

SUMMARY OF KEY RECOMMENDATIONS

GENERAL FUND BUDGET SUMMARY

Estimated unobligated general fund balance - July 1, 2003	\$3,862,909 ¹
Add estimated 2003-05 general fund revenues	1,768,286,434 ²
Total resources available	\$1,772,149,343
Less recommended 2003-05 general fund appropriations	1,762,103,934
Estimated general fund balance - June 30, 2005	\$10,045,409

¹ This amount includes estimated agency general fund turnback of \$3,862,909 and reflects \$22,862,442 of the additional Bank of North Dakota transfer.

² The executive budget allows the director of the Office of Management and Budget to direct the Industrial Commission to transfer additional funds from the Bank of North Dakota to the general fund if actual 2003-05 revenues are less than projected. The transfers may not exceed the lesser of the amount of the revenue shortfall or \$25 million and the transfers may not reduce the Bank's capital to less than \$140 million.

TOTAL APPROPRIATIONS SUMMARY

	2001-03 Legislative Appropriations	Increase (Decrease)	2003-05 Executive Budget
General fund	\$1,746,983,713	\$15,120,221	\$1,762,103,934
Estimated income	3,022,696,983	208,570,185	3,231,267,168 ¹
Total all funds	\$4,769,680,696	\$223,690,406	\$4,993,371,102

¹ The amount shown includes funding of \$105,326 for an energy improvement project at the Department of Corrections and Rehabilitation inadvertently included in the executive budget recommendation for the Department of Corrections and Rehabilitation and the North Dakota University System office. Therefore, the special funds appropriations and total funds appropriations for the 2003-05 executive budget recommendation has been inadvertently overstated by \$105,326.

2003-05 GENERAL FUND REVENUES

- Includes general fund revenues of \$1.77 billion, \$62.0 million more than the 2001-03 biennium revenues as projected at the close of the 2001 Legislative Assembly.
- Major areas of **revenue growth** include:
 - Sales and use taxes increasing by \$32.6 million or 5.1 percent.
 - Motor vehicle excise taxes increasing by \$16.7 million or 14.7 percent.
 - Insurance premium taxes increasing by \$11.6 million or 29.1 percent.

- Cigarette and tobacco taxes increasing by \$28.6 million. The **Governor recommends increasing cigarette and tobacco taxes** by 80 percent (an increase of 35 cents per pack of cigarettes, from 44 cents to 79 cents per pack) which is estimated to generate an additional \$29.7 million of general fund revenues for the 2003-05 biennium.
- Major areas of **revenue decline** include:
 - Individual income taxes decreasing by \$19.5 million or 4.3 percent.
 - Corporate income taxes decreasing by \$13.9 million or 13.3 percent.
 - Assumes **oil prices** will average \$22 to \$24 per barrel during the first year of the biennium and to \$18 to \$21 per barrel during the second year of the biennium. The average November 2002 price for North Dakota crude oil was \$21.41 per barrel.
 - Transfers \$60 million from the **Bank of North Dakota**, the same amount initially authorized for the 2001-03 biennium; however, because of the anticipated general fund revenue shortfall during the 2001-03 biennium, the Budget Section approved the contingent transfer authorized by the 2001 Legislative Assembly of an additional \$25 million during the 2001-03 biennium.
 - Transfers \$5 million from the **Mill and Elevator**, \$1 million less than the amount authorized for the 2001-03 biennium.
 - Transfers \$9 million from the interest earnings of the **student loan trust fund**, the same amount authorized for the 2001-03 biennium.
 - Transfers \$2 million from the **state bonding fund**.
 - Projects state agency **general fund turnback** of \$3.9 million at the end of the 2001-03 biennium.
 - Transfers the estimated balance in the **permanent oil tax trust fund** of \$14.3 million to the general fund. North Dakota Century Code (NDCC) Section 57-51.1-07.2 provides that money in the fund may be spent only upon a two-thirds vote of the Legislative Assembly.
 - Anticipates oil extraction and oil and gas production tax collections in excess of \$62 million will not be deposited in the **permanent oil tax trust fund** during the 2003-05 biennium. These collections, estimated to be \$3.4 million for the 2003-05 biennium are anticipated to be deposited in the general fund.
 - Includes \$5 million of general fund revenues resulting from North Dakota's participation in a **multistate lottery**.

13. Authorizes the director of the Office of Management and Budget to request **additional Bank of North Dakota transfers** of up to \$25 million if revised revenue projections during the 2003-05 biennium indicate that general fund revenues will be less than the estimates approved by the 2003 Legislative Assembly. The transfers may not exceed the actual amount that revenues are less than estimated, and the transfers may not reduce the Bank's capital structure below \$140 million.

2003-05 GENERAL FUND APPROPRIATIONS

1. Includes general fund appropriations of \$1.76 billion, \$15.1 million more than the 2001-03 legislative appropriations.
2. Major general fund appropriations increases (decreases) relate to:
 - a. Department of Public Instruction - \$36.3 million.
 - b. State employee salary and health insurance - \$12.7 million.
 - c. Department of Human Services - \$4.9 million.
 - d. Department of Corrections and Rehabilitation - \$3.7 million.
 - e. Department of Commerce - (\$2.5 million).
 - f. Information Technology Department - (\$9.1 million).
 - g. State Water Commission - (\$9.8 million).
 - h. Higher education - (\$13.2 million).

2003-05 SPECIAL FUNDS APPROPRIATIONS

1. Includes special funds (estimated income) appropriations of \$3.23 billion, \$208.6 million more than the 2001-03 legislative appropriations.
2. Major special funds appropriations increases (decreases) relate to:
 - a. Federal funds - \$95.4 million.
 - b. Higher education - \$39.3 million.
 - c. Information Technology Department - \$22.4 million.
 - d. Department of Transportation - \$11.0 million.
 - e. Mill and Elevator - \$8.3 million.
 - f. State Water Commission - \$5.7 million.
 - g. Department of Human Services - \$5.1 million.
 - h. Children's Services Coordinating Committee - (\$5.7 million).

2003-05 FUNDING SOURCE CHANGES

1. Uses \$17.3 million from the **student loan trust fund** for University System programs.
2. Uses **health care trust fund** (intergovernmental transfer program) money for:

- a. Department of Human Services 2001-03 biennium deficiency appropriation - \$16.3 million.
- b. Department of Human Services 2003-05 programs - \$37.4 million.
- c. State Department of Health 2003-05 programs - \$700,000.

Section 17 of 2001 House Bill No. 1196 provides legislative intent that the June 30, 2003, unobligated balance in the health care trust fund and any investment earnings on that amount during the 2003-05 biennium not be appropriated but be retained in the fund to be used to continue, for periods subsequent to the 2003-05 biennium, the increased funding levels authorized by 2001 House Bill No. 1196.

3. Uses **water development trust fund** money for:
 - a. State Water Commission operating costs - \$9.2 million - Section 22 of 2001 House Bill No. 1022 provides legislative intent that the water development trust fund not be used as a source of funding for State Water Commission operating expenses after the 2001-03 biennium.
 - b. Repayment of 2001-03 biennium Bank of North Dakota loans obtained to pay the state's share of federal disaster relief funding for the following agencies during the 2003-05 biennium rather than as a deficiency appropriation in the 2001-03 biennium:
 - (1) Division of Emergency Management - \$8.9 million.
 - (2) University of North Dakota - \$1.2 million.
 - (3) Parks and Recreation Department - \$.6 million.
 - (4) North Dakota State University - \$.3 million.
4. Authorizes the issuance of **revenue bonds** for the following agencies:
 - a. Information Technology Department - \$20.0 million (enterprise resource planning project - ConnectND).
 - b. Parks and Recreation Department - \$1.5 million (park improvements).

2003-05 - USE OF ONE-TIME REVENUES AND FUNDING SOURCES

1. Uses \$54.5 million of revenue and funding sources that will likely not be available during the 2005-07 biennium. The one-time sources include:
 - a. The transfer of \$2 million from the state bonding fund - Also listed under the "2003-05 General Fund Revenues" section.

- b. The transfer of \$14.4 million from the permanent oil tax trust fund - Also listed under the “2003-05 General Fund Revenues” section.
- c. The use of \$38.1 million from the health care trust fund - Also listed under the “2003-05 Funding Source Changes” section.

HIGHER EDUCATION

1. Decreases **general fund** support for higher education by \$13.0 million compared to the 2001-03 legislative appropriations in part due to the changing of the funding source for student grant programs (\$6 million) and competitive research (\$4 million) from the general fund to the student loan trust fund and a \$925,000 general fund reduction relating to the University System contingency and capital emergency funding.
2. Increases support from **special funds** by \$39.3 million compared to the 2001-03 legislative appropriations due to the changing of the funding source for student grant programs (\$6 million) and competitive research (\$4 million) from the state general fund to the student loan trust fund, providing \$7 million from the student loan trust fund for a new student internship program (\$2 million) and system initiatives (\$5 million), and increasing major capital projects funded from special funds by \$23 million.
3. Adjusts the authorized number of **FTE positions** from 3,088.55 to 2,400.38 to reflect agency reductions and to report only the number of FTE positions supported by the general fund.
4. Consolidates the University System office budget from 16 line items to nine (system governance, Title II, student grant programs, contingency and capital emergency, competitive research, board initiatives, system initiatives, technology pool, and capital assets) and the line items for higher education institutions into two line items in the University System office budget--campus operations and capital assets.
5. Provides funding of \$8.5 million, of which \$8.3 million is from the student loan trust fund and \$200,000 is from federal funds for the **student grant programs**, including funding for the student financial assistance grant program, professional student exchange program, scholars program, Native American scholarship program, education incentive programs, and a new student internship program. Previously, student grant programs received funding primarily from the general fund.

6. Provides \$4 million from the student loan trust fund for **competitive research** matching funding. This is the same level of funding provided for the 2001-03 biennium; however, previously, the competitive research funding was from the general fund.
7. Provides \$299.4 million from the general fund for support of the **operations of the higher education institutions**.
8. Provides \$120.1 million for **capital assets**, including \$12.8 million for capital construction lease payments, \$6.9 million for campus extraordinary repairs, \$3.1 million for campus energy projects, and \$97.3 million for major capital projects.

ELEMENTARY EDUCATION

1. Provides a general fund appropriation of \$478.1 million for **state school aid**, an increase of \$4.1 million, or 1 percent, from the 2001-03 appropriation of \$474.0 million. The recommended **per student payment amounts** are \$2,430 during the first year of the biennium, an increase of \$83 (3.5 percent) from the 2002-03 payment of \$2,347 and \$2,528 for the second year, an increase of \$98 (4.0 percent) from the first-year payment. The weighted student units are 108,176 for the first year of the biennium, a decrease of 2,615 from the 2002-03 estimated weighted student units of 110,791, and 105,826 for the second year, a decrease of 2,350 from the first year.
2. Provides \$66.3 million from the general fund for **teacher compensation payments**, an increase of \$31.3 million, or 89.2 percent, from the 2001-03 appropriation of \$35.0 million. The funding continues the current level of teacher compensation payments of \$1,000 for first-year teachers and \$3,000 for second-year returning teachers and provides an additional \$500 per third-year returning teacher in the first year of the 2003-05 biennium and an additional \$1,000 per fourth-year returning teacher in the second year of the biennium.
3. Includes funding of \$1.2 million from the general fund for **hold harmless payments** to school districts. The payments will be based on what school districts would have received if teacher compensation payments for the 2003-05 biennium remained constant at \$3,000 per teacher and funding recommended for additional teacher compensation payments was used to increase state school aid per student payments.
4. Anticipates **tuition fund distributions** of \$69.5 million, an increase of \$2.3 million, or 3.4 percent, from the 2001-03 appropriation of

\$67.2 million. The recommended appropriation will provide payments of approximately \$335 per census unit, an increase of \$35, or 11.7 percent, from the currently estimated 2000-01 and 2002-03 appropriated payment of \$300.

5. Provides \$49.9 million for general fund **special education grants**, the same level of funding appropriated for the 2001-03 biennium.
6. Provides \$3.2 million from the general fund for **revenue supplemental payments** to school districts pursuant to NDCC Section 15.1-27-11, an increase in funding of \$1 million from the 2001-03 biennium appropriation of \$2.2 million.
7. Includes funding of \$1 million from the general fund for **reorganization bonus payments** (\$500,000) and state cost-sharing assistance to districts entering into **joint powers agreements** (\$500,000). This represents a decrease in funding of \$665,000 from the 2001-03 biennium general fund appropriation of \$1,665,000 for reorganization bonus payments.

HUMAN SERVICES

1. Eliminates **202.45 FTE positions** departmentwide, reducing salaries and wages by \$16.4 million, \$12 million of which is from the general fund. See Department 325 - Department of Human Services on the FTE schedule under the "State Employees" section for additional information.
2. Reflects the **additional state matching funds** required due to changes in the state's federal medical assistance percentage (FMAP). The FMAP determines the federal and state share of Medicaid expenditures. North Dakota's FMAP is decreasing from 69.87 percent in federal fiscal year 2002 to an estimated 67.47 percent in federal fiscal year 2005 requiring an estimated \$17.2 million of additional state matching funds.
3. Projects that **48,314 individuals will be eligible for medical assistance** during the 2003-05 biennium, 5,804 more than the 42,510 that were originally anticipated to be eligible for the 2001-03 biennium. The actual number of eligible individuals in November 2002 was 52,670. The executive budget recommends a number of eligibility and policy changes that are anticipated to reduce the number of eligible individuals by 3,518 in the 2003-05 biennium.
4. Creates a **prescription drug assistance program** for senior citizens with gross incomes of up to 210 percent of the federal poverty level. Eligibility will be determined by the counties, and assets are not considered when determining eligibility. Funding of

\$10.3 million is provided for the 2003-05 biennium, of which \$3.4 million is from the general fund, to serve an estimated 15,850 senior citizens by the end of the 2003-05 biennium.

5. Eliminates **optional medical assistance services** for adults, including chiropractic, dental, hospice, and private duty nursing services. Funding removed for these services totals \$8.9 million, of which \$2.8 million is from the general fund, for the 2003-05 biennium.
6. Increases funding for medical assistance **prescription drug services** by \$19.7 million or 24.1 percent compared to anticipated expenditures for the 2001-03 biennium. The executive budget would require the department to develop a prescription drug cost-containment program for the 2003-05 biennium consisting of a preferred drug list, prior authorization, and supplemental rebates. The executive budget has reduced funding for prescription drug costs by \$9.6 million in anticipation of savings resulting from these cost-containment strategies. Without the cost-containment program, prescription drug costs are estimated to increase by \$29.2 million or 35.9 percent.
7. Changes a number of **medical assistance policies and eligibility requirements**, including limiting capital costs that hospitals may charge (\$1.8 million), limiting allowable charges to the Medicaid maximum allowable charge when medical assistance is the secondary payer to Medicare (\$6.1 million), allowing individuals to apply only up to \$15 per month toward their recipient liability for previous medical charges (\$2.2 million), and determining adult family members ineligible if the primary family wage earner works more than 100 hours per month (\$12.9 million).
8. Establishes a **provider tax** on intermediate care facilities for the mentally retarded (ICF/MR), including the Developmental Center. The tax is estimated to cost \$1.9 million from the general fund for increased provider reimbursement rates to allow for payment of the tax but is estimated to generate \$4 million of additional federal funds.
9. Increases funding for **nursing facility care** by \$11.5 million or 3.9 percent compared to the 2001-03 biennium original appropriation. Funding from the general fund is reduced by \$10.5 million, and funding from the health care trust fund is increased by \$20 million. The executive budget anticipates inflationary increases for nursing facilities of 3.66 percent for each year of the 2003-05 biennium but reduces nursing facility payment limits for direct care costs from 99 percent to 85 percent and

eliminates nursing facility incentives and the 3 percent nursing facility operating margin.

10. Provides \$20.6 million, of which \$12.6 million is from the general fund and \$6.9 million is from the health care trust fund for **SPED and expanded SPED**, an increase of \$6 million or 41.1 percent over the \$14.6 million appropriated for the 2001-03 biennium.
11. Provides \$400,000 of proceeds from the **sale of the LaHaug Building** to the Department of Corrections and Rehabilitation to remodel other State Hospital buildings for mental health and substance abuse programs previously housed in the LaHaug Building.
12. Removes \$2.4 million from the general fund and 34 FTE positions from the **State Hospital** due to the transfer of the **laundry and food service** facilities to the Department of Corrections and Rehabilitation.
13. Provides a **funding pool** of \$250,000 from the general fund to be distributed to human service centers for mental health and substance abuse services based on the needs of each region.
14. Replaces **one-time funding** of \$2.6 million appropriated for the 2001-03 biennium from human service center collections with funding from the general fund. The department's 2001-03 biennium budget included human service center income generated prior to the 2001-03 biennium and not spent as additional one-time special funds income which is not available for the 2003-05 biennium

CAPITAL CONSTRUCTION

1. Includes a total of \$690,990,721 for the following capital projects:
 - a. \$112,441,357 for major capital projects.
 - b. \$20,474,084 for extraordinary repairs.
 - c. \$558,075,280 for other projects (including \$438,012,365 for the Department of Transportation and \$98,168,213 for the State Water Commission).

The funding sources for major capital projects and extraordinary repairs and other projects are as follows:

	General Fund	Special Funds
Major capital projects	\$3,397,129	\$109,044,228
Extraordinary repairs and other projects	25,348,427	553,200,937
Total	\$28,745,556	\$662,245,165

2. Authorizes the State Water Commission to issue up to \$60 million in bonds for **water and flood control projects** during the 2003-05 biennium.
3. Authorizes the following major capital construction projects to be financed by **bonding**:

State Department of Health - East Laboratory remodeling and morgue and storage annex	\$1,574,865
Department of Corrections and Rehabilitation - Food service and laundry facilities remodeling	2,662,890
Parks and Recreation Department - State parks improvements	1,477,500
Total	\$5,715,255

STATE EMPLOYEES

1. Provides funding for state employee **salary increases** equal to 1 percent of salaries effective January 1, 2004, and 2 percent effective January 1, 2005. Funding provided for these increases totals \$8.5 million, of which \$4.2 million is from the general fund. The executive budget recommendation does not provide higher education institutions specific funding for salary or health insurance increases. The increases are to be provided from the funding recommended in total for the University System.
2. Provides funding to the judicial branch for district court **judges' salary increases** of 3 percent for the first year of the biennium and 3 percent for the second year of the biennium. Salary increases for Supreme Court justices are 3 percent the first year of the biennium and 2 percent for the second year of the biennium.
3. Continues funding for the cost of **health insurance premiums** for state employees. The executive budget provides \$493 per month for employee health insurance, an increase of \$84 or 20.6 percent compared to the 2001-03 biennium premium of \$409.
4. Includes a total of 10,829.59 **FTE positions**, 831.58 FTE positions fewer than the 2001-03 authorized level. This includes a reduction of 688.17 higher education FTE positions to reflect campus reductions and to report only the number of FTE positions funded from the general fund. The net decrease excluding the higher education positions is 143.41 FTE positions. The recommendation includes the addition of 176 new FTE positions and the deletion of 319.41 FTE positions. The cost of the 176 new FTE positions totals \$14,198,430 for the 2003-05 biennium, including salary and health insurance increases. Of this amount, \$7,236,351 is from the

general fund. Funding reductions relating to the 319.41 deleted FTE positions totals \$27,291,565 for the 2003-05 biennium, including salary and health insurance increases. Of this amount, \$18,185,171 is from the general fund.

CORRECTIONS

1. Provides \$6.8 million for transferring, renovating, and operating the **food service and laundry facilities** currently owned and operated by the State Hospital. Of the \$6.8 million, \$2.7 million is from proceeds from the issuance of bonds for renovating the facilities and \$4.2 million, of which \$3.6 million is from the general fund, is for operating the facilities. An additional 23 FTE positions are authorized; 15 of which would be transferred from the State Hospital.
2. Provides \$6.7 million for purchasing and remodeling the first and second floors of the LaHaug Building for use as a **women's prison**. The prison will begin with 174 beds available but could increase to 272 beds by "double bunking" inmates. The building is currently owned and utilized by the State Hospital. The State Hospital will continue using the basement of the building. Of the \$6.7 million, \$1.2 million is from federal funds that will be used to purchase the building from the State Hospital (\$400,000) and for remodeling costs (\$800,000), and \$5.5 million from the general fund is for operating costs for the 2003-05 biennium. An additional 65 FTE positions are authorized for the women's prison.
3. Provides \$2.8 million, of which \$2.7 million is from the general fund, including 3 FTE positions for a **prerevocation center** to serve offenders who violate their terms of probation who would otherwise be petitioned back to the court for revocation of their probation.
4. Collocates the prerevocation center (30 beds), the Tompkins Rehabilitation and Corrections Unit (22 beds), and the DUI offender treatment program (24 beds) in the nurses building at the State Hospital.
5. Removes \$3.3 million from the general fund for costs of **contracting** with out-of-state facilities to house North Dakota inmates.
6. Reduces funding for salaries and wages by \$1.6 million from the general fund to recognize **anticipated salary savings** relating to possible delays in filling new positions and employee turnover.

INFORMATION TECHNOLOGY DEPARTMENT

1. Decreases funding for the **statewide information technology network** by \$2.2 million from \$10.0 million to \$7.8 million.
2. Increases funding for the **enterprise resource planning system initiative - ConnectND** from \$7.5 million to \$20 million and changes the funding source for the initiative from the state general fund to special funds from revenue bond proceeds.
3. Provides \$4.7 million from special funds for the **criminal justice information sharing initiative**.
4. Provides \$194,960 from special funds for 2.5 new FTE positions with the Division of Independent Study and \$200,242 from the general fund for one new FTE position with the Educational Technology Council.
5. Decreases funding from the general fund for **Educational Technology Council grants** by \$410,000 from \$922,822 to \$512,822.
6. Provides \$200,000 from the general fund to **EduTech** for kindergarten through grade 12 antivirus software.

ECONOMIC DEVELOPMENT - GROWING NORTH DAKOTA

1. Provides a total of \$20.3 million from the general fund for economic development/Growing North Dakota activities, a decrease of \$2.9 million from the 2001-03 biennium. Major changes made include:
 - a. Removing \$2.35 million from the general fund for transfer to the development fund in the Department of Commerce.
 - b. Reducing funding for the PACE fund at the Bank of North Dakota by \$300,000 to \$5.7 million.
 - c. Reducing Work Force 2000 in Job Service North Dakota by \$100,000 to \$2,000,000.

TRANSPORTATION

1. Anticipates **federal highway construction funds** of \$165 million for each year of the 2003-05 biennium compared to \$169 million in federal fiscal year 2001 and \$181 million in federal fiscal year 2002.
2. Provides \$40.8 million, of which \$9.6 million is from federal funds and \$31.2 million is from the highway fund for **highway maintenance**, an increase of \$10.8 million compared to the 2001-03 biennium, of which \$9.6 million is from federal funds and \$1.2 million is from the highway fund.

3. Provides \$15.0 million for **consulting engineers**, \$9.6 million less than the 2001-03 biennium.

LEWIS AND CLARK BICENTENNIAL

1. Provides \$3 million, of which \$2.4 million is from the general fund for Lewis and Clark Bicentennial activities and projects. The 2001 Legislative Assembly appropriated \$3.3 million, all of which was from the general fund for Lewis and Clark Bicentennial activities and projects for the 2001-03 biennium. Funding recommended for each agency for the 2003-05 biennium includes:

- a. \$853,147 from the general fund for the Tourism Division of the Department of Commerce for marketing and promoting Lewis and Clark Bicentennial activities in North Dakota.
- b. \$1,025,295 from the general fund for the Historical Society for the Double Ditch Field School, programming, and marketing for Lewis and Clark Bicentennial initiatives.
- c. \$183,750 from the general fund for the Council on the Arts for grants and other costs relating to Lewis and Clark Bicentennial activities.
- d. \$971,486, of which \$321,486 is from the general fund for the Parks and Recreation Department for capital projects at state parks and other costs associated with Lewis and Clark Bicentennial activities.