

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

BUDGET COMMITTEE ON GOVERNMENT ADMINISTRATION

Monday, January 7, 2002

Interactive Video Network Meeting

Bismarck - 18th Floor, State Capitol, 600 East Boulevard Avenue

Devils Lake - Room 172, Administration Building, Lake Region State College, 1801 College Drive North

Dickinson - Room 220, Klinefelter Hall, Dickinson State University, Second Street West and 10th Avenue West

Fargo - Room 170, East Morrow Lebedeff Building, North Dakota State University, Centennial Boulevard

Grand Forks - Room 130, Gamble Hall, University of North Dakota, Centennial Drive

Minot - Room 160, Administration Building, Minot State University, Broadway and University Avenue

Wahpeton - Allied Health Center, North Dakota State College of Science, Fourth Street North

Williston - Room 120, Main Building, Williston State College, 1410 University Avenue

Senator Tim Mathern, Chairman, called the meeting to order at 9:00 a.m.

Members present: Senators Tim Mathern, John M. Andrist, Dave Nething, David O'Connell, Tom Trenbeath; Representatives Larry Bellew, Curtis E. Brekke, Rex R. Byerly, Bruce Eckre, Rod Froelich, Keith Kempenich, William E. Kretschmar, Andrew G. Maragos, Lisa Meier, Laurel Thoreson, Elwood Thorpe

Members absent: Representatives Kathy Hawken, Dave Weiler

Others present: Earl Rennerfeldt, State Representative, Williston

Gordy Smith, State Auditor's office, Bismarck

Ken Anderson, Sharon Ulmer; Veterans Home, Lisbon

Tom Moe, Administrative Committee on Veterans Affairs, Mayville

Ken Evenson, Administrative Committee on Veterans Affairs, Valley City

Paul J. Bowlinger, Racing Commission, Bismarck

David Sprynczynatyk, Department of Transportation, Bismarck

Hjalmer Carlson, Ward County Commission, Minot

Bob Amptman, City of Minot, Minot

Doug Graupe, Divide County Commission, Crosby

Monte Meiers, City of Williston, Williston

Brad Bekkedahl, City Commission, Williston

It was moved by Senator O'Connell, seconded by Senator Nething, and carried on a voice vote that the minutes of the previous meeting be approved as distributed.

VETERANS HOME STUDY

Mr. Gordy Smith, State Auditor's office, presented a report on the status of the performance audit of the Veterans Home. Mr. Smith said the State Auditor's office has begun the performance audit by reviewing the laws and administrative rules relating to the

Veterans Home. He said the State Auditor's office is in the process of preparing a request for proposal for hiring a consultant to assist with the audit.

Mr. Smith said when the State Auditor's office completes its preliminary survey in the next two weeks, the office will inform the committee members by mail on the scope of the audit detailing the activities of the State Auditor's office and the involvement of the consultant in conducting the audit. He anticipates the audit to be completed by June 2002.

The Legislative Council staff presented a memorandum entitled *Administrative Committee on Veterans Affairs - History and Member Expense Reimbursement*. The Legislative Council staff said the Administrative Committee on Veterans Affairs was created by the Legislative Assembly in 1971. The committee originally consisted of 12 voting members---three from the American Legion, three from the Veterans of Foreign Wars, three from the Disabled American Veterans, and three from the Veterans of World War I, USA. The committee was expanded in 1985 by three members, from 12 to 15. The three additional members represent the Vietnam Veterans of America. The 1985 Legislative Assembly also replaced the Veterans of World War I, USA, with the Veterans of World War II, Korea, and Vietnam (Amvets).

The Legislative Council staff said since its inception, statutory provisions relating to the Administrative Committee on Veterans Affairs have precluded committee members from being compensated for performance of their duties; however, members have been allowed to be reimbursed for travel expenses in connection with their duties. During the 1999-2001 biennium, the Legislative Council staff said the Veterans Home spent \$13,340 from the general fund to reimburse members of the Veterans Home subcommittee for travel expenses. The Department of Veterans Affairs spent \$8,549 from the veterans' postwar trust fund to reimburse members of the

Department of Veterans Affairs subcommittee for their travel expenses. Traditionally, the Veterans Home and Department of Veterans Affairs have alternated annually paying the travel expenses of the Administrative Committee on Veterans Affairs chairman; however, the current chairman has not requested reimbursement for travel expenses. The Legislative Council staff said for the 2001-03 biennium, the Veterans Home budgeted \$16,000 from the general fund for travel reimbursement for Veterans Home subcommittee members; however, the Veterans Home now anticipates spending \$30,000 for these travel expenses. The increased cost results from the Veterans Home subcommittee membership being increased from seven to eight members and the subcommittee meeting monthly rather than quarterly. The Department of Veterans Affairs budgeted \$7,000 from the veterans' postwar trust fund for the Department of Veterans Affairs subcommittee member travel reimbursement during the 2001-03 biennium. This amount is not specifically appropriated by the Legislative Assembly because Article X of the Constitution of North Dakota provides the Administrative Committee on Veterans Affairs a continuing appropriation to spend moneys in the veterans' postwar trust fund.

The Legislative Council staff said the Department of Veterans Affairs, in its 2001-03 biennium budget request, submitted as its third optional adjustment request \$7,000 from the general fund to be used for travel reimbursement for committee members rather than using the veterans' postwar trust fund moneys. The Legislative Council staff said that neither the Governor nor the Legislative Assembly approved this optional adjustment request.

The Legislative Council staff presented a schedule showing the 1999-2001 biennium expenditures from the veterans' postwar trust fund which totaled \$519,652. The Legislative Council staff said the estimated June 30, 2003, balance in the veterans' postwar trust fund is \$4.4 million. The principal balance of the fund which may not be spent is \$4.1 million.

Senator Trenbeath asked why the Administrative Committee on Veterans Affairs is requesting general fund moneys for travel reimbursement for the Department of Veterans Affairs subcommittee members rather than continuing to use the veterans' postwar trust fund moneys. Mr. Tom Moe, Chairman, Administrative Committee on Veterans Affairs, said the committee's position is that the veterans' postwar trust fund moneys are more appropriately used for direct veterans' programs rather than paying travel expenses of committee members. He said the committee believes the travel expenses should be paid from the general fund.

The Legislative Council staff presented a memorandum entitled *Veterans Home Bond Payments and Related Fees - 1999-2001 Biennium*. The Legislative Council staff said for the 1999-2001 biennium, the

Veterans Home paid \$2,344 to the Industrial Commission for fees relating to its \$248,055 principal and interest payment on outstanding revenue bonds. The fees include:

Bank of North Dakota fees	\$789
Audit fees	221
Financial reports	94
Financial advisor	107
Rebate calculations and payments	1,103
Legal fees	30
Total fees	\$2,344

Ms. Sharon Ulmer, Director of Administration, Veterans Home, presented a report on the status of the Veterans Home 2001-03 biennium budget and operations. Ms. Ulmer said through December 2001, the Veterans Home has spent 23 percent of its budget. She said of the \$2,200,000 spent through December, \$950,000 was from the general fund, \$473,000 from federal funds, and \$777,000 from special funds.

Ms. Ulmer said the Veterans Home special funds balance as of January 1, 2002, was \$28,000. She said the Veterans Home had \$225,000 of federal funding available and remaining general fund appropriation authority of \$2,400,000. She said the Veterans Home generates between \$130,000 and \$140,000 per month in federal fund collections. She said the Veterans Home has begun to request its federal funds on a monthly rather than quarterly basis.

Ms. Ulmer presented a schedule comparing actual collections of federal and special funds to projections. Through December 2001, she said the Veterans Home has collected \$21,000 more in federal funds than anticipated; however, its special funds collections have been approximately \$26,000 less than anticipated.

Ms. Ulmer presented a schedule showing the number of vacant beds at the Veterans Home through December 2001. She said the Veterans Home budgeted for 88 percent occupancy in its basic care unit and 95 percent occupancy in its skilled care unit. For the first six months of the biennium, she said, the basic care unit occupancy averaged 83 percent and the skilled care unit occupancy averaged 99 percent.

A copy of the report is on file in the Legislative Council office.

In response to a question from Representative Maragos, Ms. Ulmer said the Veterans Home believes it will have adequate general fund appropriation authority this biennium to meet its budgetary needs based on the actual expenditures for the first six months of the biennium.

Mr. Ken Evenson, Administrative Committee on Veterans Affairs, Valley City, presented proposed statutory changes relating to admission requirements at the Veterans Home. Mr. Evenson said the Administrative Committee on Veterans Affairs is recommending reducing the residency requirement for a veteran to be admitted to the Veterans Home from

one year to 30 days, reducing the requirement that a spouse or surviving spouse of a veteran have been married for at least five years to one year, and removing the requirement that the spouse or surviving spouse be at least 45 years old.

In addition, Mr. Evenson said the committee is recommending that moneys received by a veteran as service-connected compensation be available for paying for the veteran's care at the Veterans Home. He said current law precludes these moneys from being used to pay for care at the Veterans Home.

Mr. Ken Anderson, Commandant, Veterans Home, said if this change is approved, the Veterans Home would collect an estimated \$50,000 of additional income per biennium.

Senator Andrist expressed concern with eliminating the one-year residency requirement for admission to the Veterans Home. He said the current law ensures that North Dakota residents have priority for admission to the Veterans Home.

Mr. Moe requested the committee to consider preparing a bill draft with these proposed changes.

Senator Nething suggested each proposed change recommended by the Administrative Committee on Veterans Affairs be included as a separate bill draft.

Chairman Mathern requested the Legislative Council staff to prepare three bill drafts containing the Administrative Committee on Veterans Affairs recommendations for committee consideration at a future meeting and that the bill drafts, when complete, be provided to committee members, the Administrative Committee on Veterans Affairs chairman, and the North Dakota Veterans Coordinating Council chairman.

Representative Thoreson suggested the bill drafts contain an emergency clause. Chairman Mathern requested the Legislative Council staff to prepare each bill draft with an emergency clause.

Senator Trenbeath said members of the Administrative Committee on Veterans Affairs have expressed concern with the potential cost of consultant fees that may be charged to the Veterans Home as a result of the performance audit. Chairman Mathern suggested the State Auditor's office attempt to minimize the cost of the consultant fees charged to the Veterans Home budget when selecting a consultant to assist with the performance audit.

RACING COMMISSION STUDY

The Legislative Council staff presented a memorandum entitled *Racing Commission - Funding History and Fee Collections*. The memorandum includes the estimated fiscal impact of the proposed bill draft authorizing the Racing Commission to retain fee collections established by administrative rule for paying its operating expenses rather than depositing the collections in the general fund.

The Legislative Council staff presented the following schedule showing a history of legislative appropriations for the Racing Commission since 1993:

Biennium	General Fund	Estimated Income	Total
1993-95	\$222,421		\$222,421
1995-97	\$211,300		\$211,300
1997-99	\$219,744		\$219,744
1999-2001	\$222,067		\$222,067
2001-03	\$150,000	\$150,000	\$300,000

The Legislative Council staff said the Racing Commission, by administrative rule, has established various fees and licenses associated with horse racing. Collections from these fees and licenses are currently deposited in the general fund. The schedule below presents the collections from the fees and licenses for calendar years 2000 and 2001 as reported by the Racing Commission.

	Calendar Year 2000	Calendar Year 2001*
Simulcast license fees		
Sites	\$5,100	\$5,440
Employees	990	570
Total	\$6,090	\$6,010
Live track license fees		
Tracks	\$305	\$305
Employees	4,228	5,537
Total	\$4,533	\$5,842
Breeders' fund application fee	\$3,945	\$2,430
Fines	\$1,000	\$625
Grand total	\$15,568	\$14,907*

*Through November 2001

Mr. Paul J. Bowlinger, Executive Director, Racing Commission, presented information on the status of the Fargo race facility and commented on the proposed bill draft. Mr. Bowlinger said the Racing Commission, at its October 2001 meeting, unanimously expressed its support for the proposed bill draft.

Mr. Bowlinger said the land associated with the Fargo racetrack has now been transferred and progress continues to be made in planning for construction of the racetrack.

Representative Byerly suggested the committee consider changing the bill draft to limit the amount of fee collections the Racing Commission may retain to \$50,000 per biennium with any additional collections being deposited in the general fund.

Senator Mathern asked whether the Racing Commission believes it needs more than \$50,000 of fee collections per biennium. Mr. Bowlinger said the Racing Commission's current operating budget is \$300,000 and with the establishment of the Fargo racing facility, additional funding will be needed.

Representative Froelich said he believes these fees should be retained by the Racing Commission rather than deposited in the general fund.

Senator O'Connell said he would not support changing the bill draft to limit the amount of funds the Racing Commission may retain to \$50,000 per biennium.

Representative Byerly suggested the committee not approve the bill draft and allow these Racing Commission funding issues to be determined by the Appropriations Committees during the legislative session.

Chairman Mathern asked that Mr. Bowlinger discuss with the Racing Commission the suggestions made by Representative Byerly and report back to the committee at its next meeting.

In response to a question from Senator Mathern, Mr. Bowlinger said he does not believe any other statutory changes are necessary relating to the Racing Commission.

HIGHWAY FUNDING STUDY

The Legislative Council staff presented a memorandum entitled *Estimated Biennial Fiscal Effect of Sales and Use Tax Exemptions*. The Legislative Council staff distributed a report prepared by the Tax Department in August 2000 providing the estimated biennial fiscal impact of various sales tax exemptions. The Legislative Council staff said the estimated fiscal impact for all exemptions ranges from \$388.7 million to \$506.9 million per biennium.

Mr. David Sprynczynatyk, Director, Department of Transportation, presented a comparison of actual highway tax distribution fund revenues to projections for the 2001-03 biennium to date, reported on the status of the development of a strategic transportation plan for North Dakota, and commented on recommended changes to distribution formulas for the state, counties, and cities.

Mr. Sprynczynatyk responded to committee questions from the previous meeting. He said the Department of Transportation spends less than 3 percent of its total program cost on administration. He said the Standing Rock Reservation, through its fuel tax, has received approximately \$858,000 in fuel tax collections for the period January 1999 through October 2001.

Mr. Sprynczynatyk said for the first five months of the 2001-03 biennium, highway tax distribution fund revenues are approximately 2 percent less than the 1999-2001 biennium. He said the Department of Transportation believes its 2001-03 biennium revenue collections will meet projections.

Mr. Sprynczynatyk said during the 2001 highway construction season, the Department of Transportation spent \$33 million for emergency relief projects requiring an \$8.25 million state match. He said the department anticipates spending \$16.6 million during the 2002 highway construction season for emergency relief projects requiring a \$4.15 million match. He said the department has established a line of credit with the Bank of North Dakota, pursuant to Senate Bill

No. 2112 as approved by the 2001 Legislative Assembly, and anticipates borrowing \$12.4 million during this biennium.

Representative Kretschmar asked for the Department of Transportation's plans to repay the estimated \$12.4 million of funding that will be borrowed from the Bank of North Dakota for emergency relief projects. Mr. Sprynczynatyk said the department currently does not have a plan but the repayment will be addressed as part of the department's 2003-05 budget request.

Mr. Sprynczynatyk said the Statewide Strategic Transportation Plan Directors Advisory Council has met and created a vision, mission, and goals for the statewide strategic transportation plan as follows:

- Vision - North Dakota's transportation system is an important part of regional, national, and global systems developed strategically to help grow and diversify the economy and enhance North Dakota's quality of place.
- Mission - A transportation system that offers personal choices, enhances business opportunities, and promotes the wise use of all resources.
- Goals
 - Safety - Safe and secure transportation for residents, visitors, and freight.
 - Personal mobility - A transportation system that allows optimum personal mobility.
 - Freight mobility - A transportation system that allows the efficient and effective movement of freight.
 - Economic competitiveness - A transportation system that enhances economic diversity, growth, and competitiveness.
 - Revenue and finance - Funding sufficient to protect North Dakota's transportation investment and address future transportation needs.

Mr. Sprynczynatyk said the next transportation forum is scheduled for January 29-30, 2002, when participants will create initiatives and strategies for each of these goals.

Mr. Sprynczynatyk said the Department of Transportation has been reviewing a number of plans and needs studies to assess the current and future needs of North Dakota's transportation system. He said the department has learned that an estimated \$528 million per year is needed to adequately maintain the state highway, large city, and county road systems in their current condition and at their current level of service. He said an estimated \$528 million is needed to maintain and \$710 million per year is needed to improve the roadways in the state, large city, and county road systems. He said North Dakota's current investment in these three systems is \$320 million per year; therefore, he said, an additional \$208 million per year is needed to maintain the

current system or \$390 million per year to enhance the system.

Mr. Sprynczynatyk said changing the highway tax distribution fund formula is not a solution to North Dakota's transportation needs. He said additional transportation revenue is needed. He reviewed potential options for providing additional transportation revenue including:

1. Increasing the motor fuel tax on gasoline, gasohol, and diesel fuel (a one cent per gallon increase would generate \$5 million per year).
2. Increasing motor vehicle registration fees (a \$1 increase would generate \$700,000 per year).
3. Increasing the 2 percent special fuels tax (a 1 percent increase, from 2 percent to 3 percent, would generate \$2.3 million per year).
4. Increasing the excise tax on the sale of new and used motor vehicles (a 1 percent increase would generate \$10.75 million per year).
5. Dedicating a portion of the general sales tax to transportation (a 0.25 percent sales tax would generate \$20.5 million per year).
6. Increasing the tax on rental cars (a tax of \$1 per day on rental cars would generate \$360,000 per year while a 1 percent rental car tax would generate \$180,000 per year).
7. Dedicating a portion of severance tax revenues on natural resources to transportation.
8. Imposing a sales tax on motor fuels (a 1 percent sales tax would generate \$6.4 million per year at \$1.20 per gallon).
9. Increasing the sales tax on auto parts (a 1 percent increase would generate \$1.5 million per year).
10. Shifting the funding for the ethanol incentive program to another source (this change would generate \$1.25 million per year).
11. Providing funding for the Highway Patrol from sources other than the highway fund.
12. Enacting a personal property tax on vehicles.
13. Dedicating gambling funds to transportation.
14. Establishing toll bridges and toll roads.
15. Developing private/public partnerships.
16. Enacting a vehicle miles of travel tax.
17. Enacting a weight distance tax.
18. Bonding for highway projects; however, a revenue source would be needed to repay the bonds.
19. Appropriating moneys from the general fund.
20. Enacting taxes on other petroleum products.
21. Utilizing corporate income tax collections.
22. Developing rest area concessions.
23. Utilizing traffic fine collections.
24. Increasing taxes on beer and cigarettes.
25. Enacting a contractor tax.

26. Utilizing collections from mineral leases on state-owned land.
27. Utilizing room tax collections.
28. Charging for use of highway right of way.
29. Utilizing collections from an annual insurance underwriters fee.
30. Taxing alternative fuel sources.

Mr. Sprynczynatyk said although the Department of Transportation is not prepared to make any specific recommendations at this time, participants in the statewide strategic transportation planning process will continue to discuss these revenue options and any recommendations will be shared with the committee at a future meeting.

Chairman Mathern asked that any recommendations the statewide strategic transportation planning group would like the committee to consider should be presented to the committee at its next meeting, tentatively scheduled for April 15, 2002, in Bismarck.

Senator Andrist said although adequate funding for North Dakota's highway system has been a concern for a number of years, he believes the condition of North Dakota roads continues to improve.

Representative Maragos asked for the status of the new motor vehicle registration computer system. Mr. Sprynczynatyk said the new system is working well. He said approximately 60 percent of North Dakota registrations are processed in December of each year and the department's processing time for registrations in December was three weeks.

Senator Mathern expressed concern that the statewide strategic transportation plan vision does not refer to local transportation systems. Senator Nething suggested the vision be clarified to include North Dakota's state and local transportation system.

Mr. Hjalmer Carlson, Ward County commissioner, commented on county road construction and maintenance funding. Mr. Carlson suggested the highway tax distribution formula not be changed. He said additional funding is needed for North Dakota's transportation system.

In response to a question from Representative Maragos, Mr. Bob Amptman, City Engineer, Minot, said that of Minot's \$3.5 million annual street maintenance budget, approximately \$2 million is from local sources and \$1.5 million is from highway tax distribution fund revenues.

Mr. Doug Graupe, Divide County commissioner, commented on county road construction and maintenance funding. Mr. Graupe recommended not changing the highway tax distribution fund formula but providing additional revenues to the highway tax distribution fund.

Mr. Monte Meiers, City of Williston, commented on street repair and construction funding. He said although cities and counties have 50 percent of the funding needs for streets and roads, the highway tax distribution fund formula provides cities and counties only 37 percent of the fund's revenues.

Mr. Brad Bekkedahl, Williston city commissioner, commented on city street repair and construction funding. Mr. Bekkedahl suggested the committee consider options for generating additional transportation-related revenues from severance taxes on natural resources.

Mr. Bekkedahl said the state needs to continue planning and developing the Highway 2 four-lane project from Minot to Williston.

Senator Mathern asked whether the Department of Transportation's estimate of \$208 million to adequately maintain North Dakota's current transportation system is a one-time expenditure or an ongoing need. Mr. Sprynczynatyk said the additional \$208 million would be needed each year to maintain state, county, and major city roads and streets.

It was moved by Representative Maragos, seconded by Representative Kretschmar, and

carried on a voice vote that the meeting be adjourned subject to the call of the chair.

The meeting adjourned at 12:15 p.m.

Allen H. Knudson
Assistant Legislative Budget Analyst and Auditor

Jim W. Smith
Legislative Budget Analyst and Auditor