

**Third Day of Legislative Organizational Session****JOURNAL OF THE HOUSE****Sixty-third Legislative Assembly**

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**Bismarck, December 5, 2012**

The House convened at 8:30 a.m., with Speaker Devlin presiding.

The prayer was offered by Pastor Rich Wyatt, Living Hope Church of the Nazarene, Bismarck.

The roll was called and all members were present except Representatives Hanson, Hawken, Mock, and Onstad.

A quorum was declared by the Speaker.

**MOTION**

**REP. VIGESAA MOVED** that the House stand in recess until 9:10 a.m., which motion prevailed.

**THE HOUSE RECONVENED** pursuant to recess taken, with Speaker Devlin presiding.

**ANNOUNCEMENT**

**SPEAKER DEVLIN ANNOUNCED** that the House would be on the Seventh Order of business.

The Chief Clerk read the Committee on Committees assignments.

**2013 HOUSE STANDING COMMITTEES****Appropriations Committee**

Committee Chairman - Jeff Delzer

Vice Chairman - Keith Kempenich

**Education and Environment Division**

Committee Chairman - Robert J. Skarphol

Clark Williams

Vice Chairman - David Monson

Tracy Boe

Bob Martinson

Roscoe Streyle

Mark A. Dosch

Bette Grande

**Government Operations Division**

Committee Chairman - Blair Thoreson

Eliot Glassheim

Vice Chairman - Mike D. Brandenburg

Ron Guggisberg

Kathy Hawken

Mark Sanford

Keith Kempenich

**Human Resources Division**

Committee Chairman - Chet Pollert	Rick Holman
Vice Chairman - Larry Bellew	
Alon Wieland	
Gary Kreidt	
Jon Nelson	

**Education Committee**

Committee Chairman - Mike Nathe	Bob Hunsakor
Vice Chairman - Mike Schatz	Jerry Kelsh
John Wall	Corey Mock
Brenda Heller	
David S. Rust	
Lisa Meier	
Karen M. Rohr	
Dennis Johnson	
Joe Heilman	
Ben Koppelman	

**Finance and Taxation Committee**

Committee Chairman - Wesley R. Belter	Scot Kelsh
Vice Chairman - Craig Headland	Steven L. Zaiser
Matthew M. Klein	Marie Strinden
David Drovdal	Jessica Haak
Glen Froseth	
Mark S. Owens	
Patrick Hattlestad	
Wayne Trottier	
Jason Dockter	
Jim Schimdt	

**Human Services Committee**

Committee Chairman - Robin Weisz	Naomi Muscha
Vice Chairman - Curt Hofstad	Kylie Oversen
Chuck Damschen	Gail Mooney
Todd Porter	
Alan Fehr	
Dick Anderson	
Dwight Kiefert	
Vernon Laning	
Alex Looysen	
Peter F. Silbernagel	

**Industry, Business and Labor Committee**

Committee Chairman - George J. Keiser	Bill Amerman
Vice Chairman - Gary R. Sukut	Edmund Gruchalla
Robert Frantsvog	Marvin E. Nelson
Thomas Beadle	Joshua A. Boschee
Jim Kasper	
Don Vigesaa	
Curtiss Kreun	
Nancy Johnson	
Rick Becker	
Scott Louser	
Dan Ruby	

**Judiciary Committee**

Committee Chairman - Kim Koppelman	Lois Delmore
Vice Chairman - Lawrence R. Klemin	Ben W. Hanson
William E. Kretschmar	Kathy Hogan
Andrew G. Maragos	
Diane Larson	
Gary Paur	
Randy Boehning	
Karen Karls	
Roger Brabandt	
Vicky Steiner	
Nathan Toman	

**Agriculture Committee**

Committee Chairman - Dennis Johnson	Jessica Haak
Vice Chairman - John Wall	Marvin E. Nelson
David S. Rust	Joshua A. Boschee
Joe Heilman	
Wesley R. Belter	
Craig Headland	
Wayne Trottier	
Alan Fehr	
Dwight Kierfert	
Diane Larson	

**Government and Veterans Affairs Committee**

Committee Chairman - Jim Kasper	Gail Mooney
Vice Chairman - Randy Boehning	Bill Amermann
Ben Koppelman	Steven L. Zaiser
Jason Dockter	Marie Strinden

Scott Louser  
Vernon Laning  
Gary Paur  
Karen M. Rohr  
Karen Karls  
Vicky Steiner

#### **Natural Resources Committee**

Committee Chairman - Todd Porter	Bob Hunsakor
Vice Chairman - Chuck Damschen	Scot Kelsh
Jim Schmidt	Corey Mock
Glen Froseth	
Curt Hofstad	
Dick Anderson	
Peter F. Silbernagel	
Mike Nathe	
Roger Brabandt	
George J. Keiser	

#### **Political Subdivisions Committee**

Committee Chairman - Nancy Johnson	Jerry Kelsh
Vice Chairman - Patrick Hatlestad	Kathy Hogan
Lawrence R. Klemin	Naomi Muscha
Kim Koppelman	Ben W. Hanson
William E. Kretschmar	
Andrew G. Maragos	
Nathan Toman	
Thomas Beadle	
Lisa Meier	
Matthew M. Klein	
Alex Looyen	

#### **Transportation Committee**

Committee Chairman - Dan Ruby	Lois Delmore
Vice Chairman - Mark S. Owens	Edmund Gruchalla
David Drovda	Kylie Oversen
Brenda Heller	
Robin Weisz	
Gary R. Sukut	
Don Vigasaa	
Robert Frantsvog	
Curtiss Kreun	
Rick Becker	

Mike Schatz

**REP. VIGESAA MOVED** that the report be adopted, which motion prevailed on a voice vote.

#### **REPORT OF PROCEDURAL COMMITTEE**

**MR. SPEAKER:** Your procedural **Rules Committee (Rep. Carlson, Chairman)** recommends that the House and Joint Rules of the Sixty-second Legislative Assembly, as adopted on Wednesday, December 8, 2012, and published in the 2011 Senate and House Rules and Committees book, with the following amendments, be adopted as the permanent rules of the House for the Sixty-third Legislative Assembly, and the reading of this report be dispensed with:

**SECTION 1. AMENDMENT.** House Rule 206 is amended as follows:

**206. Officers and employee positions of the House.** The following officers and employee positions are established, with the number, title, and manner of selection for each position as stated:

<b>Title of Position</b>	<b>Number of Positions</b>
<b>Group A</b>	
Chief Clerk	1
Journal Reporter	1
Sergeant-at-Arms	1

Persons holding Group A positions must be elected by a majority of the members-elect and the results of the vote must be recorded in the journal.

<b>Group B</b>	
Assistant Chief Clerk	1
Chief Committee Clerk	1
Appropriations Committee Clerk	1
Bill Clerk	1
Calendar Clerk	1
<u>Recording Clerk</u>	1
Assistant Appropriations Committee Clerks	1
Committee Clerks	10
<del>Chief Page and Bill Book Clerk</del>	1
Assistant Committee Clerk	1
Deputy Sergeant-at-Arms	1
Legislative Assistant - Information Kiosk Attendant	1
Legislative Assistant - Desk Page	1

Persons holding Group B positions must be appointed by the party having a majority of the members-elect, acting by and through the Employment Committee. Unless otherwise determined by the Employment Committee, the Information Kiosk Attendant position alternates between the houses every other legislative session.

<b>Group C</b>	
Administrative Assistant to the Speaker	1
Administrative Assistant to Majority Leader	1
Staff Assistants to Majority Leader	2
Administrative Assistant to Minority Leader	1
Staff Assistants to Minority Leader	2

The Speaker and the Majority and Minority Leaders shall appoint their respective administrative and staff assistants, acting by and through the Employment Committee.

Other employees must be appointed as determined necessary by the Employment Committee and must be allocated to the majority and minority parties in proportion to each party's percentage of the total number of the members-elect and each party shall appoint the persons to the positions allocated to them, acting by and through the Employment Committee. The majority party has the first right to select positions of a group until its allocation is filled.

The powers, duties, and qualifications for each officer or employee are as provided by law, these rules, and the 2014~~current~~ Legislative Session Employee Handbook.

**SECTION 2. AMENDMENT.** House Rule 342 is amended as follows:

**342. Announcement of vote.** The Chief Clerk shall tabulate the vote. The Speaker shall announce the vote and declare whether the bill has passed, ~~whether the title is agreed to,~~ and whether the emergency clause, if any, has carried.

**SECTION 3. AMENDMENT.** House Rule 346 is amended as follows:**346. Transmittal of measure to Senate - Notice of intention to reconsider.**

1. After the second reading of a bill or resolution, the Chief Clerk shall retain the bill or resolution until the end of the next legislative day, unless the bill or resolution has previously been disposed of.
2. On the thirty-eighth and thirty-ninth legislative days and after the fifty-ninth legislative day, the Chief Clerk shall transmit the bill or resolution to the Senate immediately upon adjournment of the last session on that day's session day unless action on the bill or resolution is pending as the result of the House passing a motion to reconsider or unless the Majority or Minority Leader has given notice of intention to move the reconsideration of that bill or resolution.
3. After the sixty-eighth legislative day, the Chief Clerk shall transmit the bill or resolution to the Senate immediately after the second reading of the bill or resolution unless the Majority or Minority Leader has given notice of intention to move the reconsideration of that bill or resolution.
4. When a member in explaining the member's vote states to the House that the member's vote is for the purpose of reconsideration, that statement also is notice of such intention.
5. If notice is given by a member other than the Majority or Minority Leader but the motion to reconsider is not made before the end of the next legislative day, the Chief Clerk shall transmit the bill or resolution to the Senate at the end of that next legislative day.

**SECTION 4. AMENDMENT.** House Rule 362 is amended as follows:**362. Determination of seniority seating in House chamber.**

1. Seniority is measured by the total number of years a member has served in the Legislative Assembly, regardless of continuity of terms of office, and includes service in the Senate.
2. Seating of members must be in the following order and other members of each district delegation of the same political party must be seated immediately after each of the members indicated:
  - a. The Majority Leader.
  - b. The Minority Leader.
  - c. The Assistant Majority Leader.
  - d. The Assistant Minority Leader.
  - e. Past Speakers in the order of seniority.
  - f. The Speaker.
  - g. The remaining members in the order of seniority.
3. Seat numbers 40 and 64 are reserved for the Majority Leader and Minority Leader.
4. Seat number 86 is reserved for the Speaker.

5. ~~Seat numbers 26, 27, 28, 29, 55, 56, 57, and 58 are reserved.~~
6. The Speaker may permit extra seats on the floor of the House chamber to be utilized by members of the press, and may reserve certain seats for that purpose.
7. ~~6.~~ When two or more members have exactly the same seniority as determined pursuant to subsection 1, seating among those members must be in ascending numerical order based on the number of the district represented. When two or more members from the same district or multidistrict have equal seniority, the member or members of the party of the Speaker, if any, must be seated first; thereafter members must be listed in alphabetical order for seating purposes.

**SECTION 5. AMENDMENT.** House Rule 501 is amended as follows:

**501. Standing committees.**

1. The Committee on Committees consists of eleven members. The Majority Leader, by virtue of office, is a member of the committee and shall serve as its chairman. The Speaker, by virtue of office, is a member of the committee and is the vice chairman of the committee. The Majority Leader shall appoint five other members from the majority party and four members from the minority party to the committee. The committee shall appoint standing committees concerned with matters in the fields as indicated and procedural committees.
2. The five-day standing committee is Appropriations: (21 members) Bills and resolutions referred or rereferred under House Rule 329. Except for the committee chairman, each member of the committee must be appointed to one of the following divisions of the committee which, for purposes of North Dakota Century Code Section 54-03-10, are deemed standing committees:
  - a. Education and Environment.
  - b. Government Operations.
  - c. Human Resources.
3. The three-day standing committees are:
  - a. Education: (15 members)  
Public Schools; Libraries; Institutions of Higher Learning.
  - b. Finance and Taxation: (14 members)  
Public Debt; Taxes and Tax Laws.
  - c. Human Services: (13 members)  
Human Services; Public Health; Public Safety.
  - d. Industry, Business and Labor: (14 members)  
Banks and Banking; Corporations; Insurance; Matters pertaining to Private Business and Industry; Workers' Compensation; Unemployment Compensation; Labor Laws and kindred subjects.
  - e. Judiciary: (14 members)  
Elections and Election Privileges; Judiciary; Constitutional Revision.
4. The two-day standing committees are:
  - a. Agriculture: (14 members)  
Agriculture; Livestock; Drainage and Irrigation; Warehouse and Grain Grading.

- b. Energy and Natural Resources: (15 members)  
Game and Fish; Public Lands; Mines and Mining; Gas and Oil; Forestry.
  - c. Government and Veterans Affairs: (13 members)  
State and Federal Affairs; Government Pensions and Benefits; Military and Veterans Affairs; Industrial Commission and institutions under its supervision; State Historical Society and State Parks.
  - d. Political Subdivisions: (14 members)  
Cities; Counties; Townships; Park Districts; Apportionment.
  - e. Transportation: (14 members)  
Highways and Bridges; Railroads; Motor Vehicles; Airlines and Airports.
5. The procedural committees are:
- a. Arrangements for House Committee Rooms, to consist of three members.
  - b. Correction and Revision of the Journal, to consist of five members.
  - c. Delayed Bills, to consist of five members.
  - d. Employment, to consist of five members.
  - e. Inaugural Planning, to consist of three members.
  - f. Rules, to consist of seven members.
6. ~~The Constitutional Revision Committee consists of nine members appointed in the same manner as the members of other standing committees are appointed. The committee meets on Wednesday of each week at 3:00 p.m. in the Prairie Room or at the times and places called by the chairman. The Speaker shall refer to the committee all resolutions proposing amendments, additions, or repeals to the Constitution of North Dakota or the United States Constitution.~~

**SECTION 6. AMENDMENT.** House Rule 502 is amended as follows:

**502. Limitations on committee membership.** Each member shall serve on two standing committees, ~~not including the Constitutional Revision Committee~~, except the Speaker and the Majority Leader, who may not serve on any standing committee, the Minority Leader, who may be appointed to any standing committee, ~~including the Constitutional Revision Committee~~, by the Committee on Committees, and all members of the Appropriations Committee, who may not serve on any other standing committee, ~~including the Constitutional Revision Committee~~. No member of the House may be appointed to more than one 3-day and one 2-day committee. The Speaker and the Majority and Minority Leaders may participate in all standing committees but may not vote therein except that the Minority Leader may vote on any committee to which the Minority Leader has been appointed.

**SECTION 7. AMENDMENT.** House Rule 504 is amended as follows:

**504. Committee meetings.**

- 1. The Appropriations Committee meets on Monday, Tuesday, Wednesday, Thursday, and Friday of each week.
- 2. The three-day committees meet on Monday, Tuesday, and Wednesday of each week.
- 3. The two-day committees meet on Thursday and Friday of each week.



4. ~~Any committee that meets on Wednesday and which has a member who is also a member of the Constitutional Revision Committee may not take any substantive action during the time the Constitutional Revision Committee meets.~~
5. The chairman of any committee, or a majority of that committee, may call meetings at times and on other days as deemed necessary.
6. ~~The Constitutional Revision Committee meets on Wednesday of each week at 3:00 p.m. in the Prairie Room or at the times and places called by the chairman.~~

**SECTION 8. AMENDMENT.** Subsection 3 of House Rule 601 is amended as follows:

3. a. If the committee report is for amendment, the proposed amendment must be placed on the calendar for the next legislative day on the sixth order of business. After the fifty-fifth legislative day, the proposed amendment must be placed on the calendar on the sixth order of business immediately after the report of the committee is received. On sixth order, the Speaker shall announce that without objection, the proposed amendments on the sixth order are deemed approved. If any member objects to a proposed amendment being approved with other proposed amendments, that amendment must be voted on as a separate item.
- b. No action may be taken on an amendment until a verbatim copy of the amendment has been distributed to each member; provided, that on a two-thirds vote of the members-elect, this may be suspended, and the amendment acted on immediately after the report of the committee.
- c. If the amendment is adopted by a majority vote of the members present, the amended measure must then be placed on the calendar for the next legislative day under the applicable order of business for second reading and final passage except as provided in subdivision e or g.
- d. If the amendment is rejected, the measure without amendment must be placed on the calendar for the next legislative day under the applicable order of business for second reading and final passage except as provided in subdivision e or g.
- e. If the committee report is for amendment and then rereferral to another committee, the measure must be rereferred to the appropriate committee after adoption or rejection of the amendment. If, after adoption or rejection of the amendment, a measure is subject to rereferral under House Rule 329, the measure must be rereferred to the Appropriations Committee, regardless of whether the report provides for rereferral.
- f. If the committee report does not recommend rereferral to another committee but recommends that the measure pass, do not pass, or makes no recommendation, the measure must be placed on the calendar for the next legislative day under the applicable order of business for second reading and final passage except as provided in subdivision g.
- g. On motion a measure must be placed on the calendar for second reading and final passage immediately after action is taken on the amendment. If the committee report recommends that the measure be placed on the calendar for second reading and final passage immediately after action is taken on the amendment, the measure must be placed on the calendar for second reading and final passage immediately after the amendment is adopted. After the thirty-second legislative day all House bills, and after the fifty-fifth legislative day all measures, must be placed on the calendar for second reading and final passage immediately after action is taken on the amendment. AWithout objection, a measure placed on the calendar under this subdivision may~~must~~be acted on immediately after placement on the calendar. If more than one amendment was deemed approved under subdivision a and the measures are placed on the calendar under this subdivision, the Speaker shall announce whether the measures will be acted on immediately after placement on the calendar and the order in which the measures will be considered.

- h. A report for amendment must be approved as to form and style by the Legislative Council staff. When a report for amendment is received by the Chief Clerk without a notation that the report was approved as to form and style by the Legislative Council staff, the Chief Clerk immediately shall cause that report to be delivered to the Legislative Council office with a request that the report be examined and receive a notation approving its form and style.

**SECTION 9. AMENDMENT.** Subsection 4 of Joint Rule 501 is amended as follows:

- 4. a. The agency or department preparing the fiscal note for a bill or resolution as introduced shall complete and return the fiscal note along with the number of copies requested by the Legislative Council to the Legislative Council not later than five days from the date of the request. The agency or department preparing the fiscal note for an amended bill or resolution shall complete and return the fiscal note to the Legislative Council not later than one day from the date of the request.
- b. The Legislative Council shall retain three copies, shall provide one an electronic copy of the fiscal note to the Office of Management and Budget, shall provide one copy to and the Governor, and. The Legislative Council shall deliver the remaining copies a paper copy to the Secretary of the Senate or the Chief Clerk of the House. Of those copies, one copy must be attached The Secretary of the Senate or the Chief Clerk of the House shall attach a paper copy to the original bill or resolution, one copy must be filed with the Bill Clerk of the house wherein the bill or resolution originated, one copy must be provided to the presiding officer of the Senate, one copy must be provided to the presiding officer of the House, and the remaining copies must be distributed as directed by the Secretary of the Senate or the Chief Clerk of the House, as appropriate.

**SECTION 10.** Joint Rule 801.1 is created as follows:

**801.1. Recording of proceedings.** All floor sessions of the Senate and House of Representatives must be recorded on electronic media as provided by the Legislative Council. The recording must include audio and may include video. The Legislative Council shall provide for public access to the recordings through the legislative branch website. The Legislative Council shall maintain access to the recordings in accordance with its records retention policy with respect to records having historical value.

**REP. KRETSCHMAR MOVED** that the report be adopted, which motion prevailed on a voice vote.

#### **MOTION**

**REP. VIGESAA MOVED** that the House stand in recess until 9:55 a.m. to receive the Senate for Joint Session, which motion prevailed.

**THE JOINT SESSION CONVENED** pursuant to recess taken, with Speaker Devlin presiding.

#### **MOTION**

**REP. VIGESAA MOVED** that a committee of four be appointed to escort the Honorable Lt. Governor Drew Wrigley to the rostrum to preside over the Joint Session and Kathleen Wrigley to a special reserved seat, which motion prevailed.

**SPEAKER DEVLIN APPOINTED** Reps. Nathe and Froseth and Sens. Carlise and Krebsbach to the escort committee.

**SPEAKER DEVLIN PRESENTED** Lt. Governor Wrigley to the Assembly and turned the gavel over to him.

#### **MOTION**

**REP. VIGESAA MOVED** that a committee of four be appointed to escort the Honorable Jack Dalrymple, Governor, to the rostrum and First Lady, Betsy Dalrymple, to a special reserved seat in the chamber and that Governor Dalrymple's remarks, as submitted to the front desk, be printed in the journal, which motion prevailed.

**PRESIDENT WRIGLEY APPOINTED** Sens. Wardner and Schneider and Reps. Carlson and Onstad to the escort committee.

**2013-2015 EXECUTIVE BUDGET ADDRESS**  
**The Honorable Jack Dalrymple**  
**Governor of North Dakota**  
**December 5, 2012**

Good morning. I am pleased and honored this year to welcome the members of the 63rd North Dakota Legislative Assembly, Lt. Governor Drew and Kathleen Wrigley, elected officials, cabinet members, state employees, First Lady Betsy, and my fellow North Dakotans.

At the outset, I want to thank the staff of the Office of Management and Budget, our cabinet agencies, and our staff in the Governor's Office for the hard work and thoughtfulness they brought to the job of building our new budget.

Together, I believe we have produced a budget for the people of North Dakota that is appropriate for a very special time in our state's history, a time of incredible growth and expansion, but it is also a budget which is careful to recognize the risks of overexpansion.

In drafting our last budget, we were guided by three key objectives that have served us well in the current biennium. We have set those same objectives for our new budget as well. They include funding priorities with a special emphasis on infrastructure; setting aside adequate reserves for a rainy day; and providing additional tax relief for the hardworking men and women of North Dakota.

These themes remain familiar, but we have several new proposals that will open a new chapter in our state's history. We've worked hard for our prosperity and now it's time to put our prosperity to work for us.

Today, I am pleased to present the results of our efforts, the 2013-2015 Executive Budget—a budget that will make it possible for us to literally “create our future together.”

**THE BIG PICTURE**

I'll begin with an overview of our budget plan.

Due to our growing economy, both our ongoing revenues and our reserves have shown gains since the beginning of the current biennium, and that growth is forecasted to continue into the next two-year cycle, as well.

As always, we have carefully examined our revenues and expenditures, and we have taken care to ensure that our ongoing revenues exceed ongoing expenditures, as you can see in Chart 1.

In the 2013-2015 biennium, our General Fund ongoing revenues will total about \$4.8 billion. At the same time, ongoing expenditures will total \$3.8 billion. This surplus in ongoing General Fund revenue makes possible our substantial one-time investments in infrastructure while still providing tax relief and building our reserves. Never before in our state's history have we had a structural balance to our General Fund budget as strong as what we are proposing today. What an extraordinary time for our state!

Our budget recommendations, compared to the total legislative appropriations for the current biennium, represent an increase of 9.4 percent per year. However, nearly half of this increase is due to the cost of continuing the programs we have today. Medicaid and increased school enrollments are the main sources of higher costs. Excluding the unavoidable costs of continuing programs, our discretionary increase in ongoing General Fund expenditures would be 5.2 percent per year.

Our strong revenues will allow us to set aside large amounts for urgent infrastructure needs, property tax relief, and transfers to the Budget Stabilization Fund in the current biennium. Even after those large transfers, our actual General Fund cash balance will be about \$69 million on June 30, and will grow to \$81 million by 2015.

It is important to remember that our budget for ongoing General Fund spending is limited to \$300 million of oil and gas tax revenues as prescribed in law last session. The remainder of the oil tax revenues, as seen in Chart 2, is dedicated to a number of special purposes as required by the constitution and state statute. Constitutional funds include the Legacy Fund, the Resources Trust Fund, and two school trust funds. Statutory funds include the Strategic Investments and Improvements Fund and the Property Tax Relief Fund. Political subdivisions and tribes also receive oil revenues directly. None of these other funds are available for General Fund spending purposes.

### **One-time General Fund Expenditures**

We also propose for the 2013-2015 biennium, \$991 million in General Fund one-time expenditures, which we can fund from our revenues not needed for ongoing program expenditures.

Some of our one-time projects are investments in roads and highways statewide, bypasses, emergency equipment and public safety, and some are dedicated to educational infrastructure. They are investments that will further stimulate economic activity, make our state more competitive, and create more good jobs in the future. They are also investments that do not need to be repeated in the future if our economy should take an unexpected turn.

As with our current budget, we exercise sound fiscal management. Our budget neither borrows nor bonds. And it imposes no new taxes or fees.

### **Reserves**

Now let's turn to a discussion of budget reserves as shown on Chart 3. As I said, our ending fund balance will be \$81 million in 2015. The Budget Stabilization Fund will be \$455 million. The Foundation Aid Stabilization Fund will reach \$606 million.

On July 1, 2013, North Dakota will begin the biennium with a balance of about \$709 million in the Strategic Investments and Improvements Fund which will grow to a balance of \$1.3 billion by June 30, 2015, even after our commitment to provide \$200 million in school construction loans. It is important to note that all of these reserve funds are mandated by our state constitution or by state statute.

The Legacy Fund balance on June 30, 2013 will be \$1.2 billion and will grow to \$3 billion by the end of the biennium. The people of North Dakota created the Legacy Fund through an Initiated Constitutional Amendment. These funds are absolutely unavailable until 2017.

As you can see, North Dakota state government will remain financially strong for many years to come.

### **EXPANDED TAX RELIEF**

With our ongoing and one-time expenditures accounted for, and our reserves secured, our financial position still provides us with the resources necessary to provide additional tax relief for North Dakota citizens, as shown on Chart 4.

In the last biennium, we reduced property taxes by \$342 million through a reduction of approximately 75 mills in school district levies, simultaneously raising the state's share of school funding. In this budget we are proposing that we increase the state's share of school funding again and provide even more tax relief to our citizens by lowering the property tax in an average school district by an additional 60 mills. Altogether our taxpayers will save \$714 million in property taxes from both mill levy reductions. Furthermore, we are proposing that the total property tax relief for the upcoming biennium be made a permanent part of the state school funding formula and the local share of the cost of education be permanently reduced. This level of property tax relief is sustainable far into the future and is what the people of North Dakota want.

But we can and should do more. We also propose providing \$100 million in individual income tax relief on top of the \$210 million in relief provided in the two previous legislative sessions. Altogether we will reduce income taxes by nearly 40 percent from the rates paid in 2009.

In addition to individual income tax relief, we propose to expand the Homestead Tax Credit to help many more senior citizens and the disabled stay in their homes long after they retire. We can do this by increasing the allowable income threshold from \$26,000 to \$50,000, disregarding social security income, and by eliminating the asset test. People should not be penalized for doing a good job of saving. These changes are estimated to save qualifying property taxpayers an additional \$20 million per biennium.

Finally, we are recommending that we provide an additional \$25 million in corporate income tax relief to attract and retain job creators, in addition to the \$35 million in tax relief provided in the two previous sessions.

It is important that the hard-working men and women of North Dakota see a substantial share of our economic gains reflected in their tax bills. By 2015, our taxpaying citizens will have received \$2.1 billion in tax savings over three bienniums. And this is based on original fiscal notes that do not take into account rising income levels.

Now that we've reviewed the overall structure for our budget, let's take a closer look at the individual funding priorities within the budget that will help us to maintain and support our growth.

A good place to begin is with North Dakota's growing infrastructure needs.

### **STATEWIDE INFRASTRUCTURE NEEDS**

New economic growth cannot be supported without robust investments in infrastructure, and our budget addresses infrastructure needs in every region of the state. Transportation investments alone come to \$2.5 billion statewide. In addition, we are committed to flood prevention in Fargo, Valley City, Lisbon, and of course, Minot. We will continue to lower Devils Lake without harming downstream communities. We will push for water supply projects throughout the state, and make many other public and private sector infrastructure investments.

Let's review the statewide plan, beginning with western North Dakota.

#### **Infrastructure Support for Western North Dakota**

While jobs and population growth have been a significant benefit to our western counties, the extreme wear and tear on roads, and the need for housing and water, requires an even greater commitment to infrastructure investment. Chart 5 illustrates what we have in mind.

We propose once again dedicating \$142 million in one-time funding for oil counties and townships that need assistance repairing roads damaged by extraordinary truck traffic.

These funds will be distributed to counties based on road conditions identified by the Upper Great Plains Transportation Institute and by DOT observations. Further, we recommend that the legislature approve these funds with an emergency clause to enable the affected communities to commence projects immediately.

We also propose increasing funding for the Oil and Gas Impact Grant Fund to \$214 million. All entities experiencing impacts from oil and gas development can apply for funding to help mitigate those effects.

It's important to mention that this funding goes beyond roads and highways. It's also used to address the pressing need for housing infrastructure, including city streets, municipal water lines, sewer lines, and other infrastructure needed for residential construction.

These targeted funds will continue to provide great benefits to Western North Dakota, but we also agree with local officials that they need a steady, reliable income stream from the oil and gas production tax to build two-year budgets and to better plan solutions to their overwhelming infrastructure needs. Therefore, we are proposing that the amount of funds available to political subdivisions through the oil tax formula be more than doubled from \$247 million to \$521 million. This will be accomplished by allowing every oil and gas producing county to receive 100 percent of the first \$5 million in oil revenue each year. Then, instead of the oil counties' revenue share declining to 10 percent, we recommend they receive a constant 25 percent revenue share without any further caps or reductions. This arrangement

should continue until the situation changes at some point in the future.

### **Special \$1 Billion Fund for Infrastructure**

Throughout North Dakota, our highways are carrying the weight of incredible growth in commercial transportation and other traffic flow. To adequately support large highway projects, we recommend providing more than \$1 billion in one-time investments over and above our regular DOT funding.

This amount would include one-time investments in extraordinary state highway construction and maintenance totaling \$390 million. It would also include an investment of \$300 million to convert two-lane highways into four-lane highways beginning with US Highway 85 between Watford City and Williston. It also includes one-time investments of \$325 million for truck bypass routes and interchanges.

### **Infrastructure Support for Non-Oil Counties**

Although the infrastructure needs of western North Dakota are great, no less important are the critical needs for road improvements outside our oil-producing region. Because we have addressed western projects with targeted funding, the remainder of the Highway Fund totaling \$598 million is essentially available to the rest of the state. In addition our budget provides \$100 million for roads and highways in our non-oil counties, cities, and townships, and \$147 million remains available to complete projects statewide. In other words non-oil counties have not sacrificed their regular highway funding to western areas.

Altogether we are providing more than \$2.5 billion for infrastructure improvements across the state. The source of this funding is primarily general fund revenues not needed for ongoing programs and all of the investments are one-time commitments that do not have to be repeated. They represent our continuing commitment to the expansion of our economy and to keeping up with the challenges of our rapid growth.

### **Investments in Water**

Our commitment to statewide infrastructure upgrades includes continuing our important work to help meet the critical needs for flood control and water supply projects. Major flooding in the Devils Lake Basin and along all of our major rivers upended the lives of thousands of North Dakotans last year. While we move forward on flood protection projects, we must continue to provide flood recovery assistance as well.

During the last biennium the state assisted several communities impacted by 2011 flooding by providing more than \$130 million for home acquisitions, flood impact grants and to fund the Rebuilders Loan Program.

The state also stepped up during the last Legislative Session to address chronic flooding in the Devils Lake Basin. We completed the Tolna Coulee control structure and built in record time a second water outlet from East Devils Lake. With two outlets operating, we can now discharge 600 cubic feet of water per second. This year alone Devils Lake dropped a total of three feet, with one foot of that drop attributed to the operation of the outlets. About 32,000 acres of farmland have been returned to landowners this year.

For flood protection in the Fargo area, we support an additional \$102 million from the Resources Trust Fund while Fargo-area officials work to find a permanent solution to Red River flooding. While the Souris River Basin is studied for a permanent floodway, we support committing more than \$60 million this biennium to assist with further protection and home acquisitions. In addition, we recommend extending the Rebuilders Loan Program for residents who lost their homes to flooding and still need financing to cover the costs of flood-repair work or to buy a new home.

Flooding along the Sheyenne River also has created significant hardships in the communities of Valley City, Fort Ransom, and Lisbon. We support committing \$21 million to advance flood protection projects in those areas as well.

Moving forward, it is clear that we will need additional funding to continue helping communities with large water projects. Partnerships at the federal, state, and local levels will be more important than ever to advance these costly flood control projects statewide.

## **Water Supply Projects**

Along with flood protection projects, the state remains committed to providing communities with quality water supplies. Due to the increased flows from the Devils Lake outlets, the state provided Valley City with more than \$15 million this biennium for a state-of-the-art water treatment plant. In addition, the state will continue to support funding for Fargo's water treatment plant as well as regional and rural water supply projects like Western Area Water Supply, Northwest Area Water Supply, and the Southwest Pipeline Project.

Water control and water supply are vital to the future of our state. In all, we are requesting spending authority for more than \$500 million - primarily from the Resources Trust Fund - for essential water projects throughout North Dakota. My thanks to the members of the Water Coalition who have worked very hard to help us put forward an outstanding water management plan.

## **PREPARING OUR YOUTH FOR TOMORROW**

### **E d u c a t i o n**

Over the past two years there has been a great deal of discussion about our state's natural resources. But we all know that the state's greatest resource is our own people. Educating and training our citizens is the key to lasting prosperity for everyone.

Much of this work was begun by the Governor's Commission on Education Improvement, which I had the honor of chairing for six years. Our work brought about the greatest reform of K-12 funding in our history, and now we must finish the task.

### **K - 1 2 E d u c a t i o n**

After achieving a new foundation of equity in school funding in 2007, the commission continued its work on adequacy in 2009 and 2011 which means a guaranteed amount of funding to provide a quality education to each and every student.

Now, because of the great work done in the last three bienniums and because of the resources we have available, we can achieve a fully integrated formula for K-12 funding. This formula will continue the strong financial commitment to educating each North Dakota student regardless of where they live or how property poor their school district happens to be. It also ends the excessive dependence on local property tax which has become a heavy burden for our people.

We propose ending the mill levy buydown program even as we provide an additional 60 mills of property tax relief on top of the 75 mills we currently provide. This will eliminate the side effect of an automatic increase in state paid tax relief due to rising property valuations. We also propose that state aid grants have no connection whatsoever to historic school mill levies. This funding model is sustainable far into the future and will result in local districts needing to levy no more than 60 mills in most cases.

Our K-12 funding proposal, as shown in Chart 6, provides an increase of \$549 million over the current biennium. Of the total increase, \$372 million will provide for local property tax relief. Other funding increases include: \$27 million to continue the current payment levels; \$53 million to cover the added cost of increased student enrollment across the state; \$74 million for increased per-student payments; \$5 million for transportation; and \$17 million for rapid enrollment grants.

This plan will ensure that our students get the education they need to be well prepared for college and careers.

### **H i g h e r E d u c a t i o n**

Our strong revenues also give us the opportunity to invest more in our system of higher education. We know the payback from advanced education is outstanding, but our spending principles remain the same as in all of state government: ongoing spending must be sustainable in the event of an economic downturn.

Higher education in North Dakota has suffered in the last two years from a series of unfortunate distractions which diverted attention away from the great progress we are making. We have one of the most highly regarded systems of colleges and universities in the nation. A very large percentage of our high school graduates achieve an advanced degree in our state. And our institutions are consistently ranked among the best education values in America. In other words, the best education for the price.

We should be proud of our system of higher education, and yet many people seem not to be. Our progress has been overshadowed by growing concerns and mistrust about the transparency and fairness of our higher education funding. For many years, we have funded our eleven campuses on the basis of past appropriations and there has been criticism that our current funding is not based on the actual cost of educating students.

These issues can and must be solved. A group of campus business managers and V.P.s of finance have been working on a new model for distributing state funds to our eleven campuses. It is based on a fixed dollar amount per student credit hour completed. Credit hours are adjusted with cost factors based on actual spending in recent years that reflect the added costs of certain programs and the added costs of advanced levels of study. It pays only for courses completed, and not for enrollments leading to dropped classes. All campuses have been able to come to a consensus on the relative costs of each type of student.

Because this formula is more transparent, because it is more easily understood, and because it is based on the actual costs of education, we are basing our budget recommendation for higher education on this improved method of distribution. The recommendation funds many of the requests for enhancements including expanded mental health services and improved campus security. The funding also includes the cost of transitioning to the new formula in such a way that no institution receives a decrease in funding from the current biennium, even before enhancements and salary increases are added. We are recommending an increase of \$89 million in funding for higher education, but of that amount \$12 million represents the cost to continue current operations. We have budgeted \$21 million which is needed to transition to a new formula, and about \$6 million is needed to expand our scholarship programs.

The merit-based scholarship program, which rewards students for good grades and ACT scores, has been very successful and is recommended at a level of \$10,000 per student rather than today's limit of \$6,000. We also recommend a 10 percent funding increase for needs-based scholarships. By enhancing these scholarship programs, we will commit nearly \$35 million to help students cover the costs of postsecondary education in North Dakota. We need to keep up our pattern of increasing aid to students who have no options other than incurring more debt.

The students at our institutions of higher learning need a high quality learning environment to achieve academic success. They deserve our support and our strong commitment to invest in their facilities. That is why we are recommending historic investments in capital improvements at our eleven institutions in 2013-2015.

We propose investing \$68 million in the Option 2 plan for a new medical school building in Grand Forks. The medical school is highly acclaimed for its success in preparing quality doctors for family practice, and this project will help us serve all the healthcare needs of our growing population.

The same holds true for our budgeting of \$6 million to expand the Erlandson Technical Center at Lake Region State College in Devils Lake. By expanding Lake Region's nursing program, we can help meet the growing demand for nurses in our rural hospitals and long-term care facilities. Eighty-eight percent of the nursing school students that have graduated from Lake Region in the past six years are working in the healthcare field – right here in North Dakota.

Additionally, our budget plan includes \$12 million for a complete renovation of the UND law school. This project is overdue. It's needed to satisfy code requirements and to meet accreditation standards.

We also recommend \$29 million for an academic building on the North Dakota State



University campus which will be dedicated to the fields of science, technology, engineering and math. At a time when our state needs more professionals in the STEM fields, NDSU doesn't have enough labs and classrooms to meet the needs of these disciplines.

Our one-time investments include \$13.3 million to replace the library at Bismarck State College. This new facility will not only house the college's library, but also include additional space for the college's communications department and arts department.

Other recommended, one-time capital improvements include: \$5.8 million to renovate the gymnasium at Mayville State University; \$8.5 million for the demolition of two buildings and the renovation of Old Main at the North Dakota State College of Science; \$12.2 million for the renovation of Stevens Hall at Williston State College; and \$3.6 million to renovate Vangstad Hall at Valley City State University.

These investments in our people will pay back again and again for decades to come.

### **Stimulating Philanthropy**

The growing prosperity of our state has presented a new opportunity to help our colleges and universities in a significant way. Our robust economy is creating new wealth in North Dakota and we propose funding a matching grant program designed to stimulate the spirit of philanthropy for our colleges and universities.

We recommend providing \$30 million in one-time funding to create Education Challenge, a matching grant fund for academic enhancements at our colleges and universities. Every \$2 in private donations will be matched with \$1 in state funding. Private gifts would have to reach certain thresholds before becoming eligible for matching grants. State funds would be allocated according to institution type. This matching grant program will provide a strong incentive to keep large charitable gifts coming to our North Dakota institutions rather than to other out-of-state causes.

### **ECONOMIC DEVELOPMENT**

Our efforts in economic development have evolved from a strict emphasis on job creation to an expanded mission that includes workforce development and quality-of-life considerations. To further pursue this expanded mission, we teamed up this past year with the North Dakota Chamber of Commerce on a strategic visioning exercise called 2020 and Beyond. We held nine open meetings across the state. From that process came 1,700 individual ideas and some common themes as well.

The results centered on three quality-of-life targets: people, places and opportunities. In discussions focused on investments in people, the overriding message was a need for more childcare services. We are recommending that the Department of Commerce administer a \$5-million grant program to assist in the development of new and expanding childcare facilities statewide. This concept is being used today in cooperation with political subdivisions and private childcare providers in oil country.

Feedback regarding job opportunities confirmed our decision to recommend \$12 million in matching grants for a new job creation initiative called Research ND. Unlike its predecessor, the Center of Excellence program, these funds will be matched only with private sector cash investments. Businesses will cooperate with our research universities but will not be required to form new Centers.

Agriculture is North Dakota's largest industry and we must support its ongoing development so that our farmers and ranchers continue to be among the world's most efficient and successful producers. Our budget for agricultural research and development includes \$4.3 million to build new agronomy laboratories at NDSU research centers in Hettinger and Carrington. We recommend additional funding of \$4.8 million to enhance research capacity with an emphasis on crop development and protection. Research investments in agriculture continue to pay back to our state many times over.

### **QUALITY OF LIFE AND TAKING CARE OF PEOPLE**

As we focus on competitiveness and the details of building a strong economy, we must not lose sight of the fact that our ultimate objective is a higher standard of living and a better

quality of life for all North Dakotans.

### **Law Enforcement and Public Safety**

As North Dakota grows, in both commercial activity and population, we are committed to keeping North Dakota one of the safest states in America.

That's why our budget includes significant funding enhancements for law enforcement and other public safety measures. Our budget includes \$3.8 million for 15 additional Highway Patrol troopers and \$6.6 million to complete the first phase of a new law enforcement training academy. These new troopers will patrol state highways across North Dakota and particularly roadways in our oil-producing region. They will support local law enforcement agencies and enhance our enforcement of motor carrier restrictions.

We are also recommending requests from the Attorney General's Office and the Judicial Branch to fund more positions that will strengthen the Bureau of Criminal Investigation and our district courts.

Additionally, our budget includes about \$4 million for 23 new positions within the Industrial Commission's Oil & Gas Division. These additional positions include petroleum engineers and field inspectors to further ensure safety and environmental regulations are followed at drilling and well sites. Our budget also includes funding for additional staff within the Department of Health for greater protections against environmental hazards and public health threats.

Our commitment to providing the people of North Dakota with quality public safety includes additional funding to enhance state radio and to increase state grants for fire districts and emergency management services across the state.

In all, our budget recommends funding for 171 additional employees. Of these new positions, 153 are for law enforcement, public safety, and public health, most of which are made necessary by the rapid development in our oil-producing counties. These positions are necessary for the public's safety and to maintain the proper regulatory oversight that goes along with managing a growing economy.

### **Health and Human Services**

It has been said that any society can ultimately be judged by how well it takes care of its people. Our budget also provides for the needs of our seniors, our veterans, our disabled citizens, and the less fortunate.

During the 2013-2015 biennium, the state will receive \$93 million less in federal funding for Medicaid reimbursements and other medical assistance coverage. This reduction in federal funding is the result of North Dakota's continued growth in per capita income. We must make up the loss with state funds because cutting benefits to those in need of healthcare is not an option.

We also recommend providing an additional \$1 million to enhance guardianship services that help ensure the protection and dignity of North Dakota's growing senior population and our most vulnerable citizens. Our budget also includes additional funding to offset increased costs at our rural health clinics and critical access hospitals; to meet increased needs for chemical dependency treatment and mental illness; and to enhance programs that deliver meals to senior citizens and allow them to remain in their homes.

### **Long-term Care and other Healthcare Providers**

Our budget also provides a 4-percent inflationary increase for each year of the biennium to nursing homes, healthcare providers, and providers serving people with developmental disabilities and mental illness. Additionally, we funded a wage increase of 50 cents an hour for frontline caregivers. We must help our providers address rising costs and maintain a high standard of care.

### **Military and Veterans**

For our veterans and our men and women in uniform our deepest gratitude is not enough.

We must also show them our appreciation in tangible ways.

In past legislative sessions, we have established the Veterans' Bonus Program, including bonus pay for overseas and domestic deployments. We established a tuition waiver program and funding for counselors to assist our soldiers and their families, and we've built and enhanced funding for the North Dakota Veterans Home in Lisbon. Last year, we added a new outreach center for veterans and service men and women in Fargo, and we continue to support our veterans of all wars in their senior years.

Our budget maintains full funding for all of these programs and enhances veterans' support despite reductions in federal funding.

Whether fighting floods here in North Dakota or serving overseas, the North Dakota National Guard and all of our branches of military service make possible the way of life we enjoy today. Would all veterans in the audience who have served us so well please stand so that we may express our gratitude for your service.

### **Public Employee Salaries and Health Insurance**

Sound fiscal management also allows us to provide our state employees the compensation they deserve.

As directed by the 62nd Legislature, our recommendation for state employee compensation is not presented as a statewide percentage increase, but rather is based on dollar amounts determined necessary for competitive compensation. The appropriation allocations are based on employees' performance and their relative position in the market.

Employees who meet set performance standards will be eligible for a performance increase of 3 percent each year and those employees exceeding performance standards are eligible for an increase of up to 5 percent. In addition, employees whose current compensation is farthest from market are eligible to receive an additional increase between 1 percent and 4 percent, depending on their position in the salary range. This compensation factor is intended to alleviate compression created by our new salary ranges. The general fund cost of this salary package is \$50.8 million.

The compensation package continues full health insurance for state employees and their families, and recommends an increase in contributions to the retirement system of 2 percent each year of the biennium with the cost evenly split between employees and the state.

We have also funded a 4 percent annual salary increase with pension contributions and full health insurance for employees of the university system.

The men and women who serve in our agencies and institutions of higher learning are hard-working North Dakotans, and we appreciate their dedication.

### **Expanding Housing Development**

One of the main challenges created by North Dakota's strong economy and population growth is the challenge of keeping pace with the state's housing needs, and in 2011 we enhanced substantially housing incentives that are producing results.

Our budget recommends increasing the state's Housing Incentive Fund to allow for \$20 million in state income tax credits. Citizens and businesses that invest in the fund receive a state income tax break of equal value. Developers access this source of low-interest loans in exchange for providing housing for low- and moderate-income residents. We also propose transferring \$30 million in one-time funding for a direct investment in the Housing Incentive Fund to accelerate the availability of funds for housing development.

We also recommend providing an additional \$12 million in Flex PACE buydown funds to support residential construction. This investment is a strong incentive for builders, and it will generate an estimated \$125 million in private housing development. A good supply of housing is an essential ingredient in our quality of life.

### **Preserving North Dakota's Outdoors**

The outdoor experience and the tradition of hunting in North Dakota are also core elements in our quality of life.

The challenges created by a growing population and expanding commercial development include greater risks to our outdoors, and that's why we are including in our budget a proposal to establish a permanent conservation fund to enhance the opportunities for hunting and all outdoor recreation experiences.

Our budget calls for committing a portion of funds generated by oil production taxes to a newly created conservation fund, with an annual funding cap of \$10 million. We propose creating an advisory committee made up of a diverse group of stakeholders to administer a grant program under the direction of the Industrial Commission. The committee will award grants to state agencies and non-profit groups to benefit statewide conservation practices, wildlife habitat, parks, and outdoor recreation. Our quality of life in North Dakota should not be compromised because of our rapid growth.

### **CREATING OUR FUTURE TOGETHER**

Since presenting the budget message to you two years ago this week, we have made tremendous progress on all of our objectives. Our strategy for tax relief, funding our priorities with an emphasis on infrastructure, and setting aside adequate reserves has put us in a great position to manage the growth of our state for years to come.

I look forward to working with all of you, and the people of our state, to capitalize on our success and create our future together.

Thank you. May God bless you as you undertake this important work for the people of North Dakota.

### **MOTION**

**REP. VIGESAA MOVED** that the Joint Session be dissolved, which motion prevailed.

### **MOTION**

**REP. VIGESAA MOVED** that the absent members be excused, which motion prevailed.

### **MOTION**

**REP. VIGESAA MOVED** that the House stand adjourned until 12:00 p.m., Tuesday, January 8, 2013, which motion prevailed.

The House stood adjourned pursuant to Representative Vigesaa's motion.

**Buell J. Reich, Chief Clerk**