North Dakota Legislative Council
Prepared for the Government Finance Committee
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INFORMATION TECHNOLOGY BUDGETING STUDY - BACKGROUND MEMORANDUM

STUDY OVERVIEW

Section 13 of Senate Bill No. 2021 (2021) provides for a study of the state government information technology (IT) budgeting and appropriations process. The study must include a review of the current process and the feasibility and desirability of providing a general fund appropriation to the Information Technology Department (ITD) rather than providing general fund appropriations to state agencies to pay ITD for services. The study must include consideration of any cost or cost-savings that may result and any transparency benefits of the potential budgeting and appropriation changes.

PREVIOUS STUDIES

During the 1967-68 interim, the Legislative Research Committee was assigned a study to review the state's data processing efforts. The committee selected Arthur Anderson, an accounting firm, to prepare a plan to integrate the data processing systems for the state. As a result of the study, the Legislative Assembly created the Central Processing Division within the Office of Management and Budget. All state agencies, excluding the institutions of higher education, Job Service North Dakota, and the Adjutant General, were required to use the Central Processing Division for their electronic data processing needs. Beginning in the 1969 legislative session, the Legislative Assembly appropriated funding to state agencies in a data processing line item for the fees paid to the Central Processing Division.

Interim committees studied the Central Processing Division during the 1979-80 and 1985-86 interims. The committees contracted with Booz-Allen and Hamilton, Inc. to review the state's central processing services and the use of state-owned computers. In 1981, the Legislative Assembly clarified the responsibilities of the Central Processing Division and established an approval process for data processing equipment. In 1989, the division was renamed the Information Services Division.

During the 1995-96 and 1997-98 interims, interim committees studied the use of computers and data processing services in state government and the impact of emerging technologies. As a result of the studies, the Legislative Assembly replaced the Information Services Division and established ITD as a new state agency in 1999. The Legislative Assembly also created the Information Technology Committee as an ongoing interim committee to study IT-related issues in state government.

BUDGETING AND APPROPRIATIONS PROCESS

From the 1969 legislative session through the 1993 legislative session, state agency budgets included a data processing line item or an information services line item for fees paid to the Central Processing Division or Information Services Division. Beginning in the 1995 legislative session, funding for IT expenses, excluding large projects, was appropriated in the operating expenses line item in state agency budgets. The funding for large IT projects is included in the capital assets line item of agency budgets and is identified as a one-time funding item.

Currently, the funding for agency IT-related expenses is included in state agency budgets. State agencies make payments to ITD and external vendors for services rendered. The funding included in state agency budgets may be derived from the general fund, state special funds, or federal funds. When state agencies make payments to ITD for services, ITD deposits the funds in an operating service fund. The Legislative Assembly authorizes ITD to spend money from the operating service fund along with other funding sources through the appropriations process. As a result, the majority of ITD's budget consists of special funds reflecting authorization to spend the funds collected from other state agencies for services rendered.

Each biennium, ITD identifies the estimated billing rates for the subsequent biennium, and state agencies use the estimates for developing their budgets. During the biennium, ITD monitors the costs and revenues for each

service to ensure that one service is not subsidizing another. The federal government does not allow ITD to charge rates that generate revenues in excess of costs; therefore, ITD monitors its cash balances and adjusts rates accordingly. The department also monitors other entities' rates for similar services to maintain quality services at a fair price. Since state agencies develop their budgets based on estimates and may purchase services from external vendors, the amounts appropriated for IT-related expenses in state agency budgets may not accurately reflect the actual amounts paid to ITD for services.

The schedule below provides information on ITD's budget for the 2019-21 and 2021-23 bienniums.

	2019-21 Biennium	2021-23 Biennium	Total
General fund	$28,565,311	$28,975,953	$410,642
Estimated income (other funds)	382,900,560[1]	246,170,105	(136,730,455)
Total	$411,465,871	$275,146,058	($136,319,813)

[1]The estimated income for the 2019-21 biennium includes $61.9 million from federal coronavirus relief funds primarily to address cybersecurity issues and to provide additional capacity for state employees working remotely as a result of the COVID-19 pandemic and $120.0 million of one-time funding for the statewide interoperable radio network.

INFORMATION TECHNOLOGY UNIFICATION INITIATIVE

The 2019 Legislative Assembly approved a transfer of 96 full-time equivalent (FTE) IT positions from five agencies for the 2019-21 biennium. The transfer included a reduction of salaries and wages funding in each agency transferring FTE positions to ITD and a larger increase in operating expenses to allow the agency to pay ITD for the salaries and wages of the FTE positions, including compensation increases authorized by the Legislative Assembly. The salaries and wages line item for ITD was also increased to allow the department to bill and collect from each unification agency for the salaries and wages of the transferred FTE positions.

During the 2019-20 interim, ITD reported to the Information Technology Committee on the effect of the 2019-21 biennium IT unification initiative, including the impact on fees, services, operations, processes, and systems. The Information Technology Department reported the success of the 2019-21 biennium IT unification pilot project would be measured by evaluating IT mission alignment, cost management, risk containment, processes, tools, contracts, FTE positions, cost of units of service, and volume purchasing efficiency.

The committee received information from state agencies regarding benefits, issues, concerns, and any cost-savings resulting from IT unification. The Department of Transportation, Department of Human Services, Department of Trust Lands, State Department of Health, Workforce Safety and Insurance, Job Service North Dakota, and the Bank of North Dakota testified in support of IT unification. The Attorney General, Public Service Commission, Department of Public Instruction, and State Water Commission testified in opposition of future IT unification initiatives. Some state agencies expressed interest in being included in future IT unification initiatives. As a result, the Information Technology Committee recommended the 2021 Legislative Assembly continue the 2019-21 biennium IT unification pilot project and continue evaluating the advantages and disadvantages of potential future IT unification initiatives.

The following is a summary of funding changes approved by the Legislative Assembly for IT unification initiatives during the 2019-21 and 2021-23 bienniums. Funding is provided from the ITD operating service fund.

	2019-21 Biennium	2021-23 Biennium	Total
Salaries for FTE positions transferred to ITD	$18,266,327	$11,128,805	$29,395,132
Temporary salaries	544,896	0	544,896
Operating expenses for transferred FTE positions and other ITD services no longer performed by agencies	8,835,127	17,515,243	26,350,370
Total	$27,646,350	$28,644,048	$56,290,398

STUDY PLAN

The following is a proposed study plan for the committee's consideration of its study of state government IT budgeting:

1. Receive information from ITD regarding the current budgeting and appropriations process for state government IT, including comparisons to budgeted and actual revenues and expenses for IT-related services, current billing rates, and the impact of the unification initiative on the budget process.
2. Receive information from other state agencies regarding the costs and benefits of the current budgeting and appropriations process for IT services.

3. Receive information from the Office of Management and Budget regarding the capabilities of new budgeting software, including reporting features and the ability to identify IT-related appropriations.
4. Receive information from the Office of Management and Budget regarding the costs and benefits of the current structure for appropriating funds for ITD services compared to an alternative method.
5. Receive testimony from interested persons regarding the study.
6. Develop recommendations and any bill drafts necessary to implement the recommendations.
7. Prepare a final report for submission to the Legislative Management.