



— State of —
North Dakota
Office of the Governor
Jack Dalrymple
Governor

2017-2019 BUDGET GUIDELINES ADDRESS
Governor Jack Dalrymple
May 4, 2016

Two years ago this month, we began the work of building a state budget for the 2015-2017 biennium.

We knew the possibility existed that our strong revenue collections could decline. So we worked hard to hold the line on on-going spending while we remained committed to meeting the needs of the nation's fastest-growing state economy and population.

We focused the use of our strong cash reserves on one-time infrastructure investments such as highway bypasses that serve Williston, Watford City and Dickinson, as well as a new airport terminal in Minot. We developed much-needed water projects, including flood control projects in Minot and Valley City. And we used cash reserves to catch up on college campus improvements like the STEM building at NDSU and the new Medical School at UND. These are important investments in the long-term success of North

Dakota, and because they are one-time commitments, they do not have to be repeated.

We have always said that the day could come when large, one-time investments in capital projects would no longer be possible.

Ladies and gentlemen, that day has come.

No one could foresee the extent to which commodity prices would fall after the Legislature adopted the current budget. The official price projection for West Texas Intermediate oil one year ago reached \$62 per barrel by the end of the biennium. That assumption was supported by futures markets and a global business consensus, including major oil companies that continued to invest. Today, an oil price of about \$44 presents a much different reality, accentuated by the fact that prices got so low in February, at \$26 per barrel, that all incentive to drill and produce temporarily disappeared. That complete lack of activity has led to the severe shortfall in sales tax collections in western North Dakota. As I said, no one could foresee the severity of this drop in prices, but because of the Legislature's prudent budgetary planning and the 4 percent budget allotment we made in February, the budget will remain balanced at the end of the current biennium.

And now, we begin work on the 2017-2019 Executive Budget in a much different revenue environment than at this time two years ago. With tax revenues falling short of expectations, we must find greater savings and efficiencies while minimizing as much as possible the impact on services. We must continue to demonstrate that we are good stewards of the people's money and that we will do everything necessary to operate a highly efficient state government that is financially solid.

You have no doubt heard the rhetoric that our state government doesn't know how to deal with a declining revenue environment. I want to say personally that I strongly disagree with that proposition because we have a record of sound fiscal management. As state agency managers, as appointees and as elected officials, you have done an outstanding job and your hard work and dedication are truly appreciated. You have stepped up to this responsibility in the past and I am confident that you will continue to do your part to hold down costs while still providing high-quality services to our people.

While there has been a great deal of discussion about state tax revenues, it's important for people to understand that the state's overall economy continues to hold up very well.

For the past 15 years, we have worked to diversify our economy by developing our workforce and promoting job creation in rapidly growing business sectors like technology. Our work is paying dividends today because we are less dependent than ever on our traditional business strengths.

We have 15,000 open jobs to fill today and we continue to have among the lowest unemployment rates in the nation at 3.1 percent. Our unemployment claims are lower today than they were a year ago.

North Dakota's per-capita income has grown from 12 percent below the national average in 2005 to 14 percent above the national average, climbing from 37th in the nation to 9th highest among all states.

Our progress is helping to keep residents in state and attracting others who want better opportunities. And after decades of out-migration and population decline, North Dakota's population is still growing rapidly and getting younger.

We have good reason to be optimistic about North Dakota's future, but by no means does that free us from our responsibility to address our current revenue challenges head on by developing a

sustainable budget plan. We will do so by laying the ground work today for a conservative approach to the budget process for the 2017-2019 biennium. As always, it will be a budget with a positive ending balance on June 30, 2019, as required by our State Constitution.

I am calling on agency leaders to bring forward a General Fund base budget equal to 90 percent of the on-going spending of the current biennium. One-time expenditures from the 2015-17 budget will not be considered savings for the purpose of these guidelines. New one-time expenditures and capital projects will not be considered unless they are absolutely critical. Agencies are expected to find savings with the smallest possible impacts on services to the state's citizens. We understand that there will be tough choices to make in order to achieve these goals. Budget reductions are never easy, but we have confidence that your recommendations will be thoughtful and based on your intimate knowledge of your agency.

Agencies' General Fund base budgets will be calculated at 90 percent of the 2015-2017 appropriation for ongoing expenditures, prior to the allotment. Obviously, many of the adjustments made in the allotment process may need to be continued, but agencies are not locked into the decisions they made for the allotment.

Because additional consideration must be given to services that impact public safety and the state's vulnerable population, our Office of Management and Budget will work separately with the Department of Human Services and the Department of Corrections to find spending levels that are adequate. North Dakota's traditional Medicaid program will not be subject to reductions beyond those realized during the allotment process.

State School Aid, the funding for North Dakota's K-12 schools, will not be subject to the 90 percent budget guidelines.

Although General Fund budget guidelines don't apply to our special funded agencies, I expect these agency directors to also perform a thorough review of their programs and submit budget proposals that produce savings.

As in the past, public employee compensation adjustments will be considered as a separate decision within the Executive Budget proposal.

We must continue to become more creative and more efficient service providers. Consider all opportunities to leverage or reprioritize existing resources, including staffing. Programs and staffing should

always be evaluated in terms of their results. Keep our best programs, consolidate whenever it creates efficiencies, and eliminate spending, such as grant programs, that may no longer be closely aligned to your agency's core mission. The slowdown in our economy, particularly in Western North Dakota, presents the opportunity to re-evaluate the service levels required in many areas.

All of these factors require that we take a balanced approach to the budget process. The budget guidelines presented today will help us make important decisions that will affect our state for years to come. We owe it to the people of North Dakota to develop a budget that funds our priorities; allows us to continue meeting unforeseen challenges; provides for prudent investments in our future and, ultimately, gives us the means to hold the line on taxes. After many years of working on the budget, I must say that I feel confident these guidelines will make it possible to develop a sound budget proposal for the Legislative Assembly. I believe we can look forward to returning to improving revenue collections in the future, with the hope of restoring some program funding.

Pam Sharp, all of our OMB analysts and I look forward to working with you on this important work. As always, I will be directly involved in putting together the budget proposal. It will be a challenge,

but with thoughtful planning and care, we can find the required savings and efficiencies while continuing to provide high-quality services for the people of North Dakota.

Thanks again for your dedication to the people of North Dakota. I will now turn it over to Pam Sharp for further details.