Prepared by the North Dakota Legislative Council staff for the Budget and Finance Committee
October 2008

PRELIMINARY OUTLOOK - NORTH DAKOTA 2009-11 BIENNIUM GENERAL FUND BUDGET

The schedule below is prepared as an early discussion paper regarding the 2009-11 biennium budget. All amounts shown are based on preliminary estimates.

Revenue items are based on the Office of Management and Budget (OMB) July 2008 revenue forecast for the remainder of the 2007-09 and 2009-11 bienniums. Amounts shown for possible increases in state employee salaries, elementary and secondary education, higher education, major human services programs, etc., are not recommended amounts but are provided so the reader can substitute whatever level he or she believes appropriate. Only major items have been included.

Additional amounts that may be requested as part of agency budget requests are not reflected on this schedule.

The amounts shown do not reflect potential general fund changes that may result if the following proposed ballot measures are approved in the November general election:

1. Creation of a constitutional permanent oil tax trust fund - Measure No. 1 limits the amount of oil tax revenue that may be deposited in the general fund to $100 million each biennium, adjusted by the consumer price index in future bienniums. The measure requires approval by 75 percent of the Legislative Assembly to spend money from the permanent oil tax trust fund. The measure is anticipated to increase general fund revenues by $29 million for the 2009-11 biennium; however, any revenues transferred to the permanent oil tax trust fund after July 1, 2009, would require approval by 75 percent of the Legislative Assembly to spend.
2. Reduction of individual and corporate income tax rates - Measure No. 2 reduces individual income tax rates by approximately 50 percent and corporate income tax rates by 15 percent. The measure is anticipated to reduce 2009-11 biennium general fund revenues by approximately $414.2 million.

	General Fund		
	Ongoing Revenues and Expenditures	**One-Time Resources and Expenditures**	**Total**
Beginning balance			
Estimated balance - June 30, 2009		$468,416,090[1]	$468,416,090
Less: Potential deficiency appropriation requests		(5,494,249)[2]	(5,494,249)
Potential transfer to budget stabilization fund		(72,787,000)[3]	(72,787,000)
Estimated balance - July 1, 2009		$390,134,841	$390,134,841[4]
Revenues			
2009-11 biennium revenues based on the OMB July 2008 forecast	$2,734,683,000[5]		$2,734,683,000
Transfers	84,400,000[6]		84,400,000
Total revenues	$2,819,083,000		$2,819,083,000
Total 2009-11 biennium resources	$2,819,083,000	$390,134,841	$3,209,217,841
Appropriations			
2007-09 biennium **general fund** appropriations	($2,317,447,000)	($144,527,000)[7]	($2,461,974,000)
Remove 2007-09 biennium one-time appropriation		144,527,000	144,527,000
Potential funds available	$501,636,000	$390,134,841	$891,770,841
Less general fund requirements due to 2007 legislative action or federal program changes:			
• Increased costs for Department of Human Services grants resulting from an anticipated reduction in the federal medical assistance percentage (FMAP)	(11,000,000)		(11,000,000)
• Cost to continue the 5 percent second-year inflationary increase for Department of Human Services service providers	(8,800,000)		(8,800,000)
• Additional funding for continuation of state administration of child support enforcement activities	(3,400,000)		(3,400,000)
• Cost to continue to provide continuous Medicaid eligibility for an entire biennium (18 months in 2007-09)	(750,000)		(750,000)
• Loan repayments to the Bank of North Dakota relating to the state matching share of additional medical assistance grants for developmental disabilities services		(1,000,000)	(1,000,000)

	General Fund		
	Ongoing Revenues and Expenditures	One-Time Resources and Expenditures	Total
• Cost to continue the 2007-09 biennium level of medical assistance grants for developmental disabilities services	(1,000,000)		(1,000,000)
• Cost to continue the 4 percent second-year salary increase for state employees for two years in the 2007-09 biennium	(8,400,000)		(8,400,000)
• Loan repayments to the Bank of North Dakota relating to additional centers of excellence grants awarded in excess of the $15 million anticipated by the 2007 Legislative Assembly to be repaid during the 2007-09 biennium (assuming the total available of $20 million is awarded during the 2007-09 biennium)		(5,000,000)	(5,000,000)
• Ongoing and maintenance costs for the Information Technology Department's statewide automated victim information and notification (SAVIN) system	(850,000)		(850,000)
• Cost to continue the three new virtual area career and technology centers established by the Department of Career and Technical Education for an entire biennium	(800,000)		(800,000)
• Increased general fund bond payments, excluding higher education	(1,700,000)		(1,700,000)
Total cost-to-continue items	($36,700,000)	($6,000,000)	($42,700,000)
Remaining balance available	$464,936,000	$384,134,841	$849,070,841
Other potential selected general fund spending increases the 2009 Legislative Assembly may be asked to consider:			
• State employee salary increases, excluding higher education, of 4 percent for each year of the biennium	($25,200,000)[8]		($25,200,000)[8]
• State employee health insurance increases based on an annual increase of approximately 13.5 percent and assuming 60 percent of health insurance premium costs are paid from the general fund	(22,000,000)		(22,000,000)
• Additional funding for elementary and secondary education - Same dollar increase as the 2007-09 biennium	(73,700,000)		(73,700,000)
• Higher education - Same dollar increase as the 2007-09 biennium (The University System has requested a base funding increase of $115.8 million for the higher education institutions, including the UND School of Medicine and Health Sciences and the Forest Service, and $85.4 million of one-time funding requests.)	(53,000,000)	($28,500,000)	(81,500,000)
• Information technology project requests (as prioritized by the State Information Technology Advisory Committee (SITAC))		(42,100,000)	(42,100,000)
• Department of Human Services - Five percent annual increases for growth and inflation of major department programs	(23,900,000)		(23,900,000)
• Department of Corrections and Rehabilitation - Facility expansion costs of $67 million as recommended by the Correctional Facility Review Committee (in addition to the $42 million estimated to be available in the State Penitentiary land fund)		(25,000,000)	(25,000,000)
• Property tax relief - Continuation of level approved by the 2007 Legislative Assembly	(112,000,000)		(112,000,000)
• Continuation of centers of excellence grants (Legislative intent was included in Section 14 of 2005 Senate Bill No. 2018 providing that a total of $50 million be provided for centers of excellence grants. The Legislative Assembly provided $20 million for the 2005-07 biennium and $20 million for the 2007-09 biennium. The amount shown is the amount remaining.)		(10,000,000)	(10,000,000)
• Inflationary increases of 3 percent per year for remaining agency expenditures not included above	(6,300,000)		(6,300,000)
Total other potential selected general fund spending increases	($316,100,000)	($105,600,000)	($421,700,000)
Estimated remaining funds to provide for other potential funding requests and June 30, 2011, ending balance[9]	$148,836,000	$278,534,841	$427,370,841

[1]The estimated June 30, 2009, balance is based on actual general fund collections through September 2008 and the OMB July 2008 revenue forecast for the remainder of the 2007-09 biennium. The amount does not include any amount resulting from 2007-09 biennium unspent general fund appropriations (turnback).

[2]Potential amount resulting from 2007-09 biennium deficiency appropriation requests include:

• Adjutant General (Department of Emergency Services) - State disasters	$3,400,000
• North Dakota State University - 2000 flood expenditures	575,142
• University of North Dakota - 1997 flood expenditures	1,310,955
• Agricultural Experiment Station	136,152
• Attorney General - Prosecution witness and litigation fees	72,000
Total	$5,494,249

[3]The amount shown as a potential transfer to the budget stabilization fund is based on the assumption that 2009-11 biennium general fund appropriations will increase by 10.8 percent over 2007-09 biennium general fund appropriations. The 10.8 percent increase is the 10-year average increase in general fund appropriations from 1999-2001 through 2007-09 bienniums. After this transfer, the balance in the budget stabilization fund would be $272.8 million.

[4]In addition to the $368.1 million estimated July 1, 2009, general fund balance, the current estimate of the balance in the permanent oil tax trust fund is $631.6 million and the preliminary estimate of the balance in the budget stabilization fund is $272.8 million on July 1, 2009.

[5]The amount shown for 2009-11 biennium revenues is based on the OMB July 2008 preliminary revenue forecast for the 2009-11 biennium. The 2009-11 biennium revenue amount reflects the discontinuation of the property tax income tax credits approved in 2007 Senate Bill No. 2032 of an estimated $112 million since the schedule reflects potential property tax relief as a 2009-11 biennium spending increase.

[6]The amount shown reflects the following major transfers to the general fund compared to the 2007-09 biennium:

	2007-09	2009-11	Variance
Bank of North Dakota	$60,000,000	$60,000,000	$0
Student loan trust fund	3,100,000	3,100,000	0
Mill and Elevator	5,000,000	5,000,000	0
Gas tax administration	1,274,056	1,300,000	25,944
Lands and minerals trust fund	15,000,000	15,000,000	0
Permanent oil tax trust fund	115,000,000	0	(115,000,000)
Health care trust fund			
Total transfers	$199,374,056	$84,400,000	($114,974,056)

[7]The amount shown for 2007-09 biennium one-time general fund appropriations includes a $5 million contingent general fund appropriation to the Department of Public Instruction for school district deferred maintenance and physical plant improvement grants authorized in 2007 Senate Bill No. 2200, which became effective in February 2008.

[8]The amounts shown are the estimated cost of a 4 percent first-year and a 4 percent second-year salary increase--the same percentage increases provided for the 2007-09 biennium. Additional information and costs of various salary increase levels are listed below:

Salary Increase	General Fund Estimated Cost
1 percent for one year	$2,100,000
3 percent increase for each year of the biennium	18,900,000
4 percent increase for each year of the biennium	25,200,000
5 percent increase for each year of the biennium	31,500,000
6 percent increase for each year of the biennium	37,800,000
7 percent increase for each year of the biennium	44,100,000

[9]**Other potential funding requests** - The other potential funding requests listed below include major items that would result in increased general fund spending or decreased general fund revenues. The items shown are those that have been made public and are based on agency budget requests, funding recommendations, or proposals made by the candidates for Governor in the 2008 general election as available on each candidate's website.

Other Potential Funding Requests	Effect on Potential Funds Remaining Available
Elementary and secondary education - Increase state aid to schools by at least $100 million	A minimum of ($26,300,000)
Higher education - Increase base funding for higher education by $115.8 million and one-time funding by $85.4 million	($119,700,000)
Higher education student assistance - Increase student tuition assistance by at least $34 million	A minimum of ($34,000,000)

State employee salary increases - Provide state employee salary increases of 4 percent for each year with a minimum increase of $75 per month and adjust classified employee pay grades to provide that the pay range midpoints are at 95 percent of market. The estimated general fund cost of this proposal is $44.6 million as recommended by the State Employees Compensation Commission.	($19,400,000)
Property tax relief - Provide property tax relief of $300 million to $700 million	($188,000,000) to ($588,000,000)
Income tax reductions - Reduce income taxes by amounts necessary to reduce general fund income tax collections by $100 million to $300 million	($100,000,000) to ($300,000,000)
Total other potential funding requests	A minimum of ($487,400,000) to ($1,087,400,000)

Appendix A (attached) provides a detailed comparison of estimated general fund revenues.

Appendix B (attached) provides the preliminary estimate of ongoing and one-time revenues for the 2009-11 biennium and effects of various spending levels.

ATTACH:2