

## BUDGET AND FINANCE COMMITTEE - BACKGROUND MEMORANDUM

### POTENTIAL COMMITTEE DUTIES AND RESPONSIBILITIES

Pursuant to the Legislative Council chairman's directive, the following are the potential duties and responsibilities of the committee:

- Monitor the status of state revenues and expenditures for the 2007-09 biennium.
- Receive input from major state agencies regarding the status of their budgets and changes in federal funds.
- Receive information from major state agencies regarding anticipated program costs to continue and other budget needs for the 2009-11 biennium, including elementary and secondary education, higher education, human services, corrections, and transportation.
- Receive information on any deferred maintenance issues relating to facilities and other infrastructure throughout state government.
- Review current budget forms and guidelines, consider any appropriate changes, and provide a recommendation to the Budget Section.
- Receive input from industry and academic representatives on the status of the state's economy, state revenue impact, and expectations for the 2009-11 biennium.
- Receive information from the economic forecasting consultant under contract with the state on the state's economy, including strengths and weaknesses, and provide input to the consultant on the development of the July 2008 general fund revenue forecast for the 2007-09 biennium and the preliminary forecast for the 2009-11 biennium.
- Receive the July 2008 revised general fund revenue forecast.
- Review projected revenues, expenditures, and fund balances of major state funds.
- Review preliminary information on 2009-11 estimated revenues and appropriation requirements, including cost to continue items.
- Discuss possible legislative initiatives that would affect the budget.
- Discuss possible methods of returning excess revenues to North Dakota taxpayers.
- Identify key budget issues for the 2009 legislative session.
- As appropriate, make recommendations to the Legislative Council.

### PREVIOUS STUDIES

#### Monitoring the Status of State Agency and Institution Appropriations

Beginning with the 1975-76 interim, a Legislative Council interim committee has been assigned the responsibility of monitoring the status of major state agency and institution appropriations. In previous bienniums, the committee's review placed emphasis on expenditures of major state agencies, such as the charitable and penal institutions, elementary and secondary education, the Department of Human Services' medical assistance and economic assistance grants, and other appropriations the committee selected. The expenditures of the selected state agencies and institutions were monitored by having the agencies prepare estimates of expenditures and then comparing the actual expenditures to the estimates. The Legislative Council staff prepared a report for presentation to the committee comparing actual expenditures to estimates for the first year of the biennium and discussing the major variances.

Also completed each interim since 1987-88 has been a report on the status of **agency compliance with legislative intent**. This report has included the status of state agency and institution budgets, the status of the implementation of budget/programmatic changes, legislative directives contained in appropriation bills and other legislation, and the identification of key agency budget issues.

#### 1999-2000 Budget Process Study

The 1997-98 Budget Committee on Government Finance, Senator David E. Nething, Chairman, studied, pursuant to House Concurrent Resolution No. 3045, North Dakota's budgeting process.

#### Legislative Budget

The committee considered the development of a legislative budget and recommended Senate Bill No. 2031, which was not approved by the 1999 Legislative Assembly. The bill would have:

1. Created a legislative budget committee to coordinate and direct activities involved in the development of budget recommendations to assist the Legislative Assembly as it develops the final legislative budget.
2. Provided for the creation of four additional interim committees to assist the legislative budget committee perform its duties and responsibilities.
3. Authorized the legislative budget committee to make budget-related recommendations to the Legislative Council and Legislative Assembly.

4. Continued to allow the Governor to present the executive budget recommendation during the organizational session.
5. Provided that the appropriation bills be prepared by the Appropriations Committees during the legislative session after consideration of budget recommendations made by the Governor, the Legislative Council, and other testimony.

The estimated cost of the committee's recommendation was \$440,000 from the general fund for the 1999-2001 biennium, including three additional full-time equivalent positions for the Legislative Council.

### Performance Budgeting

The committee reviewed the performance budgeting pilot project that began in the 1995-97 biennium and involved 14 agencies. The committee recommended that if the performance budgeting project were to continue, the Appropriations Committees review agency performance and create with agency input performance measures for these agencies.

### Other Budgeting Issues

The committee reviewed other budgeting issues and made the following recommendations:

1. Support the Department of Human Services using the budget presentation format listed below recommended by the Public Administration Service and approved by the Budget Committee on Human Services and recommended that the Legislative Assembly be supportive of other agencies making their budget presentations using a similar format:
  - a. Review the Governor's guidance under which the budget is being submitted.
  - b. Identify the overall goals of the department for the biennium, including any significant changes from the previous biennium and reasons for the change.
  - c. Highlight pertinent trends, projections, and influences on the budget.
  - d. Provide an overall high-level summary of the expenditures necessary to support the department's goals and identify federal, state, local, and private shares.
  - e. Provide a high-level summary of projected revenue-by-revenue source.
  - f. Identify specific initiatives that result in improved services, increased efficiencies and effectiveness, and those that support special projects.
  - g. Identify new programs and major modifications to existing ones and the reason for the change.
  - h. Identify programs and services that are candidates for elimination and why. Describe the impact of eliminating these programs.

- i. Provide rhetorical questions and answers and how a legislator can obtain additional information.
2. As future changes are made to the budgeting process, the following items be considered as part of those changes:
  - a. The involvement of new technology in budget presentations that may include:
    - (1) Overheads.
    - (2) Slides.
    - (3) Computer-generated presentations.
    - (4) Audio.
    - (5) Video.
    - (6) Additional supporting information being available at the hearing to respond to questions.
    - (7) Ability to have interactive video access to experts or other groups to provide information to the committee.
  - b. The availability of budgetary information online that may include:
    - (1) Office of Management and Budget reports, including budget requests, budget recommendations, budget summaries, and other budgetary information.
    - (2) Legislative Council staff reports, including budget status, fiscal impact reports, agency summaries, budget analysis reports, and other budgetary information.
    - (3) Agency information, including testimony, supporting documents, and other information.
    - (4) Fiscal notes.
  - c. The effect of budget recommendations that involve one-time revenues, one-time expenditures, new program expenditures, discontinued program expenditures, leases or other contractual obligations, and delayed effective date legislation on future budgets by:
    - (1) Requiring this information to be included on budget request forms.
    - (2) Requiring this information to be included in executive budget documents.
    - (3) Continuing to include this information in fiscal notes.
    - (4) Encouraging the Legislative Assembly, when possible, to include this information in its budget-related documents.
  - d. Adequate information be provided supporting agency budget requests, executive budget recommendations, statements of purpose of amendment, and fiscal notes.

## BUDGET PROCESS

[Appendix A](#) provides a summary of North Dakota's budgeting process.

## CONSTITUTIONAL AND STATUTORY PROVISIONS

[Appendix B](#) includes selected constitutional and statutory provisions relating to the state budget:

- Section 7 of Article V relating to the powers of the Governor;
- Section 12 of Article X relating to the appropriation by the legislature;
- North Dakota Century Code Sections 54-35-12 through 54-35-14 relating to the powers of the legislative budget analyst and auditor; and
- North Dakota Century Code Chapter 54-44.1 relating to the office of the budget.

## REVENUE FORECASTING PROCESS

[Appendix C](#) is a summary of North Dakota's revenue forecasting process and [Appendix D](#) is a schedule comparing forecasted and actual revenues since 1981-83.

## STUDY PLAN

The committee may wish to proceed with its potential duties and responsibilities as follows:

1. October 2007- October 2008	Receive reports from the Office of Management and Budget on the status of the general fund and other selected special funds, including revenue collections and expenditures
2. October 2007- January 2008	Review current budget forms and guidelines, consider any appropriate changes, and provide a recommendation to the Budget Section
3. January- June 2008	Receive reports from selected state agencies regarding the status of the 2007-09 biennium budget, including any budget-related concerns, federal funds changes, and programmatic changes
4. January- August 2008	Review information from state agencies and institutions on deferred maintenance issues relating to facilities and other infrastructure throughout state government
5. March- August 2008	Receive information from selected state agencies regarding anticipated costs to continue and other budget needs for the 2009-11 biennium
6. January- August 2008	Receive information from industry and academic representatives on the status of the state's economy, state revenue impact, and expectations for the 2009-11 biennium
7. March- April 2008	Receive information from representatives of Moody's Economy.com on the state's economy, including strengths and weaknesses and provide input on the development of the July 2008 revenue forecast

8. March- October 2008	Review preliminary information on 2009-11 estimated revenue and appropriation requirements, including cost to continue items
9. July- August 2008	Receive the July 2008 revised revenue forecast
10. October 2008	Review projected revenues, expenditures, and fund balances of major state funds
11. October 2008	Review federal fund receipts for the 2007-09 biennium compared to appropriated amounts and anticipated 2009-11 changes
12. March- October 2008	Discuss possible legislative initiatives that would affect the budget
13. March- October 2008	Discuss possible methods of returning excess revenues to North Dakota taxpayers
14. March- October 2008	Identify key budget issues for the 2009 legislative session
15. July- October 2008	As appropriate, develop recommendations and prepare any legislation necessary to implement the recommendations
16. October 2008	Prepare a final report for submission to the Legislative Council

ATTACH:4