

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

BUDGET SECTION

Wednesday, January 14, 2004
Senate Chamber, State Capitol
Bismarck, North Dakota

Representative Ken Svedjan, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Ken Svedjan, Ole Aarsvold, Larry Bellew, Rick Berg, Merle Boucher, Ron Carlisle, Al Carlson, Eliot Glassheim, Keith Kempenich, James Kerzman, Kim Koppelman, Joe Kroeber, Bob Martinson, Ralph Metcalf, David Monson, Earl Rennerfeldt, Bob Skarphol, Blair Thoreson, Mike Timm, John Warner, Amy Warnke; Senators John M. Andrist, Bill L. Bowman, Randel Christmann, Michael A. Every, Tony S. Grindberg, Ralph L. Kilzer, Aaron Krauter, Ed Kringstad, Elroy N. Lindaas, Tim Mathern, David P. O'Connell, Larry Robinson, Randy A. Schobinger, Bob Stenehjem, Harvey Tallackson, Russell T. Thane

Members absent: Representatives Thomas Brusegaard, Jeff Delzer, Pam Guleson, Francis J. Wald; Senator Ray Holmberg

Others present: John O. Syverson, State Senator, Fargo

See Appendix A for additional persons present.

It was moved by Senator Tallackson, seconded by Senator Mathern, and carried on a voice vote that the minutes of the October 15, 2003, meeting of the Budget Section be approved as distributed.

STATUS OF THE STATE GENERAL FUND

At the request of Chairman Svedjan, Ms. Pam Sharp, Director, Office of Management and Budget, presented a report on the status of the state general fund. A copy of the information presented is on file in the Legislative Council office. Ms. Sharp said the consumer price index in November 2003 was 1.8 percent, which is lower than the average rate of 2.5 percent realized during the first half of 2003. She said the consumer price index is expected to average 2.4 percent during 2003 and 1.4 percent during 2004. Ms. Sharp said North Dakota's unemployment rate in November 2003 was 3.2 percent, a decrease from the 3.6 percent rate in October 2003. She said North Dakota's rate was considerably lower than the national unemployment rate of 5.9 percent in November 2003. Ms. Sharp said as of January 2004 there were 11 oil rigs operating in North Dakota, compared to 10 in January 2003. She said the Tesoro posted price for oil is approximately \$28 per barrel in North Dakota.

Ms. Sharp presented the following information on the status of the state general fund based on revenue collections through December 2003:

Unobligated general fund balance - July 1, 2003	\$14,790,311
Add	
General fund collections through December 31, 2003	390,801,111
Forecasted general fund revenue for the remainder of the 2003-05 biennium (based on the 2003 legislative forecast)	1,432,333,090
Jobs and Growth Tax Relief Reconciliation Act of 2003 payments	50,000,000
Less	
Estimated impact of federal tax cuts resulting from the Jobs and Growth Tax Relief Reconciliation Act of 2003	(13,800,000)
Total estimated general fund revenue for the 2003-05 biennium	\$1,874,124,512
Less	
2003-05 biennium general fund appropriations	1,803,661,161
Estimated general fund balance - June 30, 2005 (\$60,210,442 more than the 2003 legislative estimate of \$10,252,909)	\$70,463,351

Ms. Sharp said excluding the federal fiscal relief payments, the total revenues and transfers for the first six months of the 2003-05 biennium were approximately \$14.7 million above the forecast. She said the majority of increased revenues are from sales tax collections, approximately \$11.1 million over the forecast, and individual income tax collections, which were approximately \$3.1 million over the forecast. Ms. Sharp said the oil and gas production tax and the oil extraction tax are down slightly from the forecast for the first six months of the biennium due to lower oil production than was originally estimated.

In response to a question from Representative Svedjan, Ms. Sharp said the interest income for the first six months of the 2003-05 biennium is below forecast by approximately \$1.6 million because interest rates have been much lower than was projected when the forecast was prepared in March 2003.

In response to a question from Representative Svedjan, Ms. Sharp said the next official revenue forecast will be the preliminary revenue forecast in June 2004.

TOBACCO SETTLEMENT PROCEEDS

Ms. Sharp presented information on the status of tobacco settlement proceeds received by North Dakota. A copy of the information presented is on file

in the Legislative Council office. Ms. Sharp said the status of the fund has not changed since October 2003 when it was last reported to the Budget Section. She said \$106.77 million has been received by the State of North Dakota as of October 3, 2003, as a result of the tobacco settlement and deposited in the tobacco settlement trust fund. Ms. Sharp said the state was expecting to receive a \$22.9 million payment in April 2004; however, the Office of Management and Budget has received notification that the payment will be reduced to \$21.7 million due to a volume adjustment for cigarettes.

INFORMATION TECHNOLOGY FUNDING REDUCTIONS

Ms. Sharp commented on line item transfers to accommodate information technology funding reductions, pursuant to Section 8 of 2003 House Bill No. 1505. She said as of January 14, 2004, no agencies have requested line item transfers. Ms. Sharp said as it is early in the biennium she is not sure whether transfers will be required later in the biennium or if agencies will be able to address the funding reductions within their budgets.

In response to a question from Representative Skarphol, Ms. Sharp said she would provide him with the balance in the water development trust fund.

FISCAL IRREGULARITIES

Pursuant to North Dakota Century Code (NDCC) Section 54-14-03.1, Ms. Sheila Peterson, Director, Fiscal Management Division, Office of Management and Budget, presented information on irregularities in the fiscal practices of the state. A copy of the information presented is attached as Appendix B. Ms. Peterson said the fiscal irregularities in the report include one accounting item, several central payroll items, and University System payroll items for fiscal years 2002 and 2003.

Ms. Peterson said the Labor Department overspent its salary line item appropriation by \$705.78 due to an error in the calculation of hospital insurance rates for nine employees. Ms. Peterson said the State Department of Health paid \$1,570 to an employee for an increase in workload and \$29,492 to another employee for early retirement buyout. She said the Department of Commerce provides quarterly bonuses to an individual with the manufacturing extension partnership. Ms. Peterson said the University System office paid \$1,000 to an employee for a temporary workload increase, the Office of Administrative Hearings paid \$1,000 each to two employees for workload increases prior to official reclassification, and the Land Department paid an employee \$598.99 for three years of back holiday pay which had been calculated incorrectly. Ms. Peterson said several Department of Public Instruction employees received additional pay for workload increases related to the 2003 legislative session.

In response to a question from Representative Svedjan, Ms. Peterson said all the Department of Public Instruction employees that received additional pay for increased workload are paid a monthly salary and the administrator of an agency can reward its employees and give employees extra pay for additional workload and employee effort.

In response to a question from Representative Svedjan, Ms. Peterson said the amount of additional pay given to Department of Public Instruction employees for increased workloads did not result in the department exceeding its salary line item appropriation.

In response to a question from Representative Timm, Ms. Peterson said it is the decision of each individual agency as to how it rewards its employees for extra workload. She said some agencies do not give any rewards for increased workloads, while others give additional pay or compensatory time.

In response to a question from Representative Boucher, Ms. Peterson said Mr. Schwartz with the Department of Commerce is paid a quarterly bonus of up to 10 percent of federal funds reimbursed per quarter, with a maximum of \$4,896 per quarter, in addition to his base salary.

In response to a question from Representative Boucher, Ms. Peterson said she does not know all of the job responsibilities for Mr. Schwartz, but she will obtain a list of his job responsibilities and distribute it to Budget Section members.

In response to a question from Representative Svedjan, Ms. Peterson said the Department of Commerce has a contract with Mr. Schwartz that outlines the terms of his performance bonus.

PRELIMINARY PLANNING REVOLVING FUND

At the request of Chairman Svedjan, Mr. Joel Leapaldt, State Facilities Planner, Office of Management and Budget, presented recommendations regarding the use of money in the capital improvements preliminary planning revolving fund, pursuant to NDCC Section 54-27-22. A copy of the information presented is on file in the Legislative Council office.

Mr. Leapaldt said the January 2004 balance in the preliminary planning revolving fund is approximately \$140,000. He said the Office of Management and Budget recommends two projects, totaling \$95,000, receive funding, pursuant to NDCC Section 54-27-22:

Agency	Project Description	Recommended Funding From the Preliminary Planning Fund
Office of Management and Budget	Fire suppression system for the State Capitol	\$35,000
Department of Corrections and Rehabilitation	Replacement of the east cellhouse at the State Penitentiary	60,000
Total recommended funding		\$95,000

It was moved by Representative Carlisle, seconded by Representative Bellew, and carried on a roll call vote that pursuant to NDCC Section 54-27-22, the Budget Section approve the distribution of \$95,000 from the preliminary planning revolving fund, as recommended by the Office of Management and Budget, for the Office of Management and Budget for the installation of a fire suppression system at the State Capitol (\$35,000) and for the Department of Corrections and Rehabilitation for the replacement of the east cellhouse at the State Penitentiary (\$60,000). Representatives Svedjan, Aarsvold, Bellew, Boucher, Carlisle, Glassheim, Kempenich, Kerzman, Koppelman, Kroeber, Martinson, Metcalf, Monson, Rennerfeldt, Skarphol, Thoreson, Timm, Warner, and Warnke and Senators Andrist, Bowman, Christmann, Every, Grindberg, Kilzer, Krauter, Kringstad, Lindaas, Mathern, Robinson, Schobinger, Stenehjem, Tallackson, and Thane voted "aye." No negative votes were cast.

2005-07 BIENNIUM BUDGET FORM CHANGES

Chairman Svedjan called on Ms. Peterson to present, pursuant to NDCC Section 54-44.1-07, any proposed changes to the 2005-07 biennium budget data, including any future plans for incorporating performance measurements in budget data. A copy of the information presented is on file in the Legislative Council office.

Ms. Peterson said the Executive Budget Office has been working with Affinity Global Solutions, the software development firm that originally developed the statewide integrated budget and reporting (SIBR) system, to upgrade SIBR through implementation of the firm's budget and reporting system (BARS). She said efforts are being made to implement the product "off the shelf" to avoid customization, which will save the state money for ongoing support, maintenance, and upgrades. Ms. Peterson said BARS will look very similar to SIBR, but BARS will provide greater detail in some areas of the budget, such as funding sources and costs required to continue the current level of government services.

Ms. Peterson said the flexibility of BARS allows the Executive Budget Office to incorporate several items of interest to legislators into the system. She said the telecommute analysis form, which in the past was collected separately from the rest of the budget, will be incorporated into agency budget requests in BARS. She said the 2003 Legislative Assembly directed each agency to submit a report to the 2005 Legislative Assembly Appropriations Committees regarding continuing appropriations statutorily authorized for each agency and BARS will incorporate this report to provide a more complete view of agency expenditures than has been available in the past. Ms. Peterson said agency information technology plans will also be incorporated in BARS, which will avoid the

need for duplicate entries by agency personnel and interfaces between multiple systems. She said the new information technology plan section of BARS is designed to provide more consistency between agencies when coding information technology expenditures, to provide documentation tying the information technology expenses to the agency's business plan, and to include the prioritization of information technology projects.

Ms. Peterson said the flexibility of BARS allows the Office of Management and Budget to incorporate some additional performance budgeting information without modifying the application or incurring additional programming costs. She said agencies will be asked to complete narrative fields outlining their mission statements, strategic goals and objectives, program level strategic goals and objectives, and program outcomes and statistical data.

In response to a question from Representative Svedjan, Ms. Peterson said due to the flexibility of the BARS system, the type of performance data measured for individual agencies can be changed as desired.

In response to a question from Representative Berg, Ms. Peterson said BARS is expected to be implemented in mid-March 2004.

In response to a question from Representative Berg, Ms. Peterson said a representative of the Office of Management and Budget will be at the Government Performance and Accountability Committee meeting, which is the interim committee studying performance measures, on January 28, 2004, to present information on BARS and to get the committee's input on performance measurements it may want incorporated in the system.

In response to a question from Representative Berg, Ms. Peterson said the State of Maine uses Affinity Global Solutions budget software and its performance components, but it is a very complex and paper-intensive system.

Representative Berg said, without objection, the Budget Section should defer the performance measures component to the Government Performance and Accountability Committee and the Office of Management and Budget should coordinate its form changes with the Government Performance and Accountability Committee. He said the goal is to keep North Dakota's BARS simple and focused and not to create agency paperwork.

It was moved by Representative Glassheim, seconded by Representative Monson, and carried on a voice vote that pursuant to NDCC Section 54-44.1-07, the Budget Section approve changes to the budget data as proposed by the Office of Management and Budget, including information on telecommute analysis, agency continuing appropriations, and agency information technology plans.

MEDICARE PRESCRIPTION DRUG, IMPROVEMENT, AND MODERNIZATION ACT OF 2003

Chairman Svedjan called on Mr. David Zentner, Director, Medical Services, Department of Human Services, to present information on the anticipated impact of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 on the state Medicaid program. A copy of the information presented is on file in the Legislative Council office.

Mr. Zentner said the Medicare prescription drug program has two phases and will have a direct impact on the Medicaid program. Phase 1 consists of a drug benefit card and an annual \$600 drug credit. He said the drug credit is limited to low-income Medicare beneficiaries whose gross income is under 135 percent of the federal poverty level and will be in place from June 2004 through December 2005. Mr. Zentner said Phase 1 of the program will only have minor implications for the Medicaid program because dual-eligible Medicaid and Medicare recipients are not eligible for the discount card or the \$600 credit. He said the program contains a provision that addresses potential eligibility for medically needy recipients that has yet to be defined by the United States Department of Health and Human Services. He said it is assumed that medically needy individuals who receive services will not be eligible for Phase 1 of the program. Mr. Zentner said the program will have no effect on the amount of drug expenditures for dual-eligible recipients for the 2003-05 biennium.

Mr. Zentner said Phase 2 implements Part D of Medicare and establishes a drug payment program for Medicare recipients. He said this phase will be implemented in January 2006 and "dual-eligible" recipients can participate in the program, but participation is voluntary so individuals cannot be forced into the program. Mr. Zentner said subsidies are available to pay for all or part of monthly premiums, deductibles, cost-sharing, and coverage limits depending on income and asset limits. He said the law requires the Medicare program to pay for dual-eligible recipients enrolled in Medicare Part D and requires states to pay a calculated amount of its savings back to the federal government each quarter. Mr. Zentner said this "clawback" provision requires states to pay 90 percent of the estimated nonfederal cost that the state would have incurred for Medicaid recipients if the program had not been enacted based on each state's costs for the 2003 federal fiscal year trended forward. He said the 90 percent "clawback" is gradually reduced through 2014 when it becomes permanent at 75 percent.

Mr. Zentner said some savings could be realized during the 2005-07 biennium, but it will be minimal because of the "clawback" provision and the potential for additional administrative costs resulting from the state's responsibility to determine eligibility for the low-income subsidies. He said there is no provision

for additional federal payment beyond the normal federal match of 50 percent for these activities.

In response to a question from Representative Glassheim, Mr. Zentner said the federal government estimates over 20,000 people in North Dakota will be eligible for the discount card and there are approximately 8,000 dual-eligible people in North Dakota.

In response to a question from Senator Krauter, Mr. Zentner said all Medicare-eligible individuals who are not Medicaid-eligible have the option to use the discount card, but the \$600 credit is limited to individuals whose gross income is under 135 percent of the federal poverty level.

In response to a question from Representative Warnke, Mr. Zentner said there are copayments for prescription drugs under Medicare Part D.

ENHANCED FEDERAL MEDICAL ASSISTANCE PERCENTAGE UPDATE

At the request of Chairman Svedjan, Mr. Zentner presented an update on the enhanced federal medical assistance program. A copy of the information presented is on file in the Legislative Council office.

Mr. Zentner said in regard to the status of the Medicaid program, it appears the original projections of approximately \$19.6 million in additional federal matching funds will be realized. He said the additional federal funding is the result of the increased federal matching percentage approved by Congress that expires on June 30, 2004. Mr. Zentner said the Department of Human Services is currently receiving for each dollar spent 3 percent more federal funds than was originally estimated, resulting in the state spending less general fund dollars, which will result in general fund savings or turnback. Mr. Zentner said the department will use \$8 million of the general fund savings to match additional federal funds for the 2003-05 biennium, which is the amount the department estimates will be required to maintain its current level of Medicaid services for the biennium. He said based on current projections, more than \$11 million will be general fund turnback and available for the 2005-07 biennium appropriation process. Mr. Zentner said the number of Medicaid-eligible individuals decreased slightly during the first five months of the 2003-05 biennium from 53,231 in August 2003 to 52,775 in December 2003.

In response to a question from Representative Boucher, Mr. Zentner said the decrease in the federal medical assistance percentage is taken into consideration when the Department of Human Services makes projections.

In response to a question from Senator Kilzer, Mr. Zentner said he will provide the committee members with a summary of the suspended Medicaid provider claims for the Department of Human Services.

In response to a request from Senator Krauter, Mr. Zentner said he will also provide the committee

members with an aging of the suspended claims for the department.

INFORMATION TECHNOLOGY ORGANIZATIONAL AND MANAGEMENT STUDIES - FINDINGS AND RECOMMENDATIONS

At the request of Chairman Svedjan, Mr. Mike Silverman and Mr. Dan Borgen, Pacific Technologies, Inc., presented the final report for the information technology organizational and management studies. A copy of the summary information presented and the final report is on file in the Legislative Council office.

Mr. Borgen said Pacific Technologies, Inc., received comments from 12 state agencies--Bank of North Dakota, Department of Agriculture, Department of Corrections and Rehabilitation, State Department of Health, Department of Human Services, Department of Transportation, Information Technology Department, Land Department, Housing Finance Agency, Industrial Commission, Secretary of State, and Workforce Safety and Insurance--and the judicial and legislative branches regarding the draft final report for the information technology organizational and management studies. He said the feedback included factual corrections and opinions regarding the studies. He said the factual corrections involved changes in workstation and server numbers and information technology staffing levels and were accepted in most instances. He said a majority of the factual corrections resulted in reduced potential savings to the state; however, he said, the major recommendations for the studies remain unchanged.

Mr. Borgen reviewed the following key information technology organizational and management findings:

- North Dakota has a highly fragmented approach to workstation support and help desk services.

- There are inconsistent standards and policies surrounding workstation platforms, configurations, and replacement.
- The state can achieve additional savings and improve alignment with long-term goals through continued server consolidation efforts.
- The state lacks consistent methods, tools, and performance measures to assess information technology impacts on business operations, to prioritize requests for major information technology projects, and to evaluate information technology projects.

Mr. Borgen reviewed the following positive attributes surrounding information technology:

- North Dakota has an indepth understanding of its information technology labor costs and labor distribution.
- The state has a strong commitment to investing in information technology support.
- The state is ahead of most other states on a number of enterprise information technology initiatives.
- The state has made positive, initial strides toward effective information technology governance.

Mr. Borgen said the four underlying assumptions that frame Pacific Technologies, Inc., recommendations are:

- North Dakota desires to move toward provisioning basic information technology services as a "utility."
- The state wants information technology to be performance-managed at both the agency and enterprise levels.
- The state should adopt best practices when practical.
- The state should favor long-term improvement over short-term considerations.

Mr. Borgen presented the following major recommendations and corresponding primary benefits:

Major Recommendations	Primary Benefits
<p>Workstation support and help desk services - Consolidate all workstation support and help desk services within the Information Technology Department, including:</p> <ul style="list-style-type: none"> • Initial problem reporting and resolution • Workstation environment maintenance and support • Adds, moves, and changes • Hardware replacement management • Associated performance measurement and management <p>Workstation standardization - Move to a highly standardized workstation environment on a statewide basis with the Information Technology Department managing a workstation replacement program</p> <p>Server consolidation - Continue to consolidate all agency-managed servers into the Information Technology Department</p>	<p>Positions the state's information technology environment for the long term</p> <p>Allows state agencies to focus on core business needs rather than technical infrastructure</p> <p>Leads to long-term labor cost-savings</p> <p>Improves the state's purchasing power and license management</p> <p>Enhances information sharing and staff productivity through common and current workstation tools</p> <p>Promotes the provisioning of basic information technology services as a "utility"</p> <p>Allows state agencies to focus on core business needs rather than technical infrastructure</p>

Major Recommendations	Primary Benefits
<p>Information technology governance - Improve the existing information technology governance processes by:</p> <ul style="list-style-type: none"> • Improving the processes and tools for information technology project evaluation • Improving mechanisms to support cost containment • Developing meaningful statewide management and reporting views of information technology initiatives • Implementing information technology performance measures • Establishing an information technology innovation fund 	<p>Promotes the provisioning of basic information technology services as a "utility"</p> <p>Leads to long-term labor and hardware cost-savings</p> <p>Leads to better-informed decisionmaking</p> <p>Provides a more equitable, business-based, and consistent evaluation of information technology initiatives</p> <p>Provides the best opportunity to manage application portfolio costs</p>

Workstation Support and Help Desk Services

Mr. Silverman said in regard to the consolidation of workstation support and help desk services, the Information Technology Department should target a future staffing level of 200 workstations per support full-time equivalent (FTE) position, an increase from the current ratio of 149 workstations per support FTE position. He said maintaining service quality at the elevated support ratio depends on gaining efficiencies through the use of specialized staff and successful implementation of a standardized workstation environment and associated support tools. He said if fully implemented, the consolidation of workstation support and help desk services offers potential labor savings of approximately \$519,000 per year; however, the capturing of all the savings would require the elimination of partial FTE positions. He said a portion of the savings would be offset by one-time startup costs and additional annual maintenance costs ranging from \$220,000 to \$1,270,000. He said establishing Information Technology Department service credibility would be critical to the success of the consolidation.

Workstation Standardization

Mr. Silverman said in regard to the standardized workstation environment, the state should limit workstations to two or three models and tightly control the associated configurations. He said the implementation of the standardized workstation environment is critical for the success of the consolidation of workstation support and help desk services. He said the resulting annual workstation costs would be approximately \$2.9 million to \$3.7 million, or \$30 to \$36 per month per workstation, depending on the mix of workstations and the replacement cycles. He said the state was unable to provide information regarding its current spending for workstations and he anticipates current costs are likely to be less than the estimated cost.

Server Consolidation

Mr. Silverman said in regard to the consolidation of agency-managed servers, Pacific Technologies, Inc., recommends the Information Technology Department assume the administration of existing

agency-managed servers as the servers are replaced. He said as the number of servers are reduced, the Information Technology Department should maintain a 29-to-1 server to support FTE position ratio. He said the continued server consolidation has the potential annual labor savings of approximately \$162,000, in addition to significant long-term savings in hardware costs.

Information Technology Governance

Mr. Silverman said in regard to improving information technology governance, Pacific Technologies, Inc., recommends an information technology project investment review process relating to the evaluation and prioritization of information technology initiatives and an evaluation criteria development process relating to the development of evaluation criteria. He said for the state to move toward a more consistently structured information technology decisionmaking process, the state should develop a set of supporting tools, including business case templates, business plan templates, and an information technology report card. He said Pacific Technologies, Inc., also recommends the state significantly increase its performance measurement efforts to improve insight into information technology operations and expenditures by implementing performance measurements in the areas of customer satisfaction, financial and management performance, project performance, and consolidation transition performance.

Transition Plans

Pacific Technologies, Inc., recommends the following transition plans for implementing each of the recommendations:

1. Workstation support and help desk services - Consolidate all workstation support and help desk services within the Information Technology Department.
 - a. Establish project governance process.
 - b. Establish service levels.
 - c. Finalize implementation options and costs.
 - d. Finalize a funding mechanism.
 - e. Develop legislation.

- f. Develop tactical rollout plan.
- g. Implement consolidated desktop services.
2. Workstation standardization - Move to a highly standardized workstation environment on a statewide basis with the Information Technology Department managing a workstation replacement program.
 - a. Establish project governance process.
 - b. Inventory hardware and software.
 - c. Develop workstation options.
 - d. Define replacement cycles and criteria.
 - e. Finalize implementation options and costs.
 - f. Develop legislation.
 - g. Develop tactical rollout plan.
 - h. Implement rollout plan.
3. Server consolidation - Continue to consolidate all agency-managed servers in the Information Technology Department.
 - a. Establish project governance process.
 - b. Develop preliminary consolidation schedule.
 - c. Develop legislation.
 - d. Develop tactical rollout plan.
 - e. Implement rollout plan.
4. Information technology governance - Improve the existing information technology governance processes.
 - a. Develop State Information Technology Advisory Committee initial evaluation criteria.
 - b. Finalize and communicate the State Information Technology Advisory Committee evaluation process.
 - c. Develop information technology innovation guidelines.
 - d. Establish statewide information technology business case templates and tools.
 - e. Develop baseline, statewide Information Technology Department performance measures.
 - f. Develop legislative reporting package templates.

In response to a question from Representative Timm, Mr. Borgen said Pacific Technologies, Inc., has done a statewide information technology strategic plan for the State of Alaska, of which some of the recommendations have been implemented, but not all of them due to a change in administration shortly after the recommendations were given to the state.

In response to a question from Representative Koppelman, Mr. Borgen said the key consideration in centralization is to keep the business-specific information technology-related activities in the individual agencies.

In response to a question from Senator O'Connell, Mr. Borgen said the information technology

recommendations should be applied across all three branches of government.

Senator O'Connell said he disagrees with the Pacific Technologies, Inc., view of the separation of powers of government in which the recommendations should be applied across all three branches of government in a similar manner.

Chairman Svedjan thanked Mr. Borgen and Mr. Silverman for their work in the information technology study.

AGENCY REQUESTS AUTHORIZED BY THE EMERGENCY COMMISSION

Chairman Svedjan directed the committee to consider agency requests which have been authorized by the Emergency Commission and forwarded to the Budget Section, pursuant to NDCC Sections 54-16-04.1 and 54-16-04.2. The information relating to the requests was sent to Budget Section members prior to the meeting and is on file in the Legislative Council office. Chairman Svedjan said Request #1491, which was approved by the Emergency Commission on January 6, 2004, was rescinded and replaced with Request #1497, which was passed by the Emergency Commission during the January 12, 2004, special meeting.

Senator Christmann requested the Division of Emergency Management Emergency Commission Request #1494 be discussed separately.

It was moved by Senator Robinson, seconded by Senator Grindberg, and carried on a voice vote that the Budget Section approve the following requests that have been forwarded to the Budget Section, pursuant to NDCC Sections 54-16-04.1 and 54-16-04.2:

- **State Water Commission (Request #1480) - To increase special funds spending authority from the resources trust fund and the commission's water and atmospheric resources line item by \$3 million and to transfer \$14.5 million of spending authority within the special funds line item from the water development trust fund to the resources trust fund for water projects.**
- **Department of Career and Technical Education (Request #1481) - To increase federal funds spending authority by \$198,700 to accept funds from the United States Department of Education fund for the improvement of education (FIE) program for the operating expenses line item (\$91,300) and the grants line item (\$107,400) to update curriculum and to offer training opportunities that reflect changes in trends in the information technology field.**
- **Department of Career and Technical Education (Request #1482) - To accept**

federal passthrough funds from Job Service North Dakota and increase the operating expenses line item by \$180,000 to develop improved career decision-making tools, a web site and integrated curriculum for use by youth to focus on career opportunities in North Dakota, and to pilot national/industry skill testing and improve the data collection system to meet federal reporting requirements.

- Department of Career and Technical Education (Request #1483) - To increase other funds spending authority and the operating expenses line item by \$70,000. The funds are available from the Cisco Academy and will be used for training instructors and evaluating agency programs.
- Department of Career and Technical Education (Request #1484) - To accept other passthrough funds from Workforce Safety and Insurance and increase the grants line item by \$69,800 to enhance safety training and student protection by purchasing safety equipment for injury prevention for high school construction technology programs and college construction craft programs.
- Protection and Advocacy Project (Request #1485) - To increase federal funds spending authority and the protection and advocacy line item by \$1,270,981 to accept federal funds from the United States Department of Education, Title III program, to establish an alternative financial loan program (AFLP) for expanding personal financing options for individuals with disabilities in purchasing assistive technology devices and services.
- Department of Corrections and Rehabilitation (Request #1486) - To increase federal funds spending authority and the juvenile community services line item by \$820,779 to accept federal funds from the United States Department of Justice to develop and implement a serious and violent juvenile offender-reentry project to address the challenges of recidivism, substance abuse, and physical and mental health and provide support in the areas of workforce participation, housing, and faith-based support.
- Department of Commerce (Request #1487) - To increase the operating expenses line item by \$450,000 and the grants line item by \$306,129. Of the \$756,129 request, \$381,129 is federal funds from the Department of Energy's state energy program and \$375,000 is petroleum violation escrow

dollars returned to the state as a result of federal court cases relating to petroleum products purchased by the state during the period of federal price controls. Of the \$381,129 of federal funds, \$306,129 will be distributed as grants relating to energy efficiency and renewable energy program activities and \$75,000 is for operating expenses such as professional services, contracts, travel, printing, etc. The \$375,000 of special funds will be used for the Governor's statewide ethanol marketing initiative to increase the percentage of vehicles using ethanol in North Dakota.

- Department of Commerce (Request #1488) - To increase federal funds spending authority by \$2,175,000 for the weatherization heating and cooling program. The program assists eligible low-income households reduce expenditures for utilities by repairing or replacing residential heating and cooling systems. The request results from federal funds available for the program being more than anticipated in the department's 2003-05 biennium budget.
- Department of Commerce (Request #1489) - To increase federal funds spending authority by \$100,000 to provide a pass-through federal grant to the University of North Dakota for a special fuel cell project of the Mechanical Engineering Department of the University of North Dakota. Special project grants are available to state energy offices from the federal Department of Energy.
- Department of Commerce (Request #1490) - To increase federal funds spending authority by \$1,089,300 for providing grants to local community action agencies to use for providing housing for homeless individuals and families with disabilities.
- Office of Adjutant General (Request #1493) - To accept federal funds from the National Guard Bureau and increase the Army Guard contracts line item by \$9 million for construction of a new UH60 hangar and an addition to an existing building at the National Guard's air facility in Bismarck.
- Division of Emergency Management (Request #1495) - To increase federal and special funds spending authority relating to federal emergency relief funding (\$1,280,345) and state disaster loan proceeds (\$170,713) for disaster costs associated with the severe summer storms and high winds in June 2003 in Barnes and

Cass Counties. The request includes the authority for the division to obtain a \$170,713 loan from the Bank of North Dakota pursuant to North Dakota Century Code Section 37-17.1-23 to pay the estimated state share of the 2003 disaster. Repayment of the loan will be requested as a deficiency appropriation from the 2005 Legislative Assembly.

- **Office of Management and Budget - State Radio Division (Request #1496) - To receive federal passthrough funds from the Division of Emergency Management and to increase spending authority by \$2,115,252 from the United States Department of Homeland Security grants (\$1,761,652) and federal emergency management performance grants (\$353,600) in the salaries and wages line item (\$272,000), operating expenses line item (\$681,600), and capital assets line item (\$1,161,652) to upgrade the communications infrastructure.**
- **Department of Commerce (Request #1497) - To increase federal funds spending authority by \$1,276,960 for salaries and wages (\$39,600), operating expenses (\$237,360), and grants (\$1 million), relating to the AmeriCorps and Learn to Serve projects. This request was passed by the Emergency Commission during the January 12, 2004, special meeting.**

At the request of Chairman Svedjan, Ms. Peterson presented information regarding the Division of Emergency Management's Emergency Commission Request #1494 for increased federal funds spending authority of \$19,536,000 and two new FTE positions and one temporary position. Ms. Peterson said this request is to receive an allocation to North Dakota provided from the federal fiscal year 2004 Homeland Security Appropriations Act. She said the funds are specifically dedicated to enhance capabilities of state and local units of government to respond to acts of terrorism involving weapons of mass destruction and 80 percent of all funds must be allocated to local government. Ms. Peterson said the distribution of the \$19,536,000 will be state homeland security program - \$14,828,000, law enforcement terrorism prevention program - \$4,400,000, and citizen corps - \$308,000.

In response to a question from Senator Christmann, Ms. Peterson said the counties understand that this funding is "one-time" funding that will not continue into the future. Therefore, she said, the majority of the money is spent on "one-time" purchases, such as equipment.

Senator Christmann requested the Office of Management and Budget prepare an assessment of the long-term maintenance costs that will be

associated with the equipment that is purchased with the "one-time" funds.

In response to a question from Representative Carlson, Ms. Peterson said the two FTE positions and the one temporary position included in the request are only authorized until June 30, 2005. She said authorization from the 2005 Legislative Assembly will be necessary if the Division of Emergency Management wants to continue the positions for the 2005-07 biennium.

In response to a question from Representative Kroeber, Ms. Peterson said she would provide committee members with a schedule from the North Dakota League of Cities detailing what the entities allocation of \$306,152 will be used for.

It was moved by Senator Christmann, seconded by Senator Bowman, and carried on a voice vote that pursuant to NDCC Section 54-16-04.1, the Budget Section approve the following request which has been authorized by the Emergency Commission:

- **Division of Emergency Management (Request #1494) - To increase federal funds spending authority from the federal Department of Homeland Security by \$19,536,000 for salaries and wages (\$400,000), operating expenses (\$432,234), and grants (\$18,703,766). The additional funds relate to North Dakota's allocation of federal fiscal year 2004 Homeland Security appropriations. The funds will be distributed under the homeland security program (\$14,828,000), law enforcement terrorism prevention program (\$4,400,000), and citizen corps program (\$308,000). The division is required to distribute 80 percent of the funding to local governments. The request includes two new FTE positions and one temporary position within the Division of Emergency Management. Positions will be used for duties relating to Homeland Security intelligence management systems, administration, and operations teams as well as the administration of funding awards to local jurisdictions.**

STATUS OF THE JOB INSURANCE TRUST FUND

Chairman Svedjan called on Mr. John Graham, Director of Centralized Services, Job Service North Dakota, who reported on the status of the job insurance trust fund, pursuant to NDCC Section 52-02-17. A copy of the information presented is on file in the Legislative Council office. Mr. Graham said the job insurance trust fund balance is running ahead of projections in reaching the 2007 solvency target. He said the solvency target is calculated by determining a high-cost multiplier and applying it against the projected total wages in the state. Mr. Graham said

the trust fund is projected to reach the solvency target, as required by 1999 House Bill No. 1135, without an increase in tax rates in the next three years and may be able to reduce tax rates in the last year of the "solvency target" period. Mr. Graham said unemployment insurance tax rates remain constant for 2004 as a result of the trust fund's progress toward solvency.

The committee recessed for lunch at 11:32 a.m. for the Governor's State of the State address and reconvened at 1:15 p.m.

PERFORMANCE ASSURANCE FUND

At the request of Chairman Svedjan, Ms. Illona Jeffcoat-Sacco, Public Utilities Director, Public Service Commission, presented an annual report on payments received and expenditures from the performance assurance fund, pursuant to NDCC Section 49-21-31. A copy of the information presented is on file in the Legislative Council office. Ms. Jeffcoat-Sacco said the Public Service Commission administers the performance assurance trust fund created by 2003 House Bill No. 1052. She said the fund balance as of January 1, 2004, is \$118,307, of which \$54,231 has been received in the 2001-03 biennium and \$65,843 has been received in the first six months of the 2003-05 biennium. She said expenditures paid in 2003 were \$1,767. Ms. Jeffcoat-Sacco said once the receipts in a biennium reach \$100,000, the excess over \$100,000 will be deposited into the general fund.

Ms. Jeffcoat-Sacco said Qwest agreed to a performance assurance plan in order to receive approval to enter the long-distance market. She said the performance assurance plan sets numerous quality-of-service goals and benchmarks Qwest must meet and a key component of the contract is compensatory payments. Ms. Jeffcoat-Sacco said there are two types of payments Qwest must make if it fails to perform. She said the first covers direct payments to competitors and the second covers payments to the State of North Dakota for injuries done to the competitive marketplace. She said the second type of payment is what makes up the performance assurance fund to be used by the Public Service Commission to monitor and audit the effectiveness of the plan.

VETERANS HOME

Status of the Veterans Home Strategic Plan

Chairman Svedjan called on Mr. Eric Monson, Managing Partner, NOVUS Consulting, Fargo, to report on the status of the Veterans Home Governing Board process in developing and implementing the Veterans Home strategic plan. A copy of the information presented is on file in the Legislative Council office. Mr. Monson said the strategic plan was adopted by the Veterans Home Governing Board on December 1, 2003, and on January 16, 2004, NOVUS will present the strategic plan to the Administrative

Committee on Veterans Affairs for its review and adoption.

Mr. Monson said NOVUS will present the 2004 operating plan to the Veterans Home Governing Board. He said the operating plan is an annual set of initiatives that delineates the specific objectives, activities, and progress needed to be accomplished during the first year of the strategic plan. Mr. Monson said he anticipates adoption of the 2004 strategic initiatives operating plan on January 16, 2004, by both the Veterans Home Governing Board and the Administrative Committee on Veterans Affairs.

Mr. Monson said the Veterans Home strategic plan includes:

- A set of "ENDS" (to what end does the Veterans Home exist?) policies that describe results, recipients, and cost.
- Guiding principles that reflect the values and beliefs the Veterans Home employees, management, and the governing board share about how business should be conducted.
- Strategic imperative areas consisting of people resources, programs and services excellence, quality management, capital improvement, marketing, service continuum, compliance, and financial resources.
- Performance measures/dashboard reporting.
- 2004 operating plan initiatives.
- Data sets relating to veteran population, operating statistics, licensure and accreditation surveys, long-term care industry trends, physical plant history and description, organizational charts, and program/service description.

Status of the Department of Veterans Affairs Strategic Plan

Chairman Svedjan called on Mr. Brad Maasjo, Chairman, Administrative Committee on Veterans Affairs, to report on the status of the strategic plan for the Department of Veterans Affairs. A copy of the information presented is on file in the Legislative Council office. Mr. Maasjo said 2003 Senate Bill No. 2299 directs the Department of Veterans Affairs to have a strategic plan; however, the department was not appropriated any funds for a strategic plan and the department does not have excess funds in its appropriation for the 2003-05 biennium. He said the estimated cost for a strategic plan for the Department of Veterans Affairs is \$20,000 to \$25,000, but with no funding for the plan, the department has not solicited proposals.

In response to a question from Representative Kempenich, Mr. Maasjo said the Veterans Affairs Medical Center in Fargo has an office devoted to strategic planning, which is willing to assist the Department of Veterans Affairs and share expertise on strategic planning.

BANK OF NORTH DAKOTA Alternative and Venture Capital Investments and Early-Stage Capital Funds

Chairman Svedjan called on Mr. Eric Hardmeyer, President, Bank of North Dakota, to report on the implementation and progress of 2003 Senate Bill No. 2335 relating to the Bank's investment in alternative and venture capital investments and early-stage capital funds. A copy of the information presented is on file in the Legislative Council office. Mr. Hardmeyer said 2003 Senate Bill No. 2335 allows the Bank of North Dakota to invest up to \$5 million in North Dakota alternative and venture capital investments and early-stage capital funds. He said funds can be invested directly into a project or can be lent to the Development Fund for investment in a project.

Mr. Hardmeyer said the possibility of creating a small business investment company is being analyzed, which would allow funds to be leveraged in a 2-to-1 ratio. He said several concerns or questions raised include the length of the approval process, type of investments, repayment terms, management experience requirements, whether a State Investment Board deposit at the Bank of North Dakota qualifies as a private source of funds, and whether the Development Fund has the required expertise to manage the fund. Mr. Hardmeyer said small business investment company regulations require at least 60 percent of the initial funds come from private sources. He said the Bank of North Dakota funds have already been deemed to be public funds and, therefore, would not qualify; however, there is a possibility that funds invested from the State Investment Board into certificates of deposit at the Bank of North Dakota could be determined to be private funds. Mr. Hardmeyer said Governor Hoeven's staff is working with Small Business Administration officials in Washington to determine if State Investment Board investments at the Bank of North Dakota are private or public funds. Mr. Hardmeyer said the only way to find out if the Development Fund has the required expertise to manage the fund is to go through the application process.

Mr. Hardmeyer said marketing efforts for the program have been low-key until the exact course of the fund is determined. He said the Bank of North Dakota along with the North Dakota Development Fund has been marketing the program where and when appropriate. Mr. Hardmeyer said \$2.5 million has been committed to one project and discussions are taking place with the Department of Commerce on another two to three projects totaling approximately \$800,000.

Senator Grindberg said the intent of the discussions regarding Senate Bill No. 2335 during the 2003 legislative session was to create more opportunities for business and job growth. He said the challenge for the State of North Dakota is not to create a larger

fund balance but to obtain more business and to change and foster the University System environment so more opportunities result from this effort.

DEPARTMENT OF COMMERCE Annual Report on Job Web Site

Chairman Svedjan called on Mr. Jim Hirsch, Director, Workforce Development Division, Department of Commerce, to present an annual report on the money spent to administer an Internet web site that provides career guidance and job opportunity services, pursuant to NDCC Section 54-60-10. A copy of the information presented is on file in the Legislative Council office. Mr. Hirsch said the objective of the web site *northdakotahasjobs.com* is to provide information to youth and others who are making career decisions on premier employers in the state, career opportunities offered, and internships available. He said the web site is linked with career service offices on North Dakota college campuses and is promoted to high school students through the annual Career Outlook.

Mr. Hirsch said the Department of Commerce is not responsible for costs associated with administration, development, or maintenance of the web site. He said the web site is owned and maintained by Applied Distribution Group in Omaha, Nebraska. He said the Department of Commerce is to provide a minimum of a .5 FTE effort in promotion and marketing the web site to North Dakota employers, for which the department receives a commission on each employer subscription to the site. Mr. Hirsch said as a promotional effort, employers are offered a no-cost member subscription for a trial period. He said commissions earned on subscriptions by the department have been minimal, totaling \$2,580 through December 31, 2003. Mr. Hirsch said expenditures by the Department of Commerce to support the web site marketing were \$14,677 through December 31, 2003. He said these funds were spent on salary and travel expenses for an account executive, paid advertisements in the *Prairie Business* publication, and exhibit booth charges.

In response to a question from Representative Svedjan, Mr. Hirsch said the goal of the Department of Commerce is to receive enough in commissions to cover all the expenses of the web site by the end of the 2003-05 biennium so the department would not have to request an additional appropriation from the 2005 Legislative Assembly for the web site for the 2005-07 biennium.

In response to a question from Representative Svedjan, Mr. Hirsch said the Workforce Development Division received an appropriation of \$150,000 relating to the web site efforts for the 2003-05 biennium.

TRANSFERS TO THE STATE TUITION FUND

Chairman Svedjan called on Ms. Bonnie Miller, Fiscal Director, Department of Public Instruction, who presented an annual report on transfers to the state tuition fund, pursuant to NDCC Section 15.1-02-14. Ms. Miller said the department has not replaced any of its general fund appropriation with federal or other funds; therefore, there are no transfers to the state tuition fund to report under this section.

UNIVERSITY OF NORTH DAKOTA Carnegie Building Renovation

Chairman Svedjan called on Mr. Rick Tonder, Facility Planner, University of North Dakota, who presented information on a request to spend \$350,000 of institutional funds for the partial renovation of the Carnegie Building, pursuant to NDCC Section 48-02-20. A copy of the information presented is on file in the Legislative Council office. Mr. Tonder said the 2003 Legislative Assembly authorized the University of North Dakota to renovate the Carnegie Building and create office and support space for departments actively involved with student enrollment and recruitment. He said fundraising efforts continue but have not reached the \$3.3 million required for this work. Mr. Tonder said substantial increases in student enrollment have made occupancy and use of the building an urgency. He said the overcrowded departments cannot move into the Carnegie Building due to limitations on mechanical systems which do not comply with building codes and to make the facility fully usable, the university must, at a minimum, upgrade the mechanical systems and replace a number of windows. Mr. Tonder said the university is requesting authorization to use institutional funds derived from tuition to provide space for the overcrowded departments that will meet the minimum standards for occupancy.

In response to a question from Representative Svedjan, Mr. Tonder said the entire renovation project for the Carnegie Building will cost in excess of \$3 million, which will be funded by donations and gifts.

In response to a question from Senator Andrist, Mr. Tonder said the \$350,000 of institutional funds derived from tuition the university will use for the partial renovation of the Carnegie Building will enhance the university's ability to increase student enrollments.

It was moved by Representative Kempenich, seconded by Representative Warnke, and carried on a roll call vote that pursuant to NDCC Section 48-02-20, the Budget Section approve the request for the University of North Dakota to spend \$350,000 of institutional funds, in lieu of donations and gifts, for the partial renovation of the Carnegie Building for installation of heating, ventilation, and air-conditioning systems and window replacement. Representatives Svedjan, Aarsvold,

Bellew, Boucher, Kempenich, Kerzman, Koppelman, Kroeber, Martinson, Monson, Rennerfeldt, Thoreson, Timm, Warner, and Warnke and Senators Andrist, Christmann, Every, Grindberg, Kilzer, Krauter, Kringstad, Lindaas, Mathern, O'Connell, Robinson, Schobinger, Stenehjem, Tallackson, and Thane voted "aye." Representatives Carlson and Skarphol and Senator Bowman voted "nay."

BUDGET TOUR REPORTS

At the request of Chairman Svedjan, Ms. Roxanne Woeste, committee staff person, presented a report on the budget tours of Valley City State University and the State College of Science conducted by the Higher Education Committee on November 18-19, 2003, and the budget tours of North Dakota State University, Northern Crops Institute, Upper Great Plains Transportation Institute, Main Research Station, and North Dakota State University Extension Service conducted by the Higher Education Committee on December 18, 2003.

It was moved by Senator Robinson, seconded by Representative Bellew, and carried on a voice vote that the Budget Section accept the reports of the November 18-19, 2003, and December 18, 2003, budget tours conducted by the Higher Education Committee.

At the request of Chairman Svedjan, Mr. Donald J. Wolf, committee staff person, presented a report on the budget tour of the Southeast Human Service Center conducted by the Budget Committee on Health Care on October 13, 2003.

It was moved by Senator Thane, seconded by Representative Monson, and carried on a voice vote that the Budget Section accept the report of the October 13, 2003, budget tour conducted by the Budget Committee on Health Care.

At the request of Chairman Svedjan, Mr. Allen H. Knudson, committee staff person, presented a report on the budget tour of the West Central Human Service Center conducted by the Budget Committee on Human Services on November 4, 2003.

It was moved by Senator Mathern, seconded by Senator Robinson, and carried on a voice vote that the Budget Section accept the report of the November 4, 2003, budget tour conducted by the Budget Committee on Human Services.

Chairman Svedjan called on Representative Carlisle to present a report on the budget tours of the North Dakota State Penitentiary on June 23, 2003, and the Developmental Center, State Hospital, and James River Correctional Center on September 16-17, 2003, conducted by the Budget Committee on Government Services.

It was moved by Representative Carlisle, seconded by Representative Monson, and carried on a voice vote that the Budget Section accept the reports of the June 23, 2003, and September

16-17, 2003, budget tours conducted by the Budget Committee on Government Services.

COMMITTEE DISCUSSION AND STAFF DIRECTIVES

Chairman Svedjan said the next Budget Section meeting will be on Tuesday, April 13, 2004.

Chairman Svedjan said the Budget Section will meet in late June 2004, tentatively set for Tuesday, June 29, 2004.

In response to a question from Representative Aarsvold, Chairman Svedjan said there is nothing the Budget Section can do to assist the Department of Veterans Affairs in regard to funding its strategic plan.

It was moved by Senator Robinson, seconded by Representative Rennerfeldt, and carried on a voice vote that the Budget Section meeting be adjourned subject to the call of the chair.

Chairman Svedjan adjourned the meeting at 2:30 p.m.

Stephanie A. Johnson
Fiscal Analyst

Jim W. Smith
Legislative Budget Analyst and Auditor

ATTACH:2