

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

GOVERNMENT SERVICES COMMITTEE

Thursday, October 11, 2012
 Harvest Room, State Capitol
 Bismarck, North Dakota

Representative Jeff Delzer, Chairman, called the meeting to order at 10:00 a.m.

Members present: Representatives Jeff Delzer, Glen Froseth, Matthew M. Klein, Curtiss Kreun, Bob Martinson, Lisa Meier, Phillip Mueller, Todd Porter, David S. Rust, Vicky Steiner, Blair Thoreson, Don Vigesaa, Alon Wieland; Senators Ron Carlisle, Lonnie J. Laffen, Gary A. Lee, Jim Roers, Donald Schaible

Members absent: Representatives Duane DeKrey, Ed Gruchalla; Senator David O'Connell

Others present: Jerry Klein, State Senator, Fessenden
 Jim Schmidt, State Representative, Huff
 Rich Wardner, State Senator, Dickinson
 See [Appendix A](#) for additional persons present.

It was moved by Representative Wieland, seconded by Representative Rust, and carried on a voice vote that the minutes of the September 19, 2012, meeting be approved as distributed.

STATE BUDGET INFORMATION

2013-15 Biennium

Executive Budget Proposals

Mr. Tad Torgerson, Management and Fiscal Analyst, Office of Management and Budget, presented information ([Appendix B](#)) regarding major executive budget proposals for the 2013-15 biennium. The following is a summary of the current executive budget proposals, including estimated expenses and revenue impacts:

Area	Description	General Fund Revenue Impact	Special Funds Revenue Impact	General Fund Appropriation Impact	Special Funds Appropriation Impact
Housing	<ul style="list-style-type: none"> PACE - Increase funding for the Bank of North Dakota's partnership in assisting community expansion (PACE) program, including Flex PACE, by \$12 million, from \$6 million to \$18 million Housing incentive fund - Increase the maximum allowable credits available for contribution to the housing incentive fund from \$15 million for the 2011-13 biennium to \$20 million for the 2013-15 biennium Housing incentive fund - Provide that the Bank of North Dakota provide \$30 million of its earnings for direct investment in the housing incentive fund Energy infrastructure and impact grants - Provide funding for energy infrastructure and impact grants from the oil and gas impact grant fund at \$135 million, an increase of \$5 million from the \$130 million provided for the 2011-13 biennium Homestead tax credit program - Expand the homestead tax credit program for individuals who are age 65 or older or permanently and totally disabled by removing the value of assets saved for retirement from the calculation of net assets and by increasing the income threshold for households to be eligible for a property tax exemption. The current income thresholds are on a graduated scale with the percentage of exemption decreasing as the level of income increases. The highest income level for exemption eligibility would increase the current level of \$26,000 to \$50,000 per year. The funding estimated to be needed for the program for the 2013-15 biennium with these changes included is \$28.7 million, an increase of \$20 million from the 2011-13 biennium appropriation. 	(\$5,000,000)		\$12,000,000	
					\$30,000,000
			(\$5,000,000)		5,000,000
				20,000,000	

Area	Description	General Fund Revenue Impact	Special Funds Revenue Impact	General Fund Appropriation Impact	Special Funds Appropriation Impact
Elementary and secondary education	<ul style="list-style-type: none"> • Capital construction loans - Provide \$200 million from the strategic investment and improvements fund for low-interest loans to qualified school districts for the construction of new schools or improvements or expansions to existing school buildings. This loan program would be in addition to the school construction loan program provided from the coal development trust fund. • Rapid enrollment growth grants - Provide \$25 million from the oil and gas impact grant fund for rapid enrollment growth grants. The Legislative Assembly appropriated \$5 million from the oil and gas impact grants fund for rapidly growing schools for the 2011-13 biennium. 				200,000,000
Transportation	<ul style="list-style-type: none"> • Oil and gas gross production tax collections - Increase political subdivision's share of oil and gas gross production tax collections to approximately \$400 million from the \$252 million estimated to be received during the 2011-13 biennium • County and township road projects - Provide special allocations from the general fund for county and township roadway projects identified by the Upper Great Plains Transportation Institute in areas affected by oil and gas development as follows: <ul style="list-style-type: none"> Provide \$150 million to complete county and township road projects planned and begun during the 2011-13 biennium Provide \$145 million to continue the program for new projects during the 2013-15 biennium. The program received \$142 million of one-time funding during the 2011-13 biennium. • Priority highway and road projects - Provide funding from the general fund for a new enhanced road and highway fund for one-time investments in priority highway and road projects • Non-oil county road projects - Provide a special allocation of funding from the general fund to non-oil counties for road projects 		(148,000,000)	150,000,000 145,000,000 1,000,000,000 100,000,000	20,000,000
Tax relief	<p>The Governor's proposed tax relief plan for the 2013-15 biennium includes property tax, individual and corporate income tax relief, and an enhancement of the homestead tax credit program. The Governor is proposing to provide an additional \$545 million of tax relief during the 2013-15 biennium.</p> <ul style="list-style-type: none"> • Property tax relief - Reduce school property taxes by 50 percent for school districts with an average tax levy. The statewide average mill levy for school districts is approximately 120 mills. Under the Governor's proposal, the mill levy reduction grant program currently in place will continue and be expanded to reduce school mill levies by an additional 60 mills. The cost to reduce the school mill levies by an additional 60 mills is estimated at \$400 million. This amount is in addition to the funding of \$342 million currently appropriated for property tax relief. • Homestead tax credit program - See information provided above under housing relating to the program expansion at an estimated cost of \$20 million. • Individual income tax relief - The Governor's proposal will include approximately \$100 million for individual income tax relief. The proposal would reduce individual income tax rates; however, the actual rate reduction percentages are unknown at this time. 	(100,000,000)		400,000,000	

Area	Description	General Fund Revenue Impact	Special Funds Revenue Impact	General Fund Appropriation Impact	Special Funds Appropriation Impact
	<ul style="list-style-type: none"> • Corporate income tax relief - The Governor's proposal will include approximately \$25 million for corporate income tax relief. The proposal would reduce corporate income tax rates; however, the actual rate reduction percentages are unknown at this time. 	(25,000,000)			
	Total	(\$130,000,000)	(\$173,000,000)	\$1,827,000,000	\$255,000,000

In response to a question from Representative Kreun, Mr. Torgerson said the executive budget proposal to provide \$400 million of property tax relief through mill levy reduction grants is in addition to the current mill levy reduction grant funding level of \$342 million, for a total of \$742 million.

In response to a question from Representative Delzer, Mr. Ryan Rauschenberger, Deputy Tax Commissioner, Tax Commissioner's office, said the Legislative Assembly in 2011 provided for \$15 million of tax credits through the housing incentive fund. He said approximately \$10 million of the tax credits have been used to date.

In response to a question from Representative Delzer, Mr. Torgerson said most of the executive budget proposals are considered one-time items. He said the executive budget proposals provide for the items to be paid from the 2013-15 biennium beginning general fund excess balance.

Representative Froseth said many of the proposals, such as expanding roadways, will have continuing maintenance and other costs.

In response to a question from Representative Vigesaa, Mr. Torgerson said the executive budget proposal for roadway funding includes special distributions for county and township road projects in both oil producing counties and non-oil producing counties.

In response to a question from Senator Lee, Mr. Torgerson said the proposal to allocate funding for county and township road projects in areas affected by

oil and gas development is based on a December 2010 needs assessment study conducted by the Upper Great Plains Transportation Institute. He said the institute recently released another report detailing county and township road needs in all areas of the state.

Preliminary 2013-15 Biennium Budget Outlook

The Legislative Budget Analyst and Auditor presented a memorandum entitled [Preliminary Budget Outlook - 2013-15 Biennium](#). He said the preliminary budget outlook is based on the Office of Management and Budget (OMB) September 2012 preliminary revenue forecast for the remainder of the 2011-13 biennium and for the 2013-15 biennium. He said 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. He said only major items have been included and additional amounts that may be requested as part of agency budget requests, items that may be recommended by the Governor, and potential legislative initiatives are not reflected in the memorandum.

The Legislative Budget Analyst and Auditor reviewed the following schedule summarizing the preliminary budget outlook:

	General Fund		
	Ongoing Revenues and Expenditures	One-Time Resources and Expenditures	Total
Beginning balance			
Estimated balance - June 30, 2013		\$1,621,225,036 ¹	\$1,621,225,036 ¹
Less: Potential deficiency appropriation requests		(72,872,008) ²	(72,872,008) ²
Potential transfer to budget stabilization fund		(43,882,625) ³	(43,882,625) ³
Estimated balance - July 1, 2013		\$1,504,470,403	\$1,504,470,403
Revenues			
2013-15 biennium revenues (based on the OMB September 2012 preliminary revenue forecast)	\$4,920,098,718		\$4,920,098,718
Transfers	360,925,000 ⁴		360,925,000 ⁴
Total revenues	\$5,281,023,718		\$5,281,023,718
Total 2013-15 biennium resources	\$5,281,023,718	\$1,504,470,403	\$6,785,494,121
Appropriations			
2011-13 biennium ongoing general fund appropriations	(\$3,534,591,025)		(\$3,534,591,025)
Potential funds available	\$1,746,432,693	\$1,504,470,403	\$3,250,903,096
Less general fund requirements due to 2011 legislative action or federal program changes			
• Cost to continue the 3 percent second-year state employee salary increase for two years in the 2013-15 biennium	(8,000,000)		(8,000,000)

	General Fund		
	Ongoing Revenues and Expenditures	One-Time Resources and Expenditures	Total
<ul style="list-style-type: none"> • Cost to continue the retirement contribution increase (a state contribution of 1 percent beginning January 1, 2012, and an additional state contribution of 1 percent beginning January 1, 2013) for two years in the 2013-15 biennium 	(4,916,000)		(4,916,000)
<ul style="list-style-type: none"> • Cost to continue the new state employee minimum salary levels implemented by OMB on July 1, 2012, relating to the implementation of recommendations from the classified state employee compensation study completed by Hay Group 	(1,200,000)		(1,200,000)
<ul style="list-style-type: none"> • Cost to continue the second-year state school aid per student payment levels for two years in the 2013-15 biennium assuming no increase in student enrollment (including funding to replace the \$9 million of 2009-11 biennium appropriation authority authorized to continue in the 2011-13 biennium for state aid per student payments) 	(29,300,000)		(29,300,000)
<ul style="list-style-type: none"> • Funding to support the State Department of Health's Provider Choice immunization program resulting from the loss of federal 317 vaccine for insured children vaccinated at local public health units 	(2,000,000)		(2,000,000)
<ul style="list-style-type: none"> • Cost to continue the 3 percent second-year inflationary increase for Department of Human Services' providers for two years in the 2013-15 biennium 	(8,000,000)		(8,000,000)
<ul style="list-style-type: none"> • Increased costs for Department of Human Services' grants resulting from a reduction in the federal medical assistance percentage (FMAP) (assumes an FMAP of 50 percent for federal fiscal years 2014 and 2015) 	(91,500,000)		(91,500,000)
<ul style="list-style-type: none"> • Cost to continue property tax relief in the 2013-15 biennium based on the same percentage increase from the 2009-11 biennium to the 2011-13 biennium 	(48,192,400)		(48,192,400)
<ul style="list-style-type: none"> • Funding for the Heritage Center expansion project relating to utilities and staff provided for only one year during the 2011-13 biennium 	(450,000)		(450,000)
<ul style="list-style-type: none"> • Funding for the Department of Corrections and Rehabilitation for staffing, maintenance, and inmate costs associated with the State Penitentiary expansion project 	(1,500,000)		(1,500,000)
<ul style="list-style-type: none"> • Funding for the Industrial Commission for costs associated with new employees that started at various times during the 2011-13 biennium 	(230,000)		(230,000)
<ul style="list-style-type: none"> • Funding for the Highway Patrol for costs related to new trooper positions authorized during the November 2011 special legislative session 	(262,053)		(262,053)
<ul style="list-style-type: none"> • Funding for the Department of Human Services for costs related to positions authorized during the November 2011 special legislative session for implementation of the federal Affordable Care Act 	(150,000)		(150,000)
<ul style="list-style-type: none"> • Funding for the North Dakota University System for costs related to adding new medical and allied health students 	(2,000,000)		(2,000,000)
<ul style="list-style-type: none"> • Funding for the Secretary of State for costs related to three new FTE positions authorized during the 2011-13 biennium by the Emergency Commission and Budget Section to respond to the increase in demand for services, including increases in legal business registration documents and in contractor licensing applications 	(324,000)		(324,000)
<ul style="list-style-type: none"> • Funding for the State Department of Health for costs related to three new FTE positions authorized during the 2011-13 biennium by the Emergency Commission for the department's Environmental Health Section to provide inspection, outreach, investigation, and other services relating to water quality, wastewater disposal and treatment, and oil spill response and remediation in western North Dakota 	(747,500)		(747,500)
Total cost-to-continue items	(\$198,771,953)		(\$198,771,953)
Remaining balance available	\$1,547,660,740	\$1,504,470,403	\$3,052,131,143
Other potential selected general fund spending increases the Legislative Assembly in 2013 may be asked to consider:			
<ul style="list-style-type: none"> • State employee salary increases, excluding higher education, of 3 percent for each year of the biennium (A 1 percent salary increases costs approximately \$2.81 million per year.) 	(\$25,290,000)		(\$25,290,000)
<ul style="list-style-type: none"> • State employee health insurance increases based on the preliminary estimate of approximately a 13 percent increase (monthly premium increasing from \$886.62 to \$1,001.72) 	(13,500,000)		(13,500,000)
<ul style="list-style-type: none"> • Additional funding for elementary and secondary education - Same dollar increase as the 2011-13 biennium 	(125,000,000)		(125,000,000)
<ul style="list-style-type: none"> • Higher education - Same dollar increase as the 2011-13 biennium (The North Dakota University System has requested a base funding increase of \$85.5 million for the higher education institutions, including the UND School of Medicine and Health Sciences and the Forest Service, and \$146.3 million for major capital projects. The base funding increase of \$85.5 million does not include funding for salary or health insurance increases for the 2013-15 biennium.) 	(72,500,000)	(\$51,300,000)	(123,800,000)

	General Fund		
	Ongoing Revenues and Expenditures	One-Time Resources and Expenditures	Total
<ul style="list-style-type: none"> Information technology project requests (as prioritized by the State Information Technology Advisory Committee) 		(8,300,000)	(8,300,000)
<ul style="list-style-type: none"> Department of Human Services - Cost and caseload increases not including inflationary adjustments 	(35,000,000)		(35,000,000)
<ul style="list-style-type: none"> Department of Human Services - Three percent annual increases for growth and inflation of major department programs 	(26,700,000)		(26,700,000)
<ul style="list-style-type: none"> Continuation of centers of research excellence grants (same level of funding as provided for the 2011-13 biennium) 		(12,000,000)	(12,000,000)
<ul style="list-style-type: none"> Tax Department - Additional funding for the homestead tax credit program (\$1.7 million) and the disabled veterans property tax credit program (\$2.9 million) 	(4,600,000)		(4,600,000)
<ul style="list-style-type: none"> Inflationary increases of 3 percent per year for remaining agency expenditures not included above 	(13,200,000)		(13,200,000)
Total other potential selected general fund spending increases	(\$315,790,000)	(\$71,600,000)	(\$387,390,000)
Estimated remaining funds to provide for the June 30, 2015, ending balance and agency budget requests, Governor's recommendations, and legislative initiatives that may relate to: <ul style="list-style-type: none"> New programs and program enhancements; Infrastructure improvements, including road projects; Tax relief; and Other capital projects 	\$1,231,870,740	\$1,432,870,403	\$2,664,741,143

¹The estimated June 30, 2013, balance is based on the OMB September 2012 revenue forecast for the 2011-13 biennium. The amount does not include any amount resulting from 2011-13 biennium unspent general fund appropriations (turnback).

²Potential amount resulting from 2011-13 biennium deficiency appropriation requests include:

Department of Human Services - Grants resulting from a reduction in the FMAP for the 2013 federal fiscal year	\$21,200,000
Department of Transportation - Loan repayment relating to the state match of federal emergency funding	45,600,000
Minot State University - Funding for emergency flood fighting cost not covered by the Federal Emergency Management Agency (FEMA) (\$201,369) and building and infrastructure restoration costs not covered by FEMA (\$1,646,613)	1,847,982
State Fair Association - Loan repayment relating to recovery and prevention efforts related to the flood disaster at the state fairgrounds	1,397,630
Tax Department - Additional funding for the disabled veteran property tax credit program	981,855
State Department of Health - Funding for costs associated with a food and lodging inspector for western North Dakota (\$82,894) and loan repayment relating to costs associated with a lawsuit with the Environmental Protection Agency	582,894
Highway Patrol - Funding for increased State Fleet costs and mileage	500,000
Forest Services - Funding for expenses associated with emergency wildland firefighting	250,000
Valley City State University - Funding for permanent hillside stabilization project	505,800
Job Service North Dakota - Interest relating to a loan for disaster unemployment assistance	5,847
Total	\$72,872,008

³The amount shown as a potential transfer to the budget stabilization fund is based on statutory provisions requiring any ending general fund balance amounts in excess of \$65 million to be deposited in the budget stabilization fund and on the assumption that 2013-15 biennium general fund appropriations will increase by approximately 10 percent over 2011-13 biennium general fund appropriations allowing the maximum balance in the budget stabilization fund to be \$442.7 million. The budget stabilization fund balance is limited to 9.5 percent of biennial general fund appropriations.

⁴The amount shown reflects the following major transfers to the general fund compared to the 2011-13 biennium:

	2011-13 Biennium	2013-15 Biennium	Variance
Mill and Elevator	\$6,650,000	\$6,650,000	
Lottery	11,000,000	11,000,000	
Gas tax administration	1,485,000	1,485,000	
Property tax relief sustainability fund	295,000,000	341,790,000	\$46,790,000
Strategic investment and improvements fund	305,000,000		(305,000,000)
Total transfers	\$619,135,000	\$360,925,000	(\$258,210,000)

In response to a question from Representative Delzer, the Legislative Budget Analyst and Auditor said revised general fund revenue forecasts will be released in November 2012 and February 2013. He said the Legislative Assembly will base its revised 2011-13 biennium general fund revenue forecast and 2013-15 biennium general fund revenue forecast on the February 2013 revenue forecast.

In response to a question from Senator Lee, the Legislative Budget Analyst and Auditor said general fund ongoing appropriations increased by approximately \$554.3 million, or 18.6 percent, between the 2009-11 biennium and the 2011-13 biennium.

**Homestead and Disabled Veterans
Property Tax Credit Programs**

Ms. Marcy Dickerson, State Supervisor of Assessments, Tax Department, presented information ([Appendix C](#)) regarding the homestead and disabled veterans property tax credit programs. She said the homestead tax credit program is available for senior citizens or disabled persons and reduces eligible homeowners' property tax liabilities. She said the program is also available to senior citizens and disabled persons who do not own a home. She said a refund is provided to renters based on income and rent payment levels.

Ms. Dickerson said the disabled veterans property tax credit program is available to veterans that have been honorably discharged from the United States armed forces and have at least a 50 percent service-related disability. She said the tax credit is applied to the property taxes of the home owned and occupied by the disabled veteran or by an unremarried surviving spouse of a disabled veteran.

Ms. Dickerson provided the following information regarding current and estimated future appropriations needed for the programs:

	Homestead Tax Credit	Disabled Veterans Tax Credit
2011-13 biennium general fund appropriation	\$8,792,788	\$4,243,920
Estimated 2011-13 biennium deficiency appropriation needed	\$0	\$981,855
Estimated 2013-15 biennium general fund appropriation needed	\$10,685,000	\$7,178,000

In response to a question from Representative Meier, Ms. Dickerson said 4,359 successful applications for the homeowners' homestead tax credit were received in calendar year 2011. She said applications for the program are reviewed by county officials who then certify the successful applicants to the Tax Department.

In response to a question from Representative Froeth, Ms. Dickerson said the Tax Department promotes the homestead tax credit through various methods, including public service announcements and newspaper advertisements. However, she said, some individuals are still not aware of the program.

Transportation Information

Mr. Francis Ziegler, Director, and Ms. Linda Butts, Deputy Director for Driver and Vehicle Services, Department of Transportation, presented information ([Appendix D](#)) regarding various transportation topics. Mr. Ziegler said the federal surface transportation bill, referred to as Moving Ahead for Progress in the 21st Century Act, was recently signed into law. He said the bill states North Dakota's apportionment of federal highway funding will be approximately \$240.5 million in 2012 and 2013.

Ms. Butts provided information regarding temporary motor vehicle registrations. She said for the 2011-13 biennium through September 2012, there have been 10,208 temporary motor vehicle registrations issued and approximately \$3.02 million of fees collected. She said the number of temporary motor vehicle registrations issued has increased due to the development of an electronic registration process, increased law enforcement, and public information campaigns.

Ms. Butts said the department processed over one million motor vehicle registration renewals last year and there has been an increase in motor vehicle titling activity. As a result, she said there have been delays in the processing of motor vehicle registrations and title requests. She said the department is addressing the delays by changing the registration renewal format to remove duplication of notices and enhance mailing automation, using new processes to improve efficiencies, and using technology to communicate with and provide training to branch offices.

In response to a question from Representative Mueller, Ms. Butts said the increase in the number of motor vehicle registrations is primarily attributable to oil and gas development occurring in western North Dakota.

In response to a question from Representative Porter, Ms. Linda Sitz, Director, Motor Vehicle Division, Department of Transportation, said motor vehicle registrations may be renewed online. She said individuals have the option to receive registration renewal notices by e-mail.

**Elementary and Secondary
Education Information**

Mr. Jerry Coleman, Director of School Finance, Department of Public Instruction, presented information ([Appendix E](#)) regarding elementary and secondary education enrollment data, mill levy reduction grants, and the status of rapid enrollment grants. He said total public school enrollment increased from 95,778 during the fall of 2011 to an estimated 99,096 during the fall of 2012.

Mr. Coleman said the Legislative Assembly in 2011 appropriated \$341.79 million from the general fund for mill levy reduction grants for the 2011-13 biennium. He presented the following information regarding past grant funding used and estimated funding needed for the program for future grants:

Biennium	Total Mill Levy Reduction Grants
2009-11 actual	\$299,444,264
2011-13 estimated	\$331,525,288
2013-15 estimated	\$395,622,720

In response to a question from Representative Delzer, Mr. Coleman said approximately \$10.3 million of funding appropriated during the 2011-13 biennium for mill levy reduction grants will not be used. He said any unused funding will remain in the general fund.

Mr. Coleman said the Legislative Assembly in 2011 appropriated \$5 million from the oil and gas impact

grant fund for 2011-13 biennium rapid enrollment grants to school districts. He said schools that had enrollment increase by at least 7 percent annually, subject to a minimum increase of 25 students, are eligible to receive a grant. He said 10 school districts received total grant funding of \$2,408,560 during the first year of the biennium. He said 19 school districts are estimated to receive total grant funding of \$2,591,440 during the second year of the biennium. He said the second year grant funding calculation totaled \$5,914,280 but payments were prorated based on remaining available funding. He said the department may request a deficiency appropriation of \$3,322,840 to provide full grant funding to school districts.

In response to a question from Representative Delzer, Mr. Coleman said the department anticipates approximately \$5 million of funding appropriated for regular per pupil payments to school districts during the 2011-13 biennium will not be used. He said statute requires the excess funding to be distributed to school districts at the end of the biennium.

In response to a question from Representative Rust, Mr. Coleman said he will provide information to the committee regarding the number of school districts with a property tax levy below 110 mills.

Ms. Linda Schloer, Director, Child Nutrition and Food Distribution, Department of Public Instruction, presented information ([Appendix F](#)) regarding school breakfast and lunch program funding. She presented the following information regarding estimated total federal and state funding budgeted for school breakfast and lunch programs:

	2009-11 Biennium	2011-13 Biennium	2013-15 Biennium
Federal funds	\$47,982,428	\$55,688,116	\$59,561,778
State matching funds	1,384,386	1,524,996	1,525,182
Total	\$49,366,814	\$57,213,112	\$61,086,960

Ms. Schloer presented the following schedule detailing the reimbursement rates for each school breakfast and lunch program meal:

Program	Free	Reduced Price	Full Price
School lunch	\$2.86	\$2.46	\$0.27
School breakfast	\$1.55	\$1.25	\$0.27

In response to a question from Representative Delzer, Ms. Schloer said the state could develop its own guidelines for school breakfast and lunch programs if state funding was used in place of federal funding for the programs. However, she said federal funding for other programs may potentially be affected by the state implementing its own school lunch guidelines.

Rebuilders Loan Program

Mr. Bob Humann, Chief Lending Officer, Bank of North Dakota, presented information ([Appendix G](#)) regarding the rebuilders loan program. He said the Legislative Assembly in 2011 appropriated \$30 million of Bank of North Dakota profits and \$20 million from the

general fund for the program. He said 1,521 applications for the program were received by the September 30, 2012, application deadline. He presented the following schedule detailing the status of the applications as of October 5, 2012:

Rebuilders Loan Program Applications		
Status	Number	Value
Approved - Closed	1,208	\$35,217,857 ¹
Approved - Not closed	212	5,580,125
Waiting for information	55	1,626,000
Waiting for review	4	120,000
Rejected or cancelled	42	
Total	1,521	\$42,543,982

¹A total of \$32,679,665 of loan funds have been disbursed.

Mr. Humann presented the following schedule detailing the locations of properties for which loans have been approved:

Location	Number of Loans
Bismarck	57
Mandan	18
Minot and surrounding areas	1,345
Total	1,420

In response to a question from Representative Delzer, Mr. Humann said the \$30 million appropriated from Bank of North Dakota profits for the program has already been used. He said the program is now utilizing the \$20 million general fund appropriation to provide loans. However, he said the bank does not estimate using the entire general fund appropriation.

STUDY OF THE USE OF STATE-OWNED AIRPLANES

The Legislative Council staff distributed a bill draft [[13.0083.03000](#)] to create a central management system for state-owned or state-leased aircraft within the Department of Transportation.

It was moved by Representative Porter, seconded by Senator Carlisle, and carried on a roll call vote that the bill draft to create a central management system for state-owned or state-leased aircraft be amended to include "aeronautics commission" in the list of state agencies with specialized aircraft and to then approve and recommend the amended bill draft to the Legislative Management. Representatives Delzer, Froseth, Klein, Kreun, Martinson, Meier, Mueller, Porter, Rust, Steiner, Thoreson, Vigesaa, and Wieland and Senators Laffen, Carlisle, Lee, Roers, and Schaible voted "aye." No negative votes were cast.

Representative Delzer said the 63rd Legislative Assembly should consider authorizing the Department of Transportation to purchase the North Dakota State University airplane for use in the potential central aircraft management system.

The committee recessed for lunch at 11:50 a.m. and reconvened at 1:00 p.m.

OIL AND GAS INFORMATION

Mr. Lynn Helms, Director, Department of Mineral Resources, provided an update ([Appendix H](#)) on the status of oil and gas production in the state. He said as of October 11, 2012, there were 187 oil drilling rigs in the state which is 31 rigs less than the record high number of 218 rigs reached on May 29, 2012. He said some oil drilling rigs have left the state to drill in the Eagle Ford Shale Oil Formation in Texas.

Mr. Helms said during the month of August 2012 approximately 7,700 active oil wells were in the state producing an estimated 701,000 barrels of oil per day. He said even though the number of drilling rigs has decreased, oil production continues to increase due to efficiencies in oil drilling operations.

Mr. Helms said 47 percent of North Dakota crude oil is transported to market by railroad. He said North Dakota oil producers can receive approximately \$24 per barrel more by transporting oil out of the state by rail rather than pipeline. He said the current cost of shipping oil by railcar is approximately \$15 per barrel.

In response to a question from Senator Carlisle, Mr. Helms said the cost of drilling increased in the past year due to a workforce shortage. He said several oilfield companies have brought additional personnel to the state to address the workforce shortage.

In response to a question from Representative Froseth, Mr. Helms said the Spearfish Oil Formation in north central North Dakota produces sour crude oil. He said some producers are blending the sour crude oil with sweet crude oil to obtain a better price.

In response to a question from Representative Porter, Mr. Helms said his office does not monitor the status of private mineral leases. He said drilling activity may increase when multiple mineral leases are about to expire.

In response to a question from Senator Carlisle, Mr. Helms said his office will be seeking additional staff as part of its 2013-15 biennium budget request.

In response to a question from Senator Laffen, Mr. Helms said approximately 2 percent of oil is recovered by each well drilled in a Bakken Formation layer. He said if four wells are drilled into a layer approximately 92 percent of the oil will remain in the layer.

In response to a question from Representative Rust, Chairman Delzer asked the Legislative Council staff to provide information regarding income tax requirements for nonresidents who receive mineral royalties from wells in the state.

In response to a question from Senator Lee, Mr. Helms said Alaska is currently experiencing a decline in oil production. He said several companies have concerns with the state tax structure for mineral production in Alaska.

In response to a question from Representative Mueller, Mr. Helms said the state has adopted strict regulations regarding the use of hydraulic fracturing. He said the state has increased transparency by requiring disclosures on the use of chemicals used in the hydraulic fracturing process. However, he said, discussion

regarding hydraulic fracturing in other areas of the country may trigger federal rules which could negatively affect North Dakota oil and gas development.

In response to a question from Representative Froseth, Mr. Helms said oil companies are required to pay for reclamation costs of former oil well sites. He said companies must post bonds that can be used for reclamation costs if the oil company goes out of business.

In response to a question from Representative Mueller, Mr. Helms said some states do not allow oil companies to flare natural gas from oil wells. However, he said, those states have extensive infrastructure for the collection of natural gas from oil wells. He said it may be beneficial to provide incentives to produce byproducts from natural gas rather than flaring it.

In response to a question from Representative Wieland, Mr. Helms said oil companies are exploring options to increase drilling in several oil formations in the state including the Red River Formation.

In response to a question from Representative Steiner, Mr. Helms said housing is still a concern in areas affected by oil and gas development. He said electrical power and water supplies are critical for housing and the lack of these items may affect the development of housing.

OTHER BUSINESS

Chairman Delzer said the committee is not scheduled to meet again and thanked the committee members for their work during the interim. He acknowledged Representatives DeKrey and Mueller who will not be returning to serve as members of the 63rd Legislative Assembly and thanked them for their past service to the citizens of North Dakota.

It was moved by Senator Laffen, seconded by Representative Porter, and carried on a roll call vote that the Chairman and the staff of the Legislative Council be requested to prepare a report and the bill draft recommended by the committee and to present the report and recommended bill draft to the Legislative Management. Representatives Delzer, Froseth, Klein, Kreun, Martinson, Mueller, Porter, Rust, Steiner, Thoreson, Vigasaa, and Wieland and Senators Laffen, Carlisle, Lee, Roers, and Schaible voted "aye." No negative votes were cast.

No further business appearing, Chairman Delzer adjourned the committee sine die at 2:35 p.m.

Brady A. Larson
Senior Fiscal Analyst

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:7