

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

GOVERNMENT FINANCE COMMITTEE

Thursday, December 7, 2017
 Roughrider 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, John Grabinger, Jordan Kannianen, Lonnie J. Laffen, Gary A. Lee, Terry M. Wanzek; Representatives Rick C. Becker, Joshua A. Boschee, Ron Guggisberg, Craig Headland, Corey Mock, Mike Nathe, Gary Paur, Brandy Pyle, Shannon M. Roers Jones, Mike Schatz, Don Vigesaa

Member absent: Representative Jeff Delzer

Others present: See [Appendix A](#)

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 status of the general fund for the 2017-19 biennium to date through November 2017:

Unobligated general fund balance - July 1, 2017		\$65,000,000
Add		
Revenues collected to date		1,142,776,763
Remaining forecasted revenues		3,192,651,160
Balance obligated for authorized carryover from the 2015-17 biennium		99,271,093
Total estimated available		\$4,499,699,016
Less		
2017-19 biennium general fund ongoing appropriations	(\$4,295,624,415)	
2017-19 biennium general fund one-time appropriations	(14,638,226)	
Balance obligated for authorized carryover from the 2013-15 biennium	(99,271,093)	
Total appropriations and adjustments		(4,409,533,734)
Estimated general fund balance - June 30, 2019		\$90,165,282 ¹

¹North Dakota Century Code Section 54-27.2-02 provides that any end of the biennium balance in excess of \$65 million must be transferred to the budget stabilization fund, up to a cap of 15 percent of general fund appropriations.

Ms. Sharp said the Office of Management and Budget (OMB) completed a revenue forecast review in November 2017 and the review anticipates 2017-19 general fund revenues will exceed the legislative forecast by \$45 million.

In response to a question from Representative Headland, Ms. Sharp said the legislative forecast anticipates \$100 million in revenue from corporate income tax collections and the revenue review indicates a shortfall of \$1 million.

In response to a question from Representative Mock, Ms. Sharp said \$100 million of the foundation aid stabilization fund is anticipated to be unrestricted at the end of the 2017-19 biennium.

In response to a question from Representative Guggisberg, Ms. Sharp said that if the state would no longer receive federal mineral lease payments, it would lose an estimated \$60 million per biennium (\$30 million to the state and \$30 million to the counties) in federal revenue.

In response to a question from Representative Nathe, Ms. Sharp said OMB anticipates a funding gap of \$400 million to \$700 million for the 2019-21 biennium. She said with no revenue growth, the gap would be approximately \$700 million. She said oil tax revenue collections for the 2017-19 biennium are anticipated to exceed the legislative forecast by \$500 million.

In response to a question from Representative Mock, Ms. Sharp said the funding gap does not include any growth in expenditures for the 2019-21 biennium.

STUDY OF REVENUE VOLATILITY

At the request of Chairman Sorvaag, the Legislative Council staff presented a memorandum entitled [North Dakota Taxable Sales and Purchases Quarterly Report for the Quarter Ending June 30, 2017](#). The memorandum provides quarterly information regarding North Dakota taxable sales and purchases for the second quarter of the 2016 and 2017 calendar years.

Representative Schatz suggested the committee receive a history of taxable sales and purchases from calendar year 2010 to present. Chairman Sorvaag requested the Legislative Council staff to provide this information for the committee at its next meeting.

At the request of Chairman Sorvaag, the Legislative Council staff presented a memorandum entitled [History of General Fund Revenues](#). The memorandum compares general fund revenues by major type for the 1995-97 biennium through the 2017-19 biennium. The Legislative Council staff also distributed a memorandum entitled [Population History](#) for the committee's review.

Senator Wanzek suggested the committee receive information regarding why gaming tax revenue has declined.

Senator Lee suggested the committee receive information regarding why the insurance premium tax revenue has steadily increased.

At the request of Chairman Sorvaag, the Legislative Council staff presented a memorandum entitled [Total Funding for Public School Education in North Dakota for School Years 2006-07 Through 2015-16](#). The memorandum provides information regarding the sources and history of funding for public school education.

Representative Nathe suggested the committee receive information from an economist regarding revenue volatility in other states.

Representative Mock said the Legislative Revenue Advisory Committee has recommended contracting with IHS Markit to provide economic forecasting data to the Legislative Assembly. He suggested IHS Markit could be asked to present information regarding revenue volatility.

Representative Headland suggested the committee review Utah's budget stress testing process.

Representative Guggisberg suggested the committee review how other states handle revenue volatility.

Representative Becker suggested the committee consider recommending a spending cap based on revenue projections. He said the Legislative Assembly should refrain from spending all revenue that is projected.

Representative Nathe suggested the committee have commodity groups testify regarding the volatility of energy and agriculture commodities.

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 Survey Summary](#). The memorandum summarizes information reported by 48 of 56 agencies in a survey regarding State Fleet Services. The survey responses are reported anonymously. The surveys identified overall that agencies were pleased with State Fleet Services and areas of concern were that changing rates made it difficult to budget on a biennial basis and agencies with specialty vehicles had concerns regarding depreciation and costs related to changing out vehicles when they are replaced as a result of the replacement schedules.

In response to a question from Representative Mock, Ms. Robin Rehborg, Director, State Fleet Services, Department of Transportation, said the Department of Transportation (DOT) issues requests to purchase vehicles annually.

In response to a question from Representative Schatz, Ms. Rehborg said DOT purchases approximately 400 vehicles per year.

In response to a question from Chairman Sorvaag, the Legislative Council staff said the following agencies did not respond to the survey:

- Information Technology Department;
- Office of Administrative Hearings;
- North Dakota University System Office (for all campuses);
- North Dakota Vision Services - School for the Blind;
- Veterans' Home;
- Indian Affairs Commission;
- Aeronautics Commission;
- Mill and Elevator Association; and
- Agronomy Seed Farm.

In response to a question from Representative Paur, the Legislative Council staff said DOT would have authority, without legislative changes, to address concerns identified in the survey.

Mr. Levi Andrist, representing Enterprise Holdings Inc., commented that Enterprise is working with DOT to help identify potential efficiencies within State Fleet Services. He said Enterprise works with many states to help identify efficiencies in motor pool operations.

Chairman Sorvaag asked that Enterprise be invited to the next meeting to present information regarding its services and other states using these services. He also asked that DOT comment to the committee at the next meeting regarding the information identified in the State Fleet Services survey.

STUDY OF TRANSPORTATION-RELATED FUNDING

At the request of Chairman Sorvaag, the Legislative Council staff presented a memorandum entitled [Transportation Funding Options Used by Other States](#). The memorandum provides information regarding transportation funding methods used by other states. The memorandum identifies the following methods used by other states to provide funding for transportation projects--dedicated general sales taxes, the use of public-private partnerships to finance projects, road-use charges, and tolling.

Senator Laffen said other states charge an additional fee for electric vehicles since they utilize the same roadways as vehicles that pay taxes on fuel.

In response to a question from Representative Guggisberg, the Legislative Council staff said the per-mile fees are the same for all vehicle types.

Mr. Thomas Sorel, Director, Department of Transportation, introduced himself as the new DOT Director and then introduced Mr. Shannon Sauer, Chief Financial Officer, Department of Transportation, who presented information ([Appendix C](#)) regarding the history of federal transportation funding. Mr. Sauer said DOT anticipates it will not have sufficient funds to match federal funding available to the state for the 2019-21 biennium.

In response to a question from Chairman Sorvaag, Mr. Sauer said maintenance does not include reconstruction of a road, but includes filling cracks and potholes and other minor repairs to the roadway.

In response to a question from Representative Nathe, Mr. Sauer said a one cent per gallon motor fuel tax increase would generate an estimated \$7.5 million of additional revenue per biennium.

In response to a question from Representative Vigesaa, Mr. Steve Salwei, Director, Office of Transportation Programs, Department of Transportation, said .0064 percent of federal highway program funding is provided to North Dakota. He said in the past, other states received more federal highway funds than they could use resulting in those funds becoming available to states that had matching funds available. As a result, he said, North Dakota was able to receive additional federal funds because it had required matching funds available.

In response to a question from Representative Vigesaa, Mr. Sauer said DOT will prioritize projects to sustain the state's roadways as best as possible. He said the state needs a complete plan which includes federal funding, state matching funds, and separate state funding for additional state-only projects. He said without a complete plan, the state's roads will be adequate in the short term, but will degrade over the long term.

In response to a question from Representative Nathe, Mr. Sauer said the state did not provided funding in addition to state funding used to match the federal program prior to the 2011-13 biennium.

In response to a question from Representative Nathe, Mr. Sauer said the amount of additional state revenue needed to match federal funding in the 2019-21 biennium has not yet been determined.

Senator Laffen suggested the Legislative Assembly provide "surge" funding over a longer period of time in order to spread the impact on construction costs. He said the state should also consider bonding in order to pay off the cost of construction over the life of the road and to take advantage of lower costs of construction as projects typically cost more in the future.

Mr. Terry Traynor, Assistant Director of Policy and Programs, North Dakota Association of Counties, presented information ([Appendix D](#)) regarding county funding sources for road construction, maintenance, other transportation infrastructure needs, and transit services. He said historically county road funding consisted largely of property tax revenues, the county share of the highway distribution fund, and federal highway program formula funds.

In response to a question from Representative Headland, Mr. Traynor said there are no counties imposing a fuel tax.

Representative Becker commented that the counties and cities are restricted from imposing fuel taxes as a result of the 2017 Legislative Assembly passing Senate Bill No. 2326.

Mr. Blake Crosby, Executive Director, North Dakota League of Cities, presented information ([Appendix E](#)) regarding city funding sources for street construction, maintenance, other transportation infrastructure needs, and transit services. He said the major sources of road project funding for cities is from its general fund (including state aid distribution funds), state highway allocations, property tax assessments, sales tax, and other miscellaneous sources. He said funding from the state aid distribution fund has decreased 24 to 49 percent depending on the city, and state highway tax distribution revenue has decreased 16 to 17 percent in the last 2 years.

OTHER DUTIES OF THE GOVERNMENT FINANCE COMMITTEE

Mr. Nicholas Flom, Executive Director, Northern Plains Unmanned Aircraft System Test Site, Department of Commerce, reported ([Appendix F](#)) on 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. He said the initial congressional mandate in 2012 was to expire in February 2017, but as a result of the federal Safety and Security Act of 2016, the program was extended through September 30, 2019. He said the test site is currently working closely with the Federal Aviation Administration and Xcel Energy Inc. to test and enable beyond visual line-of-sight approval for Xcel Energy to conduct transmission line inspections using unmanned aircraft systems. He said the test site has also been recognized by NASA as an incredible research partner.

No further business appearing, Chairman Sorvaag adjourned the meeting at 3:00 p.m.

Chris Kadmas
Fiscal Analyst

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