

TESTIMONY OF

Beth Jacobson, Grants & Contracts Officer

Good morning Chairman Nelson and members of the House Human Resources Appropriation Committee. My name is Beth Jacobson and I am the Grants and Contracts Officer for of the Department of Environmental Quality. I assisted with preparation of the budget for the department and I will be covering the budget portion of the testimony.

I will first address the base level budget, walk through the budget changes to arrive at the Governor's Executive Recommendation, cover the amendments made by the Senate, touch base on a few other budget items including a summary of federal funding related to Coronavirus Pandemic, and close with a final summary.

Base Level Budget

The department pursues its goals and objectives by working closely with federal, state, and local governments along with private industry and agriculture to safeguard the quality of North Dakota's air, land, and water resources. The base budget is comprised of the Office of the Director and five divisions: Air Quality, Chemistry, Municipal Facilities, Water Quality, and Waste Management along with 165.50 FTE.

2021 – 2023 Budget Changes as Recommended by the Governor

In May 2020 the Governor released budget guidelines requesting the Department of Environmental Quality to submit a 90 percent general fund budget and a five percent reprioritization of special funds.

I will now overview the net effect of the reductions and reprioritizations along with other changes made to the 2019 – 2021 base level budget to arrive at the Governor's Executive recommended budget for the 2021 – 2023 biennium. For your reference, Attachment A identifies the specific adjustments made to the base level budget to arrive at the executive recommendation. I will briefly explain each adjustment starting with the adjustments in the Salaries and Wages line.

FTE and Salaries and Wages Budget Changes

The executive recommendation includes a net increase of a half time FTE (.5 FTE) and an increase of total funding of \$2,163,585 of which \$446,209 is general funds and \$1,717,376 other funds.

- The executive compensation package increases the salary and wages line by a total \$951,783 of which \$287,805 is general funds and \$663,978 other funds. The executive compensation package includes a two percent performance-based increase for each year of the biennium, fully funded state paid health insurance premium with no changes to deductibles and copayments, and includes one percent increase in the state's share toward the retirement contribution which addresses the unfunded liability in the state's defined pension plan.
- The base salary and wages increase totals \$1,276,240 of which \$735,778 is general funds and \$540,462 other funds. The general fund increase is to fully fund the eight FTE for the Quad OOOO/OOOOa program in the 2021-2023 biennium. In the 2019-2021 biennium budget, the Department was appropriated funds for eight FTE funded only for the second year of biennium. The adjustment is to fund the eight FTE for both fiscal years of 2021-2023 biennium. The increase of \$540,462 in other funds is to fund the pay increase allocated to employees on July 1, 2020. The increase reflects the amount required to sustain the pay increase for two fiscal years of the 2021-2023 biennium budget.
- The reduction of \$138,050 of general funds removes temporary and overtime salaries and wages. These funds were awarded to the department to respond to oil field activity. This reduction was made to meet the 90 percent general fund budget.
- A reduction of one FTE is for IT unification and shifts the funding for the FTE totaling \$224,357 from the salaries and wages line to the operating expenses line. The goal of this change is to better meet current and future technology and security needs in a unified approach.
- Reduces two general funded FTE (2 FTE) which is offset by an increase of a total of two special fund FTE (2 FTE) and the associated operating. This results in a reduction of general funds of \$360,800 and increase in special funds of \$370,679. The increase of the two special fund FTE is for an increase in a half time FTE (.5 FTE) for an Environmental Scientist position in the Director's Office, an increase in a half time FTE (.5 FTE) for an Account Budget Specialist for the Division of Accounting, and a funding switch for one FTE in the Petroleum Tank Compensation Fund program. The reduction in general funds was made to meet the 90 percent general fund budget.
- The increase of one- and one-half FTE (1.5 FTE) is to establish a Division of Accounting which was requested as an optional package. The increase includes special funds totaling \$329,622 for salaries and wages. The FTEs are for an Accounting Manager and a half time FTE (.5 FTE) for an Account Budget Specialist. This increase is offset by a decrease in the operating line of \$470,361. The decrease in the operating line is to remove the budgeted amount for the shared services contract with the Department of Health of \$538,000 and includes \$67,639 of operating expense for the Department of Environmental Quality.

Operating, Capital Assets and Grants

I will now walk through the changes to the Operating, Capital Assets, and Grant line. The executive recommendation includes a net increase of total funding in the Operating line of \$786,941 which is a \$295,857 decrease of general funds offset by an increase of \$1,082,798 in other funds. For the Capital Assets line, the executive recommendation includes a net decrease of \$16,257 which is a decrease of \$36,176 in general funds offset by an increase of

\$19,919 in other funds. In the Grants line the executive recommendation includes a total decrease of \$801,411 which includes an increase of \$2,600 of general funds offset by a decrease of \$804,011 in other funds. I will now briefly explain the specific changes made to these lines.

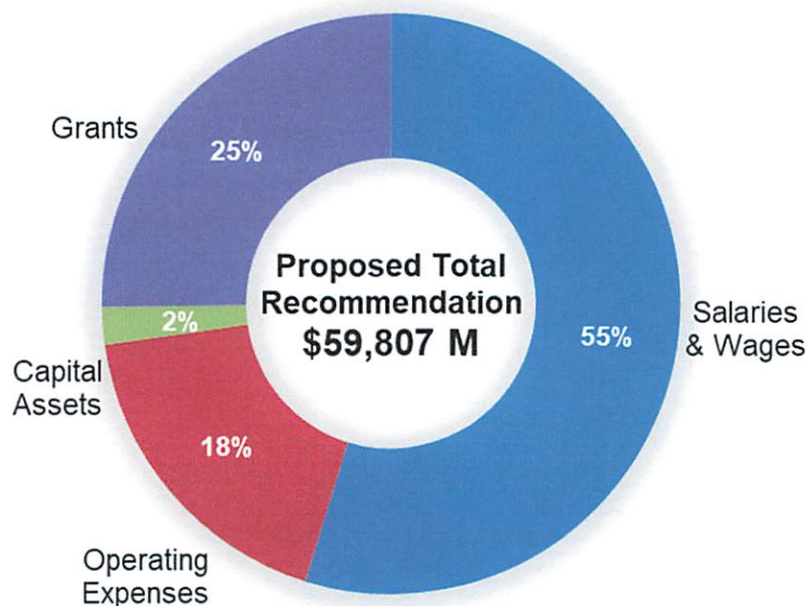
- An increase in \$200,000 of special funds in the operating line is for the Boiler Inspection Program. This increase is in travel and IT contractual line. When the Program was transferred to the department, the travel line was underbudgeted by approximately \$90,000.
- Reduction of \$125,000 in general funds eliminates funding for the Operator Certificate Training Program. The program provides reimbursement to small drinking water system operators in North Dakota. The reduction in general funds was made to meet the 90 percent general fund budget.
- The reduction of \$614,873 in the operating line was made to meet the 90 percent general fund budget. This reduction was somewhat prorated based on general funds throughout the divisions within the department and allocated throughout the operating expense lines.
- The increase in special funds of \$343,732 is special fund redirect to add funding for a web-based application reporting system for the North Dakota Pollutant Discharge Elimination Program.
- The cost to continue increase of \$1,281,827 is in the operating expense and grant lines with an increase of \$362,474 in general funds and \$919,353 of special funds. The increase of \$362,474 of general funds is to fully fund the operating expenses for Quad OOOO/OOOOa program in the 2021-2023 biennium. In the 2019-2021 biennium budget, the Department was funded only for the second year of biennium for operating. The adjustment is to fund the operating for both fiscal years of 2021-2023 biennium. The budget increase in other funds include an increase budgeted for IT data processing line, increase in professional fee contracts for the Lead in Schools program and contract to test for emerging contaminants, increase in repairs in Chemistry Laboratory, and an increase of IT contracts fund by federal Exchange Network Grants. The increase of \$113,000 in grants line is for the State Clean Diesel program.
- The decrease in special funds of \$914,411 is a special fund redirect which reduces the grants line for the Volkswagen Settlement program.
- Adds funding for Microsoft 365 productivity for all staff totaling \$18,727.
- The next three adjustments relate to the Capital Assets line which reflect the adjustment to the capital bond for the laboratory building, extraordinary repairs for the Environmental Training Center, and an increase in equipment >\$5,000 for air quality monitoring and chemistry lab equipment.

2021 – 2023 Summary of the Governor's Recommendation

The budget before you for the Department of Environmental Quality addresses environmental needs. It provides funding to preserve and improve the quality of North Dakota's environment to benefit public and environmental health and allow for sustained use and enjoyment of the state's natural resources.

Overall, the Governor's Recommendation includes a total of \$59,807,354 and is comprised of the following elements.

2021-23 EXECUTIVE RECOMMENDATION BY LINE ITEM



Salaries and Wages

Salaries and wages make up \$32,750,943 or 55 percent of the budget. The increase in the salaries line item is attributed to the executive compensation package along with the increase to fully fund the Quad OOOO/OOOOa program for the 2021-2023 biennium.

Operating Expenses

The operating budget recommendation of \$10,749,121 makes up 18 percent of our budget. Operating Expenses slightly increased to fully fund the Quad OOOO/OOOOa program in 2021-2023, budget for IT Exchange Network contracts, budget for increase in professional service contracts, account for increase of IT data processing, and an increase for laboratory repairs.

Capital Assets

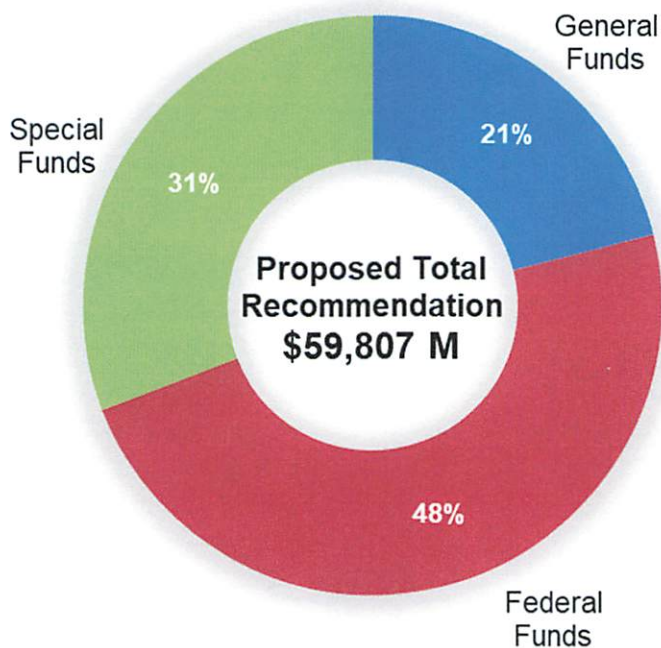
Capital assets of \$1,247,172 make up only 2 percent of the Department's total budget. Capital asset line includes funding for extraordinary repairs for the Environmental Training Center, equipment costs in excess of \$5,000 mainly for the laboratory and air monitoring program, and a portion of the bond payment in lieu of rent at the state laboratory.

Grants

Grants, which are provided to many local entities across the state, are at \$15,060,118 and make up 25 percent of our budget. The decrease in Grants is primarily a result of special fund reduction to the Volkswagen Trust Settlement grants offset with an increase in grants for the State Clean Diesel grant.

Next, I will briefly go over the breakdown by funding source of the Governor's Recommendation for the Department of Environmental Quality.

2021-23 EXECUTIVE RECOMMENDATION BY FUNDING SOURCE



Funding

As noted in the above chart the Department of Environmental Quality is funded 21 percent general funds, 31 percent special funds, and 48 percent federal funds. Our budget request includes a minimal increase in federal funding of \$1.86 million. The increase is associated with anticipated carryover and a slight increase available for direct services in the following federal grants: EPA Performance Partnership Grant, EPA Multi-Purpose Grant for one-time projects and equipment, EPA Exchange Network Grants for IT system and data enhancements, EPA Non-Point Source Grant for project funded by grant contracts, and the EPA Clean Diesel Grant.

The status of our federal funding is often uncertain. With that uncertainty, we prepared our budget by assuming that federal grant amounts will essentially hold even, except as noted above. We recognize that as we proceed through the next biennium we will have to adjust our budget, operations and possibly staffing if federal funding changes from the amounts included in our budget request.

Senate Changes to the Governor's Recommendation

Minor changes were made to the compensation package which included the removal of the 1% retirement contribution. The only other notable change was \$125,000 in general funds was restored for the Operator Certificate Training Program. The program provides reimbursement to small drinking water system operators in North Dakota.

Federal Funding for Coronavirus Pandemic

In the 2019-2021 biennium the department has requested additional federal fund authority for the Coronavirus Pandemic for FEMA related activities and Coronavirus Relief Fund (CRF) projects. The department requested FEMA authority of \$182,500 and as of December 31, 2020, we have expended a little under \$50,000. The FEMA funds are primarily for department personnel temporarily working overtime for the Department of Health but paid by the Department of Environmental Quality.

The Department also received Coronavirus Relief Funds totaling \$745,000 of which \$740,000 is for Wastewater Testing for the presence of Covid-19 (SARS-CoV-2) Project and \$5,000 to purchase multi-purpose machines. The Wastewater Testing project is a collaboration between North Dakota State University (NDSU) and the department. The department contracted with NDSU for laboratory testing of wastewater and project coordination. As of December 31, 2020, the department has expended a total \$456,085 of Coronavirus Relief Funds.

Optional Requests

The department submitted three optional package requests for consideration. The optional packages submitted included a package to establish a Division of Accounting, a package to replace the Chemistry Laboratory's outdated Laboratory Information Management System, and a package for litigation funding for anticipated increase in legal fees to defend the Department's stance on environmental regulations. The executive recommendation included provisions for the Division of Accounting and included the department's request for legal assistance in the Litigation Funding Pool. The Laboratory Information Management System optional package was the only optional package that was not included in the executive recommendation.

Financial Audit Findings

The 2019-2021 biennium is the first biennium for the Department of Environmental Quality as a stand-alone state agency. The Department has yet to have a financial audit and is tentatively scheduled for a financial audit in the fall of 2021.

Conclusion

Chairman Nelson and members of the Committee, this concludes my testimony on Senate Bill 2024. In the upcoming weeks, we look forward to working with you on the detail of the Governor's Executive recommended appropriation for the Department of Environmental Quality. I will now turn it back to Dave Glatt, who has some additional comments regarding the Governor's Recommendation.

Senate Bill 2024 - Testimony Attachment A
House Appropriations Committee, March 5, 2021
North Dakota Department of Environmental Quality

Description	FTE	Salaries & Wages	Operating Expenses	Capital Assets	Grants	Total	General Fund	Other Fund	Total
Base Level Budget	165.5	30,587,358	9,962,180	1,263,429	15,861,529	57,674,496	12,480,922	45,193,574	57,674,496
Executive Compensation Package	-	951,783	-	-	-	951,783	287,805	663,978	951,783
Base Payroll Changes	-	1,276,240	-	-	-	1,276,240	735,778	540,462	1,276,240
Reduction of General Funds - Oil Field Temporary & Overtime	-	(138,050)	-	-	-	(138,050)	(138,050)	-	(138,050)
IT Unification	(1.0)	(224,357)	224,357	-	-	-	-	-	-
Reduction of General Funds - 2 FTE position	(2.0)	(360,800)	-	-	-	(360,800)	(360,800)	-	(360,800)
Special Fund Redirect - .5 FTE Env. Scientist, .5 FTE Account Budget Specialist & 1 FTE Petroleum Tank Release Compensation Fund Program	2.0	329,147	41,532	-	-	370,679	-	370,679	370,679
Division of Accounting	1.5	329,622	(470,361)	-	-	(140,739)	-	(140,739)	(140,739)
Special Fund Redirect - Boiler Inspection Program	-	-	200,000	-	-	200,000	-	200,000	200,000
Reduction of General Funds - Operator Certificate Training Program	-	-	(125,000)	-	-	(125,000)	(125,000)	-	(125,000)
Reduction of General Funds - Operating Line	-	-	(614,873)	-	-	(614,873)	(614,873)	-	(614,873)
Special Fund Redirect - IT contract for Pollution Discharge Elimination System Program	-	-	343,732	-	-	343,732	-	343,732	343,732
Cost to Continue Adjustments	-	-	1,168,827	-	113,000	1,281,827	362,474	919,353	1,281,827
Special Fund Redirect - Volkswagen Settlement Grants	-	-	-	-	(914,411)	(914,411)	-	(914,411)	(914,411)
Microsoft 365 Productivity	-	-	18,727	-	-	18,727	5,618	13,109	18,727
Adjustment Capital Bond	-	-	-	(96,457)	-	(96,457)	(34,110)	(62,347)	(96,457)
Adjustment Extraordinary Repair	-	-	-	(3,000)	-	(3,000)	(2,066)	(934)	(3,000)
Adjustment Equipment >\$5,000	-	-	-	83,200	-	83,200	-	83,200	83,200
2021-2023 Executive Recommendation	166.0	32,750,943	10,749,121	1,247,172	15,060,118	59,807,354	12,597,698	47,209,656	59,807,354
Total Executive Changes to Base Level Budget	0.5	2,163,585	786,941	(16,257)	(801,411)	2,132,858	116,776	2,016,082	2,132,858

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Reduction of General Funds - Oil Field Temporary & Overtime	-	(138,050)	-	-	-	(138,050)	(138,050)	-	(138,050)
IT Unification	(1.0)	(224,357)	224,357	-	-	-	-	-	-
Reduction of General Funds - 2 FTE position	(2.0)	(360,800)	-	-	-	(360,800)	(360,800)	-	(360,800)
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Adjustment Equipment >\$5,000	-	-	-	83,200	-	83,200	-	83,200	83,200
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Total Executive Changes to Base Level Budget	0.5	2,163,585	786,941	(16,257)	(801,411)	2,132,858	116,776	2,016,082	2,132,858