

## NORTH DAKOTA LEGISLATIVE MANAGEMENT

## Minutes of the

**BUDGET SECTION**

Wednesday, March 21, 2018  
Senate Chamber, State Capitol  
Bismarck, North Dakota

Representative Larry Bellew, Chairman, called the meeting to order at 10:30 a.m.

**Members present:** Representatives Larry Bellew, Tracy Boe, Randy Boehning, Roger Brabandt, Mike Brandenburg, Jeff Delzer, Kathy Hogan, Richard G. Holman, Tom Kading, Keith Kempenich, Gary Kreidt, Bob Martinson, Lisa Meier, Corey Mock, David Monson, Mike Nathe, Chet Pollert, Mark Sanford, Mike Schatz, Jim Schmidt, Roscoe Streyle; Senators Dick Dever, Robert Erbele, John Grabinger, Joan Heckaman, Ray Holmberg, Jerry Klein, Gary A. Lee, Tim Mathern, Dave Oehlke, Larry J. Robinson, Ronald Sorvaag, Terry M. Wanzek, Rich Wardner

**Members absent:** Representatives Al Carlson, Lois Delmore, Jon O. Nelson, Don Vigesaa; Senators Bill L. Bowman, David Hogue, Ralph Kilzer, Karen K. Krebsbach

**Others present:** See [Appendix A](#)

**It was moved by Senator Robinson, seconded by Representative Mock, and carried on a voice vote that the minutes of the December 6, 2017, meeting be approved as distributed.**

**ECONOMIC INDICATORS**

Mr. Joe Morrissette, Director, Office of Management and Budget, presented information ([Appendix B](#)) on key economic indicators, including consumer prices, money markets, personal income, commodity prices, unemployment, employment growth, personal income, energy prices and production, and mortgage rates. He said national personal income increased 1.4 percent during 2017 and is projected to increase 2.0 percent in 2018, 2.2 percent in 2019, 1.6 percent in 2020, and 1.7 percent in 2021. He said North Dakota's nonseasonally adjusted unemployment rate in January 2018 was 3.4 percent while the national average unemployment rate increased from 4.1 percent in September 2017 to 4.5 percent in January 2018. He said the current oil rig count is 59 rigs, 13 rigs more than the number operating in North Dakota 1 year ago. He said the actual average price per barrel of oil was \$59.67 in January 2018 while averaging 1,175,638 barrels produced per day. He said the average 30-year fixed rate mortgage rate available locally is 4.5 percent compared to 3.7 percent in December 2017.

**STATUS OF THE 2017-19 BIENNIUM GENERAL FUND**

Mr. Morrissette presented a report ([Appendix C](#)) on the status of the general fund for the 2017-19 biennium through February 2018.

Unobligated general fund balance - July 1, 2017		\$65,000,000
Balance obligated for authorized carryover from the 2015-17 biennium		99,271,093
Total beginning general fund balance - July 1, 2017		\$164,271,093
Add		
General fund collections through February 2018	\$1,619,196,647	
Forecast general fund revenue for the remainder of the 2017-19 biennium	2,738,522,051	
Total revenues		4,357,718,698
Total available		\$4,521,989,791
Less		
Legislative appropriations - One-time	(\$14,638,226)	
Legislative appropriations - Ongoing	(4,295,624,415)	
Authorized carryover from the 2015-17 biennium	(99,271,093)	
Total appropriations		(4,409,533,734)
Estimated ending general fund balance - June 30, 2017		\$112,456,057 <sup>1</sup>

<sup>1</sup>Pursuant to North Dakota Century Code Chapter 54-27.2, any end-of-biennium balance in excess of \$65 million must be transferred to the budget stabilization fund, up to a maximum of 15 percent of general fund appropriations.

Mr. Morrisette said as of February 2018, the balance in the budget stabilization fund was \$38.3 million, the legacy fund balance was \$5.5 billion, the foundation aid stabilization fund balance was \$438.7 million, and the tax relief fund balance was \$74.8 million.

Mr. Morrisette presented information ([Appendix D](#)) on actual and forecasted 2017-19 biennium general fund revenue compared to the 2017 legislative forecast. He said revenue collected during the biennium through February 2018 was \$27.9 million more than forecasted. He said individual income tax collections are \$13.7 million, or 6.7 percent, more than forecasted. He said corporate income tax collections are \$12.8 million, or 70.6 percent, more than forecasted. He said a portion of the increase in income tax collections is due to additional estimated tax payments made in anticipation of federal tax change. He said he anticipates a portion of income tax collections to be refunded when these taxpayers file their tax returns.

In response to a question from Representative Mock, Mr. Morrisette said mineral leasing fee collections are often difficult to forecast, due to federal taxes and the timing of when leases are entered, which has resulted in actual mineral leasing fee collections to be 10.1 percent below forecast.

In response to a question from Senator Mathern, Mr. Morrisette said the decrease in 2017-19 biennium revenues compared to the 2015-17 biennium is likely due more to economic activity rather than policy changes.

### IRREGULARITIES IN THE FISCAL PRACTICES OF THE STATE

Pursuant to Section 54-14-03.1, Mr. Morrisette presented information ([Appendix E](#)) on irregularities in the fiscal practices of the state. He presented the following fiscal irregularities for the period November 2017 through January 2018:

Fiscal Irregularity	Agency	Description	Amount
Retroactive pay	Retirement and Investment Office	Additional duties performed by six individuals due to a position vacancy	\$6,575
Severance pay	State Department of Health	Compensation awarded based on an Office of Administrative Hearings decision	\$6,050
Severance pay	Department of Trust Lands	Settlement agreement for one individual	\$38,858
Severance pay	Department of Human Services	Settlement agreement for one individual	\$8,696
Severance pay	Office of Management and Budget	Voluntary Separation Incentive Program	\$52,280
Severance pay	Department of Financial Institutions	Voluntary Separation Incentive Program	\$27,056
Severance pay	Department of Human Services	Voluntary Separation Incentive Program	\$46,212

### STATE AGENCY APPLICATIONS FOR FEDERAL GRANTS

Mr. Morrisette presented information ([Appendix F](#)) on state agencies that applied for federal grants estimated to be \$25,000 or more pursuant to Section 54-27-27. He said for the period December 2017 through February 2018, the following agencies have applied for a federal grant estimated to be \$25,000 or more:

Agency	Time Period of Grant	Amount
Department of Public Instruction	October 2018 through September 2019	\$1,000,000
State Historical Society	May 2018 through April 2019	\$50,000
Department of Transportation	January 2018 through June 2021	\$376,534
Department of Transportation	February 2018 through July 2020	\$241,687

### STATE BOARD OF HIGHER EDUCATION - PROJECT VARIANCE REPORTS

Mr. Morrisette presented State Board of Higher Education project variance reports ([Appendix G](#)) pursuant to Section 15-10-47. He said the project variance reports were as of December 31, 2017.

### EXECUTIVE BUDGET DEVELOPMENT

Mr. Morrisette presented information ([Appendix H](#)) on the development of the 2019-21 executive budget. He said he does not anticipate any budget system changes or changes to budget data for the 2019-21 biennium. He said the anticipated activities and timeline are as follows:

Activities for Development of Executive Budget	Time Period of Budget
Budget request guidelines for state agencies	April through May 2018
Preliminary revenue forecast	July through August 2018
Budget requests due from state agencies	July 15, 2018
Budget meetings with state agencies	August through mid-October 2018
Executive revenue forecast is prepared	November 2018
Budget recommendation presented to the Legislative Assembly	Early December 2018

In response to a question from Representative Delzer, Mr. Morrisette said reports from the Internet Budget Analysis and Reporting System will be prepared and ready to view in late December 2018 after the executive budget is presented to the Legislative Assembly at the organizational session.

### **AGENCY REQUESTS APPROVED BY THE EMERGENCY COMMISSION - MARCH 19, 2018, MEETING**

Chairman Bellew directed the Budget Section to consider the agency request ([Appendix I](#)), which has been authorized by the Emergency Commission and forwarded to the Budget Section pursuant to Chapter 54-16. Mr. Morrisette provided information regarding the following request that was authorized by the Emergency Commission and requires consideration by the Budget Section:

- **Office of the Adjutant General (Request #1913)** - Request authorization to spend \$1,548,633 from the state disaster relief fund pursuant to Section 37-17.1-27 for reimbursing political subdivisions for the state share of disaster-related costs that have been incurred and submitted to the Adjutant General for payment relating to previous state disasters.

**It was moved by Senator Holmberg, seconded by Senator Robinson, and carried on a roll call vote that the Budget Section approve Request #1913, which was approved by the Emergency Commission.** Representatives Bellew, Boe, Boehning, Brabandt, Brandenburg, Delzer, Hogan, Holman, Kading, Kreidt, Martinson, Meier, Mock, Monson, Nathe, Pollert, Sanford, Schatz, and Schmidt and Senators Dever, Erbele, Grabinger, Heckaman, Holmberg, Klein, Lee, Mathern, Oehlke, Robinson, Sorvaag, Wanzek, and Wardner voted "aye." Representative Streyle voted "nay."

### **STATE BOARD OF HIGHER EDUCATION - CAMPUS IMPROVEMENTS**

Chairman Bellew directed the Budget Section to consider agency requests, which have been approved by the State Board of Higher Education and forwarded to the Budget Section pursuant to Section 15-10-12.1. The requests relate to campus improvements at Minot State University and Valley City State University.

#### **Minot State University - Dome Seat Replacement Project**

Dr. Steven Shirley, President, Minot State University, presented information ([Appendix J](#)) regarding a request to renovate the seating of the Minot State University Dome. He said the dome was built in 1981 and the original seats need to be replaced. He said the cost to replace the 10,000 seats is \$2.2 million, of which \$1 million was provided in August 2017 from the City of Minot from the city's facilities enhancement fund. He said the remaining \$1.2 million will be provided by donations to the Minot State University Development Foundation, of which approximately one-third is anticipated to be provided by individuals and two-thirds by business sponsors. He said construction will begin in May 2019 and will be completed in the summer of 2019 to be available for use during the 2020 academic year.

**It was moved by Senator Robinson, seconded by Senator Wardner, and carried on a roll call vote that the Budget Section approve the dome seat replacement project at Minot State University, which was approved by the State Board of Higher Education.** Representatives Bellew, Boe, Boehning, Brabandt, Hogan, Holman, Kading, Kreidt, Martinson, Meier, Monson, Nathe, Pollert, Sanford, Schatz, Schmidt, and Streyle and Senators Dever, Erbele, Grabinger, Heckaman, Holmberg, Klein, Lee, Mathern, Oehlke, Robinson, Sorvaag, Wanzek, and Wardner voted "aye." Representative Brandenburg voted "nay."

#### **Valley City State University - Track Repair Project**

Mr. Wesley Wintch, Vice President for Business Affairs, Valley City State University, provided information ([Appendix K](#)) regarding a request to proceed with repairs to the university's outdoor track field. He said excess water and freezing conditions have damaged the track, causing the surface to be unsafe. He said the cost to repair the track is \$1.2 million, which will be provided from donations. He said the project will begin as soon as weather permits in 2018 and is scheduled to be completed prior to the start of the fall 2018 athletic season.

**It was moved by Senator Mathern, seconded by Senator Heckaman, and carried on a roll call vote that the Budget Section approve the track repair project at Valley City State University, which was approved by the State Board of Higher Education.** Representatives Bellew, Boe, Boehning, Brabandt, Brandenburg, Hogan, Holman, Kading, Kreidt, Martinson, Meier, Mock, Monson, Nathe, Pollert, Sanford, Schatz, Schmidt, and Streyle and Senators Dever, Erbele, Grabinger, Heckaman, Holmberg, Klein, Lee, Mathern, Oehlke, Robinson, Sorvaag, Wanzek, and Wardner voted "aye." No negative votes were cast.

## **INFORMATION TECHNOLOGY DEPARTMENT INITIATIVES - CLOUD COMPUTING AND SHARED SERVICES UNIFICATION**

Mr. Shawn Riley, Chief Information Officer, Information Technology Department, presented information ([Appendix L](#)) regarding information technology (IT) initiatives and changes, including those relating to shared services, functional alignments, and cloud computing; and current and future costs associated with each contract being entered, timeline for implementation, and any requests for legislative changes.

Mr. Riley said significant change is necessary in North Dakota IT to reduce costs, improve citizen experiences, improve people and process effectiveness, and align IT strategies. He said he conducted interviews of IT staff and reviewed documents to assess the operations of North Dakota IT. He said his assessment revealed opportunities for improvement, the need for long-term strategic goal changes, and a need to change strategy and operational processes to meet expected goals. He said the new IT strategies focus on alignment, efficiency, and delivery. He said IT shared services and unification relate to the alignment strategic focus while a transition to cloud computing relates to the efficiency and delivery strategic focuses.

### **Cloud Computing**

Mr. Riley said cloud computing is the delivery of computer services over the Internet. He said the Information Technology Department (ITD) is transitioning to cloud computing because cloud technology has been an IT standard for 15 years, many on-premise technologies are becoming obsolete, and many new systems are cloud-based. He said cloud technology offers security, operational, and cost advantages. He said cloud technology allows for increased data storage capabilities at lower costs than on-premise data centers, increased ability to deploy new IT systems, and allows for the delivery of data and computer power to any platform at any location. He said other benefits include better experience delivery for customers, better system up-times and backups, and additional deployment flexibility.

Mr. Riley said ITD's strategy includes making North Dakota IT "Cloud First". He said this strategy means new IT systems will be evaluated for deployment in the cloud as the first option and current IT systems will be evaluated for a transition to the cloud. He said there are strategies available to ITD to transition IT systems out of the cloud if necessary. He said IT systems will not be automatically placed in the cloud and all system transitions to the cloud must be made in collaboration with agency personnel responsible for the system and data.

Mr. Riley said ITD has not conducted any studies of the appropriateness of hosting state government systems in a cloud setting due to the maturity of cloud technology.

Mr. Riley said North Dakota currently has 76 applications hosted using cloud services, including the Amber Alert system, Blue Alert system, North Dakota Response, North Dakota health information network, Microsoft Office 365, JobsND.com, and email services for ITD, the Governor's office, and the State Auditor's office.

Mr. Riley said IT security is the top ITD priority when transitioning to the cloud. He said the cloud does not automatically make North Dakota IT more secure, but it positions the state to increase overall security at a lower cost than currently available using on-premise data centers. He said cloud services provided by Microsoft and Amazon comply with open record laws and that records are still managed by the state. He said data in the cloud is encrypted and there are network boundary protections to secure the data. He said all systems are audited before and after cloud migrations.

Mr. Riley said the state currently has contracts to allow the purchase of cloud services from Microsoft, Amazon, IBM, and Oracle. He said the contract with Microsoft was renewed in May 2017 and the Amazon contract was renewed in July 2017. He said these contracts ensure North Dakota data is only used by and for North Dakota, considers account privacy and security, and complies with Chapter 44-04 and North Dakota open record laws. He said ITD is in negotiations with Microsoft to consolidate over 60 state contracts to obtain better pricing and to determine if standardizing Office 365 for all of state government is fiscally viable. He said the majority of contracts entered include 1- to 3-year terms and allow the option to terminate the contract if necessary. He said longer contracts may provide better rates and ITD is evaluating the most beneficial options for services needed.

Mr. Riley said while the costs of cloud computing services are approximately equal to on-premise technology costs currently, cloud computing will offer cost-savings in approximately 5 years. He provided an example of an average Midwestern state saving approximately \$31 million over 5 years by using cloud services rather than on-premises services. He said these cost-savings provide opportunities to restructure IT employees.

Mr. Riley said ITD does not currently have plans to move legislative branch systems to the cloud. He said ITD will work with the Legislative Council to decide how to best transition those systems. He said legislator emails will continue to remain confidential in a cloud setting, as all confidentiality and data protection practices will remain in

place after the transition from on-premise servers to the cloud. He said by moving to the cloud, the state is not relinquishing control of data, but is merely changing the location of the data.

In response to a question from Representative Nathe, Mr. Riley said the cloud has the same potential security threats as current on-premises systems but the cloud offers less costly opportunities, while adhering to North Dakota open record laws. He said there is a misconception that data in the cloud is controlled by the cloud provider. He said any data in the cloud would still be controlled by the state. He said future charges for cloud services imposed by private cloud providers will be controlled through contracts entered by the provider and the state. He said the contract will allow the state to move data out of the cloud if desired or move data to a different cloud provider.

In response to a question from Senator Mathern, Mr. Riley said the state may utilize commercial or government cloud products that can be used to control the location of data in the cloud.

In response to a question from Senator Heckaman, Mr. Riley said that while data in the cloud is secure, ITD will review security procedures and concerns of all systems deployed in the cloud.

In response to a question from Representative Mock, Mr. Riley said of the 26 states using National Association of State Procurement Officials contracts, he is not aware of any government organizations that have moved data to the cloud and subsequently moved the data back to an on-premise data management system. He said he is aware of organizations that have moved individual applications out of the cloud.

In response to a question from Representative Mock, Mr. Riley said large cloud providers such as Microsoft and Amazon have multiple data centers throughout the country and the world, allowing for data to be replicated at multiple data centers. He said Microsoft has over 40 data centers in the country and has only disclosed the location of one of their data centers while Amazon has not disclosed the location of any cloud data centers.

In response to a question from Representative Mock, Mr. Riley said ITD has the ability to enable express routing technology to connect directly to Amazon or Microsoft cloud services to ensure state IT services will remain operating and reduce the possibility of IT outages.

In response to a question from Representative Mock, Mr. Riley said if ITD moves to cloud services, the amount of on-premises IT computer system assets and data center equipment that will no longer be needed will depend on the timing of the transition to the cloud. He said ITD has spent \$45,000 on the cloud computing plan and are evaluating what assets ITD has by examining asset depreciation schedules. He said network assets will continue to operate as they do now, while the use of server system assets are unclear at this time. He said the goal is to fully depreciate all assets before disposal.

In response to a question from Representative Kading, Mr. Riley said the STAGENet system will allow the state to connect to the cloud in the same way it connects to on-premise data centers now. He said the state will not have to pay for two separate systems during the transition from on-premise data centers to cloud services.

Representative Streyle expressed concern over the lack of legislative oversight while ITD transitions to cloud services and the changes made to the contracts ITD has with Microsoft and Amazon. He said while a movement to the cloud may be beneficial and he supports using Microsoft Office 365 in the cloud, he believes a request for proposal (RFP) should be prepared when choosing a cloud service provider. He said he does not believe the legislative branch should transfer its systems and applications to the cloud.

In response to comments from Representative Streyle, Mr. Riley said current contracts allow the state to buy cloud services from Microsoft, Amazon, IBM, and Oracle and any changes made to these contracts will not increase the cost to the state. He said the state will use both Microsoft and Amazon cloud services and possibly other cloud providers when appropriate. He said ITD has prepared RFPs for certain cloud services, such as systems for the medical marijuana program. He said ITD will use RFPs when appropriate and adhere to procurement rules.

In response to a question from Representative Streyle, Mr. Riley said after the transition to cloud services, if there is additional hardware in the on-premise data centers that is no longer needed, it is possible the hardware may be made available to agencies not utilizing cloud services.

### Shared Services Unification

Mr. Riley said ITD is implementing an IT shared services unification plan to consolidate IT services, such as desktop support and help desk services, and IT personnel in the Governor's cabinet of executive branch state agencies. He said the unification plan will improve IT productivity by establishing common systems and processes for communication and collaboration among executive branch agencies. He said the unification plan will focus on cost reduction and operational efficiencies. He said the unification plan will provide data hosting, storage, and archiving opportunities. He said unification will eliminate IT redundancies in executive branch agencies, decrease enterprise risk, improve IT investment success, and maximize cyber defense by utilizing the same system, data protection, and IT training.

Mr. Riley said the state currently focuses 91 percent of its full-time equivalent (FTE) IT employees and resources to running operations, 9 percent to growing IT, and 0 percent to transforming IT. He said the the cloud computing and shared services unification plans will allow state IT employees and resources to be allocated 50 percent to running operations, 30 percent to growing IT, and 20 percent to transforming IT.

Mr. Riley said ITD conducted an assessment of all executive branch IT employees, evaluating staff skills, needs, strategies, objectives, and costs. He said the major phases of the unification workforce transition process includes data gathering, transitional grouping, deep data analysis, and reporting. He said functional alignments and transitional groupings are critical to the unification plan, allowing for staff with similar functions to be grouped together. He said the unification plan will provide a 15 to 22 percent increase in IT FTE work efficiency within 4 years of the unification plan implementation.

Mr. Riley said the unification plan includes the reorganization of top positions in ITD, including the establishment of the following positions, which will report directly to the Chief Information Officer (CIO):

- Chief Operations Officer (COO)
- Chief Data Officer (CDO)
- Chief Technology Officer (CTO)
- Chief Reinvention Officer (CRO)
- Chief Information Security Officer (CISO)

Mr. Riley said the CDO, CTO, and CRO are new positions while the COO and CISO are positions that currently exist in ITD, but titles and some job duties have changed. He said the three new positions will be funded by salary savings from vacant positions. He said ITD has attempted to make these five positions nonclassified, but the State Personnel Board has not granted this request, instead requiring the positions to remain in the classified employee system.

Mr. Riley said the deep data analysis will allow ITD to evaluate the skills of each IT employee and provide better clarification of which job duties each employee will start, stop, and continue in the new IT shared service. He said the unification plan will be completed in December 2018 and the plan will include cost-savings, long-term projections, and a new organization chart.

Mr. Riley said all IT employees and related funding will remain in the current respective agencies, or "human resource agencies", until changes are approved by the 2019 Legislative Assembly. He said IT employees will be subject to human resource policies in their current agency for employee compensation decisions.

In response to a question from Representative Delzer, Mr. Riley said when the unification process is complete, IT employees not employed by ITD will not immediately report to supervisors in ITD; however, that may change depending on action taken by the 2019 Legislative Assembly.

Representative Delzer expressed concern that ITD is proceeding with the unification plan too quickly and that the 2019 Legislative Assembly will not have the ability to provide input.

In response to comments from Representative Delzer, Mr. Riley said ITD is not asking legislators to make any decisions regarding the unification plan until the 2019 legislative session. He said ITD is attempting to gather as much information as possible to determine how the unification plan will work and to develop a new IT staff organization chart, which will then be provided to the 2019 Legislative Assembly for review. He said ITD requests from the 2019 Legislative Assembly will depend on the progress made on the unification plan prior to the legislative session.

In response to a question from Representative Streyle, Mr. Riley said there are no current plans to include IT staff in the legislative and judicial branches in the unification effort. He said only executive branch agencies in the Governor's cabinet are participating, although other executive branch agencies have volunteered to be part of the unification plan.

In response from a question from Senator Mathern, Mr. Riley said there was some initial concern from state agencies regarding the unification plan and how it will affect agency IT staff. He said ITD has had communication with these agencies to address these concerns and explain how the unification plan will be executed.

### GOVERNOR'S OFFICE - ADDITIONAL FEDERAL OR OTHER FUNDS RECEIVED

Ms. Leslie Bakken-Oliver, General Counsel, Governor's office, presented information ([Appendix M](#)) on the source, amount, and purpose of additional federal or other funds received during the 2017-19 biennium pursuant to Section 4 of 2017 House Bill No. 1001. She said additional funds received by the Governor's office are as follows:

Source	Amount	Purpose
Bush Foundation	\$50,000	Innovation Education Task Force
Governor Burgum 2015-17 salary	\$51,525	Office of Recovery Reinvented
Dakota Medical Foundation	\$30,000	Office of Recovery Reinvented
North Dakota United	\$1,624	Task Force for Higher Education Governance
North Dakota University System Foundation	\$500	Task Force for Higher Education Governance

### TAX COMMISSIONER - PROPERTY TAX ANNUAL INCREASES

Mr. Ryan Rauschenberger, Tax Commissioner, submitted a memorandum ([Appendix N](#)) in accordance with Section 57-20-04, which requires the Tax Commissioner to provide information to the Legislative Management regarding a report received from county auditors related to annual increases in property taxes. The memorandum states the Tax Department created an online tool to enable users to view mill levies imposed by political subdivisions. The memorandum states the online tool will identify new and demolished property to allow users to view property tax changes for existing property for each political subdivision of the state. The memorandum states the online tool will be completed and available when the remaining two counties have provided mill levy reports.

### HOUSING FINANCE AGENCY - HOUSING INCENTIVE FUND UPDATE

Ms. Jolene Kline, Executive Director, Housing Finance Agency, presented information ([Appendix O](#)) on progress being made to reduce the overall number of housing units owned, master leased, or subsidized by cities, school districts, or other employers of essential service workers pursuant to Section 54-17-40. She said housing changes from 2014 to 2018 are as follows:

Type of Respondent	Housing Units Owned		Housing Units Master Leased		Rent Subsidies	
	2014	2018	2014	2018	2014	2018
City	39	30	150	0	108	0
County	48	32	50	0	0	0
First responder	14	8	10	0	15	0
Medical	157	163	92	4	2	0
School districts	228	242	99	0	0	0
<b>Total</b>	<b>486</b>	<b>475</b>	<b>401</b>	<b>4</b>	<b>125</b>	<b>0</b>

Ms. Kline said no public entities are providing rent subsidies while two medical facilities are master leasing four housing units for doctors and traveling staff. She said of the 475 units owned in 2018, 62 units are vacant, leased to nonessential service workers, or listed for sale. She said she does not expect the number of housing units owned to decrease significantly. She said while the housing incentive fund reduced the burden on public entities during increased economic activity from the oil industry, many public entities lack affordable single family housing for essential service workers due to overpriced housing markets.

In response to a question from Representative Hogan, Ms. Kline said the need for affordable housing is a statewide need, rather than a need specific to certain areas of the state. She said many affordable housing facilities were built in the 1970s and are in need of significant repair.

### ATTORNEY GENERAL - LITIGATION-RELATED EXPENDITURES

Mr. Troy Seibel, Chief Deputy Attorney General, Attorney General's office, presented information ([Appendix P](#)) regarding a report on all expenditures for litigation-related expenses from the Industrial Commission litigation fund pursuant to Section 5 of 2017 House Bill No. 1003. As of March 1, 2018, he said, the Attorney General's office has spent \$1,670,577 on seven lawsuits from the litigation fund for litigation-related expenditures, of which \$1,170,865 was spent during the 2015-17 biennium and \$499,712 was spent during the 2017-19 biennium.

## **DEPARTMENT OF PUBLIC INSTRUCTION - STUDENT ENROLLMENTS AND STATE SCHOOL AID**

Mr. Adam Tescher, Director of School Finance and Organization, Department of Public Instruction, presented information ([Appendix Q](#)) regarding student enrollments for the 2017-18 academic year, projected student enrollments for the next 3 academic years, updated estimates of state school aid spending for the 2017-19 biennium compared to appropriations, and the estimated cost to continue state school aid for the 2019-21 biennium. As of March 2018, he said, actual fiscal year 2018 state aid formula payments have totaled \$948.4 million compared to a budget of \$961.5 million, a difference of \$13.1 million. He said the estimated unspent 2017-19 biennium general fund appropriations, excluding special education contract costs, is \$14.7 million, which is primarily due to approximately 500 fewer students than budgeted. He said the total public school enrollment was 108,945 during the 2017-18 school year. He said total public school enrollment is projected to be 111,890 and 115,247 during the 2018-19 and 2019-20 school years, respectively. He said the department anticipates an additional \$78.1 million of state aid funding will be needed to address cost-to-continue items during the 2019-21 biennium.

Representative Schatz expressed concern regarding the amount of funding provided for North Dakota K-12 education when compared to South Dakota. He said South Dakota has more students, but dedicates less funding to education and achieves test scores comparable to North Dakota students.

## **STATUS OF THE UNEMPLOYMENT TRUST FUND AND THE MODIFIED AVERAGE HIGH-COST MULTIPLIER**

Mr. Darren Brostrom, Deputy Director, Job Service North Dakota, presented information ([Appendix R](#)) on the status of the unemployment trust fund and the targeted modified average high-cost multiplier pursuant to Section 52-02-17. As of December 31, 2017, he said, the balance of the trust fund was \$134.6 million, \$38.3 million below the projected 2017-19 biennium target balance of \$172.9 million. The average high-cost multiplier for the period was 0.77, 0.23 below the projected 2017-19 biennium target of 1.0. He said the projected trust fund balance is \$153.5 million in 2018, \$158.4 million in 2019, and \$162.0 million in 2020.

## **BOARD OF UNIVERSITY AND SCHOOL LANDS - STATUS OF INFORMATION TECHNOLOGY PROJECT**

Ms. Peggy Gudvangen, Accounting and Budget Specialist, Department of Trust Lands, presented information ([Appendix S](#)) regarding the status of the IT project authorized in 2017 Senate Bill No. 2013, including current and anticipated expenditures for the 2017-19 biennium. She said many of the department's core data management systems were developed in the 1980s and 1990s, using designs no longer supported by vendors. She said the department experiences system limitations, automation and efficiency issues, and reporting limitations due to outdated IT. As of March 19, 2018, she said, the department has not expended the \$3.6 million appropriation to replace the current department IT systems. She said a contract is expected to be executed by May 15, 2018, for unclaimed property replacement software. She said due to insufficient responses for the department's land management system, the RFP will be reissued on April 30, 2018.

## **NORTH DAKOTA STATE UNIVERSITY EXTENSION SERVICE - EFFICIENCY AND EFFECTIVENESS**

Mr. Keith Peltier, Chair, State Board of Agricultural Research and Education, presented information ([Appendix T](#)) regarding its findings and recommendations to increase the efficiency and effectiveness of the North Dakota State University (NDSU) Extension Service pursuant to Section 15 of 2017 Senate Bill No. 2020. He said Phase 1 of the review process was completed in June 2017, while Phase 2 was completed in November 2017. He said a review committee focused on organized citizen input, educational programs, organizational structure, funding, the changing needs of customers, branding, public relations, and marketing.

Mr. Peltier said the committee recommended the NDSU Extension Service obtain input from stakeholders and citizens regarding organization, the focus on transformational education, delivery of programs in agriculture and natural resources, 4-H and youth development, family and consumer sciences, and community vitality. He said the committee recommended the Extension Service clarify the role of county, area, and state specialists and to be more deliberate in staffing plans with campus-based departments to ensure expertise is available for stakeholders. He said the committee recommended the Extension Service focus on engaging the 18- to 35-year-old and 36 to 49-year-old demographics, as these demographics are vital to the future of the Extension Service.

Mr. Peltier said the committee recommended updating the Extension Service's financial partnership between county and state base policy to allow for increases in fees and grants for agency programs. He said the committee collaborated with the North Dakota County Commissioners Association to agree on a funding formula and cost-share agreement for all counties regardless of population. He said a preliminary agreement allows for a cost-



share of salary and benefits to be 40 percent county responsibility and 60 percent state responsibility. He said the committee recommended the Extension Service change its name to NDSU Extension as part of a rebranding and marketing effort and to avoid confusion with service providing agencies.

## **ELECTRONIC PAYMENT PROCESSING SYSTEM**

### **Department of Transportation**

Mr. Mark Nelson, Deputy Director, Department of Transportation, presented information ([Appendix U](#)) regarding the decision to decline implementation of the electronic payment processing system authorized in Sections 10 and 11 of 2017 Senate Bill No. 2021. He said while the department agrees credit card fees should be charged to customers, listing the fee as a separate charge poses customer service risks for the department's motor vehicle division. He said the department started an online platform for driver's license and motor vehicle transactions that allows for renewals online through the use of credit card payments. He said the department has installed three motor vehicle kiosks in Bismarck and new machines will be installed in Fargo, Grand Forks, Minot, Williston, and Dickinson in May and June 2018. He said if the department charges a separate credit card fee, there is a risk of increasing the use of cash and checks for motor vehicle services, while discouraging self-service options.

In response to a question from Senator Dever, Mr. Nelson said during the 2011-13 biennium, the department had a 12-week response time for motor vehicle transactions and employed 21 temporary employees for the extra work required for this process. He said the new state title and registration system and three Bismarck kiosks have allowed the department to maintain a 1- to 2-week response time for motor vehicle transactions by encouraging citizens to submit renewals online and paying with credit cards. He said the department now employs five temporary employees.

In response to a question from Representative Nathe, Mr. Nelson said 71 percent of motor vehicle transactions in the Bismarck office include the use of credit cards. He said the Bismarck office does not charge customers a credit card fee, requiring the department to pay for credit card fees. He said the Fargo, Minot, and Grand Forks offices charge credit card fees and the percentage of transactions processed with the use of credit cards in those offices is 22 percent, 19 percent, and 11 percent, respectively. He said credit card fees charged by these offices range from 2.5 percent to 3.0 percent.

In response to a question from Senator Sorvagg, Mr. Nelson said the credit card fee rate is established by the Bank of North Dakota, and he is not aware of any attempt to negotiate a cheaper rate.

In response to a question from Senator Heckaman, Mr. Nelson said the Bismarck office has paid \$2 million in credit card fees since July 1, 2017. He said the department would like to incorporate credit card fees into the cost of services already provided instead of charging a credit card fee separately.

Senator Lee expressed concern regarding the decision to decline implementation of the electronic payment processing system program. He said he does not believe the implementation of the system would result in an increase in citizens paying for department services by cash or check.

Senator Grabinger expressed concern regarding the decision to decline implementation of the electronic payment processing system program. He said if the department incorporates credit card fees into the cost of services, citizens paying with cash or check will also pay for the cost of credit card fees.

In response to a question from Senator Klein, Mr. Nelson said the department receives a significant number of nonsufficient (NSF) checks, but due to time and employee salary needs, the department does not make efforts to collect these checks. He said the department instead voids the service the NSF check was used to pay for, then notifies the citizen.

### **Secretary of State**

Mr. Alvin A. Jaeger, Secretary of State, presented information ([Appendix V](#)) regarding the decision to decline implementation of the electronic payment processing system authorized in Sections 10 and 11 of 2017 Senate Bill No. 2021. He said in the fall of 2018, the Secretary of State's office will launch new software to allow online filing of business annual reports, business registrations, and licensing and renewing contractors for agency customers. He said because the software encourages online filing for customer convenience, information accuracy, and agency productivity and also provides cost-savings, the Secretary of State has declined the implementation of the electronic payment processing system. He said the system would add an additional fee for online filings and encourage citizens to submit documentation by paper, causing additional time and resources by Secretary of State staff.

**Parks and Recreation Department**

Dr. Melissa Baker, Director, North Dakota Parks and Recreation Department, presented information ([Appendix W](#)) regarding the decision to decline implementation of the electronic payment processing system authorized in Sections 10 and 11 of 2017 Senate Bill No. 2021. She said approximately 40 percent of the department budget is provided by special funds, which are primarily generated by user fees. She said while state park entrance fees are established in North Dakota Century Code, the department has the authority to adjust other fees based on the cost to deliver services, which is why the department has declined to implement the electronic payment processing system. In February 2017, she said, the department contracted for a point-of-sale system for use in state parks, which allows for the use of credit cards and provides accounting, inventory management, and sales tools. She said the department has an online campground reservation management system that allows for credit card payments.

No further business appearing, Chairman Bellew adjourned the meeting at 2:45 p.m.

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Allen H. Knudson  
Legislative Budget Analyst and Auditor

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Levi Kinnischtzke  
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