Legislative Council
600 East Boulevard Avenue, Bismarck, ND 58505

GOVERNMENT FINANCE COMMITTEE

Tuesday, December 14, 2021
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Michael Howe, Chairman, called the meeting to order at 10:00 a.m.

Members present: Representatives Michael Howe, Jeff Delzer, Jared C. Hagert, Lisa Meier, Corey Mock, Dave Nehring, Gary Paur, Mike Schatz, Jim Schmidt, Steve Vetter, Don Vigesaa; Senators Brad Bekkedahl, Richard Marcellais, Ronald Sorvaag

Members absent: Representatives Pamela Anderson, Gary Kreidt

Others present: Senator Donald Schaible, Mott, member of the Legislative Management
Allen H. Knudson, Legislative Council, Bismarck
See Appendix A for additional persons present.

It was moved by Representative Mock, seconded by Representative Meier, and carried on a voice vote that the minutes of the September 21, 2021, meeting be approved as distributed.

BUDGET REPORTS

Mr. Allen H. Knudson, Legislative Budget Analyst and Auditor, Legislative Council, presented a report entitled *67th Legislative Assembly State Budget Actions Supplement for the 2021-23 Biennium* regarding an overview of fiscal changes enacted during the November 2021 special legislative session.

Mr. Adam Mathiak, Senior Fiscal Analyst, Legislative Council, presented a memorandum entitled *Summary of the Infrastructure Investment and Jobs Act Preliminary Estimate of Federal Funds Available to North Dakota*. He noted the estimated federal funds available to North Dakota total $2.5 billion through federal fiscal year ending September 30, 2026, but the deadline to spend the funding is unknown.

Mr. Joe Morrissette, Director, Office of Management and Budget, presented a report (Appendix B) on the status of the general fund, balances of selected state special funds, and the status of the federal State Fiscal Recovery Fund and the federal Coronavirus Capital Projects Fund. He noted the projected June 30, 2023, ending fund balance of the general fund is $338.5 million based on actual revenues and expenditures through November 30, 2021, and estimated revenues and expenditures for the remainder of the biennium. He indicated the forecasted individual income tax collections were adjusted to reflect the estimated decrease in collections resulting from the income tax credit approved during the November 2021 special legislative session.

Mr. Morrissette presented information (Appendix C) regarding the status of the new budgeting software. He noted the software project was approximately 30 percent complete as of December 2021 with the remainder of the project anticipated to be completed by April 2022.

In response to a question from a committee member, Mr. Morrissette indicated the Office of Management and Budget could provide a demonstration of the new budgeting software at a future meeting.

INFORMATION TECHNOLOGY BUDGETING STUDY

Mr. Thomas Beadle, State Treasurer, presented information (Appendix D) regarding the advantages and disadvantages of information technology (IT) unification, the current budget and appropriations process for IT services, and potential changes to the budgeting process for IT services. He noted a potential change in the budgeting process for IT services may simplify the budgeting process for state agencies, but may result in a loss of priority for small state agency IT service needs.

Mr. Jamie Mertz, Fiscal Director, Department of Public Instruction, presented information (Appendix E) regarding the advantages and disadvantages of IT unification, the current budget and appropriations process for IT services, and potential changes to the budgeting process for IT services. He noted the department has a neutral position for any potential changes in the budgeting process for IT services.

Mr. Steve Bourgois, Business Solutions and Technology Director, Department of Corrections and Rehabilitation, presented information (Appendix F) regarding the advantages and disadvantages of IT unification, the current budget and appropriations process for IT services, and potential changes to the budgeting process for IT services. He indicated the department supports IT unification and has benefited from additional cybersecurity support.

Mr. Morrissette presented information (Appendix G) summarizing the advantages and disadvantages of IT unification, the current budget and appropriations process for IT services, and potential changes to the budgeting process for IT services.

REVENUE FORECASTING STUDY

Mr. Mathiak presented a memorandum entitled *Information Regarding the Request for Proposal and Proposal Response - Economic Forecasting Data*. He noted the only proposal received was from IHS Markit.

Mr. Brendan O'Neil, Executive Director, Economics and Country Risk; Mr. James Diffley, Executive Director, Economics; Dr. Yan Jiang, Associate Director; Mr. Curtis Smith, Director, Consulting; and Mr. Brandon Kliethermes, Senior Economist, IHS Markit, presented information (Appendix H) regarding a proposal (Appendix I) to provide consulting services for economic forecasting data.

In response to a question from a committee member, Mr. O'Neil indicated the contract price includes a budget of $6,750 for travel expenses to present the three required reports in person, which could be reduced if the reports are presented remotely.

Representative Delzer noted the price for the option to extend the contract through June 2025 is $79,825, which is the same as the price for the initial contract period through June 2023.

It was moved by Representative Delzer, seconded by Representative Vetter, and carried on a roll call vote that the committee recommend the Chairman of the Legislative Management contract with IHS Markit to provide economic forecasting data, including the option to extend the contract through June 2025. Representatives Howe, Delzer, Hagert, Meier, Mock, Nehring, Paur, Schatz, Schmidt, Vetter, and Vigesaa and Senators Bekkedahl, Marcellais, and Sorvaag voted "aye." No negative votes were cast.

CASH MANAGEMENT STUDY

Mr. Mathiak distributed a letter (Appendix J) regarding a directive from the Chairman of the Legislative Management for the Government Finance Committee to study the cash management of state funds.

Mr. Mathiak presented a memorandum entitled *Cash Management Study - Background Memorandum* regarding a review of the constitutional and statutory provisions related to cash management of state funds and a proposed study plan.

It was moved by Senator Sorvaag, seconded by Representative Vigesaa, and carried on a voice vote that the committee approve the following study plan:

1. **Receive information from the Office of Management and Budget, State Treasurer, Bank of North Dakota, Board of University and School Lands, the State Investment Board, and other state agencies regarding the cash management of state funds, including current cash management practices, challenges with the timing of state revenues and expenditures, investment of state funds, rates of return on state deposits and investments, and alternative cash management practices.**
2. **Receive testimony from interested persons regarding the study.**
3. **Develop recommendations and any bill drafts necessary to implement the recommendations.**
4. **Prepare a final report for submission to the Legislative Management.**

UNMANNED AIRCRAFT SYSTEMS UPDATE

Mr. James Leiman, Commissioner, Department of Commerce, presented information (Appendix K) regarding the status of the unmanned aircraft systems test site pursuant to North Dakota Century Code Section 54-60-28 and the development of the beyond visual line of sight unmanned aircraft system program pursuant to Section 54-60-29.1.

He noted the Northern Plains Unmanned Aircraft Test Site began operations in 2014. He indicated the Legislative Assembly appropriated $28 million for the 2019-21 biennium to establish a beyond visual line of site unmanned aircraft system program and $19 million of additional funding for the 2021-23 biennium for continued development of unmanned aircraft system programs.

OIL AND GAS DEVELOPMENT ACTIVITY UPDATE

Mr. Ron Ness, President, North Dakota Petroleum Council, provided comments regarding the status of the oil and gas industry in the state. He noted oil and gas development activity in North Dakota is anticipated to increase in calendar year 2022, but competition from other oil development activities in other states may limit the growth potential in North Dakota. He indicated the oil and gas industry faces challenges with recruiting and retaining workers and with government regulations, including the ongoing mineral ownership disputes associated with minerals under Lake Sakakawea.

Mr. Lynn Helms, Director, Department of Mineral Resources, presented information (Appendix L) regarding the status of oil and gas development activities in the state. He indicated the core area of the Bakken Formation may be fully developed within 10 years. He noted oil wells outside the core area are being drilled with a 3-mile horizontal lateral segment, which provide a 50 percent increase in oil production with a 15 percent cost increase compared to oil wells with a 2-mile horizontal lateral segment. He noted an enhanced oil recovery project in Bowman County will use carbon dioxide from Wyoming, resulting in a significant increase in oil production in Bowman County.

In response to a question from a committee member, Mr. Helms indicated the Department of Trust Lands has a significant number of mineral tracts to review before the disputed royalty payments, which are held in escrow, are distributed to the mineral owners related to the minerals under Lake Sakakawea.

In response to a question from a committee member, Mr. Helms indicated the use of 3-mile horizontal lateral segments in oil wells may result in a lower growth rate for oil-related jobs and economic activity compared to previous forecasts, which could affect future state revenues.

STATE AGENCY FEES STUDY

Mr. Mathiak presented a memorandum entitled *Proposed Agency Fee Report Template* regarding suggested criteria to include in an agency fee report template for the committee's consideration.

It was moved by Senator Bekkedahl, seconded by Representative Mock, and carried on a roll call vote that the committee encourage the Office of Management and Budget to develop an agency fee reporting template that includes the suggested reporting criteria and to present the agency fee reporting template at the committee's next meeting. Representatives Howe, Delzer, Hagert, Meier, Mock, Nehring, Paur, Schmidt, Vetter, and Vigesaa and Senators Bekkedahl, Marcellais, and Sorvaag voted "aye." No negative votes were cast.

No further business appearing, Chairman Howe adjourned the meeting at 3:55 p.m.

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Adam Mathiak
Senior Fiscal Analyst

ATTACH:12