

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

BUDGET SECTION

Tuesday, October 5, 2004
Senate Chamber, State Capitol
Bismarck, North Dakota

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

Members present: Representatives Ken Svedjan, Ole Aarsvold, Larry Bellew, Rick Berg, Merle Boucher, Ron Carlisle, Al Carlson, Jeff Delzer, Eliot Glassheim, Pam Gulleon, Keith Kempenich, James Kerzman, Kim Koppelman, Joe Kroeber, Bob Martinson, Ralph Metcalf, David Monson, Bob Skarphol, Blair Thoreson, Mike Timm, Francis J. Wald, John Warner; Senators John M. Andrist, Bill L. Bowman, Randel Christmann, Michael A. Every, Ray Holmberg, Ralph L. Kilzer, Aaron Krauter, Ed Kringstad, Tim Mathern, David P. O'Connell, Larry Robinson, Randy A. Schobinger, Bob Stenehjem

Members absent: Representatives Thomas Brusegaard, Earl Rennerfeldt, Amy Warnke; Senators Tony S. Grindberg, Elroy N. Lindaas, Harvey Tallackson, Russell T. Thane

Others present: See attached appendix

It was moved by Senator Robinson, seconded by Senator O'Connell, and carried on a voice vote that the minutes of the June 29, 2004, meeting of the Budget Section be approved as distributed.

STATUS OF THE STATE GENERAL FUND

At the request of Chairman Svedjan, Ms. Pam Sharp, Director, Office of Management and Budget, presented a report on the status of the state general fund. A copy of the information presented is on file in the Legislative Council office. Ms. Sharp said the consumer price index in August 2004 was up .1 percent for the month and up 2.7 percent compared to August 2003. She said the consumer price index increase is expected to average 2.6 percent during 2004, 1.7 percent during 2005, and 1.8 percent during 2006. Ms. Sharp said gross domestic product is expected to grow by 4.2 percent in 2004 and by 3.2 percent in 2005. She said North Dakota's nonseasonally adjusted unemployment rate of 3 percent in August 2004 was tied with Wyoming for the second lowest rate in the nation. She said the national unemployment rate for August 2004 was 5.4 percent. Ms. Sharp said taxable sales and purchases grew by 9.4 percent in the second quarter of 2004 compared to the second quarter of 2003. Ms. Sharp said as of October 2004 there were 19 oil rigs operating in North Dakota compared to 16 in October

2003. She said the price of North Dakota sweet crude oil is \$44 per barrel.

Ms. Sharp presented the following information on the status of the state general fund based on revenue collections through August 2004:

Unobligated general fund balance - July 1, 2003	\$14,790,311
Add	
General fund collections through August 31, 2004	1,049,007,618
Forecasted general fund revenue for the remainder of the 2003-05 biennium (based on the August 2004 revised revenue forecast)	799,854,223
Jobs and Growth Tax Relief Reconciliation Act of 2003 payments	50,000,000
Jobs and Growth Tax Relief Reconciliation Act of 2003 - Enhanced Medicaid federal medical assistance percentage	6,456,581
Total estimated general fund revenue for the 2003-05 biennium	\$1,920,108,733
Less	
2003-05 biennium general fund appropriations	1,803,661,161
Estimated general fund balance - June 30, 2005 (\$106,194,663 more than the 2003 legislative estimate of \$10,252,909)	\$116,447,572

Ms. Sharp said preliminary deficiency general fund appropriations requests for the 2003-05 biennium as of October 1, 2004, total approximately \$11 million as shown below:

Agency	Potential Deficiency Appropriation
Division of Emergency Management	\$6,275,000
Information Technology Department	1,070,000
Department of Corrections and Rehabilitation	1,250,000
Veterans Home	200,000
Deep Creek fire - Preliminary	310,000
University of North Dakota (1997 flood)	371,000
North Dakota State University (2000 flood)	1,500,000
Attorney General - Prosecution witness fees and crime lab costs	110,000
Total	\$11,086,000

In response to a question from Representative Timm, Ms. Sharp said the potential deficiency appropriation amount for the Deep Creek fire is for the state's share of the cost to fight the wildfire on state-owned land near Amidon in September 2004.

Ms. Sharp said the Office of Management and Budget prepared a preliminary revenue forecast in

August 2004. She said this revised forecast projects an additional \$33.3 million of revenue for the 2003-05 biennium compared to the March 2003 forecast and an additional \$102.5 million of revenue for the 2005-07 biennium compared to the March 2003 forecast. She said based on the preliminary revenue forecast, the transfers to the permanent oil tax trust fund for the 2003-05 biennium are anticipated to be \$16.8 million. She said the oil and gas production tax and the oil extraction tax are not anticipated to reach the \$71 million cap for the 2005-07 biennium, resulting in no anticipated transfers to the permanent oil tax trust fund for the 2005-07 biennium. Ms. Sharp said the average price per barrel of oil has been above the trigger price for five consecutive months, resulting in an increase in the oil extraction tax rate as of October 1, 2004. She said the tax rate for approximately 58 percent of monthly oil production will increase from 4 to 6.5 percent. She said the increased tax rate will remain in effect until the average price per barrel of oil drops below the trigger price for five consecutive months. Pursuant to North Dakota Century Code (NDCC) Section 57-51.1-01, the trigger price is \$35.50 as indexed for inflation, and the Tax Commissioner computes the indexed trigger price by December 31 of each year to be applied for the following calendar year. The adjusted trigger price for 2004 is \$35.11.

In response to a question from Senator Mathern, Ms. Sharp said the additional revenue generated by the increased oil tax rates will be deposited into the general fund until the \$71 million cap is reached and then will be deposited into the permanent oil tax trust fund.

In response to a question from Representative Svedjan, Ms. Sharp said the revised revenue forecast for the 2003-05 biennium for corporate income tax revenue has decreased approximately \$7.8 million from the 2003 legislative forecast as a result of federal fiscal tax reductions.

In response to a question from Representative Svedjan, Ms. Sharp said the revised revenue forecast for the 2005-07 biennium for departmental collections decreased approximately \$11.76 million from the 2003 legislative forecast as a result of the state no longer receiving intergovernmental transfer payments.

In response to a question from Representative Skarphol, Ms. Sharp said \$11.9 million was transferred from the permanent oil tax trust fund to the general fund during the 2003-05 biennium.

Ms. Sharp said excluding the federal fiscal relief payments and the federal fiscal relief Medicaid federal medical assistance percentage, the total revenue and transfers for the first 14 months of the 2003-05 biennium were approximately \$38.3 million above the March 2003 forecast and approximately \$7.9 million above the August 2004 revised forecast. She said sales tax collections continue to be higher than forecasted, accounting for \$23.3 million of the \$38.3 million variance.

TOBACCO SETTLEMENT PROCEEDS

Ms. Sharp presented information on the status of tobacco settlement proceeds received by North Dakota. A copy of the information presented is on file in the Legislative Council office. Ms. Sharp said the tobacco settlement trust fund has not received any payments since April 2004 and the next payment is anticipated to be received in April 2005. She said the total amount the state has received in the tobacco settlement trust fund since December 1999 is \$129.5 million. She said another tobacco company has joined the tobacco settlement, which will result in North Dakota receiving an additional \$600,000 to \$700,000 per year.

In response to questions from Representative Svedjan and Senator Holmberg, the legislative budget analyst and auditor said 10 percent of the tobacco settlement proceeds are deposited in the community health trust fund, which will have a balance as of June 30, 2005, of approximately \$4.2 million and uses of the community health trust fund include tobacco cessation programs, dentists' loan repayment program, and breast and cervical cancer screenings.

INFORMATION TECHNOLOGY FUNDING REDUCTIONS

Ms. Sharp presented information on line item transfers to accommodate information technology funding reductions pursuant to Section 8 of 2003 House Bill No. 1505. A copy of the information presented is on file in the Legislative Council office. Ms. Sharp said as of October 2004 two transfers have been made. She said one transfer of \$8,458 was made by the Tax Department from the salaries and wages line item to the operating line item and the other transfer of \$30,650 was made by the Land Department from the capital assets line item to the operating line item.

MEDICAL ASSISTANCE PROGRAM

At the request of Chairman Svedjan, Mr. David J. Zentner, Director, Medical Services, Department of Human Services, presented an update on the status of the medical assistance program. A copy of the information presented is on file in the Legislative Council office. Mr. Zentner said expenditures through July 2004 for the Medicaid program continue to track with the department's projections. He said the department still anticipates it will need to utilize \$8 million of general fund savings that resulted from the temporary increase in the federal medical assistance percentage to operate the program in its present form.

Mr. Zentner said approximately 51.3 percent of the department's appropriation for Medicaid grants and long-term care continuum has been spent during the first year of the 2003-05 biennium and approximately 46.5 percent of the appropriation for developmental disabilities grants has been used. He said the department anticipates nursing facility expenditures will be approximately \$7 million less than appropriated

primarily due to fewer Medicaid days than originally anticipated. He said the appropriation anticipated approximately 1,341,390 days of services for the first year of the 2003-05 biennium but the actual number of days paid was 1,298,373, or approximately 43,000 fewer days. He said the number of individuals accessing the elderly and disabled Medicaid waiver has increased approximately 21 percent resulting in the department spending approximately \$2 million more than anticipated for this service. He said inpatient hospital expenditures are anticipated to exceed the appropriation by approximately \$13.5 million, or an increase of 22 percent, primarily due to more costly services and more admissions than anticipated. He said 4,958 admissions were anticipated for the period January 2004 through June 2004 but the department actually paid for 5,874 services during that six-month period. He said a portion of this increase is attributable to the department's effort to process suspended claims and reduce the claims backlog by the end of June 2004. Mr. Zentner said the Department of Human Services is projecting to have general fund turnback of approximately \$11 million.

In response to a question from Representative Svedjan, Mr. Zentner said he estimates that the department's efforts to process additional claims before the federal medical assistance percentage decreased on July 1, 2004, produced \$50,000 to \$100,000 in additional savings for the state.

Mr. Zentner said Medicaid caseload numbers continue to decline since the beginning of the 2003-05 biennium. He said the June 29, 2004, caseload totaled 52,646, excluding the elderly and disabled whose coverage is only for Medicare Part B premiums and in some instances Medicare coinsurance and deductible amounts. He said as of the end of July 2004, a total of 52,024 individuals were eligible for full Medicaid benefits.

Mr. Zentner said the enhanced federal medical assistance percentage of 71.31 percent ended as of June 30, 2004, at which time the percentage reverted back to 68.31 percent. He said on October 1, 2004, the percentage decreased to 67.49 percent and this percent will remain in effect until September 30, 2005, unless Congress provides additional fiscal relief to the states. He said the final federal medical assistance percentage for federal fiscal year 2006 has not been released by the federal government but preliminary estimates calculate the federal medical assistance percentage to be approximately 65.16 percent beginning October 1, 2005.

In response to a comment from Representative Svedjan, the legislative budget analyst and auditor said the Legislative Council office has received a

preliminary estimate from Federal Funds Information for States (FFIS) that the federal medical assistance percentage for federal fiscal year 2006 will be 65.86 percent, instead of the previously anticipated 65.16 percent.

In response to a question from Representative Svedjan, Mr. Zentner said a 1 percent change in the federal medical assistance percentage equates to approximately \$4 million to \$5 million per year.

In response to a question from Representative Delzer, Mr. Zentner said the Department of Human Services is using federal medical assistance percentages of 65.16 percent for federal fiscal year 2006 and 63.54 percent for federal fiscal year 2007 in its 2005-07 biennium budget.

Mr. Zentner said the Department of Human Services has contracted with Fox Systems, Inc., to assist in the initial requirements analysis, cost-benefit analysis, and preparation of the request for proposal for the new Medicaid management information system. He said the project is on schedule and the request for proposal is anticipated to be available before the start of the 2005 legislative session. He said funding for the initial phase of the project is 90 percent federal participation and the department anticipates 90 percent federal funding will also be available for the actual development of the information system. He said the final decision to proceed with the Medicaid management information system will be made by the 2005 Legislative Assembly.

In response to a question from Representative Svedjan, Mr. Zentner said the estimated cost of the Medicaid management information system is approximately \$30 million, of which \$3 million would be from the general fund.

DEPARTMENT OF HUMAN SERVICES - TRANSFERS IN EXCESS OF \$50,000

Chairman Svedjan called on Ms. Brenda Weisz, Chief Financial Officer, Department of Human Services, to present any transfers between line items and between subdivisions in excess of \$50,000 pursuant to Section 7 of 2003 Senate Bill No. 2012. A copy of the information presented is on file in the Legislative Council office.

In response to a question from Representative Delzer, Ms. Weisz said the federal medical assistance percentage for federal fiscal year 2007 appears to be decreasing .4 percent from the estimated 63.54 percent.

Ms. Weisz said transfers made by the Department of Human Services in excess of \$50,000 as a result of the flexibility the department has pursuant to Section 7 of 2003 Senate Bill No. 2012 are:

Description	General Fund	Federal/Other Funds	Transfer Total
Line item transfer - Long-term care budget level ¹			
Grants line item	(\$150,000)		(\$150,000)
Grants - Medical assistance line item	\$150,000		\$150,000
Transfer funds from program/policy management to administration ²			
Administration/support	\$150,000		\$150,000
Mental health and substance abuse	(\$150,000)		(\$150,000)
Move funding between human service centers ³			
Northwest Human Service Center	(\$22,900)	(\$40,100)	(\$63,000)
Southeast Human Service Center	\$22,900	\$40,100	\$63,000
Move national family caregiver funds from central office to human service centers ⁴			
Aging services (grants line item)		(\$1,014,414)	(\$1,014,414)
Northwest Human Service Center		\$56,695	\$56,695
North Central Human Service Center		\$158,891	\$158,891
Lake Region Human Service Center		\$68,913	\$68,913
Northeast Human Service Center		\$141,845	\$141,845
Southeast Human Service Center		\$183,941	\$183,941
South Central Human Service Center		\$149,422	\$149,422
West Central Human Service Center		\$198,812	\$198,812
Badlands Human Service Center		\$55,895	\$55,895
Move funding from central office to South Central Human Service Center ⁵			
Disability Services Division (grants line item)		(\$60,759)	(\$60,759)
South Central Human Service Center		\$60,759	\$60,759
Move funding from human service centers to State Hospital ⁶			
State Hospital	\$379,970		\$379,970
Northwest Human Service Center	(\$75,929)		(\$75,929)
North Central Human Service Center	(\$50,000)		(\$50,000)
Lake Region Human Service Center	(\$90,539)		(\$90,539)
Northeast Human Service Center	(\$68,300)		(\$68,300)
South Central Human Service Center	(\$95,202)		(\$95,202)
Move funding from Developmental Center to State Hospital ⁷			
State Hospital	\$100,000		\$100,000
Developmental Center	(\$100,000)		(\$100,000)

¹The conference committee added funds for an increase in case management payment to counties. The funds were inadvertently added to the grants line item instead of the grants - medical assistance line item.

²The deputy director position was left vacant to absorb a portion of the \$1.5 million general fund reduction to administration/support made by the 2003 Legislative Assembly.

³Funding was moved along with a full-time equivalent position for developmental disabilities case manager based on client caseload.

⁴Funding was initially included in central office until a plan was formulated.

⁵Federal funding was moved to the region based on client need.

⁶Budget reduction plans enacted to assist the State Hospital with part of the \$2 million reduction made by the 2003 Legislative Assembly.

⁷Budget reduction plans enacted to assist the State Hospital with part of the \$2 million reduction made by the 2003 Legislative Assembly.

In response to questions from Senator Krauter, Ms. Weisz said the estimated \$11 million general fund turnback for the Department of Human Services for the 2003-05 biennium is due to the enhanced federal medical assistance percentage and the department is not projecting any turnback in addition to the \$11 million. She said as of October 2004 the department is not anticipating a deficiency appropriation for the 2003-05 biennium, except for the possibility of a \$1.2 million deficiency request for the State Hospital as a result of the additional sexual offender unit.

WORKFORCE SAFETY AND INSURANCE

Status of the Risk Management Workers' Compensation Program

Chairman Svedjan called on Mr. David Dvorak, Policyholder Services Division, Workforce Safety and Insurance, who reported on the status of the risk management workers' compensation program pursuant to NDCC Section 65-04-03.1. A copy of the information presented is on file in the Legislative Council office. Mr. Dvorak said that 2001 House Bill No. 1015 established a single workers' compensation account for all state entities. Mr. Dvorak said the

Risk Management Division of the Office of Management and Budget administers the program. He said the Risk Management Division entered into deductible contracts with Workforce Safety and Insurance for 143 consolidated accounts for coverage periods beginning July 1, 2001. He said the deductible amount selected was \$100,000 per claim. Mr. Dvorak said the results for the three coverage years July 1, 2001, through June 30, 2004, are:

Nonconsolidated guaranteed cost program premium		\$10,966,092
Risk Management Division deductible premium paid to Workforce Safety and Insurance	\$4,361,449	
Risk Management Division paid losses	3,272,159	
Risk Management Division pending losses (reserves)	1,071,226	
Less Risk Management Division combined premium and losses total		\$8,704,834
Estimated savings for three-year period		\$2,261,258

NOTE: Information as of August 31, 2004.

Mr. Dvorak said the Risk Management Division has implemented programs to pass on the

\$2.26 million of savings to agencies with effective risk management strategies.

Building Maintenance Account

Chairman Svedjan called on Ms. Tammy Dolan, Vice President of Finance, Workforce Safety and Insurance, to present a report on the Workforce Safety and Insurance building maintenance account pursuant to NDCC Section 65-02-05.1. A copy of the information presented is on file in the Legislative Council office. Ms. Dolan said fiscal year 2004 was the first full year of operations for the Workforce Safety and Insurance office building--the Century Center. She said in addition to Workforce Safety and Insurance, the four-story building, consisting of 116,000 square feet of office space, houses four other state agencies, including the Department of Commerce, Parks and Recreation Department, Council on the Arts, and the Risk Management Division of the Office of Management and Budget. She said construction of the Century Center was completed within both the original construction schedule and the budgeted amount of \$12 million. She said rental fees of \$13 per square foot for office space and \$5 per square foot for storage space will remain the same for the 2005-07 biennium. She said energy efficiency was a key design element for the building--investing in geothermal heat pumps, heat-recovery ventilation units, a building automation system, and low-voltage lighting controls. She said energy costs for fiscal year 2004 were 93 cents per square foot, which is more efficient than the regional average of \$1.25 per square foot for a similar-size building. She said as a result of its low energy usage, the Century Center was awarded an Energy Star rating from the Environmental Protection Agency. She said the Century Center is the first general office building in North Dakota to receive this designation. Ms. Dolan said the tenants of the Century Center seem to be pleased with their office space, with the building receiving an overall average ranking of 4.4 points out of a maximum of 5 points in a recent tenant survey.

Ms. Dolan said the Century Center largest operating expense is the payment made in lieu of taxes to the City of Bismarck. She said this payment was \$150,090 for fiscal year 2004 and is anticipated to be approximately \$270,000 for fiscal year 2005. She said this payment was one-third of the Century Center total costs for 2004 and is more than 45 percent of the anticipated expenses for 2005. Ms. Dolan said activity in the Century Center building maintenance account is:

Century Center Building Maintenance Account		
Fiscal year 2004		
Tenant rent payments	\$441,000	
Workforce Safety and Insurance rent payment	186,000	
Miscellaneous billings	2,369	
Total revenue		\$629,369
Operating expenses	\$458,302	
Building maintenance	37,609	
Total expenses		\$495,911
Account balance as of June 30, 2004		\$133,458
Fiscal year 2005 (projected)		
Tenant rent payments	\$441,000	
Workforce Safety and Insurance rent payment	186,000	
Total revenue		\$627,000
Operating expenses	\$591,950	
Building maintenance	33,600	
Total expenses		\$625,550
Projected account balance as of June 30, 2005		\$134,908

Ms. Dolan said the building maintenance account balance is reserved for future expenses such as parking lot repairs.

In response to a question from Representative Svedjan, Ms. Dolan said the amount of the payment made to the City of Bismarck in lieu of taxes is also figured into the tenant rental payment amounts.

INFORMATION TECHNOLOGY DEPARTMENT 2003-04 Annual Report

Mr. Mike Ressler, Deputy Chief Information Officer, Information Technology Department, distributed a copy of the department's annual report on information technology projects, services, plans, and benefits pursuant to NDCC Section 54-59-19. A copy of the report is on file in the Legislative Council office. He said the annual report is composed of the following sections:

- Section 1 - An executive summary that describes and quantifies benefits the state is realizing from investments in information technology.
- Section 2 - A status report on the costs and benefits of large information technology projects completed in the last 12 months.
- Section 3 - A summary of small information technology projects completed in the last 12 months.
- Section 4 - Information on the department's performance, including a rate comparison and an update on the department's performance measures.
- Section 5 - An overview of ongoing information technology initiatives.

Mr. Ressler said in regard to the department's performance, the department tracks and monitors the cost and the revenue for each service to ensure that service is not subsidizing another service. He said the federal government does not allow the department to charge rates that generate revenues in excess of costs; therefore, the department monitors its cash

balances and adjusts rates accordingly. He said the department also monitors what other entities are charging for similar services in an effort to maintain quality services at a fair price. The following is a summary of rate comparisons for the services that generate a majority of the department's total revenue:

SOFTWARE DEVELOPMENT		
	Systems Analysis	Programming
North Dakota Information Technology Department rates	\$56.25 per hour	\$52 per hour
South Dakota Bureau of Information Technology rates	\$48 per hour	*
Montana Information Technology Services Division rates	Local providers	*
Priority Technologies, Inc. Maximus	\$86.25 per hour	*
	Ranges from \$125 to \$275 per hour	*
Capstone	Ranges from \$100 to \$140 per hour	*
Inet	Ranges from \$60 to \$100 per hour	*
K-2	Ranges from \$60 to \$80 per hour	*
Route 94	Ranges from \$60 to \$80 per hour	*

*The Information Technology Department is the only provider offering programming services at a rate separate from systems analysis.

TELEPHONE FEES	
North Dakota Information Technology Department rates	Telephone line - \$21 per device per month Speaker function - \$2 per month Display function - \$1 per month Voice mail (unlimited) - \$3 per month
South Dakota Bureau of Information Technology rates	Telephone line - \$11 per device per month* Speaker function - Actual cost Display function - Actual cost Voice mail (unlimited) - \$6 per month
Montana Information Technology Services Division rates	Telephone line - \$20 per device per month Speaker function - \$1 per month Display function - \$7 per month Voice mail (3-minute limit) - \$5 per month Voice mail (6-minute limit) - \$8 per month Voice mail (10-minute limit) - \$10 per month
Qwest	\$39.88 per month*
Polar Communications	\$27.23 per month*
SRT	\$28.79 per month*
Consolidated Telcom	\$41.06 per month*

*The customers buy their own telephone device.

LONG DISTANCE	
North Dakota Information Technology Department rates	In state - \$.05 per minute Out of state - \$.05 per minute 800 service - \$.07 per minute
South Dakota Bureau of Information Technology rates	In state - \$.08 per minute Out of state - \$.09 per minute 800 service - \$.10 per minute
Montana Information Technology Services Division rates	In state - \$.105 per minute Out of state - \$.105 per minute

LONG DISTANCE	
Minnesota Department of Administration	800 service - \$.10 per minute In state - \$.064 per minute Out of state - \$.064 per minute
Nebraska Division of Communications	800 service - \$.08 per minute In state - \$.07 per minute Out of state - \$.07 per minute 800 service - \$.09 per minute
Oklahoma Office of State Finance	In state - \$.09 per minute Out of state - \$.09 per minute 800 service - \$.11 per minute

Service	North Dakota Information Technology Department Rates	South Dakota Bureau of Information Technology Rates	Montana Information Technology Services Division Rates
Central computer central processing unit (CPU) rates	Batch CPU - \$.98 per second CICS CPU - \$.98 per second ADABAS CPU - \$1.03 per second TSO CPU - \$.98 per second	Batch CPU - \$1.53 per second CICS CPU - \$1.53 per second ADABAS CPU - \$1.53 per second TSO CPU - \$1.53 per second	Batch CPU - \$1.74 per second CICS CPU - \$.51 per second ADABAS CPU - \$.99 per second TSO CPU - \$2.13 per second
Network fees	Device fee - \$29 per device per month DSL service - Actual cost (ranges from \$40 to \$120) ATM T-1 service - \$840 per month	Device fee - \$46 per device per month DSL service - \$125 per month ATM T-1 service - \$495 per month Access fee - \$52 per device per month	Device fee - \$72.60 per device per month DSL service - \$250 per month ATM T-1 service - \$650 per month

Mr. Ressler provided the following update on the department's performance measures:

Performance Measures	Baseline (Previous Years)	Current Status (June 2004)	Target
Acceptable level of total net assets	2001 - 1.6 2002 - 1.4 2003 - 1.6	1.4	< or = to 2.0
Percentage of Information Technology Department rates reported in annual report that are competitive	2003 - 100%	100%	100%
Total number of customer projects and service requests completed			
Projects	N/A	20,826	Monitor
Service requests	N/A	21,742	Monitor
Customer satisfaction indexes (percentages satisfied or very satisfied) relating to:	2002-2003		
Value	85.3-86.0%	88.1%	90%
Timeliness	94.9-90.2%	91.6%	95%
Quality	94.6-94.2%	92.3%	95%
Knowledge	95.9-96.1%	97.3%	98%
Professionalism and courtesy	98.6-96.9%	97.3%	100%

Performance Measures	Baseline (Previous Years)	Current Status (June 2004)	Target
Employee satisfaction index	2001 - 1.967 2002 - 2.010 2003 - 1.983	1.96	2
Controllable employee turnover	2001 - 4.0% 2002 - 2.4% 2003 - 1.9%	3.2%	4.0-6.0%
Percentage of service levels met	N/A	100%	100%
Percentage of strategic business plan objectives completed or on schedule	2001 - 35% 2002 - 50% 2003 - 65%	72%	70%

In response to questions from Senator Mathern, Mr. Ressler said Fox Systems, Inc., is an independent consultant with expertise in Medicaid management information system applications and Fox Systems, Inc., and the Information Technology Department are working together in regard to the new Medicaid management information system. He said the Department of Human Services is also considering outsourcing the Medicaid management information system application to another state that has an updated system or to a private entity.

Server and Operating System Infrastructure

Chairman Svedjan called on Mr. Curtis L. Wolfe, Chief Information Officer, Information Technology Department, to provide information regarding the future of the state's server and operating system infrastructure. A copy of the information presented is on file in the Legislative Council office. Mr. Wolfe said the majority of the state's essential business functions are supported by the mainframe, including applications for the Tax Department, Department of Human Services, Bank of North Dakota, Legislative Assembly, and Department of Transportation. He said supporting these applications requires a staff with mainframe skill sets and the staff members with the necessary legacy skill sets are near retirement and the market is not producing individuals with the required skill sets. He said as a result, an internal training program to provide new staff with the required skill sets is necessary to maintain the mainframe and an increase in the number of full-time equivalent positions will also be required to guarantee staff time for training, as well as to provide protection from the effects of staff departures. He said no new mainframe applications have been deployed since 1997 and agencies will gradually move to new technology resulting in fewer applications on the mainframe. He said Intel-based servers are becoming the predominant platform for application delivery and rewriting all of the mainframe applications will take years and cost tens of millions of dollars.

Mr. Wolfe said there are four alternatives for addressing the future of the state's mainframe:

- Maintain the current mainframe environment.

- Outsource the mainframe environment.
- Rewrite the applications dependent upon the mainframe to operate on another platform.
- Migrate the applications dependent upon the mainframe to another platform.

Mr. Wolfe provided the following cost analysis relating to alternatives for addressing the future of the state's mainframe:

Alternatives	Ongoing Annual Costs
Maintain the current mainframe environment	\$3,790,000
Maintain the current mainframe environment in the future	\$4,030,000 ¹
Outsource the mainframe environment	\$5,100,000 ²
Migrate the applications to another platform	\$1,865,000 ³

¹Maintaining the current mainframe environment in the future is critically dependent on the availability of trained staff. The estimated ongoing annual costs associated with maintaining the current mainframe environment in the future includes \$240,000 for three additional full-time equivalent positions and an associated training program.

²Outsourcing the mainframe environment involves utilizing an outside vendor to provide the mainframe environment. The vendor would be responsible for all software, hardware, and labor costs, and the state would be responsible for monitoring service levels. The estimated ongoing annual costs of \$5,100,000 includes \$4,500,000 for a contract with an outside vendor and \$600,000 for expenses associated with network connectivity and service level administration.

³Migration involves moving the existing applications from the mainframe to another platform while performing as few changes as possible. One-time costs associated with migrating the state's applications dependent on the mainframe are \$6,300,000, and the ongoing annual costs associated with migration are \$1,865,000.

Mr. Wolfe said migration from the mainframe, which has a project cost of \$6.3 million and a reduction in expenses of \$2 million per year, will remove the Information Technology Department's requirement for staff with mainframe skill sets and will position the department for the future. He said the department will pursue legislative authority for the department to borrow \$6.3 million for five years with payback through the rate structure, which permits the department to take advantage of general, special, and federal funding sources.

In response to a question from Senator Bowman, Mr. Wolfe said migration from the mainframe will result in quick savings for the state. He said agencies must prepare a cost-benefit analysis and justify the costs associated with an information technology project before proceeding.

Status of ConnectND

Mr. Wolfe presented information regarding the status of ConnectND. A copy of the information presented is on file in the Legislative Council office. Mr. Wolfe said the original contract agreement with PeopleSoft for the ConnectND project was for

approximately \$21.7 million but as of August 31, 2004, the cost of the project was \$24.55 million. He said reasons for the \$2.85 million increase in costs include amendments for higher education delays, payroll decision delay, and delay in state implementation from September 1, 2004, to October 1, 2004.

Mr. Wolfe presented information regarding the return on investment and benefit analysis update for the ConnectND project. A copy of the information presented is on file in the Legislative Council office. Mr. Wolfe said the ConnectND system implementation has occurred over a two-year period from 2003 to 2004 and the total estimated implementation costs for the two years is approximately \$42.5 million, which is less than the estimated costs of deferred development ranging from \$58.75 million to \$63.5 million. He said the 10-year estimated total implementation and ongoing costs for state government and higher education is approximately \$129.3 million. He said the estimated 10-year total for operational and maintenance costs and deferred development of the legacy system is approximately \$108 million to \$113 million. He said the projected payback period for the ConnectND project of eight years is one year longer than originally estimated as a result of the additional contracting costs incurred by the delay in implementation of the project.

In response to a question from Representative Koppelman, Mr. Wolfe said if the Oracle Corporation acquires PeopleSoft, Inc., Oracle has stated it will continue to support PeopleSoft products on a maintenance basis for 10 years but may not provide upgrades or enhancements.

In response to a question from Representative Skarphol, Mr. Wolfe said Microsoft has stated it has no interest in acquiring PeopleSoft, Inc.

NORTH DAKOTA UNIVERSITY SYSTEM Status of ConnectND

Chairman Svedjan called on Dr. Robert L. Potts, Chancellor, North Dakota University System, to present information on the status of the ConnectND project. A copy of the information presented is on file in the Legislative Council office. Dr. Potts said in June and July 2004 the North Dakota University System went into production with the PeopleSoft student, finance, and human resource modules at five additional campuses, including Bismarck State College, Lake Region State College, Williston State College, State College of Science, and Dickinson State University, which brought the total number of "live" sites to eight, including Mayville State University, Valley City State University, and the North Dakota University System. He said the system experienced performance problems related to the network/hardware configuration in August 2004 but the issue has since been resolved with the aid of a PeopleSoft consultant. Dr. Potts said the University System also went "live" with the conversion to

semimonthly payroll with a 15-day timelag for all campuses in July 2004 and very few problems have been reported.

Dr. Potts said at the end of July 2004 the State Board of Higher Education approved a delayed implementation plan for the grants and contracts module based on campus concerns regarding the readiness of the grants and contracts system. He said the delay provides an extended period for additional configuration and testing. He said the new implementation schedule for the remaining four campuses--University of North Dakota, North Dakota State University, Minot State University, and Minot State University - Bottineau--is to have the finance and human resource modules implemented by January 2005, with student records implementation beginning the fall of 2004 and completed by spring 2005. He said student recruitment and admissions, which is part of the student system, was successfully implemented on the four remaining campuses in October 2004 as part of the phased implementation plan.

Dr. Potts said in July 2004 the State Board of Higher Education also approved a supplemental budget plan for the ConnectND project, which provides permanent support for the finance, student, and production environments and provides interim support for the student production environment until spring 2005 and finance and human resource until January 1, 2005, based on the delayed implementation schedule. He said the additional one-time and ongoing costs of approximately \$4.1 million relating to higher education's implementation of the ConnectND system will be allocated as follows:

- \$1.25 million in forgiveness from Maximus.
- \$1.38 million from ConnectND budget funds.
- \$600,000 from Higher Education Computer Network operating funds.
- \$250,000 from State Board of Higher Education contingency funds.
- \$480,000 from higher education institutions.
- \$150,000 from the state contingency fund.

Dr. Potts said the ConnectND project seems to be going well overall but it has resulted in a strain on the University System resources. He said challenges addressed by the project team include student record conversion at the four remaining campuses, ensuring sufficient reports and queries are available for information and reporting purposes, and the ongoing maintenance of security access.

In response to a question from Representative Aarsvold, Dr. Potts said there is significant concern regarding the \$480,000 of additional costs that will be paid by the higher education institutions. He said the financial burden of the additional costs will be most difficult on the smaller campuses.

In response to a question from Senator Robinson, Dr. Potts said the University System requested both PeopleSoft and Maximus to participate in the resolution of the grants and contracts challenges. He said

Maximus has agreed to forgive \$1.25 million and PeopleSoft has responded to the University System request but has not offered to provide any funding.

Representative Svedjan said he believes that PeopleSoft should share some of the financial responsibility for the \$4.1 million in additional costs incurred by the University System relating to the ConnectND implementation.

PEOPLESOFT Status of ConnectND

At the request of Chairman Svedjan, Mr. Winston Cutler, Vice President of Public Services, PeopleSoft, Inc., Chicago, presented information regarding the status of the ConnectND project. Mr. Cutler said he wants to address three areas, the first of which is PeopleSoft's perspective of the ConnectND project. Mr. Cutler said the ConnectND project is viewed by peers to be a stunning success. He said the ConnectND project is the fastest and least expensive enterprise resource planning system in the nation. He said other state governments and many university systems consider the ConnectND project a model for enterprise resource planning systems, which they strive to achieve.

Mr. Cutler said the second area is the situation between Oracle Corporation and PeopleSoft, Inc. He said as of 2004 PeopleSoft has 12,000 customers worldwide, including approximately 2,100 customers in the area of public service, including federal, state, and local governments and higher education systems. He said PeopleSoft has \$3 billion in gross revenues, with approximately \$350 million from its Public Service Division. He said PeopleSoft has customers in 150 countries and is the number one enterprise software provider in North America. He said for the 12-month period beginning July 2003 when the threat of Oracle acquiring PeopleSoft started, PeopleSoft has 640 new customers and generated \$2.6 billion in total revenue. He said cash and short-term investments have remained at approximately \$1.6 billion since July 2003. He said 150 new customers signed contracts with PeopleSoft during the third quarter of 2004 for \$150 million in license fee revenue and two states--Ohio and Delaware--signed statewide contracts with PeopleSoft. He said the PeopleSoft Board of Directors requested and received the resignation of the company's chief executive officer and president, Mr. Craig Conway, and replaced him with the founder and chairman of PeopleSoft, Mr. Dave Duffield.

Mr. Cutler said the third area he will address is grants and contracts. He said PeopleSoft has 190 grants and contracts customers worldwide, consisting mostly of higher education systems, including university systems that have in excess of \$200 million in grants.

Mr. Cutler said PeopleSoft will not provide any direct financial assistance to the North Dakota

University System shortfall of \$4.1 million for the ConnectND project but PeopleSoft will offer its staff as a resource for the state.

In response to a question from Representative Skarphol, Mr. Cutler said difficulties are usually experienced with the implementation of a project of the size of the ConnectND project. He said the problems experienced by North Dakota are considered to be insignificant when compared with other states and problems experienced in North Dakota can be attributed to the compressed timeframe the state had for implementing the ConnectND project.

AGENCY REQUESTS AUTHORIZED BY THE EMERGENCY COMMISSION

Chairman Svedjan directed the committee to consider agency requests which have been authorized by the Emergency Commission and forwarded to the Budget Section pursuant to NDCC Sections 54-16-04.1, 54-16-04.2, and 54-16-09. The information relating to the requests was sent to Budget Section members prior to the meeting and is on file in the Legislative Council office.

At the request of Chairman Svedjan, Ms. Sharp presented information regarding the North Dakota University System request (Emergency Commission Request #1520) for \$150,000 from the state contingency fund and to increase spending authority to accept the funds to cover a portion of the unanticipated expenses related to the delay in the implementation of the ConnectND project.

Representative Svedjan said he had recommended that Dr. Potts make a request for the contingency funds from the Emergency Commission. He said the University System has searched extensively for funds to cover the \$4.1 million in additional ConnectND costs. He said the Emergency Commission unanimously approved this request.

It was moved by Senator Robinson, seconded by Senator O'Connell, and carried on a voice vote that pursuant to NDCC Sections 54-16-04.2 and 54-16-09, the Budget Section approve the following request which has been authorized by the Emergency Commission:

- **North Dakota University System (Request #1520) - To receive \$150,000 from the Emergency Commission's contingency fund and to increase spending authority to accept the funds to cover a portion of unanticipated expenses related to a delay in the implementation of the state's enterprise resource planning system initiative, commonly known as the ConnectND system. A total of \$4.1 million in additional costs is anticipated, of which \$150,000 is being asked for from the state contingency fund.**

At the request of Chairman Svedjan, Ms. Sharp presented information regarding the Office of

Management and Budget - Risk Management Division request (Emergency Commission Request #1521) to increase special funds spending authority and the operating line item by \$300,000 to use money from the risk management fund to purchase a new risk management information system. She said there is no longer support for the current system, which is only compatible with an old version of Windows. She said the risk management fund consists of premiums paid by state agencies and the fund is used to pay agency claims and fund the risk management office. She said the risk management fund contains ample funds to pay claims and fund the risk management office in addition to this request.

In response to a question from Representative Kempenich, Ms. Sharp said this request was not brought before the 2003 Legislative Assembly because the department was not aware of the problems with the system at that time.

It was moved by Representative Carlisle, seconded by Senator Mathern, and carried on a voice vote that pursuant to NDCC Section 54-16-04.2, the Budget Section approve the following request which has been authorized by the Emergency Commission:

- **Office of Management and Budget - Risk Management Division (Request #1521) - To increase special funds spending authority and the operating line item by \$300,000 to use funds from the risk management fund to purchase a new risk management information system for the purpose of documenting incidents, claims, and lawsuits.**

At the request of Chairman Svedjan, Ms. Sharp presented information regarding the Department of Human Services requests (Emergency Commission Requests #1524 and #1526). Ms. Sharp said Request #1524 is to increase federal funds spending authority by \$261,150 to accept federal funds from the United States Department of Health and Human Services to enhance Alzheimer's support services. She said \$26,000 will be for the aging services line item and \$235,150 will be for the grants line item. She said the purpose of the federal funds is to build an alliance among the medical community, the community services network, and the department's family caregiver program by increasing early dementia identification, treatment options, and caregiver respite. Ms. Sharp said Request #1526 is to increase federal funds spending authority to accept funds from the United States Department of Health and Human Services to support the single point of entry into services. She said the funds will be for the aging services line item and be used to increase access and utilization of home and community-based services for elderly people age 60-plus and people with disabilities.

In response to a question from Representative Delzer, Ms. Sharp said an agency may accept and spend federal funds if it has adequate federal funds

spending authority within its appropriation. She said, however, the Department of Human Services did not anticipate receiving either of these two grants during the 2003 legislative session.

In response to a question from Representative Delzer, Ms. Weisz said the North Dakota Century Code requires a state agency to appear before the Budget Section to receive new federal grants and the two grants the Department of Human Services is requesting to receive are new federal grants.

Representative Delzer requested the Legislative Council staff to research the Century Code requirement relating to state agencies receiving new federal funds to clarify if the agency simply needs to inform the Budget Section of receipt of the new federal funds when it already has adequate spending authority within its budget or if the agency needs Budget Section approval before it can receive and spend the new federal funds.

It was moved by Representative Delzer, seconded by Representative Metcalf, and carried on a voice vote that the Budget Section approve the following requests that have been forwarded to the Budget Section pursuant to NDCC Section 54-16-04.1:

- **Department of Human Services (Request #1524) - To increase federal funds spending authority by \$261,150 for the family caregiver program to provide additional support services for Alzheimer's patients and their families, to provide early dementia identification, treatment options, and caregiver respite.**
- **Department of Human Services (Request #1526) - To increase federal funds spending authority and the aging services line item by \$300,000 to support the single point of entry into services to increase access to and utilization of home and community-based services for elderly people age 60-plus and people with disabilities.**

At the request of Chairman Svedjan, Ms. Sharp presented information regarding the Department of Agriculture request (Emergency Commission Request #1525) to increase federal funds spending authority and the Board of Animal Health line item by \$868,272; \$125,000 of federal passthrough funds from the State Department of Health for development of emergency management plans related to foreign animal disease; and \$743,272 from the United States Department of Agriculture, consisting of \$515,000 for the National Identification System and \$228,272 for the control of animal agriculture-related diseases.

It was moved by Senator O'Connell, seconded by Senator Holmberg, and carried on a voice vote that pursuant to NDCC Section 54-16-04.1, the Budget Section approve the following request

which has been authorized by the Emergency Commission:

- **Agriculture Department (Request #1525) - To increase spending authority and the Board of Animal Health line item by \$868,272 to receive federal passthrough funds from the State Department of Health (\$125,000) for development of emergency management plans related to foreign animal diseases; federal United States Department of Agriculture grants (\$743,272) for control of animal agriculture-related diseases, including Johnes disease, swine protection, scrapie, and chronic wasting disease; and for assessment and implementation of the National Identification System.**

totaling \$2.95 million, which equates to the use of \$1.475 million in tax credits, and the Valley City renaissance fund organization has not received any investments. He said of the \$2.95 million, \$1.49 million was invested in three Fargo businesses and \$200,000 in one Jamestown business. He said the audit also shows that the four cities have paid management fees to Renaissance Ventures LLC totaling \$111,750 in 2002 and \$62,500 in 2003. Mr. Gray said \$1.025 million of tax credits are still available from the 1999 legislative authorization, as well as the \$2.5 million from the 2001 legislative authorization.

In response to a question from Senator Mathern, Mr. Gray said the City of Fargo has received the majority of the funds because it has accumulated the most investments.

DEPARTMENT OF COMMERCE DIVISION OF COMMUNITY SERVICES - ANNUAL AUDITS OF RENAISSANCE FUND ORGANIZATIONS

Chairman Svedjan called on Mr. Richard Gray, Renaissance Zone Manager, Division of Community Services, Department of Commerce, who reported on the annual audits of renaissance fund organizations pursuant to NDCC Section 40-63-07. A copy of the information presented is on file in the Legislative Council office. Mr. Gray said there are 20 cities with a renaissance zone and only five of those cities--Fargo, West Fargo, Casselton, Valley City, and Jamestown--have chosen to establish a renaissance fund organization. He said none of the cities manage their own funds but instead contract with Renaissance Ventures LLC to manage their respective renaissance fund organization. He said there are several other cities considering the establishment and self-management of a renaissance fund organization. Mr. Gray said the audit for Renaissance Ventures LLC indicates that four cities have received investments

VETERANS HOME

Status of the Veterans Home Strategic Plan

At the request of Chairman Svedjan, Mr. Jacob Reuter, Director of Social Work, Veterans Home, presented information regarding the status of the Veterans Home strategic plan pursuant to Section 4 of 2003 House Bill No. 1007. A copy of the information presented is on file in the Legislative Council office. Mr. Reuter said he is the facilitator for the management planning team responsible for the implementation of the Veterans Home strategic plan. He said the team meets weekly to work on the goals and objectives set forth in the strategic plan. He said the Veterans Home contracted with NOVUS Consulting of Fargo to assist them in developing the strategies for the operational plan. Mr. Reuter said the strategic plan consists of eight strategic categories, including:

Strategy	Outcome Measures	Progress
People resources	Leadership model that provides management with focus and structure Veterans Home is employer of choice in the area Employee inservice and education program implemented Human resource policies are appropriate and consistent with contemporary management	Training management staff with Corporate Adventures on leadership, communication, conflict resolution, and teamwork Completed personality testing Evaluated leadership characteristics Redesigned employee evaluation process Tracking turnover rates Established certified nursing assistant recruitment policy Implemented education plan/loan policy Created new human resource policy Pursuing training by Rainmaker Group for staff to improve teamwork, communication, attitude, accountability, and customer service Established a new information technology contract Identified computer skill training needs and developed a training plan Implemented computer-based training program for annual inservice training

Strategy	Outcome Measures	Progress
Program and service excellence	<p>Services for the Veterans Home residents will be developed, refined, and maintained:</p> <ul style="list-style-type: none"> • Hospice service expansion • Chemical dependency services • Behavior management intervention • Management of mental health systems • Skilled unit medical acuity room • Resident work program • Activities to meet needs of younger residents • Dementia unit 	<p>Contracted with the Center for Psychiatric Care for onsite psychiatry</p> <p>Established a crisis intervention team</p> <p>Developed a training curriculum</p> <p>Employed a chemical dependency counselor</p> <p>Created an ongoing activity survey process to provide activities of interest to residents</p> <p>Will prepare data on the cost and feasibility of developing a dementia unit</p>
Quality management	<p>Put into place an organizationwide quality management plan</p>	<p>Assigned a new quality assurance coordinator</p> <p>Staff participation in quality improvement workshops</p> <p>Implementing and reviewing a new process</p>
Capital improvement	<p>Developed a master plan for incorporating new service and program requirements:</p> <ul style="list-style-type: none"> • Assess need for additional private rooms and closet space • Determine location of additional skilled beds, inclusive of additional room for physical therapy services and dining/kitchen space • Completion of an energy audit • Develop plan for placement, design, and cost of resident loading garage • Assess basic care nurses' station to determine remodeling needs 	<p>Evaluated basic care rooms and converted 10 small double rooms to private rooms</p> <p>Completed energy audit and will implement affordable energy-saving measures</p> <p>Address additional room for physical therapy services, dining/kitchen space, and a resident loading garage in the dementia unit feasibility study</p> <p>Reviewing proposed remodeling to basic care nurses' station</p>
Marketing	<p>Internal - Develop a communication policy for informing staff of changes to facility operation</p> <p>External - Develop a written marketing plan for external stakeholders</p>	<p>Utilized a facilitywide communication and morale survey to identify key areas of concern</p> <p>Reviewed communication process changes and training needs with staff</p> <p>Seeking the Rainmaker Group to address staff communication training needs</p> <p>Holding an all staff meeting every two months</p> <p>Will write a formal communication process/policy</p> <p>Developed a new web site</p> <p>Attending veterans' group conventions</p> <p>Will finalize and implement a formal external marketing plan</p>
Service continuum	<p>Identify gaps in service continuum to address unmet needs of the North Dakota veterans' population:</p> <ul style="list-style-type: none"> • Rewrite the Veterans Home Administrative Code • Investigate assisted living • Develop a liaison with Centre, Inc., in Fargo 	<p>Administrative Committee on Veterans Affairs is reviewing the Administrative Code, afterwards will be forwarded to the Attorney General's office to be formatted for public review and hearing</p> <p>Veterans Home Governing Board and Administrative Committee on Veterans Affairs will meet with a representative of Centre, Inc., to discuss new housing/addiction service programs</p> <p>Considering assisted living services</p>
Compliance	<p>Developed and implemented a compliance committee, officer, and organizationwide plan:</p> <ul style="list-style-type: none"> • Designate responsibilities • Complete comprehensive risk assessment to target Health Insurance Portability and Accountability Act and Medicaid policy and procedures • Implement internal auditing, education, and reporting process 	<p>Completed Health Insurance Portability and Accountability Act security risk assessment and developed corresponding policy</p> <p>Designated a security officer</p> <p>Established health insurance portability and accountability privacy policy and privacy officer</p> <p>Developed plan to contact a consultant to assist in the compliance process development</p>
Financial resources	<p>Assure adequate funding for Veterans Home residents:</p> <ul style="list-style-type: none"> • Veterans Administration funding policy 	<p>Veterans Home Governing Board members worked with the Veterans Administration office in Fargo and Senator Kent Conrad's office to change the federal law requiring state veterans' homes to provide primary care and</p>

Strategy	Outcome Measures	Progress
	<ul style="list-style-type: none"> Develop strategies to assure adequate and appropriate state funding for 2005-07 biennium 	medication to its residents - Efforts were unsuccessful and the Veterans Home is in the process of complying with the law by January 2005 Accounting manager is working with the Office of Management and Budget to assure adequate funding for the 2005-07 biennium

**STATE BOARD OF HIGHER EDUCATION
Student Internship Program**

Chairman Svedjan called on Dr. Potts to provide a status report on the student internship program pursuant to Section 31 of 2003 House Bill No. 1003. A copy of the information presented is on file in the Legislative Council office. Dr. Potts said the statewide student internship program has been developed and was launched on September 15, 2004. He said the four specific goals of the program are to:

- Increase the number of students participating in internship programs.
- Increase the percentage of graduates employed in North Dakota.
- Provide students with "real-world" work experiences.
- Increase opportunities for North Dakota employers to recruit potential employees.

Dr. Potts said the followup information on the North Dakota education and training system will allow the University System to determine the percentage of graduates that remain in the community and state as a result of participating in an internship program in comparison to graduates who do not have an internship experience. He said this followup information will allow the University System and the Legislative Assembly to measure the effectiveness of the internship program, particularly as it relates to retaining graduates in North Dakota. Dr. Potts said additional resources in the career centers on the campuses will be necessary to expand internships within higher education and within the employer community.

Undesignated Centers of Excellence

Dr. Potts presented information regarding the allocation of funds from appropriations for undesignated centers of excellence relating to economic development pursuant to NDCC Section 15-10-41. A copy of the information presented is on file in the Legislative Council office. Dr. Potts said the State Board of Higher Education received the following six proposals for centers of excellence funding which totaled \$1.257 million:

Bismarck State College	National Energy Technology Training and Education Center	\$400,000
Williston State College	Oil Field Training Center	139,000
State College of Science	Allied Health	100,000
University of North Dakota	School of Medicine and Health Science Neurosciences	135,000

University of North Dakota	Energy and Environmental Research Center fuel and cell infrastructure - Procurement to support hydrogen production	290,000
Mayville State University	Early Learning Center	193,000
Total		\$1,257,000

Dr. Potts said the proposals were evaluated against criteria developed by the Joint Committee on Economic Development Centers of Excellence and adopted by the State Board of Higher Education. He said based on the criteria, the Bismarck State College proposal scored the highest and the Williston State College proposal ranked second. He said the board had a total of \$400,000 appropriated for this purpose, of which \$300,000 was allocated to the Bismarck State College National Energy Technology Training and Education Center and \$100,000 was allocated to the Williston State College Oil Field Training Center.

**GAME AND FISH DEPARTMENT -
LAND ACQUISITION REQUEST**

At the request of Chairman Svedjan, Mr. Roger Rostvet, Deputy Director, Game and Fish Department, presented a report on the department's request for Budget Section approval of acquisition of 2.5 acres at the East Bay of Devils Lake pursuant to NDCC Section 20.1-02-05.1. Mr. Rostvet said the purchase price for the 2.5 acres is \$60,000. He said the Game and Fish Department currently leases property from two parties for access to the East Bay boat ramp. He said the two parties consist of the National Guard and a private individual. He said the private individual, Mr. Shaffer, has stated that he no longer wants to renew his lease with the Game and Fish Department when it comes due in May 2005 because he wants to sell the property. Mr. Rostvet said without acquisition of Mr. Shaffer's property, the remaining leased property would have to be improved for boat ramp access by raising and expanding the area at an estimated cost in excess of \$100,000. He said there is strong local support for the Game and Fish Department to acquire the land, as supported by letters of support from the area's state senator, a local fishing club, and others. Mr. Rostvet said the Emergency Commission approved the Game and Fish Department request for increased spending authority for the land acquisition at its June 16, 2004, meeting.

In response to a question from Senator Christmann, Mr. Rostvet said he understands that the land acquisition price of approximately \$30,000 per acre is expensive but the price is comparable to other sales of lakeside property in that area.

In response to a question from Senator Bowman, Mr. Rostvet said the funds to purchase the land will come from the game and fish fund.

Senator Every said although the land acquisition price of \$60,000 is expensive, the land acquisition is necessary to maintain adequate boat access to Devils Lake.

It was moved by Senator Every, seconded by Representative Carlson, and carried on a roll call vote that pursuant to NDCC Section 20.1-02-05.1, the Budget Section approve the Game and Fish Department request to acquire 2.5 acres of land at the East Bay of Devils Lake. Representatives Svedjan, Aarsvold, Bellew, Berg, Carlisle, Carlson, Delzer, Gulleston, Kempenich, Kerzman, Koppelman, Kroeber, Metcalf, Monson, Skarphol, Thoreson, Timm, Wald, and Warner and Senators Andrist, Bowman, Christmann, Every, Holmberg, Kilzer, Krauter, Kringstad, Robinson, and Schobinger voted "aye." No negative votes were cast.

STATE AGENCY AND INSTITUTION VACANT POSITIONS AND "OFF-BUDGET" POSITIONS

At the request of Chairman Svedjan, the assistant legislative budget analyst and auditor presented a report entitled *North Dakota State Agency and Institution Vacant Positions as of June 30, 2004*. The report provided information regarding vacant positions within state agencies as of June 30, 2004, including:

- Agency name, vacant position number, and description.
- Date the position was vacated.
- Number of months the position was vacant as of July 1, 2004.
- Date the position is expected to be filled.
- Agency response regarding the position vacancy/status of the position.
- Estimated salary and fringe benefit savings from the vacant positions by general fund and special funds.

The assistant legislative budget analyst and auditor said the total estimated salary and fringe benefit savings from 324 vacant positions is approximately \$7.9 million, of which approximately \$2.25 million is from the general fund. He said the report does not include University System campuses since the University System receives a "block grant" general fund appropriation. He said the report has an appendix containing a summary of estimated savings from vacant full-time equivalent positions for the 2003-05 biennium, including agencies' explanation of anticipated uses of the savings. He said the total estimated salary and fringe benefit savings amount for all agencies for the entire 2003-05 biennium is approximately \$12.98 million, of which approximately \$3.86 million is from the general fund.

In response to questions from Representative Carlson, the assistant legislative budget analyst and

auditor said only a few agencies stated their anticipated use of the general fund savings was to turn it back to the general fund at the end of the biennium. He said federal funds savings would result in less funds being received from the federal government and special funds savings amounts would remain in the respective special funds.

Representative Svedjan said some vacant positions have been vacant for several years.

The assistant legislative budget analyst and auditor presented a report entitled *North Dakota State Agency "Off-Budget" Positions for the 2003-05 Biennium*. He said the report contains a description of "off-budget" positions and lists each "off-budget" position by agency. He said the report does not include University System campuses since the University System receives a "block grant" general fund appropriation, the agriculture commodity groups, or the State Fair Association because the agencies are not included in the appropriations process.

In response to a question from Representative Skarphol, the assistant legislative budget analyst and auditor said the "off-budget" positions are considered to be state employees and they receive state employee benefits.

In response to a question from Representative Delzer, the assistant legislative budget analyst and auditor said the positions on the report are "off-budget" because they are funded by continuing appropriations, rather than specific appropriations for a biennium. He said either they are not legislatively approved positions or the funding for the position was not included in the agency's appropriations bill approved by the Legislative Assembly.

In response to a question from Representative Delzer, the assistant legislative budget analyst and auditor said for agencies that have classified employees, the "off-budget" positions would also be classified.

In response to a question from Representative Carlson, the assistant legislative budget analyst and auditor said Section 34 of 2003 Senate Bill No. 2015 requires that agencies report on their continuing appropriations during the agency budget presentations to the Appropriations Committees of the 59th Legislative Assembly.

Representative Carlson said the Appropriations Committees need to carefully analyze "off-budget" positions during the 2005 Legislative Assembly.

Representative Svedjan said Section 1 of 2003 Senate Bill No. 2423 provided that state agencies and branches of government could eliminate positions from their budgets and pool the related savings to grant a 1 percent salary increase to the remaining employees but most agencies chose not to eliminate positions from their budgets, resulting in executive branch employees not receiving salary increases.

Representative Berg said the judicial branch did eliminate the required number of four full-time

equivalent positions and used the savings to provide a 1 percent salary increase to the remaining employees.

In response to a question from Representative Timm, the assistant legislative budget analyst and auditor said the benefits for "off-budget" positions are funded from the same source as the salary, which would either be from a federal grant or special funds.

DEPARTMENT OF CORRECTIONS AND REHABILITATION'S ARCHITECT'S STUDY ON EAST CELLHOUSE REPLACEMENT

Chairman Svedjan called on Mr. Tim Schuetzle, Director of Prisons Division, Department of Corrections and Rehabilitation, to present information regarding the study of the replacement costs of the east cellhouse at the State Penitentiary. Mr. Schuetzle said the construction of the east cellhouse was completed in 1910 and its capacity is 159 maximum security inmates. He said the State Penitentiary needs more segregation cells and a larger inmate orientation area. Mr. Schuetzle introduced Mr. Jeff Goodale, Corrections and Detention Architect, HDR Architecture, Inc., Chicago, and Mr. Bill Ellig, Partner, Ritterbush-Ellig-Hulsing, Bismarck, to present the results of the architect's study of the replacement of the east cellhouse at the State Penitentiary.

Mr. Goodale said findings from the study of the State Penitentiary include:

East cellhouse

- Nearly 100 years old and has structural and maintenance issues.
- Fails to meet current life safety standards.
- Fails to meet American Correctional Association (ACA) standards for space, light, and programs.
- Fails to meet Americans with Disabilities Act (ADA) standards for accessibility.

Medical facilities

- Lack of space, total beds available, and storage.
- Lack of privacy, especially in waiting and examination areas.
- No disabled access (stretcher used to carry inmates up stairs).
- No space for long-term hospice care.
- Pharmacy lacks workspace and security.
- Dental and x-ray are poorly located for security.
- Lack of facilities requires hospital stays in Bismarck.

Segregation

- Not enough beds available, which increases opportunities for assaults on staff and other inmates.
- Difficult to manage the population.
- No program or ancillary space.

Orientation

- Lacks sufficient beds for average number of new arrivals each month.
- Unable to separate inmate groups properly.
- Lack of processing space and inefficient workflow.
- Building could be utilized for general population housing.

Facility

- Too much burden on central control and front lobby traffic.
- Path to visitation is lengthy.
- Laundry is poorly located.
- Medical is poorly located since it is on the upper floor.
- Yard access for vehicles and the south tower location need to be improved for better security.

Mr. Goodale said some results of the study's findings include the Department of Corrections and Rehabilitation's expensive outsourcing of beds, difficulty in managing inmates, and exposure to lawsuits.

Mr. Goodale said expansion plans for the State Penitentiary include:

1. Relocating the warehouse.
2. Constructing new vehicle access and a new south tower.
3. Demolishing existing south tower.
4. Constructing new orientation housing, an inmate intake/transfer unit, clinic, infirmary, segregation unit, visitor's entrance, and laundry facility.
5. Eliminating east cellhouse.

Mr. Goodale said the expansion would result in a net prison bed gain of 123 permanent beds and would require an additional 38.4 staff. He said the total cost of the buildings is estimated to be \$16.3 million and the total project cost, including demolition costs, contingency, fees, furnishings, and equipment is estimated to be \$29.2 million. He said based on the buildings' construction costs of \$16.3 million, the cost per bed would be \$71,690. He said the total project cost would increase by approximately \$2.1 million if the project was delayed from 2006 until 2008.

In response to questions from Representative Delzer, Mr. Schuetzle said approximately \$45,000 to \$50,000 has been spent on the architect's study. He said the department will study the cost of updating the entire prison system if it receives funds for a master plan from the 2005 Legislative Assembly.

Ms. Elaine Little, Director of Corrections, Department of Corrections and Rehabilitation, said the Security Response Technologies, Inc., 2001-02 study of the facilities and operations of the Department of Corrections and Rehabilitation estimated a cost of over \$100 million to replace the state's prison facilities. She said during the January 14, 2004, Budget Section meeting, the Budget Section approved the distribution of \$60,000 from the preliminary planning revolving fund for the department to

study the replacement costs of the east cellhouse at the State Penitentiary.

In response to a question from Senator Bowman, Mr. Goodale said efficiencies that would result from the replacement of the east cellhouse include a decrease in maintenance costs and a decrease in the required number of staff on duty.

In response to a question from Representative Svedjan, Ms. Little said the costs for the east cellhouse replacement are included in the Department of Corrections and Rehabilitation's 2005-07 biennium general fund budget request that will be submitted to the Office of Management and Budget.

Representative Carlisle said the Budget Committee on Government Services is studying the state's long-term prison needs and as part of the study requested the Department of Corrections and Rehabilitation to request preliminary planning revolving funds to study the replacement of the east cellhouse.

LEGISLATIVE HEARINGS FOR FEDERAL BLOCK GRANTS

At the request of Chairman Svedjan, the Legislative Council staff presented a memorandum entitled *Federal Block Grants - Legislative Hearings*. The memorandum states that the Legislative Council staff contacted state agencies receiving federal funds to determine which agencies receive block grants that require legislative hearings, and the results of the survey revealed only one block grant with that requirement and that is the community services block grant administered by the Department of Commerce Division of Community Services. A summary of the proposed use and distribution plan for the block grant will be provided by the Department of Commerce as part of the agency's appropriations hearing during the 2005 legislative session. The required public hearing will be held as part of the appropriations hearing for the Department of Commerce during the 2005 legislative session.

At the request of Chairman Svedjan, the Legislative Council staff presented a resolution draft [53005.0100] authorizing the Budget Section to hold any public hearings required during the period from the adjournment of the 59th Legislative Assembly through September 30, 2007.

It was moved by Representative Aarsvold, seconded by Representative Thoreson, and carried on a voice vote that the resolution draft providing Budget Section authority to hold public legislative hearings required for receipt of federal block grant funds during the period from the recess or adjournment of the 59th Legislative Assembly through September 30, 2007, be approved and recommended to the Legislative Council.

REPORT ON FEDERAL FUNDS

At the request of Chairman Svedjan, the Legislative Council staff presented a report entitled *Analysis of Federal Funds for Bienniums Ending June 30, 2005, and June 30, 2007*. The report provided the following information for all state agencies and institutions receiving federal funds during the 2003-05 or 2005-07 biennium:

- 2003-05 biennium - Federal funds appropriated, federal funds estimated to be received, appropriated matching funds, required maintenance of effort, and estimated amount of indirect cost reimbursed.
- 2005-07 biennium - Federal funds estimated to be received, required matching funds, required maintenance of effort, and estimated amount of indirect cost reimbursed.

The report indicated for the 2003-05 biennium, state agencies and institutions anticipate receiving \$2.199 billion of federal funds, approximately \$100 million more than the amount appropriated. For the 2005-07 biennium, state agencies and institutions anticipate receiving approximately \$2.192 billion of federal funds. Based on estimates, the 2005-07 biennium will require \$332,077,596 of general fund matching dollars, \$9,455,747 more than the 2003-05 biennium, if the estimated amounts are appropriated.

BUDGET TOUR REPORTS

Chairman Svedjan called on Representative Delzer to present a report on the budget tours of the School for the Deaf, Lake Region Human Service Center, North Central Human Service Center, and the state fairgrounds on August 2-3, 2004, conducted by the Budget Committee on Human Services.

It was moved by Representative Delzer, seconded by Senator Holmberg, and carried on a voice vote that the Budget Section accept the report of the August 2-3, 2004, budget tours conducted by the Budget Committee on Human Services.

At the request of Chairman Svedjan, Mr. Donald J. Wolf, Senior Fiscal Analyst, Legislative Council, presented a report on the budget tours of Fort Abercrombie and the Veterans Home on August 25, 2004, conducted by the Budget Committee on Health Care.

It was moved by Senator Holmberg, seconded by Representative Metcalf, and carried on a voice vote that the Budget Section accept the report of the August 25, 2004, budget tours conducted by the Budget Committee on Health Care.

Chairman Svedjan called on Senator Holmberg to present a report on the budget tours of Minot State University - Bottineau, Forest Service, North Central Research Extension Center, and Minot State University on September 13-14, 2004, conducted by the Higher Education Committee.

It was moved by Senator Holmberg, seconded by Senator Schobinger, and carried on a voice

vote that the Budget Section accept the report of the September 13-14, 2004, budget tours conducted by the Higher Education Committee.

COMMITTEE DISCUSSION AND STAFF DIRECTIVES

It was moved by Representative Delzer, seconded by Senator Holmberg, and carried that the chairman and the staff of the Legislative Council be requested to prepare a report and the resolution draft recommended by the committee and to present the report and recommended resolution draft to the Legislative Council.

The legislative budget analyst and auditor said the next Budget Section meeting is tentatively scheduled for Wednesday, December 8, 2004, at 11:00 a.m., or after the adjournment of the legislative organizational session.

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

Chairman Svedjan adjourned the meeting at 2:55 p.m.

Stephanie A. Johnson
Fiscal Analyst

Jim W. Smith
Legislative Budget Analyst and Auditor

ATTACH:1