

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

GOVERNMENT FINANCE COMMITTEE

Monday, July 27, 2015
 Roughrider 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, Rick C. Becker, Joshua A. Boschee, Glen Froseth, Jessica Haak, Craig Headland, Jim Kasper, Kim Koppelman, Vernon Laning, Mike Lefor, Scott Louser, Chet Pollert, Jim Schmidt, Vicky Steiner, Don Vigesaa, Kris Wallman; Senators Ron Carlisle, Ralph Kilzer, Richard Marcellais, Ronald Sorvaag

Members absent: Representative Eliot Glassheim

Others present: See [Appendix A](#)

The Legislative Council staff reviewed the [Supplementary Rules of Operation and Procedure of the North Dakota Legislative Management](#) for the 2015-16 interim.

STATE BUDGET INFORMATION

At the request of Chairman Delzer, the Legislative Council staff reviewed a memorandum entitled [Other Responsibilities of the Government Finance Committee](#). The Legislative Council staff said in addition to its study responsibilities, the committee has been assigned the following duties:

- Monitor the status of the state budget;
- Receive an annual report from the Committee on Employment of People with Disabilities;
- Approve any agreement between a North Dakota state entity and South Dakota to form a bistate authority;
- Receive a report from the Office of Management and Budget (OMB) regarding federal funds;
- Receive a report from OMB regarding the targeted market equity pool; and
- Receive a report from OMB regarding the energy development impact funding pool.

Chairman Delzer commented on the report from OMB regarding federal funds and expressed concern that the report would only identify agency plans for a 5 percent reduction in federal funding in the 2017-19 biennium. He suggested the committee also receive information on agencies' plans if anticipated federal funding is reduced by 5 percent or more during the 2015-17 biennium.

Ms. Pam Sharp, Director, Office of Management and Budget, presented information ([Appendix B](#)) regarding the status of the general fund and other state budget information. She presented the following information on the preliminary final status of the general fund for the 2013-15 biennium.

Unobligated general fund balance - July 1, 2013		\$1,396,059,186
Add		
Total general fund revenue for the 2013-15 biennium		5,801,291,216
Balance obligated for authorized carryover from the 2011-13 biennium		89,503,462
Balance obligated for unspent emergency authority		165,874,199
Total estimated available		\$7,452,728,063
Less		
2013-15 biennium general fund ongoing appropriations	(\$4,429,019,653)	
2013-15 biennium general fund one-time appropriations	(2,433,567,701)	
Contingent appropriations	(11,000,000)	
Balance obligated for authorized carryover from the 2011-13 biennium	(89,503,462)	
Emergency appropriations authorized by the 2013 Legislative Assembly	163,812,041	
Deficiency appropriations authorized by the 2015 Legislative Assembly	(6,284,026)	

Estimated unexpended general fund appropriations	55,000,000	
Carryover of 2013-15 biennium spending authority	(2,423,960)	
Total appropriations and adjustments		(\$6,752,986,761)
Transfer to budget stabilization fund ¹		0
Estimated general fund balance - June 30, 2015		\$699,741,302

¹Pursuant to North Dakota Century Code Section 54-27.2-02, any end-of-biennium balance in excess of \$65 million must be transferred to the budget stabilization fund, up to a cap of 9.5 percent of general fund appropriations. This amount does not reflect any potential transfers.

In response to a question from Chairman Delzer regarding a contingent appropriation of \$20 million from the general fund for the Department of Transportation (DOT), Ms. Sharp said the contingency will be met, but she is not sure when the funding will be made available to DOT.

In response to a question from Chairman Delzer, Ms. Sharp said the June interest income amount includes interest income and a portion of the principal from the budget stabilization fund that was transferred to the general fund to reduce the balance of the budget stabilization fund to 9.5 percent of 2015-17 general fund appropriations approved by the 2015 Legislative Assembly.

Chairman Delzer directed the Legislative Council staff to provide additional information to the committee regarding past legislation allowing the state to transfer money from the Bank of North Dakota contingent upon revenue shortfalls.

Ms. Sharp presented a chart identifying distributions from the targeted market equity pool. Distributions from the funding pool, of which half will be distributed in the first year of the biennium and half will be distributed in the second year, are as follows:

Agency	General Fund	Other Funds	Total Funds
Department of Public Instruction	\$125,369		\$125,369
State Library	68,203		68,203
School for the Deaf	107,492		107,492
North Dakota Vision Services - School for the Blind	81,314		81,314
Department of Career and Technical Education	78,777		78,777
State Department of Health	587,305		587,305
Veterans' Home		\$468,954	468,954
Department of Veterans' Affairs	20,748		20,748
Department of Human Services	2,244,120	271,046	2,515,166
Protection and Advocacy Project	150,400		150,400
Department of Labor and Human Rights	52,622		52,622
State Historical Society	233,650		233,650
Total	\$3,750,000	\$740,000	\$4,490,000

Chairman Delzer expressed concern regarding the targeted market equity distributions. As provided in Section 4 of 2015 Senate Bill No. 2015, he said the targeted market equity pool distributions were limited to the Adjutant General, Veterans' Home, State Department of Health, Department of Human Services, and Protection and Advocacy Project. He said the Legislative Assembly provided clear legislative intent regarding which agencies were eligible to receive distributions from the targeted market equity pool.

At the request of Chairman Delzer, Ms. Sheila Peterson, Director, Office of Management and Budget, said she would provide the applications submitted by agencies for funding from the energy development impact funding pool.

Mr. Lynn Helms, Director, Department of Mineral Resources, Industrial Commission, presented information ([Appendix C](#)) regarding the status of oil and gas development in the state and the effect on state and local infrastructure. Mr. Helms said there are 12,659 active wells, 925 wells waiting on completion, 1,947 wells currently permitted, and 9,749 approved increased density wells, for a total of 25,280. Mr. Helms said that although the rig count has decreased, the rigs still operating are more productive. He said in 2010, each rig drilled 8 to 10 wells per year. In 2015, he said each rig can drill 20 to 24 wells per year. Mr. Helms said the number of rigs drilling in the state has decreased from 183 in November 2014 to 73 in July 2015.

Chairman Delzer directed the Legislative Council staff to include a presentation by representatives of Job Service North Dakota at the next committee meeting to report on unemployment numbers and other employment related information.

In response to a question from Representative Froseth, Mr. Helms said approximately 115 new wells per month in the core drilling area are needed to maintain current production levels.

In response to a question from Representative Headland regarding the federal crude oil export ban, Mr. Helms said the removal of the crude oil export ban would likely result in an immediate \$8 to \$10 increase in the price per barrel of West Texas Intermediate (WTI) crude oil.

In response to a question from Chairman Delzer regarding the export of refined oil products, Mr. Helms said he would provide additional information regarding the amount of refined oil products exported from the country.

Representative Froseth expressed concern regarding fees charged to trucking companies on lands under the control of the Three Affiliated Tribes of the Fort Berthold Reservation.

In response to a question from Chairman Delzer regarding compensation changes for surface owners due to the increased surface area being used for multiple-well pads, Mr. Helms said the surface owners are typically being offered the same amount per acre as they were for the smaller pads.

In response to a question from Chairman Delzer, Ms. Kathy Strombeck, Supervisor, Research & Education, Tax Department, said most sales tax revenue is from drilling the well, rather than fracturing the well. Mr. Helms said the majority of well cost relates to hydraulic fracturing, but he said much of the fracturing cost is for water and other nontaxable items.

The committee recessed for lunch at 12:00 noon and reconvened at 1:00 p.m.

Mr. Grant Levi, Director, Department of Transportation, presented information ([Appendix D](#)) regarding traffic and other issues facing DOT, road projects planned for the 2015 construction season, and the status of road construction projects. Mr. Levi said the 2015 Legislative Assembly appropriated \$2.17 billion for roads and bridges during the 2015-17 biennium, not including contingent funding. He said the Legislative Assembly provided an additional \$91.9 million of contingent funding, and the contingency for \$20 million has already been met. Mr. Levi said there is concern regarding the amount of federal funding available and DOT has currently received just \$190 million of the \$240 million it anticipated to receive in 2015. Mr. Levi said truck traffic has decreased in 2015, but overall traffic has remained at 2014 levels due to increases in traffic in the central and east regions of the state.

In response to a question from Chairman Delzer, Mr. Levi said the reduction in truck traffic has largely occurred in the western portion of the state.

In response to a question from Representative Pollert regarding the transportation needs study conducted by the Upper Great Plains Transportation Institute, Mr. Levi said overall construction costs have not decreased in 2015 as compared to 2014. At the request of Chairman Delzer, Mr. Levi said he would provide construction costs by region.

In response to a question from Chairman Delzer, Mr. Levi said he would provide the amount of the \$112 million available for non-oil-producing counties that has been bid.

In response to a question from Representative Koppelman, Mr. Levi said DOT is experiencing an increase in costs for concrete work. He said the time constraints placed on the contractors may also be causing an increase in costs.

At the request of Chairman Delzer, the Legislative Council staff reviewed the [State Budget Actions for the 2015-17 Biennium](#) report. The report identifies agency and overall appropriations, revenue projections used during the 2015 legislative session, and other historical information affecting the state budget.

STUDY OF STATUTORY AND REGULATORY REQUIREMENTS RELATING TO FEDERAL FUNDING

At the request of Chairman Delzer, the Legislative Council staff presented a memorandum entitled [Study of Statutory and Regulatory Requirements as a Condition of Federal Funding - Background Memorandum](#). The memorandum identifies approximately \$3.36 billion of federal funds appropriated for the 2013-15 biennium and \$3.45 billion of federal funds is estimated to be received in the 2015-17 biennium. The memorandum also identifies a proposed study plan for the committee's study of statutory and regulatory requirements placed on North Dakota state government agencies by United States government agencies as a condition of the receipt of federal funds. The proposed study plan is as follows:

1. Receive information from the Legislative Council regarding federal funds received by state agencies.
2. Select North Dakota state government agencies receiving significant federal funds for further review.
3. Receive information from selected North Dakota state government agencies regarding statutory and regulatory requirements placed on the agencies by United States government agencies as a condition of the receipt of federal funds.
4. Receive information from selected North Dakota state government agencies regarding potential alternative funding sources for programs financed with federal funds.
5. Receive information from selected North Dakota state government agencies regarding the benefits and risks of ending programs financed with federal funds.
6. Receive testimony from interested persons regarding the study.
7. Develop recommendations and any bill drafts necessary to implement the recommendations.
8. Prepare a final report for submission to the Legislative Management.

Ms. Peterson presented information ([Appendix E](#)) which identified federal funds appropriated to each agency for the 2015-17 biennium. She said the total federal funds appropriated was approximately \$3.64 billion.

Chairman Delzer said, historically, the actual spending of federal funds has not been monitored as closely as spending from the general fund and state special funds.

Representative Becker said there are many regulations attached to transportation funding and human services funding. He doesn't believe the study should be limited to the three agencies with the most federal funds. Representative Becker suggested the word "significant" be removed from item no.2 in the proposed study plan.

It was moved by Representative Kasper, seconded by Senator Carlisle, and carried on a voice vote the word "significant" be removed from item no. 2 of the proposed plan and to approve the plan for the study of statutory and regulatory requirements as a condition of federal funding as adjusted.

STUDY OF THE FUNCTIONS OF THE BUDGET SECTION

At the request of Chairman Delzer, the Legislative Council staff presented a memorandum entitled [Study of Budget Section Functions](#). The memorandum identifies the Budget Section has 84 duties, including continuing duties acted on by the Budget Section during the previous biennium, continuing duties not acted on during the previous biennium, and new duties. The memorandum also identifies a proposed study plan for the committee's study of the functions of the Budget Section. The proposed study plan is as follows:

1. Receive information from the Legislative Council regarding the duties and responsibilities of the Budget Section.
2. Review duties and responsibilities of the Budget Section to determine necessity and appropriateness.
3. Review the ability of the Budget Section to authorize spending, increase full-time equivalent (FTE) positions, and perform other duties that are otherwise the responsibility of the Legislative Assembly.
4. Receive testimony from interested persons regarding the study.
5. Develop recommendations and any bill drafts necessary to implement the recommendations.
6. Prepare a final report for submission to the Legislative Management.

Chairman Delzer directed the Legislative Council staff to prepare a memorandum for the next meeting identifying which new duties will continue into future bienniums, and which new duties will be only for the 2015-17 biennium.

It was moved by Representative Koppelman, seconded by Representative Wallman, and carried on a voice vote to approve the plan for the study of the functions of the Budget Section as presented.

STUDY OF STATE CONTRIBUTIONS FOR STATE EMPLOYEE HEALTH INSURANCE PREMIUMS

At the request of Chairman Delzer, the Legislative Council staff presented a memorandum entitled [Study of State Contributions to State Employee Health Insurance Premiums - Background Memorandum](#). The Legislative Council staff said the Government Finance Committee studied the state contribution to the cost of state employee health insurance premiums during the 2013-14 interim. The 2013-14 interim Government Finance Committee

learned the state health plan is exempt from certain provisions of the federal Affordable Care Act as long as the plan's grandfathered status is continued. The committee also learned the plan's grandfathered status may be lost if certain existing plan benefits are not maintained or if an employee is required to pay more than 5 percent of the premium rate. To be eligible for the health insurance plan, an employee must be at least 18 years of age, occupy a regularly funded position, work a minimum of 20 hours per week, and work at least 20 weeks per year. The monthly premium rate for the 2015-17 biennium is \$1,130.22, which represents an increase of 15.1 percent over the rate paid in the 2013-15 biennium. Excluding higher education, state agencies budgeted for 9,627 state health contracts for the 2015-17 biennium. Based on this number, total funding for health insurance premiums for the 2015-17 biennium is \$261.1 million, of which \$151.8 million is from the general fund. The Legislative Council staff presented a proposed study plan for the committee's study of state contributions for state employee health insurance premiums. The proposed study plan is as follows:

1. Receive information regarding historical costs for state employee health insurance premiums and estimated future premium costs, including information on changes to out-of-pocket expenses.
2. Receive information from the Public Employees Retirement System (PERS) regarding changes to the health insurance plan that may cause the plan to lose its grandfathered status under the federal Affordable Care Act.
3. Receive information from PERS regarding the financial effect, effect on covered services, and other effects of losing the state's grandfathered status under the federal Affordable Care Act.
4. Receive testimony from interested persons regarding the study.
5. Develop recommendations and any bill drafts necessary to implement the recommendations.
6. Prepare a final report for submission to the Legislative Management.

Representative Kasper said he believes requiring employees to pay 5 percent of the single or family premium rate would not result in the loss of the plan's grandfathered status. Chairman Delzer said that information was provided to the 2013-14 Government Finance Committee by representatives of PERS.

Representative Haak requested the Legislative Council staff provide the committee more detailed information regarding health insurance premiums paid by political subdivisions and by other states.

Chairman Delzer directed the Legislative Council staff to provide the committee with additional information regarding employees working only 20 hours per week or 20 weeks per year that receive health insurance.

Mr. Ken Purdy, Director, Human Resources Management Services, Office of Management and Budget, suggested the committee adjust the proposed study plan to include receiving information on the impact of changes to the percent of health insurance premiums paid by employees on employee recruitment and retention. Chairman Delzer said the impact on recruitment and retention should not be included in the study plan because employer contributions for health insurance premiums are not factored into the employee compensation surveys.

At the request of Representative Kasper, Mr. Purdy said he would provide the time frame and the names of the firms surveyed for a recent study of private employer pay.

It was moved by Representative Kasper, seconded by Senator Sorvaag, and carried on a voice vote to approve the plan for the study of state contributions for state employee health insurance premiums as presented.

No further business appearing, Chairman Delzer adjourned the meeting at 2:45 p.m.

Alex J. Cronquist
Fiscal Analyst

ATTACH:5