

## EXECUTIVE SUMMARY

### GENERAL FUND BUDGET SUMMARY

|   |                            |
|---|----------------------------|
| Estimated unobligated general fund balance - July 1, 2003   | \$5,450,180 <sup>1</sup>   |
| Add estimated 2003-05 general fund revenues   | 1,808,463,890 <sup>2</sup> |
| Total resources available   | \$1,813,914,070            |
| Less recommended 2003-05 general fund appropriations  | 1,803,661,161              |
| Estimated general fund balance - June 30, 2005  | \$10,252,909               |
| <sup>1</sup> This amount includes estimated agency general fund turnback of \$5,475,000, reduced by \$24,820 due to deferred fee collections, and reflects an estimated contingent Bank of North Dakota transfer of \$17,433,102.   |                            |
| <sup>2</sup> The director of the Office of Management and Budget may direct the Industrial Commission to transfer additional funds from the earnings and accumulated undivided profits of 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 \$9 million, and the transfers may not reduce the Bank's capital to less than \$140 million. |                            |

### TOTAL APPROPRIATIONS SUMMARY

|                  | 2001-03<br>Legislative<br>Appropriations | Increase<br>(Decrease) | 2003-05<br>Legislative<br>Appropriations |
|------------------|--|------------------------|--|
| General fund     | \$1,746,983,713                          | \$56,677,448           | \$1,803,661,161                          |
| Estimated income | 3,049,996,983                            | 205,781,252            | 3,255,778,235                            |
| Total all funds  | \$4,796,980,696                          | \$262,458,700          | \$5,059,439,396                          |

### 2003-05 GENERAL FUND REVENUES

1. Provided for general fund revenues of \$1.81 billion, \$81.8 million more than the 2001-03 biennium revenues as included in the March 2003 revenue forecast.
2. Assumed **revenue growth** (excluding transfers) of approximately 2.9 percent for each year of the 2003-05 biennium.
3. Major areas of **revenue growth** (compared to the March 2003 forecast for the 2001-03 biennium) include:
  - a. Individual income tax revenue increasing by \$39.1 million or 9.9 percent.
  - b. Sales and use tax revenue increasing by \$31.1 million or 4.8 percent.
  - c. Insurance premium tax revenue increasing by \$6.1 million or 12.3 percent.
4. Oil tax revenues are \$71 million, an increase of \$9 million compared to the 2001-03 biennium. Section 6 of 2003 Senate Bill No. 2015 amends North Dakota Century Code (NDCC) Section 57-51.1-07.2 to

provide that at the end of any biennium, oil and gas production and oil extraction tax collections during the biennium in excess of \$71 million, rather than \$62 million, be transferred from the general fund to the permanent oil tax trust fund. In addition to the general fund share of oil taxes, \$734,700 is estimated to be transferred to the permanent oil tax trust fund at the end of the 2003-05 biennium. In addition to the \$62 million general fund revenue share for the 2001-03 biennium, \$6.7 million is estimated to be transferred to the permanent oil tax trust fund at the end of the 2001-03 biennium.

5. Transferred the estimated June 30, 2003, balance in the **permanent oil tax trust fund** of \$11.9 million to the general fund. North Dakota Century Code 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.
6. Included \$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, an additional contingent 2001-03 biennium transfer of \$17,433,102 is projected.
7. Included \$5 million from the **Mill and Elevator**, \$1 million less than the amount transferred during the 2001-03 biennium.
8. Included \$26.3 million from the **student loan trust fund**, \$17.3 million more than the amount transferred during the 2001-03 biennium.
9. Included \$35.9 million from the **health care trust fund**.
10. Included \$2.8 million from the **state bonding fund**.
11. Anticipated state agency **general fund turnback** of \$5.5 million at the end of the 2001-03 biennium.
12. Imposed an additional 1 percent lodging tax for the 2003-05 and 2005-07 bienniums (Senate Bill No. 2337). The tax is estimated to generate \$2.9 million of additional general fund revenues for the 2003-05 biennium. The bill appropriates \$2.9 million from the general fund to the Department of Commerce for Lewis and Clark-related marketing activities.
13. Included \$1.4 million of general fund revenues resulting from North Dakota's participation in a **multistate lottery**.
14. Authorized the director of the Office of Management and Budget to request **additional Bank of North Dakota transfers** of up to \$9 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. Provided general fund appropriations of \$1.8 billion, \$56.7 million more than the 2001-03 legislative appropriations.
2. Major general fund appropriations increases (decreases) relate to:
  - a. Department of Human Services - \$41.4 million.
  - b. Department of Public Instruction - \$33 million.
  - c. State employee health insurance - \$8 million.
  - d. Department of Corrections and Rehabilitation - \$4.4 million.
  - e. Highway Patrol - (\$1.6 million).
  - f. State Department of Health - (\$1.8 million).
  - g. Higher education - (\$5.4 million).
  - h. Information Technology Department - (\$11.5 million).

### 2003-05 SPECIAL FUNDS APPROPRIATIONS

1. Includes special funds (estimated income) appropriations of \$3.26 billion, \$205.8 million more than the 2001-03 legislative appropriations.
2. Major special funds appropriations increases (decreases) relate to:
  - a. Department of Human Services - \$50.4 million.
  - b. Department of Transportation - \$44.1 million.
  - c. Higher education - \$30.2 million.
  - d. State Department of Health - \$24 million.
  - e. Department of Public Instruction - \$23.3 million.
  - f. State Water Commission - \$15.3 million.
  - g. Department of Commerce - \$8.7 million.
  - h. Mill and Elevator - \$8.3 million.
  - i. Game and Fish Department - \$8 million.
  - j. Children's Services Coordinating Committee - (\$5.3 million).
  - k. Housing Finance Agency - (\$6.3 million).
  - l. Adjutant General - (\$10.6 million).
  - m. Emergency Management (\$32.7 million).

### 2003-05 USE OF ONE-TIME REVENUES OR FUNDING SOURCES

1. Transferred \$88.4 million of special funds to the general fund from the following **sources that may not be available at the same level** during the 2005-07 biennium:
  - a. Health care trust fund - \$35,911,035.
  - b. Student loan trust - \$26,258,969.
  - c. Permanent oil tax trust fund - \$11,910,000.
  - d. Water development trust fund - \$10,070,373.
  - e. State bonding fund - \$2,800,000.

f. Information technology savings transfer - \$1,400,000

2. Authorized the issuance of \$20 million of **revenue bonds** for the Information Technology Department for the enterprise resource planning project - ConnectND.

### HIGHER EDUCATION

1. Decreased **general fund** support for higher education by \$5,412,418, or 1.5 percent, compared to the 2001-03 legislative appropriations.
2. Increased support from **special funds** by \$30,179,574, or 37.6 percent, compared to the 2001-03 legislative appropriations due to increasing major capital projects funded from special funds by \$31 million.
3. Adjusted the authorized number of **full-time equivalent (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. Provided funding of \$25,668,056 for University System pools including:
  - a. A **technology pool** of \$25,089,639 for the State Board of Higher Education to allocate to higher education institutions for support of the Higher Education Computer Network, the Interactive Video Network, the On-line Dakota Information Network, and other technology initiatives.
  - b. An **operations pool** of \$578,417 for the State Board of Higher Education to allocate to higher education institutions.
5. Provided \$4,750,000 from the general fund for **competitive research** matching funding, which is a \$750,000 increase from the 2001-03 legislative appropriation, and \$1,550,000 from the general fund for **centers for excellence**.
6. Provided funding of \$2,930,215 for **student financial assistance grants**, \$2,730,215 of which is from the general fund and \$200,000 of federal funds, which is a \$1,292,816 decrease in total from the previous biennium, \$1,678,300 from the general fund for the **professional student exchange program**, which is a \$117,584 increase from the previous biennium, and \$816,386 from the general fund for the **scholars program**, which is a \$45,656 increase from the previous biennium.
7. Provided funding of \$114,503,281 for **capital improvements**, including \$7,034,247 for campus extraordinary repairs, \$105,716,267 for major capital projects, and \$1,752,767 for contingency and capital emergency funding.

## ELEMENTARY EDUCATION

1. Provided a general fund appropriation of \$489,379,990 for **per student, transportation aid, and limited English proficiency payments**, an increase of \$15,408,342, or 3.3 percent, from the 2001-03 appropriation of \$473,971,648. The recommended **per student payment amounts** are \$2,509 during the first year of the biennium, an increase of \$162 (6.9 percent) from the 2002-03 payment of \$2,347 and \$2,623 for the second year, an increase of \$114 (4.5 percent) from the first-year payment. The estimated weighted student units are 108,381 for the first year of the biennium, a decrease of 2,084 from the 2002-03 estimated weighted student units of 110,465, and 106,258 for the second year, a decrease of 2,123 from the first year.
2. Provided \$51,854,000 from the general fund for **teacher compensation payments**, an increase of \$16,818,000 from the 2001-03 appropriation of \$35,036,000. 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. Section 38 of Senate Bill No. 2421 provides that each school district shall use an amount equal to at least 70 percent of all new money received for per student payments and tuition apportionment for the purpose of increasing the compensation paid to teachers. School districts may be exempted from the requirement if the board of the school district determines by an affirmative vote of two-thirds of its members that complying with the provisions would place the school district in the position of having insufficient fiscal resources to meet its other obligations.
3. Provided a special funds appropriation from the **state tuition fund** of \$69,495,371, an increase of \$2,256,346, or 3.4 percent, from the 2001-03 appropriation of \$67,239,025. The appropriation will provide payments of approximately \$335 per census unit, an increase of \$25, or 8.1 percent, from the 2001-02 and 2002-03 payment of \$310.
4. Provided a general fund appropriation of \$49,898,695 for **special education grants**, the same level of funding appropriated for the 2001-03 biennium.
5. Provided \$5 million from the general fund for **revenue supplemental payments** to school districts pursuant to NDCC Section 15.1-27-11, an increase of \$2.8 million compared to the 2001-03 appropriation of \$2.2 million.

## HUMAN SERVICES

1. Eliminated **186.15 FTE positions** departmentwide. See Department 325 - Department of Human Services on the FTE schedule under the **State Employees** section for additional information.
2. Authorized the department to **transfer appropriation authority** between line items within each subdivision of the department and between subdivisions of the department for the 2003-05 biennium.
3. Provided **additional state matching funds** due to changes in the state's federal medical assistance percentage (FMAP) which is anticipated to decrease from 69.87 percent in federal fiscal year 2002 to 67.47 percent in federal fiscal year 2005 requiring an estimated \$17.2 million of additional state matching funds. The FMAP determines the federal and state share of Medicaid expenditures. (The FMAP rates will be temporarily adjusted by the provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003 which continues the 2002 FMAP and provides a 2.95 percent increase in the rate for 2003 and 2004.)
4. Increased funding for medical assistance **prescription drug services** by \$16.1 million or 20 percent compared to the 2001-03 biennium legislative appropriation.
5. Approved the executive recommendation to change a number of **medical assistance policies and eligibility requirements**, including limiting capital costs that hospitals may charge (total estimated savings of \$1.8 million), limiting allowable charges to the Medicaid maximum allowable charge when medical assistance is the secondary payer to Medicare (total estimated savings of \$6.1 million), allowing individuals to apply only up to \$15 per month toward their recipient liability for previous medical charges (total estimated savings of \$2.2 million), and determining adult family members ineligible if the primary family wage earner works more than 100 hours per month (total estimated savings of \$12.9 million).
6. Provided additional funding for **developmental disabilities services providers** to increase the average wage for the providers' employees and to increase the allowable percentage for employees' fringe benefits from 30 to 33 percent.
7. Established a **provider tax** on intermediate care facilities for the mentally retarded (ICF/MR), including the Developmental Center as recommended in the executive budget pursuant to provisions of Senate Bill No. 2153.
8. Provided funding of \$318.4 million for **nursing facility care**, an increase of \$23.4 million, or 7.9 percent, compared to the 2001-03 biennium appropriation. The funding level provides for inflationary increases for nursing facilities of 3.66 percent for each year of the 2003-05 biennium. The Legislative Assembly changed nursing facility

payment limits for direct care costs from the 99th percentile to \$85 for the 2003-05 biennium.

9. Provided \$15.4 million, of which \$14.4 million is from the general fund for **service payments for elderly and disabled (SPED) and expanded SPED**, an increase of \$800,000 over the \$14.6 million appropriated for the 2001-03 biennium. The Legislative Assembly approved Senate Bill No. 2083 which provides legislative intent that the department reduce the income levels used to determine an eligible individual's share of the cost of SPED services which will result in those with higher incomes and assets paying a greater share for the cost of the services being received. The Legislative Assembly also approved Senate Bill No. 2194 which allows certain eligible individuals receiving personal care services under SPED and expanded SPED to receive those services under the medical assistance program which is estimated to reduce the need for SPED funding.
10. Approved the executive recommendation to remove \$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.
11. Provided 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.
12. Approved the executive recommendation to **privatize** the operation of the **Manchester House** Adolescent Treatment Center in Bismarck, but because no proposals were received from private organizations to operate the Ruth Meiers Adolescent Treatment Center in Grand Forks, the Legislative Assembly restored funding to operate the center as part of the Northeast Human Service Center.

### CAPITAL CONSTRUCTION

1. Included a total of \$746,372,853 for the following capital projects:
  - a. \$118,150,848 for major capital projects.
  - b. \$17,468,067 for extraordinary repairs.
  - c. \$610,753,938 for other projects (including \$490,691,023 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                   | \$395,500    | \$117,755,348 |
| Extraordinary repairs and other projects | 25,391,927   | 602,830,078   |
| Total                                    | \$25,787,427 | \$720,585,426 |

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

|   |                           |
|---|---------------------------|
| Information Technology Department - ConnectND   | \$20,000,000 <sup>1</sup> |
| State Historical Society - Chateau de Mores and Fort Abercrombie interpretive centers     | 2,000,000 <sup>2</sup>    |
| Department of Corrections and Rehabilitation  |                           |
| Missouri River Correctional Center energy improvement project                             | 105,326 <sup>3</sup>      |
| James River Correctional Center food service and laundry facilities remodeling (Phase II) | 2,662,890                 |
| State Department of Health  |                           |
| East laboratory remodeling  | 614,865                   |
| Morgue and storage annex  | 960,000                   |
| Dickinson State University - Murphy Hall Phase I addition                                 | 5,882,047                 |
| Mayville State University - Steamline replacement (Phase II)                              | 1,355,000                 |
| Valley City State University - Graichen Gymnasium elevator and emergency exits            | 785,300                   |
| Total   | \$34,365,428              |

<sup>1</sup> Information Technology Department bonds will be repaid from charges collected by the Information Technology Department from higher education and other state agencies for the ConnectND project.

<sup>2</sup> State Historical Society bonds for the Chateau de Mores and Fort Abercrombie interpretive centers will be paid from federal, local, or donated funds collected by the State Historical Society.

<sup>3</sup> The Missouri River Correctional Center energy improvement project bonds will be repaid with resulting energy cost-savings.

## STATE EMPLOYEES

1. Provided **contingent salary increases** of up to 1 percent effective on January 1, 2004, and up to 2 percent on January 1, 2005, for the executive branch, excluding higher education, and the judicial branch to the extent that the increase can be provided from pooled savings realized from eliminated FTE positions and from accumulated savings from vacant FTE positions. At least 70 percent of the funding for the increases must be from pooled savings of the eliminated FTE positions. No specific funding was provided to higher education institutions for salary increases, with the intent that any salary increases provided be from existing appropriation authority and other resources.
2. Continued funding for the cost of **health insurance premiums** for state employees at \$489 per month per employee, an increase of \$80 or 16.6 percent compared to the 2001-03 biennium premium of \$409.
3. Authorized a total of 10,791.73 **FTE positions**, 869.44 FTE positions fewer than the 2001-03 authorized level and 37.86 FTE positions fewer than the executive recommendation. The 2003-05 authorized level 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 reduction, excluding higher education, is 181.27 positions.
4. Provided intent for the elimination of a total of 176 FTE positions (155 from executive branch agencies and the Office of the Governor, excluding other offices of state-elected officials and higher education; 13 from state-elected officials, excluding the Governor; and 8 from the judicial branch) by December 31, 2004. A total of 88 positions (one-half of the total reduction) is to be realized by December 31, 2003. The resulting savings from the employee reductions are to be deposited in state employee compensation pools established by the Office of Management and Budget and used for providing state employee salary increases.
5. Provided for the reduction and transfer to the Information Technology Department of state agency information technology employee positions related to information technology services, including electronic mail, file and print server administration, data base administration, storage, application server, and hosting services as part of a consolidation of information technology functions. The reductions and transfers are to be made on November 1, 2003.

## CORRECTIONS

1. Provided \$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 are to be transferred from the State Hospital.

2. Provided \$6.8 million from the general fund to **contract** with county facilities to house all female inmates, including 2 FTE transportation officers for transporting the women prisoners between facilities. The Legislative Assembly also provided an additional \$1 million from the general fund to the Prisons Division and allowed the department to determine the specific use of the funds.
3. Provided \$2.8 million, of which \$2.7 million is from the general fund, including 3 FTE positions for an **assessment center** (the Tompkins Rehabilitation Correctional Center - TRCC) to serve offenders who violate their terms of probation who would otherwise be petitioned back to the court for revocation of their probation.
4. Collocated the assessment center (30 beds), the Tompkins Rehabilitation and Corrections Unit (TRCU) (22 beds), and the DUI offender treatment program (CRRP) (24 beds) in the nurses building at the State Hospital and named it the Tompkins Rehabilitation Correctional Center (TRCC).

## INFORMATION TECHNOLOGY DEPARTMENT

1. Provided funding of \$106,312,104, of which \$8,194,803 is from the general fund and \$98,117,301 from special funds, to the Information Technology Department. The funding is summarized as follows:

|  | General Fund | Special Funds | Total         |
|--|--------------|---------------|---------------|
| Statewide information technology network         | \$3,382,023  | \$4,054,200   | \$7,436,223   |
| Enterprise resource planning system initiative   |              | 20,000,000    | 20,000,000    |
| Geographic information system initiative         | 678,343      |               | 678,343       |
| Criminal justice information- sharing initiative |              | 4,741,200     | 4,741,200     |
| Educational Technology Council                   | 793,818      |               | 793,818       |
| EduTech  | 2,540,348    |               | 2,540,348     |
| Division of Independent Study                    | 841,948      | 4,783,532     | 5,625,480     |
| Prairie Public Broadcasting                      | 1,337,138    |               | 1,337,138     |
| Other  | 483,244      | 63,676,310    | 64,159,554    |
| Less budget adjustments                          | (1,862,059)  | 862,059       | (1,000,000)   |
| Total  | \$8,194,803  | \$98,117,301  | \$106,312,104 |

2. Authorized a total of 248.2 FTE positions, 3.5 FTE positions more than the 2001-03 authorized level. The additional positions include 2 FTE teacher positions and a .5 custodian position for the Division of Independent Study and 1 FTE appointed not classified position for the Educational Technology Council.

### **ECONOMIC DEVELOPMENT - GROWING NORTH DAKOTA**

1. Provided a total of \$20.7 million from the general fund for economic development - Growing North Dakota activities, a decrease of \$2.5 million from the 2001-03 biennium. Major items include:
  - a. \$1,550,000 from the general fund for transfer to the development fund in the Department of Commerce. The executive budget did not recommend any funding for the development fund and the 2001 Legislative Assembly appropriated \$2,350,000 from the general fund for the development fund.
  - b. Funding of \$5.7 million from the general fund for the partnership in assisting community expansion (PACE) fund at the Bank of North Dakota, the same as the executive recommendation and \$300,000 less than the 2001-03 biennium appropriation.
  - c. Funding of \$1,250,000 from the general fund for Work Force 2000 in Job Service North Dakota, \$750,000 less than the executive recommendation and \$850,000 less than the 2001-03 biennium.
  - d. \$1,350,000 from the general fund for workforce training contracts in the Board for Career and Technical Education, the same as the executive recommendation and the 2001-03 biennium appropriation.

### **TRANSPORTATION**

1. Provided state funds to match **federal highway construction funds** of \$182.5 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. Increased motor vehicle registration fees by \$3 per year. Of the \$3 increase, \$2 is deposited in the highway tax distribution fund and \$1 is deposited directly in the highway fund. The Legislative Assembly continued provisions approved by the 2001 Legislative Assembly which deposited \$2 of each registration fee directly in the highway fund; therefore, a total of \$3 of each registration fee will be deposited in the highway fund.

### **LEWIS AND CLARK BICENTENNIAL**

1. Provided \$5.7 million, of which \$5.31 million is from the general fund for Lewis and Clark Bicentennial activities and projects. The 2001 Legislative Assembly appropriated \$3.4 million, all of which was from the general fund for Lewis and Clark Bicentennial activities and projects for the 2001-03 biennium. Funding appropriated for each agency for the 2003-05 biennium includes:
  - a. \$951,911 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. Senate Bill No. 2337 appropriates \$2.9 million from the general fund to the Tourism Division of the Department of Commerce for Lewis and Clark Bicentennial-related marketing.
  - b. \$923,746 from the general fund to the State Historical Society for the Double Ditch Field School, programming, and marketing for Lewis and Clark Bicentennial initiatives. The legislative action added a section to Senate Bill No. 2020 to allow the agency to transfer money between the Lewis and Clark Bicentennial and capital assets line items.
  - c. \$163,750 from the general fund for the Council on the Arts for grants and other costs relating to Lewis and Clark Bicentennial activities.
  - d. \$760,618, of which \$370,618 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.