2025-27 Executive Budget Recommendation
Gov. Kelly Armstrong
Joint Appropriations Committee
Sen. Brad Bekkedahl and Rep. Don Vigesaa, chairs
January 15, 2025
Brynhild Haugland Room, State Capitol

Chairman Bekkedahl and Chairman Vigessa, members of the Joint Appropriations Committee, good morning. It's my pleasure to present to you our Executive Budget Recommendation for the 2025-27 biennium.

This budget represents months of hard work by our state agencies and a careful evaluation of spending during the first month of our administration to ensure the highest return on investment for our taxpayers' dollars.

Our budget includes historic property tax relief and reform, strategic investments in infrastructure and legacy projects, and solutions to housing affordability and access. While building on the interim work of the Burgum administration, our budget is a new budget recommendation with significant changes from what was presented to you last month.

We recommend a general fund budget of $6.6 billion and a total budget of $19.89 billion. Within that total is $483.4 million for property tax relief and reform; $464 million in bonding for construction projects; $44.3 million for Education Saving Accounts; $50 million for higher education Challenge Grants; and over $16 million to staff and operate the Grand Forks County Correctional Center's new expansion as an immediate, temporary solution to our prison overcrowding.

Combined, these represent roughly a billion dollars in new investment in infrastructure, educational opportunities for students, and property tax relief.

Without having time to dig into base budgets, we had to find other places to reduce spending in the Burgum administration's budget proposal, which had already reduced agency requests. We cut another $600 million.

So how did we accomplish this?

First, we reduced FTEs. The previous executive budget recommended adding 610 FTEs. We reduced that number to 530 FTEs. Of those, 417 are positions we couldn't cut, including 47 in Legislative Council and the judicial branch, 141 in higher education and extension research, 26 for the new women's correctional facility, and 204 in the Department of Health and Human Services added during the current biennium with legislative authority – about half of those long-term temporary employees. After careful review of the remaining FTEs, we removed 122 FTEs and then added back 35 determined to be the highest priority, including 31 in corrections to staff the Grand Forks facility.

We also cut $130 million out of the proposed Missouri River Correctional Center project. We included $23 million to fund the planning – but only the planning. Construction wasn't going to start until end of the biennium, and funding was nowhere near enough to complete the project. Providing enough funding to finish this project is a conversation that should happen next biennium.

We reduced the North Dakota Department of Transportation's budget increase by $109 million, a portion of that being in the 10-year strategic plan. Instead, we're proposing a new Legacy Fund earnings stream for the Legacy Earnings Highway Distribution Fund. This will provide a more stable funding source that will increase over time and should alleviate the need for the 10-year strategic plan and blunt the impact of a 3% cap on local political subs' property tax growth.

Throughout agency budgets, we cut a lot of spending on new programs. We're going to focus on the core functions of government, and in the future we'll be looking at legacy programs. We simply didn't have time to dig into base budgets in the past three weeks.

As I said during my State of the State address, I'm less concerned about spending more and less concerned about spending less. What I am concerned about is spending wisely and making sure we are investing strategically to make the best use of taxpayer dollars now and in the future.

Property Tax Reform and Relief

The biggest difference between our budget and the previous administration's budget is our plan for property tax relief and reform.

This plan has three main components:

- It will provide a property tax credit of $1,550 per year for each primary residence next biennium. This is accomplished by using $310 million from the general fund and $173.4 million from the last stream in the Legacy Earnings Fund. Using the Legacy Earnings Fund will not only grow the credit over time but also reduce the general fund cost in future biennia until Legacy earnings ultimately cover the entire cost of the relief.

- The reform piece is essential to this plan being sustainable and responsible. The plan caps future increases in local property tax budgets at 3% per year. They don't have to use the entire 3% increase every year. Whatever percentage they don't use each year, they can bank it for up to five years. This will encourage cities, counties, schools and park districts to budget prudently and plan ahead. If they have a big capital project looming but it won't be shovel-ready for three years, they can bank their increases for up to 5 years.

- The proposal will also expand eligibility for the homestead tax credit program to increase the limits on income and value exemptions.

Homeowners will see a significant, immediate impact from this plan, and it will put the bulk of primary residences on a path to zero property taxes within the next decade.

This will benefit our workforce recruitment efforts and make North Dakota an even better place to live, work and raise a family.

As I said last week, this plan is real relief, and it is real reform. It's responsible, achievable, and durable. It creates Legacy Fund buy-in. And it is the single most impactful thing we can do for the citizens of North Dakota this session.

Now, I'd like to highlight some other areas of our budget where you'll see changes:

General Fund Revenues

General fund revenues for next biennium are projected at $5.6 billion, or $75 million higher than the revised forecast for the current biennium.

At the end of next biennium, we'll be leaving $230 million in the general fund ending balance and over $500 million in the Strategic Investment and Improvements Fund – not including any of the SIIF revenue from next biennium. With revenues from next biennium, the projected SIIF balance would be $1.6 billion. We're leaving real cushions for legislative priorities.

We propose increasing the oil tax allocation to the general fund from $460 million per biennium to $500 million. This is important to make sure the Prairie Dog buckets fill in conjunction with the property tax relief.

Our budget continues the ongoing dividend from the Bank of North Dakota at $140 million and continues the statutory requirement for 50% of State Mill profits to be transferred to the general fund, estimated at $17 million. Over the course of the next interim, we should reevaluate the dividend. We run plenty of different programs that align with the Bank's mission, and focusing those dollars more directly would be a better use of that money.

We also propose extending the five-year suspension of coal conversion taxes through the next biennium, recognizing the critical importance of our coal industry in providing affordable, reliable, dispatchable power for residents and businesses in North Dakota and beyond.

Oil tax revenues are projected at nearly $4.9 billion in 2025-27, which is about $828 million less than the revised estimated for the current biennium. This assumes oil prices of $62 a barrel in 2026 and $60 a barrel in 2027, and oil production of 1.15 million barrels per day in 2026 and 1.1 million barrels per day in 2027.

These are conservative projections. We're optimistic we could see higher numbers with the Trump administration's focus on responsible development of our resources to achieve not only energy independence but energy dominance.

Bonding

We have construction needs, and our budget addresses them head-on. After removing one-time costs for construction projects that weren't scheduled to start until the end of next biennium, we're proposing a $464 million bonding package for these infrastructure investments:

- $300 million for the construction of a new State Hospital in Jamestown. There are different cost estimates that will be discussed this session, but this is an important project, and we can't wait 36 months to build it. Every month we delay is another $1 million in cost.

- $120 million for airport projects in Fargo, Grand Forks and Dickinson. These are joint local-state-federal projects and are absolutely necessary to keep commercial airline service at these airports. For the communities these airports serve, these are needs, not wants.

- $44.2 million for a Military Gallery at the North Dakota Heritage Center. This is the state share of an $80 million project and includes $4.2 million to repay the line of credit authorized last session and interest.

To repay these bonds, we propose increasing the percent of market value, or POMV, which is applied to the Legacy Fund to calculate the earnings available for use every two years. Our budget increases the POMV from 7% to 8.5% of the average five-year balance of the Legacy Fund. With that additional 1.5%, half will be dedicated to repaying the bonds issued next biennium for the projects described above. The other half would increase funding to the previously mentioned Legacy Earnings Highway Distribution Fund to support state and local infrastructure, starting with an estimated $80 million in 2027-29.

Workforce and Housing

Housing is still a major obstacle in our efforts to attract and retain workforce.

Our budget includes nearly $105 million to address housing availability and affordability, which is $10 million above the previous administration's budget. To fund that increase, we reduced spending on other programs of the Commerce Department budget.

We're also working with the Bank of North Dakota on a policy change that would go hand-in-hand with this by streamlining financing for housing that costs more to build than it appraises at when finished. The Bank program will have no budget impact but will allow us to deploy the money we're requesting to address a pressing need.

Our budget also includes $50 million for a new Commerce program to address housing needs through a public-private partnership structure called Housing for Opportunity, Mobility and Empowerment, or HOME. By leveraging local and private sector matches, this will create a $150 million investment in housing solutions. We've also included $35 million for the Housing Incentive Fund, including $10 million to address homelessness.

Within Commerce, the budget provides a $50 million transfer to the North Dakota Development Fund to support economic growth, $15 million for workforce enhancement programs, $10 million for the LIFT fund, $15 million for Destination Development grants, and $5 million for Find the Good Life. Those last two programs are funded substantially less than last biennium. They are important programs, but they need a level reset.

Additionally, we propose over $50 million for uncrewed aircraft systems. This includes $20 million to advance the Vantis beyond-visual-line-of-sight network; $11 million for system and security upgrades to integrate FAA data into the network; and $15 million to replace Chinese-made drones used by our state agencies. These investments will enhance national security and keep North Dakota at the forefront of UAS research, development and commercialization.

K-12 Funding

To maintain a fully funded K-12 education system, our budget provides 2% annual increases in the K-12 integrated formula at a cost of $60 million. We also urge the Legislature to remove the transition minimum factor and the multi-plant adjustment from the formula. Enough transition time has passed; It's time to apply the formula evenly to all our school districts.

But simply funding K-12 isn't enough. We need to offer 21st century learning environments that engage students, expand educational opportunities and empower parents.

Our budget contains $44.3 million to establish an Education Savings Account program. The intent of this ESA program is to provide supplemental services through a digital wallet that reimburses for approved services and supports such as tutoring and mental health therapy. This will expand educational opportunities to directly impact student learning and well-being for public, non-public and homeschool students.

We propose a $75 million transfer from the Foundation Aid Stabilization Fund to the School Construction Revolving Loan Fund to help finance new facilities and make them more affordable.

And, building on the progress from last session, we've included $17.3 million for investment in child care programs and grants. Again, this program is important for the state to try and address a real need, but we also have to figure out what's working and what isn't and streamline this process significantly.

Higher Education

The $3.1 billion budget for higher education includes a 9% increase to the higher ed funding formula and $50 million for the successful Challenge Grant program – more than double the $20 million in the current biennium.

The Challenge Grant program is a proven tool that helps keep North Dakota kids in North Dakota schools. The program fosters public and private partnerships and promotes philanthropy to support higher education by matching every $2 in eligible private donations with $1 in state funds to advance academics in higher education, including student scholarships, research, technology, endowed chairs and investments in educational infrastructure. With matching funds, the $50 million from the state will drive $150 million of investment in higher ed over the next two years.

The higher ed budget also includes funding the nearly $35 million commitment to the renovation of Old Main at Mayville State University. But after that, we are investing $20 million for campus deferred maintenance. Before campuses add more buildings to take care of, we need to take care of the buildings we already have.

Corrections and Rehabilitation

Our jails and prisons are full, and our budget includes several initiatives to address overpopulation in the corrections system.

We propose $36.5 million to finish the Heart River Correctional Center for women, $23 million for planning and design of a new Missouri River Correctional Center (MRCC), and $16.1 million for various extraordinary repairs.

For a more immediate solution, we've included $16.1 million to staff and operate the new expansion at the Grand Forks County Correctional Center. County officials reached out to us in recent weeks with this idea, noting they are currently unable to staff the space or fund its operation. This will make 90 beds available by July 1 of this year. Our budget also includes $9.3 million for a temporary housing facility at MRCC, which will make 88 beds available by July 1, 2026, for a combined total of 178 additional bed between the two facilities.

Between these two facilities, this is the cheapest and fastest way to relieve pressure on our overcrowded correctional facilities, not just at the state but also the local level.

But we also know we can't build our way out of this. We need practical solutions that will increase access to services and not rely so much on our jails and prisons as treatment centers.

That's why we're proposing $19.2 million for behavioral health programs, including $6.9 million to expand Free Through Recovery, Community Connect and peer supports; $7.8 million to increase youth crisis and intervention funding; $2.5 million to expand the Substance Use Disorder (SUD) voucher program; and $2 million for rural crisis supports.

As I announced at State of the State, we've also created a new Commissioner of Recovery and Reentry within the Department of Health and Human Services. Commissioner Jonathan Holth, who managed Recovery Reinvented under the previous administration, will work to operationalize the relationships between the Legislature, DOCR, county jails, law enforcement, judicial system, our tribal partners and addiction counselors to provide services.

State Employee Compensation and Benefits

Our budget provides for performance-based raises for state team members, with agency salary budgets increased by 3% in each year of the biennium. And it continues the state's health insurance benefits package, with no changes to deductibles or coinsurance, despite the state's cost for premiums increasing by over 15%.

We're committed to ensuring the state's closed defined benefit retirement plan remains financially viable for our current state employees and retirees. Our budget includes a $100 million transfer to the Public Employees Retirement System (PERS) Fund, along with additional funding to ensure we can meet that obligation and adequately fund the new portable defined contribution plan for new state employees.

To summarize, after being sworn in Dec. 15, we added $1 billion in new investment in infrastructure, education and tax relief.

We reduced spending in other areas by over $600 million.

We reduced state FTEs and programs as much as we could without having time to dig into base budgets.

We left generous cushions in the general fund and SIIF.

And we did all this in three weeks while funding property tax relief, investing in essential infrastructure and expanding educational opportunities.

With that, I would invite OMB Director Joe Morrissette to walk through additional details of the budget and revenue assumptions, after which we would welcome any questions. Thank you.