

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

BUDGET COMMITTEE ON GOVERNMENT SERVICES

Monday and Tuesday, June 12-13, 2000
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Aaron Krauter, Chairman, called the meeting to order at 10:00 a.m.

Members present: Senators Aaron Krauter, John Andrist, Bill L. Bowman, Kenneth Kroepflin, Elroy N. Lindaas, John T. Traynor; Representatives April Fairfield, Pat Galvin, Robert Huether, Roxanne Jensen, James Kerzman, Matthew M. Klein, Myron Koppang, Chet Pollert, Wanda Rose, Ben Tollefson, Janet Wentz

Members absent: Senator Ed Kringstad; Representatives Bette Grande, Lonny B. Winrich

Others present: Audrey Cleary, State Representative, Bismarck

Ralph Kilzer, State Senator, Bismarck

See Appendix A for additional persons present.

It was moved by Representative Huether, seconded by Representative Kerzman, and carried on a voice vote that the minutes of the previous meeting be approved as distributed.

BUDGET MONITORING

Mr. Rod A. Backman, Director, Office of Management and Budget, reviewed the status of the state general fund. Mr. Backman said the June 30, 2001, ending general fund balance is projected to be \$53.8 million, \$42.5 million more than the \$11.3 million ending general fund balance at the close of the 1999 legislative session.

Mr. Backman said biennium to date revenues have exceeded the legislative forecast by \$24.5 million or 3.6 percent. A copy of the report is on file in the Legislative Council office.

Ms. Roxanne Hobza, Fiscal Analyst, Legislative Council, presented a report entitled *Oil Tax Revenues, Oil Production, and Oil Market Prices for the 1999-2001 Biennium*. Ms. Hobza said for the period January through May 2000, 29 oil wells were drilled in North Dakota, 22 of which were producing wells. Ms. Hobza said through April 2000, oil and gas production tax collections have exceeded estimates by \$6.5 million, and oil extraction tax collections have exceeded estimates by \$4.4 million.

Ms. Hobza said in May 2000, the actual average Amoco posted price per barrel of oil was \$24.47, \$13.08 more than the estimated price per barrel of \$11.39.

The Legislative Council staff presented a report on agency compliance with legislative intent. The

Legislative Council staff said the report contains information gathered by the Legislative Council fiscal staff during visitations with agency administrators and fiscal personnel in early 2000. The Legislative Council staff said the report contains information on agency compliance with legislative intent, agency changes, budget concerns, staffing changes, and other areas of legislative interest regarding the agency operations and appropriations. In addition, the report includes a number of analyses of special funds, including their projected June 30, 2001, balance as compared to the projection made at the close of the 1999 legislative session.

Representative Jensen expressed concern regarding a provision approved by the 1999 Legislative Assembly requiring the Northeast Human Service Center to identify budget savings in its 2001-03 biennium budget request totaling \$500,000 from the general fund relating to efficiencies resulting from its relocation. Representative Jensen indicated this reduction will result in a loss of full-time equivalent (FTE) positions and services needed in the northeast region. She asked members of the committee to support restoring this funding for the 2001-03 biennium.

OTHER COMMITTEE RESPONSIBILITIES

Ms. Brenda M. Weisz, Fiscal Administration Director, Department of Human Services, presented a report on the FTE positions hired in addition to those authorized by the Legislative Assembly for the human service centers, State Hospital, and Developmental Center. Ms. Weisz said the department has added a total of 18.25 FTE positions at the human service centers. She said funding for these positions for an entire biennium totals \$1,190,392, \$237,231 of which is from the general fund. Ms. Weisz identified the positions added including:

- Nine FTE for providing services to children with serious emotional disorders under the partnership project--one in the Badlands region, two in the lake region, one in the northwest region, two in the south central region, and three in the southeast region.
- One FTE activity therapist at the Southeast Human Service Center to provide services to clients in the infant development program.

- One FTE adult protective services/ombudsmen administrator for the northwest and north central human service regions.
- One FTE aid in the North Central Human Service Center to assist in reducing the number of admissions to the State Hospital.
- .75 FTE administrative position at the North Central Human Service Center to assist with medical records.
- One FTE administrator and .5 FTE secretary at the Northeast Human Service Center for the retired and senior volunteer program.
- One FTE at the Northeast Human Service Center for the Healthy Families America pilot project which provides prevention and early intervention services for at-risk children.
- One FTE counselor position at the Southeast Human Service Center to assist in reducing the number of admissions to the State Hospital.
- One FTE activity therapist at the Southeast Human Service Center for the infant development program.
- One FTE counselor position at the West Central Human Service Center to expand services of the Manchester House relating to case management and therapeutic interventions.

Ms. Weisz said the State Hospital and the Developmental Center have not added FTE positions to the number authorized by the Legislative Assembly. A copy of the report is on file in the Legislative Council office.

The committee recessed for lunch at 11:50 a.m. and reconvened at 1:00 p.m.

STATE DEPARTMENT OF HEALTH FACILITIES PLAN

Mr. Murray G. Sagsveen, State Health Officer, State Department of Health, presented the department's facilities plan. Mr. Sagsveen said its space needs assessment identified that the department has sufficient space in the judicial wing, but the Environmental Health Section and the department's laboratories are seriously deficient in space.

Mr. Sagsveen said several options were reviewed involving the renovation of selected facilities and for construction of replacement facilities. He said the department selected the option identified as the "master plan option." He said this option would be implemented over three bienniums and involve the renovation of the East Laboratories Building and construction of a new adjacent facility to house the remainder of the department's divisions except for the Vital Statistics Division which would remain in the judicial wing of the State Capitol. Mr. Sagsveen made the following observations regarding the department's master plan option:

1. The plan assumes the forensic examiner position and the state morgue will remain in Bismarck and be affiliated with the State Department of Health.
2. The plan assumes the crime/toxicology laboratory will remain affiliated with the department.
3. The plan assumes department staff will not increase by more than 11 FTEs over the next 10 years.
4. The plan provides total gross square footage of 140,814 square feet. The master facility plan totals 152,709 square feet. By retaining the Vital Statistics Division in the judicial wing (reduces the square footage by 4,750 square feet) and excluding the optimal crime laboratory addition in Phase 4 (reduces the square footage by 7,145 square feet), the selected plan totals 140,814 square feet. This is 49,011 square feet more than the department's current square footage of 91,803 square feet.
5. The plan assumes land currently located east of the East Laboratories Building, currently owned by the State Penitentiary, will be transferred to the department without cost.

Mr. Sagsveen said the department has not yet conducted an internal evaluation of potential job functions that may be suitable for telecommuting in conjunction with the planning project. He said staff employed in the morgue and the three laboratories perform tasks that are not suitable for telecommuting. Regarding other departmental employees, he said, the department has not yet evaluated these positions for telecommuting because the plan schedules construction of space for these employees in a later biennium.

Regarding outsourcing laboratory services, Mr. Sagsveen said:

1. The department believes it is not appropriate to outsource the crime laboratory due to custody of evidence requirements.
2. The department has reviewed the capabilities and costs relating to six privately operated chemistry laboratories. The department has determined that none of the six laboratories can provide all the analytical services for the variety of samples obtained. As a result, the department would need to develop several contracts for services to replace the services of the chemistry laboratory. The department estimates the cost for negotiating and monitoring these contracts would range from 10 to 20 percent of the value of the contracted services; therefore, it would not be cost-effective.
3. The department has reviewed the possibility of outsourcing the public health (microbiology) laboratory services and determined that it would not be appropriate. The

department's public health laboratory is dedicated to identification and control of organisms of a public health nature, and it is a critical link between the private medical community and the disease reporting network.

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

Mr. Craig Helenske, Project Architect, Triebwasser Helenske & Associates, commented on the State Department of Health master facilities plan. Mr. Helenske said the goals and objectives established by the planning committee set priority on:

1. Resolving life safety needs found in the current laboratory work environments.
2. Making use of current facilities and property.
3. Achieving collocation of the department's divisions.

Mr. Helenske said the plan allocates 291 of the department's 308 FTEs in one facility rather than being located at six separate locations in Bismarck. He said the remaining 17 positions are located across the state.

Mr. Helenske said collocation of the department's offices provides benefits of sharing of support space as well as direct impact on staff productivity and convenience to the public. Mr. Helenske said with the exception of the Vital Statistics Division, the master plan anticipates collocation of all the department's divisions.

Mr. Helenske said the following schedule presents the total space needs:

Department Function	Square Feet
Administrative	80,153
Microbiology laboratory	12,710
Chemistry laboratory	20,750
Occupational Safety & Health Administration air and water laboratories	3,081
Crime/toxicology laboratory	24,669
Morgue	8,346
Shared department storage	3,000
Total	152,709

Mr. Helenske said the selected master plan reduces the total facility area by 4,750 square feet by retaining the Vital Statistics Division in the judicial wing on the State Capitol grounds. As a result, he said, total building area anticipated by the master plan is revised to 147,959 square feet. Mr. Helenske said the master plan budget requirements total \$32.5 million over multiple bienniums. He said the master plan can be achieved with an average cost per biennium of \$10 million. He said this approach allows current assets of the department and state to continue to be used. He said implementation could begin in 2001 using the following schedule:

<p>2001-03 Biennium - Phase 1 July 2001 June 2002 July 2002 June 2003 Total biennium funding - \$9,450,000</p> <p>2003-05 Biennium - Phase 2 July 2003 August 2003 September 2003 December 2003 December 2004 January 2004 Total biennium funding - \$9,450,000</p> <p>2005-07 Biennium - Phase 3 July 2005 August 2005 September 2005 December 2006 January 2007 Total biennium funding - \$11,000,000</p> <p>2005-07 Biennium - Phase 4 - Optional July 2007 March 2008 April 2008 December 2008 January 2009 Total biennium funding - \$2,600,000</p>	<p>Authorize design and engineering Construction contract bidding of Phase 1 Issue construction contracts on Phase 1 Complete 75 percent of Phase 1 construction</p> <p>Carry over 25 percent of Phase 1 construction contract Authorize Phase 2 Construction contract bidding of Phase 2 Issue construction contracts on Phase 2 Complete construction on Phase 1 Complete construction on Phase 2 Occupy Phases 1 and 2</p> <p>Authorize Phase 3 Construction contract bidding of Phase 3 Issue construction contracts on Phase 3 Complete construction on Phase 3 Occupy Phase 3</p> <p>Authorize Phase 4 design and engineering Construction contract bidding of Phase 4 Issue construction contracts on Phase 4 Complete construction on Phase 4 Occupy Phase 4</p>
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Mr. Helenske said the numbers reflect a 27 percent increase in the administrative space and a 120 percent increase in laboratory space from current

levels. He said the total space needs identified represent 61,000 square feet of additional building area. He said laboratory and State Medical Examiner

functions represent 46 percent of the total space needs and the remaining 54 percent is for office administrative divisions.

Mr. Helenske said the gross areas represent an internal efficiency ratio of 58 percent for net to gross areas in the laboratories compared to a net to gross ratio of 42 percent in the recently completed state health facility in South Dakota. A copy of the report is on file in the Legislative Council office.

Mr. Robert Barnett, State Department of Health, commented on funding for the project. Mr. Barnett suggested issuing bonds for the project and repaying the bonds over a number of years with a combination of state and federal funding. He said the department currently pays approximately \$415,000 per year in rent. He said based upon the amount of federal funding the department receives, a portion of the rental payments is made with federal funds. He said the current ratio is approximately 67 percent federal funds and 33 percent from the general fund.

Chairman Krauter asked the department to provide information on a bond repayment schedule for the master plan option and for only the morgue facility, including estimated funding sources. Mr. Barnett said the department would provide this information for the committee's next meeting.

Senator Andrist said he is concerned the department is proposing increasing its space by over 50 percent.

Representative Jensen asked whether the department has considered relocating more of its employees to rural areas. Mr. Barnett said because its laboratory facilities have specialized requirements, it would be difficult to move these employees. He said because facilities for the department's program staff are included in the later phases of the project, the department will address the appropriate location for these employees later.

Chairman Krauter asked Mr. Sagsveen to comment on the department's staff restructuring. Mr. Sagsveen said the department recently combined its state epidemiologist position with its director of disease control position. Mr. Sagsveen said the department is continually evaluating its administrative structure in order to align the department with service needs to provide the most efficient services.

Representative Fairfield expressed concern regarding the department's staff restructuring and questioned whether staff will be reduced as a result of realignment within the department. Mr. Sagsveen said the department's service needs are constantly changing, and the department needs to evolve to meet these needs.

Chairman Krauter asked that the department provide information at the next meeting on the number of autopsies being done by the State Medical Examiner and to identify the county from which autopsy requests are initiated.

STATE AGENCY OFFICE SPACE NEEDS

Mr. Dave Krabbenhoft, Executive Budget Analyst, Office of Management and Budget, commented on the information that will be required in state agency budget requests to address issues of locating state agency functions away from a central office setting.

Mr. Krabbenhoft reviewed the Office of Management and Budget's telecommuting analysis form that will be completed by state agencies requesting new positions; vacant positions that are pending reclassification; positions that will be relocated due to construction, purchase, or lease of new office space; and positions that will be assigned to new programs.

Mr. Krabbenhoft said the form requests information on the title and grade level of the new position, salary range, a description of the position's job tasks, and comparisons of costs and benefits of locating the position within a central office setting compared to away from a central office setting of the agency. A copy of the form is on file in the Legislative Council office.

The Legislative Council staff presented a bill draft establishing a state employee telecommuting incentive program. The Legislative Council staff said the bill draft allows a state agency head to submit a proposal to the Suggestion Incentive Committee established under North Dakota Century Code (NDCC) Section 54-06-24 to locate a state employee away from a central office setting. If approved by the Suggestion Incentive Committee and implemented by the state agency, after a 12-month period, the state agency head will prepare a report comparing the actual costs relating to the telecommuting program for the 12-month period to the estimated cost if the program would not have been implemented. As approved by the Suggestion Incentive Committee, the Legislative Council staff said the agency head would be entitled to receive 10 percent of any savings identified in the report up to a maximum of \$2,000, the state employee located away from a central office setting would be entitled to receive 20 percent of any savings up to a maximum of \$2,000, and the state agency may utilize 20 percent of the savings for providing salary increases in addition to those approved by the Legislative Assembly. The Legislative Council staff said the program would be effective only for the 2001-03 biennium.

Senator Bowman suggested the bill draft specifically address the committee's goal of moving more employees to the rural areas of the state rather than to the eight larger cities within the state.

Representative Wentz suggested the 20 percent allocation for state employee raises be provided only for a one-time payment, not for base salary increases.

Senator Andrist suggested the program be available to agency heads hiring new positions, not just employees already hired.

Representative Jensen expressed concern that 20 percent of the savings may be used for providing

salary increases to agency employees in addition to those authorized by the Legislative Assembly. She suggested the 20 percent be used by the agency for one-time expenditures such as facility improvements or equipment rather than salary increases.

Representative Huether suggested changing language in the bill draft to provide that all agencies of the state are eligible to participate in the program.

Representative Koppang expressed opposition to state agency heads receiving a bonus payment of up to \$2,000. He said providing cost-effective services for the state is part of the agency head's job duties.

Representative Koppang asked for information on the statistics regarding the employee suggestion incentive program. Chairman Krauter asked the Legislative Council staff to provide this information for the next meeting.

Chairman Krauter asked the Legislative Council staff to change the bill draft pursuant to the suggestions made by committee members.

Mr. Royce Roberson, Director, Energy and Nutrition Division, Department of Human Services, commented on the department's telecommuting program in Bottineau.

Mr. Roberson said Ms. Teralyn Farden, the department's electronic benefits transfer coordinator, works from an office in the Bottineau County Courthouse. He said the department began this arrangement in order to retain Ms. Farden as an employee and to allow her to live in Maxbass. He said the department obtained office space in the Bottineau County Courthouse, and with e-mail, faxes, and telephones, communication has not been a problem. Mr. Roberson said Ms. Farden travels to the Bismarck office two or three days per month. A copy of the report is on file in the Legislative Council office.

Ms. Farden commented on the telecommuting arrangement. Ms. Farden expressed gratitude to the department and the state for allowing her to telecommute. Ms. Farden said she makes extensive use of e-mail, computer, fax, and telephone, similar to when she was located in the State Capitol complex. She said her duties are now performed in the same manner as when she was located in Bismarck.

Ms. Farden said being located in the county has allowed her to be a resource for county personnel and for the county personnel to provide her with needed information. A copy of the report is on file in the Legislative Council office.

Senator Krauter asked for Ms. Farden's opinion on the bill draft under consideration. Ms. Farden said she would be supportive of the bill draft because it informs employees that the option of telecommuting is available which may result in additional employees seeking the telecommuting option.

Chairman Krauter distributed a bill draft for the committee to consider for its next meeting providing that information technology plans prepared by state agencies address the feasibility of telecommuting by

selected employees. Chairman Krauter said the plan must include positions that are suitable for telecommuting, travel and space needs, and information technology needs for supporting telecommuting by employees of an agency.

Mr. Keith Magnusson, Director, Driver and Vehicle Services, Department of Transportation, commented on options for establishing a pilot project that would involve county treasurers administering driver's license or motor vehicle licensing and registration programs, including benefits and concerns. Mr. Magnusson said the department met with county representatives in early June to discuss options for a pilot project. Mr. Magnusson said because the driver's license function is more complicated than the motor vehicle function and because of driver's license program requirements such as needing certified examiners, the county treasurers are more interested in pursuing a pilot project involving motor vehicle registration.

Regarding the possibility of a pilot project involving county treasurers administering the motor vehicle registration program, Mr. Magnusson identified the following concerns of the department:

1. The department has not received requests to expand the number of branch motor vehicle locations, except from cities concerned about enhancing local economic development or keeping jobs in the local courthouse.
2. The department does not anticipate adding to its branch system but rather to expand the use of technology relating to motor vehicle registrations by using the Internet or telephone renewals.

Mr. Magnusson discussed the benefits of a pilot project involving the county treasurers. He said the project would provide more physical facilities closer to the citizens.

Mr. Magnusson said other concerns identified by the department relate to cost, timing, and evaluation of any pilot project. He said the department's preliminary cost estimate for a pilot project involving four sites (Bowman, Divide, Pembina, and Sargent Counties) totals \$30,000 per site per biennium. However, he said, if a pilot location already has a T-1 wide area network connection, the cost would be reduced to approximately \$11,000 per biennium per location.

Mr. Magnusson said that existing branches are in the middle of a two-year contract ending June 30, 2001. He suggested that any pilot project be delayed until these contracts are completed. A copy of the report is on file in the Legislative Council office.

Senator Andrist suggested that the concept of county treasurers administering the motor vehicle registration program could replace the current system, not be an addition to it.

Senator Bowman said he is concerned that the department has not explored options with the county treasurers that could improve the system.

Ms. Stacey Miller, Slope County Treasurer, commented on options for establishing a pilot project involving the county treasurers administering motor vehicle registration programs. Ms. Miller believes the county treasurers can administer the motor vehicle registration program for less cost than reported by the Department of Transportation. She indicated the county treasurers are interested in administering the motor vehicle registration program and that the county treasurers would be prepared by summer 2001. She indicated while four potential sites have not yet been identified, county treasurers in Bowman and McKenzie Counties are interested in becoming pilot sites. A copy of the report is on file in the Legislative Council office.

Mr. John McMartin, President, Minot Area Chamber of Commerce, commented on the possibility of county treasurers administering motor vehicle registration programs. Mr. McMartin said the Minot Area Chamber of Commerce is one of 13 organizations across the state that operates a branch motor vehicle site. He expressed support for the current system that is meeting the needs of North Dakota citizens as well as privatizing government services.

Mr. Bob Kudrna, Adams County Development Corporation, commented on the telecommuting proposal being considered by the committee. Mr. Kudrna said that small communities in rural North Dakota are preparing for the future by expanding their use of information technology. He expressed support for the telecommuting proposals being considered by the committee.

TOUR

The committee traveled to the Workers Compensation Bureau. Mr. Paul R. Kramer, Executive Director, Workers Compensation Bureau, welcomed the committee to the bureau. Mr. Kramer reviewed the programs of the bureau and indicated that a number of the programs have employees located across the state, including loss prevention and policyholder services.

The committee conducted a tour of the Workers Compensation Bureau and reviewed its programs and services, including information services, imaging, policyholder services, loss prevention, special investigation unit, legal/office of independent review, claims, return to work, and customer service.

The committee recessed at 6:00 p.m. and reconvened at 9:00 a.m. in the Roughrider Room, State Capitol.

Mr. Jim Berg, Workers Compensation Bureau, presented information on the number of employees of the bureau. Mr. Berg said the Workers Compensation Bureau has 191 FTE and five temporary positions. He said the bureau contracts with 31 consultants. A copy of the report is on file in the Legislative Council office.

Senator Krauter asked what the potential is for locating certain programs of the Workers Compensation Bureau away from a central setting, particularly the imaging program. Mr. Berg said with the use of technology, the possibilities are available for locating many agency functions away from a central office setting; but he expressed concern that fragmentation of the agency's program may result in some inefficiencies.

Senator Andrist asked for information on the history of the number of employees of the Workers Compensation Bureau over the last 10 years. Mr. Berg said the information would be provided to the committee.

Senator Krauter asked for information on the status of the agency's evaluation of its current building and options for locating the agency. Mr. Berg said the Workers Compensation Board of Directors has issued a request for qualifications for an architect and real estate agent. He said the board will be considering responses to the request for qualifications at its June 28, 2000, meeting.

Mr. Berg said that based on a preliminary analysis of the bureau's current building, it appears not to be suitable or cost-effective for housing the current staff or for future expansion.

PRIVATIZATION

Mr. Gordy Smith, State Auditor's office, presented the performance audit relating to contracts for services. Mr. Smith said that although the State Auditor's office identified over 2,200 contracts for services with payments exceeding \$272 million in fiscal years 1997, 1998, and 1999, the state has very few regulations, rules, or guidelines for agencies to follow when contracting for services.

Mr. Smith said the audit reviewed processes agencies use to enter into contracts for services, contract terms and language, and contract monitoring and management.

Based on the findings of the audit, Mr. Smith reviewed the following audit recommendations:

1. The Office of Management and Budget develop policies relating to the procurement of services and ensure proper training for state agency employees.
2. The State Board of Higher Education develop policies relating to the procurement of services and ensure proper training for its employees.
3. The Office of Management and Budget, in conjunction with the appropriate legislative committees, introduce necessary legislation to the 2001 Legislative Assembly to allow the Office of Management and Budget to:
 - a. Establish policies surrounding the procurement of services that are required to be followed by all state agencies.

- b. When beneficial for the state, establish term or master contracts for services to be utilized by all state entities, including colleges and universities.
4. The Office of Management and Budget and the Attorney General's office establish one manual for contract drafting and review and that the Attorney General's office ensure that all assistant attorneys general are provided training to ensure consistent interpretation and practices throughout the state.
5. The Office of Management and Budget, with the assistance of the Attorney General's office, establish an on-line contract system accessible by all state agencies which would allow template contracts to be utilized as well as template or boilerplate language for contracts.
6. The Office of Management and Budget develop policies relating to contract monitoring and management and ensure proper training is provided for state agencies.
7. The State Board of Higher Education develop policies relating to contract monitoring and management and ensure proper training is provided for its employees.
8. If authorized by the Legislative Assembly, the Office of Management and Budget and the North Dakota University System determine if joint and cooperative purchase of service agreements would be beneficial for the state and if beneficial, that the Office of Management and Budget and the University System make joint or cooperative purchases of services.

Mr. Smith said the Office of Management and Budget, the Attorney General's office, and the North Dakota University System agree with the recommendations of the State Auditor's office and that the Office of Management and Budget intends to introduce the necessary legislation to allow it to establish policies for the procurement of services and to establish term or master contracts for services to be utilized by all state agencies, including colleges and universities.

Senator Krauter asked for additional information on the types of contracts reviewed by the State Auditor's office. Mr. Smith said the State Auditor's office will review the data collected and provide additional information to the extent available. The additional information is attached as Appendix B.

Representative Fairfield indicated this audit documents the need for further guidelines for agencies to follow when contracting for services. She expressed support for establishing a statewide policy on privatization or contracting for services.

Chairman Krauter asked the Office of Management and Budget be invited to the next committee meeting to provide information on the bill that will be introduced to the 2001 Legislative Assembly granting

authority to establish policies for the procurement of services for state agencies and on how the agency intends to proceed if the bill is approved.

Representative Tollefson suggested the State Board of Higher Education be invited to comment on its plans to address the recommendations of the audit report. Chairman Krauter asked the Legislative Council staff to invite representatives of the State Board of Higher Education to the next committee meeting.

Representative Jensen suggested some of the major, nonprofit providers also be invited to address issues of state agencies contracting for services at the next meeting. Chairman Krauter asked that select nonprofit providers also be invited to comment on state agency service contracts.

INDUSTRIAL COMMISSION

Mr. Pat Fricke, Executive Director, Housing Finance Agency, presented information on the Housing Finance Agency's mission and location and a history of the agency's role and function. Mr. Fricke said the Housing Finance Agency's mission is to make housing more affordable for North Dakota's low- and moderate-income residents by providing financing, management, information, and other appropriate assistance.

Mr. Fricke said the agency was formed as a result of an initiated measure approved in the 1980 general election. Previously, the Bank of North Dakota was the primary purchaser of Federal Housing Administration-insured and Veterans Administration-guaranteed residential home loans. In the late 1970s, he said, the Bank of North Dakota discontinued purchasing long-term real estate loans which created a void in the North Dakota residential real estate finance market. Mr. Fricke said the initiated measure directed the Industrial Commission to act as a state housing finance agency, to appoint an advisory board, and to issue housing revenue bonds to fund its loan programs. Mr. Fricke said the 1981 Legislative Assembly expanded the agency's authority to include manufactured housing and multifamily loan programs, to receive federal grant funds, and to administer the housing assistance program.

Mr. Fricke said the agency's most popular program, commonly referred to as the first-time home buyer program, has provided more than 20,000 home loans representing more than \$1 billion of loan principal in every county of the state. Currently, he said, 10,000 loans totaling \$775 million remain outstanding. Mr. Fricke said another major activity of the agency involves the management and administration of federal Housing and Urban Development (HUD) rental assistance funds to privately owned affordable housing properties throughout the state. He said approximately \$8 million in rental assistance is provided to 2,100 apartment units in 140 apartment

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

Mr. Gerald Eid, Chairman, Housing Finance Agency Advisory Board, commented on the advisory board's role. Mr. Eid said the advisory board for the Housing Finance Agency consists of six members--a realtor, lender, homebuilder, a representative of the manufactured housing industry, and two individuals representing homeowners or home buyers.

Mr. Eid said the board is very effective by bringing individuals with varying backgrounds together on the advisory board.

Senator Krauter asked for any suggested changes to the structure of the board to improve its effectiveness. Mr. Eid believes the current advisory board structure is appropriate and works well.

Mr. John Dwyer, Chairman, Lignite Research Council, presented information on the Lignite Research Council's mission and location and on the role and function of the council.

Mr. Dwyer said the 1987 Legislative Assembly approved a two cent per ton tax on coal for research and development. Subsequently, he said, the Governor appointed the Lignite Research Council by executive order.

Mr. Dwyer said the 1991 Legislative Assembly approved House Bill No. 1480 establishing the lignite research, development, and marketing program.

Mr. Dwyer said the Lignite Research Council recommends funding and policies to the Industrial Commission for approval of lignite research, development, and marketing projects.

Mr. Dwyer said the mission of the council is to establish policies and practices relating to lignite research and to coordinate lignite research efforts. He said the mission of the research, development, and marketing program is to preserve and enhance development of our state's lignite resources.

Mr. Dwyer reviewed the representatives on the 24-member Lignite Research Council:

- Four lignite mining representatives.
- Eight lignite processing representatives.
- One lignite research representative.
- Four representatives of state agencies involved in lignite matters.
- One representative of federal agencies involved in lignite matters.
- One labor representative.
- One state representative.
- One state senator.
- Two representatives representing lignite ownership.
- One representative from a political subdivision.

Mr. Dwyer said any project receiving funds from the lignite research fund must be matched by industry. He said since 1987, 125 projects totaling \$265 million have been approved.

Mr. Dwyer reviewed examples of projects approved and the Lignite Vision 21 Project.

Mr. Dwyer said the Lignite Vision 21 Project involves a study of environmental issues, the transmission system, generation technologies, and marketing activities to enhance the lignite industry in North Dakota. A copy of the report is on file in the Legislative Council office.

Senator Krauter asked for any suggested improvements to the Lignite Research Council. Mr. Dwyer said the Lignite Research Council is large with 24 members but he believes it is necessary to have representatives of the entities involved in the lignite industry on the council.

Ms. Karlene Fine, Executive Director and Secretary, Industrial Commission, introduced Mr. Vance Taylor, hired in June 2000, as the new general manager of the Mill and Elevator.

Mr. Taylor reviewed the Mill and Elevator's mission and location and the history of the role and function of the Mill and Elevator. Mr. Taylor said the mill began operations in 1922 as a value-added market for wheat produced in North Dakota. In the early 1900s, he said, flour mills and the Grain Exchange in Minneapolis were the primary wheat markets for North Dakota farmers and elevators. After freight costs to Minneapolis were deducted from Minneapolis market prices, North Dakota farmers received a low price for their wheat. He said the Mill and Elevator was established to help solve this problem. He said mill facilities include five milling units, a terminal elevator, and a packing warehouse to prepare bagged products for shipment. He said all mill facilities are located in Grand Forks.

Mr. Taylor said the mill is involved in a major improvement and modernization project. Once complete, he said, the mill will be able to produce and ship 26,000 cwt. of milled products daily, an increase of 4,000 cwt. over the current 22,000 cwt. level. He said the mill will be capable of cleaning, processing, and milling 59,000 bushels of durum wheat compared to the current level of 50,000 bushels daily. Annually, he said, the mill will be able to add value to 18 million bushels of spring and durum wheat compared to the current level of 15 million bushels.

Mr. Taylor said the mill has contributed in excess of 50 percent of its profits to the North Dakota state general fund over the past 25 years. Mr. Taylor said the mission of the mill is to promote and provide support to North Dakota agriculture, commerce, and industry; to provide superior quality, consistency, and service to our customers; to grow the business and provide a profit to our owners--the citizens of North Dakota; and to conduct its business with the highest integrity so that its employees, customers, suppliers, and owners are proud to be associated with the Mill and Elevator. A copy of the report is on file in the Legislative Council office.

In response to a question from Representative Tollefson, Mr. Taylor said the mill's profits are anticipated to be approximately \$2 million this year which is

\$2.3 million less than the \$4.3 million of annual profits earned in 1999. He said profits will be less because of the renovation project.

Ms. Fine reviewed the mission, role, and function of the North Dakota Building Authority. Ms. Fine said the 1985 Legislative Assembly authorized the Industrial Commission to act as the North Dakota Building Authority. She said the mission of the Building Authority is to provide low-cost financing for the acquisition, construction, or repair of state building projects approved by the Legislative Assembly. Ms. Fine said she and Mr. Rod A. Backman, Director, Office of Management and Budget, serve as the authorized officers for the Building Authority.

Ms. Fine said the Building Authority does not provide direct oversight of building projects financed through the Building Authority because that is the responsibility of the agency seeking the funding. She said the Building Authority is responsible to provide the financing at the lowest cost available, primarily through the sale of tax-exempt bonds. She said the agency has oversight of the actual building of the project and the Building Authority is responsible to meet the ongoing bond requirements for the life of the bonds.

Ms. Fine said currently the North Dakota Building Authority has \$80 million in bonds outstanding. A copy of the report is on file in the Legislative Council office.

Ms. Fine reviewed the mission and the history of the role and function of the student loan trust. Ms. Fine said the 1971 Legislative Assembly authorized the Industrial Commission to acquire and hold all unpaid government-guaranteed or reinsured student loans and North Dakota student loans belonging to the state or any of its agencies. She said the creation of the student loan trust enabled the state to obtain low-cost funds, through the sale of tax-exempt bonds, and to use the proceeds for purchasing student loans made or acquired by the Bank of North Dakota. Ms. Fine said that she and the president of the Bank of North Dakota serve as the authorized officers for the student loan trust.

Ms. Fine said the Bank of North Dakota is trustee for the bondholders. Currently, she said, the student loan trust has \$156 million in bonds payable. She said the bonds are not guaranteed by the state but are secured by student loans held in the trust portfolio or by the trust investments of its funds and accounts. A copy of the report is on file in the Legislative Council office.

Senator Krauter asked about the status of the implementation of the higher education savings plan as authorized by the 1999 Legislative Assembly. Ms. Fine said initially, Merrill Lynch was chosen to administer the plan; however, because Merrill Lynch could not meet the service needs of the state, the Bank has now chosen Morgan Stanley Dean Witter to administer the program. She said the program should

be available through most North Dakota financial institutions by September 2000.

The Legislative Council staff presented a memorandum entitled *Industrial Commission - Audit Findings and Recommendations* that provides audit findings and recommendations included in the most recent audit of each entity of the Industrial Commission. The Legislative Council staff reviewed the following findings included in the audit reports:

1. Industrial Commission - The agency has not submitted a biennial report to the Governor and the Secretary of State as required by NDCC Section 54-17-06.
2. Mill and Elevator - The agency does not have proper password security for its local area network to prevent unauthorized access.
3. Municipal Bond Bank - Because of the small number of employees, accounting personnel is responsible for cash receipts, cash disbursements, and maintaining the financial reporting system of the Municipal Bond Bank.

COMMITTEE DISCUSSION

Senator Bowman suggested the county treasurers and the Department of Transportation discuss further the possibility of a pilot project at three rather than four sites in the state involving county treasurers administering motor vehicle registration programs and that the Legislative Council staff prepare a bill draft to provide for the pilot project and for a reporting procedure on the efficiency and effectiveness of the program over a four-year period. Chairman Krauter asked the Legislative Council staff to prepare the bill draft for the committee's next meeting.

Mr. Wade Williams, North Dakota Association of Counties, asked what the source of funding would be for the pilot project. Senator Bowman suggested that funding for the pilot project be provided by a fee for service similar to other motor vehicle branch offices.

Chairman Krauter announced the next committee meeting is tentatively scheduled for Monday through Wednesday, September 11-13, 2000, in Williston, Watford City, and Dickinson.

The committee recessed at 12:00 noon and reconvened at 1:00 p.m. at the State Penitentiary.

BUDGET TOUR

Mr. Tim Schuetzle, Prisons Division Director, Department of Corrections and Rehabilitation, commented on the status of the Prisons Division 1999-2001 biennium budget.

Regarding the prison population, Mr. Schuetzle said because the actual number of inmates has been fairly close to projections for the first year of the biennium, the department does not currently anticipate the need for any deficiency appropriation for expenses of housing additional inmates. Through May 2000 actual inmates have averaged 955 per month, 17 inmates more than average monthly projections of

938. He indicated that because county jails in North Dakota do not have additional beds available to meet the needs of housing more State Penitentiary inmates, the department will be housing by July 2000 some North Dakota prisoners in the Appleton, Minnesota, prison at a daily cost of approximately \$50 per inmate. In response to a question from Senator Krauter, Mr. Schuetzle said North Dakota county jails charge approximately \$45 per day to house a State Penitentiary inmate.

Mr. Schuetzle said the department's medical costs are exceeding projections. He attributed the increased costs to an increased number of inmates requiring hospitalization, psychiatric consultations, and medications and to an increase in pharmaceutical costs for treating inmates with hepatitis B and C and HIV positive diseases.

Mr. Schuetzle said the dentist that had been providing dental services for State Penitentiary inmates recently terminated the contract. Because the department was unable to contract with another dentist locally, Mr. Schuetzle said the dentist serving inmates at the James River Correctional Center will also serve State Penitentiary inmates. He said the cost of the new contract is \$1,800 per week, \$1,300 more than the previous dental services contract of \$500 per week. Mr. Schuetzle said this will result in unanticipated costs totaling \$67,600 for the remainder of this biennium.

Mr. Schuetzle said federal funding for the renovation of the fifth and sixth floors at the James River Correctional Center has been delayed which will result in the renovation project not being completed until June 2001 rather than November 2000 as originally anticipated. As a result, he said, the department will use the funding provided by the 1999 Legislative Assembly for operating the fifth and sixth floors to contract with other prison facilities to house the inmates that otherwise would have been housed at the James River Correctional Center.

Mr. Schuetzle expressed concern regarding salary levels of Prisons Division employees. He said the department has experienced increased turnover of its correctional officers, clerical staff, nurses, and addiction counselors. He anticipates requesting additional salary funding for Prisons Division employees for the 2001-03 biennium to allow the department to be more competitive in the marketplace and more equitable with other state agencies.

For the 2001-03 biennium, Mr. Schuetzle identified the following capital construction projects that may be included in the department's 2001-03 biennium budget request:

1. Missouri River Correctional Center kitchen/dining/multipurpose building - \$1.6 million.
2. Women's unit at the James River Correctional Center - \$2 million - This project involves converting a State Hospital

employee apartment building into a 75- to 130-bed women's unit which would house all female inmates sentenced to the Penitentiary.

3. Administrative segregation unit renovations - \$400,000 - The department currently has 40 maximum security beds on the first floor of its west cellhouse. The department anticipates needing an additional 40 to 60 maximum security beds. This project would provide for the renovation of an additional 20 cells in one-half of the second floor of the west unit.
4. James River Correctional Center food service - Estimated cost not yet known - Currently the James River Correctional Center has no dining room facility. By the end of the 2001-03 biennium, the James River Correctional Center will house another 185 inmates which will require the existing food preparation area to be expanded. An option would be for the Department of Corrections and Rehabilitation to utilize the food service and dining room facility currently used by the State Hospital.

Mr. Schuetzle commented on major program changes anticipated for next biennium. Mr. Schuetzle said a major concern of the department is the growing number of mentally ill inmates in the prison. He said approximately 30 percent or over 300 inmates have some type of mental illness. He said the department has identified seven inmates needing long-term psychiatric care and 29 that need transitional services. He anticipates the department will request funding to enhance services for this population including funding to renovate the second and third floors of the State Penitentiary administration building and funding to hire an additional psychologist, psychiatric nurses, recreational and behavioral therapists, and social worker positions to operate this unit.

Mr. Schuetzle said other capital improvement needs include:

- Parking lot and road improvements - \$400,000.
- Replacement of the east cellhouse - \$14,250,000.

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

The committee conducted a tour of the Penitentiary facilities including the administrative segregation unit, the east cellhouse, Roughrider Industries, and the Missouri River Correctional Center.

The committee traveled to the Youth Correctional Center.

Mr. Darrell Nitschke, Director, Youth Correctional Center, welcomed the committee to the center. He said that through April 2000, the center has spent \$3.8 million of its \$11.4 million appropriation. He said to date, expenditures have been within projections.

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

Mr. Al Lick, Juvenile Services Division Director, Department of Corrections and Rehabilitation, presented a report on juvenile corrections in North Dakota.

Mr. Lick said the juvenile corrections caseload is currently approximately 470 juveniles. Of this number, he said 89 are housed at the Youth Correctional Center and 12 are at out-of-state facilities. He said the system is experiencing children who are more difficult to treat because of increased mental health and substance abuse concerns.

Mr. Lick commented on the Pine Cottage capital improvement project. He said the 1999 Legislative Assembly appropriated \$1,975,000 for this project. He said the project is approximately three weeks ahead of schedule, and when complete, the project will provide a self-contained, more secure unit with an additional 13 beds.

Mr. Lick commented on program improvements at the Youth Correctional Center including child psychiatrist services available at the center two days per month, child psychologist services available at the center four days per month, and the expansion of the educational program at the center from a nine-month program to a 12-month program. Mr. Lick said the number of graduates during the past year were:

- High school graduates - 13.
- General equivalency diploma (GED) - 19.
- Eighth grade graduates - 5.

Mr. Lick reviewed major capital improvement needs that may be included in the center's 2001-03 biennium budget including:

- A new entrance road to the center - \$175,000.

- Water line replacement - \$100,000.
- Sewerline replacement - \$100,000.
- Fire suppression system in Brown Cottage - \$60,000.

Mr. Lick indicated that the department will need to make a decision on the future use of Devine Hall. He said the center is not currently using the building, but the State Historical Society has placed it on the historical register. He said the building is not appropriate to house children but could potentially be used for offices and treatment rooms. He said the department needs to determine whether to request funding to renovate the building or to not use the building and let it continue to deteriorate.

The committee conducted a tour of the gymnasium (which was recently renovated as a result of the 1997 Legislative Assembly providing an appropriation of \$1.4 million), Pine Cottage, Brown Cottage, and Hickory Cottage.

The committee adjourned subject to the call of the chair at 5:00 p.m.

Allen H. Knudson
Assistant Legislative Budget Analyst and Auditor

Jim W. Smith
Legislative Budget Analyst and Auditor

ATTACH:2