

## EXECUTIVE SUMMARY

### GENERAL FUND BUDGET SUMMARY

Estimated unobligated general fund balance - July 1, 2007	\$218,350,170 <sup>1</sup>
Add estimated 2007-09 general fund revenues and transfers	2,257,279,965
Total resources available	\$2,475,630,135
Less 2007-09 general fund appropriations	2,456,973,956
Estimated general fund balance - June 30, 2009	\$18,656,179 <sup>2</sup>

<sup>1</sup>This amount reflects a transfer of \$100,527,369 from the June 30, 2007, general fund balance to the budget stabilization fund, \$11,084,451 of 2005-07 deficiency appropriations, \$10,000,000 of estimated 2005-07 unspent general fund appropriation authority, and additional revenues of \$1,237,928 from an additional e-rate reimbursement and criminal background checks.

<sup>2</sup>In addition, the budget stabilization fund is projected to have a June 30, 2009, balance of \$200 million and the permanent oil tax trust fund is projected to have a June 30, 2009, balance of \$137 million.

### TOTAL APPROPRIATIONS SUMMARY

	2005-07 Legislative Appropriations	Increase (Decrease)	2007-09 Legislative Appropriations
General fund	\$2,000,537,074	\$456,436,882	\$2,456,973,956
Estimated income	3,785,221,167	235,293,917	4,020,515,084
Total all funds	\$5,785,758,241	\$691,730,799	\$6,477,489,040

### 2007-09 GENERAL FUND REVENUES

1. Provided for **general fund revenues** of \$2.48 billion, \$166.2 million or 7.2 percent more than the 2005-07 biennium revenues as included in the February 2007 revenue forecast.
2. Anticipated state agency **general fund turnback** of \$10 million at the end of the 2005-07 biennium.
3. Major areas of **revenue growth** (as compared to the February 2007 forecast for the 2005-07 biennium) include:
  - a. Sales and use taxes increasing by \$66.8 million or 7.9 percent.
  - b. Gaming taxes increasing by \$2.3 million or 12.6 percent.
  - c. Interest income increasing by \$4.3 million or 13.4 percent.
4. Major areas of **revenue decline** (as compared to the February 2007 forecast for the 2005-07 biennium) include:
  - a. Individual income taxes decreasing by \$55.6 million or 10.1 percent (see **PROPERTY TAX INCOME TAX CREDIT** section below).
  - b. Corporate income taxes decreasing by \$40.4 million or 21.4 percent (see **PROPERTY TAX INCOME TAX CREDIT** section below).

- c. Motor vehicle excise taxes decreasing by \$8.0 million or 6.6 percent.
5. Included \$60 million from the **Bank of North Dakota**, the same amount authorized for the 2005-07 biennium. The transfer may be made only to the extent the transfer does not reduce the Bank's capital structure below \$175 million.
  6. Included \$5 million from the **Mill and Elevator**, the same amount transferred during the 2005-07 biennium.
  7. Included \$115 million from the **permanent oil tax trust fund**, which is an increase of \$59.7 million as compared to the transfer of \$55.3 million during the 2005-07 biennium.
  8. Included \$3.1 million from the **student loan trust fund**, \$5.9 million less than the amount transferred during the 2005-07 biennium.
  9. Included \$15 million from the **lands and minerals trust fund**, \$8.2 million more than the \$6.8 million transferred during the 2005-07 biennium.
  10. Anticipated **oil prices** to average \$50 per barrel during the beginning of the first year of the 2007-09 biennium, then declining to an average price of \$40 per barrel by the start of the second year of the biennium and averaging \$35 per barrel at the end of the biennium. The average oil price in April 2007 for North Dakota crude oil was \$55.21 per barrel.
  11. **Oil production** is anticipated to average 115,000 barrels per day during the start of the 2007-09 biennium then increasing to 118,000 barrels per day during fiscal year 2008 and continuing to increase to approximately 119,000 barrels per day by the end of fiscal year 2009.
  12. **Oil tax revenues** are \$71 million, the same as the 2005-07 biennium. North Dakota Century Code (NDCC) Section 57-51.1-07.2 provides that oil and gas production and oil extraction tax collections in excess of \$71 million be transferred from the general fund to the permanent oil tax trust fund. For the 2005-07 biennium, an estimated \$166.9 million is to be transferred to the permanent oil tax trust fund and \$71 million remains in the general fund. The estimated June 30, 2007, balance in the permanent oil tax trust fund is \$136.7 million. For the 2007-09 biennium, oil tax collections are estimated to total \$229.6 million, of which \$158.6 million will be transferred to the permanent oil tax trust fund and \$71 million will remain in the general fund. As discussed earlier, \$115 million is transferred from the trust fund to the general fund. The estimated June 30, 2009, balance in the permanent oil tax trust fund is \$137 million.

## 2007-09 GENERAL FUND APPROPRIATIONS

1. Provided general fund appropriations of \$2.46 billion, \$456.4 million or 22.8 percent more than the 2005-07 adjusted legislative appropriations.
2. Major general fund appropriations increases relate to:
  - a. Department of Human Services - \$107.5 million.
  - b. Higher education - \$79.1 million.
  - c. Department of Public Instruction - \$73.7 million.
  - d. Department of Corrections and Rehabilitation - \$66.4 million.
  - e. Main Research Center - \$13.4 million.
  - f. State Water Commission - \$12.9 million.
  - g. Judicial branch - \$10.1 million.
  - h. Tax Commissioner - \$10.1 million.
  - i. Office of Management and Budget - \$10 million.

## 2007-09 SPECIAL FUNDS APPROPRIATIONS

1. Provided special funds (estimated income) appropriations of \$4.02 billion, \$235.3 million more than the 2005-07 legislative appropriations.
2. Major special funds appropriations increases (decreases) relate to:
  - a. Department of Human Services - \$94.4 million.
  - b. State Department of Health - \$38.3 million.
  - c. State Water Commission - \$37.1 million.
  - d. Adjutant General - \$32.4 million.
  - e. Industrial Commission - \$25.5 million.
  - f. Veterans Home - \$22.9 million.
  - g. Workforce Safety and Insurance - \$19.7 million.
  - h. Information Technology Department - \$14.1 million.
  - i. Upper Great Plains Transportation Institute - \$11.1 million.
  - j. Public Employees Retirement System - \$10.5 million.
  - k. Department of Transportation - (\$51.9 million).

## 2007-09 - ONGOING AND ONE-TIME RESOURCES AND APPROPRIATIONS

1. Projected "ongoing" general fund revenues are \$2,057.9 million for the 2007-09 biennium, \$259.5 million less than "ongoing" general fund appropriations of \$2,317.4 million.
2. Identified \$139.5 million of "one-time" general fund appropriations and \$29.8 million of "one-time" permanent oil tax trust fund appropriations for the 2007-09 biennium.
3. Retained an estimated \$355.7 million at the end of the 2007-09 biennium, \$18.7 million in the general fund, \$137 million in the permanent oil tax trust fund, and \$200 million in the budget stabilization fund. A total of \$701 million of estimated "one-time" resources were available for the 2007-09 biennium, \$218.3 million of beginning general fund balance, \$200 million in the budget

stabilization fund, and \$282.7 million in the permanent oil tax trust fund beginning balance and 2007-09 revenues.

## HIGHER EDUCATION

1. Increased **general fund** support by \$79.1 million or 20.3 percent, including approximately \$28.4 million of one-time funding from the general fund. The increase in funding is due in part to increasing funding for campus operations and extraordinary repairs by approximately \$53.5 million, increasing funding for major capital projects by approximately \$13.1 million, and increasing funding for student financial assistance by approximately \$4.1 million.
2. Decreased support from **special funds** by \$13.1 million or 7.4 percent due to decreasing major capital projects funded from special funds by approximately \$16.9 million.
3. Adjusted the authorized number of **full-time equivalent (FTE) positions** from 2,194.42 for the 2005-07 biennium to 2,136.59 for the 2007-09 biennium to reflect the number of FTE positions supported by the general fund.
4. Provided \$33.8 million from the general fund for **campus parity** as requested by the State Board of Higher Education for costs to continue the fiscal year 2007 legislatively authorized salary increases, 5 percent per year salary increases for the 2007-09 biennium, estimated health insurance increases, and 2.4 percent annual inflationary increases for operating costs. This level of funding represents 98 percent of the general fund portion of parity costs. The remaining funding of approximately \$223,450 will need to be funded with special funds or reallocation.
5. Provided \$10 million from the general fund for **campus equity** payments.
6. Provided a .25 percent general fund operating reduction for higher education institutions totaling \$924,769.
7. Provided \$6 million, of which \$5.8 million is from the general fund and \$164,000 is from federal funds, for the **student financial assistance grant program**. This level represents a total funds increase of \$2.5 million from the 2005-07 legislative appropriation of \$3.5 million.
8. Provided a **common information services pool** of \$31.5 million from the general fund for support of the Higher Education Computer Network, the Interactive Video Network, the On-line Dakota Information Network, and other related technology initiatives. The funding includes \$5,493,800 of one-time funding from the general fund, including \$420,000 for parity, \$2.3 million for support of the ConnectND system, and \$2,773,800 for Northern Tier Network infrastructure. This level of funding represents an increase of \$10.9 million from the 2005-07 adjusted appropriation of \$20.6 million.

## ELEMENTARY AND SECONDARY EDUCATION

1. Provided funding of \$777.2 million, of which \$701 million is from the general fund and \$76.2 million is from the state tuition fund, for the **proposed new state school aid program**. This level of funding represents an increase of \$78.6 million, of which \$74 million is from the general fund and \$4.6 million is from the state tuition fund, compared to the 2005-07 legislative appropriation of \$698.6 million.
2. Provided funding from the general fund for the following grants:
  - a. Governor's School - \$320,000 (increase of \$50,000 from the 2005-07 biennium).
  - b. North Dakota LEAD Center - \$245,000 (increase of \$10,000 from the 2005-07 biennium).
  - c. Teacher center network - \$276,000 (increase of \$46,000 from the 2005-07 biennium).
  - d. National writing projects - \$108,000 (increase of \$20,000 from the 2005-07 biennium).
  - e. North Dakota Museum of Art - \$295,000 (increase of \$45,000 from the 2005-07 biennium).

## HUMAN SERVICES

1. Provided a total general fund appropriation for the Department of Human Services of \$591.9 million, \$107.5 million or 22.2 percent more than the \$484.4 million appropriated for the 2005-07 biennium.
2. Added \$9.1 million from the general fund for 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 64.72 percent in federal fiscal year 2007 to 63.75 percent in federal fiscal year 2008 and then increasing to an estimated 64.08 percent in federal fiscal year 2009.
3. Provided \$57.5 million, of which \$20.7 million is from the general fund for **inflationary increases** for the department's service providers of 4 percent for the first year of the biennium and 5 percent for the second year. The 2005 Legislative Assembly approved 2.65 percent annual inflationary increases for the 2005-07 biennium.
4. Provided \$31.1 million, of which \$3.7 million is from the general fund, for additional costs of rewriting the **Medicaid management information system (MMIS)** computer application. The 2005 Legislative Assembly provided \$29.2 million, of which the state matching share of \$3.7 million is from the permanent oil tax trust fund.
5. Added \$13,105,368, of which \$7,490,245 is from the general fund, for state administration of **child support enforcement** activities, including an estimated 122.6 FTE positions currently under county supervision.

6. Added \$10.7 million, of which \$3.9 million is from the general fund for increasing the average wage of **employees of developmental disabilities service providers** by 60 cents per hour.
7. Added \$2.8 million from the general fund in the Division of Mental Health and Substance Abuse to phase in a **community-based sex offender treatment** program to provide services for up to 140 offenders.
8. Provided \$3.1 million from the general fund for costs of **constructing a high security addition** to the secure services unit at the State Hospital. The secure services unit provides sex offender treatment services and services to individuals that are mentally ill and dangerous.
9. Added \$3.7 million from the general fund and 36.5 FTE positions for **expanding the secure services unit** from 42 beds to 82 beds. Of the 40 new beds, 20 were added during the 2005-07 biennium, upon Emergency Commission approval.

## CAPITAL CONSTRUCTION

1. Includes a total of \$926.5 million for the following capital projects:
  - a. \$289.3 million for major capital projects.
  - b. \$40.4 million for extraordinary repairs.
  - c. \$596.8 million for bond payments and other projects.
 The funding sources for capital projects are:

	General Fund	Special Funds
Major capital projects	\$82,452,998	\$206,863,052
Extraordinary repairs	28,796,983	11,614,705
Bond payments	20,120,218	2,438,523
Energy conservation projects		1,509,200
Other projects	810,000	571,875,487
Total	\$132,180,199	\$794,300,967

2. The Legislative Assembly did not provide for any major capital construction projects to be financed by bonding which would need to be repaid from the general fund.

## STATE EMPLOYEES

1. Provided funding for **state employee salary increases** equal to 4 percent of salaries with a minimum increase of \$75 per month effective July 1, 2007, and a 4 percent with a \$75 minimum effective July 1, 2008. Salary increases must be based on merit and equity and are not to be given across the board. Funding provided for these increases totals \$45.9 million, \$23.4 million of which is from the general fund. The 2007-09 legislative appropriation for the North Dakota University System included funding for parity to provide for inflationary costs, including the general fund share of 5 percent per year salary increases and health insurance increases.

2. Continued funding for the cost of **health insurance premiums** for state employees at \$658 per month per employee, an increase of \$104, or 18.8 percent compared to the 2005-07 biennium premium of \$554. Funding provided for this increase totals \$21.5 million, of which \$9.1 million is from the general fund.
3. Provides \$10 million to the Office of Management and Budget for **market equity compensation adjustments** for classified state employees. Of the \$10 million, \$5 million is from the general fund and \$5 million is from special funds.
4. Authorized a total of 10,942.53 **FTE positions**, 310.43 FTE positions more than the 2005-07 authorized level and 132.70 FTE positions more than the executive recommendation. The net increase, excluding higher education, is 368.26 FTE positions.

### CORRECTIONS

1. Provided a total general fund appropriation for the Department of Corrections and Rehabilitation of \$171.6 million, \$66.4 million or 63.1 percent more than the \$105.2 million appropriated for the 2005-07 biennium.
2. Provided \$41 million from the general fund for future correctional facility needs.
3. Added \$3.3 million from the general fund for 34.01 **new FTE positions**.
4. Added \$3.8 million from the general fund to provide a total of \$9.6 million for **contract housing**.
5. Provided \$748,234 from the general fund for **employee reclassifications**.
6. Provided \$1.5 million from the general fund for **new halfway house** programming.
7. Added \$1.2 million from the general fund for **new male transition** programming in the eastern part of the state.
8. Added \$13.3 million, of which \$9.5 million is from the general fund, for **inflationary increases and workload adjustments**.
9. Provided \$1.7 million from the general fund for **deferred maintenance**.

### INFORMATION TECHNOLOGY

1. Provided \$132.9 million, of which \$45.4 million is from the general fund, for state **agency information technology projects** for the 2007-09 biennium.
2. Provided \$1.2 million from the general fund for the Information Technology Department for continued development relating to the **Criminal Justice Information Sharing Initiative**.
3. Provided \$13.5 million of special funds and 15 new FTE positions for the Information Technology Department to assist the Department of

Human Services and selected vendor with the rewrite of the **Medicaid management information system**.

4. Provided \$1.5 million of special funds for 1.5 new FTE positions and related operating expenses for the Information Technology Department to support a **business intelligence initiative**.
5. Provided \$228,116 of funding from the general fund, including 1 new FTE position for a **statewide longitudinal data system initiative**.

### ECONOMIC DEVELOPMENT

1. Appropriated \$15 million from the permanent oil tax trust fund to the Office of Management and Budget for **centers of excellence** grants and authorized the Office of Management and Budget, as directed by the Centers of Excellence Commission and with Emergency Commission and Budget Section approval, to borrow up to \$5 million from the Bank of North Dakota for providing additional funding for centers of excellence, if the \$15 million appropriated from the permanent oil tax trust fund is committed. Of the \$15 million appropriation, up to \$10 million is available for Budget Section approval at its first meeting after September 1, 2007, and up to \$5 million and any unawarded funds remaining from the first year \$10 million allocation is available for Budget Section approval at its first meeting after September 1, 2008.
2. Established a **Biofuels PACE** fund and appropriated \$4.2 million from the general fund, \$3 million more than the \$1.2 million appropriated for the Biodiesel PACE fund for the 2005-07 biennium.
3. Provided \$1.5 million from the general fund for the North Dakota **Trade Office**, \$800,000 more than the \$700,000 appropriated from the Development Fund and Mill and Elevator profits for the 2005-07 biennium.
4. Provided a \$3 million general fund appropriation for the **Development Fund**.
5. Provided \$2 million from the general fund for **workforce enhancement grants**.
6. Provided \$600,000 from the general fund for postsecondary student **internships**.

### TRANSPORTATION

1. Anticipated **federal highway construction funds** of \$445 million for the 2007-09 biennium compared to \$407.3 million for the 2005-07 biennium.
2. Provided that 10 percent of **motor vehicle excise tax collections**, after the allocation to the state aid distribution fund, be deposited in the highway fund rather than the general fund and the remaining amount continue to be deposited in the general fund. This change is estimated to result in \$12,619,700 of additional highway fund revenue during the 2007-09 biennium.

3. Included \$2 million from the highway fund for beginning the **repayment of the grant anticipation revenue vehicle bonds** issued during the 2005-07 biennium for the United States Highway 2 four-lane project and for the Liberty Memorial Bridge project.
4. Transferred \$1 million from the highway fund to the public transportation fund during the 2007-09 biennium to provide a total of \$5.7 million for **public transportation grants** for the 2007-09 biennium.

### **MILITARY-RELATED PROGRAMS**

1. Removed funding provided in the 2005-07 biennium for the **veterans' bonus program** and provided that unexpended funds from the

2005-07 legislative appropriation be carried over and utilized for similar bonuses during the 2007-09 biennium.

2. Increased funding for the **tuition and enlistment compensation program** by \$400,000, from \$2,007,500 to \$2,407,500, for recruitment and retention bonuses.

### **PROPERTY TAX INCOME TAX CREDIT**

1. Created an **income tax credit for property taxes** paid on residential, agricultural, or commercial land. Individual and corporate taxpayers will receive a tax credit equal to 10 percent of property tax liabilities, up to \$1,000 per year on their 2007 and 2008 income taxes. The credit is estimated to reduce individual income tax collections by \$101 million and corporate tax collections by \$11 million for the 2007-09 biennium.