2019-2021 Strategic Budget Direction Address
Gov. Doug Burgum
April 17, 2018
(Actual speech varied slightly from written version; video is archived on the Governor's Facebook page at https://www.facebook.com/GovernorDougBurgum/)

Good morning. Thank you all for being here. And if you are watching on Facebook live or on replay - thank you also for tuning in!

Let me begin with gratitude. First Lady Kathryn, Lt. Gov. Sanford and I are filled with gratitude every day for the opportunity to serve the citizens of North Dakota.

We live in an amazing place with amazing people.

And we're especially grateful for the opportunity to work every day alongside the thousands of incredibly dedicated and hardworking team members in state government. These team members joined state government with a passion to serve.

Working together, we have an opportunity to make a difference in people's lives across North Dakota EVERY DAY… Our administration has adopted a purpose statement to guide the decisions we make and the way we work with these six powerful words:

Empower People
Improve Lives
Inspire Success.

When Brent and I took office, the state faced an unprecedented revenue shortfall brought on by the collapse of crude oil and ag commodity prices.

Through teamwork with the Legislature – and significant adjustments and sacrifices made by our state agencies and team members – we reduced general fund appropriations from $6 billion to $4.3 billion- a record reduction.

As you can see, we lived through quite the journey of unprecedented expansion and now are on the backside. Great job to everyone in state government who led us through this growth and retraction and continues to lead in this period of stabilization.

Together, we reined in ongoing spending while still funding our priorities, including increasing K-12 funding, and providing local property tax relief by taking over the funding responsibility of county social services.

Yet even with that record budget reduction of $1.7 billion, ongoing general fund expenditures in the current 2017-19 biennium exceed our projected general fund revenues by $800 million.

So how did we balance the budget? We did it through a combination of record reductions, paired with the use of nearly every available dollar from various savings and reserve accounts.

So heading into the 2019-21 biennium, we won't have the cushion of huge transfers from accumulated reserves that prior governors and legislators wisely set aside for rainy days.

As you can see on the slide, the Tax Relief, Foundation Aid Stabilization, Budget Stabilization, and Strategic Investment and Improvements funds all have been significantly depleted. Our ending general fund balance will be at a minimal level as reserves are replenished.

And the way our general fund budget and funding models are currently structured, it creates constraints on our flexibility.

Currently 81 percent of general fund dollars go to K-12, higher education and Health and Human Services. These areas have vital missions but with much of their funding tied to formulas that put pressure on our budget processes.

Our largest non-oil tax revenue source, sales tax, also has flattened out.

Fortunately, our state's economy is dynamic, and our outlook is improving.

Moody's economic long-range projections for next biennium call for modest employment growth and personal income growth, sustained low unemployment – our 2.6 percent rate is second-lowest in the nation – and continued small gains in population growth.

General fund revenues for our current 2017-19 biennium are tracking slightly ahead of our forecast.

And oil activity is more robust than anticipated, with the most recent North Dakota price around $57 per barrel, about $10 higher than our forecast. Current oil production of nearly 1.2 million barrels per day, and heading towards a new record level, is significantly – or should I say "WELL" ahead – of our current forecasted 925,000 barrels per day.

These very welcome and very needed additional oil revenues will continue to help grow our Legacy Fund and help replenish other savings accounts.

But as we know from recent experience, it is very risky to make spending decisions based on market forces beyond our control.

Significant changes needed

So while we have reason to be cautiously optimistic, we know our modest projected growth won't be enough to bring general fund revenues in line with our current ongoing expenditures.

Without significant change, our budget will remain structurally imbalanced.

Every program, and every position, has a "cost to continue." For example, just continuing what we are doing today for K-12 education and Medicaid would drive our general fund spending from $4.3 to $4.5 billion.

Making significant changes will require new approaches and processes, sharing services and working collaboratively across agencies. We're already taking steps in that direction, starting with our IT unification efforts.

And we must continue down that path to achieve our vision of a leaner, more efficient, more responsive state government.

Digital technology disruption is changing every job, every company and every industry.

It is transforming our largest industries of energy and agriculture. It is transforming transportation and communications.

And it needs to and will transform government at all levels.

We have a tremendous opportunity before us.

We can harness a growth mindset and embrace the spirit of reinvention.

More than ever before, it’s essential that agencies conduct a rigorous self-examination, to critically and comprehensively analyze every program, every expenditure, everything they do, and ask the hard questions:

How can we do things differently and more efficiently?
Is this program or activity necessary?
Can it be combined with another?
Is it an essential activity of government, or could the private sector deliver this same service?

To that end, I’m excited to announce our new approach to preparing budgets and ensuring stewardship of state resources.

<STRATEGIC REVIEWS>
This May, the Office of Management and Budget and the Governor’s Office will invite all agencies to participate in strategy reviews to discuss their strategy, organization and systems.

Together, we’ll explore ways to meet the budget guidelines, find efficiencies and identify areas to work cooperatively --- and across traditional budgeting silos --- to reach our shared objectives.

Consider this an initial step toward zero-based budgeting: We should first identify those things we can do without, as opposed to starting with justifying everything we already have.

Through this strategic review process, we’re asking agencies to carve out dollars --- to “harvest savings” from things you will stop doing --- to create funding sources that can later be added back to create truly transformational programs, to streamline processes and to reward performance.

The intention is to incent collaboration and do things differently and more effectively.

Like our innovative farmers who harvest crops and then add value by processing them into all sorts of products, we want agencies to "harvest dollars" from their existing budgets and think about how they can add value to those dollars, making them go further and have greater impact.

The culture of budgeting in the past has been a focus on INPUTS. And generally a bigger budget made people feel like "winners" and a smaller budget held the connotation of "losing."

The new winners will be those who innovate, who re-invent, and whose citizen-focused work will bring big improvements in OUTCOMES.

We must acknowledge that in the 21st century, a larger number of employees may not be as effective as a smaller number of team members supported by the best leadership and latest systems and technology.

Budget guidelines

All these factors and more were considered as we mapped out our strategic budget direction for next biennium.

We also recognize it's often mathematically harder for smaller agencies to find significant savings.

Therefore, the budget targets we present today are in two tiers.

Under the two tiers:

- After deducting major grants, such as Medicaid and K-12 State School Aid, agencies with a remaining appropriation of less than $5 million for the biennium are asked to submit a 2019-21 base budget with a 5 percent reduction in ongoing expenditures.

- Again, after excluding major grants, if the remaining agency appropriation is $5 million or more, the agency is asked to submit a 2019-21 base budget with a 10 percent reduction in ongoing expenditures.

In addition to the prescribed 5 percent or 10 percent base budget reduction, we're asking agencies to identify and list an additional 3 percent reduction as a contingency against volatile commodity prices.

Despite our revenue volatility, we have a commitment to funding our priorities. So, as I mentioned, the budget guidelines exclude major grant programs such as K-12 State School Aid and Medicaid, so they won't be included when calculating budget limits.

Special funded agencies are asked to follow the same guidelines.

For higher education, campuses should submit budgets with a 10 percent reduction in the per-credit hour formula adopted for the current biennium.

This does not equate to an overall 10 percent cut for campuses, which receive a majority of their funds from other sources.

People and process

Any effort to balance revenues and expenditures must include a comprehensive analysis of both people and processes: a hard look at how we can simplify and automate --- streamline our organizational structures and processes to improve communication and decision making --- and increase collaboration between agencies.

In our approach to state government today, salaries and benefits comprise more than 50 percent of the state's operating budget.

Therefore, agencies are being asked to submit a base budget with a 5 percent reduction in current budgeted 2017-19 FTE levels, regardless of funding source. This doesn't apply to higher education institutions, which will adjust their own FTEs based on overall strategy and their evolving financial models. Agencies with fewer than 20 authorized FTEs also are excluded from this requirement.

The 5 percent reduction target in FTEs can be part of an agency's strategy to reach their overall 5 percent or 10 percent budget reduction.

While this may seem a daunting goal on the surface, let me add some perspective: a 5 percent FTE reduction is less than half of our normal attrition rate in a given year. And last year, our team member turnover was 12.7 percent.

So it's possible that some agencies could reach their 2019-21 FTE goal simply by not refilling positions in the coming year.

But we ask that agencies be more strategic as they think about staffing.

Talent attraction and retention must be at the forefront of our decision making.

To retain existing team members, we need to ensure that we preserve the ability to reward performance, including providing overdue salary increases in the next biennium.

To attract new job-seekers, we need to evaluate the “value proposition” as we compete for talent.

Today, a full 12 percent of our State of North Dakota team members are eligible for retirement, and more than 20 percent will be eligible in the next five years. Filling these jobs will require us to hire thousands of new team members.

And across our state, we have more than 14,400 job openings.

The unemployment rate is low nationwide, and incredibly low here in North Dakota.

Today’s new generation of job-seekers are highly unlikely to stay with the same employer for 20-30 or more years.

In this environment, we are competing for talent not just across the state but across the country.

In this age of digital disruption and technological innovation, we must shift our focus from inputs to outcomes. Solving our challenges will require greater focus on people and processes and recognizing that finding efficiencies – whether through automation, eliminating duplicative programs or other means – should be the overarching goal, as opposed to a bigger budget and more staff.

To be great stewards of taxpayer dollars, it's not just how much we spend … but what we spend it on, and where we spend it.

We have to live within our means, and that includes our existing physical spaces.

New requests for capital projects and other one-time expenditures will be considered. But they will be highly scrutinized, with priority given to strategic investment proposals that use nontraditional funding sources and collaborative approaches.

As we "harvest" dollars, we will also be looking for how we can move money from the "run" category, which is day-to-day operations, to the categories of "grow" and "transform" – and this will include searching for dollars to invest in research projects and transformative, cross-cutting new ideas and initiatives to best serve our citizens.

Ultimately, we invite every team member – including those working hard on the front lines to deliver services – to join in this strategic review process as a springboard to reinventing and transforming the work we do to:

EMPOWER PEOPLE
IMPROVE LIVES
INSPIRE SUCCESS

In closing, I sincerely believe the biggest challenges we face are not monetary.

In today's incredible digital economy, every day there are new ways, new approaches, new ideas, new applications and new solutions being introduced to solve the world's toughest problems.

We need to evolve to a whole of government who "works as one" and realizes the abundant world we live in.

We can choose to operate in the world of unlimited abundance. Because there is an unlimited number of ways to solve most issues.

To access this abundance, we need a culture that embraces change.

We have identified 5 culture aspirations which continue to guide our work in state government:

- Citizen Focused
- Growth Mindset
- Leadership Everywhere
- Work as One
- Make a Difference

If we bring gratitude for the opportunity to serve, humility to know we can learn from anyone, the curiosity to keep seeking new solutions, and courage to forge new partnerships and adopt new approaches, abundance will flow to all of us.

Thank you again for all the amazing work you do, and we look forward to working together.

Thank you.