

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

BUDGET COMMITTEE ON GOVERNMENT SERVICES

Monday, July 12, 1999
Pioneer Room, State Capitol
Bismarck, North Dakota

Senator Aaron Krauter, Chairman, called the meeting to order at 9:00 a.m.

Members present: Senators Aaron Krauter, John Andrist, Ed Kringstad, Kenneth Kroepin, Elroy N. Lindaas; Representatives Pat Galvin, Bette Grande, Robert Huether, Roxanne Jensen, James Kerzman, Matthew M. Klein, Myron Koppang, Chet Pollert, Wanda Rose, Ben Tollefson, Janet Wentz, Lonny B. Winrich

Members absent: Senators Bill L. Bowman, John T. Traynor; Representative April Fairfield

Others present: See attached appendix

Mr. Chester E. Nelson, Jr., Legislative Budget Analyst and Auditor, reviewed the Legislative Council's supplementary rules of operation and procedure.

Chairman Krauter announced that Representative Rose would serve as vice chairman of the committee.

for addressing pay equity concerns of state employees and whether this funding accomplished what was intended.

Mr. Rod Backman, Director, Office of Management and Budget, presented a report on the status of the state general fund.

Mr. Backman said the June 30, 1999, general fund balance is currently projected to be \$56.6 million, \$4.8 million more than estimated by the 1999 Legislative Assembly. He said the price outlook for wheat continues to be low. A copy of the report is on file in the Legislative Council office.

Based upon a request for information on energy prices, Mr. Nelson said the Legislative Council staff will prepare a report for an upcoming committee meeting comparing oil price and production to estimates.

BUDGET MONITORING

The Legislative Council staff presented a memorandum entitled *Monitoring the Status of State Agency and Institution Appropriations - Background Memorandum* relating to the committee's responsibility to monitor the budget during the 1999-2001 biennium. The Legislative Council staff said as part of this responsibility, the committee may wish to monitor expenditures of major state agencies such as the institutions of higher education, charitable and penal institutions, Department of Public Instruction, and the Department of Human Services medical assistance and economic assistance programs.

The Legislative Council staff said during the last four bienniums a report on agency compliance with legislative intent was also prepared each interim. This report includes the status of state agencies implementing budgetary or programmatic changes and legislative directives and identifies agency budget concerns.

Mr. Nelson suggested committee members contact the chairman or staff with specific items they would like included in the compliance.

Representative Wentz suggested including how 1999-2001 salary increases are allocated for state employees.

Representative Huether suggested including how the Office of Management and Budget allocated the \$5.4 million appropriated by the Legislative Assembly

STATE DEPARTMENT OF HEALTH FACILITIES PLAN

The Legislative Council staff presented a memorandum entitled *State Department of Health Facilities Study* relating to the committee's study, as directed in Section 8 of House Bill No. 1004, of the State Department of Health's master plan for its facilities and its definitive plan and cost estimates for upgrading its laboratory facilities, providing a state morgue for the state medical examiner, and bringing its facilities into compliance with applicable building code requirements.

The Legislative Council staff said the 1999-2001 executive budget had included \$3 million of bonding authority for the State Department of Health to use for constructing a facility to house the state medical examiner and laboratories. The Legislative Assembly chose to remove the \$3 million of bonding authority and provided that the department develop a master plan for its facilities and report to the Legislative Council. In addition, the Legislative Assembly appropriated \$45,000 from the general fund to the State Department of Health to pay for costs associated with developing the plan.

The Legislative Council staff reviewed the facilities currently being utilized by the State Department of Health as follows:

	Owned/ Leased	Total Square Feet in Building	Number of Employees in Building	Primary Department Program or Section	Annual Rent	Cost Per Square Foot
State Capitol - Judicial Wing 600 East Boulevard Avenue Bismarck	State-owned	23,190	119	State Health Officer Administrative Services Health Resources Preventive Health	\$99,168	\$4.28
Storage	State-owned	1,164				
Missouri Office Building 1200 Missouri Avenue Bismarck	Leased	20,560	104	Environmental Health Section	213,276	10.37
Microbiology Lab 1205 Avenue A West Bismarck	Leased	6,632	17	Microbiology	88,151	12.54
Garage - Storage	Leased	400				
White house 1220 Missouri Avenue Bismarck	Leased	1,456	8	Municipal facilities	14,808	10.17
East Laboratory 2635 East Main Bismarck	State-owned	18,291	35	Forensic Examiner Toxicologist Crime Lab Chemistry		
Environmental Training Center 2639 East Main Bismarck	State-owned	5,944	7	Training facility		
	State-owned	48,579	161		\$99,168	N/A
	Leased	29,048	129		316,235	\$10.89
Total		77,637	290		\$415,403	N/A

The Legislative Council staff said the state medical examiner position was authorized by the 1995 Legislative Assembly and was hired in August 1996. Currently, the medical examiner is housed in the East Laboratory facility. When the position was filled, St. Alexius Medical Center and Medcenter One in Bismarck offered the use of their morgues on a six-month rotating basis until the State Department of Health could provide a permanent facility for the state medical examiner and staff. In November 1998 St. Alexius Medical Center discontinued providing the state its morgue facilities, and the department is in the process of constructing a temporary morgue in the department's environmental training center facility.

The Legislative Council staff said the State Department of Health had its laboratory facilities inspected in October 1998, and the inspections revealed a number of deficiencies in the Missouri Office Building, the East Laboratory building, and the Microbiology Lab building. These deficiencies led to the recommendations included in the executive budget to construct new laboratory facilities for the department.

Mr. Murray Sagsveen, State Health Officer, commented on the status of the department's facilities plan. Mr. Sagsveen said in addition to the \$45,000 from the general fund appropriated by the 1999 Legislative Assembly for use by the department in preparing its facility plan, the department anticipates receiving \$40,000 of federal funds from the Environmental Protection Agency for use in developing its master plan.

Mr. Sagsveen reviewed the use of facilities by the State Department of Health since 1970. He said some of the facilities being leased by the department are inadequate for the department's needs.

Regarding the morgue, Mr. Sagsveen indicated the Bismarck hospitals have been very cooperative in providing morgue space for the medical examiner; however, the morgues in these facilities were not developed for accommodating the large number of autopsies that must be performed by state medical examiner. Mr. Sagsveen indicated the medical examiner may conduct up to 200 autopsies in 1999. He said the department is constructing a temporary morgue at the Environmental Training Center facility for the medical examiner to use until the state provides a permanent morgue facility. He said construction costs relating to the temporary morgue are expected to be \$40,000 and the department is purchasing \$70,000 of equipment for the morgue facility.

Mr. Sagsveen outlined the concerns of the department regarding its current facilities. Mr. Sagsveen said the department has created an internal committee for developing its facilities master plan. The department anticipates completing its facilities plan as follows:

EVENTS SCHEDULE	
Element	Anticipated Timeline
Examine master plan options	
Review existing documents	July 19, 1999
Focus on facility options/develop scope of work for architectural services	August 9, 1999
Release ad for Statements of Qualifications (SOQs)	August 16, 1999
Contract for development of master plan/architectural services/definitive costs	
Advertise for SOQs/develop questions for interviews	September 6, 1999
Review SOQs	September 13, 1999
Interview best 3-5	September 27, 1999
Negotiate contract and fee	October 11, 1999
Architect and Department of Health assess programming needs/develop solution	February 14, 2000
Architect prepares schematic design documents	April 10, 2000
Architect determines design costs	May 15, 2000
Total budgeted time	10.5 months

A copy of the report is on file in the Legislative Council office.

Senator Krauter asked for the number of State Department of Health employees located outside Bismarck. Mr. Sagsveen said the department has a small office in Grand Forks and an epidemiologist position located in each of the other seven major cities in the state.

Representative Jensen suggested the department further consider the option of privatizing its laboratory facilities. Chairman Krauter asked that the department provide to the committee at its next meeting information on options that may be available for privatizing its laboratory facilities.

Representative Winrich asked for information on the functions of each program and division of the department. Mr. Sagsveen distributed a report on the programs and services of the department. A copy of the report is on file in the Legislative Council office.

It was moved by Representative Wentz, seconded by Representative Pollert, and carried on a voice vote that the committee proceed with this study as follows:

1. **Receive status reports from the State Department of Health as it develops its facilities plan and review the considerations given to housing its facilities in other locations across the state.**
2. **Tour State Department of Health facilities.**
3. **Review the plan submitted by the department, including its effectiveness for providing for the department's space needs, meeting Life Safety Code requirements, and its cost-effectiveness.**
4. **Receive testimony from state agency representatives and other interested persons regarding the State Department of Health facilities plan.**
5. **Develop committee recommendations and prepare the necessary legislation to implement committee recommendations regarding the State Department of Health facilities.**

STATE AGENCY OFFICE SPACE NEEDS

The Legislative Council staff presented a memorandum entitled *State Agency Office Space Study - Background Memorandum* relating to the committee's study, as directed in Senate Concurrent Resolution No. 4006, of state agency office space needs to determine the feasibility and desirability of transferring state agencies or state employees to rural areas. The Legislative Council staff reviewed a schedule of state agency leased space for the 1997-99 biennium. In total, the Legislative Council staff said state agencies lease 521,713 square feet of space at an annual cost of \$4,622,334. The average cost per square foot is \$8.86. The Legislative Council staff reviewed information showing the number of state employees by county. Although the information did not include employees of the University System, court system, Legislative Council, or Workers Compensation Bureau, the information indicated that Burleigh County has the most state employees followed by Walsh, Cass, Grand Forks, Ward, and Ramsey Counties.

Mr. Curt Zimmerman, Director, Facility Management, Office of Management and Budget, presented a schedule showing state agency leased space. A copy of the report is on file in the Legislative Council office.

Chairman Krauter asked that Facility Management organize the leased space information by county rather than by agency and provide the information to the committee at its next meeting.

Senator Krauter suggested the committee receive information from state agencies on the types of jobs being performed within an agency and the job's dependence on technology.

Representative Wentz suggested that when information is received from cities and counties on space that may be available in rural areas, the associated costs of the space also be provided.

Representative Grande indicated that the committee needs to consider the impact on families if state agencies and employees are to be relocated to rural areas.

Mr. Jim Heinrich, McIntosh County Treasurer, Ashley, suggested the Department of Transportation

contract with counties for providing motor vehicle and driver's license services. He said by locating these services in county courthouses, the service would be more accessible to the public and may possibly save state funds.

Ms. Marsha Lembke, Driver's License Division, Department of Transportation, commented on the possibility of providing driver's license and motor vehicle registration services in county courthouses. She said the department would review the possibilities of this proposal.

Chairman Krauter asked that the Department of Transportation provide information to the committee at its next meeting on how other states administer their driver's license and motor vehicle registration programs.

Senator Krauter suggested the committee receive information from state agencies on jobs that potentially may be moved to rural areas.

Representative Galvin suggested the committee receive information on vacant school buildings that may be available for providing office space for state agencies. Chairman Krauter asked that the Department of Public Instruction provide this type of information to the committee at its next meeting.

Mr. Mark Johnson, Executive Director, North Dakota Association of Counties, commented on the committee's study. Mr. Johnson said technology makes it possible to move state government jobs to rural areas. Mr. Johnson suggested that the next Legislative Assembly consider directing state agencies to consider, as part of agency planning efforts, options for moving functions of their agencies to rural areas when feasible.

Chairman Krauter asked that the Association of Counties present information to the committee at its next meeting on suggestions for efficiencies that could result from providing state government services by utilizing county personnel across the state.

Mr. Nelson said the committee may wish to consider changes to the budget process that could address this issue over the longer term. Mr. Nelson said through the budgeting process agencies could provide information on options available for locating agency functions in rural areas of the state.

Ms. Chris Runge, Executive Director, North Dakota Public Employees Association, commented on the committee's study. Ms. Runge said the Public Employees Association is interested in state government providing the best possible services. She suggested the committee consider the anxiety level of the current work force as the committee considers various options.

Mr. Nelson said the committee may wish to consider recommending a resolution indicating legislative approval for state agencies locating their employees outside a central office setting.

Chairman Krauter asked that the Information Services Division be asked to present information to the committee at its next meeting on options that

technology provides for locating employees away from a central office setting.

The committee recessed for lunch at 12:00 noon and reconvened at 1:00 p.m.

It was moved by Senator Kringstad, seconded by Representative Huether, and carried on a voice vote that the committee proceed with this study as follows:

1. **Survey state agencies on office locations, numbers of employees per location, office space needs, office space being rented and associated costs, the types of jobs and the jobs' dependence on information technology, and potential jobs that may be performed away from a central office setting.**
2. **Receive information from interested organizations, including the Association of Counties and League of Cities, on office space available in rural areas of the state and associated costs.**
3. **Receive testimony from representatives of the North Dakota Public Employees Association and other employee organizations on the feasibility and desirability of transferring state employees to rural areas.**
4. **Receive information from select state agencies on options for locating their employees in rural areas and associated costs.**
5. **Receive testimony from interested persons regarding this study.**
6. **Receive information from the Information Services Division on the impact information technology may have on locating employees in rural areas.**
7. **Tour selected state agencies.**
8. **Consider options for utilizing available rural office space for housing state agencies and state employees and consider possible changes to the budget process that would address the location of state agency offices and employees.**
9. **Develop committee recommendations and any necessary legislation to implement the recommendations.**

PRIVATIZATION

The Legislative Council staff presented a memorandum entitled *Privatization Study - Background Memorandum* relating to the committee's study, as directed in Section 2 of Senate Bill No. 2411, of privatizing and contracting for services provided by state agencies. The Legislative Council staff said privatization is the involvement of the private sector in providing services or facilities usually provided by the public sector. Major methods of privatization include:

1. Contracting with the private sector to provide services.

2. Operating public facilities by the private sector.
3. Selling certain government assets to the private sector.

The Legislative Council staff said the 1991-92 interim Budget Committee on Government Services studied privatization. The committee recommended House Bill No. 1026, which was not approved by the 1993 Legislative Assembly, but which would have required a state agency to submit a report to the Senate and House Appropriations Committees during each legislative session on any action taken by the agency since the last legislative session to contract with the private sector for services and on any recommendations for future privatization of public services. In addition, the bill provided that when new positions or programs are requested by an agency, the agency must report to the Appropriations Committees on the consideration it gave to privatizing the service rather than requesting additional FTE positions.

The Legislative Council staff reviewed a 1997 Council of State Governments report entitled *The Private Practices: A Review of Privatization in State Government*. The Legislative Council staff said the report indicates privatization activities have increased in the past five years and the trend should continue for the next five years.

Agencies identified in the report as being the most involved in privatization activities include transportation, administration and general services, corrections, higher education, and social services. Agencies reporting the least amount of privatized services were education, labor, public safety, and the treasury.

The report indicates that although officials cite the primary reason for privatizing services is to save money, the figures reported by survey respondents do not indicate impressive savings. This is due in part to the difficulty in calculating any savings resulting from privatizing services. Most respondents could not estimate the percentage of cost savings. Of those who did, most indicated savings of less than five percent.

States responded that the major reasons for increasing privatization activity were:

1. Cost savings.
2. Increased support of political leadership.
3. Flexibility and less red tape.
4. Speedy implementation.
5. Lack of state personnel and expertise.
6. Increased innovation.
7. High-quality service.

The report identifies advantages and disadvantages of privatization. Advantages of privatization include:

1. Saving money in management and service delivery for the public.
2. Speedy implementation of certain programs.
3. High-quality services in some areas.
4. Provides expertise or personnel to carry out certain programs.

5. Private providers use more innovative approaches and technology.
6. Helps to dissolve unnecessary government monopolies.
7. Private providers offer services more effectively due to flexibility and less red tape.
8. Slowing the growth of government or downsizing government.
9. Introduces competition between government employees and private providers.
10. Provides an alternative to traditional ways of improving government productivity.

The disadvantages of privatization include:

1. Does not save government and taxpayer money.
2. Does not guarantee market competition and can result in private monopolies.
3. May lead to corruption, including political patronage, kickbacks, or bribes.
4. Policymakers and managers lose control over privatized services and functions.
5. Diminishes accountability of government officials.
6. Private gain and public good do not always correspond.
7. Other productivity improvement approaches may be available.
8. The quality of privatized services and functions are compromised due to private providers' profit motives.
9. Lowering state employee morale and bringing a fear of displacement to affected employees.
10. May destabilize economically marginal communities and neighborhoods.

Ms. Runge said the North Dakota Public Employees Association supports the privatization study. She indicated that state agencies continue to contract for services. She suggested parameters and guidelines be established by the Legislative Assembly to provide state agencies direction on how and when to privatize services.

Chairman Krauter asked the North Dakota Public Employees Association to present information at the committee's next meeting on the types of public services that are most successfully privatized.

It was moved by Senator Andrist, seconded by Representative Grande, and carried on a voice vote that the committee proceed with this study as follows:

1. **Review findings and recommendations of the 1991-92 interim study relating to privatization.**
2. **Survey state agencies on services privatized and the potential for privatizing other services of the agency.**
3. **Receive testimony on select services that are privatized and on potential services that may be privatized.**

4. **Receive information on privatization and suggestions for privatized services from the North Dakota Public Employees Association and other employee organizations, private businesses, and other organizations.**
5. **Receive testimony from other interested persons on privatization and suggestions for state government services to privatize.**
6. **Develop committee recommendations and prepare any necessary legislation to implement committee recommendations regarding the privatization of state government services.**

INDUSTRIAL COMMISSION STUDY

The Legislative Council staff presented a background memorandum entitled *Industrial Commission Study - Background Memorandum* relating to the committee's study, as directed in Senate Concurrent Resolution No. 4030, of the management responsibilities of the Industrial Commission, the mission and location of each entity within and under the direction of the commission, the membership of the commission, and the voting structure of the commission.

The Legislative Council staff said the members of the Industrial Commission are the Governor, Attorney General, and Agriculture Commissioner. Entities the Industrial Commission is responsible for include:

1. Bank of North Dakota.
2. Mill and Elevator.
3. Municipal Bond Bank.
4. Housing Finance Agency.
5. Oil and Gas Division.
6. Geological Survey.
7. North Dakota Building Authority.
8. Lignite research, development, and marketing program.

The Legislative Council staff reviewed major statutory references relating to the Industrial Commission

in North Dakota Century Code (NDCC) Chapter 54-17 as follows:

1. The Governor is the chairman of the commission and its attorney is the Attorney General.
2. All orders, rules, regulations, bylaws, and written contracts adopted or authorized by the commission, before becoming effective, must be approved by a majority of the commission.
3. The Industrial Commission is authorized to determine the location of all utilities, industries, enterprises, and businesses and business projects established, owned, undertaken, administered, or operated by the state and to make the rules, regulations, orders, and bylaws for the management and operation, and for the transaction of the business, of such utilities, industries, enterprises, and business projects. In the management and operation of its industries, the Industrial Commission shall:
 - a. Acquire by purchase, lease, or by the exercise of the right of eminent domain, all necessary property or property rights, and hold and possess or sell the whole or any part thereof.
 - b. Construct and reconstruct necessary buildings on the properties required.
 - c. Equip, maintain, repair, and alter any and all properties acquired and the improvements.
 - d. Use the properties acquired and improvements made to promote the enterprise.

The Legislative Council staff presented the information on the following table identifying the entities of the Industrial Commission and each entity's mission and location:

Entity	Mission	North Dakota Century Code Section	Location
Bank of North Dakota	To encourage and promote agriculture, commerce, and industry in North Dakota	6-09-01	Bismarck
Mill and Elevator	To encourage and promote agriculture, commerce, and industry in North Dakota	54-18-02	Grand Forks
Municipal Bond Bank	To foster and promote the provision of adequate capital markets and facilities for borrowing money by political subdivisions and for financing of their respective public improvements and to encourage political subdivisions to continue their independent undertakings of public improvements in the financing thereof by making funds available at reduced interest costs	6-09.4-02	Bismarck
Housing Finance Agency	To make North Dakota's housing more affordable by providing financing, management, information, and other appropriate assistance	Chapter 54-17	Bismarck and Fargo
Oil and Gas Division	Effectively accomplish the statutory responsibility for the regulation of drilling, geophysical exploration, development, and production of oil and gas in a manner that will be most beneficial to the producer, royalty owner, and the citizens of the state	38-08-04	Bismarck, Minot, Williston, and Dickinson
Geological Survey	To investigate and report the geology of North Dakota emphasizing the state's energy resources based on applied research leading to economic benefits for quality of life improvements for residents of the state; to provide public service, and to collect, create, and disseminate geologic and map-related information; and to administer regulatory programs and act in an advisory capacity to other state and federal agencies	Chapter 54-17.4	Bismarck and Grand Forks
North Dakota Building Authority	To promote the general welfare of the citizens of this state by providing projects for use by the state in providing public services by altering, repairing, maintaining, or constructing buildings primarily for use by the state and making any improvements connected to those buildings or pertaining to those buildings and necessary to the use of those buildings in providing services to the public	54-17.2-04	Bismarck
Lignite research, development, and marketing program	To provide for financing of research, development, and marketing of the state's lignite resources as well as to assist in the financing of studies which will allow for the preservation of the lignite industry	57-61-01.5	Bismarck

Ms. Karlene Fine, Executive Director and Secretary, Industrial Commission, commented on the Industrial Commission study.

Ms. Fine said the Industrial Commission was created in 1919 and the Governor and one other member constitutes a quorum for a commission meeting.

Ms. Fine said the Bank of North Dakota began operations in 1919. In addition to the statutory mission, the Bank of North Dakota has further expanded its mission statement as follows:

To be the development bank of North Dakota, responsible for financing economic growth while maintaining strong partnerships and a sound financial base with consistent earnings.

Ms. Fine said the North Dakota Mill and Elevator Association was authorized in 1919 and began

operating in 1922. She said in addition to the statutory mission for the mill, the Industrial Commission has further expanded the mission statement for the mill as follows:

The mission of the North Dakota Mill is to promote and provide support to North Dakota agriculture, commerce, and industry. Provide superior quality, consistency, and service to our customers. Grow the business and provide a profit to our owners--the citizens of North Dakota. Conduct our business with the highest integrity so that our employees, customers, suppliers, and owners are proud to be associated with the North Dakota Mill.

Ms. Fine said oil and gas regulatory authority was placed under the Industrial Commission in 1941 utilizing the staff of the State Geologist. In 1981 the Legislative Assembly authorized a separate division

of the Industrial Commission for oil and gas regulatory responsibility.

Ms. Fine said the Municipal Bond Bank was created in 1975 and placed under the authority of the Industrial Commission.

Ms. Fine said the Housing Finance Agency was created in 1980 by an initiated measure which placed it under the control of the Industrial Commission.

Ms. Fine said the 1985 Legislative Assembly authorized the Industrial Commission to be the North Dakota Building Authority.

Ms. Fine said the 1987 Legislative Assembly established the lignite research, development, and marketing program and placed it under the jurisdiction of the Industrial Commission.

Ms. Fine said in 1989 the Legislative Assembly transferred the North Dakota Geological Survey from the State Board of Higher Education to the Industrial Commission.

Ms. Fine said the Industrial Commission has chosen to appoint agency directors and staff to oversee the day-to-day management and operations of the agencies under its control. The commission's primary role is to set overall policy matters, approve bond issues, appoint qualified personnel, approve grants, approve loans, approve orders, and adopt rules for the operations of these entities. To assist the Industrial Commission in its management of these entities, the Legislative Assembly or the commission has established the following advisory boards:

1. Bank of North Dakota - A seven-person bank advisory board consisting of a minimum of three bank officers representing banks from across the state appointed by the Governor.
2. Housing Finance Agency - A six-member advisory board consisting of representatives of banks, manufactured housing, realtors, builders, and homeowners appointed by the Industrial Commission.
3. Municipal Bond Bank - A three-member advisory board consisting of a representative from a rural community, cities, and financial industry appointed by the Industrial Commission.
4. North Dakota Mill and Elevator - At various times the Industrial Commission or the general manager of the mill has appointed advisory committees to assist in the review or the development of a project.
5. Lignite research, development, and marketing program - By executive order, the Lignite Research Council is made up of individuals appointed by the Governor consisting of representatives from the private sector and public sector.

A copy of the report is on file in the Legislative Council office.

Senator Andrist expressed concern that the Industrial Commission is responsible for such a wide variety of organizations.

Representative Tollefson suggested the committee consider the appropriateness of the membership of the commission and whether the Governor should have veto power over the other members of the commission similar to the Governor's veto power relating to legislative decisions.

Chairman Krauter said that as the committee hears reports from the directors of the various entities under the Industrial Commission, it will ask these directors to comment on the role of the advisory boards of each entity and to give a brief history of the role and functions of the agency. In addition, Chairman Krauter said the Industrial Commission will be asked to provide a history on the authority of the Governor to veto action of other members of the Industrial Commission.

Chairman Krauter asked that the committee receive at its next meeting a copy of the Comprehensive Annual Financial Report (CAFR) which will provide information on the assets of the entities under the control of the Industrial Commission.

It was moved by Representative Tollefson, seconded by Senator Lindaas, and carried on a voice vote that the committee proceed with this study as follows:

1. **Receive testimony from the Industrial Commission members regarding the commission's management responsibilities, the mission and location of each entity under its control, the membership of the commission, and its voting structure.**
2. **Receive testimony from representatives of the entities within and under the direction of the Industrial Commission regarding their mission and location, the role of advisory boards, and a history of the role and function of each entity.**
3. **Receive testimony from interested persons regarding the Industrial Commission study, including its management responsibilities, the mission and location of each entity under its control, the membership of the commission, and its voting structure.**
4. **Review the powers, responsibilities, and duties of the Industrial Commission and its related entities and consider the effectiveness of its management responsibilities, the appropriateness of the mission and location of each entity under its control, and evaluate the commission membership and its voting structure.**
5. **Develop committee recommendations and prepare the necessary legislation to implement committee recommendations.**

OTHER RESPONSIBILITIES

The Legislative Council staff presented a memorandum entitled *Other Responsibilities of the Budget*

Committee on Government Services relating to the committee's other responsibilities to:

1. Approve any agreement between agencies of North Dakota and South Dakota to form a bistate authority.
2. Receive reports from the human service centers, State Hospital, and Developmental Center on the hiring of any additional full-time equivalent positions in addition to those authorized by the Legislative Assembly.
3. Receive annual financial statements and a report from the governing board of the housing development fund.

The Legislative Council staff said that pursuant to NDCC Section 54-40-01, an agency that is proposing to enter into an agreement to form a bistate authority with an agency of South Dakota must submit the proposed agreement to this committee during the 1999-2000 interim for approval or rejection.

It was moved by Representative Huether, seconded by Representative Grande, and carried on a voice vote that the committee proceed with this responsibility as follows:

1. **Receive any proposed agreement from a state agency to form a bistate authority with an agency of South Dakota.**
2. **Receive information from South Dakota on any activities to form a bistate authority with a North Dakota agency.**
3. **Receive testimony from interested persons on the proposed agreement.**
4. **Review the proposed agreement regarding costs, effect on services, economic impacts, quality, etc.**
5. **Approve or disapprove the proposed agreement.**

The Legislative Council staff said, pursuant to Section 6 of Senate Bill No. 2012, the Department of Human Services is to report to this committee and the Budget Section on the hiring of any additional full-time equivalent positions in addition to those authorized by the Legislative Assembly for the 1999-2001 biennium at the human service centers, State Hospital, and Developmental Center.

The Legislative Council staff presented the following schedule showing the authorized FTE positions for these entities:

Entity	1999-2001 Authorized FTE Positions
State Hospital	537.01
Developmental Center	481.30
Northwest Human Service Center	67.00
North Central Human Service Center	110.75
Lake Region Human Service Center	66.00
Northeast Human Service Center	157.65
Southeast Human Service Center	181.75
South Central Human Service Center	79.00
West Central Human Service Center	131.15
Badlands Human Service Center	90.50

It was moved by Representative Winrich, seconded by Representative Galvin, and carried on a voice vote that the committee proceed with this responsibility as follows:

1. **Receive periodic reports from representatives of the Department of Human Services on any additional FTEs hired in addition to those authorized by the 1999 Legislative Assembly.**
2. **Determine the fiscal effect of hiring these additional FTE positions on the 1999-2001 budget and the projected cost if the positions are continued in the 2001-03 biennium.**
3. **Include the committee's findings in its report to the Legislative Council.**

The Legislative Council staff said House Bill No. 1383, approved by the 1999 Legislative Assembly, establishes a housing development fund program which allows a higher percentage of a housing construction project in rural North Dakota to be financed than would be available through traditional financing programs. Traditional financing programs generally provide financing based on the appraised value of the housing unit. Because in rural North Dakota the cost of new housing construction generally exceeds its appraised value, it is difficult to obtain an adequate amount of financing for new construction in these areas. This program will provide the financing for the cost of construction that exceeds the appraised value which will make housing construction projects more feasible in rural areas of the state.

While the Housing Finance Agency provides lower cost financing for eligible homebuyers and homeowners and administers multifamily housing programs that provide lower cost financing alternatives through the issuance of tax-exempt revenue bonds, its programs operate similarly to traditional financing methods which do not provide financing of costs that exceed appraised value.

The bill allows a financial institution or group of financial institutions to establish a corporation or limited liability company to operate the housing development fund. The fund may be used for making loans in housing development projects in the state. The loans may be made for any housing project in the state, but the primary focus must be to provide funding for multifamily housing projects in rural areas that are experiencing or expecting a shortage of housing as a result of economic development. The bill allows a credit against a financial institution's taxes equal to the difference between the participating financial institution's share of interest earned on the loan from the fund and the amount the institution would have earned by applying an interest rate of 300 basis points more than a comparable treasury security rate. The fiscal note on this bill presented during the 1999 legislative session reflects a reduction in county revenues of \$1,072,000 and a reduction of

general fund revenues of \$428,000 for the 1999-2001 biennium.

The Legislative Council staff said the program is effective for the first four taxable years beginning after December 31, 1998, and the governing board overseeing a housing development fund must report to this committee each year. The report is to analyze the impact of the fund on the state's economy, business and employment activity generated by loans from the fund, and the effects of that activity on state and local tax revenues.

It was moved by Representative Wentz, seconded by Representative Koppang, and carried on a voice vote that the committee proceed with this responsibility as follows:

- 1. Receive the housing development fund reports.**
- 2. Review the effectiveness of the fund on the state's economy, business and employment activity, and state and local tax revenue.**

3. Consider making a recommendation to continue the program beyond December 31, 2002.

Chairman Krauter announced that the next committee meeting is tentatively scheduled for October 25-26, 1999, in Bismarck.

The committee adjourned subject to the call of the chair at 2:20 p.m.

Allen H. Knudson
Senior Fiscal Analyst

Chester E. Nelson, Jr.
Legislative Budget Analyst and Auditor

ATTACH:1