

## NORTH DAKOTA LEGISLATIVE MANAGEMENT

## Minutes of the

**GOVERNMENT FINANCE COMMITTEE**

Thursday, June 16, 2016  
Roughrider Room, State Capitol  
Bismarck, North Dakota

Representative Jeff Delzer, Chairman, called the meeting to order at 9:00 a.m.

**Members present:** Representatives Jeff Delzer, Joshua A. Boschee, Glen Froseth, Craig Headland, Jim Kasper, Vernon Laning, Scott Louser, Chet Pollert, Jim Schmidt, Vicky Steiner, Don Vigesaa, Kris Wallman; Senators Ron Carlisle, Ralph Kilzer, Richard Marcellais, Ronald Sorvaag

**Members absent:** Representatives Rick C. Becker, Eliot Glasheim, Jessica Haak, Kim Koppelman, Mike Lefor

**Others present:** Senator Donald Schaible, Mott, member of the Legislative Management  
See [Appendix A](#) for additional persons present.

**It was moved by Senator Sorvaag, seconded by Representative Pollert, and carried on a voice vote that the minutes of the March 15, 2016, meeting be approved as distributed.**

**STATE BUDGET INFORMATION**

Ms. Pam Sharp, Director, Office of Management and Budget, presented information ([Appendix B](#)) regarding the status of the general fund, current fund balances of major state funds, and the 2017-19 biennium budget guidelines. Ms. Sharp said after making adjustments for expected turnback and use of the remaining \$74.9 million in the budget stabilization fund, the estimated June 30, 2017, general fund ending balance is \$5.4 million. She said the legacy fund had a balance of \$3.76 billion and the strategic investment and improvements fund had an unobligated balance of \$123.5 million as of May 31, 2016. She said May 2016 general fund revenues totaled \$104 million, \$36.4 million less than projected in the February 2016 revised revenue forecast. She said total 2015-17 general fund revenues through May 31, 2016, are \$2.4 billion, over \$90 million less than projected in the February 2016 revised revenue forecast.

Ms. Sharp said state agencies have been asked to develop general fund budget requests equal to 90 percent of their 2015-17 appropriation for ongoing expenditures as passed by the 2015 Legislative Assembly, with the exception of the Department of Human Services, the Department of Corrections and Rehabilitation, and the Department of Public Instruction. She said preliminary cost to continue estimates include:

- Continuation of July 1, 2016, salary increase - \$11.6 million
- State school aid payments - \$81.08 million
- Higher education funding formula - \$11.89 million
- State employee health insurance premiums - \$26.85 million

In response to a question from Chairman Delzer, the Legislative Budget Analyst and Auditor said the Governor is authorized to use the remaining balance of the budget stabilization fund, order further budget allotments, and call the Legislative Assembly into a special session.

In response to a question from Chairman Delzer regarding exempting the Department of Human Services from the 90 percent budget requirement, Ms. Sharp said the Office of Management and Budget (OMB) will work with the department to identify potential reductions in areas other than the Medicaid program.

In response to a question from Chairman Delzer regarding state employee salary increases, Ms. Sharp said salary increases are added as part of the executive budget recommendation. She said state agencies do not include compensation increases in their budget requests.

In response to a question from Representative Froseth, Ms. Sharp said the cost-to-continue amount for state school aid payments reflects an estimated increase in enrollment.

In response to a question from Representative Pollert, Chairman Delzer said the potential to access funds in the foundation aid stabilization fund is dependent upon the approval of a constitutional measure that will be voted on during the November 2016 general election.

In response to a question from Chairman Delzer regarding the submission of agency budget requests, Ms. Sharp said agencies are required to submit budget proposals to OMB by July 15, unless the agency receives an extension from OMB.

Mr. Mike Ressler, Chief Information Officer, Information Technology Department, presented information ([Appendix C](#)) regarding the department's plan for spending reductions due to budget allotments, the anticipated effect of the reductions on department programs and services, and the department's billing rates for the 2017-19 biennium. He said the Information Technology Department (ITD) was required to reduce its 2015-17 general fund budget by \$1,130,192 due to the 4.05 percent general fund budget allotment. He said ITD was awarded a National Center for Education data utilization grant, which allowed the department to reduce funding from the general fund for the statewide longitudinal data system by \$722,953 as part of the budget allotment.

Mr. Ressler said ITD is estimating additional ITD revenue (which will be increased costs to state agencies) of approximately \$900,000 for the 2017-19 biennium. He said ITD is estimating certain agencies will experience increased ITD costs, including the Department of Transportation (\$690,582) and the Department of Human Services (\$542,659), while a number of agencies will have decreased costs.

In response to a question from Representative Kasper, Mr. Ressler said the acceptance of the National Center for Education \$6.5 million grant does not obligate ITD to provide any student data to any federal or other out-of-state entity.

In response to a question from Representative Wallman regarding the replacement of information technology equipment in schools, Mr. Ressler said he would provide additional information regarding the use of Educational Technology Council grants.

Ms. Robin Rehborg, Director, State Fleet Services Division, Department of Transportation, presented information ([Appendix D](#)) regarding state fleet service rates for the 2017-19 biennium. She said state fleet service rates include the cost of parts, fuel, insurance, labor, shop overhead, administration, and depreciation. She said the rate for a sedan from the state fleet motor pool was reduced in February 2016 from \$0.49 per mile to \$0.41 per mile. She said the 2017-19 budget rate for a sedan from the state fleet motor pool is \$0.50 per mile.

In response to a question from Chairman Delzer, Ms. Rehborg said the increasing cost of vehicle replacement has affected the 2017-19 rate for sedans from the state fleet motor pool.

Mr. Sparb Collins, Executive Director, Public Employees Retirement System, presented information ([Appendix E](#)) regarding anticipated health insurance premium cost for the 2017-19 biennium and the activities and timeline for preparing the health insurance plan for the 2017-19 biennium. He said the Public Employees Retirement System (PERS) health insurance premiums are likely to increase between 14 percent and 18 percent from the 2015-17 biennium to the 2017-19 biennium. He said the procedures PERS must follow for renewal of the health insurance plan are codified in North Dakota Century Code Section 54-52.1-05. He said the PERS Board will receive and consider the proposed renewal rate from the Sanford Health Plan in August or September and the board will need to decide by mid-September whether to accept the submitted renewal rate or seek proposals from other interested health insurance plans.

In response to a question from Representative Kasper, Mr. Collins said Section 54-52.1-05(2), relating to the health plan renewal process, was approved by the 2015 Legislative Assembly. Representative Kasper requested the Legislative Council staff provide additional information regarding the legislative history of the statutory health plan renewal procedures.

In response to a question from Chairman Delzer, Mr. Collins said the process has traditionally provided for the PERS Board to consider accepting the existing insurance provider's offer prior to deciding whether to seek other proposals.

Representative Kasper expressed concern with the renewal process, which may result in the PERS Board not seeking bids for the health insurance plan. He said it is a fiduciary responsibility of the PERS Board to identify the appropriate market rate is for the health insurance plan.

In response to a question from Representative Kasper, Mr. Collins said he would provide the committee with information regarding the percentage by which claims are exceeding Sanford Health Plan estimates.

In response to a question from Chairman Delzer regarding the cost of the consulting services used to determine an appropriate health plan renewal rate, Mr. Collins said he would provide the information to the committee.

Representative Kasper requested the Legislative Council staff provide electronic copies of the PERS presentation to committee members.

In response to a question from Chairman Delzer, Mr. Collins said he would provide the committee with information regarding the history of PERS health insurance reserves.

The Legislative Budget Analyst and Auditor presented the [2015-17 Biennium Report on Compliance with Legislative Intent](#) and updated [trust fund analyses](#). He said the Legislative Council fiscal staff prepares the compliance with legislative intent report each interim for each agency. He said the reports provide updates on various legislative intent items for each agency and also identify a comparison between 2013-15 biennium legislative appropriations, 2015-17 biennium legislative appropriations, and 2015-17 biennium appropriations after the 4.05 percent general fund budget allotment. He reviewed select legislative intent items for certain agencies.

In response to a question from Representative Froseth regarding school construction loans, the Legislative Budget Analyst and Auditor said the Bank of North Dakota is buying down interest rates for school construction loans to 2 percent. The Legislative Budget Analyst and Auditor said the Legislative Council staff would provide the committee with information regarding the interest rate level without the buydown.

In response to a question from Chairman Delzer regarding the highway tax distributions, the Legislative Budget Analyst and Auditor said the Legislative Council staff would provide the committee with additional information regarding highway tax distributions.

Senator Carlisle suggested the committee be provided a copy of the request for an Attorney General opinion submitted by the State Treasurer regarding legacy fund earnings accumulated prior to July 1, 2017. The Legislative Budget Analyst and Auditor provided the committee with a copy of the request ([Appendix F](#)).

The Legislative Council staff presented a memorandum entitled [Funding for State Employee Health Insurance Premiums \(Excluding Higher Education\)](#). He said the memorandum is similar to a memorandum presented at the March 15, 2016, committee meeting, but it has been updated to identify separately the estimated general fund costs for state employee health insurance premiums. He said the estimated general fund portion of health insurance premiums has risen from \$45.3 million during the 2005-07 biennium to \$151.3 million during the 2015-17 biennium.

The Legislative Budget Analyst and Auditor presented a memorandum entitled [Base Budget Amounts for Developing the 2017-19 Biennium Budget](#). He said the Legislative Assembly identifies a base budget amount for each agency when developing the state's biennial budget. He said the base budget amount is calculated by excluding one-time funding items from an agency's prior biennium total appropriation amount. He said under current practice, allotments do not affect an agency's base budget amounts. He said certain legislators have suggested identifying base budget amounts that reflect the 4.05 percent general fund allotment. He provided examples of agency base budget calculations after allotments and said one option to identify the adjusted base budget amounts in appropriation bills may be to add a new section that provides a comparison of the 2017-19 biennium appropriation to the 2015-17 base budget after allotments.

**It was moved by Senator Carlisle, seconded by Representative Kasper, and carried on a roll call vote that the Chairman of the Legislative Management request the Budget Section to consider changing the format of appropriation bills to include a section comparing the appropriation amount to the base budget amount less allotments.** Representatives Delzer, Boschee, Froseth, Headland, Kasper, Laning, Louser, Pollert, Schmidt, Steiner, Vigesaa, and Wallman and Senators Carlisle, Kilzer, Marcellais, and Sorvaag voted "aye." No negative votes were cast.

### OTHER COMMITTEE RESPONSIBILITIES

Mr. Russell Cusack, State Director, Division of Vocational Rehabilitation, Department of Human Services, presented information ([Appendix G](#)) regarding a report from the Committee on Employment of People with Disabilities. He said the committee meets on a quarterly basis and activities of the committee have included conducting an employment survey and working with the Department of Human Services' Divisions of Vocational Rehabilitation and Developmental Disabilities to award contracts to four community rehabilitation providers to provide integrated and competitive employment opportunities to individuals with intellectual disabilities.

In response to a question from Representative Wallman regarding how the committee measures achievement in reaching its goals, Mr. Cusack said surveys are conducted every 2 years to identify the number of individuals employed and to assess policy barriers.

In response to a question from Chairman Delzer, Mr. Cusack said federal funding for this program is secure.

### **STUDY OF STATUTORY AND REGULATORY REQUIREMENTS RELATING TO FEDERAL FUNDING**

Representatives of the Department of Public Instruction presented information regarding statutory and regulatory requirements relating to federal funding, including summary information regarding certain federal programs administered by the department; program funding, including state and local matching funds; and key guidelines and requirements for each program.

Ms. Linda Schloer, Director, Child Nutrition and Food Distribution Programs, Department of Public Instruction, presented information ([Appendix H](#)) regarding:

- School Nutrition Programs;
- USDA Foods for Schools Program;
- Child and Adult Care Food Program;
- Summer Food Service Program;
- Fresh Fruit and Vegetable Program;
- Team Nutrition;
- The Emergency Food Assistance Program;
- Food Distribution Program on Indian Reservations;
- Commodity Supplemental Food Program; and
- Special Milk Program.

In response to a question from Chairman Delzer regarding the commodity supplemental food program, Ms. Schloer said she does not believe any Department of Human Services' programs provide the same service.

Mr. Greg Gallagher, Assessment Director, Department of Public Instruction, presented information ([Appendix I](#)) regarding Title VI Part A, relating to state assessments and standards.

In response to a question from Chairman Delzer, Mr. Gallagher said North Dakota receives \$3.4 million annually from the federal government for the state assessment program. He said it is used for the design and administration of the tests.

Ms. Geraldine Teevens, Director, Special Education, Department of Public Instruction, presented information ([Appendix J](#)) regarding:

- IDEA-Part B, relating to education for students with disabilities;
- ND Dual Sensory Project, relating to technical assistance for students with disabilities; and
- State Personnel Development Grant, relating to professional development for employees in order to improve results for children with disabilities.

In response to a question from Senator Marcellais, Ms. Teevens said nearly 14,000 students currently receive special education services. Ms. Teevens said students with autism receive services under the IDEA-Part B program.

Ms. Valerie Fischer, Director, Safe and Healthy Schools/Adult Education Division, Department of Public Instruction, presented information ([Appendix K](#)) regarding:

- Adult Education; and
- Safe and Healthy Schools.

In response to a question from Chairman Delzer, Mr. Jerry Coleman, Director, School Finance and Organization, Department of Public Instruction, said enrollment estimates for fall 2016 include 2,500 more students than the spring 2015 enrollment. Mr. Coleman said the formula for estimating enrollment has not been adjusted to reflect the economic downturn.

Chairman Delzer said the Department of Public Instruction will be asked to present at the next meeting regarding the potential to reduce administration and state and local costs relating to federal programs.

### STUDY OF THE FUNCTIONS OF THE BUDGET SECTION

The Legislative Council staff presented a memorandum entitled [2015-17 Biennium Budget Section Functions](#). The memorandum lists duties and responsibilities assigned to the Budget Section for the 2015-17 biennium by the North Dakota Century Code, Session Laws, or Legislative Management directive. The memorandum also identifies potential changes and areas to discuss relating to the Budget Section duties, as identified by the committee during prior committee meetings or by Chairman Delzer. Potential changes and areas to discuss include:

- Consider amending Section 4-05.1-19(10), relating to a report from the State Board of Agricultural Research and Education to require the report be provided rather than presented to the Budget Section;
- Consider amending Section 15-10-12.1, relating to higher education campus improvements and building construction, to allow campuses to make improvements under \$700,000 without Budget Section approval and to remove the authority of the Budget Section to approve new building construction or building addition projects;
- Discuss potential to remove the authority of the Budget Section to approve new full-time equivalent positions;
- Discuss potential to incentivize agencies to accurately report applications for federal grants to OMB;
- Consider amending Section 54-59-19, relating to an ITD annual report to remove the requirement for the report to be presented to the Budget Section;
- Discuss potential to repeal Section 54-06-37, relating to authorization of state agencies to purchase or lease aircraft;
- Discuss potential to repeal Section 54-23.3-09, relating to approval of new Department of Corrections and Rehabilitation programs;
- Consider repealing Chapter 54-56, relating to the Children's Services Coordinating Committee;
- Consider repealing Section 57-38-01.29, relating to the homestead property income tax credit; and
- Consider repealing Section 57-38-01.30, relating to the commercial property income tax credit.

Chairman Delzer requested the Legislative Council staff prepare bill drafts to amend Section 4-05.1-19(10) and Section 54-59-19, and to repeal Sections 54-23.3-09, 57-38-01.29, and 57-38-01.30 and Chapter 54-56.

In response to a question from Representative Pollert regarding the requirement for OMB to report to the Budget Section the purchase of put options, Ms. Sharp said OMB has never purchased put options.

In response to a question from Senator Sorvaag, the Legislative Council staff described bill draft [\[17.0073.01000\]](#), which was prepared for and presented to the committee at its March 15, 2016, meeting. The Legislative Council staff said the bill draft would amend Section 15-10-12.1, relating to higher education campus improvements and building construction, to allow campuses to make improvements under \$700,000 without Budget Section approval and to remove the authority of the Budget Section to approve new building construction or building addition projects.

In response to a question from Chairman Delzer, Ms. Sharp said she would provide the committee with additional information regarding the potential to improve the process of agencies notifying OMB of federal grant applications.

Chairman Delzer said he expects the final committee meeting will be in September 2016.

No further business appearing, Chairman Delzer adjourned the meeting at 2:40 p.m.

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Alex J. Cronquist  
Fiscal Analyst

ATTACH:11