

**2013 SENATE INDUSTRY, BUSINESS, AND LABOR**

**SB 2144**

# 2013 SENATE STANDING COMMITTEE MINUTES

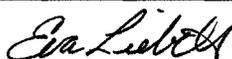
Senate Industry, Business and Labor Committee  
Roosevelt Park Room, State Capitol

SB 2144  
January 21, 2013

Job Number 17410

Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

Relating to nonprofessional ownership of professional organization

## Minutes:

Testimony Attached

Chairman Klein: Opened the hearing.

Senator Laffen, Sponsor of the bill: Written Testimony (1).

Chairman Klein: Said he heard that the other states don't have some of these road blocks and if Senator Laffen could address that.

Senator Laffen: Said that most states are actually similar to our law in this case. They say you have to have a professional license to be an owner of a professional corporation. He said they just started running into these hurdles of having key staff like their CFO, be able to have the stock appreciation that the rest of them have.

Senator Andrist: Asked what was unique about this legal structure for professional corporations that you couldn't do with a subchapter S or a limited liability company.

Senator Laffen: Said that he isn't sure what is unique about professional corporations with the exception of it allows them to buy professional liability insurance. It would have been easier if all the corporations had incorporated as a subchapter S or a business corporation instead. He said they tried to go back to be a subchapter S but you can't unwind thirty years of business to go back to a subchapter S, financially it's impossible.

Senator Murphy: Asked if the deal is that you are not publically traded and if you were a publically traded company it could work for your firm to buy stock, it's just in a private corporation.

Senator Laffen: Said he didn't know if that was the issue because there is only one publically traded firm in the country. He said the problem is that they are a professional corporation and not a business corporation and there is a difference in the law. He continued talking about different ways it would work.

Senator Sorvaag: Asked if these large firms that are difficult to compete with are structured as corporations.

Senator Laffen: Said some of the other states have a unique advantage over North Dakota in developing those firms, most of them from Minnesota. They were a big enough state and had enough business volume in a certain building type that they could grow. They would have solid back log of work from one building type that allowed them to overcome this hurdle. They would specialize in medical or the arts or K-12 schools etc. For 120 years in North Dakota architects have had to do everything and they haven't had the luxury of one building type that they could specialize in so well that they could get work anywhere. These firms never had to market for their firms, they have always had to market and now are competing against those specialists.

Senator Sinner: Asked if there has been any negative feedback on why this wouldn't be a good change to the law.

Senator Laffen: Said he hasn't had any. He had visited with four of the bigger firms in the state and also with the attorney who does work for the state board of architecture and only one, which is an architecture and engineering firm, isn't sure how this would affect them. There weren't any issues with it but the attorney said in principle he didn't like it but couldn't see any reason why this didn't make sense.

Chairman Klein: Asked if this is being opened to all professionally licensed organizations.

Senator Laffen: Said he first visited with the Attorney General and he said he thought it was a good idea but didn't want it opened up to every profession. The AG didn't believe attorneys would want this. He said he went to Legislative Council and they suggested writing the bill so the entire business corporation section could have this but every individual chapter would have to be enabled to have the change affect them.

Bill Neumann, Executive Director of the State Bar Association of North Dakota: Neutral Testimony. He said the question about expanding it to all professions causes his profession some concern. He said right now it is unethical for that to happen with a law firm. Whether that should change is a debate and it has been tabled for a while because it is too big of a change for their profession in America yet.

Discussion followed about the differences in a Professional Corporation verses a Limited Liability Company or a Sub S.

Clara Jenkins, Director of Business Systems for the Secretary of State's Office: Written Testimony Attached (2).

Chairman Klein closed the hearing.

Senator Unruh: Asked for more time to think about and review the bill.

Senator Sinner: Asked about waiting for the fiscal note.

Chairman Klein: Said he doesn't think the fiscal note is going to be the issue that will hold them up, it's more of legalities.

# 2013 SENATE STANDING COMMITTEE MINUTES

Senate Industry, Business and Labor Committee  
Roosevelt Park Room, State Capitol

SB 2144  
January 21, 2013  
Job Number 17416

Conference Committee

Committee Clerk Signature

## Explanation or reason for introduction of bill/resolution:

Relating to nonprofessional ownership of professional organizations

## Minutes:

Discussion and Roll Call Vote

Chairman Klein: Said that they will go back to SB 2144. This is for architects only.

Senator Sinner: Asked if anyone was interested in taking off the limitations or if they want to leave it limited the way it is.

Senator Laffen: Said he would prefer to keep it limited, he would worry that most other groups would not want this and would work to defeat the bill.

Senator Sorvaag: Said he would be hesitant to open it up and wants it to be kept limited.

Senator Sinner: Motioned for a do pass.

Senator Murphy: Seconded the motion.

Roll Call Vote: Yes - 7 No - 0

Absent: 0

Floor Assignment: Senator Laffen

Rereferred to Appropriations

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/28/2013**

Bill/Resolution No.: SB 2144

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$106,152	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties	\$0	\$0	\$0
Cities	\$0	\$0	\$0
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The bill modifies the ownership of professional organizations by allowing ownership by nonprofessional participants. This change from existing law changes the scope of the agency's development of its comprehensive software project that is now in process.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

As part of the agency's comprehensive software project and detailed timeline, the software is already developed for a professional organization to allow for the filing of its paper documents in the Secretary of State's office or for filing these documents online. It is built to require a professional license certification for all shareholders of all professional organizations, as is now required by existing law. The statutory change of SB 2144 requires a change in the software to enable the addition of an unlicensed professional or minority shareholder, tag the minority and unlicensed shareholder as such, and limit this specific shareholder structure only to professional organizations engaged in architectural services.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

None

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

To cover the cost of the scope change to the agency's project, ITD has estimated it would cost \$106,152.

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

The cost of the scope change is not included in the agency's budget for the next biennium and it would require an appropriation to cover the estimated cost of \$106,152.

**Name:** Al Jaeger

**Agency:** Secretary of State

**Telephone:** 701-328-2900

**Date Prepared:** 01/29/2013

Date: 1/21

Roll Call Vote #: 1

2013 SENATE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 2144

Senate Industry, Business, and Labor Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken DO Pass

Motion Made By Senator Sinner Seconded By Senator Murphy

Senators	Yes	No	Senator	Yes	No
Chariman Klein	✓		Senator Murphy	✓	
Vice Chairman L Laffen	✓		Senator Sinner	✓	
Senator Andrist	✓				
Senator Sorvaag	✓				
Senator Unruh	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Laffen

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE**

**SB 2144: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends DO PASS and BE REREFERRED to the Appropriations Committee (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2144 was rereferred to the Appropriations Committee.**

**2013 SENATE APPROPRIATIONS**

**SB 2144**

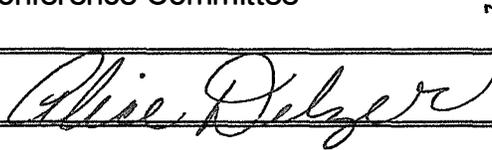
# 2013 SENATE STANDING COMMITTEE MINUTES

## Senate Appropriations Committee Harvest Room, State Capitol

SB 2144  
02-04-2013  
Job Number 18191

Conference Committee

Committee Clerk Signature



### Explanation or reason for introduction of bill/resolution:

A Bill relating to ownership of professional organizations and to amend and reenact NDCC, relating to nonprofessional ownership of professional organizations

### Minutes:

See attached testimony

**Chairman Holmberg** called the committee to order on Monday, February 04, 2013 at 9:00 am in regards to SB 2144. Roll call was taken. All committee members were present except Senator Robinson. Brittani Reim from Legislative Council and Joe Morrissette from OMB were also present.

**Senator Laffin, District 43:** Testified as sponsor and in support of the bill. The purpose of SB 2144 is to change who can actually own an architecture firm. Right now it is limited. The professional corporation's law in North Dakota limits professional corporations to the ownership to only be owned by members who have a license in that profession. The change would allow a minority share of just an architecture firm to have some ownership from some of the other professionals who are helping our firms to grown. For example, the CFO, marketing director, and a few of those. In the past, architecture firms have never really gotten over the size of 10 or 20 people, but some of the firms in the state now are growing to be pretty big. Our firm is getting to be nearly 80 people. We have a lot of technical people within the firm now who are really driving the success. Some of the firms would like to keep those key employees here in North Dakota and in our firms and offering them ownership is the way to do that. We limited the bill itself, changes the professional corporations practice, the entire law so that this would be available to other professions down the road if the wanted, but there is an enabling section so in this bill it only enables the architecture profession of this should it pass. I know lawyers are not interested in this so we set it up that each profession could decide if that makes sense. Over the past 120 years of history in North Dakota, only one architecture firm has ever been able to transfer from the original ownership to the next generation. We just don't have enough ownership distribution within the members of the company to make that shift. We are seeing a lot of competition coming from out of state. Big corporations that have all these things built in. This will help us transition our firms, help us grow and compete. I understand that it has a fiscal note, but I don't quite know why.

**Senator Wanzek:** So this is kind of your anti-corporate farming type of a situation?

**Senator Laffin:** I don't remember corporate farming. I don't know if it's anti or for, but it definitely helps the technical people to have a chance to have ownership in our company. It is a minority share, and keep in mind; this doesn't change the responsibility of signing drawings.

**Senator Wanzek:** The majority of the ownership still has to be licensed?

**Senator Laffin:** Correct.

**Vice Chairman Grindberg:** That would also include dental practices. That law was passed in 1999.

**Chairman Holmberg:** Anyone else to testify? There is a fiscal note, it said in the fiscal note, ITD gave the estimated cost. Does ITD want to talk about the cost? The secretary is here.

**Al Jaeger, Secretary of State:** Both of these bills, this one and the next one, are kind of related, and yet a little bit different. On the surface the bill does not trigger a fiscal note, but there is a fiscal impact. A professional organization, the ownership is a chapter by itself. The ownership is limited to the people that are licensed in that profession. No one else is allowed to do this. In this particular case in SB 2144, as Senator Laffin has indicated, this is specifically to allow non-licensed architects to have ownership interest. Again these bills are kind of related because they are both professional organizations but this one here we have a neutral position on this bill.

**(9:15) Clara Jenkins, Business Systems and Programs Director, Secretary of State's Office:** See Attachment #1 for testimony.

**(12:08) Senator Gary Lee:** Does landscape architecture fall under this bill?

**Clara:** I would have to look. The software is being built not only to enable filing of paperwork when you walk into our office but it is also going to enable you to file your articles online.

**Chairman Holmberg:** Thank you very much for coming down.

**Al Jaeger:** One of the things with this particular thing is that because it singles out a specific profession, the programming has to be developed to identify that since it would not be allowed for others. We have to be able to single that out, and that with the fact that we are into the project quite a ways already and now we are making an exception.

**Chairman Holmberg:** I don't have access to it, but does the green sheet for your budget over in the House, does that list these two bills as having potential to impact your budget?

**Al Jaeger:** I doubt it. They would not be aware of these two bills yet and we have already had our budget hearing on the House side. This would not have triggered by itself a fiscal

note. Usually legislative council would see it and trigger it. We will need it in our budget. We cannot absorb these two scope changes within the money you have authorized.

**Chairman Holmberg:** Who is the fiscal analyst?

**Al Jaeger:** The fiscal note was preparer on the OMB side by Sheila and Sheila M. Sandness on legislative council.

**Chairman Holmberg:** I would suggest when you visit with legislative council and OMB to alert them that there are some working fiscal notes. That will help to inform this committee next half in determining that we need to add some money. I don't know what will happen to the bills. Usually they have a better chance on the initial side of the aisle.

**Senator Krebsbach:** Am I to understand that North Dakota is exclusive in not allowing non-professionals to be owners in these entities?

**Clara Jenkins:** I don't know if we are exclusive to that rule. I know that Minnesota has a broader scope than we have in North Dakota.

**Senator Krebsbach:** If this were to be passed, do you think others would want to follow suit and if so would we be having fiscal notes on each entity requesting?

**Clara Jenkins:** That certainly a possibility as time goes on.

**(18:01)Senator Mathern:** Now that we are getting into the policy of this with four people explaining, it makes me wonder whether or not there is a fiscal consequence. The law doesn't say you shall change your software. People would still have to follow the law. It might be permissible to have corporations that are in line with the law that would maybe trigger someone else to keep a record, but it appears to me that we could pass this bill and if the Secretary of State did not change the software, non-architects could still become members of that professional corporation.

**Clara Jenkins:** If we didn't change the software, you are absolutely correct. Non-architects would not have a problem filling. The architects will have a problem. They wouldn't be able to enter their non-licensed shareholders. The system wouldn't allow it. They would be eliminated from the online tools. They would have to file on paper. We would have to a lot of manual maintenance of those records when a new filing is made. Does it make sense to make those changes? Absolutely. It would cost more to maintain it the hard way. In the future the fiscal note would not be to this extent to add another one.

**Chairman Holmberg:** Closed hearing on SB 2144.

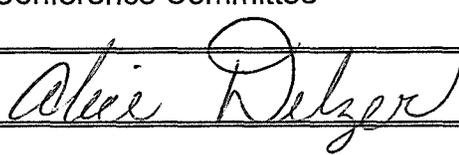
# 2013 SENATE STANDING COMMITTEE MINUTES

## Senate Appropriations Committee Harvest Room, State Capitol

SB 2144  
02-07-2013  
Job # 18472

Conference Committee

Committee Clerk Signature



### Explanation or reason for introduction of bill/resolution:

A BILL relating to ownership of professional and nonprofessional organizations. (Do Pass)

### Minutes:

You may make reference to "attached testimony."

**Chairman Holmberg** opened the hearing on SB 2144. All committee members were present.

Brady Larson and Adam Mathiak - Legislative Council  
Tammy R. Dolan -OMB

**Chairman Holmberg** talked about SB 2144 and SB 2152. The first one had to do with the ownership of professional and nonprofessional organizations. Does some one want to move on that?

**Senator Warner Moved Do Pass on 2144. . 2<sup>nd</sup> by Senator Krebsbach.**

**.Chairman Holmberg:** The realtors are not professionals as defined in this particular statute. Call the roll on a Do Pass on 2144.

**A Roll Call vote was taken. Yea: 12 Nay: 1 Absent:0.**

**Chairman Holmberg This bill goes back to IB & L. Senator Laffen will carry the bill.**

The hearing was closed on SB 2144.

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/28/2013**

Bill/Resolution No.: SB 2144

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

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	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$106,152	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
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Cities	\$0	\$0	\$0
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Townships	\$0	\$0	\$0

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The bill modifies the ownership of professional organizations by allowing ownership by nonprofessional participants. This change from existing law changes the scope of the agency's development of its comprehensive software project that is now in process.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

As part of the agency's comprehensive software project and detailed timeline, the software is already developed for a professional organization to allow for the filing of its paper documents in the Secretary of State's office or for filing these documents online. It is built to require a professional license certification for all shareholders of all professional organizations, as is now required by existing law. The statutory change of SB 2144 requires a change in the software to enable the addition of an unlicensed professional or minority shareholder, tag the minority and unlicensed shareholder as such, and limit this specific shareholder structure only to professional organizations engaged in architectural services.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

None

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

To cover the cost of the scope change to the agency's project, ITD has estimated it would cost \$106,152.

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

The cost of the scope change is not included in the agency's budget for the next biennium and it would require an appropriation to cover the estimated cost of \$106,152.

**Name:** Al Jaeger

**Agency:** Secretary of State

**Telephone:** 701-328-2900

**Date Prepared:** 01/29/2013

Date: 2-7-13

Roll Call Vote # 1

2013 SENATE STANDING COMMITTEE  
ROLL CALL VOTES

BILL/RESOLUTION NO. 2144

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass

Motion Made By Warner Seconded By Krebsbach

Senators	Yes	No	Senator	Yes	No
Chairman Ray Holmberg	✓		Senator Tim Mathern	✓	
Co-Vice Chairman Bill Bowman	✓		Senator David O'Connell	✓	✓
Co-Vice Chair Tony Grindberg	✓		Senator Larry Robinson	✓	
Senator Ralph Kilzer	✓		Senator John Warner	✓	
Senator Karen Krebsbach	✓				
Senator Robert Erbele	✓				
Senator Terry Wanzek	✓				
Senator Ron Carlisle	✓				
Senator Gary Lee	✓				

Total (Yes) 12 No 1

Absent 0

Floor Assignment IBL

If the vote is on an amendment, briefly indicate intent: Laffer

**REPORT OF STANDING COMMITTEE**

**SB 2144: Appropriations Committee (Sen. Holmberg, Chairman) recommends DO PASS**  
(12 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). SB 2144 was placed on the  
Eleventh order on the calendar.

**2013 HOUSE INDUSTRY, BUSINESS, AND LABOR**

**SB 2144**

# 2013 HOUSE STANDING COMMITTEE MINUTES

House Industry, Business and Labor Committee  
Peace Garden Room, State Capitol

SB 2144  
March 6, 2013  
Job 19529

Conference Committee

Committee Clerk Signature

## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact a new section to chapter 10-31 of the North Dakota Century Code, relating to ownership of professional organizations; and to amend and reenact sections 10-31-01, 10-31-02, 10-31-02.1, 10-31-04, and 10-31-13 of the North Dakota Century Code, relating to nonprofessional ownership of professional organizations.

## Minutes:

You may make reference to "attached testimony."

Hearing opened.

**Senator Laffen, District 43:** Provided written testimony, attachment 1.

**5:09 Representative Beadle:** You can have a licensed architect doing architectural services for a firm which is not an architectural firm, such as a construction company, can you not?

**Senator Laffen:** That is true.

**Representative Beadle:** Are they able to market those architectural services to other individuals or people outside of that organization?

**Senator Laffen:** As long as they are a licensed architect, they can market their services as an architect for any of those companies.

**Representative Beadle:** Why would we limit it so that a non-architectural person can own only a minority share of an architectural firm if a non-architect can own a separate company that provides architectural services to outside individuals? Why have the limitation on there for an architectural firm?

**Senator Laffen:** I do not know. That is why we brought this forward. A number of larger firms presented this as a hindrance. Many states allow this. We see this as a win-win. It allows the firms to grow, allows them to transition, and allows employees to have ownership in the company.

6:39 **Representative Kreun:** Would that prohibit me as an interested person from buying 49% and being an employee there?

**Senator Laffen:** In this case, we are mostly privately held. Very few architectural firms are publically traded; they generally do not get that big where you could buy stock. Could you as a private owner? I don't know that that would prohibit you.

7:27 **Chairman Keiser:** When we created the PLLC, it was created for this purpose, that the professionals in the group could form a limited liability corporation. This now changes that. Isn't there another structure the professionals could choose rather than a PLLC if they wanted to bring in other partners?

7:55 **Senator Laffen:** We looked at trying to do that with my company. We found that generally when you start a professional corporation, you always use this professional corporation organization. By the time you get to the point where you want to start doing something like this, you are 25 or 30 years down the road, and you have tax consequences that are so far back that you cannot unwind them. There is no way to convert to a different legal entity without serious tax problems.

**Chairman Keiser:** That begs the question. We gave you those tax advantages because we allowed the PLLC to be created with those restrictions. So this is kind of a win-win for those groups that were able to take advantage of all the tax advantages of this structure and now at a later date want to convert.

**Senator Laffen:** I don't really know what my accountants tell me about the unwinding of this; all I know is it would be a big check. I don't know if the other options for organizations do not have the same tax advantages or disadvantages. The conversion between different structures is expensive.

**Support:**

**Opposition:**

**Neutral:**

10:25 **Clara Jenkins, director of Business Systems and Programs for the Secretary of State:** Refer to written testimony, attachment 2.

13:45 **Representative Kasper:** Why would having a change in ownership cost so much in programming?

**Clara Jenkins:** They have built the tables and the business rules. Right now the way the law is written, a shareholder of a professional organization can only have a one-to-one relationship, one shareholder with one relationship to a profession. By changing this law, they have to go in and change those relationships in all of the tables and change the way those tables are structured that would then enable us to accept the filing of a professional corporation specific to architecture--not across the board--so they have to go in and put a tag on just one profession.

14:54 **Representative Kasper:** Who do you mean by they, the programmer?

**Clara Jenkins:** The ITD developers have to change that program to enable us to be able to accept that record and properly index it so that it returns the proper information when the public does a search.

**Representative Kasper:** How long would it take to have a programmer come in to speak to us to let us know the time involved to do this? I'd like more information from a programmer on the complexity of changing a software passage to adding a tag.

**Clara Jenkins:** We could get someone from ITD here to make that response. There is some detail in the estimate that was provided. I can tell you that we are paying from \$60 to \$85 an hour for the developers' time in order to build this software. Is it simple? Not so much. Some of what is driving this is the requirements of the auditors. There are constraints in the software that would not allow either me as a filing officer or you as a constituent attempting to make an online filing to be able to submit something that cannot legally be accepted.

16:35 **Representative Kasper:** At a hundred dollars an hour, that is half a year in time to make a programming change. That is hard for me to accept.

**Clara Jenkins:** We would have to have ITD here to speak to that.

**Chairman Keiser:** We are in the process of calling ITD, and we will get someone here. What are the advantages of the PLLC over an LLC, if any?

**Clara Jenkins:** There are some restraints, but professions--and I think architecture is one--can come in under a business organization structure. There are some that could not incorporate prior to the adoption of Chapter 10-31. Architects can function within the guise of a business corporation. Many of the professions choose to opt into the professional organization act. I think it probably purveys a different perception to their clientele that they are dealing with all professionals.

**Chairman Keiser:** There is no additional financial advantage to the PLLC?

**Clara Jenkins:** I am not aware of any financial advantage.

**Chairman Keiser:** We have gone through a process that will, in theory, cost \$106,000 for a programming change. Why don't we just write this bill and say architects may convert from a PLLC to an LLC?

**Clara Jenkins:** I think they could do that today by filing an amendment to do that. I don't know what the tax consequences there are for that type of thing.

19:11 **Representative Ruby:** 19:12

**Clara Jenkins:** I don't believe there would be any tax advantages.

**Representative Ruby:** All the taxes are pass-through, just like an LLP, LLC, so there are not advantages tax wise. Is that what you are saying?

**Clara Jenkins:** I don't believe there would be any tax advantages.

**Representative Ruby:** I'm sure the files on corporation, all those things they have to do, meetings, keeping all the notes...that's all the same?

**Clara Jenkins:** That's all the same.

20:00 **Chairman Keiser:** We do have a call in to the tax department to answer the question of what, if any, liabilities or advantages there are in moving as the bill allows. We also have a call in to ITD.

20:22 **Secretary of State Jaeger:** The figure that was provided was based specifically on the cost estimate provided to us by ITD. I do not believe it was made part of the testimony, but we do have those estimates. If those are not attached with the fiscal note, I can go to my office to get those for you. What I want to represent to the committee is that this is not a figure that we just took out of thin air. That is with this one and with SB 2152.

**Representative Kasper:** I want to say for the record that I did not mean to imply that it was your department's fiscal note; I believe it was the ITD. I want to find out from them how they got to that number.

**Chairman Keiser:** We will take a short recess and see if we can get some individuals who can testify on the questions we have.

**Chairman Keiser:** Reconvened.

22:38 **Matt Peyerl, with the office of the State Tax Commissioner:** I had a call that you have questions on some LLC issues.

**Chairman Keiser:** If a PLLC were to convert to any other corporate structure, there would be significant tax consequences accrued. What would they be and why?

**Matt Peyerl:** There are a lot of different types of LLCs. At their core, they are the same types of entities in that they limit liability of the members. As far as undoing one, I am not sure if it takes an act of dissolution to undo one and then you have to reorganize as a different type of entity. That would be my understanding. The tax consequences would be the result of what is required to do that. As far as corporate organization, I do not think I can answer off the top of my head what would be required.

24:11 **Chairman Keiser:** What I hear you saying is that to dissolve it, you would have to account for all the retained assets and retained earnings that may be allowed within the PLLC, and pay taxes on those, and then you could form a new limited liability corporation?

**Matt Peyerl:** When the PLLC earns dollars, it would normally not be a taxable entity of its own, so its income flows to its owners, so all of its income is already taxed. There may not be a big tax component to dissolving it. All of that income has been taxed on the individual's income tax return. It is more of a liability shield than having a lot of tax impact.

**Representative Ruby:** What if there are assets that have not been depreciated out?

**Matt Peyerl:** When assets would be contributed to it, it would not be any different than a sole proprietorship. If there are assets that are not depreciated, they would have some value. But if they are put right back in to a new entity, there is no tax consequence if the entire owner is the same.

26:10 **Chairman Keiser:** Are you telling us that from your tax position, there are no liabilities or significant implications for them if we were to allow a PLLC to convert to an LLC?

**Matt Peyerl:** I am not familiar with the requirements of who can own a PLLC.

**Chairman Keiser:** Right now you have to be a licensed person in that profession.

**Matt Peyerl:** As far as a tax consequence, that is more of a federal issue. Whatever federal tax rules are on that, the state can piggyback off those. The IRS handles those things, and whatever they call taxable income or a nontaxable transaction, we pick up on that and treat it similarly. I do not know that I'd go so far as to say that there is no tax implication because that is more of a federal tax question than what I am prepared to state right now.

**Secretary Jaeger:** Distributed three handouts, attachments 3, 4, and 5. Attachment 3 shows the estimate from ITD for SB 2144. Attachment 4 shows the estimate from ITD for SB 2152. Attachment 5 shows the estimate from ITD for SB 2144 and 2152 combined. I think you will see that there is great detail provided for what is involved in the programming. I know it sounds simple, but our system is pretty complex, and it interacts with a lot of different things.

**Chairman Keiser:** While we are waiting, I will explain that it is the privilege of the chairman of a committee to take fiscal notes of this size to the appropriations committee. That is why it is important that we understand exactly why the amounts are what they are.

31:14 **Mike Ressler, deputy CIO for ITD:** The gentleman who put the cost estimate together is out of the capitol building at this time. I would be more than happy to bring my people in if my answers are not sufficient for what you need.

**Representative Kasper:** I have concern with what is on the fiscal note considering that the current software is complete for this area of the project, from what I heard. This would require the addition of a few fields, such as minority ownership. I would like you to explain the detailed process and the time involved to change or add to the fields already developed where it takes a thousand hours to do it.

**32:39 Mike Ressler:** In the event that both bills are approved, the cost estimate is not the combining of the two estimates. If we are to do both, there are some fields we would not have to touch twice; we could do it once. That cost estimate would be \$127,848. Explained the six phases of software development. In the new system we are building for the Secretary of State, some of the modules are already completed, so we would have to look at the code, make modifications to the code, and look at the changes to the business rules. There are hours estimated to do the business rules component. I know there is a component in here to do data conversion as a result of the changes to the program. When you go through the six phases and you do the additions that the new legislation would require, we came up with those hours. We used a rate of \$120 an hour because we are assuming we would have to bring in a contractor. In the event that the actual cost is \$110 an hour or something less, ITD charges the department only what our costs are. We do not want to have a cost estimate that is short; we think we are a little on the high side.

**Representative Kasper:** On the project you are doing for the Secretary of State, what was the total cost for that project?

**Mike Ressler:** The cost estimate is \$3.4 million to build the application.

**Representative Kasper:** Did you do that in house, or have you subcontracted that out?

**Mike Ressler:** The work is being done by ITD. We have six contractors and five ITD members.

**Representative Kasper:** Do you have an idea of how many hours have been put in to date?

**Mike Ressler:** Offhand, I do not know that. I am guessing we are roughly 25% into the project. It has a completion date of October 20, 2014.

**Representative Kasper:** The way I see it, you have a program already done in this section. Now you'll have to go back and do a little addition to it--add a few fields and some checks and balances. I do not see where that is going to take a thousand hours.

**Mike Ressler:** It is much more complicated than that. It is not just a few fields. Components of those modules are complete. We need to get a developer here who can go into more detail.

**37:36 Representative Boschee:** If we were contracting with a private vendor, what would the costs be per hour?

**Mike Ressler.** It would be higher. They range from \$85 an hour up to \$175 an hour.

**Chairman Keiser:** Apparently the segment for PLLC has been completed, and that is one of the categories of corporate structure. Probably the whole section on corporate structure has been completed, but maybe not.

**Mike Ressler:** I know components have been completed, but I am not sure if the full module has been completed.

**Chairman Keiser:** If that segment is still in development, that may be a good thing because that would challenge the fiscal note. If it is still in development, the changes could be incorporated more easily.

**Mike Ressler:** The people who put the fiscal note together are the people who are developing the system. They know which pieces are or are not done. If those pieces have not been done yet, then this cost estimate would be reduced.

**Chairman Keiser:** What this bill is really doing is saying that we will allow people who are not architects to be owners, whether it be 2, 4, 8, 10, or 12. To me, that seems not much different from saying architects, whether it be 2, 4, 8, 10, or 12. The programming does not seem to me that it would be that complicated. Can you help me understand why that is difficult to do?

**Mike Ressler:** I cannot. A developer could break it down by component and the cost estimate for each piece. When you look at software development, it is cheaper when ITD develops it rather than if we buy it from the private sector.

41:36 **Secretary Jaeger:** The professional organizations act is under one chapter, and that chapter allows the professional organizations to pick whether they are going to be a corporation, whether they're going to be an LLC, whether they're going to be an LLP. All of a sudden, you have different types of programming for different entities because we do not know what they are going to choose. I would encourage the committee to take time to look at the handouts to see the details involved. One intent of the project is to allow people to file papers online. So we have to be able to take any variety of situations. What we have in this programming is an exception; in this case, it is for architects. So you would have to be able to sort that out from doctors, lawyers, and so on. But there are common fields, so if both 2144 and 2152 pass, then we have to change programming for business rules, and that kicks in something a little different. When we received it, it seemed like a lot of money. But when you start thinking through it and looking at the requirements, it does get involved because we are deviating from long-standing practice.

44:19 **Matt Peyerl:** Converting from one type of LLC to another type of LLC would be a non-taxable transaction. The tax part of things comes in when you take on additional owners. Essentially, the original owners are selling part of their shares, so they would have income earned on their share. That's where the tax part would come into play. As for types of LLCs, that is generally a Secretary of State and state issue; the IRS really does not care what type of LLC you are. There would not be a tax implication of converting types, just when adding additional owners.

**Chairman Keiser:** If we expand the PLLC, they have the same tax liabilities. If they bring in new partners, they have to sell. Whether they convert to a limited liability partnership, an LLC, or whatever and bring in new parties, they have to sell. This bill is allowing them to go beyond the current restrictions in the professional category in allowing others who are not professionals to come in as partners.

**Matt Peyerl:** I would think there would be a sale somewhere in there, but I am not sure.

46:05 **Senator Laffen:** Sometimes that is the case. In some corporations, partners actually sell shares to incoming partners. The way most firms work is that the company just issues more share, and incoming partners buy new stock. Additional shares are added, so shared become diluted, but existing partners are not selling their shares and are not gaining income and are not having taxable consequences as a result of that transaction. The company is getting the capital from new shareholders.

**Representative Kasper:** If you transfer from one entity to another entity, from the PLLC to the LLC, if you were the sole owner of the PLLC and it was worth a million dollars and you transfer to an LLC and you transfer your value of a million dollars into the LLC and if you're going to have new shareholders, they would then buy treasury stock and your million dollars would still be there, but whatever they purchased would be a cost from them to the company. It does not create a tax consequence to you because you are keeping your value and are not taking money out.

**Senator Laffen:** I believe that is true. As an individual, I do not think your tax consequence changes. Matt suggested that all of the income is pass-through. In a corporation, that is not true. That is a sub-S corporation. In a regular professional corporation, a C corporation, the company does pay tax. If we get paid any of that later, then it is taxed again later at personal rate. I am not sure where in there is the hiccup when trying to change the corporation's status. I could try to find out for you. As far as we could tell, the two worked exactly the same.

**Representative Kasper:** I believe the hiccup is going from a sub-S to a C corp.

**Senator Laffen:** All the architectural firms I know are C corps.

**Chairman Keiser:** One of the unusual extensions, if this were to pass, is that we could have a PLLC being owned by nonprofessionals. The nonprofessional owners could hire professionals.

**Senator Laffen:** This bill is written in a way so that licensed architects have to the majority ownerships. I am guessing this professional corporation law was written a long time ago as more of a fence building deal that suggests that only architects will own these firms.

**Hearing closed.**

50:06 **Representative Sukut:** I have some programming experience. I do know that updating a program is not simple. I think we need to keep an open mind as to this cost. It is not as simple as we're thinking.

**Representative Kasper:** I would like to hear from ITD.

**Chairman Keiser:** We will hold and will make a request for that programmer to come in.

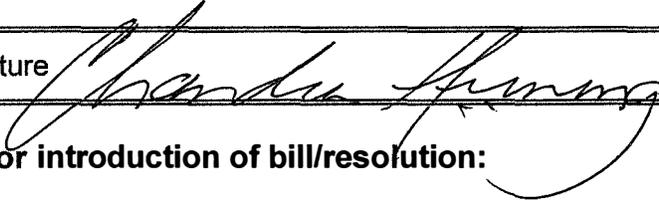
# 2013 HOUSE STANDING COMMITTEE MINUTES

House Industry, Business and Labor Committee  
Peace Garden Room, State Capitol

SB 2144, 2152  
March 13, 2013, afternoon  
Job 19874

Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

SB 2144: Relating to nonprofessional ownership of professional organizations.

SB 2152: Relating to ownership of professional organizations.

## Minutes:

Handouts, attachments 1 and 2

**Note:** The information contained within the recording pertains to both SB 2144 and 2152.

**Chairman Keiser:** Reminded committee that the fiscal notes for SB 2144 and SB 2152 are connected.

0:59 **Mike Ressler, deputy CIO of Information Technology Department:** Distributed handout, attachment 1.

1:52 **Lyle Ripplinger, senior programming analyst for ITD:** Provided background on creation of fiscal note. Explained assumptions listed on page 2 of attachment 1.

4:07 **Chairman Keiser:** If phase 1 is still underway, why not work these changes into the current phase rather than billing for it again?

4:45 **Lyle Ripplinger:** If this had been identified then, it would likely have been identified as an additional scope to the initial project.

4:53 **Chairman Keiser:** Question regarding integration of this project into current project

5:21 **Lyle Ripplinger:** As we add in new units, we are able to add them in as we work through the process.

5:35 **Chairman Keiser:** Have you completed the section of the code which deals with this?

5:40 **Lyle Ripplinger:** For this particular change, most of the code has already been changed. Phase 1 is nearly completed and ready for testing.

5:56 **Lyle Ripplinger:** Resumed explanation of assumptions, page 2 of attachment 1. Highlighted metrics shown on page 2 of attachment 1.

7:02 **Representative Kasper:** I would like detail on the metrics.

7:10 **Lyle Ripplinger:** Provided detail on the metrics listed on page 2 of attachment 1.

7:54 **Representative Kasper:** Question about the high level use case diagrams.

8:20 **Lyle Ripplinger:** Explained high level use case diagrams and how they are used.

8:51 **Representative Kasper:** Question about procedure

9:03 **Lyle Ripplinger:** Relayed how the diagrams are used to ensure that the system which will be created meets the needs of those who will be using it

9:31 **Representative Kasper:** Question about procedure and feedback

9:52 **Lyle Ripplinger:** Explained software development lifecycle phase

10:13 **Representative Kasper:** Question about procedure

10:24 **Lyle Ripplinger:** This is a conceptual representation to be able to communicate with the customer

10:30 **Representative Kasper:** Question about length of time for step of process

10:35 **Lyle Ripplinger:** It varies depending on the complexity of the project.

10:48 **Representative Kasper:** Asked for an estimate

10:51 **Chairman Keiser:** What numbers did you use to estimate this process for pricing?

10:59 **Lyle Ripplinger:** The ninety we are looking at here is for the overall system, the File 2.0 project. We would have estimated hours in our analysis phase to review and update or create additional diagrams for this additional change.

11:23 **Representative Kasper:** So the ninety diagrams are for the whole project, but we are talking about this add on. What I am trying to focus on is the cost of this add on.

11:49 **Lyle Ripplinger:** The metrics here are for the whole system. I have not gotten into the part for this small change. I am showing the metrics for the whole system and how complex it is.

12:05 **Representative Kasper:** What we're trying to find out is the cost for the add on.

12:35 **Lyle Ripplinger:** These metrics are setting the framework of the overall project to show how big it is. As we continue through the handout, we will get to the change.

12:44 **Chairman Keiser:** Let's go to the change presented for SB 2152 on page 3.

12:55 **Lyle Ripplinger:** Drew attention to pages 3-5 of attachment 1. Explained elements of page 3.

14:12 **Representative Kasper:** So the analysis portion would take one person a week plus a day?

14:22 **Lyle Ripplinger:** Yes.

14:36 **Lyle Ripplinger:** Explained bullet points pertaining to design listed on page 3 of attachment 1.

15:52 **Representative Kasper:** So the design phase would take one person over four weeks for this change?

16:07 **Lyle Ripplinger:** With this particular change, it is not a true reflection of the resources involved. We would also involve a web designer. Provided details.

16:29 **Representative Kasper:** But you already know that the full software has to meet certain standards and be compatible with browsers. What is the difficulty about making this portion comply when the software you are already designing has to comply?

16:47 **Lyle Ripplinger:** Every change we make to a particular page needs to be checked for compatibility and compliance.

17:17 **Representative Kasper:** Comment regarding indicated time requirements

17:30 **Lyle Ripplinger:** Explained bullet points pertaining to development listed on page 4 of attachment 1.

18:49 **Representative Kasper:** Comment regarding indicated time requirements

19:03 **Lyle Ripplinger:** Yes. Explained bullet points pertaining to testing listed on page 4 of attachment 1.

20:27 **Representative Kasper:** Comment regarding indicated time requirements

20:45 **Lyle Ripplinger:** Explained bullet points pertaining to database listed on page 4 of attachment 1. Explained bullet points pertaining to implementation listed on page 5 of attachment 1.

22:06 **Representative Kasper:** I add up seventeen weeks for one person.

22:36 **Lyle Ripplinger:** Doing the raw calculation like that may produce those results. When you use project management to be able to schedule out the time like that, you need to factor in sick leave, vacation time, and holidays in to the schedule. Those factor in when figuring out how long a change will take.

23:00 **Representative Kasper:** Are you billing clients for a workers' sick leave or vacation time?

23:06 **Lyle Ripplinger:** The agency only gets bills for hours spent working on their product. Holiday time is not billed to the agency.

23:21 **Representative Kasper:** What I see here is fluff to justify the cost. Verbalized frustration. Expressed that the length of time needed to make the small change is unrealistic. How many people are in your department that do this type of stuff?

24:12 **Lyle Ripplinger:** Right now we have approximately one hundred developers.

24:16 **Representative Kasper:** So we would have one fiftieth of your workforce on this project for one sixth of a year?

24:22 **Lyle Ripplinger:** In the one section where I referred to two individuals, the second individual would have knowledge in the design area and would only be involved in the design area. The other individual would be involved from beginning to end. It would not necessarily be two individuals involved the full time of the project.

24:49 **Representative Kasper:** But the hours are the same, whether one or two people are doing them. The point is that we're at about one third of a year for this itty bitty little change.

25:06 **Chairman Keiser:** It apparently is not so little.

25:14 **Representative Sukut:** Did IT develop the current system that you're working on, or did it come out from an outside vendor? You developed it? So you are familiar with the system. You said that you may need to contract with outside vendors. So you cannot do this with current staff so that we could be working with the lower hourly rate?

26:04 **Mike Ressler:** Explained rationale behind bringing in outside vendors for this project.

26:45 **Representative Sukut:** Comment regarding bringing outside vendor up to speed on the current system. This is large software in which we're adding in a small change. These projects can be enormously expensive.

28:00 **Chairman Keiser:** Expressed confidence in Lyle. I do understand how complicated a little change can be when it has to go to every part of the system. In terms of billing, how do employees or vendors account for their time? Are they in six minute units? Example.

28:41 **Mike Ressler:** We assume seventy-five percent chargeable time. The hourly rate is calculated with that taken into consideration.

29:08 **Chairman Keiser:** So is the \$120 per hour at seventy-five percent of a day?

29:20 **Mike Ressler:** That would be correct. We then calculate into the cost estimate that it is a four month project. The customer is not all that interested in the total number of hours but rather in when it will go into production.

29:29 **Chairman Keiser:** What was the timetable requested for this project? You must have more than one person working on this, perhaps even on different phases?

29:47 **Lyle Ripplinger:** Yes, we have various roles that individuals play, and they are working on different parts of the system at the same time.

29:56 **Chairman Keiser:** What was the timeframe given for this project?

30:01 **Lyle Ripplinger:** For SB 2152, it was four months.

30:15 **Representative Vigesaa:** If the actual comes in less than the fiscal note, how is that accounted for in your budget as well as in the agency's budget?

30:31 **Mike Ressler:** We will not charge the agency for the extra. We charge only for what it costs us. The dilemma is then the agency has unused money sitting in their budget. If we underestimate, we have to stop working, or the agency has to find the money. Described process of creating a fiscal note and then a more accurate cost estimate during the analysis phase.

31:30 **Chairman Keiser:** Can you work if they have not found the money yet?

31:33 **Mike Ressler:** No. We will stop. There have been times we have put the software on hold until the agency has been able to request the money from a legislative body or session.

31:59 **Chairman Keiser:** Thank you for coming back. Now we have an explanation of how you see it working, the process, and what is involved.

32:37 **Representative Kasper:** Distributed budget of ITD going back to 2001-2003, attachment 2. Shared opinion about the validity of the numbers provided in the explanation.

33:35 **Chairman Keiser:** I do share some of the frustrations. Commented on the growth in the budget for ITD. Commented that departments cannot bid projects to outside vendors.

34:20 **Representative Sukut:** Comment about past situations in which outside vendors have backed out after money has been given.

34:33 **Chairman Keiser:** Provided example. Keep in mind that ITD was the oversight agency.

34:47 **Representative Sukut:** I think they have more control when more of it is in house.

34:42 **Chairman Keiser:** If you hire an outside contractor who did not work on the original system, they have to learn the original system before they can work on it.

35:04 **Representative Boschee:** I agree that it is a mess with the market created, but we have to deal with that market. Provided example of when the university system brings in outside contractors who underbid and then bring in change orders to get more money.

35:25 **Representative Ruby:** Gave example of difficulties when using an industry-specific software and then being tied to a vendor for updates and maintenance. Unless we would be able to do maintenance with the source codes, I can see that it would be valuable for the state to do a lot of this in house.

# 2013 HOUSE STANDING COMMITTEE MINUTES

House Industry, Business and Labor Committee  
Peace Garden Room, State Capitol

SB 2144  
March 13, 2013, afternoon  
Job 19877

Conference Committee

Committee Clerk Signature

## Explanation or reason for introduction of bill/resolution:

Relating to nonprofessional ownership of professional organizations.

## Minutes:

No handouts or testimony

**Representative Ruby:** Summarized bill

0:21 **Chairman Keiser:** This is specifically architects, right?

0:26 **Representative Ruby:** I thought it was a little broader than that. There were others, but it was not for all. There were a couple of exceptions.

0:41 **Chairman Keiser:** Attorneys and physicians cannot, but I thought it was just for architects.

0:50 **Representative Kasper:** Reference page 5, line 13, number 3, looks pretty broad.

0:59 **Chairman Keiser:** So it is permissive; it allows professional organizations to have minority ownership by nonprofessionals, but it cannot be fifty-one percent, correct?

**Representative Ruby:** Correct.

**Chairman Keiser:** It does have a fiscal note.

1:31 **Representative Vigesaa:** Referenced page 5, line 13-16. The chapter indicated on line 16 is architects, I believe.

**Representative Ruby:** That's what Bonnie Staiger...someone was here.

**Chairman Keiser:** Representative Ruby can double-check that.

**Representative Ruby:** I was thinking it was a little broader.

2:23 Representative Kasper: If you look at the heading of the bill, page 1 is dealing with all the other sections. Are not those other sections referring to other professions?

2:28 Chairman Keiser: I do not know. We will vote on the bill because the concept is the same. Representative Ruby, when you carry it on the floor, it would be nice to know if it is limited or not.

2:40 Representative Becker: Does the next bill, SB 2152, also pertain only to architects? If we will incur this large expense so that architects do not have to incur a smaller cost by changing their structure, it is a concern for me. But if SB 2152 opens it up to many others and this one follows on and does not add that much cost, I would be more likely to vote yes for this one.

3:15 Chairman Keiser: According to the data we have, the costs for the fiscal notes are solid. Analyzed cost of implementing both bills.

3:39 **Representative Ruby:** SB 2152 is not limited to architects.

**Chairman Keiser:** SB 2152 is for any profession.

Representative Ruby made a **motion for do pass, with a re-referral to appropriations.** Representative Sukut seconded the motion.

4:06 **Representative Kasper:** I will vote for the bill, but I do not agree with the fiscal note. I do agree with the professions being able to have minority ownership.

**Roll call vote on Do Pass with Re-Referral to Appropriations. Motion carried.**

**Yes = 13**

**No = 1**

**Absent = 2**

**Carrier:** Representative Ruby

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/28/2013**

Bill/Resolution No.: SB 2144

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$106,152	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties	\$0	\$0	\$0
Cities	\$0	\$0	\$0
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The bill modifies the ownership of professional organizations by allowing ownership by nonprofessional participants. This change from existing law changes the scope of the agency's development of its comprehensive software project that is now in process.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

As part of the agency's comprehensive software project and detailed timeline, the software is already developed for a professional organization to allow for the filing of its paper documents in the Secretary of State's office or for filing these documents online. It is built to require a professional license certification for all shareholders of all professional organizations, as is now required by existing law. The statutory change of SB 2144 requires a change in the software to enable the addition of an unlicensed professional or minority shareholder, tag the minority and unlicensed shareholder as such, and limit this specific shareholder structure only to professional organizations engaged in architectural services.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

None

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

To cover the cost of the scope change to the agency's project, ITD has estimated it would cost \$106,152.

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

The cost of the scope change is not included in the agency's budget for the next biennium and it would require an appropriation to cover the estimated cost of \$106,152.

**Name:** Al Jaeger

**Agency:** Secretary of State

**Telephone:** 701-328-2900

**Date Prepared:** 01/29/2013

Date: 3-13-13 pm-B

Roll Call Vote #: 1

**2013 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 2144**

**House Industry, Business, and Labor Committee**

Legislative Council Amendment Number \_\_\_\_\_

Action Taken:  Do Pass  Do Not Pass  Amended  Adopt Amendment  
 Rerefer to Appropriations  Reconsider  Consent Calendar

Motion Made By Ruby Seconded By Sukut

Representatives	Yes	No	Representatives	Yes	No
Chairman George Keiser	✓		Rep. Bill Amerman	✓	
Vice Chairman Gary Sukut	✓		Rep. Joshua Boschee	✓	
Rep. Thomas Beadle	✓		Rep. Edmund Gruchalla	✓	
Rep. Rick Becker	✓		Rep. Marvin Nelson	✓	
Rep. Robert Frantsvog	ab				
Rep. Nancy Johnson	✓				
Rep. Jim Kasper	✓				
Rep. Curtiss Kreun	✓				
Rep. Scott Louser	✓				
Rep. Dan Ruby	✓				
Rep. Don Vigesaa	✓				

Total Yes 13 No 0

Absent 2

Floor Assignment Ruby

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE**

**SB 2144: Industry, Business and Labor Committee (Rep. Keiser, Chairman) recommends DO PASS and BE REREFERRED to the Appropriations Committee (13 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). SB 2144 was rereferred to the Appropriations Committee.**

**2013 HOUSE APPROPRIATIONS**

**SB 2144**

# 2013 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Committee  
Roughrider Room, State Capitol

SB 2144  
3/26/13  
Job 20450

Conference Committee

Committee Clerk Signature

*Meredith Traskhoff*

## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact a new section to chapter 10-31 of the North Dakota Century Code, relating to ownership of professional organizations; and to amend and reenact sections 10-31-01, 10-31-02, 10-31-02.1, 10-31-04, and 10-31-13 of the North Dakota Century Code, relating to nonprofessional ownership of professional organizations.

## Minutes:

You may make reference to "attached testimony."

SB 2152 is also discussed on this recording.

**Rep. George Keiser, District 47:** If the chair does not object, I would like to present 2144 and 2152 together.

**Chairman Delzer:** My understanding is they basically work together, and if they are both passed, the Fiscal Note would be reduced.

**Rep. Keiser:** The total, yes. The FN for 2144 is \$106,152; the FN for 2152 is \$102,072, which would combine to about \$208,000. However, if both bills are passed, the total FN goes down to \$127,848. When you here the two bills together, you'll understand.

Handouts related to a previous bill were distributed.

02:00

**Chairman Delzer:** Why are these two bills not together?

**Rep. Keiser:** From a policy standpoint, they address entirely different issues.

**Chairman Delzer:** Did they both come out of the secretary of state's office?

**Rep. Keiser:** They did not. One came from a Senate member, and one came from a constituent. To understand the basis of 2144 and 2152, this deals with the section of code that we currently have on professional organizations. Currently, in professional organizations, you must be a professional within that organization to be an owner. Dentists, physicians, attorneys, architects, etc. 2144 would allow a minority owner, a person associated with that business. 2144 is specific only to architecture firms. For medical and

legal firms, their code of ethics does not allow minority owners under any condition. There is a limitation in 2144 that minority owners can never individually or collectively own a majority, so we are maintaining the requirement that the professional(s) own 51% or more of the firm. The secretary of state is presently engaged in a major IT rewrite of their operation. IT came in and defended the FN; the experts say it will take this amount of money and time. That's 2144. SB 2152 is a related issue, but different. It allows a professional to simultaneously be an executive owner of more than one professional organization, providing that those organizations are in different categories. In Bismarck, there is a man that is a lawyer and a surgeon. He is running both of his entities right now. Our current law does not allow a person to be a professional owner in more than one industry, so he has to make a choice. The committee thought this was not an unreasonable request; why should we hinder the opportunity for an individual to have an ownership in two totally different professional organizations at one time.

9:05

**Chairman Delzer:** You said he's in a law firm, is it his law firm?

**Rep. Keiser:** It cannot be his law firm right now, because he cannot be an owner of two. He can work as a lawyer and have a thriving practice, but he cannot have ownership of that practice, or be a full partner. This is correcting that glitch we created through legislation. We don't want people being professional owners of two or three or four different medical practices; first of all, it's not allowed in the code of ethics, but it would not be a good deal.

**Chairman Delzer:** What about a surgeon and a dentist?

**Rep. Keiser:** It would be allowed under this.

**Chairman Delzer:** Could they hire a dentist to own the practice?

**Rep. Keiser:** No, they have to have all of the ownership. It's only the architects that have the 51%.

**Chairman Delzer:** On 2144, was there any discussion about what happens when that 51% wants to sell, or passes away? What's the protection for the minority owners?

**Rep. Keiser:** Another architect would have to become the >51% owner to maintain the operation of the firm. A minority owner at least participates in the profits of the firm. There is risk with minority ownership, no different than when I buy a stock that could crash, but the good side is you get the benefit and the income side.

**Rep. Boe:** Why do we care that they are 51%?

**Rep. Keiser:** If we don't, we will have professional firms that are not owned by professionals and they will just be out hiring professionals. When we established in this part of the Century Code a professional organization company, we wanted it to be a category that is owned and operated by the professional.

**Chairman Delzer:** Did you ask the question of what happens with the software two years from now when other professional organizations come in and want to be able to minority owners? Will they have to redo the software again?

**Rep. Keiser:** We did discuss that with ITD. They said their restructuring is generic and can handle anything, if they put the triggers in.

**Rep. Guggisberg:** Where does the money on the FN come from and go to?

**Chairman Delzer:** That's what FNs are, they just state the cost is there. If either or both of these pass, then it would be cognizant of the secretary of state to go to the conference committee to address the budget.

**Rep. Keiser:** I might add that the secretary of state appeared on both of these bills and was neutral but supportive.

**Chairman Delzer:** If we so desired we could put money in one of these bills, but normally that doesn't happen because it's better off being in the budget. Further questions? Thank you. We'll continue to the next bill.

# 2013 HOUSE STANDING COMMITTEE MINUTES

## House Appropriations Committee Roughrider Room, State Capitol

SB 2144

4/5/13

Job 20937

Job 20938, minute 11:05 to end

Conference Committee

Committee Clerk Signature

### Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact a new section to chapter 10-31 of the North Dakota Century Code, relating to ownership of professional organizations; and to amend and reenact sections 10-31-01, 10-31-02, 10-31-02.1, 10-31-04, and 10-31-13 of the North Dakota Century Code, relating to nonprofessional ownership of professional organizations.

### Minutes:

You may make reference to "attached testimony."

**Chairman Delzer:** Opening comments on 2144. SB 2144 and 2152 are separate bills, but the issue in front of the appropriations committee are related. IDT is in the middle of doing a project for the Secretary of State's office. If they'd make these changes at the same time as working on the project, they'd have to hire outside consultants. We asked ITD whether doing these at any other time would make a difference. They said this project done is supposed to be done in October 2014. If a guy waited until the project was done and used the same ITD programmers, it would be a little less money. Gave figures. The issue for which I haven't received an answer is whether or not it will cost this much to make changes every time we want to make changes to licensing or data for the Secretary of State's office in the future. It could be done by hand, but then the information would not be in the database. A big share of the problem is manipulating the data information afterwards.

3:00 **Rep. Skarphol:** I can't imagine that we need to develop a computer program for one incident. Until there are more than several, I'm not sure we should. If you need to know the data, you can have a category of miscellaneous that is entered by hand.

**Chairman Delzer:** I can't believe we would be building a program that would take that much to manipulate. I don't know that if we waited two, we'd have better answers on doing this. This issue came from a senator who is involved in the industry and wants it. The second bill is the one that was for one professional here in Bismarck.

4:06 **Rep. Skarphol:** I'm not sure why we can't authorize what the architect wants to do without building a program.

4:22 **Chairman Delzer:** The essence is, you can pass the bill. They are strictly policy with no money. If we pass them with no money in them and don't put money in Secretary of

State's office to do it, they're sitting with something they are supposed to do but without the money to do it.

4:55 **Rep. Monson:** If we pass it with no money in it, is it a mandate, or does it say this is the language and we expect you to do it in your budget?

5:16 **Chairman Delzer:** It would be a mandate for him to allow these to happen. It does not mandate that he change his software.

5:31 **Rep. Skarphol:** What if we amend this to say that the parties desiring these services must pay the cost associated with the service being provided?

**Chairman Delzer:** We could add that if you want.

Rep. Skarphol makes **motion to amend** to authorize the Secretary of State to charge costs associated with these changes for services provided.

**Allen Knudson, Legislative Council:** Suggested wording.

Rep. Wieland **seconded the motion.**

6:44 **Rep. Kempenich:** You get into cost, but how is it actually....

**Chairman Delzer:** That would be entirely up to the Secretary of State.

**Rep. Monson:** I think we should make it clear that our intent is that he doesn't have to go out and do an expensive software package. Our intent is that if he's going to do this, that they can do it by hand and charge the number of man hours it takes to do it.

**Chairman Delzer:** The problem is, I asked the Secretary of State whether or not that would work, and he said it doesn't work for them to do it by hand because then it is not in the data when you need to work with the data.

7:48 **Rep. Skarphol:** With regard to Rep. Monson's concern, if the business wants to pay for it, okay. That's the business's option. They can negotiate with the Secretary of State what is a fair and appropriate rate.

**Voice vote** on amending SB 2144 with the language to say that the Secretary of State can change to cover the costs of the implementation. **Voice vote carries.**

8:44 **Rep. Grande:** I'd like to further amend that the Secretary of State make every effort to find the least expensive way to do this, such as a miscellaneous column until a need arises to have something done. **Makes motion.**

9:17 **Allen Knudson:** Do we want to make that intent language or part of the bill?

**Seconded** by Rep. Monson.

**Rep. Grande:** I would leave it up to counsel as to the best way. Can we put in intent language to that effect, or does it have to be in the bill?

9:59 **Allen Knudson:** It would be more appropriate as legislative intent.

**Rep. Grande** and **Rep. Monson** indicated that that is alright with them.

**Voice vote** to further amend to indicate legislative intent. **Motion carries.**

**Rep. Skarphol moves for a Do Pass as Amended. Seconded** by Rep. Grande.

**Roll call vote on motion for a Do Pass as Amended. Motion fails.**

**Yes = 10    No = 11    Absent = 1**

**Rep. Skarphol moves for a Do Not Pass as Amended. Seconded** by Rep. Dosch.

**Roll call vote on motion for a Do Not Pass as Amended. Motion carries.**

**Yes = 12    No = 9    Absent = 1**

**Chairman Delzer:** We will work SB 2152 and will assign the same carrier to both bills.

---

**Discussion continues on Recording Job 20938, minute 11:05 to end.**

11:10 **Rep. Skarphol:** I would move that we reconsider our actions in which SB 2144 received a Do Not Pass as Amended recommendation.

**Rep. Glassheim seconded the motion.**

Voice vote carries.

11:46 **Rep. Skarphol:** I would **move** that we add the amended on this bill that would allow the Secretary of State to charge costs but he may not implement a computer program until he has a minimum of ten customers and not prior until after January 1, 2015.

**Rep. Monson seconded the motion.**

**Allen Knudson:** Do you still want to include the language that he should limit the expenses he will charge organizations? Is that still a part of both of them.

**Rep. Skarphol:** Yes.

**Chairman Delzer:** The question I have is, do we want to do this so that it is ten in each bill, or ten combined? I think we could do that in this bill by saying that if we want to do the ten combined, it would be a combined bill between this one and SB 2152.

**Rep. Skarphol:** The motion maker would be amenable to that being part of the amendment.

**Chairman Delzer:** Allen, is that something we can do, or do we need to reconsider the other bill again and put the same language in there?

**Allen Knudson:** I think if you clarify in this bill how you want it on both, that should be fine.

**Rep. Monson** indicated as the seconder that he is amendable to the addition to the motion.

13:22 **Chairman Delzer** summarized the amendment.

**Rep. Monson:** I don't know much about the software needed here. Will one package of software do them both?

**Chairman Delzer:** Summarized cost benefit to doing them both together and after January 1, 2015. There is no money included in the bill. Allen, when we reconsidered it, we left the amendments on and are just further amending?

**Allen Knudson** agrees.

**Chairman Delzer:** Summarizes the amendment.

**Voice vote on adoption of amendment. Voice vote carries.**

**Rep. Grande moves a Do Pass as Amended.** Rep. Nelson seconds.

**Roll call vote on motion for a Do Pass as Amended. Motion Carries.**

**Yes = 16      No = 4      Absent = 2**

**Carrier:** Rep. Grande

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/28/2013**

Bill/Resolution No.: SB 2144

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$106,152	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties	\$0	\$0	\$0
Cities	\$0	\$0	\$0
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The bill modifies the ownership of professional organizations by allowing ownership by nonprofessional participants. This change from existing law changes the scope of the agency's development of its comprehensive software project that is now in process.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

As part of the agency's comprehensive software project and detailed timeline, the software is already developed for a professional organization to allow for the filing of its paper documents in the Secretary of State's office or for filing these documents online. It is built to require a professional license certification for all shareholders of all professional organizations, as is now required by existing law. The statutory change of SB 2144 requires a change in the software to enable the addition of an unlicensed professional or minority shareholder, tag the minority and unlicensed shareholder as such, and limit this specific shareholder structure only to professional organizations engaged in architectural services.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

None

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

To cover the cost of the scope change to the agency's project, ITD has estimated it would cost \$106,152.

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

The cost of the scope change is not included in the agency's budget for the next biennium and it would require an appropriation to cover the estimated cost of \$106,152.

**Name:** Al Jaeger

**Agency:** Secretary of State

**Telephone:** 701-328-2900

**Date Prepared:** 01/29/2013

April 5, 2013

VK  
4/8/13

PROPOSED AMENDMENTS TO SENATE BILL NO. 2144

Page 1, line 2, remove the first "and"

Page 1, line 4, after "organizations" insert "; and to provide legislative intent"

Page 8, line 16, after "has" insert "a"

Page 8, line 16, replace "owners" with "owner"

Page 8, after line 24, insert:

"5. In order to help defray the costs associated with regulating organizations that have minority ownership, the secretary of state may establish fees for filings related to an organization that has a minority owner. Fees collected by the secretary of state under this subsection must be deposited in the secretary of state's general services operating fund.

**SECTION 7. LEGISLATIVE INTENT.** It is the intent of the sixty-third legislative assembly:

1. That if the secretary of state establishes additional fees under section 6 of this Act, that the secretary of state take all reasonable efforts to minimize costs associated with regulating professional organizations that have minority ownership; and
2. That if the secretary of state regulates more than a combined total of nine professional organizations that have minority ownership and, if Senate Bill No. 2152 is approved by the sixty-third legislative assembly and becomes effective, professional organizations that have ownership that renders more than one professional service, the secretary of state not invest in software changes related to regulation of those professional organizations until after December 31, 2014."

Renumber accordingly

Date: 4/5/13  
 Roll Call Vote #: 1

**2013 HOUSE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. 2144**

House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken:  Do Pass  Do Not Pass  Amended  Adopt Amendment  
 Rerefer to Appropriations  Reconsider

Motion Made By Rep. Skarphol Seconded By Rep. Wieland

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer			Rep. Streyle		
Vice Chairman Kempenich			Rep. Thoreson		
Rep. Bellew			Rep. Wieland		
Rep. Brandenburg					
Rep. Dosch					
Rep. Grande			Rep. Boe		
Rep. Hawken			Rep. Glassheim		
Rep. Kreidt			Rep. Guggisberg		
Rep. Martinson			Rep. Holman		
Rep. Monson			Rep. Williams		
Rep. Nelson					
Rep. Pollert					
Rep. Sanford					
Rep. Skarphol					

*Voice Vote*

Total Yes \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

If the vote is on an amendment, briefly indicate intent:

*(costs of implementation)*

*authorize Sec. of State to charge costs associated with  
 these changes for services provided*

*voice vote carries*

Date: 4/5/13  
Roll Call Vote #: 2

2013 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 2144

House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken:  Do Pass  Do Not Pass  Amended  Adopt Amendment  
 Rerefer to Appropriations  Reconsider

Motion Made By Rep. Grande Seconded By Rep. Monson

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer			Rep. Streyle		
Vice Chairman Kempenich			Rep. Thoreson		
Rep. Bellew			Rep. Wieland		
Rep. Brandenburg					
Rep. Dosch					
Rep. Grande			Rep. Boe		
Rep. Hawken			Rep. Glassheim		
Rep. Kreidt			Rep. Guggisberg		
Rep. Martinson			Rep. Holman		
Rep. Monson			Rep. Williams		
Rep. Nelson					
Rep. Pollert					
Rep. Sanford					
Rep. Skarphol					

*voice vote*

Total Yes \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

If the vote is on an amendment, briefly indicate intent:

*(to minimize costs)*  
Sec. of State make every effort to find least expensive way  
to do this, such as a miscellaneous  
legislative intent  
voice vote carries

Date: 4/5/13  
 Roll Call Vote #: 3

**2013 HOUSE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. 2144**

House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken:  Do Pass  Do Not Pass  Amended  Adopt Amendment  
 Rerefer to Appropriations  Reconsider

Motion Made By Rep. Skarphol Seconded By Rep. Grande

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer		X	Rep. Streyle		X
Vice Chairman Kempenich	X		Rep. Thoreson		X
Rep. Bellew	X		Rep. Wieland		X
Rep. Brandenburg		X			
Rep. Dosch		X			
Rep. Grande	X		Rep. Boe		
Rep. Hawken	X		Rep. Glassheim		X
Rep. Kreidt		X	Rep. Guggisberg	X	
Rep. Martinson		X	Rep. Holman		X
Rep. Monson	X		Rep. Williams	X	
Rep. Nelson		X			
Rep. Pollert	X				
Rep. Sanford	X				
Rep. Skarphol	X				

Total Yes 10 No 11

Absent 1

Floor Assignment \_\_\_\_\_

If the vote is on an amendment, briefly indicate intent:

Date: 4/5/13  
 Roll Call Vote #: 4

**2013 HOUSE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. 2144**

House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number 1 -

Action Taken:  Do Pass  Do Not Pass  Amended  Adopt Amendment  
 Rerefer to Appropriations  Reconsider

Motion Made By Rep. Skarphol Seconded By Rep. Dosch

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X		Rep. Streyle	X	
Vice Chairman Kempenich	X		Rep. Thoreson	X	
Rep. Bellew		X	Rep. Wieland	X	
Rep. Brandenburg	X				
Rep. Dosch	X				
Rep. Grande		X	Rep. Boe		
Rep. Hawken		X	Rep. Glassheim		X
Rep. Kreidt	X		Rep. Guggisberg		X
Rep. Martinson	X		Rep. Holman		X
Rep. Monson		X	Rep. Williams	X	
Rep. Nelson	X				
Rep. Pollert		X			
Rep. Sanford		X			
Rep. Skarphol	X				

Total Yes 12 No 9

Absent 1

Floor Assignment \_\_\_\_\_

If the vote is on an amendment, briefly indicate intent:

Date: 4/5/13  
Roll Call Vote #: 5

2013 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 2144

House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken:  Do Pass  Do Not Pass  Amended  Adopt Amendment  
 Rerefer to Appropriations  Reconsider

Motion Made By Rep. Skarphol Seconded By Rep. Glassheim

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer			Rep. Streyle		
Vice Chairman Kempenich			Rep. Thoreson		
Rep. Bellew			Rep. Wieland		
Rep. Brandenburg					
Rep. Dosch					
Rep. Grande			Rep. Boe		
Rep. Hawken			Rep. Glassheim		
Rep. Kreidt			Rep. Guggisberg		
Rep. Martinson			Rep. Holman		
Rep. Monson			Rep. Williams		
Rep. Nelson					
Rep. Pollert					
Rep. Sanford					
Rep. Skarphol					

Total Yes \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

If the vote is on an amendment, briefly indicate intent:

*Voice vote carries*

Date: 4/5/13  
Roll Call Vote #: 6

2013 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 2144

House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken:  Do Pass  Do Not Pass  Amended  Adopt Amendment  
 Rerefer to Appropriations  Reconsider

Motion Made By Rep. Skarphol Seconded By Rep. Monson

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer			Rep. Streyle		
Vice Chairman Kempenich			Rep. Thoreson		
Rep. Bellew			Rep. Wieland		
Rep. Brandenburg					
Rep. Dosch					
Rep. Grande			Rep. Boe		
Rep. Hawken			Rep. Glassheim		
Rep. Kreidt			Rep. Guggisberg		
Rep. Martinson			Rep. Holman		
Rep. Monson			Rep. Williams		
Rep. Nelson					
Rep. Pollert					
Rep. Sanford					
Rep. Skarphol					

Total Yes \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

If the vote is on an amendment, briefly indicate intent:

min 10 requests (combined requests to do in 2152)  
not prior to Jan. 1, 2015  
voice vote carries

Date: 4/8/13  
Roll Call Vote #: 7

2013 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 2144

House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number 13.0191.01001

Action Taken:  Do Pass  Do Not Pass  Amended  Adopt Amendment

Rerefer to Appropriations  Reconsider

Motion Made By Rep. Grande Seconded By Rep. Nelson

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X		Rep. Streyle	X	
Vice Chairman Kempenich	X		Rep. Thoreson		X
Rep. Bellew	X		Rep. Wieland	X	
Rep. Brandenburg	X				
Rep. Dosch		X			
Rep. Grande	X		Rep. Boe		
Rep. Hawken	X		Rep. Glassheim	X	
Rep. Kreidt		X	Rep. Guggisberg	X	
Rep. Martinson	X		Rep. Holman	X	
Rep. Monson	X		Rep. Williams		
Rep. Nelson	X				
Rep. Pollert	X				
Rep. Sanford	X				
Rep. Skarphol		X			

Total Yes 16 No 4

Absent 2

Floor Assignment Rep. Grande

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE**

**SB 2144: Appropriations Committee (Rep. Delzer, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (16 YEAS, 4 NAYS, 2 ABSENT AND NOT VOTING). SB 2144 was placed on the Sixth order on the calendar.

Page 1, line 2, remove the first "and"

Page 1, line 4, after "organizations" insert "; and to provide legislative intent"

Page 8, line 16, after "has" insert "a"

Page 8, line 16, replace "owners" with "owner"

Page 8, after line 24, insert:

"5. In order to help defray the costs associated with regulating organizations that have minority ownership, the secretary of state may establish fees for filings related to an organization that has a minority owner. Fees collected by the secretary of state under this subsection must be deposited in the secretary of state's general services operating fund.

**SECTION 7. LEGISLATIVE INTENT.** It is the intent of the sixty-third legislative assembly:

1. That if the secretary of state establishes additional fees under section 6 of this Act, that the secretary of state take all reasonable efforts to minimize costs associated with regulating professional organizations that have minority ownership; and
2. That if the secretary of state regulates more than a combined total of nine professional organizations that have minority ownership and, if Senate Bill No. 2152 is approved by the sixty-third legislative assembly and becomes effective, professional organizations that have ownership that renders more than one professional service, the secretary of state not invest in software changes related to regulation of those professional organizations until after December 31, 2014."

Renumber accordingly

**2013 CONFERENCE COMMITTEE**

**SB 2144**

# 2013 SENATE STANDING COMMITTEE MINUTES

Senate Industry, Business and Labor Committee  
Roosevelt Park Room, State Capitol

SB 2144  
April 12, 2013  
Job Number 21143

Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

Relating to nonprofessional ownership of professional organizations

## Minutes:

Discussion

Chairman Laffen: Opened the conference committee on SB 2144 and the clerk took the roll. Senator Laffen, Senator Unruh, Senator Murphy, Representative Ruby, Representative Kasper and Representative Boschee were present.

Chairman Laffen: Said the intention of this bill was to allow the architectural firms to allow non-licensed architects to have ownership shares. What we are trying to do is to keep some of our technical staff in our firm from leaving and they would like to have some ownership. I don't think either side had problems with the policy side of this. We all struggled with the Secretary of State's financial side of this. I will let you guys explain what you did with it and how to remedy that.

Representative Ruby: We struggled with the fiscal note as well and we called IT and Representative Kasper had them explain hour by hour what their costs were. They claimed for the two, this one and other one that deals with the Secretary of State's office and registering professionals, that the two could be done for 126,000 dollars. There aren't a lot of architectural firms that are licensed as professional organizations, so we're not talking about a lot of potential companies that will even want to do this. We thought they could do a paper file. They said the data could come in and be entered in by the first level in the process and they would have the computer flag that and send it up to a higher level. That person would make sure it is all done properly and they would just paper file it. They wanted to specify if they would do that, they would not be offering the same transparency on the website. If someone looked up that corporation they couldn't determine which one of the members was not a registered professional. What they would need to do is put language in here that would basically allow them to process these and charge a fee. There will be no fiscal note.

Chairman Laffen: Asked if that wasn't what their amendment says.

Representative Ruby: Said it didn't accomplish the ability to remove the fiscal note. It still had to go to go to appropriations. (5:13-6:15)

Representative Kasper: Said that the fiscal note says that the statutory change of SB 2144 requires a change in the software. We would have to have an amendment that exempts this area from the requirement for the software to be changed.

Discussion on the amendment changes needed. (7:00-9:58)

Chairman Laffen: Adjourned the meeting.

# 2013 SENATE STANDING COMMITTEE MINUTES

Senate Industry, Business and Labor Committee  
Roosevelt Park Room, State Capitol

SB 2144  
April 16, 2013  
Job Number 21176

Conference Committee

Committee Clerk Signature

*Eva Liebelt*

## Explanation or reason for introduction of bill/resolution:

Relating to nonprofessional ownership of professional organizations

## Minutes:

Amendment and Vote

Chairman Laffen: Called the conference committee to order and the clerk took the roll. Senator Laffen, Senator Unruh, Senator Murphy, Representative Ruby, Representative Kasper, Representative Boschee were present. He asked Representative Ruby to go over the amendment.

Representative Ruby: Said it is similar to the other bill they had but this one is dealing with a minority owner that is not necessarily licensed as a professional but could be a minority owner of that professional organization. It is the same thing as far as the ability to input this in in a manual format rather than being completely computerized and making all the changes on the system. The fee will be a thousand dollars. Amendment Attached (1). (:45-4:04)

Chairman Laffen: Asked Al Jaeger if the thousand dollar fee is charged when the architectural firms amend their articles of incorporation.

Al Jaeger, Secretary of State: The way the amendment is written it is for the first registration and/ or amendment, the reference to the century code means that your regular annual reports those fees would stay the same as they are now. It was both for the registration and/or amendment.

Chairman Laffen: I just wanted to be sure it wasn't for each individual who came for every stock transfer.

Representative Ruby: Made a motion that the House recede from House amendments and further amend.

Representative Boschee: Seconded the motion.

Roll Call Vote: Yes - 6 No - 0

Senate Industry, Business and Labor Committee

SB 2144

April 16, 2013

Page 2

Senate Carrier: Senator Laffen House Carrier: Representative Ruby

**FISCAL NOTE**  
**Requested by Legislative Council**  
**04/17/2013**

Amendment to: SB 2144

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties	\$0	\$0	\$0
Cities	\$0	\$0	\$0
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The bill modifies the ownership of professional organizations by allowing ownership by nonprofessional participants in an organization that is created to provide professional services under chapter 43-03, which governs architects.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

No significant fiscal impact is expected.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

The revenue will be dependent on demand, which is expected to be minimal.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Any expenditures will be covered by the registration fee, which will be deposited into the agency's general services operating fund.

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

None



**Name:** Al Jaeger

**Agency:** Secretary of State

**Telephone:** 701-328-2900

**Date Prepared:** 04/17/2013



**FISCAL NOTE**  
 Requested by Legislative Council  
 04/08/2013

Amendment to: SB 2144

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$106,152	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties	\$0	\$0	\$0
Cities	\$0	\$0	\$0
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The bill modifies the ownership of professional organizations by allowing ownership by nonprofessional participants. This change from existing law changes the scope of the agency's development of its comprehensive software project that is now in process.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

As part of the agency's comprehensive software project and detailed timeline, the software is already developed for a professional organization to allow for the filing of its paper documents in the Secretary of State's office or for filing these documents online. It is built to require a professional license certification for all shareholders of all professional organizations, as is now required by existing law. The statutory change of SB 2144 requires a change in the software to enable the addition of an unlicensed professional or minority shareholder, tag the minority and unlicensed shareholder as such, and limit this specific shareholder structure only to professional organizations engaged in architectural services.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

None

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

To cover the cost of the scope change to the agency's project, ITD has estimated it would cost \$106,152.

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

The cost of the scope change is not included in the agency's budget for the next biennium and it would require an appropriation to cover the estimated cost of \$106,152.

**Name:** Al Jaeger

**Agency:** Secretary of State

**Telephone:** 701-328-2900

**Date Prepared:** 04/09/2013

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/28/2013**

Bill/Resolution No.: SB 2144

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$106,152	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties	\$0	\$0	\$0
Cities	\$0	\$0	\$0
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The bill modifies the ownership of professional organizations by allowing ownership by nonprofessional participants. This change from existing law changes the scope of the agency's development of its comprehensive software project that is now in process.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

As part of the agency's comprehensive software project and detailed timeline, the software is already developed for a professional organization to allow for the filing of its paper documents in the Secretary of State's office or for filing these documents online. It is built to require a professional license certification for all shareholders of all professional organizations, as is now required by existing law. The statutory change of SB 2144 requires a change in the software to enable the addition of an unlicensed professional or minority shareholder, tag the minority and unlicensed shareholder as such, and limit this specific shareholder structure only to professional organizations engaged in architectural services.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

None

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

To cover the cost of the scope change to the agency's project, ITD has estimated it would cost \$106,152.

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

The cost of the scope change is not included in the agency's budget for the next biennium and it would require an appropriation to cover the estimated cost of \$106,152.

**Name:** Al Jaeger

**Agency:** Secretary of State

**Telephone:** 701-328-2900

**Date Prepared:** 01/29/2013

JS  
4-16-13

PROPOSED AMENDMENTS TO SENATE BILL NO. 2144

That the House recede from its amendments as printed on pages 1206 and 1207 of the Senate Journal and pages 1266 and 1267 of the House Journal and that Senate Bill No. 2144 be amended as follows:

Page 8, line 16, after "has" insert "a"

Page 8, line 16, replace "owners" with "owner"

Page 8, after line 24, insert:

- "5. In order to regulate organizations that have minority ownership, the secretary of state shall collect one thousand dollars for articles of incorporation for a corporation, articles of organization for a limited liability company, or articles of amendment related to an organization that has a minority owner. This fee is in addition to the fees provided for these filings under section 10-19.1-147 or 10-32-150. Fees collected by the secretary of state under this subsection must be deposited in the secretary of state's general services operating fund."

Renumber accordingly



**REPORT OF CONFERENCE COMMITTEE**

**SB 2144:** Your conference committee (Sens. Laffen, Unruh, Murphy and Reps. Ruby, Kasper, Boschee) recommends that the **HOUSE RECEDE** from the House amendments as printed on SJ pages 1206-1207, adopt amendments as follows, and place SB 2144 on the Seventh order:

That the House recede from its amendments as printed on pages 1206 and 1207 of the Senate Journal and pages 1266 and 1267 of the House Journal and that Senate Bill No. 2144 be amended as follows:

Page 8, line 16, after "has" insert "a"

Page 8, line 16, replace "owners" with "owner"

Page 8, after line 24, insert:

"5. In order to regulate organizations that have minority ownership, the secretary of state shall collect one thousand dollars for articles of incorporation for a corporation, articles of organization for a limited liability company, or articles of amendment related to an organization that has a minority owner. This fee is in addition to the fees provided for these filings under section 10-19.1-147 or 10-32-150. Fees collected by the secretary of state under this subsection must be deposited in the secretary of state's general services operating fund."

Renumber accordingly

SB 2144 was placed on the Seventh order of business on the calendar.

**2013 TESTIMONY**

**SB 2144**

SB2144

TESTIMONY TO THE SENATE INDUSTRY BUSINESS & LABOR COMMITTEE

JANUARY 21, 2013

LONNIE J. LAFFEN, SENATOR, DISTRICT 43

The purpose of SB2144 is to allow some ownership of an architecture firm by non-licensed technical staff. Current ND allows only licensed architects to have any ownership share of an architecture corporation. This bill would allow non-licensed professionals to own up to 49% of the company while keeping licensed architects as the majority owners. So why is this change needed?

1. Architecture practices have changed. With North Dakota's recent success we have become bigger. Our firms now include specialists who play very important roles in our success - and they are not architects. They are accountants, marketing professionals, construction managers, information technologists and graphic designers. They have great talent, most are all licensed in their own profession and are as equally important to our firm as architects. In fact, I would argue, it's probably easier to replace the architects in our firms if they happen to leave. More difficult is finding a new Chief Financial Officer who knows the architecture profession. Simply put we don't want to lose these people and the best way to do that is to give them ownership of the company. We want to reward them with stock appreciation and the ability to create wealth.

2. ND's success is also bringing lots of new competition. We are the shining star of our nation - and as such attract every firm that needs work. These firms are large and sophisticated. The only way our ND firms continue to compete is to become equally large and sophisticated. Growing our firms and transitioning to the next generation is how we will do that. Limiting our ability to transition firm ownership causes most firms to close at the end of the original founder's career. Having to start from scratch every 30 years is a difficult way to grow a firm. So far only one architecture firm in ND's 120 year history has managed to transition past their founder. Allowing more ownership to our key staff will us help make that transition.

Do not confuse ownership of the firm with "Architecture Licensure". The two are completely separate. Architects would still be responsible for the practice of the profession and for Health Safety and Welfare. An architect would still be required to be licensed in ND and stamp and seal every set of plans. That is a responsibility taken seriously. Firm ownership simply gives an individual the ability to share the wealth (or lose in it as well). In fact ownership doesn't even insure a seat at the governance table. That too would need to be "given" by the majority ownership - whom are still architects.

The bill changes the "Professional Corporation" chapter 10-31 of the NDCC and modifies the code so that any other profession could make this same change if they would chose. As written it only makes this change for architects. This is accomplished in the enabling language in sub-section 4, page 5 lines 13 through 16.

In the past architecture firms were small and the "owner architect" balanced the checkbook, kept computers running, managed the construction, completed the renderings by hand and marketed to find the next project. Many of our firms are now made of specialists that do these ancillary tasks.

Lastly - this bill does not mandate any firm to offer ownership to their staff. It just gives them that opportunity if they choose.

(2)

ALVIN A. JAEGER  
SECRETARY OF STATE

PAGE www.nd.gov/sos



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SECRETARY OF STATE  
STATE OF NORTH DAKOTA  
600 EAST BOULEVARD AVENUE DEPT 108  
BISMARCK ND 58505-0500

January 21, 2013

TO: Sen. Klein, Chairman, and Members of the Senate Industry, Business and Labor Committee

FR: Clara Jenkins on behalf of Al Jaeger, Secretary of State

RE: SB 2144 – Nonprofessional Ownership of Professional Organizations

For whatever value it may have for the committee, our agency offers the following explanation. The professional organization act is a distinctly different and unique business structure compared to, for example, a business corporation under Chapter 10-19.1 or a limited liability company organized under Chapter 10-32.

Under the professional organization act in Chapter 10-31, persons in a certain licensed category (as defined in N.D.C.C. § 10-31-01(10)), may create a business structure, which is specific to that licensing category and has owners specifically associated with that licensing category. As the law now reads, a person must be licensed in that specific professional category in order to be an owner in a professional organization.

That restriction does not apply to the owners, for example, of a business corporation or a limited liability company. The ownership of those businesses may consist of many different persons with a variety of backgrounds and education.

The Secretary of State's office has a neutral position on Senate Bill 2152. However, we do have a request. That is, to allow the agency a few days to prepare a fiscal note for this bill. Because of the text of the bill, it would not normally trigger the need for a fiscal note, but this bill does have a financial impact on our agency.

As the Director of Business Systems for the Secretary of State's office, I am in charge of the development of the agency's comprehensive software project authorized by the last legislative assembly and which is now being developed by the state's Information Technology Department (ITD). The adoption of SB 2144 will require a scope change to the project because the architecture and business rules for professional organizations (as they now exist in Chapter 10-31) have already been developed. Because today is a holiday, it may not be possible to have the fiscal note back to the committee before you are through with your hearings for this week.

ALVIN A. JAEGER  
SECRETARY OF STATE

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SECRETARY OF STATE  
STATE OF NORTH DAKOTA  
600 EAST BOULEVARD AVENUE DEPT 108  
BISMARCK ND 58505-0500

January 21, 2013

2-4-13

# 1

TO: Sen. Klein, Chairman, and Members of the Senate Industry, Business and Labor Committee

FR: Clara Jenkins on behalf of Al Jaeger, Secretary of State

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# North Dakota Legislative Council

## View Requested Fiscal Note

Fiscal Notes

Details

**Bill Number:** SB 2144      **Amendment:**      **Engrossment:**  
**Original:** 13.0191.01000      **In Context:**  
**Requested:** 01/28/2013 11:09 AM  
**Revision Requested:**  
**Next Hearing:**  
**Engrossment Status:**  
**Assigned To/Due:**  
**Agency Comments:**

Fiscal Note

**1A. State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013		2013-2015		2015-2017	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
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Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

**1B. County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013	2013-2015	2015-2017
Counties	\$0	\$0	\$0
Cities	\$0	\$0	\$0
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

**2A. Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The bill modifies the ownership of professional organizations by allowing ownership by nonprofessional participants. This change from existing law changes the scope of the agency's development of its comprehensive software project that is now in process.

**2B. Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

As part of the agency's comprehensive software project and detailed timeline, the software is already developed for a professional organization to allow for the filing of its paper documents in the Secretary of State's office or for filing these documents online. It is built to require a professional license certification for all shareholders of all professional organizations, as is now required by existing law. The statutory change of SB 2144 requires a change in the software to enable the addition of an unlicensed professional or minority shareholder, tag the minority and unlicensed shareholder as such, and limit this specific shareholder structure only to professional organizations engaged in architectural services.

**3. State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

**A. Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

None

**B. Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

To cover the cost of the scope change to the agency's project, ITD has estimated it would cost \$106,152.

**C. Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

The cost of the scope change is not included in the agency's budget for the next biennium and it would require an appropriation to cover the estimated cost of \$106,152.



## Software Development Division Budget Estimate

To: Linda L. Gregoryk Secretary of State	Date Issued: 1/23/2013	Prior Est. Date:
	From: Della Thorsness	
	Prepared By: Dennis Owen	
Project Description: Estimate for Implementation of Senate Bill 2144		
WMS Work Order Number: 204817	WMS Service Request: 1433592	

ITD is recommending your agency budget **\$106,152** for this project. This amount includes an estimated **\$88,460** based on requirements we received during the interview process plus an additional **\$17,692** for scope changes. The additional **20%** is based on ITD's experience with scope changes in projects this size. Including this additional amount will give your agency the flexibility to cover typical scope changes, and remain within your budgeted amount. A more accurate estimate will be prepared once this project has started and the analysis phase is completed. The cost to complete the analysis phase is estimated to be approximately **\$11,532**.

### What you get for your money from ITD

ITD estimates this project to take **4 months**. This timeframe is a projected timeframe based on typical project staffing levels. The actual timeframe will be determined during the Planning Phase and will be based on the availability of customer and ITD resources at that time.

Should you decide to proceed with this project, please approve the cost estimate via the online Work Management System. Upon your approval, you will be prompted to submit a service request under the existing work order. All ITD services relating to this project will be billed to your department monthly at actual cost.

At the start of the project ITD will review any estimate over 90 days old. If necessary a revised estimate will be issued.

*'ITD - Software that works'*

**Project Description**

This project is to implement changes to the SOS File 2.0 application in response to SB 2144. Changes to the shareholder requirements for Professional Corporations, Professional LLCs and Professional LLPs would allow for an individual shareholder to be a “non-licensed” shareholder, where SOS File 2.0 requires all shareholders for these types of businesses to be licensed. This project will also introduce minority shareholders that are non-licensed. The system must be able to designate a shareholder as non-licensed and/or minority owner. The minority owners shares owned will now be required to be captured on the annual reports filed by the businesses. In addition, the system will be required to capture additional fields on the annual reports indicating if there are minority owners, the organization supplied a certificate identifying the minority owners and the express law authorizing the minority owners.

**Assumptions**

The one-time costs (development) of the routines are based on the following assumptions:

- This cost estimate is based on a blended hourly rate of \$120 due to the unknown availability of ITD Software Development staff at the time this estimate was issued. If only ITD Software Development staff work on the project, billing will be at normal ITD Software Development rates.
- The work will be done in coordination with ongoing development work in the SOS File 2.0 project.
- The project will follow ITD’s software development quality assurance methodology and processes.
- ITD will create a new lookup list – Professions – that will be used to restrict the choices for profession practiced when entering data related to shareholders for these business entities.
- ITD will update business rules for the entities.
- ITD will create a new Entity type based on the current Shareholder entity to be used for these “Non-Licensed” shareholders and “Minority” shareholders.
- No changes to security will be required. Existing security groups and page access rights will be maintained.
- These changes can be implemented before or after SOS File 2.0 Phase 1 has been deployed to production. This estimate assumes SOS File 2.0 Phase 1 will have been deployed to production first.
- Updates to the public dynamic views can be implemented before or after SOS File 2.0 Phase 2 has been deployed to production. This estimate assumes SOS File 2.0 Phase 2 will not have been deployed to production yet.
- Maintenance of the profession list will be handled by the Maintain Drop-Down Tables functionality already defined in Phase 1.
- Costs for Senate Bill 2144 were determined independently of the cost for Senate Bill 2152.

**Determining Costs**

The cost estimate includes the following processes:

Process	Description
Dynamic Views for Professional Corporation	Existing dynamic views for intake and review of creation, amendment and annual report forms for Professional Corporations will be modified to replace the existing text field entry for profession practiced with a defined lookup list of professions. This will include both back office and public dynamic views. Views would also have to be

Process	Description
	modified to allow for the selection of the type of shareholder.
Dynamic Views for PLLC	Existing dynamic views for intake and review of creation, amendment and annual report forms for PLLC will be modified to replace the existing text field entry for profession practiced with a defined lookup list of professions. This will include both back office and public dynamic views. Views would also have to be modified to allow for the selection of the type of shareholder.
Dynamic Views for PLLP	Existing dynamic views for intake and review of creation, amendment and annual report forms for PLLP will be modified to replace the existing text field entry for profession practiced with a defined lookup list of professions. This will include both back office and public dynamic views. Views would also have to be modified to allow for the selection of the type of shareholder.
Business Rules	The validation rules for these business entities will be updated to include the new requirements: <ul style="list-style-type: none"> <li>• Allow a non-licensed shareholder, but require certification they are exempt.</li> <li>• Allow minority shareholders, but require express law authorizing</li> <li>• If minority shareholder has stock, the stock must be listed on the annual report.</li> </ul>
Create new Non-Licensed Shareholder object	Create a new Non-Licensed Shareholder entity type similar to the Shareholder type to distinguish between the 3 types of shareholders.
Create new Minority Shareholder object	Create a new Minority Shareholder entity type similar to the Shareholder type to distinguish between the 3 types of shareholders.
Fillable PDFs	The Annual Report fillable PDFs will be updated to include the new shareholder requirements.

### **One-Time Cost for System Development**

The cost for development is estimated to be \$106,152. This amount includes an estimated \$88,460 based on requirements and an additional \$17,692 for scope changes. The additional 20% is based on ITD's experience with scope changes in projects this size. Including this additional amount will give your agency the flexibility to cover typical scope changes, and remain within your budgeted amount. A more accurate estimate will be prepared once this project has started and the analysis phase is completed.

### **On-Going Monthly Costs**

There are no additional on-going monthly costs.



## Providing Customer-Centric Services

The Information Technology Department (ITD) provides technology leadership for state government and the people of North Dakota. ITD exists solely to help State agencies discover, assess, and implement information technologies. ITD's Software Development Division develops, implements, operates and supports software solutions that meet our customer's need as provided in this cost estimate. ITD also provides server computing, local and wide area network support, voice and data technologies, video conferencing, and other emerging technologies. The following overview describes the services ITD considers valuable to our customers. We hope you'll find this helpful in assessing the value of our services.

### State Government IT Partner

ITD knows the business of North Dakota State government and understands inter-agency relationships. We've been servicing State agencies since 1968. Upon request, we'll provide references offering honest referrals about our services.

*Our customer relationships are long-term partnerships.*

### Affordable Cutting Edge Technology

ITD helps agencies discover best fit solutions for their agency at affordable rates. ITD charges only to recover costs - we retain no profit with our low rates. Our staff is trained in many new and existing technologies, so we can readily assess customer requirements and provide solutions that best fit an agency's needs. ITD implements and supports IT solutions on modern hardware in modern facilities, using operating systems and software no older than current version minus 1.

*Whenever it's necessary to extend our capabilities, we augment our current staff with outside vendors to meet demands.*

### Quality

ITD develops applications within the processes of a structured systems development methodology. This includes functional testing and all applications are tested for usability and performance (load tested). ITD Meets State & Federal Audit Compliance. Our infrastructure and operation processes are reviewed by and meet state and federal audit requirements. ITD Supports State Enterprise Architecture Standards, and our software and infrastructure meet North Dakota Enterprise Architecture standards.

*We build compliance into our service offerings which relieves the customer of State standard compliance concerns.*

### Dedicated & Experienced Staff

ITD employees submit to an FBI background check and are bound by the same confidentiality requirements as agency staff. ITD's staff is cross-trained to provide continuous backup. We provide dedicated architects to design effective, top-notch infrastructure for security, system hosting, software development, and telecommunications. Our staff applies formal project management practices to all projects.

*ITD strives to retain innovative, talented, and dedicated staff. ITD's staff is tenured with an average of 13 years of service.*

### Support Structure

ITD offers several levels of customer support, including 24 x 7 support for applications and infrastructure.

*Customer Service Surveys indicate 99% of customers are very satisfied with our support.*

### Flexible Infrastructure

ITD's infrastructure and support structure are designed to meet varied needs. ITD designs and builds applications that can operate in a redundant environment. If one server fails, another server picks up the workload with little or no down time.

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ITD has the tools and resources required to monitor software applications and computer system infrastructure to assure adequate performance and up-time. Applications can be monitored on a 24 x 7 basis. If a disaster occurs in our Computer Systems area or Statewide Network, customer applications can be running within hours.

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### Security

By investing in the infrastructure and training required to prevent malicious activity within our IT environment, ITD has dedicated staff to assure that customer data and applications are secure.

*We use source code control software to provide sound source code management.*

[Back to Estimate](#)

**SB2144: TESTIMONY TO THE HOUSE INDUSTRY BUSINESS & LABOR COMMITTEE**

MARCH 6, 2013

LONNIE J. LAFFEN, SENATOR, DISTRICT 43

①  
3-6-13  
SB 2144

Chairman Keiser & Members of the House IB&L Committee. For the record my name is Lonnie Laffen, District 43, and for full disclosure I am a licensed architect and a partner in an architecture firm with five North Dakota offices.

The purpose of SB2144 is to allow some ownership of an architecture firm by non-licensed technical staff. Current ND allows only licensed architects to have any ownership share of an architecture corporation. This bill would allow non-licensed professionals to own up to 49% of the company while keeping licensed architects as the majority owners. So why is this change needed?

1. Architecture practices have changed. With North Dakota's recent success we have become bigger. Our firms now include specialists who play very important roles in our success - and they are not architects. They are accountants, marketing professionals, construction managers, information technologists and graphic designers - to name a few. They have great talent, most are licensed in their own profession and are as equally important to our firm as architects. In fact, I would argue, it's probably easier to replace the architects in our firms if they happen to leave. More difficult is finding a new Chief Financial Officer who knows the architecture profession. Simply put we don't want to lose these people and the best way to do that is to allow them ownership of the company. We want to reward them with stock appreciation and the ability to create wealth.

2. ND's success is also bringing lots of new competition. We are the shining star of our nation - and as such attract every firm that needs work. These firms are large and sophisticated. The only way our ND firms continue to compete is to become equally large and sophisticated. Growing our firms and transitioning to the next generation is how we will do that. Limiting our ability to transition firm ownership causes most firms to close at the end of the original founder's career. Having to start from scratch every 30 years is a difficult way to grow a firm. So far only one architecture firm in ND's 120 year history has managed to transition past their founder. Allowing more ownership to our key staff will help firms make that transition.

Do not confuse "ownership" of the firm with "Architecture Licensure". The two are completely separate. Architects would still be responsible for the practice of the profession and for Health Safety and Welfare. An architect would still be required to be licensed in ND and stamp and seal every set of plans. That is a responsibility taken seriously. Firm ownership simply gives an individual the ability to share the wealth (or lose in it as well). In fact ownership doesn't even insure a seat at the governance table. That too would need to be "given or elected" by the majority ownership - whom are still architects.

The bill changes the "Professional Corporation" chapter 10-31 of the NDCC and modifies the code so that any other profession could make this change if they would chose. As written it only makes this change for architects. This is accomplished in the enabling language in s section 4; page 5 lines 13 through 16.

In the past architecture firms were small and the "owner architect" balanced the checkbook, kept computers running, managed the construction, completed the renderings by hand and marketed to find the next project. Many of our firms are now made of specialists that do these ancillary but essential tasks.

Lastly - this bill does not mandate any firm to offer ownership to their staff. It just gives them that opportunity if they choose.

ALVIN A. JAEGER  
SECRETARY OF STATE

HOME PAGE [www.nd.gov/sos](http://www.nd.gov/sos)



SECRETARY OF STATE  
STATE OF NORTH DAKOTA  
600 EAST BOULEVARD AVENUE DEPT 108  
BISMARCK ND 58505-0500

March 6, 2013

②  
3-6-2013  
SB 2144

PHONE (701) 328-2900  
FAX (701) 328-2992

E-MAIL [sos@nd.gov](mailto:sos@nd.gov)

TO: Rep. Keiser, Chairman, and Members of the House Industry, Business and Labor Committee

FR: Clara Jenkins on behalf of Al Jaeger, Secretary of State

RE: SB 2144 – Nonprofessional Ownership of Professional Organizations

As background information, our agency offers the following explanation for a professional organization business entity. It is a distinctly different and unique business structure compared to, for example, a business corporation under Chapter 10-19.1 or a limited liability company organized under Chapter 10-32.

Under the professional organization act in Chapter 10-31, individuals in a specific licensed category may create a business structure, which is specific to that licensing category and has owners specifically associated with that licensing category. According to N.D.C.C. § 10-31-01(10), it means an individual licensee must have an undergraduate or advanced college degree in the specific related professional field. Examples would include a doctor, engineer, lawyer, architect, etc. Then, in order to be an owner or part owner of a professional organization, the individual must be licensed in the specific professional category associated with that business structure.

This restriction does not apply to the owners, for example, of a business corporation or a limited liability company. The ownership of those businesses may consist of many different persons with a variety of backgrounds and education.

The Secretary of State's office has a neutral position on Senate Bill 2144. However, because the bill has a fiscal impact on the agency, this bill does have two fiscal notes attached to it. As to which one applies will depend on the action taken on this bill and SB 2152, which is being heard next.

As the Director of Business Systems for the Secretary of State's office, I am in charge of the development of the agency's comprehensive software project authorized by the last legislative assembly and which is now being developed by the state's Information Technology Department (ITD). The adoption of SB 2144 will require a scope change to the project because the architecture and business rules for professional organizations (as they now exist in Chapter 10-31) have already been developed.

If this bill is passed without SB 2152 being adopted at the same time, the estimated programming cost for SB 2144 will be \$106,152.

If SB 2152 is passed and SB 2144 is not, the estimated programming cost for SB 2152 will be \$102,072.

If both SB 2144 and SB 2152 are adopted, the shared programming cost for both bills will be \$127,848.



5  
SB 2144  
3-6-13

# Software Development Division Budget Estimate

To: Linda L. Gregoryk Secretary of State	Date Issued: 1/23/2013	Prior Est. Date:
	From: Della Thorsness	
	Prepared By: Dennis Owen	
Project Description: Estimate for Implementation of Senate Bill 2144		
WMS Work Order Number: 204817	WMS Service Request: 1433592	

ITD is recommending your agency budget **\$106,152** for this project. This amount includes an estimated **\$88,460** based on requirements we received during the interview process plus an additional **\$17,692** for scope changes. The additional **20%** is based on ITD's experience with scope changes in projects this size. Including this additional amount will give your agency the flexibility to cover typical scope changes, and remain within your budgeted amount. A more accurate estimate will be prepared once this project has started and the analysis phase is completed. The cost to complete the analysis phase is estimated to be approximately **\$11,532**.

### What you get for your money from ITD

ITD estimates this project to take **4 months**. This timeframe is a projected timeframe based on typical project staffing levels. The actual timeframe will be determined during the Planning Phase and will be based on the availability of customer and ITD resources at that time.

Should you decide to proceed with this project, please approve the cost estimate via the online Work Management System. Upon your approval, you will be prompted to submit a service request under the existing work order. All ITD services relating to this project will be billed to your department monthly at actual cost.

At the start of the project ITD will review any estimate over 90 days old. If necessary a revised estimate will be issued.

*'ITD - Software that works'*

**Project Description**

This project is to implement changes to the SOS File 2.0 application in response to SB 2144. Changes to the shareholder requirements for Professional Corporations, Professional LLCs and Professional LLPs would allow for an individual shareholder to be a “non-licensed” shareholder, where SOS File 2.0 requires all shareholders for these types of businesses to be licensed. This project will also introduce minority shareholders that are non-licensed. The system must be able to designate a shareholder as non-licensed and/or minority owner. The minority owners shares owned will now be required to be captured on the annual reports filed by the businesses, In addition, the system will be required to capture additional fields on the annual reports indicating if there are minority owners, the organization supplied a certificate identifying the minority owners and the express law authorizing the minority owners.

**Assumptions**

The one-time costs (development) of the routines are based on the following assumptions:

- This cost estimate is based on a blended hourly rate of \$120 due to the unknown availability of ITD Software Development staff at the time this estimate was issued. If only ITD Software Development staff work on the project, billing will be at normal ITD Software Development rates.
- The work will be done in coordination with ongoing development work in the SOS File 2.0 project.
- The project will follow ITD’s software development quality assurance methodology and processes.
- ITD will create a new lookup list – Professions – that will be used to restrict the choices for profession practiced when entering data related to shareholders for these business entities.
- ITD will update business rules for the entities.
- ITD will create a new Entity type based on the current Shareholder entity to be used for these “Non-Licensed” shareholders and “Minority” shareholders.
- No changes to security will be required. Existing security groups and page access rights will be maintained.
- These changes can be implemented before or after SOS File 2.0 Phase 1 has been deployed to production. This estimate assumes SOS File 2.0 Phase 1 will have been deployed to production first.
- Updates to the public dynamic views can be implemented before or after SOS File 2.0 Phase 2 has been deployed to production. This estimate assumes SOS File 2.0 Phase 2 will not have been deployed to production yet.
- Maintenance of the profession list will be handled by the Maintain Drop-Down Tables functionality already defined in Phase 1.
- Costs for Senate Bill 2144 were determined independently of the cost for Senate Bill 2152.

**Determining Costs**

The cost estimate includes the following processes:

Process	Description
Dynamic Views for Professional Corporation	Existing dynamic views for intake and review of creation, amendment and annual report forms for Professional Corporations will be modified to replace the existing text field entry for profession practiced with a defined lookup list of professions. This will include both back office and public dynamic views. Views would also have to be

<b>Process</b>	<b>Description</b>
	modified to allow for the selection of the type of shareholder.
Dynamic Views for PLLC	Existing dynamic views for intake and review of creation, amendment and annual report forms for PLLC will be modified to replace the existing text field entry for profession practiced with a defined lookup list of professions. This will include both back office and public dynamic views. Views would also have to be modified to allow for the selection of the type of shareholder.
Dynamic Views for PLLP	Existing dynamic views for intake and review of creation, amendment and annual report forms for PLLP will be modified to replace the existing text field entry for profession practiced with a defined lookup list of professions. This will include both back office and public dynamic views. Views would also have to be modified to allow for the selection of the type of shareholder.
Business Rules	The validation rules for these business entities will be updated to include the new requirements: <ul style="list-style-type: none"> <li>• Allow a non-licensed shareholder, but require certification they are exempt.</li> <li>• Allow minority shareholders, but require express law authorizing</li> <li>• If minority shareholder has stock, the stock must be listed on the annual report.</li> </ul>
Create new Non-Licensed Shareholder object	Create a new Non-Licensed Shareholder entity type similar to the Shareholder type to distinguish between the 3 types of shareholders.
Create new Minority Shareholder object	Create a new Minority Shareholder entity type similar to the Shareholder type to distinguish between the 3 types of shareholders.
Fillable PDFs	The Annual Report fillable PDFs will be updated to include the new shareholder requirements.

### **One-Time Cost for System Development**

The cost for development is estimated to be \$106,152. This amount includes an estimated \$88,460 based on requirements and an additional \$17,692 for scope changes. The additional 20% is based on ITD's experience with scope changes in projects this size. Including this additional amount will give your agency the flexibility to cover typical scope changes, and remain within your budgeted amount. A more accurate estimate will be prepared once this project has started and the analysis phase is completed.

### **On-Going Monthly Costs**

There are no additional on-going monthly costs.



## Providing Customer-Centric Services

The Information Technology Department (ITD) provides technology leadership for state government and the people of North Dakota. ITD exists solely to help State agencies discover, assess, and implement information technologies. ITD's Software Development Division develops, implements, operates and supports software solutions that meet our customer's need as provided in this cost estimate. ITD also provides server computing, local and wide area network support, voice and data technologies, video conferencing, and other emerging technologies. The following overview describes the services ITD considers valuable to our customers. We hope you'll find this helpful in assessing the value of our services.

### State Government IT Partner

ITD knows the business of North Dakota State government and understands inter-agency relationships. We've been servicing State agencies since 1968. Upon request, we'll provide references offering honest referrals about our services.

*Our customer relationships are long-term partnerships.*

### Affordable Cutting Edge Technology

ITD helps agencies discover best fit solutions for their agency at affordable rates. ITD charges only to recover costs - we retain no profit with our low rates. Our staff is trained in many new and existing technologies, so we can readily assess customer requirements and provide solutions that best fit an agency's needs. ITD implements and supports IT solutions on modern hardware in modern facilities using operating systems and software no older than current version minus 1.

*Whenever it's necessary to extend our capabilities, we augment our current staff with outside vendors to meet demands.*

### Quality

ITD develops applications within the processes of a structured systems development methodology. This includes functional testing and all applications are tested for usability and performance (load tested). ITD Meets State & Federal Audit Compliance. Our infrastructure and operation processes are reviewed by and meet state and federal audit requirements. ITD Supports State Enterprise Architecture Standards and our software and infrastructure meet North Dakota Enterprise Architecture standards.

*We build compliance into our service offerings which relieves the customer of State standard compliance concerns.*

### Dedicated & Experienced Staff

ITD employees submit to an FBI background check and are bound by the same confidentiality requirements as agency staff. ITD's staff is cross-trained to provide continuous backup. We provide dedicated architects to design effective, top-notch infrastructure for security, system hosting, software development, and telecommunications. Our staff applies formal project management practices to all projects.

*ITD strives to retain innovative, talented, and dedicated staff. ITD's staff is tenured with an average of 13 years of service.*

### Support Structure

ITD offers several levels of customer support, including 24 x 7 support for applications and infrastructure.

*Customer Service Surveys indicate 99% of customers are very satisfied with our support.*

### Flexible Infrastructure

ITD's infrastructure and support structure are designed to meet varied needs. ITD designs and builds applications that can operate in a redundant environment. If one server fails, another server picks up the workload with little or no down time.

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### Disaster Recovery

ITD has the tools and resources required to monitor software applications and computer system infrastructure to assure adequate performance and up-time. Applications can be monitored on a 24 x 7 basis. If a disaster occurs in our Computer Systems area or Statewide Network, customer applications can be running within hours.

*ITD's standard practice is to keep all data, applications, and systems backed up in a secure location to meet customer expectations.*

### Security

By investing in the infrastructure and training required to prevent malicious activity within our IT environment, ITD has dedicated staff to assure that customer data and applications are secure.

*We use source code control software to provide sound source code management.*

[Back to Estimate](#)

④ 3-6-13  
SB 2144



## Software Development Division Budget Estimate

To: Linda L. Gregoryk Secretary of State	Date Issued: 1/23/2013	Prior Est. Date:
	From: Della Thorsness	
	Prepared By: Dennis Owen	
Project Description: Estimate for Implementation of Senate Bill 2152		
WMS Work Order Number: 204817	WMS Service Request: 1433592	

ITD is recommending your agency budget **\$102,072** for this project. This amount includes an estimated **\$85,060** based on requirements we received during the interview process plus an additional **\$17,012** for scope changes. The additional **20%** is based on ITD's experience with scope changes in projects this size. Including this additional amount will give your agency the flexibility to cover typical scope changes, and remain within your budgeted amount. A more accurate estimate will be prepared once this project has started and the analysis phase is completed. The cost to complete the analysis phase is estimated to be approximately **\$10,664**.

### What you get for your money from ITD

ITD estimates this project to take **4 months**. This timeframe is a projected timeframe based on typical project staffing levels. The actual timeframe will be determined during the Planning Phase and will be based on the availability of customer and ITD resources at that time.

Should you decide to proceed with this project, please approve the cost estimate via the online Work Management System. Upon your approval, you will be prompted to submit a service request under the existing work order. All ITD services relating to this project will be billed to your department monthly at actual cost.

At the start of the project ITD will review any estimate over 90 days old. If necessary a revised estimate will be issued.

*'ITD - Software that works'*

**Project Description**

This project is to implement changes to the SOS File 2.0 application in response to SB 2152. Changes to shareholder requirements for Professional Corporations, Professional LLCs and Professional LLPs would allow for an individual shareholder to be a shareholder in more than one entity, if the entity was a different type of profession. In order to be a shareholder in multiple entities, the individual would have to be a licensed professional in multiple areas. An architect that is also a lawyer could be a shareholder in an professional architect firm and a professional law firm, but not 2 architect firms or 2 law firms. The SOS will supply a list of approved professions the system will use to validate the requirements.

**Assumptions**

The one-time costs (development) of the routines are based on the following assumptions:

- This cost estimate is based on a blended hourly rate of \$120 due to the unknown availability of ITD Software Development staff at the time this estimate was issued. If only ITD Software Development staff work on the project, billing will be at normal ITD Software Development rates.
- The work will be done in coordination with ongoing development work in the SOS File 2.0 project.
- The project will follow ITD’s software development quality assurance methodology and processes.
- ITD will create a new lookup list – Professions – that will be used to restrict the choices for profession practiced when entering data related to shareholders for these business entities.
- ITD will update business rules for the entities.
- ITD will update existing data as necessary.
- ITD will create a new Entity type based on the current Shareholder entity to be used for these “Professional” shareholders.
- No changes to security will be required. Existing security groups and page access rights will be maintained.
- These changes can be implemented before or after SOS File 2.0 Phase 1 has been deployed to production. This estimate assumes SOS File 2.0 Phase 1 will have been deployed to production first.
- Updates to the public dynamic views can be implemented before or after SOS File 2.0 Phase 2 has been deployed to production. This estimate assumes SOS File 2.0 Phase 2 will not have been deployed to production yet.
- Maintenance of the profession list will be handled by the Maintain Drop-Down Tables functionality already defined in Phase 1.
- Costs for Senate Bill 2152 were determined independently of the cost for Senate Bill 2144.

**Determining Costs**

The cost estimate includes the following processes:

Process	Description
Dynamic Views for Professional Corporation	Existing dynamic views for intake and review of creation, amendment and annual report forms for Professional Corporations will be modified to replace the existing text field entry for profession practiced with a defined lookup list of professions. This will include both back office and public dynamic views.
Dynamic Views for	Existing dynamic views for intake and review of creation, amendment and annual report

<b>Process</b>	<b>Description</b>
PLLC	forms for PLLC will be modified to replace the existing text field entry for profession practiced with a defined lookup list of professions. This will include both back office and public dynamic views.
Dynamic Views for PLLP	Existing dynamic views for intake and review of creation, amendment and annual report forms for PLLP will be modified to replace the existing text field entry for profession practiced with a defined lookup list of professions. This will include both back office and public dynamic views
Data Conversion	A data conversion script will be create to update any existing Professional Corporation, PLLC or PLLP records to change the profession practiced from a text field to the lookup field.
Business Rules	The validation rules for these business entities will be updated to include the new requirements: <ul style="list-style-type: none"> <li>• Allow a shareholder to be a shareholder for multiple entities as long as the shareholder has different professions in each entity.</li> <li>• Require the entity to certify each shareholder has a certification of license on file.</li> </ul>
Professional Shareholder Object	Create a new Professional Shareholder entity type similar to the Shareholder type to distinguish between the 2 types of shareholders.

### **One-Time Cost for System Development**

The cost for development is estimated to be **\$102,072**. This amount includes an estimated **\$85,060** based on requirements and an additional **\$17,012** for scope changes. The additional 20% is based on ITD's experience with scope changes in projects this size. Including this additional amount will give your agency the flexibility to cover typical scope changes, and remain within your budgeted amount. A more accurate estimate will be prepared once this project has started and the analysis phase is completed.

### **On-Going Monthly Costs**

There are no additional on-going monthly costs.



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### Quality

ITD develops applications within the processes of a structured systems development methodology. This includes functional testing and all applications are tested for usability and performance (load tested). ITD Meets State & Federal Audit Compliance. Our infrastructure and operation processes are reviewed by and meet state and federal audit requirements. ITD Supports State Enterprise Architecture Standards and our software and infrastructure meet North Dakota Enterprise Architecture standards.

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[Back to Estimate](#)

(5) SB 2144

3-6-13



## Software Development Division Budget Estimate

To: Linda L. Gregoryk Secretary of State	Date Issued: 2/4/2013	Prior Est. Date:
	From: Della Thorsness	
	Prepared By: Dennis Owen	
Project Description: Estimate for Implementation of Senate Bill 2144 and Senate Bill 2152 as a single project		
WMS Work Order Number: 204817	WMS Service Request: 1433592	

ITD is recommending your agency budget **\$127,848** for this project. This amount includes an estimated **\$106,540** based on requirements we received during the interview process plus an additional **\$21,308** for scope changes. The additional **20%** is based on ITD's experience with scope changes in projects this size. Including this additional amount will give your agency the flexibility to cover typical scope changes, and remain within your budgeted amount. A more accurate estimate will be prepared once this project has started and the analysis phase is completed. The cost to complete the analysis phase is estimated to be approximately **\$13,578**.

### What you get for your money from ITD

ITD estimates this project to take **5 months**. This timeframe is a projected timeframe based on typical project staffing levels. The actual timeframe will be determined during the Planning Phase and will be based on the availability of customer and ITD resources at that time.

Should you decide to proceed with this project, please approve the cost estimate via the online Work Management System. Upon your approval, you will be prompted to submit a service request under the existing work order. All ITD services relating to this project will be billed to your department monthly at actual cost.

At the start of the project ITD will review any estimate over 90 days old. If necessary a revised estimate will be issued.

*'ITD - Software that works'*

**ITD Request Number:** 1433592

**Project:** Senate Bill 2144 & 2152

### Project Description

This project involves the implementation of changes identified in SB 2144 and SB 2152. The work to be performed will be combined into one project. The requested changes are based on the knowledge of information available at the time of this estimate and are detailed below.

The first part of the project is to implement changes to the SOS File 2.0 application in response to SB 2144. Changes to the shareholder requirements for Professional Corporations, Professional LLCs and Professional LLPs would allow for an individual shareholder to be a “non-licensed” shareholder, where SOS File 2.0 requires all shareholders for these types of businesses to be licensed. This will also introduce minority shareholders that are non-licensed. The system must be able to designate a shareholder as non-licensed and/or minority owner. The minority owners shares owned will now be required to be captured on the annual reports filed by the businesses. In addition, the system will be required to capture additional fields on the annual reports indicating if there are minority owners, the organization supplied a certificate identifying the minority owners and the express law authorizing the minority owners.

This second part of the project is to implement changes to the SOS File 2.0 application in response to SB 2152. Changes to shareholder requirements for Professional Corporations, Professional LLCs and Professional LLPs would allow for an individual shareholder to be a shareholder in more than one entity, if the entity was a different type of profession. In order to be a shareholder in multiple entities, the individual would have to be a licensed professional in multiple areas. An architect that is also a lawyer could be a shareholder in an professional architect firm and a professional law firm, but not 2 architect firms or 2 law firms. The SOS will supply a list of approved professions the system will use to validate the requirements.

### Assumptions

The one-time costs (development) of the routines are based on the following assumptions:

- This cost estimate is based on a blended hourly rate of \$120 due to the unknown availability of ITD Software Development staff at the time this estimate was issued. If only ITD Software Development staff work on the project, billing will be at normal ITD Software Development rates.
- The work will be done in coordination with ongoing development work in the SOS File 2.0 project.
- The project will be to perform the necessary changes as one project for both Senate Bills.
- The project will follow ITD’s software development quality assurance methodology and processes.
- ITD will create a new lookup list – Professions – that will be used to restrict the choices for profession practiced when entering data related to shareholders for these business entities.
- ITD will create a new Entity type based on the current Shareholder entity to be used for these “Non-Licensed” shareholders and “Minority” shareholders.
- ITD will create a new Entity type based on the current Shareholder entity to be used for these “Professional” shareholders.
- Maintenance of the profession list will be handled by the Maintain Drop-Down Tables functionality already defined in Phase 1.
- ITD will update business rules for the entities.
- No changes to security will be required. Existing security groups and page access rights will be maintained.

- These changes can be implemented before or after SOS File 2.0 Phase 1 has been deployed to production. This estimate assumes SOS File 2.0 Phase 1 will have been deployed to production first.
- Updates to the public dynamic views can be implemented before or after SOS File 2.0 Phase 2 has been deployed to production. This estimate assumes SOS File 2.0 Phase 2 will not have been deployed to production yet.

## Determining Costs

The cost estimate includes the following processes:

Process	Description
Dynamic Views for Professional Corporation	Existing dynamic views for intake and review of creation, amendment and annual report forms for Professional Corporations will be modified to replace the existing text field entry for profession practiced with a defined lookup list of professions. This will include both back office and public dynamic views. Views would also have to be modified to allow for the selection of the type of shareholder.
Dynamic Views for PLLC	Existing dynamic views for intake and review of creation, amendment and annual report forms for PLLC will be modified to replace the existing text field entry for profession practiced with a defined lookup list of professions. This will include both back office and public dynamic views. Views would also have to be modified to allow for the selection of the type of shareholder.
Dynamic Views for PLLP	Existing dynamic views for intake and review of creation, amendment and annual report forms for PLLP will be modified to replace the existing text field entry for profession practiced with a defined lookup list of professions. This will include both back office and public dynamic views. Views would also have to be modified to allow for the selection of the type of shareholder.
Business Rules	The validation rules for these business entities will be updated to include the new requirements: <ul style="list-style-type: none"> <li>• Allow a non-licensed shareholder, but require certification they are exempt.</li> <li>• Allow minority shareholders, but require express law authorizing</li> <li>• If minority shareholder has stock, the stock must be listed on the annual report.</li> <li>• Allow a shareholder to be a shareholder for multiple entities as long as the shareholder has different professions in each entity.</li> <li>• Require the entity to certify each shareholder has a certification of license on file.</li> </ul>
Create new Non-Licensed Shareholder object	Create a new Non-Licensed Shareholder entity type similar to the Shareholder type to distinguish between the 4 types of shareholders.
Create new Minority Shareholder object	Create a new Minority Shareholder entity type similar to the Shareholder type to distinguish between the 4 types of shareholders.
Professional Shareholder Object	Create a new Professional Shareholder entity type similar to the Shareholder type to distinguish between the 4 types of shareholders.
Fillable PDFs	The Annual Report fillable PDFs will be updated to include the new shareholder requirements.
Data Conversion	A data conversion script will be create to update any existing Professional Corporation, PLLC or PLLP records to change the profession practiced from a text field to the lookup field.

### One-Time Cost for System Development

The cost for development is estimated to be **\$127,848**. This amount includes an estimated **\$106,540** based on requirements and an additional **\$21,308** for scope changes. The additional **20%** is based on ITD's experience with scope changes in projects this size. Including this additional amount will give your agency the flexibility to cover typical scope changes, and remain within your budgeted amount. A more accurate estimate will be prepared once this project has started and the analysis phase is completed.

### On-Going Monthly Costs

There are no additional on-going monthly costs.



## Providing Customer-Centric Services

The Information Technology Department (ITD) provides technology leadership for state government and the people of North Dakota. ITD exists solely to help State agencies discover, assess, and implement information technologies. ITD's Software Development Division develops, implements, operates and supports software solutions that meet our customer's need as provided in this cost estimate. ITD also provides server computing, local and wide area network support, voice and data technologies, video conferencing, and other emerging technologies. The following overview describes the services ITD considers valuable to our customers. We hope you'll find this helpful in assessing the value of our services.

### State Government IT Partner

ITD knows the business of North Dakota State government and understands inter-agency relationships. We've been serving State agencies since 1968. Upon request, we'll provide references offering honest referrals about our services.

*Our customer relationships are long-term partnerships.*

### Affordable Cutting Edge Technology

ITD helps agencies discover best fit solutions for their agency at affordable rates. ITD charges only to recover costs – we retain no profit with our low rates. Our staff is trained in many new and existing technologies, so we can readily assess customer requirements and provide solutions that best fit an agency's needs. ITD implements and supports IT solutions on modern hardware in modern facilities, using operating systems and software no older than current version minus 1.

*Whenever it's necessary to extend our capabilities, we augment our current staff with outside vendors to meet demands.*

### Quality

ITD develops applications within the processes of a structured systems development methodology. This includes functional testing and all applications are tested for usability and performance (load tested). ITD Meets State & Federal Audit Compliance. Our infrastructure and operation processes are reviewed by and meet state and federal audit requirements. ITD Supports State Enterprise Architecture Standards and our software and infrastructure meet North Dakota Enterprise Architecture standards.

*We build compliance into our service offerings which relieves the customer of State standard compliance concerns.*

### Dedicated & Experienced Staff

ITD employees submit to an FBI background check and are bound by the same confidentiality requirements as agency staff. ITD's staff is cross-trained to provide continuous backup. We provide dedicated architects to design effective, top-notch infrastructure or security system hosting, software development, and telecommunications. Our staff applies formal project management practices to all projects.

*ITD strives to retain innovative, talented, and dedicated staff. ITD's staff is tenured with an average of 13 years of service.*

### Support Structure

ITD offers several levels of customer support, including 24 x 7 support for applications and infrastructure.

*Customer Service Surveys indicate 99% of customers are very satisfied with our support.*

### Flexible Infrastructure

ITD's infrastructure and support structure are designed to meet varied needs. ITD designs and builds applications that can operate in a redundant environment. If one server fails, another server picks up the workload with little or no down time.

*We can design and host any size application.*

### Disaster Recovery

ITD has the tools and resources required to monitor software applications and computer system infrastructure to assure adequate performance and up-time. Applications can be monitored on a 24 x 7 basis. If a disaster occurs in our Computer Systems area or Statewide Network, customer applications can be running within hours.

*ITD's standard practice is to keep all data, applications, and systems backed up in a secure location to meet customer expectations.*

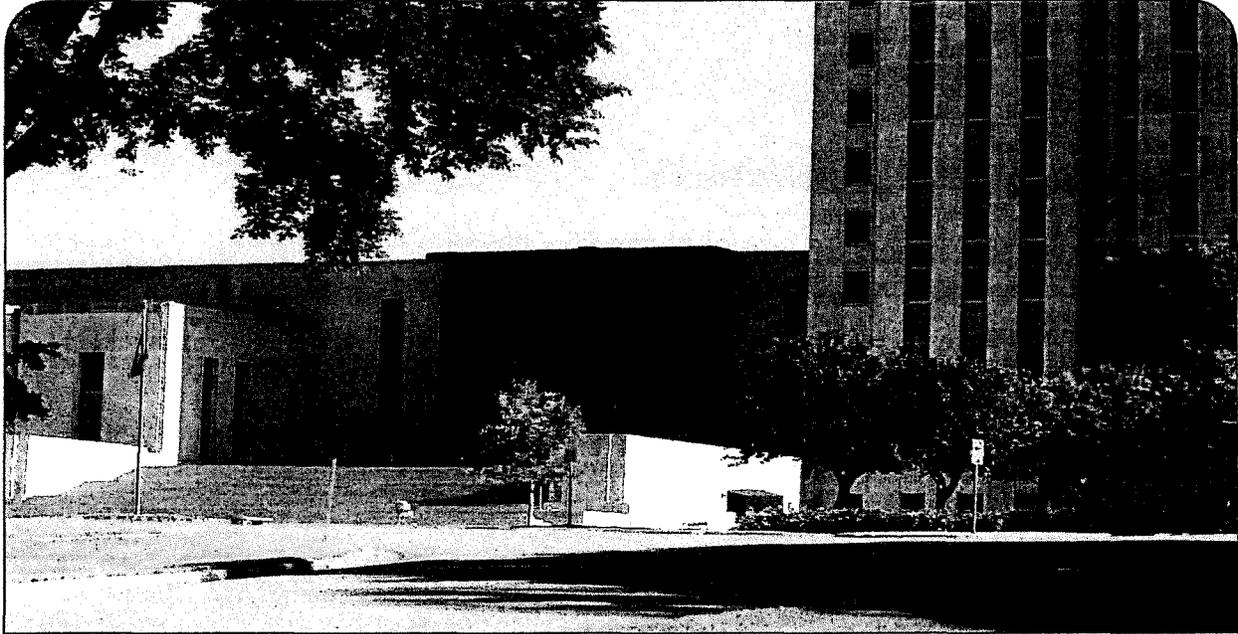
### Security

By investing in the infrastructure and training required to prevent malicious activity within our IT environment, ITD has dedicated staff to assure that customer data and applications are secure.

*We use source code control software to provide sound source code management.*

[Back to Estimate](#)

① 3-13-2013 pm.  
2144  
2152



# **Presentation to the House Industry, Business & Labor Committee**

## **Explanation of Fiscal Notes for SB 2144 & SB 2152**

**Lyle Ripplinger  
Senior Programmer Analyst  
Information Technology Department**

**March 13, 2013  
Peace Garden Room**

### **Assumptions for SB 2144 and SB 2152:**

- This cost estimate is based on a blended hourly rate of \$120 due to the unknown availability of ITD Software Development staff at the time this estimate was issued.
- If only ITD Software Development staff work on the project, billing will be at normal ITD Software Development rates. The ITD rates for 2013-2015 range from \$83-\$94.
- When a resource is needed from the vendor pool, the individual may not be familiar with Secretary of State's business nor ITD's Software Development practices and system documentation. Extra time is needed to educate the contractor and answer questions.
- The effort required to perform these changes will occur after the first phase of the Secretary of State's File 2.0 project is complete and before the second phase is complete. Therefore, multiple versions of documents, code, and database information will need to be maintained.

### **Secretary of State's File 2.0 Application Metrics (all approximates)**

- 90 High Level Use Case Diagrams
- 5,400 Requirements in the Requirements Traceability Matrix
- 860 User Interface Pages
- 450 Business Entity Validation Rules
- 2,100 Code Objects
- 120 Tables in the Database
- 100 Stored Procedures and Views in the Database

## Estimate for Implementation of Senate Bill 2152

This project is to implement changes to the SOS File 2.0 application in response to SB 2152. Changes to shareholder requirements for Professional Corporations, Professional LLCs and Professional LLPs would allow for an individual shareholder to be a shareholder in more than one entity, if the entity was a different type of profession. In order to be a shareholder in multiple entities, the individual would have to be a licensed professional in multiple areas. An architect that is also a lawyer could be a shareholder in an professional architect firm and a professional law firm, but not 2 architect firms or 2 law firms. The SOS will supply a list of approved professions the system will use to validate the requirements.

### Total Cost Estimate

- \$102,072

### Analysis

- Estimated Time and Cost
  - 49 hours @ \$120 plus 10 hours @ \$100 = \$6,880
- Description of work for this phase
  - Meetings with the agency to achieve a full understanding of the necessary changes
  - Time allocated to gather and document the requirements of the project
  - Identify the impact of this bill on the current system
  - Create new or update system artifacts including Use Case diagrams, Conceptual Data Model Diagrams, Requirement Traceability Matrix, Analysis Package and Business Validation Rules
  - Conduct customer analysis walk through of artifacts

### Design

- Estimated Time and Cost
  - 170 hours @ \$120 = \$20,400
- Description of work for this phase
  - An iterative process to review with the agency the proposed changes and perform modifications until the requirements of the project are achieved
  - Create new or update approximately 9 prototype Graphical User Interface pages
  - Ensure compliance with the Americans with Disabilities Act and Enterprise Architecture Standards
  - Confirm browser compatibility for recent releases of Internet Explorer, Firefox, Chrome and Safari
  - Update the Physical Data Model Diagram to contain the new database information
  - Conduct customer design walk through

## Development

- Estimated Time and Cost
  - 257 hours @ \$120 = \$30,840
- Description of work for this phase
  - Change the identified code to align with the Requirements Traceability Matrix and design documents
  - Create separate versions of the code to align with each phase of the Secretary of States File 2.0 project and to accommodate the changes identified in this estimate
  - Synchronize the multiple versions of code to ensure code integrity
  - Create new or update approximately 25-30 different objects of code such as data access functions, view model, controller, and unit of work functions
  - Perform Unit Testing on the new changes

## Testing

- Estimated Time and Cost
  - 157 hours @ \$120 = \$18,840
- Description of work for this phase
  - Create new or update current testing plans
  - Execute test plans, track and fix defects that are identified
  - Verify the items in the Requirements Traceability Matrix have been met
  - Perform validation on the system to ensure compliancy with American with Disabilities Act
  - Migrate the multiple versions of code for each phase while testing across multiple testing environments
  - Regression test existing processes within the system to verify that it was not compromised as a result of these changes
  - Conduct browser compatibility testing on Internet Explorer, Firefox, Chrome and Safari
  - Execute performance testing under stringent conditions with a large volume of simulated users
  - Coordinate and support user acceptance testing

## Database

- Estimated Time and Cost
  - 15 hours @ \$100 = \$1,500
- Description of work for this phase
  - Perform conversion and cleansing of existing data to provide a common and uniformed set of values for the professions list
  - Time spent performing changes to the underlying database that contains the data.
  - Performance tuning of structured query language for suitable response times

### **Implementation**

- Estimated Time and Cost
  - 15 hours @ \$120 = \$1,800
- Description of work for this phase
  - Create new or update implementation plan including rollback procedures
  - Time to make the final product available to the agency
  - Synchronization of documentation, multiple versions of code and implement database changes

### **Project Management**

- Estimated Time and Cost
  - 48 hours @ \$100 = \$4,800
- Description of work for this phase
  - Time managing the overall project, working with the agency on change requests, minimizing potential risk, resolving issues, and identifying scope changes

### **Scope**

- Estimated Cost
  - 20% of \$85,060 = \$17,012
- Description of work for this phase
  - The estimate recommended \$85,060 based on partial analysis of core requirements received during the interview process. The additional 20% is to cover scope and to address unanalyzed requirements.
  - An after analysis estimate will be prepared once this project has started and the analysis phase is completed.

## Estimate for Implementation of Senate Bill 2144

This project is to implement changes to the SOS File 2.0 application in response to SB 2144. Changes to the shareholder requirements for Professional Corporations, Professional LLCs and Professional LLPs would allow for an individual shareholder to be a “non-licensed” shareholder, where SOS File 2.0 requires all shareholders for these types of businesses to be licensed. This project will also introduce minority shareholders that are non-licensed. The system must be able to designate a shareholder as non-licensed and/or minority owner. The minority owners shares owned will now be required to be captured on the annual reports filed by the businesses. In addition, the system will be required to capture additional fields on the annual reports indicating if there are minority owners, the organization supplied a certificate identifying the minority owners and the express law authorizing the minority owners.

### Total Cost Estimate

- \$106,152

### Analysis

- Estimated Time and Cost
  - 62 hours @ \$120 = \$7,440
- Description of work for this phase
  - Meetings with the agency to achieve a full understanding of the necessary changes
  - Time allocated to gather and document the requirements of the project
  - Identify the impact of this bill on the current system
  - Create new or update system artifacts including Use Case diagrams, Conceptual Data Model Diagrams, Requirement Traceability Matrix, Analysis Package and Business Validation Rules
  - Conduct customer analysis walk through of artifacts

### Design

- Estimated Time and Cost
  - 167 hours @ \$120 = \$20,040
- Description of work for this phase
  - An iterative process to review with the agency the proposed changes and perform modifications until the requirements of the project are achieved
  - Create new or update approximately 9 prototype Graphical User Interface pages
  - Ensure compliance with the Americans with Disabilities Act and Enterprise Architecture Standards
  - Confirm browser compatibility for recent releases of Internet Explorer, Firefox, Chrome and Safari
  - Update the Physical Data Model Diagram to contain the new database information

- Conduct customer design walk through

### **Development**

- Estimated Time and Cost
  - 276 hours @ \$120 = \$33,120
- Description of work for this phase
  - Change the identified code to align with the Requirements Traceability Matrix and design documents
  - Create separate versions of the code to align with each phase of the Secretary of States File 2.0 project and to accommodate the changes identified in this estimate
  - Synchronize the multiple versions of code to ensure code integrity
  - Create new or update approximately 25-30 different objects of code such as data access functions, view model, controller, and unit of work functions
  - Perform Unit Testing on the new changes

### **Testing**

- Estimated Time and Cost
  - 162 hours @ \$120 = \$19,440
- Description of work for this phase
  - Create new or update current testing plans
  - Execute test plans, track and fix defects that are identified
  - Verify the items in the Requirements Traceability Matrix have been met
  - Perform validation on the system to ensure compliancy with American with Disabilities Act
  - Migrate the multiple versions of code for each phase while testing across multiple testing environments
  - Regression test existing processes within the system to verify that it was not compromised as a result of these changes
  - Conduct browser compatibility testing on Internet Explorer, Firefox, Chrome and Safari
  - Execute performance testing under stringent conditions with a large volume of simulated users
  - Coordinate and support user acceptance testing

### **Database**

- Estimated Time and Cost
  - 16 hours @ \$100 = \$1,600
- Description of work for this phase
  - Time spent performing changes to the underlying database that contains the data.
  - Performance tuning of structured query language for suitable response times

## **Implementation**

- Estimated Time and Cost
  - 16 hours @ \$120 = \$1,920
- Description of work for this phase
  - Create new or update implementation plan including rollback procedures
  - Time to make the final product available to the agency
  - Synchronization of documentation, multiple versions of code and implement database changes

## **Project Management**

- Estimated Time and Cost
  - 49 hours @ \$100 = \$4,900
- Description of work for this phase
  - Time managing the overall project, working with the agency on change requests, minimizing potential risk, resolving issues, and identifying scope changes

## **Scope**

- Estimated Cost
  - 20% of \$88,460 = \$17,692
- Description of work for this phase
  - The estimate recommended \$88,460 based on partial analysis of core requirements received during the interview process. The additional 20% is to cover scope and to address unanalyzed requirements.
  - An after analysis estimate will be prepared once this project has started and the analysis phase is completed.

## **Estimate for Implementation of Both Senate Bill 2144 and 2152**

This project involves the implementation of changes identified in SB 2144 and SB 2152. The work to be performed will be combined into one project. The requested changes are based on the knowledge of information available at the time of this estimate and are detailed below.

The first part of the project is to implement changes to the SOS File 2.0 application in response to SB 2144. Changes to the shareholder requirements for Professional Corporations, Professional LLCs and Professional LLPs would allow for an individual shareholder to be a “non-licensed” shareholder, where SOS File 2.0 requires all shareholders for these types of businesses to be licensed. This will also introduce minority shareholders that are non-licensed. The system must be able to designate a shareholder as non-licensed and/or minority owner. The minority owners shares owned will now be required to be captured on the annual reports filed by the businesses. In addition, the system will be required to capture additional fields on the annual reports indicating if there are minority owners, the organization supplied a certificate identifying the minority owners and the express law authorizing the minority owners.

This second part of the project is to implement changes to the SOS File 2.0 application in response to SB 2152. Changes to shareholder requirements for Professional Corporations, Professional LLCs and Professional LLPs would allow for an individual shareholder to be a shareholder in more than one entity, if the entity was a different type of profession. In order to be a shareholder in multiple entities, the individual would have to be a licensed professional in multiple areas. An architect that is also a lawyer could be a shareholder in an professional architect firm and a professional law firm, but not 2 architect firms or 2 law firms. The SOS will supply a list of approved professions the system will use to validate the requirements.

### **Total Cost Estimate**

- \$127,848

### **Analysis**

- Estimated Time and Cost
  - 73 hours @ 120 = \$8760
- Description of work for this phase
  - Meetings with the agency to achieve a full understanding of the necessary changes
  - Time allocated to gather and document the requirements of the project
  - Identify the impact of this bill on the current system
  - Create new or update system artifacts including Use Case diagrams, Conceptual Data Model Diagrams, Requirement Traceability Matrix, Analysis Package and Business Validation Rules
  - Conduct customer analysis walk through of artifacts

## Design

- Estimated Time and Cost
  - 203 hours @ \$120 = \$24,360
- Description of work for this phase
  - An iterative process to review with the agency the proposed changes and perform modifications until the requirements of the project are achieved.
  - Create new or update approximately 9 prototype Graphical User Interface pages
  - Ensure compliance with the Americans with Disabilities Act and Enterprise Architecture Standards
  - Confirm browser compatibility for recent releases of Internet Explorer, Firefox, Chrome and Safari
  - Update the Physical Data Model Diagram to contain the new database information
  - Conduct customer design walk through

## Development

- Estimated Time and Cost
  - 342 hours @ \$120 = \$41,040
- Description of work for this phase
  - Change the identified code to align with the Requirements Traceability Matrix and design documents
  - Create separate versions of the code to align with each phase of the Secretary of States File 2.0 project and to accommodate the changes identified in this estimate.
  - Synchronize the multiple versions of code to ensure code integrity
  - Create new or update approximately 25-30 different objects of code such as data access functions, view model, controller, and unit of work functions.
  - Perform Unit Testing on the new changes

## Testing

- Estimated Time and Cost
  - 184 hours @ \$120 = \$22,080
- Description of work for this phase
  - Create new or update current testing plans.
  - Execute test plans, track and fix defects that are identified
  - Verify the items in the Requirements Traceability Matrix have been met
  - Perform validation on the system to ensure compliancy with American with Disabilities Act
  - Migrate the multiple versions of code for each phase while testing across multiple testing environments
  - Regression test existing processes within the system to verify that it was not compromised as a result of these changes

- Conduct browser compatibility testing on Internet Explorer, Firefox, Chrome and Safari
- Execute performance testing under stringent conditions with a large volume of simulated users
- Coordinate and support user acceptance testing

### **Database**

- Estimated Time and Cost
  - 20 hours @ \$100 = \$2,000
- Description of work for this phase
  - Perform conversion and cleansing of existing data to provide a common and uniformed set of values for the professions list
  - Time spent performing changes to the underlying database that contains the data
  - Performance tuning of structured query language for suitable response times

### **Implementation**

- Estimated Time and Cost
  - 20 hours @ \$120 = \$2,400
- Description of work for this phase
  - Create new or update implementation plan including rollback procedures
  - Time to make the final product available to the agency
  - Synchronization of documentation, multiple versions of code and implement database changes

### **Project Management**

- Estimated Time and Cost
  - 59 hours @ \$100 = \$5,900
- Description of work for this phase
  - Time managing the overall project, working with the agency on change requests, minimizing potential risk, resolving issues, and identifying scope changes

### **Scope**

- Estimated Cost
  - 20% of \$106,540 = \$21,308
- Description of work for this phase
  - The estimate recommended \$106,540 based on partial analysis of core requirements received during the interview process. The additional 20% is to cover scope and to address unanalyzed requirements.
  - An after analysis estimate will be prepared once this project has started and the analysis phase is completed.

## INFORMATION TECHNOLOGY DEPARTMENT BIENNIAL APPROPRIATIONS

The schedule below provides information on legislative appropriations for the Information Technology Department for the 2001-03 biennium through the 2011-13 biennium and includes the 2013-15 executive recommendation:

	2001-03	2003-05	2005-07	2007-09	2009-11	2011-13	2013-15 Executive Budget
Salaries and wages	\$25,576,531	\$25,715,694	\$28,074,299	\$37,921,324	\$43,829,943	\$45,603,386	\$54,461,316
Operating expenses	35,661,772	33,120,860	42,047,702	57,062,912	55,208,550	53,152,191	64,834,643
Capital assets	5,080,000	5,323,000	10,361,163	12,145,250	11,970,746	15,035,666	12,500,600
Center for Innovation and Instruction	800,334						
Center for Distance Education/Division of Independent Study		5,625,480	6,006,439	6,473,565	6,347,917	6,649,238	6,072,187
Educational Technology Council		793,818	885,754	1,136,574	974,986	1,075,403	1,814,609
EduTech	1,200,000	2,540,348	2,652,348	2,722,348	7,753,602	7,926,447	8,279,530
SENDIT network	1,673,669						
Wide area network	9,968,905	7,436,223	7,542,211	4,066,926	5,976,970	5,206,992	4,928,177
Enterprise resource planning system	7,500,000	20,000,000					
Geographic information system	750,000	678,343	686,437	798,313	789,678	1,112,065	1,460,294
Prairie Public Broadcasting	1,407,513	1,337,138					
Criminal justice information sharing		4,741,200	2,525,090	2,352,448	3,609,239	2,981,394	3,869,361
MMIS project (contingent appropriation)			8,125,784				
Statewide longitudinal data system				228,116	4,730,208	3,626,867	1,870,754
Health information technology					88,350,000	13,959,238	4,785,991
Federal stimulus funds						8,000,000	6,800,000
Eligibility system replacement project						19,346,077	
<b>Total</b>	<b>\$89,618,724</b>	<b>\$107,312,104</b>	<b>\$108,907,227</b>	<b>\$124,907,776</b>	<b>\$229,541,839</b>	<b>\$183,674,964</b>	<b>\$171,677,462</b>
General fund	\$18,779,844	\$8,194,803	\$9,972,837	\$11,659,411	\$19,170,785	\$19,252,204	\$21,365,764
Federal and special funds	70,838,880	99,117,301	98,934,390	113,248,365	210,371,054	164,422,760	150,311,698
<b>Total</b>	<b>\$89,618,724</b>	<b>\$107,312,104</b>	<b>\$108,907,227</b>	<b>\$124,907,776</b>	<b>\$229,541,839</b>	<b>\$183,674,964</b>	<b>\$171,677,462</b>
FTE	244.7	248.2	265.2	306.2	328.2	336.3	340.3

PROPOSED AMENDMENTS TO SENATE BILL NO. 2144

That the House recede from its amendments as printed on pages 1206 and 1207 of the Senate Journal and pages 1266 and 1267 of the House Journal and that Senate Bill No. 2144 be amended as follows:

Page 8, line 16, after "has" insert "a"

Page 8, line 16, replace "owners" with "owner"

Page 8, after line 24, insert:

"5. In order to regulate organizations that have minority ownership, the secretary of state shall collect one thousand dollars for articles of incorporation for a corporation, articles of organization for a limited liability company, or articles of amendment related to an organization that has a minority owner. This fee is in addition to the fees provided for these filings under section 10-19.1-147 or 10-32-150. Fees collected by the secretary of state under this subsection must be deposited in the secretary of state's general services operating fund."

Renumber accordingly