Code Section 54-35-27, state agencies with 40 or fewer fees are required to submit a report to OMB by July 1, 2022, regarding details on each of the fees. By September 2022, OMB is required to compile the agency fee reports and submit a comprehensive report to the Legislative Management. State agencies with 40 or more fees are required to submit a report to the Legislative Management by July 1, 2024, regarding details on each of the fees. The report from each state agency must provide an analysis of each fee, including a comparison of the revenue generated by the fee, costs associated with the fee, and the appropriateness of the fee. After submission of the initial reports, all state agencies are required to submit updates to the Legislative Management by July 1st of every even-numbered year regarding any new fees, changes to existing fees, or the removal of any fees.

Committee Considerations

In response to a motion approved by the committee, OMB developed an agency fee reporting template to identify the constitutional or statutory reference for the fee, the date the fee was established, the current amount of the fee, the reason the fee is set at the specific dollar amount, the fund in which the fee is deposited, the total revenue collected from the fee in the most recently completed biennium, any restrictions on the expenditure of the fee revenue, the significance of the expenditure of the fee revenue for the agency's budget, a comparison of the fee revenue to the cost incurred to provide the services associated with the fee, the date the fee was last changed, and comments from the agency on the appropriateness and affordability of the fee.

The Office of Management and Budget presented a report on state agencies with 40 fees or fewer pursuant to Section 54-35-27. In the report, 46 state agencies had 40 or fewer fees, including 15 state agencies with no fees and 31 state agencies with at least 1 fee but no more than 40 fees. Due to the timing of the report, the committee deferred the review of the fees until the next interim.

Recommendation

The committee makes no recommendation regarding the study of state agency fees.

LAW ENFORCEMENT AND CORRECTIONAL OFFICER RECRUITMENT AND RETENTION STUDY

Overview

House Bill No. 1494 (2021) provided for a Legislative Management study of the recruitment, retention, turnover, and training of law enforcement and correctional officers employed by state agencies and political subdivisions. The study may include a review of current and historical rates of retention and turnover, the training and professional development offered and required of law enforcement and correctional officers, and an analysis of the compensation and benefits of law enforcement and correctional officers employed by state agencies, political subdivisions, and comparable positions in other states within the region.

The state employee recruitment and retention bonus program is codified in Section 54-06-31 and allows state agencies to provide bonuses to recruit and retain employees in hard-to-fill occupations. Any bonuses provided by a state agency must be within the appropriation limits of the agency's salaries and wages budget. A state agency must have a written policy identifying the eligible positions and the provisions for awarding bonuses. The Human Resource Management Services division of OMB is required to provide periodic reports to the Legislative Management regarding recruitment and retention bonuses.

Section 39-03-13.1 provides the Superintendent of the Highway Patrol is responsible for operating a law enforcement training center to provide basic and advanced peace officer training. The training programs offered must meet the certification criteria and curriculum standards established by the Peace Officer Standards and Training Board.

Committee Considerations

The Department of Corrections and Rehabilitation, Highway Patrol, and Attorney General's office provided information regarding the recruitment, retention, turnover, and training of correctional officers and law enforcement officers. The Department of Corrections and Rehabilitation observed an improvement in recruitment and retention of correctional officers by emphasizing the department's mission but continues to face challenges with pay rates that are less than the rates offered to correctional officers in Burleigh and Cass Counties. The Highway Patrol provides a \$2,500 sign-on bonus upon completion of probation and a \$1,000 recruitment bonus to current employees for recruiting a trooper who successfully completes probation. The Highway Patrol also transitioned from five 8-hour shifts to four 10-hour shifts per week to allow troopers to have additional days away from work. The Attorney General's office has challenges retaining agents in the northwestern area of the state because Williams County and Williston offer higher starting salaries for law enforcement positions.

The committee received information from the North Dakota Sheriff's Association and the Mandan Police Department regarding the recruitment and retention of county and city law enforcement officers. Over 80 percent of local law enforcement in North Dakota has less than 10 years of experience based on a survey of county and city law enforcement agencies. Suggestions to address local law enforcement staffing challenges include income tax exemptions, recruitment and retention bonuses, and scholarships. Some police departments have a high turnover rate because officers accept county or state law enforcement positions, which offer higher starting pay.

Recommendation

The committee makes no recommendation regarding the study of law enforcement and correctional officer recruitment and retention.

INFORMATION TECHNOLOGY BUDGETING STUDY

Overview

Section 13 of Senate Bill No. 2021 (2021) provided for a study of the state government information technology (IT) budgeting and appropriations process. The study must include a review of the current process and the feasibility and desirability of providing a general fund appropriation to ITD rather than providing general fund appropriations to state agencies to pay ITD for services. The study must include consideration of any cost or cost-savings that may result and any transparency benefits of the potential budgeting and appropriation changes.

From the 1969 legislative session through the 1993 legislative session, state agency budgets included a data processing line item or an information services line item for fees paid to the Central Processing Division or Information Services Division of OMB. Beginning in the 1995 legislative session, funding for IT expenses, excluding large projects, was appropriated in the operating expenses line item in state agency budgets. The funding for large IT projects is included in the capital assets line item of agency budgets and is identified as a one-time funding item.

Currently, the funding for agency IT-related expenses is included in state agency budgets. State agencies make payments to ITD and external vendors for services rendered. The funding included in state agency budgets may be

derived from the general fund, state special funds, or federal funds. When state agencies make payments to ITD for services, ITD deposits the funds in an operating service fund. The Legislative Assembly authorizes ITD to spend money from the operating service fund along with other funding sources through the appropriations process. As a result, the majority of ITD's budget consists of special funds reflecting authorization to spend the funds collected from other state agencies for services rendered.

Each biennium, ITD publishes the estimated billing rates for the subsequent biennium. State agencies use the estimates for developing their budgets. During the biennium, ITD monitors the costs and revenues for each service to ensure one service is not subsidizing another. The federal government does not allow ITD to charge rates that generate revenues in excess of costs; therefore, ITD monitors its cash balances and adjusts rates accordingly. The department also monitors other entities' rates for similar services to maintain quality services at a fair price. Since state agencies develop their budgets based on estimates and may purchase services from external vendors, the amounts appropriated for IT-related expenses in state agency budgets may not accurately reflect the actual amounts paid to ITD for services.

The 2019 Legislative Assembly transferred 96 full-time equivalent (FTE) IT positions from 5 agencies in the 2019-21 biennium, and the 2021 Legislative Assembly transferred 53 FTE IT positions from 10 agencies in the 2021-23 biennium for an IT unification initiative. The transfers included a reduction of salaries and wages funding in each agency transferring FTE positions to ITD and a larger increase in operating expenses to allow the agency to pay ITD for the salaries and wages of the FTE positions, including compensation increases authorized by the Legislative Assembly. The salaries and wages line item for ITD also was increased to allow the department to bill and collect from each unification agency for the salaries and wages of the transferred FTE positions.

Committee Considerations

The committee received information from ITD regarding the process for IT budgeting, including the advantages and disadvantages of the process and potential changes. The current budgeting process provides flexibility to ITD for spending and includes a review of state agencies' proposed IT projects but requires two appropriations, one in the agency budget and one in the ITD budget. Providing a general fund appropriation to ITD may increase the transparency of IT costs but may increase demand for services since agencies would not be limited to a certain level of services based on their budgets. Based on an analysis by ITD, the state is saving \$1.6 million per biennium with bulk licensing discounts and \$504,000 per biennium from standardized IT hardware purchases as a result of the unification initiative. The initial consolidation under the IT unification initiative increased the workload more than anticipated and resulted in state agencies perceiving a lack of timely responses from ITD.

The committee received information from the Department of Human Services, Department of Agriculture, Attorney General's office, State Treasurer's office, Department of Public Instruction, DOCR, and OMB regarding the advantages and disadvantages of the process for IT budgeting and potential changes to the process. The Department of Agriculture benefited from volume pricing through the IT unification initiative but encountered challenges with technology devices and policy changes that did not meet the department's unique needs. The Attorney General's office indicated support for providing a general fund appropriation to ITD for IT services to decrease agencies' administrative responsibilities to submit payments to ITD. Changing the budgeting process for IT services may simplify the budgeting process but may result in a loss of priority for small state agency IT service needs based on comments from the State Treasurer's office. The Department of Public Instruction, DOCR, and OMB also listed similar advantages and disadvantages of the current process for IT budgeting and potential changes.

Recommendation

The committee makes no recommendation regarding the study of IT budgeting.

STATE REVENUES AND STATE REVENUE FORECASTS STUDY

Overview

After the 2017 legislative session, the Legislative Management appointed a Legislative Revenue Advisory Committee and assigned the committee the responsibility to study state revenues and state revenue forecasts during the 2017-18 interim. The Legislative Management also appointed a committee for the 2019-20 interim to continue studying state revenues and state revenue forecasts. For the 2021-22 interim, the Legislative Management assigned the study of state revenues to the committee. The committee's duties include monitoring state revenues and state economic activity, reviewing economic forecasting data and models, and reviewing and analyzing executive revenue forecasts and alternative revenue forecasts.

The Legislative Assembly is responsible for approving the state budget, including the revenue forecast. The legislative revenue forecast prepared at the end of each legislative session includes a base revenue forecast and any legislative changes. Legislative changes may include tax incentives and exemptions, tax rate changes, or transfers from other state funds. The Appropriations Committees adopt the base revenue forecast during the 1st week of the

legislative session and adjust the base revenue forecast in March during the legislative session based on the most recent projections for economic conditions.

The Office of Management and Budget also prepares revenue forecasts for consideration in developing the state budget. The Office of Management and Budget contracts for economic advisory services, currently Moody's Analytics, to provide economic projections as a basis for developing the revenue forecasts. The Office of Management and Budget coordinates the development of the revenue forecasts with the Tax Department.

Committee Considerations

The committee issued a request for proposals for economic forecasting data and received a proposal from IHS Markit by S&P Global. The committee selected S&P Global for the consulting services. S&P Global provided information to the committee regarding forecasting results for general fund revenues, including a revised forecast for the 2021-23 biennium and a preliminary forecast for the 2023-25 biennium, as shown in the schedule below.

	2021-23 Biennium Revised Forecast			2023-25 Biennium Preliminary Forecast		
	Baseline Forecast	Pessimistic Forecast	Optimistic Forecast	Baseline Forecast	Pessimistic Forecast	Optimistic Forecast
Sales and use tax	\$1,940,581,097	\$1,909,469,742	\$1,966,253,315	\$2,037,598,143	\$1,949,233,312	\$2,118,360,091
Motor vehicle excise tax	287,940,849	279,744,131	292,063,175	338,775,687	306,870,106	351,059,529
Individual income tax	902,379,966	875,759,208	942,032,644	1,202,901,926	1,148,055,428	1,310,982,548
Corporate income tax	344,712,321	336,888,483	352,821,702	277,575,978	251,372,012	302,905,877
Total major tax types	\$3,475,614,233	\$3,401,861,564	\$3,553,170,836	\$3,856,851,734	\$3,655,530,858	\$4,083,308,045

Based on final legislative action in the November 2021 special legislative session, the major sources of general fund tax and fee revenue for the 2021-23 biennium totaled \$2,803,598,000, including \$1,765,334,000 from sales and use tax collections, \$260,854,000 from motor vehicle excise tax collections, \$570,400,000 from individual income tax collections, and \$207,000,000 from corporate income tax collections. The baseline amounts under the 2021-23 biennium revised forecast prepared by S&P Global reflect an increase of \$672,016,233, or 24 percent, compared to the November 2021 special legislative session forecast. The baseline amounts under the 2023+-25 biennium preliminary forecast prepared by S&P Global reflect an increase of \$1,053,253,734, or 38 percent, compared to the November 2021 special legislative session forecast.

The committee received information from S&P Global regarding the energy and agriculture industries in North Dakota. North Dakota oil prices are anticipated to decrease from approximately \$115 per barrel in 2022 to \$75 per barrel by 2025 while oil production is anticipated to increase from 1.1 million barrels per day in 2022 to 1.3 million barrels per day in 2025. Approximately 66 percent of oil wells in the Bakken Formation are profitable with oil prices over \$60 per barrel, but new oil well opportunities in the most productive areas may be exhausted by 2025 based on an analysis by S&P Global. The acres of corn and soybeans planted in North Dakota in 2022 increased significantly compared to 2021 while the acres of wheat planted in 2022 was similar to 2021.

The committee also received information from the North Dakota Petroleum Council, North Dakota Pipeline Authority, Department of Mineral Resources, North Dakota Stockmen's Association, North Dakota Wheat Commission, North Dakota Soybean Council, North Dakota Retail Association, and Associated General Contractors of North Dakota regarding industry and market trends. Workforce shortages and inflationary price increases are challenges for businesses, but high commodity prices have increased revenues in the energy and agriculture sectors of the economy.

Recommendation

The committee makes no recommendation regarding the study of state revenues and state revenue forecasts. However, S&P Global will provide additional revenue forecasting updates to the Appropriations Committees during the 2023 legislative session.

EMERGENCY COMMISSION AND BUDGET SECTION APPROVAL PROCESS STUDY Overview

The Chairman of the Legislative Management directed the committee to study the provisions of Senate Bill No. 2290 (2021). As approved by the Legislative Assembly, the bill requires the Budget Section to approve requests to receive and spend state special funds and federal funds during the interim if the request exceeds \$50,000. If the request exceeds \$50,000 but is less than \$3 million, the spending request may not be amended by the Budget Section. Requests exceeding \$3 million may be amended by the Budget Section, and any amended requests approved by the Budget Section are deemed to be approved by the Emergency Commission. The Budget Section may not approve more than \$50 million of federal funds spending requests or more than \$5 million of state special funds spending requests in aggregate during a biennium. The Legislative Assembly must approve any spending request for federal funds exceeding \$50 million, but Federal Highway Administration emergency relief funding and emergency

recovery funding are exempt from the approval limits. The bill included an emergency clause and became effective April 29, 2021.

The Emergency Commission was created in 1915 when the Legislative Assembly appropriated \$25,000 to establish a state contingencies funding pool to address state emergencies. Until 1975, the Emergency Commission could approve any requests from the state contingencies funding pool up to the total amount appropriated by the Legislative Assembly; however, starting in 1975, Budget Section approval was required when the aggregate approvals from the state contingencies funding pool exceeded \$500,000. In Senate Bill No. 2015 (1999), the Legislative Assembly amended Sections 54-16-04.1 and 54-16-04.2 requiring Budget Section approval to receive and spend state special funds or federal funds if the request exceeded \$50,000.

During the 1989-90 interim, the Legislative Audit and Fiscal Review Committee noted various state agency audit reports included a recommendation for state agencies to comply with Section 12 of Article X of the Constitution of North Dakota, which requires public money to be spent only pursuant to an appropriation made by the Legislative Assembly. As a result, Senate Bill No. 2168 (1991) provided an appropriation of \$10 million of special funds authority to create a special funds state contingencies funding pool, which the Emergency Commission could disburse to state agencies as needed. However, the Legislative Assembly amended Section 54-16-04.2 in Section 11 of Senate Bill No. 2015 (1995) to remove the provision that limited the approvals of the Emergency Commission for state special funds to the amount appropriated by the Legislative Assembly. Therefore, the appropriation of special funds authority for a special funds state contingencies funding pool was removed from the budget in the 1995-97 biennium, and the state contingencies funding pool consisted of \$500,000 from the general fund only.

Committee Considerations

The committee considered a bill draft relating to Emergency Commission and Budget Section approval to accept and disburse federal funds and state special funds based on an adjustment to the current limits. The bill draft would have increased the approval limit for federal funds by \$25 million, from \$50 million to \$75 million per biennium. The bill draft also would have increased the approval limit for state special funds by \$70 million, from \$5 million to \$75 million per biennium.

The committee considered a bill draft relating to Emergency Commission and Budget Section approval to accept and disburse federal funds and state special funds based on percentage limits. The bill draft replaces the approval limit of \$50 million for federal funds with an amount based on 2 percent of the current biennial state general fund budget as approved by the Legislative Assembly. The bill draft replaces the approval limit of \$5 million for state special funds with an amount based on 1 percent of the current biennial state general fund budget as approved by the Legislative Assembly. The bill draft also includes other minor updates for clarity and consistency.

Recommendation

The committee recommends a bill draft [23.0284.01000] for consideration during a 2021 special or reconvened legislative session or during the 2023 regular legislative session relating to Emergency Commission and Budget Section approval to accept and disburse federal funds and state special funds based on percentage limits. The committee also recommends the Legislative Assembly consider temporarily increasing the state special fund approval limit by \$15 million, from \$5 million to \$20 million, for the remainder of the 2021-23 biennium during a 2021 special or reconvened legislative session.

Although the bill draft was not considered during the November 2021 special legislative session, the Legislative Assembly increased the state special fund approval limit from \$5 million to \$20 million for 2021-23 biennium in Section 23 of House Bill No. 1506 (2021) during the special session.

CASH MANAGEMENT OF STATE FUNDS STUDY

Overview

The Chairman of the Legislative Management directed the committee to study the cash management of state funds. The study must include consideration of the constitutional and statutory provisions regarding the deposit, expenditure, and investment of state funds. Additionally, the study must include consideration of the timing of state revenues and expenditures; investment risks, returns, and expenses; and the costs and benefits of the state's current cash management practices compared to alternative cash management practices. The committee may consider input from representatives of OMB, State Treasurer, Bank of North Dakota, Board of University and School Lands, the State Investment Board, and other state agencies.

As provided in Section 12 of Article X of the Constitution of North Dakota, all money collected by state agencies must be paid to the State Treasurer for deposit to the credit of the state. The Legislative Assembly must provide an appropriation before the expenditure of any funds. Chapter 59-17 establishes prudent investor standards relating to the financial responsibility of trustees that invest and manage trust assets. Pursuant to Section 6-09-07, state funds must

be deposited with the Bank of North Dakota except as otherwise provided by law. In accordance with Section 54-11-01, the State Treasurer manages all state money except as otherwise provided by law, including the deposit of all revenue and payments for expenses. Income earned from deposits or investments must be credited to the general fund, except as otherwise provided by law.

Committee Considerations

The committee received information from the State Treasurer's office, Bank of North Dakota, Retirement and Investment Office, Department of Trust Lands, and OMB regarding each agency's role in the cash management process, including challenges with the timing of state revenues and expenditures, investment of state funds, and suggestions for alternative cash management practices. Some inflows and outflows of state funding managed by the State Treasurer's office follow a regular pattern whereas others may be one-time or irregular transactions. State funds deposited at the Bank of North Dakota earn interest, and the deposit rates are based on the average of the rates offered by other large financial institutions in North Dakota. The Retirement and Investment Office and Department of Trust Lands are responsible for managing the investment of state funds, including the legacy fund, North Dakota Public Employees Retirement System main system plan, and common schools trust fund. The Office of Management and Budget has a limited role in the cash management process but agency staff assist with the development of the cashflow forecast for the general fund and coordinate cashflows with other state agencies.

Recommendation

The committee makes no recommendation regarding the study of the cash management of state funds.

OTHER COMMITTEE DUTIES

Review and Monitor the State Budget

The Office of Management and Budget provided updates on the status of the general fund, balances of selected state special funds, and the status of federal funds. The June 30, 2021, ending fund balance of the general fund was \$1.1 billion, which was approximately \$400 million more than the 2021 legislative forecast primarily due to additional legacy fund earnings and unspent 2019-21 biennium general fund appropriations (turnback). In May 2021, the state received approximately \$1.0 billion related to federal state fiscal recovery funds. The forecasted individual income tax collections were adjusted in December 2021 to reflect the estimated decrease in collections resulting from an income tax credit approved during the November 2021 special legislative session. A new statewide budgeting software system was implemented in May 2022. As of September 2022, the United States Department of the Treasury approved the state's plan for broadband infrastructure grants from the federal Coronavirus Capital Projects Fund but had not approved the state's plan for statewide area career center grants.

The committee received information from the Department of Mineral Resources regarding the status of oil and gas development activities in the state. The core area of the Bakken Formation may be fully developed within 10 years. Oil wells outside the core area are being drilled with a 3-mile horizontal lateral segment, which provides a 50 percent increase in oil production with a 15 percent cost increase compared to oil wells with a 2-mile horizontal lateral segment. The use of 3-mile horizontal lateral segments in oil wells may result in a lower growth rate for oil-related jobs and economic activity compared to previous forecasts, which could affect future state revenues.

The Tax Department provided information regarding the status of the income tax credit authorized in House Bill No. 1515 (2021) and the oil extraction tax "trigger." The estimated fiscal impact of the individual income tax credit under House Bill No. 1515 was \$211 million for the 2021-23 biennium, including \$104 million for fiscal year 2022 and \$107 million for fiscal year 2023. Through April 26, 2022, \$96 million of tax credits were claimed with approximately 253,000 tax returns eligible for a full or partial credit out of 380,000 returns filed. The oil extraction tax "trigger" becomes effective if West Texas Intermediate oil prices exceed the "trigger" price for 3 consecutive months and ends when oil prices are less than the "trigger" price for 3 consecutive months. The "trigger" price for calendar year 2022 is \$94.69. When the provisions of the oil extraction tax "trigger" become effective, the tax rate increases from 5 to 6 percent and oil extraction tax collections would increase by approximately 20 percent.

The oil extraction tax rate increased from 5 to 6 percent effective for June 2022 oil production because oil prices exceeded the "trigger" price for 3 consecutive months. Because oil prices were below the "trigger" price in August and September 2022, the oil extraction tax rate may return to 5 percent effective for November 2022 oil production if oil prices continue to remain below the "trigger" price in October 2022. The state may receive approximately \$140 million of additional oil extraction tax collections if the higher tax rate is effective for oil production between June and October 2022 based on an estimate from the Tax Department.

The Legislative Council provided budget updates to the committee, including the 67th Legislative Assembly State Budget Actions report and supplement report for the 2021-23 biennium, the Compliance with Legislative Intent report for the 2021-23 biennium, the Analysis of State Trust Funds report for the 2019-21 and 2021-23 bienniums, the North Dakota Finance Facts pocket brochures for 2021 and 2022, a budget and fiscal trends presentation, a flowchart of the

estimated revenue sources and distributions for major state funds for the 2021-23 biennium, an oil and gas tax revenue allocation flowchart for the 2021-23 biennium, a preliminary budget outlook for the 2023-25 biennium, and a presentation comparing ongoing general fund revenues and appropriations.

Salary Increase Reports

The committee received a report from OMB regarding executive branch employees who received a cumulative salary increase of 15 percent or more since March 31, 2021, pursuant to Section 54-44-04. Through August 31, 2022, 796 executive branch employees received a cumulative salary increase of 15 percent or more, of which 415 received an equity increase, 160 received an increase for a promotion, 97 received an increase for a responsibility change, and 124 received increases for other reasons.

Unmanned Aircraft Systems Status Reports

The committee received information from the Department of Commerce regarding the status of the unmanned aircraft systems test site pursuant to Section 54-60-28 and the beyond visual line of sight unmanned aircraft system program pursuant to Section 54-60-29.1. The Northern Plains Unmanned Aircraft Test Site began operations in 2014. For the 2019-21 biennium, the Legislative Assembly appropriated \$28 million to establish a beyond visual line of site unmanned aircraft system program. The Legislative Assembly provided \$19 million of additional funding for the 2021-23 biennium for continued development of unmanned aircraft system programs.

Infrastructure Funds Status Reports

The committee received information from the Bank of North Dakota regarding the status of the infrastructure revolving loan fund under Section 6-09-49, the legacy infrastructure loan fund under Section 6-09-49.1, and the water infrastructure revolving loan fund under Section 6-09-49.2. The infrastructure revolving loan fund had \$205.9 million committed to loans and \$37.5 million available for new loans as of August 31, 2022. The legacy infrastructure loan fund has not been utilized but would be used to provide liquidity for the infrastructure revolving loan fund as needed. The water infrastructure revolving loan fund had \$59.2 million committed to loans and \$10.2 million available for new loans as of August 31, 2022.

Environmental, Social, and Governance Policies Report

The Department of Commerce provided a report on environmental, social, and governance policies pursuant to Senate Bill No. 2291 (2021). Based on the Department of Commerce's study, most major capital investments planned in North Dakota now include an environmental, social, or governance component. Environmental, social, and governance policies may present challenges for the energy industry in North Dakota, but carbon capture projects and other value-added opportunities may help North Dakota address challenges related to environmental, social, and governance policies.

The committee also received information from the State Treasurer's office indicating some ratings agencies have started to include environmental, social, and governance factors in their ratings for states, which could impact North Dakota's credit rating.

Committee Tours

The committee toured the Energy and Environmental Research Center, Wilson M. Laird Core and Sample Library, and North Dakota Mill and Elevator Association related to the committee's responsibility to review and monitor the state budget, including the potential impact on the state budget resulting from advances in research and technology for the energy industry and the expansion of the Mill's operations.

The committee toured Grand Sky, a commercial unmanned aircraft research and development park adjacent to the Grand Forks Air Force Base, related to the committee's responsibility to receive updates on the status of the unmanned aircraft system programs in the state.