

## NORTH DAKOTA LEGISLATIVE MANAGEMENT

## Minutes of the

**BUDGET SECTION**

Wednesday, December 7, 2016  
Senate Chamber, State Capitol  
Bismarck, North Dakota

Senator Gary A. Lee, Chairman, called the meeting to order at 11:00 a.m.

**Members present:** Senators Gary A. Lee, Bill L. Bowman, Dick Dever, Robert Erbele, Joan Heckaman, David Hogue, Ray Holmberg, Ralph Kilzer, Jerry Klein, Karen K. Krebsbach, Tim Mathern, Dave Oehlke, Larry J. Robinson, Ronald Sorvaag, Terry M. Wanzek, Rich Wardner; Representatives Tracy Boe, Randy Boehning, Roger Brabandt, Mike Brandenburg, Al Carlson, Lois Delmore, Jeff Delzer, Kathy Hogan, Richard G. Holman, Tom Kading, Keith Kempenich, Gary Kreidt, Bob Martinson, Lisa Meier, Corey Mock, David Monson, Mike Nathe, Jon O. Nelson, Chet Pollert, Mark Sanford, Mike Schatz, Roscoe Streyle, Don Vigasaa

**Members absent:** Senator John Grabinger, Representatives Larry Bellew and Jim Schmidt

**Others present:** See [Appendix A](#) for additional persons present.

**It was moved by Senator Robinson, seconded by Senator Mathern, and carried on a voice vote that the minutes of the September 29, 2016, meeting be approved as distributed.**

**AGENCY REQUESTS APPROVED BY THE EMERGENCY COMMISSION**

Chairman Lee directed the Budget Section to consider agency requests ([Appendix B](#)), which have been authorized by the Emergency Commission and forwarded to the Budget Section pursuant to North Dakota Century Code Chapter 54-16. Ms. Sheila Peterson, Director, Fiscal Management Division, Office of Management and Budget, provided information regarding the following requests that have been authorized by the Emergency Commission and require consideration by the Budget Section:

- **Parks and Recreation Department (Request #1890)** - Request is to increase special funds spending authority by \$284,300 to accept passthrough funds from the Department of Emergency Services for expenses relating to the Dakota Access Pipeline protest. Of the total, \$200,000 is in the natural resources line item and \$84,300 is in the recreation line item.
- **State Department of Health (Request #1891)** - Request is to increase special funds spending authority by \$1,936,800 to accept passthrough funds from the Department of Emergency Services for salaries and wages (\$741,630) and operating expenses (\$1,195,170) for medical and food services provided by the State Department of Health to law enforcement and first responders relating to the Dakota Access Pipeline protest.
- **Department of Transportation (Request #1892)** - Request is to increase special funds spending authority by \$162,350 to accept passthrough funds from the Department of Emergency Services for salaries and wages (\$132,325) and operating expenses (\$30,025) for costs related to the unlawful activity associated with the construction of the Dakota Access Pipeline for damages to a bridge, roadways, guardrails, etc.
- **Department of Corrections and Rehabilitation (Request #1893)** - Request is to increase special funds spending authority by \$297,300 to accept passthrough funds from the Department of Emergency Services in the adult services line item for overtime, employee travel, and professional supplies expenses associated with law enforcement costs relating to the protest of the construction of the Dakota Access Pipeline.
- **Highway Patrol (Request #1894)** - Request is to increase special funds spending authority by \$2,267,000 in the field operations line item to accept passthrough funds from the Department of Emergency Services. The funds are for additional law enforcement costs relating to the protest of the construction of the Dakota Access Pipeline.
- **Game and Fish Department (Request #1895)** - Request is to increase special funds spending authority by \$200,500 to accept passthrough funds from the Department of Emergency Services for salaries and wages (\$109,400) and operating expenses (\$91,100) for costs related to the unlawful activity associated with the construction of the Dakota Access Pipeline for overtime hours, pilot hours, travel/per diem/lodging, professional supplies, and for hourly rate for use of aircraft, boats, and utility task vehicles.

- **Office of Management and Budget (Request #1896)** - Request is to increase special funds spending authority by \$1.5 million from the unemployment fund for the salaries and wages line item to reimburse Job Service North Dakota for unemployment claims paid to eligible recipients who were previously employed by the state.

In response to a question from Chairman Lee, Ms. Peterson said the law enforcement agencies from outside of the state assisting with the Dakota Access Pipeline protest are paid under a mutual state aid agreement which is being paid by the Adjutant General from loan proceeds. She said Morton County's expenses are not included in the expenses paid under the mutual state aid agreement and will need to be addressed during the 2017 legislative session.

In response to a question from Representative Delzer, Ms. Peterson said amounts paid from the unemployment fund are only for approved claims. She said there is a statewide cost allocation plan that the federal government reviews because of federal funding it receives. She said claims of \$911,000 have been paid as of September 30, 2016, and it is estimated that \$1.5 million in claims will be paid through June 30, 2017.

**It was moved by Senator Wardner, seconded by Senator Klein, and carried on a roll call vote that the Budget Section approve the following requests, which have been approved by the Emergency Commission:**

- **Parks and Recreation Department (Request #1890)** - Request is to increase special funds spending authority by \$284,300 to accept passthrough funds from the Department of Emergency Services for expenses relating to the Dakota Access Pipeline protest. Of the total, \$200,000 is in the natural resources line item and \$84,300 is in the recreation line item.
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Senators Lee, Bowman, Dever, Erbele, Heckaman, Hogue, Holmberg, Kilzer, Klein, Krebsbach, Mathern, Oehlke, Robinson, Sorvaag, Wanzek, and Wardner and Representatives Boe, Boehning, Brabandt, Brandenburg, Carlson, Delmore, Delzer, Hogan, Holman, Kading, Kempenich, Kreidt, Martinson, Meier, Mock, Monson, Nathe, Nelson, Pollert, Sanford, Schatz, Streyle, and Vigesaa voted "aye." No negative votes were cast.

### Executive Budget General Fund Revenue Forecast

Ms. Pam Sharp, Director, Office of Management and Budget, presented information ([Appendix C](#)) on the executive revenue forecast for the 2015-17 and 2017-19 bienniums:

	2015-17 Biennium Revised Forecast	2017-19 Biennium Executive Forecast	Change From 2017-19 Revised Forecast
Sales and use tax	\$1,809,642,574	\$1,941,225,000	\$131,582,426
Motor vehicle excise tax	207,215,785	215,752,000	8,536,215
Individual income tax	692,124,749	712,631,000	20,506,251
Corporate income tax	165,963,800	121,756,000	(44,207,800)
Insurance premium tax	106,816,251	128,000,000	21,183,749
Financial institutions tax	1,294,077	0	(1,294,077)
Oil and gas production gross tax	102,881,583	513,014,882	410,133,299
Oil extraction tax	197,118,417	486,985,118	289,866,701
Gaming	6,924,614	7,301,480	376,866
Lottery	17,210,000	15,000,000	(2,210,000)
Cigarette and tobacco tax	57,082,715	54,086,000	(2,996,715)
Wholesale liquor tax	18,441,988	19,438,000	996,012
Coal conversion tax	42,725,976	39,709,000	(3,016,976)
Mineral leasing fees	25,615,092	30,500,000	4,884,908
Departmental collections	80,642,925	79,731,684	(911,241)
Interest	18,017,491	16,000,000	(2,017,491)
<b>Total revenues before transfers</b>	<b>\$3,549,718,037</b>	<b>\$4,381,130,164</b>	<b>\$831,412,127</b>
Transfers - Ongoing			
Bank of North Dakota	\$100,000,000	\$200,000,000	\$100,000,000
Legacy fund	0	160,000,000	160,000,000
Tobacco settlement funds	0	18,000,000	18,000,000
State Mill profits	8,834,894	22,279,924	13,445,030
Gas tax administration	2,033,800	2,016,120	(17,680)
<b>Total ongoing transfers</b>	<b>\$110,868,694</b>	<b>\$402,296,044</b>	<b>\$291,427,350</b>
Transfers - One-time			
Tax relief fund	\$657,000,000	\$0	(\$657,000,000)
Strategic investment and improvements fund	30,000,000	30,000,000	0
Budget stabilization fund	572,485,453	0	(572,485,453)
Miscellaneous transfers	75,906	0	(75,906)
<b>Total one-time transfers</b>	<b>\$1,259,561,359</b>	<b>\$30,000,000</b>	<b>(\$1,229,561,359)</b>
<b>Total revenues and transfers</b>	<b>\$4,920,148,090</b>	<b>\$4,813,426,208</b>	<b>(\$106,721,882)</b>

In response to a question from Representative Carlson, Ms. Sharp said currently the Mill and Elevator Association is required to transfer 50 percent of its profits to the general fund. She said the executive budget is proposing to increase the transfer to 90 percent of the Mill and Elevator Association's profits to the general fund.

In response to a question from Senator Wardner, Ms. Sharp said the Mill and Elevator Association has been reinvesting its profits for improvements to the mill and elevator along with other capital improvements.

In response to a question from Representative Nelson, Ms. Sharp said the transfer from the tobacco settlement trust fund to the general fund will require legislative action and the executive budget recommendation includes proposed statutory changes to allow the transfer from the tobacco settlement trust fund to the general fund.

In response to a question from Representative Nelson, Ms. Sharp said \$4 million will be provided to local public health units for tobacco prevention programs.

### Executive Budget Oil Revenues Forecast

Ms. Sharp presented information ([Appendix D](#)) providing the estimated oil tax revenue and revenue allocations for the revised 2015-17 biennium forecast and the 2017-19 biennium forecast as shown on the schedule below.

	2015-17 Biennium Revised Forecast	2017-19 Biennium Executive Forecast	Change From 2015-17 Revised Forecast
Counties and cities	\$534,126,827	\$532,623,532	(\$1,503,295)
Tribal allocations	207,884,334	221,746,128	13,861,794
Legacy fund	817,429,021	949,187,217	131,758,196
Foundation aid stabilization fund	123,323,690	145,424,692	22,101,002
Common schools trust fund	123,323,690	145,424,692	22,101,002
Resources trust fund	242,458,158	286,649,384	44,191,226

	2015-17 Biennium Revised Forecast	2017-19 Biennium Executive Forecast	Change From 2015-17 Revised Forecast
Renewable energy development fund	3,000,000	3,000,000	0
Energy conservation fund	1,189,224	1,200,000	10,776
Research fund	10,000,000	10,000,000	0
Oil and gas impact grant fund	77,284,434	0	(77,284,434)
North Dakota outdoor heritage fund	19,886,685	10,000,000	(9,886,685)
Well plugging and site reclamation fund	10,268,449	10,000,000	(268,449)
General fund	300,000,000	1,000,000,000	700,000,000
Tax relief fund	300,000,000	0	(300,000,000)
State disaster relief fund	12,959,303	0	(12,959,303)
Political subdivision allocation fund	14,854,178	0	(14,854,178)
Strategic investment and improvements fund	134,660,279	70,447,874	(64,212,405)
Total oil and gas taxes	\$2,932,648,272	\$3,385,703,519	\$453,055,247

Representative Carlson expressed concern regarding the transfers from the strategic investment and improvements fund to the general fund since it does not comply with the intended use of the strategic investment and improvements fund.

In response to a question from Representative Carlson, Ms. Sharp said the \$1 billion of oil tax revenues allocated to the general fund includes the original \$300 million allocation to the general fund, \$300 million redirected from the tax relief fund, \$140 million redirected from the oil and gas impact grant fund, \$10 million redirected from the North Dakota outdoor heritage fund, and the remaining \$250 million redirected from the strategic investment and improvements fund.

### ECONOMIC OUTLOOK FOR NORTH DAKOTA

Mr. Dan White, Senior Economist, Moody's Analytics, Inc., testified regarding the economic outlook of the state, including oil prices and agricultural commodity prices; projections for the value of the dollar and its effects on the state's economy; and the economic assumptions included in the executive budget revenue forecast for the 2017-19 biennium. He said Moody's has learned that the past is not a good predictor for revenue forecasting for North Dakota and the forecasting model needs to be adjusted for each forecast. He said there have been adjustments to the forecast assumptions and equations to improve the accuracy of the revenue forecast. He said the 2017-19 biennium revenue forecast assumes rig counts will increase from 30 to 50 and the Revenue Advisory Committee adjusted the rig count to 55 by the end of fiscal year 2019. He said North Dakota is recovering from its economic downturn at a higher economic baseline because of recent economic activity.

Mr. White said 30 to 40 states have overestimated sales tax forecasts, overall price of consumer goods is not as high as expected, and wage rates have been lower than previous expansions in the national economy. He said this has created a unique environment for consumer prices as durable goods and retail goods are experiencing deflation and building materials, such as lumber have decreased approximately 12 percent from the previous year. He said since sales tax is based on a percentage, the lower cost of goods has resulted in reduced sales tax revenue.

Mr. White said nationally there is slack in the labor market and inflation is expected to be higher over the next few years. He said the national economy is expected to grow until 2018 at which time the expectation is that the economy will slow and a recession is anticipated in 2020 or 2021. He said the greatest risk to North Dakota's economy is the value of the dollar, because as the value of the dollar increases the state's agriculture and oil and gas economy is negatively impacted and as the value of the dollar value decreases the state's agriculture and oil and gas economy is positively impacted.

In response to a question from Representative Brandenburg, Mr. White said the assumptions used for the price of commodities within the agriculture economy have been declining.

In response to a question from Senator Mathern, Mr. White said the economy of the Fargo metro area has not declined because it has a very diverse economy. He said the Bismarck metro area did not enter a recession for the same reason.

In response to a question from Representative Nathe, Mr. White said components of gross domestic product are factors in the revenue forecast but not gross domestic product as a whole. He said industries such as the unmanned aerial vehicle industry are factored into the overall forecast through the income factors of the forecast.

In response to a question from Senator Dever, Mr. White said the forecast is developed with industry input to include the effect of changes in industry, which helps improve the accuracy of the forecast. He said these factors

are one reason the forecast model needs to be redesigned each time. He said it has become cheaper to drill wells, which directly impacts sales tax revenues. He said the oil industry is working on input costs in order to be profitable at \$50 to \$55 per barrel of oil.

### ECONOMIC INDICATORS

Ms. Sharp, presented information ([Appendix E](#)) on key economic indicators, including consumer prices, money markets, personal income, commodity prices, unemployment, employment growth, personal income, energy prices and production, and interest rates.

### STATUS OF THE 2015-17 BIENNIUM GENERAL FUND

Ms. Sharp presented information ([Appendix F](#)) on the status of the general fund for the 2015-17 biennium, including the following schedule on the status of the general fund as of October 31, 2016:

Unobligated general fund balance - July 1, 2015		\$729,529,389
Balance obligated for authorized carryover from the 2013-15 biennium		147,653,143
Total beginning general fund balance - July 1, 2015		\$877,182,532
Add		
General fund collections through August 2016	\$3,043,049,085	
Forecasted general fund revenue for the remainder of the 2015-17 biennium	1,174,613,552	
Total revenues		4,217,662,637
Total available		\$5,094,845,169
Expenditures		
Legislative appropriations - One-time	(\$1,173,663,758)	
Legislative appropriations - Ongoing	(4,852,498,920)	
4.05% budget allotment (executive branch only)	239,120,391	
4.05% budget allotment (legislative branch and Supreme Court)	5,749,197	
2.50% allotment all branches	151,154,067	
Restore Department of Human Services and Department of Corrections and Rehabilitation	(36,535,880)	
Department of Transportation contingent appropriation	(20,000,000)	
Authorized carryover from the 2013-15 biennium	(147,653,143)	
2015-17 emergency appropriations utilized in the 2013-15 biennium	9,858,196	
Total appropriations		(5,824,469,850)
Estimated ending balance before transfer from budget stabilization fund		(\$729,624,681)
Transfer from budget stabilization fund		572,485,453
Known turnback:		
Adjutant General - Firefighter training center	400,000	
Industrial Commission - Litigation fees	2,174,000	
PowerSchool	1,000,000	
Department of Public Instruction - State school aid	33,000,000	
Office of Management and Budget	1,546,000	
Total turnback		38,120,000
Estimated ending balance - June 30, 2017 - Before additional transfer from other fund sources		(\$119,019,228)
Transfer from Bank of North Dakota		100,000,000
Transfer from the strategic investment and improvements fund		30,000,000
Estimated ending general fund balance - June 30, 2017 - After transfer from budget stabilization fund		\$10,980,772

In response to a question from Representative Brandenburg, Ms. Sharp said the Industrial Commission will turnback funding related to litigation fees, but the agency has funding budgeted for litigation fees for the 2017-19 biennium.

Ms. Sharp said the Legislative Assembly authorized the transfer of the \$572 million balance in the budget stabilization fund as well as a contingent transfer of \$100 million from the Bank of North Dakota. She said the executive budget recommendation includes a \$30 million transfer from the strategic investment and improvements fund to the general fund to occur prior to June 30, 2017.

### Ongoing Revenues and Ongoing Appropriations

Ms. Sharp presented information ([Appendix G](#)) regarding ongoing revenues and ongoing appropriations. She said 2017-19 biennium estimated ongoing general fund revenues of \$4,783.4 million exceed recommended ongoing general fund appropriations of \$4,780.7 million by \$2.7 million.

### Executive Recommendation of Proposed Statutory Changes Affecting Revenues

Ms. Sharp presented information ([Appendix H](#)) regarding statutory changes that have been proposed in the executive budget to meet revenue requirements for the 2017-19 biennium executive budget recommendation.

### Executive Recommendation of Proposed Spending From the Strategic Investment and Improvements Fund

Ms. Sharp presented information ([Appendix I](#)) regarding the executive budget recommendation for expenditures or transfers from the strategic investment and improvements fund for the 2017-19 biennium and deficiency requests recommended to be funded from the strategic investment and improvements fund for the 2015-17 biennium.

### Special Fund Balances

Ms. Sharp presented information ([Appendix J](#)) regarding the estimated June 30, 2017, special fund balances, which include \$0 in the budget stabilization fund reflecting a \$572.5 million transfer to the general fund, \$252.3 million in the foundation aid stabilization fund reflecting a \$116.1 million transfer to the state school aid program and \$400 million to the school construction loan fund (\$200 million) and scholarship endowment fund (\$200 million) during the 2015-17 biennium, \$313.7 million in the strategic investment and improvements fund, \$4,236.5 million in the legacy fund, \$300 million in the tax relief fund, and \$56.3 million in the tobacco prevention and control trust fund.

### IRREGULARITIES IN THE FISCAL PRACTICES OF THE STATE

Pursuant to North Dakota Century Code Section 54-14-03.1, Ms. Sharp presented information ([Appendix K](#)) on irregularities in the fiscal practices of the state. She presented the following fiscal irregularities for the period August 2016 through October 2016:

Agency	Fiscal Irregularity	Amount
Public Service Commission	Severance pay because of a reorganization due to budget allotment	\$18,148
Public Service Commission	Severance pay because of a reorganization due to budget allotment	\$11,268

### STATE AGENCY APPLICATIONS FOR FEDERAL GRANTS

Ms. Sharp presented information ([Appendix L](#)) on state agencies that applied for federal grants estimated to be \$25,000 or more pursuant to Section 54-27-27. She said for the period October 2016 through December 7, 2016, the following agencies have applied for a federal grant estimated to be \$25,000 or more:

Agency	Time Period of Grant	Amount
Game and Fish Department	September 2016 through September 2018	\$300,000

### SPECIFIC EXEMPT COMMODITIES AND SERVICES

Ms. Sharp reported regarding specified commodities and services exempted from the procurement requirements of Section 54-44.4-02.2. She said no changes have occurred regarding commodity exemptions.

### EXECUTIVE BUDGET RECOMMENDATIONS

Ms. Peterson presented information regarding the 2017-19 executive budget. She said all general fund agencies were required to present 90 percent general fund budgets based on the original 2015-17 biennium appropriation, with the exception of the following four agencies--Commission on Legal Counsel of Indigents, Department of Corrections and Rehabilitation, Department of Human Services, and Highway Patrol, which have provided budgets less than the original 2015-17 biennium appropriations. She said the executive budget recommendation reduces full-time equivalent (FTE) positions by 315 at higher education institutions (general funded FTE positions only) and 268 at other state agencies for a total reduction of 583 FTE positions. She said the schedule of FTE positions in the executive budget recommendation reflects an increase of 4,100 FTE positions because of a change in reporting requirements for the North Dakota University System.

In response to a question from Senator Mathern, Ms. Peterson said the county employees will remain employees of each county and will not transfer to the state even though the executive budget recommendation provides for the state to pay county social services costs.

In response to a question from Senator Bowman, Ms. Peterson said some of the FTE positions being reduced are currently filled.

She said the recommended state employee compensation package provides for a 1 percent salary increase effective July 1, 2018, and continues state-paid health insurance premiums which are expected to increase by \$119.25 per month per employee, which is a 10.55 percent increase from the 2015-17 biennium. She said the proposed health insurance plan design does increase deductibles, co-insurance maximums, and co-pays that employees must pay.

In response to a question from Representative Carlson, Ms. Peterson said approximately 50 percent of the insurance reserve was used to reduce the annual premium increase.

Ms. Peterson said the executive budget recommendation includes 11 capital projects, none of which are paid from the general fund. She said the executive budget recommendation does not recommend bonding for any capital projects for the 2017-19 biennium and there are 8 years remaining on existing bonds. She said based on current state statutes, the state could bond for \$243 million which could be used for capital projects. She said there are 11 large information technology projects recommended, none of which are paid from the general fund.

Ms. Becky Deichert, Budget Analyst, Office of Management and Budget, presented information on the executive budget recommendation for the Department of Public Instruction and agriculture research. She said the recommendation for the Department of Public Instruction includes a \$2.3 billion budget. She said approximately \$2 billion is for state student aid and includes a 1 percent increase to state student aid integrated formula payments for the 2<sup>nd</sup> year of the 2017-19 biennium. She said the per student payment will remain at \$9,672 for 2018 and increase to \$9,742 per student in 2019. She said the recommendation also includes a \$2 million increase for special education and a reduction of \$5.7 million for transportation aid. She said the agency is eliminating 2 vacant FTE positions.

Ms. Deichert said the recommendation for the Main Research Center is \$110.5 million and eliminates 25 FTE positions. She said the recommendation for the branch research centers is \$38.1 million and eliminates 10 FTE positions. She said the recommendation for the North Dakota State University Extension Service is \$53.6 million and eliminates 13 FTE positions.

Representative Carlson suggested the appropriations committees introduce base level appropriation bills for consideration during the 2017 legislative session.

In response to a question from Senator Mathern, Representative Carlson said the first column on each agency bill will reflect the 2015-17 biennium appropriation adjusted by the August 2016 special legislative session general fund budget reductions, the middle column will show the change and the last column will reflect what is ultimately approved by the 2017 Legislative Assembly for the 2017-19 biennium.

In response to a question from Senator Mathern, Mr. Allen Knudson, Legislative Budget Analyst and Auditor, Legislative Council, said the Office of Management and Budget's executive budget book will reflect the original 2015-17 biennium appropriation, the appropriation bill will reflect the adjusted amounts reflecting special legislative session general fund budget reductions, and the green sheets or agency summaries will provide a reconciliation of the original 2015-17 biennium appropriation to the 2017-19 biennium base level appropriation.

**It was moved by Representative Carlson, seconded by Representative Streyle, and carried on a roll call vote that the Budget Section recommend that the House and Senate Appropriations Committees, pursuant to House and Senate Rule 401, introduce agency budget bills reflecting base level funding amounts as the appropriation and that the bills be the first bills introduced in each chamber.** Senators Lee, Bowman, Dever, Erbele, Heckaman, Hogue, Kilzer, Klein, Krebsbach, Mathern, Oehlke, Robinson, Sorvaag, Wanzek, and Wardner and Representatives Boe, Boehning, Brabandt, Brandenburg, Carlson, Delmore, Delzer, Hogan, Holman, Kading, Kempenich, Kreidt, Meier, Mock, Monson, Nathe, Nelson, Pollert, Schatz, Streyle, and Vigesiaa voted "aye." No negative votes were cast.

Ms. Stephanie Gullickson, Budget Analyst, Office of Management and Budget, presented information on the executive budget recommendation for the University System. She said the University System office includes a recommendation of \$102 million from the general fund which is a \$15 million decrease in ongoing funding from the 2015-17 biennium. She said scholarships and grants have been adjusted to a level comparable to the 2013-15 biennium. She said the higher education campuses include a \$71 million decrease from the general fund for ongoing funding and the proposed formula payments to campuses total \$543.4 million.

Ms. Lori Laschkewitsch, Budget Analyst, Office of Management and Budget, presented information on the executive budget recommendation for the State Department of Health and Department of Human Services. She said the recommendation for the State Department of Health includes a change in funding source for \$1 million of local public health unit funding from the general fund to funding from the tobacco prevention and control trust fund along with additional funding of \$3 million for local public health unit tobacco programs. She said \$3.2 million of programs pertaining to cancer, stroke, and cardiac prevention, along with health and loan repayment programs previously paid from the general fund are recommended to be from the tobacco prevention and control trust fund. She said the recommendation includes an increase of 17 FTE positions and \$17 million dollars of which \$2 million is from the general fund and the remaining from licensing fees related to the new medical marijuana initiated

measure which passed in November 2016.

Ms. Laschkewitsch said the recommendation for the Department of Human Services provides for \$275 million of property tax relief by transferring the cost of county social service programs funded through property tax levies to the general fund. She said the recommendation includes \$40.8 million of federal fund, authority to continue building the health information network care coordination system. She said the recommendation includes a 5 percent long-term care provider assessment which is expected to generate \$42.7 million, which will be used for long-term care and home-and community-based service programs. She said the recommendation includes \$22.5 million from the general fund to continue a Medicaid Expansion program and the recommendation includes \$15 million from the tobacco prevention and control trust fund for Medicaid costs and caseloads.

In response to a question from Senator Mathern, Ms. Laschkewitsch said the \$275 million in funding from the general fund for the county social service programs will be deposited into a social services finance fund, and the costs to the counties will be paid from this fund on a continuing basis.

In response to a question from Senator Wardner, Ms. Laschkewitsch said included in the executive budget recommendation for the \$275 million from the general fund for the counties share of the county social service programs are statutory changes which repeal the counties authority to levy property taxes for those programs.

In response to a question from Representative Kempenich, Representative Hogan said all of the county social service positions are classified through the state system which establishes the rates for each position. She said county social service programs are established in administrative rule or law. She said the state establishes the standards.

Ms. Becky Keller, Budget Analyst, Office of Management and Budget, presented information on the executive budget recommendation for the Department of Corrections and Rehabilitation. She said the recommendation for the department is \$254.1 million, which includes \$215.8 million from the general fund. She said the recommendation includes 10 new security positions for the Youth Corrections Center to meet federal staffing requirements.

Ms. Keller said the recommendation for the Department of Commerce is \$95.8 million, which includes \$32.5 million from the general fund, the elimination of 3 FTE positions, and \$3 million in one-time funding from the strategic investment and improvements fund for grants for an unmanned aircraft system (\$2 million) and base realignment grants (\$1 million).

Ms. Keller said the recommendation for the State Water Commission is \$725 million, and includes \$280 million for new water projects.

Ms. Keller said the recommendation for the Department of Transportation is \$1.3 billion and includes \$768.2 million for road and bridge projects throughout the state.

### **LEGACY AND BUDGET STABILIZATION FUND ADVISORY BOARD REPORT**

Representative Kempenich, Chairman, Legacy and Budget Stabilization Fund Advisory Board, presented a memorandum entitled [Legacy and Budget Stabilization Fund Advisory Board - Status Report to the Budget Section December 7, 2016](#) regarding the investment of the legacy fund and budget stabilization fund pursuant to Section 21-10-11. He said \$375 million has been transferred from the budget stabilization fund to the general fund leaving a balance of \$203.6 million, which will be transferred to the general fund by the end of the 2015-17 biennium. He said the market value of the legacy fund on September 30, 2016, was estimated to total \$4.07 billion. He said the fees to manage the fund cost approximately \$12 million annually. He said the Bank of North Dakota has a loan match program and up to \$200 million of the legacy fund may be invested in that program.

### **NORTH DAKOTA AGRICULTURAL EXPERIMENT STATION - ANNUAL FULL-TIME EQUIVALENT POSITION REPORT**

Dr. Kenneth F. Grafton, Director, North Dakota Agricultural Experiment Station, provided written testimony ([Appendix M](#)), which was presented by Mr. Mike Beltz, Chairman, State Board of Agricultural Research and Education, regarding FTE position adjustments made at the North Dakota Agricultural Experiment Station Main Research Center and branch research centers pursuant to Section 4-05.1-05. He said the Main Research Center added 1.45 FTE positions between December 1, 2015, and November 30, 2016, for a total of 361.60 FTE positions as of November 30, 2016. He said the branch research centers added 3.00 FTE positions between December 1, 2015, and November 30, 2016, for a total of 118.69 FTE positions as of November 30, 2016. He said the Agronomy Seed Farm did not change any FTE positions.

### **NORTH DAKOTA STATE UNIVERSITY EXTENSION SERVICE - ANNUAL FULL-TIME EQUIVALENT POSITION REPORT**

Mr. Chris Boerboom, Director, North Dakota State University Extension Service, provided written testimony ([Appendix N](#)), which was presented by Mr. Beltz, regarding FTE position adjustments made at the Extension Service pursuant to Section 4-08-10. He said the Extension Service added 1.41 FTE positions between July 1, 2014, and June 30, 2015, reduced (.45) FTE positions between July 1, 2015, and June 30, 2016, and added 1.00 FTE positions since June 30, 2016, for a total of 265.87 FTE positions as of November 30, 2016.

### **NORTHERN CROPS INSTITUTE - ANNUAL FULL-TIME EQUIVALENT POSITION REPORT**

Mr. Mark Weber, Director, Northern Crops Institute, presented information ([Appendix O](#)), regarding FTE position adjustments made at the Northern Crops Institute pursuant to Section 4-05.1-05. He said the Northern Crops Institute has had 12 FTE positions for the past 2 bienniums with no adjustments.

### **UPPER GREAT PLAINS TRANSPORTATION INSTITUTE - ANNUAL FULL-TIME EQUIVALENT POSITION REPORT**

Mr. Tim Horner, Program Director, Upper Great Plains Transportation Institute, provided information ([Appendix P](#)), which was presented by Ms. Tammy Dolan, University System, regarding FTE position adjustments made for the Upper Great Plains Transportation Institute pursuant to Section 15 of 2015 House Bill No. 1020. She said the Upper Great Plains Transportation Institute added .50 FTE positions between July 1, 2014, and June 30, 2015, 2.00 FTE positions between July 1, 2015, and June 30, 2016, and removed 1.00 FTE position since June 30, 2016, for a total of 56.48 FTE positions as of November 30, 2016.

### **DEPARTMENT OF COMMERCE CENTERS OF EXCELLENCE AND CENTERS OF RESEARCH EXCELLENCE**

Mr. Christopher Kalash, Commercialization Manager, Office of Innovation and Entrepreneurship, Department of Commerce, provided information ([Appendix Q](#)) regarding the annual audits of centers of excellence recipient's awarded funds pursuant to Section 15-69-05 and the centers of research excellence recipient's awarded funds pursuant to Section 54-65-03. He said \$60 million of state centers of excellence funds has leveraged over \$220 million in nonstate funds to generate economic impact in the state. He said each centers of excellence award is monitored for a period of 6 to 10 years. He said centers are reviewed after a period of at least 3 full fiscal years. He said the review includes determining whether the centers are having the desired economic benefits.

### **HOUSING FINANCE AGENCY - HOUSING INCENTIVE FUND UPDATE**

Ms. Jolene Kline, Executive Director, Housing Finance Agency, presented information ([Appendix R](#)) on progress being made to address the housing needs of essential service workers in the oil-impacted areas of the state. She said through December 7, 2016, the number of housing units owned by political subdivisions decreased by 8, master leased units decreased by 108, and an additional 47 rent subsidies are being provided compared to the report on September 29, 2016.

### **HUB CITIES - USE OF OIL AND GAS GROSS PRODUCTION TAX FUNDING**

At the request of Chairman Lee, the Legislative Council staff distributed written reports ([Appendix S](#)) from the hub cities of Williston, Dickinson, Minot, Mandan, Bismarck, West Fargo, Jamestown, Fargo, and Grand Forks regarding use of funding received from hub city allocations from the oil and gas gross production tax under Section 57-51-15.

### **COMMITTEE DISCUSSION AND STAFF DIRECTIVES**

No further business appearing, Chairman Lee adjourned the meeting at 4:00 p.m.

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Allen H. Knudson  
Legislative Budget Analyst and Auditor

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Chris Kadmas  
Fiscal Analyst

ATTACH:19