

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

BUDGET SECTION

Wednesday, September 22, 2010
Senate Chamber, State Capitol
Bismarck, North Dakota

Senator Ray Holmberg, Chairman, called the meeting to order at 9:00 a.m.

Members present: Senators Ray Holmberg, Bill Bowman, Tom Fischer, Tony S. Grindberg, Ralph L. Kilzer, Elroy N. Lindaas, Tim Mathern, Carolyn Nelson, Larry J. Robinson, Rich Wardner; Representatives Larry Bellew, Rick Berg, Merle Boucher, Jeff Delzer, Mark A. Dosch, Eliot Glassheim, Kathy Hawken, Lee Kaldor, Keith Kempenich, James Kerzman, Matthew M. Klein, Gary Kreidt, Joe Kroeber, Ralph Metcalf, Shirley Meyer, David Monson, Jon Nelson, Kenton Onstad, Chet Pollert, Bob Skarphol, Ken Svedjan, Blair Thoreson, Alon C. Wieland, Clark Williams

Members absent: Senators Randel Christmann, Karen K. Krebsbach, David O'Connell, Tom Seymour, Bob Stenehjem, John Warner; Representatives Al Carlson, Mary Ekstrom, Bob Martinson, Don Vigesaa, Francis J. Wald

Others present: See [Appendix A](#)

It was moved by Senator Robinson, seconded by Representative Meyer, and carried on a voice vote that the minutes of the June 22, 2010, meeting be approved as distributed.

ADJUTANT GENERAL REPORTS

Chairman Holmberg called on Major General David Sprynczynatyk, Adjutant General, to provide information regarding:

- A report on emergency disaster relief grants awarded to political subdivisions pursuant to 2009 Senate Bill No. 2012.
- A report on 2009 flood disaster-related expenditures, transfers, reimbursements, and general fund deposits pursuant to 2009 Senate Bill No. 2444.
- Information on the total funding by funding source for each disaster being paid for during the 2009-11 biennium.
- A report on the reintegration program expenditures and the program's impact on service members pursuant to Section 11 of 2009 House Bill No. 1016.

Disaster Relief Funding

Major General Sprynczynatyk reported that of the \$43 million available in the state disaster relief fund provided by 2009 Senate Bill No. 2012, expenditures as of August 2010 total \$11.8 million. He said

expenditures to date include \$5.38 million for emergency snow removal grants (\$20 million appropriated) and \$2.8 million for the April 2010 ice storm, \$1.5 million for the January 2010 winter storm, \$1.3 million for the 2009 flood disaster, \$576,395 for the 2010 flood disaster, and \$473,399 for the state match on disasters prior to 2009 (\$23 million appropriated). He said projected expenditures for the remainder of the 2009-11 biennium include \$5 million for the 2009 flood, \$2.2 million for disasters prior to 2009, \$800,000 for the April 2010 ice storm, \$653,307 for the January 2010 winter snowstorm, and \$112,377 for the 2010 flood. He said the estimated June 30, 2011, balance in the state disaster relief fund is \$22.3 million ([Appendix B](#)).

Major General Sprynczynatyk provided a report ([Appendix C](#)) on 2009 flood disaster relief grants that provide 50 percent of the local share. The report identifies the estimated state share by grant applicant awarded pursuant to 2009 Senate Bill No. 2012. Grant awards under 2009 Senate Bill No. 2444 total \$3 million.

Major General Sprynczynatyk provided information ([Appendix D](#)) on the total funding by funding source for each disaster being paid for during the 2009-11 biennium, including a map showing disaster recovery expenditure amounts by political subdivisions. He said disaster expenditures for the 2009-11 biennium through August 2010 total \$137.8 million, including \$5.8 million from the general fund, \$6.6 million from special funds (state disaster relief fund created in 2009 Senate Bill No. 2012), and \$125.4 million from federal funds.

Major General Sprynczynatyk provided a comparison of 2009 flood estimates versus actual expenditures through August 2010 ([Appendix E](#)). He said initial 2009 flood costs were estimated at \$176 million and through August 2010, expenditures have totaled \$116.4 million.

In response to a question from Representative Skarphol, Major General Sprynczynatyk said 2009 flood expenditures may not be finalized until the 2013-15 biennium.

Reintegration Program

Major General Sprynczynatyk provided a report ([Appendix F](#)) on the reintegration program expenditures and the program's impact on service members pursuant to Section 11 of 2009 House Bill

No. 1016. He said in Section 1 of 2009 House Bill No. 1016, the reintegration program received a general fund appropriation of \$1,377,409. He said major expenditures relating to this appropriation include three full-time equivalent (FTE) licensed social workers (\$364,000), temporary employees to support the military outreach program (\$484,000), and rent for the Military Service Center located in Bismarck (\$220,000). He said that nearly \$3.4 million has been provided in federal funds for this program during the previous two years.

Major General Sprynczynatyk said the North Dakota National Guard Service Member and Family Support program provides a variety of critical support elements for service members and their families who are at risk for issues resulting from deployments. He said the Service Member and Family Support program has assisted service members and their families with issues of mental health and posttraumatic stress disorder, as well as financial issues. He said the Service Member and Family Support program has established a stand-alone Military Service Center in Bismarck and a military outreach team that assists all veterans. He said the program provides support to all veterans, including Army, Navy, Air Force, and Marine veterans from every conflict since World War II. He said since January 2009, team members have made contact with nearly 14,000 service members. He said family members assisted account for 44 percent of the overall contacts and for service members by conflict--World War II accounts for 12 percent, Korea 11 percent, Vietnam 24 percent, Desert Storm 17 percent, and the current Global War on Terrorism 37 percent.

STATUS OF THE STATE GENERAL FUND

Chairman Holmberg called on Ms. Pam Sharp, Director, Office of Management and Budget, to present a report ([Appendix G](#)) on the status of the general fund.

Ms. Sharp presented the following information on the status of the state general fund for the 2009-11 biennium based on the September 2010 preliminary forecast:

Unobligated general fund balance - July 1, 2009		\$361,843,514
Add		
General fund collections based on September 2010 preliminary forecast	\$2,964,724,737	
Total estimated general fund revenue for the 2009-11 biennium		\$3,326,568,251
Estimated general fund turnback		0
Balance obligated for authorized carryover from the 2007-09 biennium		76,383,530
Estimated total available		\$3,402,951,781

Less		
2009-11 biennium general fund ongoing appropriations	(\$2,970,380,754)	
2009-11 biennium general fund one-time appropriations	(278,984,727)	
Contingent appropriation for centers of excellence (2009 SB 2018)	(5,000,000)	
Balance obligated for authorized carryover from the 2007-09 biennium	(76,383,530)	
Estimated deficiency requests	(6,101,902)	
Total appropriations and estimated deficiency requests		(\$3,336,850,913)
Estimated general fund balance - June 30, 2011		\$66,100,868 ¹

¹This amount **does not reflect** a potential transfer of \$1.1 million from this estimated balance to the budget stabilization fund. North Dakota Century Code Chapter 54-27.2 provides that any amount in the general fund at the end of a biennium in excess of \$65 million must be transferred to the budget stabilization fund.

Ms. Sharp presented the following information on the status of the permanent oil tax trust fund for the 2009-11 biennium:

Beginning permanent oil tax trust fund balance - July 1, 2009	\$489,727,017
Add	
Revenue collections through fiscal year 2010	311,333,857
Forecasted revenues for fiscal year 2011 (based on the September 2010 preliminary forecast)	574,928,000
Total estimated funds available for the 2009-11 biennium	\$1,375,988,874
Less expenditures and transfers	
Transfer to the general fund pursuant to 2009 HB 1015	(\$140,000,000)
Transfer to the general fund for the mill levy reduction program pursuant to 2009 SB 2199	(295,000,000)
Transfer to the property tax relief sustainability fund pursuant to 2009 SB 2199	(295,000,000)
Appropriations pursuant to 2009 HB 1015, HB 1305, and HB 1394 and SB 2003 and SB 2020	(16,175,100)
Estimated permanent oil tax trust fund balance - June 30, 2011	\$629,813,774

Ms. Sharp said \$71 million in oil and gas tax revenue has been deposited in the general fund, and currently all oil and gas tax collections allocated to the state for the 2009-11 biennium are being deposited in the permanent oil tax trust fund. Through August 2010, oil tax collections totaling \$354.8 million have been transferred to the permanent oil tax trust

fund. She said deposits totaled \$43.5 million in August 2010. She said if the deposits remain at this level for the remainder of the biennium, the ending balance in the permanent oil tax trust fund could be nearly \$630 million.

Ms. Sharp presented information on general fund revenue collections for August 2010 and the 2009-11 biennium to date. She said general fund revenues collected biennium to date are 1.1 percent less than the legislative forecast. She said interest income has exceeded estimates by \$10.4 million or 74.4 percent. She said biennium to date motor vehicle excise tax collections have also exceeded estimates by \$19.4 million, or 41.2 percent.

In response to a question from Representative Svedjan, Ms. Sharp said the Department of Public Instruction anticipated deficiency appropriation relates to property tax relief. She said the \$295 million provided for mill levy reduction grants is anticipated to be \$4.2 million less than the amount needed due to some property types not being included in the original estimate calculated during the 2009 legislative session.

IRREGULARITIES IN THE FISCAL PRACTICES OF THE STATE

Pursuant to Section 54-14-03.1, Ms. Sharp presented information ([Appendix H](#)) on irregularities in the fiscal practices of the state. She said the School for the Blind is identified as having the following fiscal irregularity:

Agency	Amount	Reason
School for the Blind	\$7,553.91	Pay adjustment for additional work in June for three teachers which was in addition to the teachers' nine-month contracts

PRELIMINARY 2009-11 BIENNIUM REVENUE FORECAST

Ms. Sharp presented information ([Appendix I](#)) regarding the revised 2009-11 biennium revenue forecast and the preliminary 2011-13 biennium revenue forecast. She said 2009-11 biennium revised revenue forecast estimates total general fund revenues of \$2.5 billion, \$1.9 million more than the 2009 legislative forecast. She said the preliminary 2011-13 biennium revenue forecast estimates total general fund revenues of \$2.7 billion, \$236 million more than the 2009-11 biennium revised forecast.

Ms. Sharp also provided the oil price and production assumptions and related tax revenue allocation summary for fiscal years 2010 through 2013. The estimated average price per barrel, monthly production, and state oil tax revenue after allocations is as follows:

	Actual 2010 Fiscal Year	Estimated 2011 Fiscal Year	Estimated 2012 Fiscal Year	Estimated 2013 Fiscal Year
Price per barrel	\$65.98	\$67.00	\$72.00	\$75.00
Average monthly production (in barrels)	258,171	366,250	390,000-405,000	405,000-425,000
Estimated state oil tax revenue (in millions)	\$572.5	\$839.0	\$978.5	\$1,062.6

Ms. Sharp provided the estimated oil tax revenue and revenue allocations for the 2009-11 and 2011-13 bienniums as follows:

	2009-11 Biennium (Amounts Shown in Millions)	2011-13 Biennium (Amounts Shown in Millions)
Estimated oil revenue allocations		
Counties, cities, schools	\$168.4	\$247.1
Resources trust fund	136.9	199.8
Common schools trust fund	68.5	100.2
Foundation aid stabilization fund	68.5	100.2
Oil and gas research fund	4.0	4.0
Oil and gas impact fund	8.0	8.0
General fund	71.0	71.0
Permanent oil tax trust fund	886.2	697.9
Legacy fund (if approved)		612.9
Estimated state oil tax revenue	\$1,411.5	\$2,041.1

EMPLOYEE BONUSES

Ms. Sharp presented information on the number of employees receiving bonuses above the 25 percent limitation pursuant to Section 54-06-30 and Section 1 of 2009 House Bill No. 1030. She said agencies may not give bonuses to more than 25 percent of their employees except in special circumstances approved by Human Resource Management Services. She said Human Resource Management Services is required to report any exceptions to the Budget Section. She said the 2009 Legislative Assembly authorized Human Resource Management Services to approve bonuses to employees of an agency in excess of the 25 percent limit. Since the law has become effective, no agency has exceeded the 25 percent limitation on the number of employees receiving bonuses.

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

Ms. Sheila Peterson, Director of Fiscal Management, Office of Management and Budget, presented information ([Appendix J](#)) regarding the American Recovery and Reinvestment Act of 2009 (ARRA), including an update of funding information and the number of state employees who have been employed using federal stimulus funding.

ARRA Funding Update

Ms. Peterson provided a listing ([Appendix K](#)) of ARRA funding to political subdivisions, including airports, cities, counties, fire districts, housing authorities, nonprofit organizations, private entities,

school districts, state agencies, tribes, and water districts. She said awards total \$662.4 million, of which \$287.5 million has been received through June 2010. She said a total of 3,392.42 jobs were reported as having been created or retained by the recipients of the funding.

Representative Berg suggested that additional information be included in the report showing the number of jobs by public and private sectors. Ms. Peterson said she would provide this information in future reports.

State Employees Employed Using Federal Stimulus Funding

Ms. Peterson provided a listing ([Appendix L](#)) of the number of state employees who have been employed using federal stimulus funding. She said 69.13 FTE state employees are reported as being paid from ARRA funding, of which 33.79 were existing positions that will revert to the original funding source, 27.49 were temporary positions that will be eliminated, and 7.57 were new positions that will be requested to be continued.

Representative Berg suggested that additional information be included in the report showing the number of jobs by public and private sectors. Ms. Peterson said she would provide this information in future reports.

RISK MANAGEMENT WORKERS' COMPENSATION PROGRAM

Mr. Tag Anderson, Risk Management Director, Office of Management and Budget, presented information ([Appendix M](#)) regarding the status of the risk management workers' compensation program pursuant to Section 65-04-03.1(5). He said the 2001 Legislative Assembly established a single workers' compensation account for all state entities. He said the Risk Management Division administers the program. He said for coverage periods beginning July 1, 2001, the Risk Management Division entered deductible contracts with Workforce Safety and Insurance for 143 consolidated accounts. He said the deductible amount selected was \$100,000 per claim. He provided the following results for the nine coverage years beginning July 1, 2001, through June 30, 2010:

Nonconsolidated guaranteed cost program premium and assessments		\$41,328,764
Risk Management Division deductible premium paid to Workforce Safety and Insurance	\$14,317,534	
Risk Management Division paid losses through June 30, 2009	12,528,995	
Risk Management Division pending losses (reserves)	1,733,334	
Risk Management Division combined deductible premium and losses		\$28,579,863
Estimated savings for a nine-year period		\$12,748,901

AGENCY REQUESTS AUTHORIZED BY THE EMERGENCY COMMISSION

Chairman Holmberg directed the committee to consider agency requests, which have been authorized by the Emergency Commission and forwarded to the Budget Section pursuant to Section 54-16-04.1. The information relating to the requests was provided to Budget Section members prior to the meeting.

It was moved by Senator Mathern, seconded by Representative Berg, and carried on a roll call vote that pursuant to Section 54-16-04.1 the Budget Section approve the following requests, which have been approved by the Emergency Commission:

- **Adjutant General (Request #1743) - Request to increase spending authority by \$1,668,750 of federal funds from the Federal Emergency Management Agency for costs relating to damage caused by an April 2010 storm.**
- **Department of Human Services (Request #1746) - Request to increase special funds spending authority by \$18.4 million of federal funds resulting from the extension of the ARRA enhanced federal medical assistance percentage (FMAP) from December 2010 to June 2011.**
- **Department of Human Services (Request #1747) - Request to increase special funds spending authority by \$795,000 to accept federal funds from ARRA for child support incentive matching funds.**
- **Adjutant General (Request #1748) - Request to increase special funds spending authority by \$400,000 of federal funds from the ARRA National Guard Bureau for the federal stimulus funds line item (\$400,000) for new high-efficiency furnaces and water heaters in four federally supported facilities at Camp Grafton.**
- **Adjutant General (Request #1749) - Request to increase special funds spending authority by \$405,000 of federal funds from the Department of Homeland Security emergency management performance grant program for the capital assets line item (\$70,000) to purchase a mobile command and emergency operations trailer and for the Civil Air Patrol line item (\$335,000) to purchase an infrared radar system for a Civil Air Patrol aircraft.**
- **State Department of Health (Request #1750) - Request to increase spending authority by \$548,470 of federal funds available from ARRA for contracts to enhance the interoperability between the North Dakota immunization information system and private provider electronic health records.**

Senators Holmberg, Bowman, Fischer, Grindberg, Kilzer, Lindaas, Mathern, Nelson, Robinson, and Wardner and Representatives Bellew, Berg, Boucher, Delzer, Dosch, Glassheim, Hawken, Kerzman, Klein, Kreidt, Kroeber, Metcalf, Meyer, Monson, Nelson, Onstad, Pollert, Skarphol, Svedjan, Thoreson, Wieland, and Williams voted "aye." No negative votes were cast.

NORTH DAKOTA UNIVERSITY SYSTEM - CHANGE IN SCOPE OF PROJECTS

Chairman Holmberg called on representatives of the North Dakota University System to present information regarding a request for Budget Section approval of changes to the following project authorization pursuant to Section 48-01.2-25.

Minot State University

Mr. Brian Foisy, Vice President for Administration and Finance, Minot State University, Minot, presented a request for Budget Section approval of a change in scope of the boiler replacement project ([Appendix N](#)) to include Phase 1 installation of a geothermal heating and cooling system for \$4.5 million from the general fund (\$2.5 million) and Department of Commerce grants (\$2 million) pursuant to Section 48-01.2-25. Also providing information were Mr. Roger Kluck, Assistant Vice President for Facilities Management, Minot State University, Minot, and Mr. William G. Goetz, Chancellor, North Dakota University System. Mr. Foisy said Phase 1 includes the installation of 450 wells in the north well field and connection and conversion of four buildings to a geothermal loop. He said Phase 1 is independent and does not require a commitment to continue with Phase 2 and Phase 3. The remaining phases include additional well fields and the connection and conversion of 13 additional buildings as outlined in the following chart:

Phase	Description	Converted Buildings	Funding Source	Estimated Completion
1	Installation of 450 wells in the north well field and connection and conversion of four buildings	Swain Hall G. B. Olson Library Phase 1 of the Wellness Center Dome	\$2.5 million legislative appropriation and \$2 million Department of Commerce ARRA funds	March 2012
2	Construct the southeast and southwest well fields, install the main geothermal loop throughout campus, and connection and conversion of two buildings	Moore Hall Hartnett Hall	\$5 million state appropriations	July 2012
3	Connection and conversion of 11 buildings	Lura Manor McCulloch Hall Dakota Hall Crane Hall Administration Student Union Old Main Model Hall Memorial Hall Cook Hall Pioneer Hall	\$5 million legislative appropriation, \$1 million local funds, and \$1 million loan to be repaid from energy savings as a result of the project	May 2013

Mr. Foisy said completion of Phase 1 is expected to result in energy savings for those four buildings. He said if the system is fully implemented campuswide, estimated reduced utility costs are in excess of \$500,000 per year. The cost to install a geothermal system campuswide is estimated at \$16.5 million. The incremental costs of a geothermal system compared to a conventional system is approximately \$7 million. Based on these estimates and estimated utility cost-savings of \$500,000 per year, the time period to recover the incremental cost is 12.5 years.

Senator Bowman expressed concern that the approval of Phase 1 commits the Legislative Assembly to provide funding for Phase 2 and Phase 3. Mr. Foisy said approving Phase 1 does not require funding to be provided for Phase 2 or Phase 3.

Representative Monson expressed concern with the Budget Section considering and potentially

approving this request. He said this request should be considered by the entire Legislative Assembly. Representative Delzer suggested the Budget Section not consider this request, but that it be considered by the 2011 Legislative Assembly. Mr. Foisy said approving the request now will allow the geothermal system components to be incorporated into the construction of the new Wellness Center, rather than incurring additional construction costs to install a conventional system and then replace it with the geothermal system if approved by the 2011 Legislative Assembly.

Mr. Goetz said by requesting this change, the University System is providing a cost-effective option for the Wellness Center project and seeking a long-term reduction in its energy costs.

Representative Klein expressed support for the geothermal project. He said this project is a cost-effective solution to the university's energy

needs. He said the North Central Research Center in Minot has experienced a 66 percent reduction in costs due to the installation of a geothermal heating and cooling system.

It was moved by Representative Klein, seconded by Senator Wardner, and carried on a roll call vote that the Budget Section pursuant to Section 48-01.2-25 approve the Minot State University request for a change in scope of the boiler replacement project to include Phase 1 installation of a geothermal heating and cooling system for \$4.5 million from the general fund (\$2.5 million) and Department of Commerce grants (\$2 million). Senators Holmberg, Fischer, Grindberg, Kilzer, Lindaas, Mathern, Nelson, Robinson, and Wardner and Representatives Bellew, Berg, Boucher, Glassheim, Hawken, Kaldor, Kerzman, Klein, Kroeber, Metcalf, Meyer, Nelson, Onstad, and Williams voted "aye." Senator Bowman and Representatives Delzer, Dosch, Kempenich, Kreidt, Monson, Pollert, Skarphol, Svedjan, Thoreson, and Wieland voted "nay."

UNIVERSITY SYSTEM - NEW PROJECT PROPOSALS

Chairman Holmberg called on representatives of the University System to present information regarding a request for Budget Section approval of the following project pursuant to Chapter 15-10.

University of North Dakota

Ms. Alice Brekke, Vice President for Finance and Operations, University of North Dakota (UND), Grand Forks, presented a request ([Appendix O](#)) for Budget Section approval to use \$220,000 of unrestricted gift funds as local matching funds for the O'Kelly Hall renovation project pursuant to Section 15-10-12.3. She said the 2007-09 biennium appropriation for the O'Kelly Hall renovation project included a \$1.9 million general fund appropriation and required a \$220,000 special funds match to be provided by the university. She said the North Dakota Century Code requires the local match to be raised and designated for the project or that legislative or Budget Section approval be received to use funds that do not meet the requirement. She said that although these are unrestricted gift funds, because they were not designated for the project, Budget Section approval is required in order to use the unrestricted gift funds as local matching funds.

It was moved by Representative Svedjan, seconded by Senator Robinson, and carried on a roll call vote that the Budget Section pursuant to Section 15-10-12.3 approve the UND request to use \$220,000 of unrestricted gift funds as local matching funds for the O'Kelly Hall renovation project. Senators Holmberg, Bowman, Fischer, Grindberg, Kilzer, Lindaas, Mathern, Nelson, Robinson, and Wardner and Representatives Bellew, Berg, Boucher, Delzer, Dosch, Glassheim, Hawken, Kempenich, Kerzman, Klein, Kreidt, Kroeber, Metcalf, Meyer, Monson, Nelson, Onstad, Pollert, Skarphol,

Svedjan, Thoreson, Wieland, and Williams voted "aye." No negative votes were cast.

UNIVERSITY OF NORTH DAKOTA SCHOOL OF MEDICINE AND HEALTH SCIENCES BISMARCK CENTER FOR FAMILY MEDICINE - CAPITAL PROJECT UPDATE

Ms. Brekke provided an update ([Appendix P](#)) of the status of the University of North Dakota School of Medicine and Health Sciences Bismarck Center for Family Medicine capital project. Also providing information were Dr. Joshua Wynne, Medical School Dean, Vice President for Health Affairs, and Mr. Rick Tonder, Director of Campus Capital Projects and Planning, University of North Dakota, Grand Forks. Ms. Brekke said this same information was provided to the State Board of Higher Education on September 16, 2010.

Ms. Brekke said the new School of Medicine and Health Sciences residency program will be located on the corner of Seventh Street and Rosser Avenue in Bismarck. She said the School of Medicine and Health Sciences plans to lease the land on which the facility will be built from Medcenter One for 50 years for \$1. She said the proposed building design is a 30,000-square-foot facility consisting of four floors. She said Floor 1 and Floor 2 will be owned by the School of Medicine and Health Sciences and Floor 3 and Floor 4 will be constructed by a developer. All clinic functions of the School of Medicine and Health Sciences will be on the first floor, and the second floor will house support functions, office space for the residency program, and the School of Medicine and Health Sciences Southwest Campus. She said Medcenter One expressed interest in adding a third and fourth floor to the building for additional educational space. She said Medcenter One and related private parties will enter a development agreement for construction of this additional space. She said the additional work will be financed and managed separately from the UND project by a developer. With this building design, she said, Medcenter One retains ownership of the land under the new center, and the developer will own the building space above the center. She said the center plans to begin occupying the new facility during the third quarter of 2011.

In response to a question from Representative Delzer, Mr. Tonder said the land lease is with Medcenter One and is for a period of 50 years. He said at the end of the lease either additional terms to continue the lease would be negotiated or the land and improvements on the land would return to Medcenter One.

Representative Skarphol asked whether the third and fourth floors may be available to the School of Medicine and Health Sciences program if the program needs more space. Mr. Tonder said the contract negotiations between parties is still in progress. He

said the future availability of the third and fourth floors for expansion will be discussed as part of the negotiations between the parties involved.

UNIVERSITY SYSTEM - DEFINITION OF INSTITUTIONAL AND LOCAL FUNDS

Ms. Cathy McDonald, Director of Finance, North Dakota University System, presented information ([Appendix Q](#)) regarding the definition of institutional and local funds, primarily as these terms relate to capital projects presented to the Budget Section for approval. She said institutional collections are comprised of state appropriations and tuition income from credit activities. She said local funds refer to all other institutional funds, except for state appropriations, tuition income, grants and contracts, and other restricted funds such as scholarship funds. She said local funds used to support capital projects may include auxiliary revenues (housing, dining, bookstore, and parking), indirect cost-recovery from grants and contracts, certain fee income, interest income, "non-credit" tuition income, and unrestricted gifts.

In response to a question from Representative Delzer, Ms. McDonald said student fees are considered local funds.

LAND DEPARTMENT - FULL-TIME EQUIVALENT APPROVAL

Mr. Lance Gaebe, Commissioner, Land Department, presented information ([Appendix R](#)) regarding a request for Budget Section approval to add one FTE position relating to minerals management pursuant to Section 6 of 2009 Senate Bill No. 2013. He said the 2009 Legislative Assembly approved three additional FTE positions for the Land Department to manage the increasing workload related to oil and gas mineral leasing and production activity. He said one of the FTE positions is contingent upon Budget Section approval. He said the department is currently attempting to fill two of the positions--a minerals title specialist and an information technology programming specialist. The minerals title specialist position administers mineral leases, nominations, minerals under sovereign land, and resolves title discrepancies. The information technology programming specialist will maintain computer systems and databases utilized to manage mineral assets. He requested the Budget Section to approve an additional FTE position--a manager of revenue compliance. He said this position would manage lease payments to ensure timely and accurate payment of royalty and lease payments due under oil and gas leases. He provided the following oil and gas mineral leasing and production statistics describing the department's need to add this FTE position:

- There are 147 oil rigs drilling as of September 2010, 57 involve state-owned minerals that the department actively manages.
- The department collected \$295 million of lease bonuses during fiscal year 2010, approximately the amount collected during the previous 39 years combined.
- When the 2009 Legislative Assembly reviewed the Land Department budget, the department managed approximately \$874 million in trust fund financial assets. In the 18 months since then, these assets have grown by 71 percent to \$1.5 billion.
- The department currently oversees 1,200 producing wells, an increase of approximately 500 from four years ago.
- The department currently processes 3,000 royalty records a month, twice the number processed in 2006.

It was moved by Representative Klein, seconded by Representative Meyer, and carried on a roll call vote that pursuant to Section 6 of 2009 Senate Bill No. 2013 the Budget Section approve the Land Department request to add one FTE position relating to minerals management. Senators Holmberg, Bowman, Fischer, Grindberg, Kilzer, Lindaas, Mathern, Nelson, Robinson, and Wardner and Representatives Bellew, Berg, Boucher, Delzer, Dosch, Glasheim, Hawken, Kempenich, Kerzman, Klein, Kreidt, Kroeber, Metcalf, Meyer, Monson, Nelson, Onstad, Pollert, Skarphol, Svedjan, Thoreson, Wieland, and Williams voted "aye." No negative votes were cast.

REPORT ON FEDERAL FUNDS

The Legislative Council staff presented a memorandum entitled [Analysis of Federal Funds for Bienniums Ending June 30, 2011, and June 30, 2013 Excluding Federal Fiscal Stimulus Funds - American Recovery and Reinvestment Act of 2009](#) which provides information regarding federal funds estimated to be received by state agencies during the 2009-11 and 2011-13 bienniums. She said excluding federal fiscal stimulus funds, agencies estimate \$3.15 billion of federal funds will be received during the 2009-11 biennium, \$163.5 million more than appropriated. She said agencies estimate \$2.96 billion of federal funds will be received for the 2011-13 biennium, \$191.3 million less than is estimated to be received during the 2009-11 biennium. She said the estimated 2011-13 federal funds will require \$794.2 million in general fund matching funds, \$278 million more than the 2009-11 biennium.

The Legislative Council staff presented a memorandum entitled [Analysis of American Recovery and Reinvestment Act of 2009 Funds for Bienniums Ending June 30, 2011, and June 30, 2013](#). She said agencies estimate \$539.96 million of federal fiscal stimulus funds from the ARRA will be received during the 2009-11 biennium, this amount is \$122.8 million less than appropriated. She said agencies reported a total of 88 ARRA-related FTE positions. She said

agencies estimate \$108.9 million of ARRA funds will continue into the 2011-13 biennium.

The Legislative Council staff presented a memorandum entitled [Ten Largest Variances by Agency - 2009-11 Biennium - Federal Funds Appropriated and Federal Funds Estimated to Be Received Excluding Federal Fiscal Stimulus Funds - American Recovery and Reinvestment Act of 2009, and Ten Largest Variances By Agency, 2009-11 Biennium - Federal Funds Appropriated and ARRA Funds Estimated to Be Received, and Ten Largest Variances By Agency - Federal Funds Estimated to Be Received for the 2011-13 Biennium Compared to the 2009-11 Biennium Excluding Federal Fiscal Stimulus Funds - ARRA.](#) The memorandum provides information regarding the major variances experienced by agencies during the 2009-11 biennium relating to federal funds appropriated and federal funds estimated to be received and ARRA funds appropriated and ARRA funds estimated to be received by the agencies with major variances, as well as in federal funds estimated to be received for the 2011-13 biennium compared to the 2009-11 biennium.

LEGISLATIVE HEARING FOR FEDERAL BLOCK GRANTS

The Legislative Council staff distributed a memorandum entitled [Federal Block Grants - 2011 Legislative Hearings](#) which provides information regarding block grant hearings required during the 2011 legislative session. She distributed a resolution draft [13019.0100] authorizing the Budget Section to hold any legislative block grant hearings required during the 2011-13 biennium. She contacted state agencies receiving federal funds to determine which agencies receive block grants that require legislative hearings. The survey revealed only one block grant with that requirement--the community services block grant administered by the Department of Commerce Division of Community Services. A summary of the proposed use and distribution plan for the block grant will be provided by the Department of Commerce as part of the agency's appropriations hearing during the 2011 legislative session. The required public hearing will be held as part of the appropriations hearing for the Department of Commerce during the 2011 legislative session.

It was moved by Senator Grindberg, seconded by Senator Robinson, and carried on a roll call vote that the resolution draft providing Budget Section authority to hold public legislative hearings required for receipt of federal block grant funds during the period from the recess or adjournment of the 62nd Legislative Assembly through September 30, 2013, be approved and recommended to the Legislative Management. Senators Holmberg, Bowman, Fischer, Grindberg, Kilzer, Lindaas, Mathern, Nelson, Robinson, and Wardner and Representatives Bellew, Berg, Boucher, Delzer, Dosch, Glassheim, Hawken, Kempenich, Kerzman, Klein, Kreidt, Kroeber, Metcalf, Meyer,

Monson, Nelson, Onstad, Pollert, Skarphol, Svedjan, Thoreson, Wieland, and Williams voted "aye." No negative votes were cast.

2010 NORTH DAKOTA FINANCE FACTS

At the request of Chairman Holmberg, the legislative budget analyst and auditor presented the Legislative Council report entitled [2010 North Dakota Finance Facts](#)--a pocket brochure prepared pursuant to 2009 House Concurrent Resolution No. 3036. He said the publication includes information regarding economic statistics, the state budget, kindergarten through grade 12 education, higher education, human services, corrections, economic development, and transportation. He said generally information is provided for the last five years. He said the resolution requires the brochure to be published annually.

ANNUAL AUDITS OF RENAISSANCE FUND ORGANIZATIONS

Mr. Justin Dever, Manager, Office of Innovation and Entrepreneurship, Department of Commerce, presented information ([Appendix S](#)) regarding annual audits of renaissance fund organizations pursuant to Section 40-63-07(9). He said there are 49 renaissance zone cities, of which 7 have renaissance fund organizations. He said the \$2.5 million in renaissance credits approved by the 1999 Legislative Assembly have been allocated as of June 2, 2008. He said credits approved by the 2003 Legislative Assembly are in the process of being used by investors, and the \$2.5 million authorized by the 2009 Legislative Assembly has been allocated to cities with populations over 30,000. He said independent auditor's reports of the renaissance fund organizations have been submitted to the Department of Commerce.

DEPARTMENT OF COMMERCE - TECHNOLOGY-BASED ENTREPRENEURSHIP GRANT PROGRAM

Mr. Dever presented information ([Appendix T](#)) regarding the status of the technology-based entrepreneurship grant program and program expenditures pursuant to Section 13 of 2009 Senate Bill No. 2018.

Mr. Dever said the vision and goal of the technology-based entrepreneurship grant program is to grow technology-based entrepreneurship in North Dakota through providing grants in four main areas--access to capital, marketing assistance, entrepreneur infrastructure, and entrepreneurial talent. He said an entrepreneur center must be certified by the Department of Commerce as providing business incubator services, such as mentors, shared services, relationships with educational institutions, marketing assistance, accounting or financial management, training, and regulatory compliance. He said currently the certified entrepreneur centers include the UND Center for Innovation, the North Dakota State

University (NDSU) Research and Technology Park, the I.D.E.A. Center in Bismarck, the Southern Valley Innovation Center in Wahpeton, the Dickinson State University (DSU) Strom Center for Entrepreneurship and Innovation, and the Severson Entrepreneurship Academy at Minot State University.

Mr. Dever said technology-based entrepreneurship grants are awarded in four quarterly rounds. He said grant applicants submit an application detailing the project, how the funds will be expended, the expected short-term and long-term results and the metrics used for measuring the results. He said the Department of Commerce utilizes a screening committee comprised of four members of the North Dakota Economic Development Foundation to assist the department in selecting grant awardees. In the first quarterly round of funding, the Department of Commerce provided a total of \$200,000 in technology-based entrepreneurship grants. As of September 2010, the department is considering screening committee recommendations for \$290,000 for the second quarterly round. He said the department anticipates the \$1 million appropriated will be committed prior to the end of the biennium. A summary of grant awards to date is provided on the chart below:

Certified Entrepreneur Center	Funding Use	Grant Amount
NDSU Research and Technology Park	Entrepreneurship services and programs administered by its technology incubator	\$90,000
I.D.E.A. Center	Wolf Technologies to develop and execute a marketing plan for their Light Check product	10,000
DSU Strom Center for Entrepreneurship and Innovation	Business challenge program	50,000
UND Center for Innovation	Federal and state technology partnership program to match a \$100,000 Small Business Administration federal and state technology partnership program grant to be used in assisting companies in securing small business innovation research/small business technology transfer program federal grants	50,000
Total awards		\$200,000

Representative Delzer expressed concern that the technology-based entrepreneurship grant awarded to the UND Center for Innovation as a match to receive a federal grant was not awarded to an entrepreneur trying to start a business as the program was intended. Mr. Dever said by providing this match, the UND Center for Innovation may work directly with entrepreneurs to secure funding through small business innovation research/small business technology transfer program federal grants to assist in the startup of the entrepreneur's business.

DEPARTMENT OF COMMERCE - TAX-EXEMPT PROPERTY BY SCHOOL DISTRICT

Mr. Jon Schneider, Executive Director, Agricultural Products Utilization Commission, presented a report on tax-exempt property by school district ([Appendix U](#)) pursuant to Section 14 of 2009 Senate Bill No. 2018. He said the Department of Commerce completed the study by hiring two interns to conduct the study from June through mid-August 2010. He said that of 53 counties, only 6 were able to provide most of the requested data. He said counties either did not respond or could not produce the requested data due to the county's lack of consistency in collecting and reporting data on tax-exempt property. He said in order to complete the requested study, the department recommends that counties be required to consistently report information on school district code, taxpayer name, parcel number, tax class or code, acreage or square footage, the value of potential revenue lost due to exemption, and classification if property is revenue-generating.

VETERANS' HOME

Chairman Holmberg called on Mr. Russ Handegard, construction project manager, Veterans' Home, Lisbon, to present a summary report ([Appendix V](#)) regarding the status of the Veterans' Home construction project pursuant to 2009 Senate Bill No. 2007. Mr. Handegard said since his presentation to the Budget Section at its meeting in June 2010, issues that have arisen have been fairly routine in nature with one exception--the constructability of the perimeter road and parking lot. He said weak saturated soils and a disagreement over responsibility for the soil condition delayed paving the perimeter road and parking lot. He said as of September 2010, the issue is substantially resolved. He said issues relating to soil backfill failures discussed at the June 2010 Budget Section meeting are still unresolved. He said the monthly progress billings indicate the project is approximately 80 percent complete as of the end of August, and the estimated completion date is December 24, 2010. He said the project is on budget with total estimated construction costs of \$35.3 million, leaving \$269,752 remaining in contingency funds.

Mr. Handegard also reported on the status of the Veterans' Home exterior finishing construction projects pursuant to Section 4 of 2009 Senate Bill No. 2075. He said the three-stall garage has been moved to its new location, bids have been received for some of the mill and overlay work, and construction on the maintenance shop is completed, but concrete aprons have not yet been poured, electric service has not yet been installed, and streetlighting, and landscape work remains to be completed.

DEPARTMENT OF HUMAN SERVICES

Appropriation Transfers

Ms. Brenda Weisz, Chief Financial Officer, Department of Human Services, submitted a written report ([Appendix W](#)) regarding transfers between line items and between subdivisions in excess of \$50,000 pursuant to Section 7 of 2009 House Bill No. 1012. The information indicated the department has not had any transfers between line items nor between subdivisions in excess of \$50,000 as of August 2010.

DEPARTMENT OF HUMAN SERVICES

Status of Medicaid Management Information System

Ms. Jennifer Witham, Director, Information Technology Services, Department of Human Services, presented information ([Appendix X](#)) regarding the status of the Medicaid management information system project. She said the new system is expected to be operational by June 1, 2012.

Ms. Witham provided the following project funding summary:

Description	Budget	Spent Through August 2010	Remaining
General fund	\$3,643,133	\$2,651,027	\$992,106
Federal funds	55,218,418	33,079,533	22,138,885
Other funds	3,667,820	1,828,252	1,839,568
Total project	\$62,529,371	\$37,558,812	\$24,970,559

Ms. Witham said that as of September 14, 2010, there were 24,140 Medicaid claims in suspense. She said this number has continued to decline over the past several months.

In response to a question from Representative Kreidt, Ms. Witham said the majority of suspended claims are 30 days or less, but in some instances claims are suspended longer if the claim is more complicated.

In response to a question from Representative Skarphol, Ms. Witham said there is a firm fixed price for the scope of work originally contracted for. She added that the implementation of the health care data exchange under federal Regulation 5010 is outside the original scope of work, and the department is negotiating with ACS regarding the potential additional cost of this change. She said at this time, a cost-estimate is not available.

HEALTH INFORMATION TECHNOLOGY ADVISORY COMMITTEE

Mr. Sheldon Wolf, Health Information Director, Information Technology Department, presented information ([Appendix Y](#)) regarding the status of health information technology activities pursuant to 2009 Senate Bill No. 2332. He said 2009 Senate Bill No. 2332 established a health information technology planning revolving loan fund to provide low-interest loans to health care entities to assist in improving health information technology infrastructure. He said the bill also provided for a \$5 million contingency appropriation from the earnings and accumulated

undivided profits of the Bank of North Dakota to the fund. He said the contingency was met when actual general fund revenues for the period July 1, 2009, through September 30, 2009, exceeded the estimated general fund revenues for the period by at least \$22.5 million. He said when the \$5 million became available, criteria was established for loans to providers, hospitals, and multiprofessional entities.

Mr. Wolf said 14 entities applied for the loan program with loan requests of \$7.2 million and total project costs of approximately \$16.9 million. He said the Health Information Technology Advisory Committee approved 12 applications--2 clinics and 10 critical access hospitals--totaling \$5 million. He said as of September 2010, 11 of the 12 entities have completed the required readiness assessment, 5 of the 11 have completed and submitted the Bank of North Dakota loan application, and 2 have been approved by the Bank.

Mr. Wolf said in March 2010, \$5.34 million was awarded to the state in federal grants to support the state in establishing health information exchange capacity among health care providers and hospitals. He said as part of the agreement, a strategic and operational plan (www.healthit.nd.gov/strategic-and-operational-plans/) must be developed and submitted for approval to the Office of the National Coordinator for Health Information Technology by the deadline of September 27, 2010. He said it is anticipated implementation of the statewide health information exchange will begin in early 2011 once the strategic and operational plan are approved.

INFORMATION TECHNOLOGY DEPARTMENT ANNUAL REPORT

Mr. Mike Ressler, Deputy Chief Information Officer, Information Technology Department, presented the annual report ([Appendix Z](#)) of the Information Technology Department pursuant to Section 54-59-19. He said the Information Technology Department has been concentrating on customer service for the last three years, and the focus of this report is on measuring outcomes. He said based on customer surveys, the department is a trusted business partner 98.9 percent of the time and the preferred information technology provider 94.6 percent of the time. He said the Information Technology Department logged 60,835 incidents during fiscal year 2010 and 3,639 completed service requests, of which 97 percent were on budget and 92 percent were on time. He said Information Technology Department billing for fiscal year 2010 totaled \$49.6 million. He said the majority of revenue is generated from computer hosting and software development service fees. He said the Information Technology Department has focused on recruiting and retaining quality employees. He said the department turnover rate for fiscal year 2010 was 5 percent. He said the department's goal is to maintain its turnover rate at less than 6 percent. He said the majority of Information Technology

Department service rates are competitive with surrounding states.

**DEPARTMENT OF TRANSPORTATION
USE OF HIGHWAY FUNDING**

Mr. Francis Ziegler, Director, Department of Transportation, presented information ([Appendix AA](#)) regarding the anticipated use of federal, emergency, state, and other highway funding during the 2010 construction season pursuant to 2009 Senate Bill No. 2012.

Mr. Ziegler provided the following estimate of 2010 Department of Transportation highway projects:

Funding Source	Projects	Estimated Project Costs (Amounts Shown in Millions)
ARRA	Stimulus projects	\$80.00
Federal	Bid openings - May, June, and July	238.45
Emergency relief	Devils Lake Basin	71.04
	Various cities and counties	7.40
State	Preventative maintenance projects (2009 SB 2012)	40.34
Missile site roads		6.06
Estimated federal 2010 Department of Transportation construction projects		\$443.29

**TOBACCO PREVENTION
AND CONTROL COMMITTEE**

Chairman Holmberg called on Ms. Jeanne Prom, Executive Director, Center for Tobacco Prevention and Control Policy, to present information ([Appendix BB](#)) regarding the implementation of the comprehensive tobacco prevention and control plan pursuant to 2009 House Bill No. 1015. Ms. Prom said

the 2009-11 biennium appropriation for the Tobacco Prevention and Control Committee is \$12.9 million. She said through August 2010, the Tobacco Prevention and Control Committee spent \$3.5 million of its appropriation, including \$3.3 million for grants and professional fees provided to local communities to address the tobacco use problem at the local level.

Representative Skarphol suggested the Legislative Council staff prepare and distribute an analysis of funding available for the Center for Tobacco Prevention and Control Policy for the 2009-11 biennium and the anticipated future funding available for the program.

**COMMITTEE DISCUSSION
AND STAFF DIRECTIVES**

Chairman Holmberg announced the next meeting of the Budget Section will be Wednesday, December 8, 2010.

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

The meeting adjourned subject to the call of the chair at 2:25 p.m.

Sara E. Chamberlin
Fiscal Analyst

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:28