

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

GOVERNMENT FINANCE COMMITTEE

Wednesday, August 2, 2017
Harvest Room, State Capitol
Bismarck, North Dakota

Senator Ronald Sorvaag, Chairman, called the meeting to order at 10:00 a.m.

Members present: Senators Ronald Sorvaag, Jordan Kannianen, Gary A. Lee, Terry M. Wanzek; Representatives Joshua A. Boschee, Jeff Delzer, Ron Guggisberg, Craig Headland, Corey Mock, Mike Nathe, Gary Paur, Brandy Pyle, Shannon M. Roers Jones, Mike Schatz, Don Vigesaa

Members absent: Senators John Grabinger, Lonnie J. Laffen; Representative Rick C. Becker

Others present: Senators Ray Holmberg, Grand Forks, and Donald Schaible, Mott, Representative Jim Schmidt, Huff, members of the Legislative Management

See [Appendix A](#) for addition persons present.

The Legislative Council staff reviewed the [Supplementary Rules of Operation and Procedure of the North Dakota Legislative Management](#) for the 2017-18 interim and reviewed the [State Budget Actions for the 2017-19 Biennium](#) report. The report identifies agency and overall appropriations, revenue projections used during the 2017 legislative session, and other historical information affecting the state budget.

STATE BUDGET INFORMATION

Ms. Pam Sharp, Director, Office of Management and Budget, presented information ([Appendix B](#)) regarding the status of the general fund and other state budget information. She presented the following information on the preliminary final status of the general fund for the 2015-17 biennium.

Unobligated general fund balance - July 1, 2015		\$729,529,389
Add		
Total general fund revenue for the 2015-17 biennium		4,121,719,959
Balance obligated for authorized carryover from the 2015-17 biennium		147,653,143
Total estimated available		\$4,998,902,491
Less		
2015-17 biennium general fund ongoing appropriations	(\$1,173,663,758)	
2015-17 biennium general fund one-time appropriations	(4,852,498,920)	
Contingent appropriations	(20,000,000)	
Allotment (4.05 percent)	244,869,589	
Allotment (2.50 percent)	151,154,067	
Restore Department of Human Services and Department of Corrections and Rehabilitation allotted appropriations	(36,535,880)	
Balance obligated for authorized carryover from the 2013-15 biennium	(147,653,143)	
Emergency appropriations authorized by the 2015 Legislative Assembly	9,858,196	
2017 legislative adjustments to 2015-17 appropriations	4,389,990	
Estimated unexpended general fund appropriations	82,000,000	
Total appropriations and adjustments		(\$5,738,079,859)
Estimated ending balance before transfer from budget stabilization fund		(\$739,177,368)
Transfer from budget stabilization fund		572,485,454
Estimated ending balance - June 30, 2017 - Before additional transfers		(\$166,691,914)
Transfer from Bank of North Dakota		100,000,000
Transfer from strategic investment and improvements fund		155,000,000
Transfer to budget stabilization fund		(23,308,086)
Estimated general fund balance - June 30, 2017		\$65,000,000

Ms. Sharp said the estimated unexpended general fund appropriations will be more than the amount expected at the end of the 2017 legislative session. She said the increase is primarily due to the Department of Human Services (DHS) having unspent general fund appropriations of \$25 million to \$28 million as a result of salary savings from unfilled positions and \$15 million in unanticipated drug rebates received during the 2015-17 biennium.

In response to a question from Representative Boschee, Ms. Sharp said DHS does consider drug rebates in developing its budget, but due to some unusual events, the rebates were larger than anticipated.

In response to a question from Representative Delzer, Ms. Sharp said preliminary indications are that July 2017 sales and use tax collections will be similar to estimates included in the 2017 legislative forecast.

In response to a question from Senator Wanzek, Ms. Sharp said it does not appear that revenue collections have been affected due to the drought, but she anticipates there will be a negative impact in sales and use tax, motor vehicle excise tax, and individual income tax.

In response to a question from Chairman Sorvaag, Mr. Ryan Rauschenberger, Tax Commissioner, said the Tax Department reviews adjusted gross income and other sources of income when developing revenue estimates for individual income tax. He said with corporate income, it is harder to pinpoint the income source.

Ms. Sharp presented information ([Appendix C](#)) regarding the state's bond rating issued by Moody's Investor Services. She said Moody's has affirmed the states Aa1 issuer rating with a potential negative outlook.

In response to a question from Chairman Sorvaag, Ms. Sharp said Moody's considers the challenges within the state's agricultural industry, but recognizes a greater impact from the oil and gas industry.

In response to a question from Representative Mock, Ms. Sharp said the state was classified as being in a recession, but Moody's believes the state is coming out of the recession. She said a large factor in the determination of a state being in recession or recovery, is job loss or job growth.

In response to a question from Representative Delzer, Ms. Sharp said the Office of Management and Budget does not agree with Moody's Investor Services' position that the Bank of North Dakota is a credit challenge affecting the state.

Mr. Bruce Hicks, Petroleum Resource Assistant Director, Oil and Gas Division, Department of Mineral Resources, Industrial Commission, presented information ([Appendix D](#)) regarding the status of oil and gas development in the state. He said there are 13,876 active wells, 1,772 inactive wells, 830 wells waiting on completion, 1,919 wells currently permitted, and 13,141 approved increased density wells, for a total of 31,538. He said North Dakota's gas-oil ratio has been increasing, which means the amount of gas being produced per barrel of oil has been increasing.

In response to a question from Representative Mock, Mr. Hicks said the noncompleted wells are not affecting lease requirements because they are additional wells on existing pads and do not require waivers.

In response to a question from Representative Nathe, Mr. Hicks said the lack of employees available for fracking crews is hindering production levels.

Mr. Justin Kringstad, Director, North Dakota Pipeline Authority, presented information ([Appendix E](#)) regarding oil and gas drilling activity in the state. He said the well production focus has shifted from initial production to estimated ultimate recovery. He said the estimated ultimate recovery has been increasing in North Dakota.

In response to a question from Senator Lee, Mr. Kringstad said highly productive wells can produce 2,000 to 3,000 barrels per day maximum output in the first few months of production with gas volumes at 5,000 to 6,000 cubic feet of gas per day. He said for a well to be economic today it needs to produce more than 800 barrels per day in the first month.

STUDY OF REVENUE VOLATILITY

At the request of Chairman Sorvaag, the Legislative Council staff presented a memorandum entitled [Volatility of State Revenue Sources - Background Memorandum](#). The memorandum identifies state revenue sources for the general fund and elementary and secondary education funding sources. The memorandum also identifies a proposed study plan for the committee's study of volatility of state revenue sources. The proposed study plan is as follows:

1. Identify significant revenue sources.
2. Review long-term trends and the impact of policy changes.
3. Review fund analysis for the general fund, budget stabilization fund, common schools trust fund, and foundation aid stabilization fund.
4. Analyze the causes of revenue volatility.
5. Assess the adequacy and reliability of funding sources used for elementary and secondary education.
6. Develop recommendations and any necessary legislation to implement the recommendations.
7. Prepare a final report.

Representative Delzer suggested that all K-12 revenue sources be listed with detail.

Senator Wanzek suggested the committee focus on developing a plan to address revenue volatility since a large part of North Dakota's economy relies on agriculture and oil prices, which are volatile.

Representative Mock commented that over 50 percent of general fund revenue is from sales and use tax revenues. He suggested the committee consider the effect of this on forecasting and developing the state budget.

STUDY OF STATE FLEET SERVICES PROVIDED FOR STATE AGENCIES

At the request of Chairman Sorvaag, the Legislative Council staff presented a memorandum entitled [State Fleet Services - Background Memorandum](#). The memorandum identifies the history of State Fleet Services (SFS), services provided by SFS, SFS rates, mileage reimbursement, and agency budget process regarding SFS. The memorandum also identifies a proposed study plan for the committee's study of SFS. The proposed study plan is as follows:

1. Receive information from the Department of Transportation (DOT) regarding the history of SFS, to include a 10-year history of fees compared to the cost of services, staffing, and its billing processes.
2. Review the operation and the fees of state fleet services in other states to the operation and fees of DOT's SFS.
3. Receive information from select state agencies regarding its history of SFS costs.
4. Develop recommendations and any necessary legislation to implement the recommendations.
5. Prepare a final report.

Ms. Robin Rehborg, Director, State Fleet Services, Department of Transportation, presented information (pages 1 through 5 of [Appendix F](#)) regarding the history of SFS and provided details of SFS rates.

In response to a question from Chairman Sorvaag, Ms. Rehborg said fuel is included in the operating rates for the use of SFS's vehicles.

In response to a question from Representative Vigassa, Ms. Rehborg said a vehicle is assigned to an agency if the use is expected to be in excess of 5,000 miles per year.

In response to a question from Senator Lee, Ms. Rehborg said SFS vehicles generally travel 1.2 million miles per biennium. She said during fiscal years 2016 and 2017, miles traveled was below the average. She said some agencies have returned assigned vehicles to SFS to reduce their costs because of budget reductions.

STUDY OF FUNDING MECHANISMS AND OPTIONS AVAILABLE TO THE DEPARTMENT OF TRANSPORTATION, POLITICAL SUBDIVISIONS, AND PUBLIC TRANSPORTATION PROVIDERS FOR TRANSPORTATION

At the request of Chairman Sorvaag, the Legislative Council staff presented a memorandum entitled [Department of Transportation Funding Mechanisms and Funding Options Available - Background Memorandum](#). The memorandum identifies constitutional and North Dakota Century Code requirements for transportation revenue, provides legislative history of the motor vehicle fuels tax, special fuels excise tax, and motor vehicle registration fees, provides a history of DOT revenue, history of fuel consumption and miles traveled in North Dakota, transportation funding mechanisms available to political subdivisions, and transportation funding mechanisms available to public transportation providers. The memorandum also identifies a proposed study plan for the committee's study of DOT funding mechanisms and funding options available. The proposed study plan is as follows:

1. Review current funding mechanisms and options used by DOT, political subdivisions, and public transportation providers.
2. Compare other states' funding mechanisms and options for transportation funding.
3. Review alternative revenue sources other than existing highway tax distribution fund revenues.
4. Review motor fuel consumption and other statistical information regarding infrastructure usage.
5. Receive information from DOT regarding the history of funding available to match federal funds available to the state.
6. Develop recommendations and any necessary legislation to implement the recommendations.
7. Prepare a final report for presentation to the Legislative Management.

In response to a question from Senator Lee, Mr. Mark Nelson, Deputy Director, Driver and Vehicle Services, Department of Transportation, said the actual cost to produce a set of license plates is \$5.95 plus \$4.00 for postage for a total of \$9.95. He said the plate fee is \$5.00. He said the plate fee is set in statute.

In response to a question from Representative Nathe, Mr. Nelson said the states cost to produce a driver's license is \$21.25 and the fee is \$15.00. He said licenses must be renewed every 6 years.

In response to a question from Representative Paur, Mr. Nelson said DOT anticipates fuel consumption to continue to decline resulting in reduced revenue available for state highway improvements.

Mr. Shannon Sauer, Financial Management Director, Department of Transportation, presented information (pages 7 and 9 of [Appendix F](#)). He said the 2017-19 biennium budget for DOT is \$1.5 billion less than its 2015-17 biennium budget.

In response to a question from Representative Paur, Mr. Steve Salwei, Director, Office of Transportation Programs, Department of Transportation, said the level of federal highway funding available to the state has been steady the last few years with the exception of the most recent fiscal year, in which the federal government redistributed available grant funds, which allowed DOT to access additional federal funds.

In response to a question from Representative Nathe, Mr. Salwei said, based on the Upper Great Plains Transportation Institute's road needs studies, the state has a \$450 million per year shortfall in funding for needed road projects and counties and townships have a \$495 million per year funding shortfall for needed road projects.

In response to a question from Senator Lee, Mr. Sauer said an estimated \$4.7 million per biennium is deducted from highway tax distribution fund revenue for providing incentives to ethanol plants. He said 40 percent of the farm truck registration fee is allocated to the ethanol incentive fund.

Mr. Nelson presented information (pages 6 and 7 of [Appendix F](#)). He said DOT has approximately 200 highway construction projects planned with approximately \$465 million for the 2017 construction season. He said as of August 1, 2017, approximately 33 percent of this year's construction work has been completed and paid.

Mr. Terry Traynor, Assistant Director of Policy and Programs, North Dakota Association of Counties, commented on the committee's study. He said the number of roads rated as poor has decreased by 50 percent as a result of the additional state funding provided by the Legislative Assembly during the last 2 bienniums.

OTHER DUTIES OF THE GOVERNMENT FINANCE COMMITTEE

At the request of Chairman Sorvaag, the Legislative Council staff reviewed a memorandum entitled [Other Duties of the Government Finance Committee - Background Memorandum](#). He said in addition to its study responsibilities, the committee has been assigned the following duties:

- Review state budget information, including monitoring the status of revenues and appropriations.
- Receive a report from DOT regarding information collected from transportation network companies during each biennium, pursuant to Section 39-34-05.
- Receive a report from DOT by June 30, 2018, pursuant to Section 10 of 2017 Senate Bill No. 2012, regarding the results of the study on the manner in which DOT provides snow and ice control services on the state highway system.

- Receive a report from DOT by June 30, 2018, pursuant to Section 11 of Senate Bill No. 2012, regarding the results of its study of options to consolidate transportation facilities within Williams County and the Williston district headquarters.
- Receive a report from DOT and the Information Technology Department by June 30, 2018, pursuant to Section 14 of Senate Bill No. 2012, regarding the results of a study on benefits of allowing wireless telecommunication infrastructure within state highway rights of way and what, if any, requirements of allowing the installation may be in the public interest.
- Receive a report from the Industrial Commission by June 30, 2018, pursuant to Section 30 of 2017 Senate Bill No. 2014, regarding the results and recommendations of its gain-sharing program study.
- Receive a report from the Department of Commerce semiannually regarding the status of a program to establish and administer an unmanned aircraft systems test site in cooperation with the University of North Dakota, the Aeronautics Commission, Adjutant General, and private parties appointed by the Governor, pursuant to Section 54-60-28.

Mr. Nelson presented information (page 8 of [Appendix F](#)), regarding information collected from network companies from December 1, 2016, through May 31, 2017, pursuant to Section 39-34-05.

No further business appearing, Chairman Sorvaag adjourned the meeting at 2:56 p.m.

Chris Kadmas
Fiscal Analyst

ATTACH:6