Legislative Council
600 East Boulevard Avenue, Bismarck, ND 58505

GOVERNMENT FINANCE COMMITTEE

Wednesday and Thursday, September 28-29, 2022
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Michael Howe, Chairman, called the meeting to order at 1:00 p.m.

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

Member absent: Representative Pamela Anderson

Others present: Allen H. Knudson, Legislative Council, Bismarck
See Appendix A for additional persons present.

It was moved by Senator Sorvaag, seconded by Representative Mock, and carried on a voice vote that the minutes of the July 14-15, 2022, meeting be approved as distributed.

STATE BUDGET

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, the status of federal funds, and the development of the new state budgeting system. He noted:

- General fund revenues for the biennium to date through August 2022 exceeded the November 2021 legislative forecast by $520.6 million or 19.8 percent;
- The United States Department of the Treasury approved the state's plan for broadband infrastructure grants from the federal Coronavirus Capital Projects Fund; and
- $182 million of the $945 million appropriated from the federal State Fiscal Recovery Fund has been spent as of August 31, 2022, including $10.4 million of the $224.7 million appropriated to the Department of Transportation.

In response to a question from a committee member, Ms. Terra Miller Bowley, Deputy Director for Administration, Department of Transportation, provided information (Appendix C) after the meeting regarding more detail on the amount spent by the Department of Transportation from the State Fiscal Recovery Fund.

Ms. Stephanie Gullickson, Fiscal Management Analyst, Office of Management and Budget, provided a demonstration of the new statewide budgeting software, including the reporting capabilities.

STATE EMPLOYEE COMPENSATION

Mr. Lynn Hart, Total Rewards Manager, Human Resource Management Services Division, Office of Management and Budget, presented information (Appendix D) regarding executive branch employees who received a cumulative salary increase of 15 percent or more since March 31, 2021, pursuant to North Dakota Century Code Section 54-44-04. He noted 796 executive branch employees received a cumulative salary increase of 15 percent or more from March 31, 2021, through August 31, 2022, of which 415 executive branch employees received an equity increase.

Mr. Hart presented information (Appendix E) regarding the results of a recent state employee benefits survey. He noted the top response for the most valued compensation reward was fully paid health insurance while the top response for most desired change was more competitive pay.

AGENCY FEE REPORT

Mr. Morrissette presented a report (Appendix F) on state agency fees for state agencies with 40 fees or fewer pursuant to Section 54-35-27. He noted:

- 46 state agencies had 40 or fewer fees, including 15 state agencies with no fees and 31 state agencies with at least 1 fee but no more than 40 fees.
- The report includes information on the authorization for the fee, the amount collected from the fee, and the costs associated with administering the program or services related to the fee.

INFRASTRUCTURE LOAN FUNDS

Mr. Kelvin Hullet, Chief Business Development Officer, Bank of North Dakota, presented information (Appendix G) regarding the status of the infrastructure revolving loan fund under Section 6-09-49, the legacy infrastructure loan fund under Section 6-09-49.1, and the water infrastructure revolving loan fund under Section 6-09-49.2. He noted:

- The infrastructure revolving loan fund had $205.9 million committed to loans and $37.5 million available for new loans as of August 31, 2022.
- The legacy infrastructure loan fund has not been utilized but would be used to provide liquidity for the infrastructure revolving loan fund as needed.
- The water infrastructure revolving loan fund had $59.2 million committed to loans and $10.2 million available for new loans as of August 31, 2022.

STUDY REVIEW

Mr. Adam Mathiak, Senior Fiscal Analyst, Legislative Council, reviewed the following studies assigned to the committee:

- State revenues and state revenue forecasts study;
- Classified state employee compensation system study;
- Law enforcement and correctional officer recruitment and retention study;
- Information technology budgeting study;
- State agency fee study;
- Emergency Commission and Budget Section approval process study, including previously approved bill draft [21.1085.01000] relating to Emergency Commission and Budget Section approval to accept and disburse federal funds and state special funds based on percentage limits; and
- Cash management study.

Chairman Howe recessed the meeting at 3:00 p.m. and reconvened the meeting on Thursday, September 29, 2022, at 8:00 a.m.

REVENUE FORECASTING UPDATES

IHS Markit by S&P Global

Mr. Jim Diffley, Executive Director, Research Advisory Specialty Solutions, Ms. Min Rao, Director, Upstream Consulting, and Ken Eriksen, Senior Vice President, Client Advisory and Development, Energy and Transportation, and Policy Group, S&P Global, presented information and a report (Appendices H and I) regarding the forecasting results for general fund revenues and oil price and production levels, including a revised forecast for the 2021-23 biennium and a preliminary forecast for the 2023-25 biennium.

Mr. Diffley noted:

- Economic growth in the United States is forecasted to slow in 2023 and may lead to a recession.
- North Dakota sales and use tax collections are estimated to be $2.04 billion in the 2023-25 biennium compared to $1.94 billion in the 2021-23 biennium based on the forecasting model developed by S&P Global for North Dakota's major general fund tax revenue sources.
- Corporate income tax collections in North Dakota are estimated to be $278 million in the 2023-25 biennium compared to $345 million in the 2021-23 biennium reflecting a decrease in profits in the oil and gas industry as oil prices decrease in the forecasting period.

Ms. Rao noted:

- United States oil production is anticipated to grow modestly through the end of 2022, but geopolitical incidents, decreasing oil demand in China, environmental regulations, and other factors are a risk for oil development activity.
- Approximately 66 percent of oil wells in the Bakken Formation are profitable with oil prices over $60 per barrel, but new oil well opportunities in the most productive areas may be exhausted by 2025 based on an analysis by S&P Global.
- North Dakota oil prices are anticipated to decrease from approximately $115 per barrel in 2022 to $75 per barrel by 2025 while oil production is anticipated to increase from 1.1 million barrels per day in 2022 to 1.3 million barrels per day in 2025.

Mr. Eriksen noted:

- The acres of corn and soybeans planted in 2022 increased significantly compared to 2021 while the acres of wheat planted in 2022 was similar to 2021.
- Farm income is anticipated to exceed farm expenses through 2025 as commodity prices remain high, but rising input costs for fertilizer, machinery, and other materials may be a challenge for farmers.

In response to a question from a committee member, Mr. Erkisen noted 18 percent of farm income in 2021 was derived from government payments compared to 8 percent in 2022.

Legislative Council

Mr. Allen H. Knudson, Legislative Budget Analyst and Auditor, Legislative Council, presented a memorandum entitled *Budget Outlook - 2021-23 and 2023-25 Bienniums* regarding preliminary estimates for general fund revenue and appropriation levels for the remainder of the 2021-23 biennium with potential increases for the 2023-25 biennium.

Mr. Knudson presented a report (Appendix J) regarding the state budget and a comparison of ongoing general fund revenues and appropriations. He noted:

- Ongoing general fund appropriations may exceed ongoing general fund revenues by $400 million for the 2021-23 biennium if the general fund revenues for the 2021-23 biennium exceed the forecast by 22 percent for the remainder of the biennium.
- The gap between ongoing general fund appropriations and ongoing general fund revenues may decrease to $290 million in the 2023-25 biennium based on a potential increases in ongoing general fund appropriations and revenues.

OTHER INDUSTRY UPDATES

Mr. Mike Rud, President, North Dakota Retail Association, submitted information (Appendix K) regarding trends in the retail industry. His report noted:

- Retailers in North Dakota had strong sales during the back-to-school shopping season even with inflationary pressures.
- Retailers anticipate 10 percent annual growth in taxable sales in calendar year 2023 before the growth of sales moderates in calendar year 2024.

Mr. Russ Hanson, Executive Vice President, Associated General Contractors of North Dakota, presented information (Appendix L) regarding trends in the construction industry. He noted:

- Employment in the construction industry peaked in January 2015 during the oil boom and decreased to a low at the end of calendar year 2020 due to the coronavirus pandemic before increasing at the end of calendar year 2021.
- State and federal funding for infrastructure projects will bring an increase in construction activity, but workforce shortages and supply chain challenges are a concern for the future.

AGRICULTURE INDUSTRY UPDATES

Ms. Julie Ellingson, Executive Vice President, North Dakota Stockmen's Association, presented information (Appendix M) regarding trends in cattle prices and inventory. She noted:

- North Dakota's beef cattle inventory is anticipated to decline by approximately 2 percent per year through calendar year 2024 due to cattle losses during the drought in 2021 and the winter storm in April 2022.
- Cattle prices have been increasing since 2020 as demand for beef increases and as inflationary pressures increase input costs.

Mr. Neal Fisher, Administrator, North Dakota Wheat Commission, presented information (Appendix N) regarding trends in wheat prices and production. He noted:

- Unfavorable weather conditions in the spring of 2022 delayed wheat planting by 2 to 5 weeks, but the 2022 harvest was approximately 90 percent complete as of September 27, 2022 with good yields.
- Wheat and other crops may have fewer acres planted in 2023 if corn prices remain high, but geopolitical issues may significantly impact crop prices.

Ms. Stephanie Sinner, Executive Director, North Dakota Soybean Council, presented information (Appendix O) regarding trends in soybean prices and production. She noted:

- Two new soybean crushing plants are under construction in North Dakota and are estimated to create approximately 125 jobs when the plants become operational in 2023 or 2024.
- Demand for soybean oil remains high because of its use in biodiesel, which is reflected in the futures markets with prices over $12.50 per bushel through November 2025.

OIL AND GAS INDUSTRY UPDATES

Mr. Ron Ness, President, North Dakota Petroleum Council, provided comments regarding trends in the oil and gas industry. He noted:

- Ideal oil prices would range from $70 to $80 per barrel with oil production ranging from 1.2 to 1.4 million barrels per day to support sustained growth in the oil industry in North Dakota for the next 10 years.
- Additional research funding is needed to support enhanced oil recovery and other technological improvements which may allow oil producers to extract additional oil economically.

In response to a question from a committee member, Mr. Ness noted oil producers are facing challenges with environmental, social, and governance expectations, including a reduction in capital financing available from banks that have adopted policies to limit financing for fossil fuel projects.

Mr. Justin J. Kringstad, Director, North Dakota Pipeline Authority, presented information (Appendix P) regarding oil price and production trends. He noted:

- Natural gas processing and pipeline capacity constraints in North Dakota may become a significant limiting factor for oil production after 2025 as natural gas production increases.
- West Texas Intermediate (WTI) oil prices may decline below $70 per barrel by July 2023 based on the New York Mercantile Exchange (NYMEX) futures prices as of September 26, 2022.
- North Dakota oil production may increase to 1.2 million barrels per day by the middle of 2023 and to 1.3 million barrels per day by the end of 2027 based on trends in the oil and gas industry.

Mr. Bruce Hicks, Assistant Director, Department of Mineral Resources, presented information (Appendix Q) regarding the status of oil and gas development in the state. He noted:

- Approximately 80 percent of the most productive area of the Bakken has been developed, but complete development of the Bakken, including less productive areas, is anticipated to require 15,000 to 25,000 additional oil wells in the next 15 to 20 years.
- The department has approved some permits for oil wells with a 3-mile horizontal lateral segment, but a limited number have been completed to date.
- An enhanced oil recovery project with carbon dioxide is being completed in Bowman County while other enhanced oil recovery projects in the state are using wet and dry natural gas in an attempt to increase oil production.

In response to a question from a committee member, Mr. Hicks noted an oil well with a 3-mile horizontal lateral segment requires approximately 4 days of additional work compared to an oil well with a 2-mile horizontal, including 2 days for additional drilling activity and 2 days for additional fracturing stages.

COMMITTEE DISCUSSION

It was moved by Representative Kreidt, seconded by Senator Marcellais, and carried on a voice vote that the Chairman and the Legislative Council staff be requested to prepare a report and the bill draft recommended by the committee and to present the report and recommended bill draft to the Legislative Management.

It was moved by Senator Bekkedahl, seconded by Representative Vetter, and carried on a voice vote that the committee be adjourned sine die.

No further business appearing, Chairman Howe adjourned the committee sine die at 12:15 p.m.

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Adam Mathiak
Senior Fiscal Analyst

ATTACH:17