

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

BUDGET SECTION

Wednesday, March 4, 1998
Senate Chamber, State Capitol
Bismarck, North Dakota

Representative Jack Dalrymple, Chairman, called the meeting to order at 9:05 a.m.

Members present: Representatives Jack Dalrymple, Ole Aarsvold, James Boehm, Merle Boucher, Rex R. Byerly, Ron Carlisle, Jeff W. Delzer, Tom D. Freier, Gereld F. Gerntholz, Roy Hausauer, Robert Huether, Edward H. Lloyd, Ronald Nichols, Bill Oban, Ken Svedjan, Ben Tollefson, Francis J. Wald, Janet Wentz, Gerry Wilkie; Senators Bill L. Bowman, Aaron Krauter, Evan E. Lips, Tim Mathern, Pete Naaden, Donna L. Nalewaja, Gary J. Nelson, David E. Nething, Rolland W. Redlin, Larry J. Robinson, Ken Solberg, Rod St. Aubyn

Members absent: Representatives LeRoy G. Bernstein, John Dorso, Pam Gulleson, Richard Kunkel, Al Soukup, Mike Timm; Senators Ray Holmberg, Harvey D. Tallackson

Others present: See attached appendix

It was moved by Representative Wald, seconded by Senator Lips, and carried on a voice vote that the minutes of the December 3, 1997, meeting of the Budget Section be approved as mailed.

STATUS OF THE GENERAL FUND

At the request of Chairman Dalrymple, Mr. Rod Backman, Director, Office of Management and Budget, presented a report on the status of the state general fund and revised general fund revenue estimates for the 1997-99 biennium. A copy of the information presented is on file in the Legislative Council office. Mr. Backman said that through January 31, 1998, 1997-99 biennium general fund revenues were 7.1 percent, or

\$27 million, more than projected in the 1997 legislative revenue forecast. He said general fund revenues for the month of January were 18.2 percent, or \$11.5 million, more than projected. Mr. Backman presented the following information on the status of the general fund, based on revenue collections through January 31, 1998:

Unobligated general fund balance - July 1, 1997	\$65,000,000
Add:	
Actual general fund collections through January 31, 1998	407,483,393
Remaining forecasted general fund revenue for the 1997-99 biennium (based on the 1997 legislative revenue forecast)	1,054,628,486
Total estimated general fund revenue for the 1997-99 biennium (\$27 million more than the legislative estimate of \$1,500,096,023)	\$1,527,111,879
Less:	
1997-99 biennium general fund appropriations	1,489,240,087
Estimated general fund balance - June 30, 1999 (\$27 million more than the legislative estimate of \$10,855,936)	\$37,871,792

Mr. Backman presented the following information on the revised general fund revenue forecast for the 1997-99 biennium:

REVENUE FORECAST - 1997-99			
	Legislative General Fund Revenue Forecast for the 1997-99 Biennium	March 1998 Revised General Fund Revenue Forecast for the 1997-99 Biennium	Increase (Decrease)
Sales and use tax	\$574,890,000	\$579,134,000	\$4,244,000
Motor vehicle tax	99,702,000	98,158,000	(1,544,000)
Individual income tax	331,625,000	355,480,000	23,855,000
Corporate income tax	90,990,000	104,917,000	13,927,000
Business privilege tax	4,000,000	4,000,356	356
Oil and gas production tax	35,313,730	27,347,730	(7,966,000)
Oil extraction tax	23,426,000	18,934,000	(4,492,000)
Cigarette and tobacco tax	45,490,000	45,576,191	86,191
Coal severance tax	22,311,000	22,293,275	(17,725)
Coal conversion tax	23,871,000	23,701,405	(169,595)
Insurance premium tax	33,840,000	33,067,210	(772,790)
Wholesale liquor tax	10,594,971	10,496,042	(98,929)
Gaming tax	22,625,000	23,118,607	493,607
Departmental collections	27,437,725	30,253,762	2,816,037
Interest	15,356,000	17,862,000	2,506,000
Mineral leasing fees	4,800,000	6,934,101	2,134,101
Bank of North Dakota transfer	29,600,000	29,600,000	
Mill and Elevator transfer	3,000,000	3,000,000	
Gas tax administration transfer	1,128,872	1,128,872	
Other transfers	35,094,725	35,159,944	65,219
Total revenues and transfers	\$1,435,096,023	\$1,470,162,495	\$35,066,472

STATUS OF DEPARTMENT OF HUMAN SERVICES' COMPUTER SYSTEMS

At the request of Chairman Dalrymple, Mr. Roger Hertz, Director, Information Management Division, Department of Human Services, presented information on the status of the department's major technology projects. A copy of the information presented is on file in the Legislative Council office. Mr. Hertz said the department's major technology projects are:

1. The training, education, employment, and management (TEEM) project.
2. The State Hospital project.
3. The medical-temporary assistance for needy families (TANF) project.
4. The child care project.

Section 19 of 1997 House Bill No. 1012 provides that if any savings are projected for the department's major computer development projects, the department may request Budget Section approval to utilize the projected savings to start other projects. Mr. Hertz said the department's major computer development projects continue to move forward, but it is too early in the development process to project any savings that may occur. He said the department will provide updates to the Budget Section as the development of these projects continues.

Mr. Hertz also discussed two other computer development projects within the department--the

fully automated child support enforcement system (FACSES) and the Medicaid management information system (MMIS). Mr. Hertz said the department has determined that it is necessary to begin planning for the MMIS computer system to support changes in the Medicaid program. He said the department plans to complete an analysis of the system and develop a project plan. He said this process will be done using existing staff and funds appropriated for operating the Medicaid program for the 1997-99 biennium. He said the department's plan is:

1. Complete an analysis and evaluation of the current system and its limitations.
2. Complete a cost benefit analysis of options.
3. Begin a basic system design.
4. Develop a project plan, including priorities and estimated costs.

Mr. Hertz said the Department of Human Services has received notification from the United States Department of Health and Human Services of an intent to disapprove the state's child support enforcement plan because the department's FACSES computer system has not been federally certified. Mr. Hertz said without an approved state plan, the state cannot receive federal funding for its child support enforcement program. He said the primary reason the computer system has not been completed is due to changes in federal regulations. He said

13 other states have received the same notification and only six have been fully certified.

Senator Robinson asked if the department's computer system is prepared for year 2000 processing, including the computer systems at the Developmental Center, State Hospital, and regional human service centers and if the department's computer system is electronically connected to county social service offices. Mr. Hertz said the Department of Human Services has been working with the Information Services Division to make necessary changes for year 2000 processing. He said the department, including the Developmental Center, State Hospital, and regional human service centers, is on schedule with the year 2000 project. Mr. Hertz said the Department of Human Services is connected through a network with all county social service offices in the state.

Representative Svedjan asked why the federal regulation changes that caused the delay in completing the child support enforcement computer system in North Dakota have not caused the same delay in all states. Mr. Hertz said some states' programs may have more easily accommodated the federal changes. Representative Svedjan asked if the delay in certification of the FACES computer system places the state's share of federal TANF funds at risk as well as federal child support enforcement funds. Mr. Hertz said the state is eligible to receive approximately \$10 million of federal funds for its child support enforcement program but will not be able to receive these funds unless the FACES computer system is certified. He said, however, that federal legislation is currently being considered which would reduce the impact from \$10 million to \$100,000 if the state's system is fully certified by the end of 1998. Mr. Hertz said he is not aware of any additional penalties that could result from a delay in certification of the FACES computer system. Representative Svedjan said information he has received indicates that 22 states have already received certification of their FACES computer systems and 16 states have had their systems conditionally certified. Representative Svedjan also said the information he received indicates the state could be at risk of losing TANF funds if its FACES computer system is not certified. Mr. Hertz said he would gather additional information relating to the potential impact to the state's federal TANF funds. He said the information referred to by Representative Svedjan regarding the number of states that have received certification for their FACES computer systems may be more current than the information he referred to.

Senator St. Aubyn said the 1997 Legislative Assembly did not provide funding for the MMIS project, unless it could be funded through savings in the department's major computer development projects. He asked if the department believes its proposal to begin planning for the MMIS project complies with legislative intent. Mr. Hertz said the planning will involve staff time but not a significant expenditure of funds during the 1997-99 biennium. Senator St. Aubyn asked if the department's medical-TANF project will require an additional appropriation for the 1999-2001 biennium. Mr. Hertz said the department is anticipating a need to carry over appropriation authority from the 1997-99 biennium to the 1999-2001 biennium to complete the project but is not anticipating the need for an additional appropriation.

Representative Byerly asked how much the department has spent on developing the FACES computer system. Mr. Hertz said the department has spent approximately \$3.8 million, which has been subject to a matching ratio of 90 percent federal funds, 10 percent state funds. Representative Byerly asked the following questions:

- The additional amount the department will need to spend on the FACES project to acquire federal certification,
- When the department was notified of the October 1997 deadline for including the federal regulatory changes in the system,
- The current child support caseload,
- The projected child support caseload to be tracked by the FACES system, and
- Whether or not any states have developed an automated child support enforcement system through a contract with a private sector firm. Mr. Hertz said he would provide information in response to Representative Byerly's questions.

Representative Boucher said the goal of welfare reform was to simplify the eligibility process. He said he is concerned that changes in federal regulations and corresponding changes to the state's computer systems will eliminate any potential savings that could have resulted from the eligibility simplification.

Representative Byerly said information provided to him by the Department of Human Services indicates that the number of cases to be tracked by the FACES computer system is currently estimated to be 70,000 to 75,000 cases.

It was moved by Senator St. Aubyn, seconded by Senator Nething, and carried on a roll call vote that the Budget Section accept the

Department of Human Services proposal to begin planning, analysis, and design of a Medicaid management information system, using existing staff and operating expenses appropriated for the Medicaid program for the 1997-99 biennium.

Representatives Dalrymple, Aarsvold, Boehm, Boucher, Byerly, Carlisle, Freier, Gerntholz, Hausauer, Huether, Lloyd, Nichols, Oban, Svedjan, Tollefson, Wentz, and Wilkie and Senators Bowman, Krauter, Lips, Mathern, Naaden, Nalewaja, Nelson, Nething, Robinson, Solberg, and St. Aubyn voted "aye." Representative Delzer and Senator Redlin voted "nay."

DEVELOPMENTALLY DISABLED ADULT CHILDREN SUBSIDY PILOT PROGRAM

At the request of Chairman Dalrymple, Mr. Gene Hysjulien, Director, Disability Services Division, Department of Human Services, presented information, pursuant to Section 25 of 1997 House Bill No. 1012, which requires the department to seek federal waivers and establish a pilot program in one human service region to provide a subsidy on behalf of adult developmentally disabled children, age 22 and older, residing in their parent's home. This section also requires that the program:

- Be limited to no more than five adult developmentally disabled children;
- Be limited to \$500 per month per eligible adult developmentally disabled child; and
- Be provided only to parents whose income is no more than the federal poverty level.

Mr. Hysjulien said the department's request for a federal waiver was denied and the department currently has two options:

1. Use the \$10,000 general fund appropriation (which was intended to match federal funds for the pilot program as provided in Section 25 of 1997 House Bill No. 1012) to conduct a pilot program, on a smaller scale than originally anticipated, for the remainder of the 1997-99 biennium.
2. Develop an 1115 demonstration waiver request, which would require an expansion of the pilot project and would take one to two years to implement.

Mr. Hysjulien said neither option precisely follows legislative intent. He said if the \$10,000 general fund appropriation is used to provide a subsidy to families, five families will receive approximately \$133 per month for the remainder of the biennium, considerably less than the \$500 per family specified in 1997 House Bill No. 1012. Mr. Hysjulien said if an 1115 demonstration waiver is obtained, implementation will take one

to two years, which will extend the pilot project beyond the current biennium.

In response to a question from Representative Byerly, Mr. Hysjulien said the department is concerned that if five families are selected to receive a \$133 subsidy for the remainder of the biennium, but funds are not appropriated to continue the program next biennium, there may not be any benefit to the pilot program participants. He said if that option is selected, the department will clearly communicate to program participants that there is no guarantee funds will be available for the project in the 1999-2001 biennium.

Senator St. Aubyn asked how many families are eligible for this program and how the department would determine which five would receive a subsidy. Mr. Hysjulien said he is unsure of the statewide number of eligible families. He said if the department implements a limited pilot project involving five families, the families will probably be chosen on a first come, first served basis.

Senator Krauter said the department should pursue the 1115 demonstration waiver. He said it is more appropriate for the department to pursue the federal waiver than to begin making short-term payments to a few selected individuals.

In response to a question from Representative Boucher, Mr. Hysjulien said there are various levels of care received by the adult developmentally disabled children eligible for the pilot program. He said some individuals receive respite care and others in-home services; however, some individuals receive no services.

Representative Svedjan said the reason for the pilot program was to provide assistance to the parents of adult developmentally disabled children who are caring for the adult children in their homes because those parents are saving the state money. He suggested the department implement both options being considered. He said the department could implement the pilot project during the current biennium on a limited basis and use the data gathered to prepare a cost benefit analysis which could be used to support the department's application for a federal 1115 demonstration waiver.

Representative Nichols said the department should implement the limited pilot project during the 1997-99 biennium and use the information gathered during the pilot project to answer questions regarding the number of people eligible to participate and the projected long-term savings to the state through implementation of such a subsidy program. He said it will be necessary to

make clear to participating families that the pilot project is only for a limited time.

Representative Delzer said the authority to conduct the pilot project will end June 30, 1999, unless the authority is extended by the 1999 Legislative Assembly. Representative Delzer encouraged the department to proceed with the limited pilot project during the current biennium.

It was moved by Representative Carlisle and seconded by Representative Nichols that the Budget Section encourage the Department of Human Services to proceed, at the department's discretion, to establish a pilot program, terminating on June 30, 1999, unless continued by the 1999 Legislative Assembly, to provide a subsidy on behalf of adult developmentally disabled children who reside in their parent's home and encourage the Department of Human Services to develop a request for a federal 1115 demonstration waiver.

Representative Svedjan said the purpose of the pilot project should be to develop a cost benefit analysis to determine the feasibility of continuing a subsidy program.

Representative Byerly asked Mr. Hysjulien to comment on whether or not the motion being considered provided adequate direction to the Department of Human Services. Mr. Hysjulien said it is his understanding, based on the motion being considered by the committee, that the department would not use the \$10,000 appropriation for the 1997-99 biennium to establish an ongoing program, would proceed with the federal 1115 demonstration waiver application, and that the department would gather information on the number of eligible individuals and the level of care they are currently receiving so that the issue can be discussed by the 1999 Legislative Assembly.

In response to a question from Senator Krauter, Mr. Hysjulien said, based on the motion being considered by the committee, the department will not implement any pilot project during the 1997-99 biennium. Chairman Dalrymple said that the motion being considered by the Budget Section allows the department to establish, during the 1997-99 biennium, a limited pilot project, at the department's discretion, but would not allow the department to establish an ongoing program that would require funding by the 1999 Legislative Assembly.

Senator Redlin said Section 25 of House Bill No. 1012 provides the Department of Human Services the authority to establish the pilot project and therefore action by the Budget Section is not required. Chairman Dalrymple said that the Department of Human Services is seeking

a clarification of legislative intent relating to the establishment of the pilot project.

Representative Nichols said he thought the motion directed the Department of Human Services to establish, during the 1997-99 biennium, a limited pilot project in order to gather information on the costs and benefits of the subsidy program.

The motion carried on a roll call vote. Representatives Dalrymple, Boehm, Boucher, Carlisle, Delzer, Freier, Gerntholz, Hausauer, Lloyd, Oban, Svedjan, Tollefson, Wald, and Wentz and Senators Bowman, Lips, Naaden, Nalewaja, Nelson, Nothing, Robinson, and St. Aubyn voted "aye." Representatives Aarsvold, Byerly, Nichols, and Wilkie and Senators Krauter, Mathern, Redlin, and Solberg voted "nay."

WELFARE FRAUD DETECTION PROGRAMS

At the request of Chairman Dalrymple, Mr. William Strate, Director, Child Support Enforcement Agency, Department of Human Services, presented information on the avoidance and cost-effectiveness of welfare fraud detection programs, pursuant to Section 30 of 1997 House Bill No. 1012. A copy of the information presented is on file in the Legislative Council office. Mr. Strate said that during calendar years 1996 and 1997, \$396,188 was spent on the welfare fraud detection program and \$436,229 was recovered.

In response to a question from Representative Boucher, Mr. Strate said if the reason for welfare overpayments is agency error, rather than fraud or client error, no legal action is taken by the department to collect the overpayments. He said in such a case an eligibility worker will develop a plan, in cooperation with the recipient, to withhold the overpayments from future benefits.

Representative Svedjan asked how the change in cost allocation between the counties, federal government, and state has impacted the costs and benefits of welfare fraud detection programs conducted by the department. Mr. Strate said prior to the passage of 1997 House Bill No. 1041, costs and recoveries associated with the local welfare fraud detection units were split 50 percent federal, 25 percent state, and 25 percent county. He said after the passage of House Bill No. 1041, the counties no longer receive any share of the recoveries and no longer contribute any money to pay for the cost associated with the welfare fraud units. He said the costs and recoveries are split between the state and federal government based on the matching percentages associated with each particular program. Mr.

Strate said an analysis of the general fund costs and recoveries could be prepared by the department and presented to the committee at a future meeting.

CHILDREN'S HEALTH INSURANCE PROGRAM

At the request of Chairman Dalrymple, Ms. Carol Olson, Executive Director, Department of Human Services, presented information on the children's health insurance program. A copy of the information presented is on file in the Legislative Council office. She said federal legislation creating the children's health insurance program (CHIP) was passed after adjournment of the 1997 legislative session and consequently the Department of Human Services did not receive an appropriation of state funds to match the federal funds available for the program. She said the children's health insurance program legislation allows states to develop health insurance coverage programs for children of working families whose income is too great to qualify for Medicaid but is not adequate to purchase private health insurance. She said although no state funds were appropriated for the program, which will be called North Dakota Healthy Steps, the department plans to implement the program during the current biennium. She said after the state plan is approved by the federal government, the department will request Emergency Commission and Budget Section approval to spend moneys appropriated for the Medicaid program, available primarily because of fewer than expected recipients, to fund the state portion of the North Dakota Healthy Steps program. Ms. Olson said the proposal for implementing the North Dakota Healthy Steps program is:

1. Add Medicaid coverage for all 18-year-old children whose family income is below 100 percent of the poverty level.
2. Provide insurance coverage for uninsured children who are not Medicaid-eligible and whose family income is up to 150 percent of the poverty level.
3. Provide insurance coverage which will be the same as that provided through the Public Employees Retirement System, plus preventive dental and vision coverage and well baby, well child, and well adolescent preventive health care services. Families will not be charged any premiums, copayments, or deductibles for the insurance coverage.
4. Eligibility will be determined by county social service offices and families will be

subject to the same asset test that is used for the Medicaid program.

Ms. Olson said preliminary cost estimates indicate the insurance coverage will cost approximately \$950 per year per child, whereas Medicaid coverage would cost approximately \$1,287 per year. She said the department is unable to determine the exact number of children who will be eligible for the North Dakota Healthy Steps program but estimates that the number is between 2,630 and 3,580 children. She said, based on the estimated number of eligible children, the cost of the program will range from approximately \$2.5 million to \$3.4 million per year, with a required general fund match of between \$517,000 and \$704,000 per year.

Senator Mathern said the department should immediately expand Medicaid coverage to include uninsured children until the plan is in place to provide private insurance for these children. Ms. Olson said the department is reluctant to use state funds to initiate such a program until the state plan is approved by the federal government. She said another consideration is the fact that Medicaid coverage is more costly than the proposed private insurance coverage.

Representative Wald asked if the department is prohibited from requiring a copayment or deductible for the private health insurance coverage. Ms. Olson said the federal legislation does not prohibit charging a deductible or copayment; however, the proposed North Dakota plan will not include a copayment or deductible because the focus of the plan is preventive health care. She said charging copayments or deductibles would discourage use of the preventive aspects of the program.

Representative Dalrymple said the state matching requirement for the first year of the program is deferred, which may allow the state to postpone providing the required state funds until after the 1999 legislative session begins. He asked Ms. Olson what the estimated state general fund cost for the children's health insurance program will be for the 1999-2001 biennium. Ms. Olson said that if the state accesses the full amount of the federal grant, the general fund matching requirement could be up to \$1.5 million per year for the 1999-2001 biennium.

In response to a question from Representative Svedjan, Ms. Olson said the private insurer selected for the children's health insurance program will most likely be Blue Cross Blue Shield because no health maintenance organization operating in the state is large enough to provide coverage to the entire state. Representative Svedjan asked if the department has

considered limiting program eligibility at the inception of the program to be more restrictive than 150 percent of the federal poverty level. He said if the program is initially more restrictive, the department will have time to analyze the costs of the program and adjust the eligibility accordingly. Ms. Olson said that issue will be considered during the public comment phase of the plan development. She said comments will be analyzed and considered before the final plan is submitted to the federal government by May 31, 1998.

The committee recessed for lunch at 12:20 p.m. and reconvened at 1:30 p.m.

WELFARE-TO-WORK PROGRAM

At the request of Chairman Dalrymple, Mr. Kevin Iverson, Director, Training, Education, Employment, and Management (TEEM) Division, Department of Human Services, provided information on the implementation and administration of the welfare-to-work program. A copy of the information presented is on file in the Legislative Council office. Mr. Iverson said federal welfare-to-work funds are currently available but cannot be received during the current federal fiscal year unless by June 30, 1998, a state welfare-to-work plan is submitted as an addendum to the state TANF plan. He said the department plans to submit a state plan and access the federal funds. He said North Dakota is eligible to receive \$2.7 million in federal fiscal year 1998 and \$2.5 million in federal fiscal year 1999. He said the federal legislation requires a state match of \$1 of state funds for every \$2 of federal funds received.

In response to a question from Representative Byerly, Mr. Iverson said all Indian tribes in the state are currently operating a native employment works (NEW) program and have applied for a welfare-to-work grant. He said it has not yet been determined if any Indian tribes in the state will implement their own TANF program.

In response to a question from Representative Svedjan, Mr. Iverson said matching funds for the welfare-to-work program can include state and local funds spent in excess of the amount required to meet the TANF maintenance of effort requirement, if those funds are spent on welfare-to-work eligible individuals and activities.

Representative Delzer asked if the department has estimated the total amount of TANF funds that will be saved during the 1997-99 biennium because of the reduction in caseloads. Mr. Iverson said the department is currently gathering that information. He said TANF funds that

are unspent during the 1997-99 biennium can be carried over to the 1999-2001 biennium.

NORTH DAKOTA STATE UNIVERSITY ANIMAL RESEARCH FACILITY

At the request of Chairman Dalrymple, Mr. Jerry Doan, Chairman, State Board of Agricultural Research, discussed the need for the North Dakota State University animal research facility and the positive impact it would have on livestock producers in the state.

At the request of Chairman Dalrymple, Ms. Patricia Jensen, Vice President and Dean for Agricultural Affairs, North Dakota State University, discussed the need for and status of the animal research facility. The 1997 Legislative Assembly appropriated \$10 million for the project, \$5 million of bonding proceeds and up to \$5 million of federal and other funds. The bill also provided that \$1 million must be provided by the university from non-general fund sources to repay the bonds or pay construction costs. Ms. Jensen said the entire \$5 million of federal funds is not available, but the university is attempting to identify potential federal sources to provide the required funding. She said if the university proceeds with the project in two phases, Phase I of the project would use the \$1.9 million of federal funds already available, along with state and other funds of approximately \$3.1 million. She said it has been determined that even if the university proceeds with Phase I of the project, at a total cost of approximately \$5 million, North Dakota State University must raise the entire \$1 million of other funds, as would be required for the \$10 million project. She said North Dakota State University believes it would be difficult to raise the required \$1 million because of the difficulties currently being faced by many North Dakota livestock producers.

In response to a question from Senator Nelson, Ms. Jensen said the university has not started to raise funds for the construction of the animal research facility. Senator Nelson said it should be possible for the university to raise the required \$1 million. He said the 1997 Legislative Assembly was told the federal funds were available and that the university would be able to raise the required \$1 million. Senator Nelson said he would be reluctant to lower the required local match because of the precedent it would set.

Senator Mathern asked if North Dakota State University has the authority to move forward with Phase I of the project. Ms. Jensen said the question that the university needs to have answered is whether or not the \$5 million project could

proceed with \$500,000 of local funds rather than \$1 million.

Representative Wald said because the federal funds, which the 1997 Legislative Assembly was told were available for the project, are not available, the status of the project should be reviewed by the 1999 Legislative Assembly. Ms. Jensen said the \$1.9 million of federal funds North Dakota State University currently has available for the project will have to be returned to the federal government if not used by September 30, 2000.

Mr. Doan said he understands the legislative concern and shares some of the blame for indicating that the federal funds were available but hopes the facility can still be built to meet the needs of North Dakota livestock producers. Senator Nelson said the most appropriate thing for North Dakota State University to do is bring a proposal for the project to the 1999 Legislative Assembly.

Representative Delzer said it would not be appropriate for the Budget Section to change the scope of the project after the entire Legislative Assembly voted on it. Senator Redlin said the scope of the North Dakota State University project is an issue best addressed by the entire Legislative Assembly. He said issues such as the changing circumstances relating to the North Dakota State University animal research facility justify annual legislative sessions.

UNIVERSITY OF NORTH DAKOTA ANIMAL RESEARCH FACILITY

At the request of Chairman Dalrymple, Ms. Peggy Lucke, Associate Vice President of Finance/Operations, University of North Dakota, presented information on the University of North Dakota animal research facility project. A copy of the information presented is on file in the Legislative Council office. Ms. Lucke said the animal research facility project will not begin until collection of the remaining \$1.2 million needed to complete the \$6 million project. She said the State Board of Higher Education has authorized the university to begin site development and the preparation of an environmental impact statement for the facility. She said the anticipated cost of the planning is approximately \$25,000, but no expenditures have been made.

Senator Nelson said that difficulty in finding contractors in Grand Forks because of the 1997 flood, has increased the cost of many construction projects. He asked if the cost of the animal research facility has been reevaluated based on the current market for contractor services. Mr. LeRoy Sondrol, Plant Services Director,

University of North Dakota, said the building design may have to be modified to stay within the appropriated budget.

It was moved by Senator Nelson, seconded by Representative Byerly, and carried on a voice vote that the Legislative Council staff be requested to prepare a memorandum on capital projects authorized by the Legislative Assembly during the past 10 years, the amount of local funds required for each project, and the amount of local funds actually raised for each project.

STATUS OF FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA) REIMBURSEMENTS TO THE UNIVER- SITY OF NORTH DAKOTA

At the request of Chairman Dalrymple, Ms. Pat Hanson, Director of Payroll/Risk Management, University of North Dakota, presented information on the status of FEMA reimbursements to the University of North Dakota. A copy of the information presented is on file in the Legislative Council office. She said, that based upon a review of all insurance policies held by the university, FEMA has identified approximately \$8.6 million that should be collected from insurance companies. She said because FEMA has reduced the university's reimbursements by the \$8.6 million, the university faces a potential cash flow problem.

Ms. Hanson said FEMA requires that, as a condition of receiving assistance, the university obtain flood insurance for any buildings located in the 100-year floodplain and for other flood damaged buildings, if insurance is available. She said the university had 72 buildings that sustained damage during the flood, 35 of which were damaged by sewer backup only. She said the university has installed sewer backup valves on 26 of those 35 buildings to prevent future sewer damage. Ms. Hanson said the only option available for the university to obtain the required flood insurance is through the national flood insurance program. She said through the national flood insurance program, buildings insured at less than the lower of 80 percent of market value or \$500,000 are not covered for sewer backup damage. She said the university must receive bids to do one of the following:

1. Insure buildings at the lower of 80 percent of building value or \$500,000, which would provide flood and sewer damage coverage (estimated cost of \$94,500 per year) or;
2. Insure buildings at the level of reimbursement received from FEMA as required by the federal regulation, which would

provide flood but not sewer backup coverage (estimated cost of \$56,360 per year).

Ms. Hanson said FEMA requires the university to maintain insurance coverage for 20 years on buildings and 10 years on contents. She said the University of North Dakota needs to make a decision regarding the level of insurance coverage to be purchased for the 72 affected buildings and requests guidance from the Budget Section.

Senator St. Aubyn said the FEMA deduction of \$8.6 million for potential insurance proceeds is contrary to FEMA's policy for dealing with homeowners. Ms. Jeanne O'Donnell, David M. Griffith and Associates, Ltd., said FEMA handles each disaster differently. She said the practice of deducting potential insurance proceeds from federal reimbursements is not unusual.

In response to a question from Senator Nelson, Mr. Sondrol said the university is reviewing its steam distribution system and will develop a plan to reduce parallel lines and consider alternative, more efficient heat sources for some buildings. He said FEMA will pay for up to 90 percent of the lowest cost option, which will be between \$15 and \$22 million.

Senator Nelson asked if it is likely that the \$8.6 million will be collected from either an insurance company or FEMA. Ms. Lucke said FEMA will pay the damage claims if they are denied after appropriate action has been taken by the University of North Dakota to collect from an insurance company.

Ms. Lucke said the University of North Dakota has submitted a hazard mitigation grant application to relocate the University of North Dakota computer center. She said the University of North Dakota computer center is partially located in the basement of a building on the university campus. She said the university has submitted an application for financial assistance to relocate the computer center to the second floor or higher in another facility on campus. She said the cost of the project is approximately \$960,000, of which \$720,000 will be available from FEMA if the application is approved, and \$240,000 will be required from the state. She said if FEMA approves the project, the university will not accept the grant until discussion has taken place with the Legislative Assembly regarding the state matching requirement.

It was moved by Representative Byerly and seconded by Representative Wald that the Budget Section encourage the University of North Dakota to purchase the lowest cost insurance coverage available which will satisfy

Federal Emergency Management Agency requirements.

Senator Redlin said the university has authority to make this decision and should be allowed to make it without interference by the Budget Section. Chairman Dalrymple said the university is requesting guidance from the Budget Section.

Ms. Laura Glatt, Vice Chancellor for Administrative Affairs, North Dakota University System, said the university presented information on the insurance coverage requirements to make the Budget Section aware of the issue. She said the cost will be included in a deficiency appropriation requested from the 1999 Legislative Assembly.

The motion carried on a roll call vote. Representatives Dalrymple, Aarsvold, Byerly, Carlisle, Gerntholz, Hausauer, Huether, Oban, Svedjan, Tollefson, Wald, and Wentz and Senators Bowman, Krauter, Lips, Naaden, Nalewaja, Robinson, and St. Aubyn voted "aye." Representatives Boehm, Delzer, Freier, Lloyd, Nichols, and Wilkie and Senators Nelson, Nething, Redlin, and Solberg voted "nay."

SERVICE, ACCESS, GROWTH, AND EMPOWERMENT (SAGE) PROJECT

At the request of Chairman Dalrymple, Ms. Glatt presented information on the status of the University System's administrative and student records computer system project referred to as the SAGE project. A copy of the information presented is on file in the Legislative Council office. She said the SAGE negotiating team has been negotiating with PeopleSoft, Inc., and has presented to the chancellor's cabinet a project report which recommended that the University System enter into a contract with PeopleSoft, Inc., for the purchase of a new administrative and student records computer system. She said the plan calls for the staffing resources required to implement the system to be provided one-half by the campuses and one-half through a consulting agreement. She said the total estimated project cost is approximately \$22.1 million, as follows:

Licensing agreements for software	\$2,500,000
Consulting costs	10,800,000
Consultant travel	1,500,000
Personnel costs	1,700,000
University System travel and training	600,000
Five-year software maintenance costs	1,700,000
Hardware and data base costs	2,600,000
Third-party software	400,000
Five-year network upgrade costs	300,000
Total	\$22,100,000

Ms. Glatt said in addition to the one-time costs of \$22.1 million, costs will be approximately \$383,761 per year for the first five years. She said the board has agreed to reallocate \$200,000 per year from the Higher Education Computer Network budget, which leaves a balance to be funded from other sources of \$183,761. She said PeopleSoft, Inc., has offered to finance the project through a financing agreement with Koch Financial, which would allow for repayment over seven to eight years with equal annual payments of approximately \$3.4 million plus interest. She said the North Dakota University System will seek additional state appropriations beginning in the 1999-2001 biennium to pay for the SAGE project.

In response to a question from Representative Svedjan, Ms. Glatt said PeopleSoft, Inc., will only be paid for the software and not the consulting services. She said the University System will enter into an agreement with a consultant to provide those services. Representative Svedjan asked if the University System is confident that PeopleSoft, Inc., is a company which is reliable and has been adequately tested. Ms. Glatt said there are risks involved in the arrangement with PeopleSoft, Inc., but the products offered by other vendors are older and do not provide what the University System requires.

In response to a question from Representative Svedjan, Ms. Glatt said the \$10.8 million estimated cost for a consultant was developed in consultation with PeopleSoft, Inc. She said an agreement has not been entered into with a consultant.

Senator Robinson asked how the University System has addressed year 2000 programming needs. Ms. Glatt said the SAGE project will not solve the University System's year 2000 problems. She said the University System has determined it is necessary to enter into a contract with a consultant to assist in the programming requirements to make the current system year 2000 compatible. She said up to \$420,000 from the technology pool created by the 1997 Legislative Assembly has been allocated to pay for contract costs associated with year 2000 programming requirements.

Senator Bowman said an investment of \$22.1 million should result in long-term savings. He asked why the SAGE project will result in additional costs. Ms. Glatt said the new system will provide additional access to students and the public. She said it may provide long-term savings, but in the short-term it will require additional expenditures for hardware and personnel training. She said the University System will try

to provide a list of advantages and disadvantages of the new system and a cost benefit analysis.

In response to a question from Senator Krauter, Ms. Glatt said the University System plans to enter into a long-term lease arrangement to make the new system affordable but will not enter into any agreements before the next legislative session.

Representative Wilkie asked what the life span of the proposed SAGE system will be. Ms. Glatt said the average life span of such a system is approximately 10 years. She said, however, the current system being utilized by the University System is 20 years old.

Senator Solberg asked why the new system will not address the year 2000 problems and why the current system must be updated to make it year 2000 compatible. Ms. Glatt said the SAGE system will take four years to implement and will not be completed in time to address the University System's year 2000 problems.

DEPARTMENT OF TRANSPORTATION AIRPLANE EVALUATION

At the request of Chairman Dalrymple, Mr. Marshall Moore, Director, Department of Transportation, presented a report on the department's evaluation of the continued use of a 1977 model Cessna airplane, pursuant to Section 4 of 1997 Senate Bill No. 2012. A copy of the information presented is on file in the Legislative Council office. Mr. Moore said the department has historically maintained and operated the state aircraft used by the Governor, the Lieutenant Governor, and other state officials. He said the 1977 Cessna Model 421 aircraft was purchased new in 1977 and has been used continuously by the department since that time. He said increasing maintenance costs and maintenance time have resulted in scheduling problems. He said the department has determined that to provide long-term aircraft service to the Governor's office and other state officials, the department must lease or purchase a new aircraft. He said the short-term cost will be more than the cost of maintaining the 20-year-old 1977 Cessna, but the long-term state needs can only be properly met by a change in aircraft. He said the department has recently advertised a request for proposals for lease purchase options for a King Air 200. He said the proposals were received on February 23, 1998, and are being evaluated by the department.

Senator Redlin asked if the Department of Transportation has considered utilizing charter aircraft service. Mr. Moore said the department

has considered charter aircraft service, but it is not a viable option because of the various demands for use by the Governor's office.

AGENCY REQUESTS AUTHORIZED BY THE EMERGENCY COMMISSION

Senator Redlin requested that Emergency Commission Request #1104, relating to the Department of Transportation, and Emergency Commission Request #1110, relating to the Department of Economic Development and Finance, be considered separately.

It was moved by Senator Lips, seconded by Senator St. Aubyn, and carried on a roll call vote that the Budget Section approve the following requests which have been authorized by the Emergency Commission and forwarded to the Budget Section, pursuant to North Dakota Century Code Sections 54-16-04, 54-16-04.1, and 54-16-04.2:

- Department of Transportation (Request #1105) - To increase other funds spending authority and the motor vehicle program line item by \$469,303 to be received from Unisys, Inc., relating to delays in completion of the vehicle registration and titling system.
- Department of Health (Request #1106) - To increase other funds spending authority by \$1,638,000 for grants (\$1,087,000), equipment (\$165,000), and operating expenses (\$386,000) for the STOP violence against women program, family violence programs, DUI analysis equipment, and to identify flood-related health problems.
- Department of Human Services (Request #1107) - To transfer federal funds spending authority of \$652,000 from economic assistance to field services for mental health services.
- Department of Human Services (Request #1108) - To transfer spending authority of \$290,449 from program and policy to management and councils for salaries and wages (\$258,426) and operating expenses (\$32,023) for a public information specialist and Native American liaison.
- Department of Human Services (Request #1109) - To transfer spending authority of \$58,430 from program and policy to field services for grants to provide transitional coordinators to assist disabled students.
- Job Service North Dakota (Request #1111) - To increase other funds spending authority by \$229,084 (\$184,081 for

salaries and wages, \$45,003 for equipment) of federal funds to be received from the Department of Human Services for the job opportunities and basic skills (JOBS) program.

- Job Service North Dakota (Request #1112) - To increase federal funds spending authority by \$2,418,720 for salaries and wages (\$150,024), operating expenses (\$2,116,696), and equipment (\$152,000) for an interstate benefit inquiry system and to upgrade computer equipment and software for year 2000 processing.
- Job Service North Dakota (Request #1113) - To increase other funds spending authority and the new jobs program line item by \$37,209 for additional administrative revenue for the new jobs program.

Representatives Dalrymple, Aarsvold, Boehm, Byerly, Carlisle, Delzer, Freier, Gerntholz, Huether, Lloyd, Nichols, Oban, Svedjan, Tollefson, Wald, Wentz, and Wilkie and Senators Bowman, Krauter, Lips, Nelson, Redlin, Robinson, Solberg, and St. Aubyn voted "aye." No negative votes were cast.

Mr. Backman presented information on Emergency Commission Request #1104, relating to the Department of Transportation. He said the \$18.9 million of state special funds referred to in the request includes current tax revenues and accumulated trust fund balances.

Senator Redlin said the size of the Department of Transportation's request, for \$93 million of additional spending authority, should exceed the authority of the Emergency Commission and the Budget Section and should require action by the entire Legislative Assembly.

In response to a question from Representative Delzer, Mr. Backman said the trust fund balance will be replaced through future tax collections.

It was moved by Senator Lips, seconded by Representative Wald, and carried on a roll call vote that the Budget Section approve the following request which has been authorized by the Emergency Commission and forwarded to the Budget Section, pursuant to North Dakota Century Code Sections 54-16-04.1 and 54-16-04.2:

- Department of Transportation (Request #1104) - To increase other funds spending authority and the highway program line item by \$93,034,453 (\$74,137,335 of federal funds and \$18,897,118 of state special funds) for emergency work related to flooding in the Devils Lake Basin and other areas of the state.

Representatives Dalrymple, Aarsvold, Boehm, Byerly, Carlisle, Freier, Huether, Lloyd, Nichols, Oban, Svedjan, Wald, Wentz, and Wilkie and Senators Krauter, Lips, Naaden, Nelson, Redlin, Robinson, Solberg, and St. Aubyn voted "aye." No negative votes were cast.

Senator Redlin asked if the Department of Economic Development and Finance has the statutory authority to collect the fees for which it is seeking the spending authority in Emergency Commission Request #1110.

Senator Nelson said the change in spending authority is required to allow the agency to change its focus under the leadership of a new executive director. He said the authority will allow the agency to provide support and training throughout the state. Representative Wilkie said it should be up to the entire Legislative Assembly to initiate a new fee and establish a new program, not the Budget Section.

It was moved by Senator Nelson, seconded by Representative Byerly, and carried on a roll call vote that the Budget Section approve the following request which has been authorized by the Emergency Commission and forwarded to the Budget Section, pursuant to North Dakota Century Code Section 54-16-04.2:

- **Department of Economic Development and Finance (Request #1110) - To increase other funds spending authority and the operating expenses line item by \$225,000 to conduct and collect fees for economic development training activities.**

Representatives Dalrymple, Byerly, Carlisle, Freier, Svedjan, Wald, and Wentz and Senators Bowman, Lips, Naaden, Nelson, Solberg, and St. Aubyn voted "aye." Representatives Aarsvold, Boehm, Delzer, Huether, Lloyd, Nichols, Oban, Tollefson, and Wilkie and Senators Krauter, Redlin, and Robinson voted "nay."

INCREASED SPENDING AUTHORITY FOR THE CONSTRUCTION OF THE ERNIE FRENCH CENTER AT THE WILLISTON RESEARCH CENTER

At the request of Chairman Dalrymple, Representative Byerly discussed the status of the Ernie

French Center at the Williston Research Center. He said the original project authorization was for \$650,000. Representative Byerly said that because additional funds were raised and because of additional construction costs associated with the project, an additional \$100,000 in special fund spending authority is required to complete the project.

It was moved by Representative Byerly, seconded by Representative Wald, and carried on a roll call vote that the Budget Section, pursuant to North Dakota Century Code Section 15-10-12.1, approve the expenditure of an additional \$100,000 of other funds for construction of the Ernie French Center at the Williston Research Center, increasing the spending authority to \$750,000 from \$650,000. Representatives Dalrymple, Aarsvold, Boehm, Byerly, Carlisle, Delzer, Freier, Huether, Lloyd, Nichols, Oban, Svedjan, Wald, and Wentz and Senators Bowman, Lips, Naaden, Nelson, Robinson, Solberg, and St. Aubyn voted "aye." Representative Wilkie and Senator Krauter voted "nay."

Chairman Dalrymple announced that the presentation of the tour group report from the Budget Committee on Long-Term Care will be postponed until the June meeting of the Budget Section.

The meeting was adjourned subject to the call of the chair at 5:05 p.m.

Joe R. Morrissette
Senior Fiscal Analyst

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

ATTACH:1