

## NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

**BUDGET SECTION**

Thursday, March 3, 2016  
Roughrider Room, State Capitol  
Bismarck, North Dakota

Senator Gary A. Lee, Chairman, called the meeting to order at 10:00 a.m.

**Members present:** Senators Gary A. Lee, Bill L. Bowman, Ron Carlisle, Robert Erbele, Joan Heckaman, Ray Holmberg, Ralph Kilzer, Karen K. Krebsbach, Tim Mathern, Larry J. Robinson, Ronald Sorvaag, Terry M. Wanzek, Rich Wardner; Representatives Larry Bellew, Wesley R. Belter, Tracy Boe, Randy Boehning, Mike Brandenburg, Kathy Hogan, Keith Kempenich, Gary Kreidt, David Monson, Jon O. Nelson, Kenton Onstad, Chet Pollert, Peter F. Silbernagel, Roscoe Streytle

**Members absent:** Senators Jerry Klein, David O'Connell, Mac Schneider; Representatives Al Carlson, Jeff Delzer, Mark A. Dosch, Eliot Glasheim, Ron Guggisberg, Richard G. Holman, Bob Martinson, Corey Mock, Mark Sanford, Jim Schmidt, Robert J. Skarphol, Blair Thoreson, Don Vigesaas

**Others present:** Brad Bekkedahl, State Senator, Williston  
Connie Triplett, State Senator, Grand Forks  
Representative Marvin E. Nelson, Rolla, member of the Legislative Management  
See [Appendix A](#) for additional persons present.

**It was moved by Representative Kreidt, seconded by Senator Robinson, and carried on a voice vote that the minutes of the December 16, 2015, meeting be approved as distributed.**

**ECONOMIC INDICATORS**

Ms. Pam Sharp, Director, Office of Management and Budget, presented information ([Appendix B](#)) on key economic indicators, including consumer prices, money markets, personal income, commodity prices, unemployment, employment growth, personal income, energy prices and production, and interest rates.

**2015-17 BIENNIUM REVISED REVENUES**

Ms. Sharp presented information ([Appendix C](#)) on 2015-17 biennium revised, general fund revenue forecast and the revised oil tax revenue forecast. She presented the following information regarding the 2015-17 biennium January 2016 revised general fund revenues comparison to the 2015 legislative forecast:

Tax Type	2015 Legislative Forecast	January 2016 Revised Forecast <sup>1</sup>	Increase (Decrease) from 2015 Forecast
Sales and use taxes	\$2,868,026,560	\$2,124,321,000	(\$743,705,560)
Motor vehicle excise tax	314,324,000	230,737,000	(83,587,000)
Individual income tax	763,276,000	708,999,000	(54,277,000)
Corporate income tax	371,422,000	169,176,000	(202,246,000)
Insurance premium tax	91,830,364	95,052,926	3,222,562
Financial institutions tax		244,614	244,614
Oil and gas gross production tax	102,881,583	102,881,583	
Oil extraction tax	197,118,417	197,118,417	
Gaming tax	7,106,250	6,876,668	(229,582)
Lottery	15,260,000	15,260,000	
Cigarette and tobacco tax	61,334,000	61,221,051	(112,949)
Wholesale liquor tax	18,995,000	19,015,136	20,136
Coal conversion tax	39,578,000	41,362,796	1,784,796
Mineral leasing fees	19,667,704	23,093,212	3,425,508
Departmental collections	73,883,318	75,039,079	1,155,761
Interest income	20,999,500	21,044,668	45,168
State Mill profits - Transfer	13,775,000	13,775,000	
Major special funds - Transfer	657,000,000	657,000,000	
Other transfers	2,030,496	2,095,700	65,204
<b>Total Revenues and Transfers</b>	<b>\$5,638,508,192</b>	<b>\$4,564,313,850</b>	<b>(\$1,074,194,342)</b>

<sup>1</sup>The January 2016 revised forecast reflects actual revenue collections through December 31, 2015.

Ms. Sharp said the revised general fund revenue forecast anticipates a \$1.07 billion budget shortfall. She said the shortfall will be addressed with a combination of the June 30, 2017, ending balance of \$331.7 million, a 4.05 percent general fund budget allotment resulting in a budget reduction of \$244.9 million, and a transfer from the budget stabilization fund of \$497.6 million. She said the Department of Public Instruction will receive a transfer of \$71.7 million from the foundation aid stabilization fund.

Ms. Sharp said oil tax revenues are anticipated to total \$2,466,000 in the revised forecast, \$967 million less than the \$3,433,000 anticipated at the close of the 2015 legislative session.

In response to a question from Representative Kempenich, Ms. Sharp said the state disaster relief fund was anticipated to have a \$15 million ending balance for the 2015-17 biennium.

In response to a question from Senator Wardner, Ms. Sharp said the strategic investment and improvements fund receives not only revenue from oil tax collections, but also oil production royalties.

In response to a question from Representative Kempenich, Ms. Sharp said the Office of Management and Budget (OMB) asked each agency to report back regarding its budget reduction by line item by February 17, 2016. Ms. Sharp said OMB reviewed the information and decreased the appropriation authority by the amounts specified as of March 1, 2016.

In response to a question from Representative Kempenich, Ms. Sharp said OMB plans that the 2017-19 biennium budget starting point will be 2015-17 original appropriations.

In response to a question from Chairman Lee, Ms. Sharp said funding for a full-time equivalent (FTE) position may be removed as part of the budget allotment, not the authorization of the FTE position.

In response to a question from Representative J. Nelson, Ms. Sharp said the statute is clear regarding the foundation aid stabilization fund being used to replace the general fund budget allotment for the state school aid, transportation aid, and special aid payments, which total \$1.77 billion for a 4.05 budget allotment amount of \$72 million. Ms. Sharp said the calculation is done from the original appropriation. She said the Department of Public Instruction could experience cost savings from reductions in student enrollment.

In response to a question from Representative Onstad, Ms. Sharp said each executive branch agency with a general fund appropriation has had its general fund appropriation reduced by 4.05 percent.

In response to a question from Representative Brandenburg, Ms. Sharp said the decrease in individual income tax revenues relates to all economic sectors including the agricultural sector.

In response to a question from Representative Bellew, Ms. Sharp said OMB reviewed agencies sensitive to budget reductions and it was determined the Department of Human Services could not sustain a larger budget reduction than 4.05 percent without sacrificing services essential to the public.

### STATUS OF THE 2015-17 BIENNIUM GENERAL FUND

Ms. Sharp presented information ([Appendix D](#)) on the status of the general fund for the 2015-17 biennium.

Ms. Sharp presented the following information on the status of the general fund as of January 31, 2016, for the 2015-17 biennium:

Unobligated general fund balance - July 1, 2015		\$729,529,389
Balance obligated for authorized carryover from the 2013-15 biennium		147,653,143
Total beginning general fund balance - July 1, 2015		\$877,182,532
Add		
General fund collections through January 2016	\$1,845,102,983	
Forecasted general fund revenue for the remainder of the 2015-17 biennium	2,717,796,400	
Total revenues		4,562,899,383
Total available		\$5,440,081,915
Less		
Legislative appropriations - One-time	(\$1,173,663,758)	
Legislative appropriations - Ongoing	(4,852,498,920)	
4.05% budget allotment (executive branch only)	239,120,391	
Department of Transportation contingent appropriation	(20,000,000)	
Authorized carryover from the 2013-15 biennium	(147,653,143)	
2015-17 emergency appropriations utilized in the 2013-15 biennium	9,858,196	
Total appropriations		(\$5,944,837,234)

Estimated ending balance before transfer from budget stabilization	(\$504,755,319)
Transfer from budget stabilization fund	497,591,655
Intended turnback:	
Legislative Assembly	643,357
Legislative Council	544,285
Supreme Court	4,561,555
Estimated ending general fund balance - June 30, 2017	(\$1,414,467)

Ms. Sharp presented information ([Appendix E](#)) on actual and forecasted 2015-17 biennium general fund revenue compared to the February 2016 revised forecast. She said sales tax revenue collections were \$1.4 million less than the revised forecast for the month of January 2016.

In response to a question from Representative Kempenich, Ms. Sharp said OMB has a scheduled revenue forecast in July or August 2016. Ms. Sharp said it will be determined at that time if an additional budget allotment or transfer from the budget stabilization fund is necessary to account for any additional revenue shortfalls.

In response to a question from Senator Holmberg, Ms. Sharp said an additional transfer of 2.5 percent from the budget stabilization fund would not be required if additional budget reductions are necessary because that condition has already been met.

### IRREGULARITIES IN THE FISCAL PRACTICES OF THE STATE

Pursuant to North Dakota Century Code Section 54-14-03.1, Ms. Sharp presented information ([Appendix F](#)) on irregularities in the fiscal practices of the state. She presented the following fiscal irregularities for the period November 2015 through December 2015:

Agency	Fiscal Irregularity	Amount
State Historical Society	3 months of temporary workload increase to manage Ft. Buford Historic Site due to illness of site supervisor	\$1,200.00
Job Service North Dakota	Severance pay for 41 employees due to reductions in federal funding	\$296,975.40

### STATE AGENCY APPLICATIONS FOR FEDERAL GRANTS

Ms. Sharp presented information ([Appendix G](#)) on state agencies that applied for federal grants estimated to be \$25,000 or more pursuant to Section 54-27-27. She said for the period November 2015 through December 2015, the following agencies have applied for a federal grant estimated to be \$25,000 or more:

Agency	Time Period of Grant	Amount
Housing Finance Agency	Effective 2016	\$3,000,000

### EXECUTIVE BUDGET DEVELOPMENT

Ms. Sharp presented information ([Appendix H](#)) on the development of the 2017-19 executive budget. She said the Governor's budget request guidelines for state agencies will be released in April 2016. She said pursuant to Section 54-44.1-04 and 54-44.1-06, OMB is changing the 2017-19 biennium budget data to include estimates of financial requirements for budget units under the control of the State Board of Higher Education, which must be made using the same forms, supporting information, and documentation as other budget units. She said the state budget is anticipated to increase by \$1 billion due to this change. She said this is a change in reporting, not an increase in the overall budget for the State Board of Higher Education.

Ms. Sharp said the anticipated activities and timeline are as follows:

Activities for Development of Executive Budget	Time Period of Budget
Budget request guidelines for state agencies	April through May 2016
Preliminary revenue forecast	July through August 2016
Agency budgets submitted to OMB	July 15 through October 2016
Budget recommendation presented to the Legislative Assembly	Early December 2016

In response to a question from Senator Holmberg, Ms. Sharp said all of the FTE's authorized for the State Board of Higher Education will also be reported, which will substantially increase the 11,821.88 FTE's reported in the 2015-17 biennium.

In response to a question from Representative Streyle, Ms. Sharp said agencies will be planning 2017-19-biennium budgets, starting from the 2015-17 biennium appropriation in order to allow them to make permanent adjustments, as the budget allotment adjustments were made to temporarily balance the budget. Ms. Sharp said agencies may choose to adjust the 2017-19 biennium budget request and include a program in the 2017-19 biennium budget request which may have been eliminated because of the budget allotment.

## STATUS OF OIL AND GAS IMPACT GRANTS

Mr. Gerry Fisher, Director, Claims and Grants Division of the Energy Infrastructure and Impact Office, Department of Trust Lands, presented information ([Appendix I](#)) on the status of oil and gas impact grants. He said the 2015 Legislative Assembly appropriated \$140 million to the Department of Trust Lands for oil and gas impact grants and designated \$132.5 million for specific projects. He said the department has awarded \$42.4 million as of January 28, 2016. He said the oil and gas impact grant fund would need to average \$6 million in revenue each month to fully fund the \$140 million appropriation for grants. He said the actual monthly average for revenue collections has been \$3.8 million since September 2015, totaling \$23 million in revenues as of February 2016. He said the department has disbursed \$22.5 million to date for the 2015-17 biennium, leaving a \$612,841 balance in the oil and gas impact grant fund. He said the department has sought legal counsel regarding the requirement to continue designated projects into the 2017-19 biennium. He said the department contacted approved grant recipients regarding the revenue shortfall.

In response to a question from Representative Onstad, Mr. Fisher said some grant recipients receive the entire grant in a single disbursement, but typically grants are paid out on a reimbursement basis.

In response to a question from Representative Kempenich, Mr. Fisher said approximately \$60 million of funding awarded but not yet disbursed was continued from the 2013-15 biennium. Mr. Fischer said \$42.4 million has been awarded for the 2015-17 biennium and based on current revenue projections the fund will be short by \$21 million to meet the awarded commitments.

Representative Onstad requested the Department of Trust Lands to provide information regarding the balance of unclaimed oil and gas royalties relating to the strategic investment and improvements fund.

## CONTINGENT FUNDING REQUEST FOR THE DEPARTMENT OF VETERAN'S AFFAIRS SERVICE DOG PROGRAM

Mr. Lonnie Wangen, Commissioner, Department of Veterans' Affairs, requested Budget Section approval to spend up to \$25,000 of contingent funding from the general fund for the service dog program pursuant to Section 4 of 2015 House Bill No. 1025. He said the department has expended the initial \$25,000 appropriated to place two service dogs with veterans this biennium, and four more veterans are qualified and ready to be placed with service dogs. He said if the contingency funding is approved, two of the four qualified veterans will receive service dogs.

In response to a question from Representative Pollert, Mr. Wangen said the first two requirements of the contingency funding have been met and Budget Section approval is the third and final requirement.

Mr. Jeremiah Erickson, service dog recipient, discussed his experience with the service dog program and expressed appreciation and support for the program.

**It was moved by Representative Kreidt, seconded by Senator Robinson, and carried on a roll call vote that pursuant to Section 4 of 2015 House Bill No. 1025, the Budget Section approve the Department of Veterans' Affairs request for the \$25,000 contingent general fund appropriation.** Senators Lee, Bowman, Carlisle, Erbele, Heckaman, Holmberg, Kilzer, Krebsbach, Mathern, Robinson, Sorvaag, Wanzek, and Wardner and Representatives Bellew, Belter, Boe, Boehning, Brandenburg, Hogan, Kempenich, Kreidt, Monson, J. Nelson, Onstad, Pollert, Silbernagel, and Streyle voted "aye." No negative votes were cast.

## STATUS OF THE UNEMPLOYMENT TRUST FUND AND THE MODIFIED AVERAGE HIGH-COST MULTIPLIER

Ms. Cheri Giesen, Executive Director, Job Service North Dakota, presented information ([Appendix J](#)) on the status of the unemployment trust fund and the targeted modified average high-cost multiplier pursuant to Section 52-02-17. As of December 31, 2015, she said, the balance of the unemployment trust fund was \$120.7 million, \$48.4 million below the projected 2015-17 biennium target balance of \$169.1 million. The average high-cost multiplier for the period was 0.63, 0.37 below the projected 2015-17 biennium target of 1.0. She said with the increase in the number of unemployment insurance claims, the agency currently projects the June 30, 2017, balance of the fund to be \$72.5 million, \$112.2 million below the projected 2015-17 biennium target balance of \$184.7 million.

In response to a question from Representative Kempenich, Ms. Giesen said the maximum weekly wage rate is \$633. Ms. Giesen said the maximum wage rate is being claimed because a large number of the unemployed individuals worked in oil areas. She said an individual can draw up to 26 weeks of benefits and the current average for benefits being paid out is 11 weeks.

In response to a question from Representative Streyle, Ms. Giesen said if payments continue at the current level, payments will exceed projections by \$10 million. Ms. Giesen said revenues in the first quarter of the 2015-17 biennium were \$13 million more than expected, so impact on the ending balance is negligible.

In response to a question from Chairman Lee, Ms. Giesen said approximately 51 percent of individuals filing for unemployment insurance will receive payments within 14 to 21 days. Ms. Giesen said when there are issues with a claim and human intervention is required to process the claim, an average of 7 weeks is required to resolve the issue.

### **STATUS OF THE NORTH DAKOTA FINANCIAL CENTER PROJECT**

Mr. Eric Hardmeyer, President, Bank of North Dakota, presented information ([Appendix K](#)) on the status of the North Dakota Financial Center project pursuant to Section 16 of 2015 House Bill No. 1014. He said net income for the Bank exceeded the \$125 million net income requirement included in Section 16 of 2015 House Bill No. 1014 for fiscal year 2015, by \$6 million. He said net income for that period was \$131 million. He said the anticipated cost of the building is \$17 million. He said the new building will house the Department of Commerce, the Housing Finance Agency, and the Department of Financial Institutions. He said JLG Architects is the architectural firm leading the design process and JE Dunn Construction was selected as the construction manager at risk. He said the \$17 million is part of the assets of the bank and once the building is complete, it will remain an asset. He said having all of the agencies co-located, helps to create a one-stop capital center.

In response to a question from Representative Kempenich, Mr. Hardmeyer presented information ([Appendix L](#)) regarding Bank of North Dakota's assets. Mr. Hardmeyer said the Bank's assets have decreased recently primarily because of decreased state revenues, which are deposited in the Bank. He said the Bank ended fiscal year 2015 with assets of \$7.4 billion and currently assets are \$7.4 billion. He said the Bank estimates its assets will decrease to \$7.1 billion because of decreased revenues received by the state.

In response to a question from Representative Kreidt, Mr. Hardmeyer said the Bank of North Dakota has not had any discussions with the Governor relating to transferring a portion of Bank profits to the general fund during the 2017-19 biennium.

### **K-12 STUDENT ENROLLMENTS AND PROJECTED STATE SCHOOL AID FOR THE 2017-19 BIENNIUM**

Mr. Adam Tescher, Assistant Director of School Finance and Organization, Department of Public Instruction, presented information ([Appendix M](#)) on student enrollments for the 2015-16 academic year, projected student enrollments for the next 3 academic years, projected state school aid spending for the 2015-17 biennium, and the estimated cost-to-continue state school aid for the 2017-19 biennium. He said the Department of Public Instruction is expecting state school aid obligations will be \$11.2 million less than 2015-17 biennium projections for fiscal year 2016 and \$9.3 million less for fiscal year 2017, leaving \$20.5 million of unspent appropriation authority. He said actual average daily membership for the 2015-16 academic year was 2,000 less than projections. He said the department is projecting a 7 percent increase in student enrollment and a 12.9 percent increase in taxable valuation for the 2017-19 biennium. He said if the second-year rate, student enrollments, and taxable valuations are unchanged, the cost to continue for the 2017-19 biennium would increase by \$62.7 million. He said adding the student enrollment increase and taxable valuation increase would result in an additional cost to continue for the 2017-19 biennium of \$101.2 million for a total cost-to-continue increase of \$163.9 million, of which an estimated \$81 million would be from the state and \$82.9 million from local sources for the 2017-19 biennium.

Representative J. Nelson requested the Department of Public Instruction to provide information regarding the effect the transfer from the foundation aid stabilization fund will have on the contingency funding for school transportation aid at the end of the biennium.

### **BUDGET ALLOTMENT SPENDING REDUCTION PLANS Department of Human Services**

Ms. Maggie D. Anderson, Director, Department of Human Services, presented information ([Appendix N](#)) on the Department of Human Services' (DHS) plan to meet the 4.05 percent general fund budget allotment. She said the 2015-17 biennium general fund appropriation for DHS is \$1.3 billion, resulting in the 4.05 percent budget allotment being \$54 million. She said DHS will meet the budget allotment by reducing general fund expenditures resulting in a loss of matching federal and other funds as follows:

<b>Budget Allotment Category</b>	<b>General Fund</b>	<b>Federal and Other Funds</b>	<b>Total</b>
Operational and administrative costs	\$5,797,903	\$4,849,690	\$10,647,593
New or expanded services and funding	4,879,477	1,013,683	5,893,160
Medicaid and other provider changes	28,635,636	55,370,276	84,005,912
Program eligibility, committee funding, and contracted service changes	8,341,199	52,000	8,393,199
Total expenditure reductions	\$47,654,215	\$61,285,649	\$108,939,864

Ms. Anderson said DHS will provide for the remaining budget allotment of \$6.3 million by utilizing \$5.3 million in increased revenue from federal Medicaid reimbursement for eligibility determination costs, which were to be transferred to the counties, but will now be retained by DHS and increased revenues of \$1 million due to a federal government policy revision in 2016, which will increase tribal and Indian health services funding to 100 percent. She said through January 2016, DHS has expended \$300 million of its general fund appropriation. She said another \$115 million is needed for maintenance of effort, which are used to access federal dollars for vocational rehabilitation and child care block grants, along with \$31 million for Medicare part D. She said DHS has had to reduce the \$54 million budget allotment from the \$886 million general fund appropriation remaining.

In response to a question from Senator Mathern, Ms. Anderson said DHS considered the impact on federal funding when selecting areas to reduce. Senator Mathern expressed concern regarding the substantial loss of federal funds resulting from the department's general fund budget reductions.

In response to a question from Representative Kempenich, Ms. Anderson said DHS has not started developing its 2017-19 biennium budget because the guidelines have not yet been released by OMB.

In response to a question from Representative Kreidt, Ms. Anderson said the Medicaid expansion population includes approximately 20,500 individuals, but utilization has been greater than expected. Ms. Anderson said 2013 House Bill No. 1362 provided language which stipulated that if federal funding does not continue as anticipated for the program, it may be discontinued.

In response to a question from Representative Boehning, Ms. Anderson said program areas were not equally reduced. Ms. Anderson said all areas were reviewed and funding was reduced on a priority basis.

Senator Mathern expressed concern regarding the potential impact of the budget reductions. He said a budget reduction based on a uniform budget allotment percentage for all agencies may not be the best procedure for decisionmaking.

In response to a question from Representative J. Nelson, Ms. Anderson said the new Medicaid management information system became operational in October 2015. Ms. Anderson said there are isolated incidents of claims issues with providers and those providers have requested additional training. She said DHS is working with those provider groups to provide training.

In response to a question from Representative Hogan, Ms. Anderson said the human service centers' budget reductions will effect salary increases, the mobile crisis program, inflation on contracts, and operational items. Ms. Anderson said no FTE reductions are anticipated because of the budget allotment.

In response to a question from Senator Kilzer, Ms. Anderson said if an additional budget allotment is necessary, DHS would likely reduce operating expenses and through discussions with providers, attempt to reduce areas which would have the least impact on services.

#### **Department of Corrections and Rehabilitation**

Mr. Dave Krabbenhoft, Director of Administration, Department of Corrections and Rehabilitation, presented information ([Appendix Q](#)) on the Department of Corrections and Rehabilitation's (DOCR) plan to meet the 4.05 percent general fund budget budget allotment. He said the 2015-17 biennium general fund appropriation for DOCR is \$215.39 million resulting in the 4.05 percent budget allotment being \$8.72 million. He said the department will meet the budget allotment by reducing general fund expenditures as follows:

<b>Budget Allotment Category</b>	<b>General Fund</b>
Salary and fringe benefits	\$319,816
Contract housing and programming	3,399,360
Food and clothing	989,074
Medical, dental, and optical	1,782,784
Travel	230,344
Utilities, repairs, and building maintenance	600,000
Extraordinary repairs	706,000

Large information technology project	464,144
Funding source change	231,661
<b>Total expenditure reductions</b>	<b>\$8,723,183</b>

Mr. Krabbenhoft said the inmate population has stabilized and the male population is less than 2015-17 biennium estimates. He said the 2015-17 biennium male inmate population estimate was 1,666 and as of December 2015 the actual population was 1,644. He said the estimate for female inmates was 228 and the actual population is 217. He said the contract housing and programming expenditures are expected to be \$3.4 million less than 2015-17 biennium estimates, because DOCR is leasing a 36-bed temporary housing unit that is located at the Missouri River Correctional Center facility. He said DOCR converted 14 specific-use beds to general-use beds, to provide an additional 50 beds within the department.

In response to a question from Representative Boe, Mr. Krabbenhoft said DOCR increasing the number of beds available internally is cheaper than sending inmates out of state. Mr. Krabbenhoft said it costs \$60 per day plus transportation and health care costs per inmate to send inmates out of state and the cost to keep inmates internally is \$62 in total per inmate. He said inmates are required to be on work release to be housed in the temporary housing units and the program requires per diem payments from the inmates participating in the program which will offset the \$62 cost.

In response to a question from Representative Silbernagel, Mr. Krabbenhoft said DOCR currently has space available to house inmates. Mr. Krabbenhoft said Section 5 of 2015 House Bill No. 1015 provides legislative intent that the department give priority for the use of funding appropriated for contract housing and programming to contract with in-state local and regional facilities for the placement of overflow inmates.

#### State Department of Health

Ms. Arvy Smith, Deputy State Health Officer, State Department of Health, presented information ([Appendix P](#)) on the State Department of Health's plan to meet the 4.05 percent general fund budget allotment. She said the 2015-17 biennium general fund appropriation for the department is \$51.52 million resulting in the 4.05 percent allotment being \$2.09 million. She said the department will meet the allotment by reducing general fund expenditures as follows:

Budget Allotment Category	General Fund
Discontinuation of universal vaccine policy	\$1,600,000
Salary rollup	214,000
Operating expenses	87,000
Grant rollup	185,000
<b>Total expenditure reductions</b>	<b>\$2,086,000</b>

Ms. Smith said \$1.6 million will be saved because of a policy change which will become effective July 1, 2016. She said the new policy discontinues funding for vaccines for the universal vaccination program at local public health units which could be paid for by health insurance. She said at the time the policy was implemented to fund the vaccinations, local public health units could not bill health insurance, but that has since changed. She said 4 of the 28 local public health units have elected not to participate in the universal vaccine program and the State Department of Health has not seen a decrease in vaccinations.

In response to a question from Representative Kempenich, Ms. Smith said the State Department of Health does not anticipate any federal funding reductions because of the budget allotment.

#### Department of Transportation

Mr. Grant Levi, Director, Department of Transportation, presented information ([Appendix Q](#)) on the Department of Transportation's (DOT) plan to meet the 4.05 percent general fund budget allotment. He said the 2015-17 biennium general fund appropriation for DOT is \$656.30 million resulting in the 4.05 percent allotment being \$26.58 million. He said the department will meet the allotment by reducing general fund expenditures as follows:

Budget Allotment Category	General Fund
Road projects	\$21,910,000
Motor coach	40,500
Special roads fund	81,000
Special county transportation distributions	4,540,000
Contingent transportation funding	8,100
<b>Total expenditure reductions</b>	<b>\$26,579,600</b>

Mr. Levi said the majority of the reductions is in the highway construction program through cost savings resulting from lower bids and changes to projects, which reduce costs, such as switching from concrete to asphalt, changing some reconstruction projects to overlay projects, and other adjustments. He said DOT is also experiencing a \$69.2 million reduction from other state highway fund revenues (\$19.6 million) and user revenues (\$49.6 million), which are revenues from fuel consumption, motor carrier fees, motor vehicle registrations, and truck regulatory fees. He said highway tax distributions to the following are anticipated to be \$31.3 million less than projected:

- Counties (\$17.8 million);
- Cities (\$10.1 million);
- Townships (\$2.1 million); and
- Public transportation funding (\$1.3 million).

Mr. Levi said to meet the overall reduction in revenue, DOT will utilize \$22.6 million of funding continued from prior bienniums, along with the following reductions in expenditures:

- Salaries (\$6.8 million);
- Travel (\$432,800);
- Building projects (\$2.12 million);
- Information technology projects (\$5.76 million);
- Savings in state fleet operations (\$6.95 million);
- Change of funding for the pavement marking program (\$12 million);
- Reduction in district roadway maintenance costs (\$7.5 million);
- The closing of five rest areas (\$70,000);
- Equipment (\$2.05 million);
- Professional expenditures (\$2.61 million); and
- Training (\$203,000).

In response to a question from Representative J. Nelson, Mr. Levi said special transportation distributions to oil-producing counties were not from the general fund, so they were not affected by the budget allotment.

In response to a question from Representative Brandenburg, Mr. Levi said North Dakota was apportioned \$245 million in federal funding for transportation, but received obligational federal spending authority of approximately \$240 million for fiscal year 2015. For fiscal year 2016, Mr. Levi said, the state was apportioned \$251.83 million in federal funding for transportation, but received obligational federal spending authority of approximately \$239 million.

In response to a question from Representative J. Nelson, Mr. Levi said the Pleasant Lake rest area, which will be closed, is in need of remodeling at a cost of \$273,000 and the lagoon needs to be re-engineered and reconstructed at a cost of \$600,000 to \$1 million.

In response to a question from Chairman Lee, Mr. Levi said DOT has issued 380,000 to 400,000 new license plates, and the processing time to issue new plates has improved.

### **HOUSING FINANCE AGENCY - HOUSING INCENTIVE FUND UPDATE**

Ms. Jolene Kline, Executive Director, Housing Finance Agency, presented information ([Appendix R](#)) on progress being made to address the housing needs of essential service workers in the oil-impacted areas of the state. She said there have been no changes since the December 16, 2015, report in which it was reported that 24 projects have been awarded approximately \$35 million from the housing incentive fund. She said the projects reduced the number of existing housing units owned by political subdivisions by six units, and units master leased by essential worker employers decreased by 94 units. She said the biennial survey will be done this spring, but it expects Watford City to begin phasing out 36 units owned by McKenzie County, Watford City, and the McKenzie County School District. She said two projects that received conditional commitments in 2015 have returned their allocations. She said as of February 25, 2016, the Housing Finance Agency has issued \$26,801,695 in tax credits to contributors to the housing incentive fund.



In response to a question from Representative Kempenich, Ms. Kline said the Housing Finance Agency does not expect local resources will be used to subsidize rent as new units become available. Ms. Kline said Watford City had been using the rental assistance as a recruiting tool and it is planning to phase out the benefit as rents are decreasing.

In response to a question from Representative Streyle, Ms. Kline said in the 2011-13 biennium, 90 percent of the funds was used in Western North Dakota and in the 2013-15 biennium, approximately 70 percent was used in Western North Dakota. Ms. Kline said the needs in the West are declining and the focus of the program will shift to the rest of the state. She said the needs will be different and the program will change from developing new units to the preservation of existing units in small communities.

Chairman Lee announced the next meeting of the Budget Section will be tentatively scheduled in late June 2016.

No further business appearing, Chairman Lee adjourned the meeting at 3:22 p.m.

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Allen H. Knudson  
Legislative Budget Analyst and Auditor

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Chris Kadrmaz  
Fiscal Analyst

ATTACH:18