

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

BUDGET SECTION

Wednesday, March 8, 2006
Senate Chamber, State Capitol
Bismarck North Dakota

Representative Ken Svedjan, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Ken Svedjan, Ole Aarsvold, Larry Bellew, Rick Berg, Merle Boucher, Ron Carlisle, Eliot Glassheim, Keith Kempenich, James Kerzman, Matthew M. Klein, Joe Kroeber, Bob Martinson, Ralph Metcalf, David Monson, Chet Pollert, Bob Skarphol, Blair Thoreson, Mike Timm, Francis J. Wald, Alon C. Wieland, Clark Williams; Senators John M. Andrist, Bill L. Bowman, Randel Christmann, Tom Fischer, Tony Grindberg, Ray Holmberg, Aaron Krauter, Ed Kringstad, Elroy N. Lindaas, Tim Mathern, David O'Connell, Larry J. Robinson, Bob Stenehjem, Harvey Tallackson, Russell T. Thane

Members absent: Representatives Tom Brusegaard, Al Carlson, Jeff Delzer, Pam Gulleon, Scot Kelsh, Earl Rennerfeldt; Senators Michael A. Every, Ralph L. Kilzer, Randy A. Schobinger,

Others present: Dick Dever, State Senator, Bismarck

Stanley Lyson, State Senator, Williston

See Appendix A for additional persons present.

It was moved by Representative Wald, seconded by Senator Robinson, and carried on a voice vote that the minutes of the December 15, 2005, meeting of the Budget Section be approved as distributed.

STATUS OF THE STATE GENERAL FUND

At the request of Chairman Svedjan, Ms. Pam Sharp, Director, Office of Management and Budget, presented a report on the status of the state general fund. A copy of the information presented is on file in the Legislative Council office.

Ms. Sharp said the nonseasonally adjusted consumer price index in January 2006 was 4 percent, which is up .6 percent for the month and up 1 percent compared to January 2005. She said personal income rose at a seasonally adjusted annual rate of 2 percent during the third quarter of 2005, which was lower than the 3.3 percent average for the preceding four quarters. She said crop prices fell 1.7 percent compared to the same period last year. Ms. Sharp

said North Dakota's unemployment rate in December 2005 was 3.3 percent, which was down slightly from 3.4 percent in November 2005 and 3.6 percent one year ago. She said North Dakota's unemployment rate was considerably lower than the national rate of 4.9 percent in December 2005. Ms. Sharp said average oil production continued above 100,000 barrels per day, decreasing slightly from the November average production of over 105,000 barrels per day to approximately 103,700 barrels per day. She said the average price per barrel of oil continues well above forecasted prices and is currently around \$53 per barrel. She said the current rig count is 36 rigs, double the number operating one year ago. Ms. Sharp said there is a discount on the price of oil due to pipeline capacity problems.

In response to a question from Representative Svedjan, Ms. Sharp said with the discount some producers are only getting \$25 to \$35 per barrel.

Representative Skarphol said there are pipeline capacity problems due to the burning of a refinery in Denver, Colorado, and oil coming into the pipeline from Canada. Ms. Sharp said the Denver refinery may be back online in the summer.

In response to a question from Representative Svedjan, Ms. Sharp said the discounts will not affect the general fund but they may affect the permanent oil tax trust fund. She said approximately \$60 million in oil taxes have been deposited in the general fund. She said there is a cap of \$71 million in oil taxes that are to be deposited in the general fund and once that cap is reached, the taxes collected are deposited into the permanent oil tax trust fund. She said she expects the deposits in the general fund to reach the \$71 million cap as early as the end of March 2006.

In response to a question from Representative Svedjan, Ms. Sharp said she is not certain how the oil price discounts will affect the permanent oil tax trust fund.

Ms. Sharp presented the following preliminary information on the status of the state general fund for the 2005-07 biennium based on revenue collections through February 2006 (actual numbers will be presented in the March issue of the Office of Management and Budget's newsletter):

Unobligated general fund balance - July 1, 2005	\$68,563,347
Add	
General fund collections through November 30, 2005	702,968,734
Forecasted general fund revenue for the remainder of the 2005-07 biennium (based on the 2005 legislative forecast)	1,312,185,371
Total estimated general fund revenue for the 2005-07 biennium	\$2,083,717,452
Less	
2005-07 biennium general fund appropriations	1,989,452,623
Estimated general fund balance - June 30, 2007 (\$83,969,298 more than the 2005 legislative estimate of \$10,295,531)	\$94,264,829 ¹

¹The estimated ending balance does not include potential deficiency appropriations. As of February 28, 2006, the Office of Management and Budget is aware of \$1,688,505 of deficiency appropriations requests that will be presented to the 2007 Legislative Assembly-- Division of Emergency Services state match relating to the 1997 Grand Forks flood (\$1,203,217), Division of Emergency Services state match relating to the 2005 severe winter snowstorm (\$293,188), and Division of Emergency Services state match relating to the 2005 severe winter snowstorm (\$192,100 pending Budget Section approval).

Ms. Sharp said a potential deficiency request of up to \$3 million for the Department of Human Services sex offender program at the State Hospital is still a possibility. She said the Department of Human Services is still looking for internal savings to offset the program costs.

Ms. Sharp said preliminary general fund revenues and transfers for the first eight months of the 2005-07 biennium were approximately \$109 million more than estimated in the March 2005 legislative forecast. She said the variance was due to increases in sales tax (\$17.7 million), individual income tax (\$22.1 million), corporate income tax (\$35.6 million), oil and gas gross production tax (\$23.6 million), and oil extraction tax (\$5.2 million). Ms. Sharp said actual total revenues and transfers for the first eight months will be presented in the March 2006 issue of the Office of Management and Budget's newsletter.

In response to a question from Representative Glassheim, Ms. Sharp said oil tax revenue for February 2006 was approximately \$7.5 million. Representative Boucher asked for the Office of Management and Budget to present information on reserve funds at the next Budget Section meeting. Ms. Sharp said the budget stabilization fund is at \$99.5 million, the statutory maximum, or 5 percent of the general fund appropriations, and, as a result, the interest is deposited into the general fund.

TOBACCO SETTLEMENT PROCEEDS

Ms. Sharp presented information on the status of tobacco settlement proceeds received by North Dakota. A copy of the information presented is on file in the Legislative Council office. Ms. Sharp said the total received since October 2005 is approximately \$153 million. She said the state is due to receive approximately \$23 million in April 2006. She said the

annual amounts will remain at approximately \$23 million until 2008 when the payments are projected to increase to approximately \$36 million to \$38 million.

Ms. Sharp also reported on the revenues and expenditures of the community health and water development trust funds.

In response to a question from Representative Skarphol, Ms. Sharp said she was unsure of the commitments that have been made from the water development trust fund. Chairman Svedjan requested the Office of Management and Budget provide a description of the trust fund commitments at the next meeting.

FISCAL IRREGULARITIES

Ms. Sharp provided information on irregularities in the fiscal practices of the state, pursuant to North Dakota Century Code (NDCC) Section 54-14-03.1. A copy of the information presented is on file in the Legislative Council office. Ms. Sharp said the irregularities were due to payments being posted to the wrong biennium, severance pay given to terminated employees, retroactive pay to an employee after reversal of dismissal, and pay adjustments for additional workloads.

In response to a question from Representative Svedjan, Ms. Sharp said none of the irregularities were contrary to law.

LEGISLATIVE APPLICATIONS REPLACEMENT SYSTEM Legislative Council

At the request of Chairman Svedjan, Mr. John D. Olsrud, Director, Legislative Council, presented information on the legislative applications replacement system project. Mr. Olsrud said this would be a complete computer system replacement. He said the technology at the Legislative Council is obsolete and the company that supported the system is no longer in business. Mr. Olsrud said it would cost approximately \$2 million to migrate to a server-based system and approximately \$4.2 million for a new system. He said the migration would not solve the obsolescent problems. He said there is \$1.5 million available from 2003-05 carryover funds. Mr. Olsrud said a consultant has been hired and Phase 1 of the project will begin soon which will include developing a cost estimate for completion of the project for consideration by the 2007 Legislative Assembly. Mr. Olsrud said a questionnaire is being developed to get input from all legislators. He said the consultant is in Bismarck this week and will be meeting with the steering committee for this project. He invited the committee members to the meeting which will take place after the Budget Section meeting. Mr. Olsrud also told the committee to let him know if anyone would like to meet with the consultants on a one-on-one basis.

2005 CENTERS OF EXCELLENCE APPLICATIONS

At the request of Chairman Svedjan, Mr. Allen H. Knudson, Assistant Legislative Budget Analyst and Auditor, Legislative Council, presented a memorandum entitled *Summary of 2005-07 Centers of Excellence Applications - Round 2*, a copy of which is attached as Appendix B.

Centers of Excellence Commission

Chairman Svedjan called on Mr. Mark Nisbet, Chairman, Centers of Excellence Commission, Fargo, to present information regarding the funding award recommendations for the centers of excellence. Mr. Nisbet said the commission received a total of 15 applications for centers of excellence projects totaling over \$35 million. He said the commission recommended the following six projects for funding awards totaling \$9.9 million:

1. University of North Dakota - Center for Life Sciences and Advanced Technology - \$3,500,000.
2. University of North Dakota - Center for Unmanned Aerial Vehicle and Simulation Applications - \$1,000,000.
3. North Dakota State University - Center for Agbiotechnology: Oilseed Development - \$2,000,000.
4. North Dakota State University - Center for Surface Protection - \$2,000,000.
5. Valley City State University - Institute for Customized Business Solutions (Enterprises Application Model) - \$1,000,000.
6. Williston State College - Petroleum Safety Technology Center - \$400,000.

Mr. Nisbet said the Centers of Excellence Commission forwarded its six recommended projects to the Emergency Commission for consideration. He said the Emergency Commission favorably recommended and forwarded all six requests to the Budget Section for its consideration and approval.

Representative Berg said the six proposals did not come to the Budget Section on unanimous vote. He said the committee needs to consider whether maintenance is sustainable for construction projects. He said the 2-to-1 funding match from the private sector is critical to ensure outcome will have commercial value and have an impact on the economy.

In response to a question from Senator Bowman, Chairman Svedjan said the presenters will be asked to address the issue of funding for maintenance if a new building is included in the centers of excellence project.

Center for Life Sciences and Advanced Technology

At the request of Chairman Svedjan, Dr. Peter Alfonso, Vice President of Research, University of North Dakota, presented information regarding the

University of North Dakota Center for Life Sciences and Advanced Technology. Dr. Alfonso said the funding requested for the center will be used to construct a 60,000-square-foot secured facility at the Research Enterprise and Commercialization Park with space for offices, laboratories, and pilot manufacturing sites to develop the commercialization of pharmaceutical products, diagnostics, value-added agricultural products, and advanced technology research of new surfaces, telecommunications, and defense materials and equipment. He said the building will meet requirements for biosafety Levels 2 and 3. Dr. Alfonso said the building will be a self-sustaining facility and require no state appropriated funds for maintenance. He said the proposed center would create 100 to 150 higher-wage, higher-skilled jobs with an estimated annual salary of \$62,000. Dr. Alfonso introduced Mr. Klaus Thiessen from the Grand Forks Region Economic Development Corporation, Mr. Richard A. Glynn from Schiltz Foods, Inc., and Mr. Jim Richtsmeier, Ideal Aerosmith, Inc. Mr. Thiessen said the center would engage the business community nationally and would partner with the city of Grand Forks and the private sector. Mr. Glynn said the center would be instrumental in developing potential cures, including cures for West Nile and influenza. He said a biosafety Level 3 building is necessary for this and without the building, researchers would continue their research in Iowa.

In response to a question from Senator Andrist, Dr. Alfonso said the UND Research Foundation will own the facility and will lease the land from the city of Grand Forks.

Center for Unmanned Aerial Vehicle and Simulation Applications

Chairman Svedjan called on Dr. Bruce Smith, Dean, John D. Odegaard School of Aerospace Science, to present information regarding the University of North Dakota Center for Unmanned Aerial Vehicle and Simulation Applications. Dr. Smith said funding for the center would be primarily used for salaries and operating expenses related to developing a new civilian aviator industry. He said the center would result in 15 private sector jobs and possibly additional professional and technical employment opportunities as the project develops. He said the center will become self-sustaining through federal grants, training contracts, royalty income, licensing fees, and other private sector partners.

Center for Agbiotechnology: Oilseed Development

At the request of Chairman Svedjan, Dr. D. C. Coston, Vice President/Dean of Agricultural Affairs, North Dakota State University, presented information regarding the North Dakota State University Center for Agbiotechnology: Oilseed Development. Dr. Coston said funding for the center would be used for salaries, operating expenses, and

equipment to develop soybean and canola varieties with higher oil content that would have expanded uses for biofuels, specialty lubricants, health care, and human food products. He said a benefit of the development would be enhanced agriculture production. He said Monsanto, Archer Daniels Midland, and Dakota Skies Biodiesel are the main private sector partners.

In response to a question from Representative Kerzman, Dr. Coston said other companies will be approached as other varieties of oilseeds emerge.

Center for Surface Protection

Chairman Svedjan called on Dr. Phillip Boudjouk, Vice President for Research, Creative Activities and Technology Transfer, North Dakota State University, to present information regarding the North Dakota State University Center for Surface Protection. Dr. Boudjouk said the funding requested for the center would be used for personnel, operating expenses, equipment, and remodeling costs for conducting research and development and providing consulting services with the university's Department of Coatings and Polymeric Material and the Center for Nanoscale Services and Engineering relating to surface protecting coatings. He said the center will allow further research to develop products that may be marketed in the private sector to generate revenue and new business in North Dakota.

In response to a question from Representative Timm, Dr. Boudjouk said Gamry is the only company conducting testing on coatings.

Enterprises Application Model

At the request of Chairman Svedjan, Dr. Ellen Chaffee, President, Valley City State University, presented information regarding the Valley City State University Enterprises Application Model. Dr. Chaffee said the funding for the model will be used for salaries, operating expenses, and equipment to allow the university to provide knowledge and skills to companies seeking intellectual products. She said the center anticipates 200 new jobs in the area by 2010. She said there were 40 new jobs in Valley City last year.

In response to a question from Senator Grindberg, Dr. Chaffee said not all of the 200 new jobs will necessarily be in Valley City.

Petroleum Safety Technology Center

Chairman Svedjan called on Ms. Deanette Piesik, Workforce Training, Williston State College, to present information on the Williston State College Petroleum Safety Technology Center. Ms. Piesik said the funding will be used to develop and operate a training site for educating and training individuals for oilfield industry careers. She said it is a benefit to be able to provide the training locally as it helps keep the workers in the state. Ms. Piesik introduced Mr. Gary Johnson, Amerada Hess Equipment, Mr. Ron Ness, North Dakota Petroleum Council, and Dr. Joseph

McCann, President, Williston State College. Mr. Johnson said there are currently 200 oil sector jobs available in Williston through Job Service North Dakota. He said Job Service has filled 450 to 500 oil sector positions in the last two years. He said the total number of oil sector jobs filled is closer to 1,000 to 1,500 when you include the people who did not use Job Service. Mr. Johnson said there are many companies who are willing to move their workforce training centers to Williston.

In response to a question from Senator Mathern, Mr. Johnson said there is always a risk in the oil industry but his company has not shut down production because of pipeline capacity problems. Mr. Ness said there is a sense of urgency to hire trainers to keep the interest of companies who will move their workforce training centers to Williston. Dr. McCann said he feels there will be more job growth than documented. He said the employment numbers presented were from Job Service and are conservative.

Committee Consideration of Centers of Excellence

Funding Award Recommendations

Senator Grindberg presented information from a meeting held at the University of North Dakota in January. He said a representative from the national centers of excellence program attended the meeting. Senator Grindberg said issues discussed at the meeting included:

- The centers of excellence need to be self-sustaining.
- The state investment should be over a three- to five-year period and be clear about expectations, rather than providing one payment up front.
- The state should measure the progress of the project and hold the institutions accountable.
- The Department of Commerce is missing extended and proper due diligence.
- Consideration should be given to using separate categories for research institutions, nonresearch institutions, and advanced skill workforce development.
- The use of funds for capital construction should be limited.
- Workforce development funding should be separate from centers of excellence funding.
- An environment to ensure long-term success should be created.
- The status should measure results after two, four, six, and eight years.
- As a state are we providing additional resources for technology commercialization.

Representative Berg said there will be approximately \$1 million left to be allocated if all six projects are approved. He said of the \$19 million allocated, \$10 million will be for construction. Representative Berg said the creation of more jobs

will cause income to go up but the creation of trained employees without more jobs will cause income to go down. Representative Berg said the centers of excellence focus should be on what will create jobs in North Dakota.

It was moved by Senator Holmberg, seconded by Representative Glassheim, and carried on a roll call vote that pursuant to NDCC Section 15-69-02, the Budget Section approve the following center of excellence funding award request which has been recommended by the Centers of Excellence Commission and considered by the Emergency Commission:

- **Centers of Excellence Commission (Request #1582) - University of North Dakota Center for Life Sciences and Advanced Technology - \$3,500,000.**

Representatives Svedjan, Aarsvold, Boucher, Carlisle, Glassheim, Kempenich, Kerzman, Klein, Kroeber, Martinson, Metcalf, Monson, Thoreson, Wald, Wieland, and Williams and Senators Andrist, Bowman, Christmann, Fischer, Grindberg, Holmberg, Krauter, Kringstad, Lindaas, Mathern, O'Connell, Robinson, Stenehjem, Tallackson, and Thane voted "aye." Representatives Bellew, Berg, Pollert, and Timm voted "nay."

It was moved by Representative Glassheim, seconded by Senator Holmberg, and carried on a roll call vote that pursuant to NDCC Section 15-69-02, the Budget Section approve the following center of excellence funding award request which has been recommended by the Centers of Excellence Commission and considered by the Emergency Commission:

- **Centers of Excellence Commission (Request #1583) - University of North Dakota Center for Unmanned Aerial Vehicle and Simulation Applications - \$1,000,000.**

Representatives Svedjan, Aarsvold, Bellew, Berg, Boucher, Carlisle, Glassheim, Kempenich, Kerzman, Klein, Kroeber, Martinson, Metcalf, Monson, Pollert, Thoreson, Timm, Wald, Wieland, and Williams and Senators Andrist, Bowman, Christmann, Fischer, Grindberg, Holmberg, Krauter, Kringstad, Lindaas, Mathern, O'Connell, Robinson, Stenehjem, Tallackson, and Thane voted "aye." No negative votes were cast.

It was moved by Senator Mathern, seconded by Senator Grindberg, and carried on a roll call vote that pursuant to NDCC Section 15-69-02, the Budget Section approve the following center of excellence funding award request which has been recommended by the Centers of Excellence Commission and considered by the Emergency Commission:

- **Centers of Excellence Commission (Request #1584) - North Dakota State University Center for Agbiotechnology: Oilseed Development - \$2,000,000.**

Representatives Svedjan, Aarsvold, Bellew, Berg, Boucher, Carlisle, Glassheim, Kempenich, Kerzman,

Klein, Kroeber, Martinson, Metcalf, Monson, Pollert, Thoreson, Timm, Wald, Wieland, and Williams and Senators Andrist, Bowman, Christmann, Fischer, Grindberg, Holmberg, Krauter, Kringstad, Lindaas, Mathern, O'Connell, Robinson, Stenehjem, Tallackson, and Thane voted "aye." No negative votes were cast.

It was moved by Representative Kempenich, seconded by Representative Carlisle, and carried on a roll call vote that pursuant to NDCC Section 15-69-02, the Budget Section approve the following center of excellence funding award request which has been recommended by the Centers of Excellence Commission and considered by the Emergency Commission:

- **Centers of Excellence Commission (Request #1587) - North Dakota State University Center for Surface Protection - \$2,000,000.**

Representatives Svedjan, Aarsvold, Bellew, Berg, Boucher, Carlisle, Glassheim, Kempenich, Kerzman, Klein, Kroeber, Martinson, Metcalf, Monson, Pollert, Thoreson, Timm, Wald, Wieland, and Williams and Senators Andrist, Bowman, Fischer, Grindberg, Holmberg, Krauter, Kringstad, Lindaas, Mathern, O'Connell, Robinson, Stenehjem, Tallackson, and Thane voted "aye." Senator Christmann voted "nay."

It was moved by Senator Robinson, seconded by Senator O'Connell, and carried on a roll call vote that pursuant to NDCC Section 15-69-02, the Budget Section approve the following center of excellence funding award request which has been recommended by the Centers of Excellence Commission and considered by the Emergency Commission:

- **Centers of Excellence Commission (Request #1585) - Valley City State University Enterprises Application Model - \$1,000,000.**

Representatives Svedjan, Aarsvold, Bellew, Boucher, Carlisle, Glassheim, Kempenich, Kerzman, Klein, Kroeber, Martinson, Metcalf, Monson, Pollert, Thoreson, Timm, Wald, Wieland, and Williams and Senators Bowman, Fischer, Grindberg, Holmberg, Krauter, Kringstad, Lindaas, Mathern, O'Connell, Robinson, Stenehjem, Tallackson, and Thane voted "aye." Representative Berg and Senators Andrist and Christmann voted "nay."

It was moved by Representative Wald, seconded by Senator Bowman, and carried on a roll call vote that pursuant to NDCC Section 15-69-02, the Budget Section approve the following center of excellence funding award request which has been recommended by the Centers of Excellence Commission and considered by the Emergency Commission:

- **Centers of Excellence Commission (Request #1586) - Williston State College Petroleum Safety Technology Center - \$450,000.**

Representatives Svedjan, Aarsvold, Bellew, Boucher, Carlisle, Glassheim, Kempenich, Kerzman, Klein, Kroeber, Martinson, Metcalf, Timm, Wald, Wieland, and Williams and Senators Andrist,

Bowman, Christmann, Fischer, Grindberg, Holmberg, Krauter, Kringstad, Lindaas, Mathern, O'Connell, Robinson, Stenehjerm, Tallackson, and Thane voted "aye." Representatives Svedjan, Berg, Monson, and Thoreson voted "nay."

The committee recessed for lunch at 12:15 p.m. and reconvened at 1:00 p.m.

GAME AND FISH LAND ACQUISITION

At the request of Chairman Svedjan, Mr. Roger Rostvet, Deputy Director, Game and Fish Department, presented information regarding a request for Budget Section approval of a land acquisition of up to 3,000 acres in Walsh and Pembina Counties. A copy of the information presented is on file in the Legislative Council office. Mr. Rostvet said the land is currently under easement to the United States Natural Resources Conservation Service through the emergency watershed protection program. He said the Game and Fish Department would purchase the residual value of the land from the property owner at \$250 per acre. He said the price per acre was determined by Farm Credit Services based on market value of lands in northeastern North Dakota subject to emergency watershed protection easements. Mr. Rostvet said these types of land would fit into many of the department's long-term goals for fish and wildlife programs.

In response to a question from Senator Thane, Mr. Rostvet said the cost of maintenance and weed control would be higher than other areas.

In response to a question from Senator Christmann, Mr. Rostvet said the department could do a better job of weed control on this land than what is currently being done.

In response to a question from Senator Christmann, Mr. Rostvet said any lawsuits relating to spraying for weeds would start with the applicator and move on to the department if necessary.

It was moved by Senator Tallackson, seconded by Representative Carlisle, and carried on a roll call vote that pursuant to NDCC Section 20.1-05-05.1, the Budget Section approve the Game and Fish Department's acquisition of up to 3,000 acres of land in Walsh and Pembina Counties. Representatives Svedjan, Aarsvold, Berg, Carlisle, Glassheim, Kempenich, Kerzman, Kroeber, Martinson, Metcalf, Monson, Timm, and Williams and Senators Fischer, Grindberg, Holmberg, Krauter, Kringstad, Lindaas, Mathern, Robinson, Stenehjerm, Tallackson, and Thane voted "aye." Representatives Bellew, Klein, Pollert, Thoreson, Wald, and Wieland and Senators Bowman and Christmann voted "nay."

AGENCY REQUESTS AUTHORIZED BY THE EMERGENCY COMMISSION

Chairman Svedjan directed the committee to consider agency requests which have been authorized by the Emergency Commission and

forwarded to the Budget Section, pursuant to NDCC Sections 54-16-04, 54-16-04.1, 54-16-04.2, and 54-16-09. The information relating to the requests was provided to Budget Section members at the meeting and is on file in the Legislative Council office.

Senator Stenehjerm said in the Emergency Commission meeting he voted against the Department of Agriculture request for an additional full-time equivalent (FTE) position for a meat inspector because he felt in this case the Emergency Commission and the Budget Section were being asked to add an additional FTE position that the Legislative Assembly did not authorize. He said he felt it was wrong for the Budget Section to do so.

It was moved by Senator Mathern, seconded by Senator Krauter, and carried on a roll call vote that the Budget Section approve the following requests that have been forwarded to the Budget Section, pursuant to NDCC Sections 54-16-04, 54-16-04.1, 54-16-04.2, and 54-16-09:

- **Attorney General (Request #1570) - To transfer \$97,000 from the state contingency fund for additional costs incurred in defending the school finance lawsuit. The amount available in the state contingency fund prior to consideration of this request is \$369,000.**
- **State Historical Society of North Dakota (Request #1571) - To increase the grants line item and federal funds spending authority by \$250,000 to accept a Save America's Treasures grant for the emergency archaeological excavation of Beacon Island - Agate Basin site in Lake Sakakawea.**
- **Bank of North Dakota (Request #1572) - To make a line item transfer of \$500,000 from the salaries line item to the operating line (\$500,000) to allow for transition from internal to external information technology service providers.**
- **Department of Transportation (Request #1574) - To increase the highways program line item by \$76,260 for federal funds available to the state from the Safe Routes to Schools program and for approval of one FTE position to supervise the program.**
- **Department of Human Services (Request #1575) - To add 11 FTE positions for the State Hospital sex offender program. If savings cannot be generated internally within the agency to cover the additional cost, a deficiency appropriation will be requested by the agency in the 2007 legislative session.**
- **Information Technology Department (Request #1576) - To increase special funds spending authority from service fees by \$500,000 and salaries and wages line item (\$354,000) and operating line item (\$146,000) to provide software development support to**

the Bank of North Dakota (see Request #1572).

- **Department of Agriculture (Request #1578) - To increase spending authority by \$76,384 to transfer state contingency funds (\$58,669) and federal funds from the United States Department of Agriculture (\$17,715) for salary line item (\$41,860) and operating line item (\$34,524) and approval of one FTE position to respond to increased demand for state meat inspection services.**
- **Department of Emergency Services (Request #1580) - To increase spending authority by \$1,657,850 to receive federal funds (\$1,465,750) under the Robert T. Stafford Disaster Relief and Emergency Assistance Act and a Bank of North Dakota loan (\$192,100) for the required state match pursuant to NDCC Section 37-17.1-23 and the operating line item (\$25,000) and grants line item (\$1,632,850) for costs related to the November 2005 snowstorm.**

Representatives Svedjan, Aarsvold, Bellew, Berg, Boucher, Carlisle, Glassheim, Kempenich, Kerzman, Klein, Kroeber, Martinson, Metcalf, Monson, Pollert, Thoreson, Timm, Wald, Wieland, and Williams and Senators Bowman, Christmann, Fischer, Grindberg, Holmberg, Krauter, Kringstad, Lindaas, Mathern, Robinson, Stenehjerm, Tallackson, and Thane voted "aye." No negative votes were cast.

NORTH DAKOTA STATE UNIVERSITY ACCEPTANCE OF DONATED FUNDS

At the request of Chairman Svedjan, Mr. Broc Lietz, Interim Vice President of Business and Finance, North Dakota State University, presented information regarding a request for Budget Section approval, pursuant to NDCC Section 15-10-12.1, to accept and expend an additional \$8 million in donated funds. A copy of the information presented is on file in the Legislative Council office. Mr. Lietz said the funds are from donations received through North Dakota State University's \$75 million Momentum capital campaign. He said the \$8 million addition and renovation will include meeting rooms, pool repairs, Americans with Disabilities Act compliance, locker room expansion, and classroom technology enhancements.

In response to a question from Representative Svedjan, Mr. Lietz said maintenance costs will be paid by event receipts and private giving.

It was moved by Senator Grindberg, seconded by Representative Thoreson, and carried on a roll call vote that the Budget Section, pursuant to NDCC Section 15-10-12.1, approve North Dakota State University's request to accept and expend \$8 million in donated funds. Representatives Svedjan, Aarsvold, Bellew, Berg, Boucher, Carlisle, Glassheim, Kempenich, Kerzman, Klein, Kroeber, Martinson, Metcalf, Monson, Pollert, Thoreson, Timm, Wald, Wieland, and Williams and Senators Bowman,

Fischer, Grindberg, Holmberg, Krauter, Kringstad, Lindaas, Mathern, Robinson, Stenehjerm, Tallackson, and Thane voted "aye." No negative votes were cast.

DEPARTMENT OF HUMAN SERVICES Medicaid Management Information System

At the request of Chairman Svedjan, Ms. Carol K. Olson, Executive Director, Department of Human Services, presented information regarding the status of the Medicaid management information system (MMIS). A copy of the information presented is on file in the Legislative Council office. Ms. Olson said the department has completed contract negotiations with Affiliated Computer Services, Inc., (ACS) Government Healthcare Solutions. She said the projected costs are \$56.8 million, which is \$500,000 less than reported at the last Budget Section meeting.

Ms. Olson said ACS has agreed to hold its price firm until the 2007 Legislative Assembly is able to consider funding the costs of the remainder of the project. She said ACS agreed to this as long as the department moves forward with the initial design. Based on this, she said, ACS has agreed to sign a contract identifying two phases--Phase 1 includes a detailed system design which is expected to cost no more than \$8 million and is reusable and Phase 2 includes the balance of the design, development, and implementation. She said the two-phased approach would protect the state's interest in retaining the bid. Ms. Olson said the Information Technology Department (ITD) has agreed to complete initial development work with 100 percent of its effort being reusable and costing approximately \$1.6 million. With this plan, she said, the department would spend no more than \$10 million in total funds and \$1 million from the general fund. She said the remaining general fund appropriation will be returned to the general fund.

In response to a question from Representative Berg, Ms. Olson said Phase 1 would have to be done regardless of how the Legislative Assembly decides to proceed with the project. Ms. Olson introduced Mr. Curt Wolfe, former Chief Information Officer, Information Technology Department, and Ms. Maggie Anderson, Director, Medical Services, Department of Human Services.

In response to a question from Senator Mathern, Mr. Wolfe said if the department stays with the current vendor, the \$10 million spent in Phase 1 would be part of the projected total cost of \$56.8 million. He said if the Legislative Assembly chooses a new vendor, there is no guarantee the new bid would be \$10 million less because of the work already done.

It was moved by Representative Berg, seconded by Representative Klein, and carried on a roll call vote that the Budget Section encourages the Legislative Council chairman to express the committee's support of the Department of Human Services proceeding with preliminary MMIS work

with a final direction decision to be made by the 2007 Legislative Assembly. The Department of Human Services is encouraged to begin preliminary work on the project that would be required for all of the following options:

1. Acceptance of the current ACS bid.
2. Rebidding of the MMIS project.
3. Joint development with another state.
4. Use of a fiscal agent.
5. Outsourcing the billing and payment components.

In addition, the Department of Human Services is encouraged to contract for an independent analysis of the above options, including a cost-benefit analysis, and to arrange for the information to be available to the Legislative Assembly by January 8, 2007. The department is to report on the status of the preliminary project work and on the planned process to complete the cost-benefit analysis at each of the remaining 2006 Budget Section meetings. Representatives Svedjan, Bellew, Berg, Carlisle, Glassheim, Kempenich, Klein, Martinson, Metcalf, Monson, Pollert, Timm, Wald, and Wieland and Senators Bowman, Fischer, Grindberg, Holmberg, Krauter, Kringstad, Lindaas, Mathern, Robinson, Stenehjerm, Tallackson, and Thane voted "aye." Representatives Aarsvold, Boucher, Kerzman, and Kroeber voted "nay."

POWERS AND DUTIES OF BUDGET SECTION

The legislative budget analyst and auditor presented a bill draft [\[70012.0100\]](#) that would eliminate reference to the Budget Section in eight sections of the North Dakota Century Code and a memorandum entitled [Summary of the Bill Draft Relating to the Duties and Responsibilities of the Budget Section](#). The legislative budget analyst and auditor said the memorandum summarizes the changes to the eight sections of the Century Code that would be amended in the bill draft. Representative Wald expressed a concern with removing the reporting requirements of the State Board of Agricultural Research and Education. He said this report should continue to be received by the Budget Section. Chairman Svedjan directed the committee to take the bill draft under advisement for discussion at the next or future Budget Section meetings.

BUDGET TOUR REPORTS

The following reports on budget tours conducted by the Budget Committee on Health Care were distributed to the committee:

- Wednesday, January 4, 2006 - North Dakota Vision Services - School for the Blind.
- Wednesday, January 4, 2006 - Mill and Elevator.
- Thursday, January 5, 2006 - School for the Deaf.

JOB SERVICE NORTH DAKOTA

At the request of Chairman Svedjan, Ms. Maren Daley, Executive Director, Job Service North Dakota, presented information regarding the status of the job insurance trust fund, pursuant to NDCC Section 52-02-17. A copy of the information presented is on file in the Legislative Council office. Ms. Daley said the trust fund balance as of December 31, 2005, was \$84.45 million. She said the target for reserve adequacy was \$83.7 million. She said the fund balance reached the targeted reserve in six years, one year ahead of the legislative timeline of seven years. This was due, she said, in part, to a robust economy with growing employment and lower levels of unemployment insurance claims. Ms. Daley said by reaching the targeted reserve at the end of 2005, Job Service was able to reduce the average employer unemployment insurance tax rates for 2006 from 1.5 to 1.35 percent.

Chairman Svedjan commended Job Service staff for their work.

COMMITTEE DISCUSSION AND STAFF DIRECTIVES

Chairman Svedjan said the next Budget Section meeting is anticipated to be June 14, 2006.

Senator Mathern asked for a representative from the Industrial Commission to present recommendations or options relating to the transportation issues with the oil pipelines.

It was moved by Senator Robinson, seconded by Representative Klein, and carried on a voice vote that the Budget Section meeting be adjourned subject to the call of the chair.

Chairman Svedjan adjourned the meeting at 2:35 p.m.

Becky Keller
Fiscal Analyst

Jim W. Smith
Legislative Budget Analyst and Auditor

[ATTACH:2](#)