

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

INFORMATION TECHNOLOGY COMMITTEE

Tuesday, September 19, 2017
Harvest Room, State Capitol
Bismarck, North Dakota

Representative Corey Mock, Chairman, called the meeting to order at 10:00 a.m.

Members present: Representatives Corey Mock, Randy Boehning, Glenn Bosch, Robin Weisz; Senators Kyle Davison, Richard Marcellais, Larry J. Robinson, Terry M. Wanzek; Citizen Member Shawn Riley

Members absent: Representatives Christopher D. Olson, Gary R. Sukut; Senator Howard C. Anderson, Jr.

Others present: See [Appendix A](#)

The Legislative Council staff reviewed the [Supplementary Rules of Operation and Procedure of the North Dakota Legislative Management](#).

BACKGROUND INFORMATION

The Legislative Council staff presented a memorandum entitled [Information Technology Committee - Background Memorandum](#). He reviewed the committee's statutory and assigned responsibilities, previous committee recommendations, related legislation from the 2017 Legislative Assembly, the Information Technology Department (ITD) 2017-19 biennium budget, and provided a proposed plan for the committee for the 2017-18 interim. He said the 2017 Legislative Assembly provided funding of \$245.1 million to ITD for the 2017-19 biennium, of which \$20.5 million is from the general fund and \$224.6 million is from special funds. He said the 2017-19 appropriation of \$245.1 million reflects an increase of \$67.3 million from the 2015-17 biennium adjusted appropriation of \$177.8 million. He said the Legislative Assembly authorized a total of 344.3 full-time equivalent (FTE) positions for the 2017-19 biennium, a decrease of 6 FTE positions from the 2015-17 biennium authorized level of 350.3 FTE positions. He said the proposed study plan for the committee includes a review of the activities of ITD, statewide information technology standards, the statewide information technology plan, major information technology projects, receiving reports from the Chief Information Officer, receiving the ITD annual report, receiving information on the 2017-19 and 2019-21 statewide information technology budgets, and receiving reports from the Statewide Longitudinal Data System Committee, Emergency Services Communications Coordinating Committee, and Health Information Technology Office.

The Legislative Council staff presented a memorandum entitled [Information Technology - Related Statutory Provisions](#). He said the statutory provisions of the Information Technology Committee and ITD for the 2017-19 biennium are substantially the same as the provisions in the 2015-17 biennium. He said the requirement for ITD to present the department's annual report to the Budget Section was removed from North Dakota Century Code Section 54-59-19 and the department is no longer required to provide desktop support services to the Tobacco Prevention and Control Executive Committee under Section 54-59-22.1. He said the 2017 Legislative Assembly repealed statutory provisions relating to the Tobacco Prevention and Control Executive Committee.

Report from the Chief Information Officer

Mr. Shawn Riley, Chief Information Officer, Information Technology Department, presented information ([Appendix B](#)) regarding Mr. Riley's background and vision and future plans for ITD and an overview of ITD's divisions and services.

Mr. Riley said there are three core pillars of world class technology--unified shared service, which leads to alignment; operational transformation, which leads to efficiency; and world class strategies, which leads to delivery. He said all 18 agencies of the Governor's cabinet are included in the unified shared service plan. In addition to the 344.30 FTE positions within the department, he said, the plan is to move 215 to 235 additional FTE positions to the new shared service. He said ITD has had discussions with all 18 agencies regarding the unified shared service plan and is currently surveying five agencies to review the skills of information technology staff. He said ITD is working with the Department of Human Services to start the unified shared service.

In response to a question from Senator Robinson, Mr. Riley said he has implemented a similar concept to the unified shared service plan in various health care organizations and while the funding structures are different, the personnel alignment structures are similar. He said retention and recruitment is a major component of the unification plan and input from employees and management is gathered and considered during the process.

Mr. Riley said the goal of a unified data platform is to create a data platform that allows for easy data sharing, manipulation, visualization, and analytics across the State of North Dakota. He said North Dakota state government information technology systems are built individually and do not communicate well between systems. He said the unified data platform will remove communications barriers to allow information technology systems to communicate more efficiently and effectively.

In response to a question from Senator Davison, Mr. Riley said the plan involves making a one-time investment in order to improve communication, remove barriers between information technology systems, and provide greater data sharing.

In response to a question from Senator Robinson, Mr. Riley said no other state government is implementing a unified data platform at the level proposed by ITD; however, private institutions, such as Mayo Clinic, have utilized this model. He said Mayo Clinic has over 3,000 different systems that feed into their unified data platform. He said the department does not yet have an implementation timeline.

In response to a question from Senator Robinson, Mr. Riley said the cost to implement to the unified data platform cannot be determined until the architecture and design needs are known.

In response to a question from Representative Boehning, Mr. Riley said ITD is focusing on unifying multiple government systems while preventing security breaches. He said a large component of this initiative is related to homeland security and infrastructure. He said the system will capture data and keep the data safe so encryptions can be shared separately within different areas of the system. He said a population model will be used within the system, rather than an individual model. He said the current system's security methods rely on the lowest common denominator, meaning whoever has the lowest security provides the greatest risk.

Information Technology Department Overview and Budget

Mr. Dan Sipes, Deputy Chief Information Officer, Information Technology Department, provided information ([Appendix C](#)) regarding ITD divisions, services, and the department budget for the 2017-19 biennium. He said of the \$245.1 million ITD budget for the 2017-19 biennium, \$163.5 million is from special funds which support the primary ITD operations. He said some of the large increases in the 2017-19 budget compared to the 2015-17 budget were \$28.7 million approved for the statewide interoperable radio network project and \$48.4 million for the health information technology expansion project, of which \$40.8 million is from federal funds received by the Department of Human Services. He said the \$6.6 million special fund appropriation for EduTech is primarily used for PowerSchool, which is appropriated from the general fund to the Department of Public Instruction and subsequently provided to ITD as special funds in order to provide hosting and licensing services for the system.

In response to a question from Senator Davison, Mr. Sipes said the ongoing funding for the statewide longitudinal data system is provided from the general fund. He said federal funding is also provided to the Department of Public Instruction for system enhancements and to support the functionality of the statewide longitudinal data system.

In response to a question from Senator Davison, Mr. Sipes said the North Dakota Center for Distance Education receives general fund and special fund appropriations. He said the general fund provides approximately two-thirds of the cost of providing distance education to students throughout North Dakota and approximately one-third is provided from special funds. He said the center expects special fund revenue of \$1.7 million during the 2017-19 biennium, although the center budget provides for up to \$3.05 million if collections received are higher than anticipated. He said the center typically has minimal cash reserves.

In response to a question from Chairman Mock, Mr. Riley said ITD began a security testing phishing campaign in August 2017, which involved sending North Dakota state employees malformed emails to entice employees to click on potentially dangerous links or attachments. He said he does not yet have the results data compiled from the phishing campaign, but will provide those results at a later meeting. He said the state needs to constantly address potential cybersecurity risks. He said there are no critical concerns, but ITD will focus efforts on cybersecurity.

Desktop Support

Mr. Sipes presented information ([Appendix D](#)) regarding desktop support services. He said all of the 18 agencies required to receive desktop support services from ITD have completed the installation of those services. He said the Department of Career and Technical Education did not have enough funding to complete the installation during the 2015-17 biennium due to the August 2016 general fund budget reductions and instead completed the installation at the beginning of the 2017-19 biennium. He said two additional agencies--the Education Standards and Practices Board and the Racing Commission--are also receiving this service.

Enterprise Architecture

Mr. Sipes presented information ([Appendix E](#)) related to enterprise architecture. He said enterprise architecture is a collaborative, consensus building alliance among agencies to align technology with business goals and for designing, implementing, and maintaining the underlying infrastructure to support information sharing and resource optimization. He said the program started in 2003 and has approximately 100 people from 25 state agencies participating in the program.

Cloud Computing Solutions

Mr. Riley presented information ([Appendix F](#)) related to cloud computing solutions. He said "cloud" computing includes the delivery of hosted services over the Internet rather than maintaining a computing infrastructure. He said ITD has set a goal to become a "cloud-first, cloud-only" state government. He said the "cloud" is a complex system, but it is more effective and provides security, cost, and employee benefits. He said "cloud" computing is used by a small portion of North Dakota state government.

In response to a question by Chairman Mock, Mr. Riley said there are both private and public "cloud" systems. He said ITD is using some public "cloud" products now and does not have any plans to use private "cloud" products. He said as ITD moves towards more "cloud" computing, the system will be a hybrid process where the vast majority of information is hosted on the "cloud," but some systems are hosted by other means. He said the current systems would not become obsolete, but there would be a decreased size of the information technology data centers.

Statewide Longitudinal Data System

Mr. Sipes presented information ([Appendix G](#)) regarding the statewide longitudinal data system. He said the statewide longitudinal data system provides information and services to teachers, school administrators, workforce development administrators, education support organizations, colleges, and policymakers to allow for informed decisionmaking while promoting continuous improvement. He said the statewide longitudinal data system has deployed a student and parent portal and is available through a link in PowerSchool. He said school districts are configuring and allowing access to high school students to monitor scholarship eligibility, apply for North Dakota scholarships, and send transcripts. He said due to the passage of 2017 House Bill No. 1037, schools are now required to use state course codes and eTranscripts.

Mainframe Migration

Mr. Sipes presented information ([Appendix H](#)) related to the mainframe migration plan. He said there are two primary agencies still utilizing the mainframe, the Department of Human Services (DHS) for the child support and economic assistance applications and the Department of Transportation (DOT) for the driver's license system, roadway inventory management, and traffic safety systems. He said there are a few other agencies still on the mainframe although those agencies have relatively minor systems supported on the mainframe, not core processes.

In response to a question from Senator Robinson, Mr. Sipes said as more agencies transition off of the mainframe, the remaining agencies become responsible for a greater share of the cost of maintaining the mainframe. He said DOT expects an increase of over \$500,000 in mainframe expenditures during the 2017-19 biennium compared to the 2015-17 biennium due to DHS being scheduled to transition off the mainframe during the 2017-19 biennium.

In response to a question from Chairman Mock, Mr. Sipes said DHS and DOT pay approximately 94 percent of the fees associated with the mainframe while the agencies with minor systems hosted on the mainframe pay the remaining 6 percent. He said 6 FTE ITD positions are currently assigned to provide services for the mainframe. He said as agencies move off the mainframe, those FTE positions will be transferred to other areas within ITD.

Health Information Technology

Mr. Sheldon Wolf, Director, Health Information Technology Office, Information Technology Department, presented information ([Appendix I](#)) on the North Dakota Health Information Network (NDHIN). He said the NDHIN is a public-private partnership for the secure exchange of health information that enables clinical users, such as

providers, nurses, and clerical staff to easily and efficiently view information relating to a patient's electronic medical record. He said NDHIN allows for up-to-the minute decisions and faster diagnoses while allowing users to securely exchange clinical information. He said funding for the NDHIN expansion project, which includes \$40.8 million of federal funding, is available through September 2021, which is the anticipated completion date of the project.

Network Services

Mr. Duane Schell, Director, Network Services Division, Information Technology Department, presented information ([Appendix J](#)) on FirstNet and the statewide interoperable radio network. He said the FirstNet mission is to deploy, operate, maintain, and improve the first high-speed, nationwide wireless broadband network dedicated to public safety. He said FirstNet has built a business plan, issued a Request for Proposal, and partnered with AT&T to build a mission critical mobile broadband data network. He said as part of the federal Middle Class Tax Relief and Job Creation Act of 2012, FirstNet will deliver a final state plan to the Governor regarding providing public safety with a highly secure, reliable broadband network based on the latest LTE commercial standards. He said ITD and the Statewide Interoperable Executive Committee will provide a recommendation to the Governor regarding whether the state should opt in or out of the plan and the Governor then has 90 days to make a decision upon delivery of the final state plan.

Electronic Payment Processing System

Mr. Sipes presented information ([Appendix K](#)) regarding the electronic payment processing system related to credit card fees, which was approved by the Legislative Assembly in Sections 10 and 11 of 2017 Senate Bill No. 2021. He said as agencies provide government services, there are merchant credit card fees that are absorbed in the agency budget. He said the following agencies have incurred the most credit card fees and were approved by the Legislative Assembly to participate in the electronic payment processing system:

- Department of Transportation;
- Secretary of State;
- Parks and Recreation Department;
- Game and Fish Department;
- Workforce Safety and Insurance; and
- Highway Patrol.

Mr. Sipes said Senate Bill No. 2021 allows certain agencies to borrow from the Bank of North Dakota to pay ITD to initiate an electronic payment processing system to allow the credit card fees to be charged to customers rather than the agency. Previously, agencies had the authority to charge an additional fee to cover the cost of merchant credit card fees, but did not have the ability to change the agency e-governance system.

Mr. Sipes said the Bank of North Dakota has finalized a contract with Chase Bank to initiate the new system and the next step is to work with each individual agency to realize credit card fee savings. He said some agencies previously increased their fees to include the cost of credit card fees so those agencies may need to address the fees being charged.

EDUCATION-RELATED INFORMATION TECHNOLOGY UPDATES

Higher Education

Mr. Darin King, Chief Information Officer, North Dakota University System, presented information ([Appendix L](#)) regarding information technology initiatives and projects for the 2017-19 biennium. He reported on the following four large projects related to higher education--identity access management, predictive analytics reporting, Novelution Corp. electronic grants administration, and Blackboard Inc. learning management system projects.

Mr. King said the identity access management project replaced a system that was over 10 years old and compiles over 100,000 records daily. He said the project was completed 7.4 percent under budget and 74.1 percent behind schedule, largely due to vendor resource constraints.

Mr. King said the remaining three projects are in the execution phase. He said the predictive analytics reporting project uses student data to provide insight into factors that can improve student success. He said each of the 11 higher education institutions are at different phases of implementation. He said the project is 26.8 percent under budget and 42.6 percent behind schedule, primarily due to turnover of key staff.

Mr. King said the Novelution Corp. electronic grants administration project is a module-based electronic grants management software for the University of North Dakota (UND) and North Dakota State University (NDSU) to provide a central repository for researchers to monitor projects and help foster consistency, accuracy,

completeness, and compliance. He said UND will deploy three modules and NDSU will deploy six modules. He said the project is 4.3 percent under budget and 18.3 percent behind schedule.

Mr. King said the Blackboard Inc. learning management system is a hosted, single-instance systemwide deployment that is replacing three different systems with six instances and will provide efficiencies for students. He said the system is projected to provide annual savings of over \$400,000. He said the project is currently in production at UND, Bismarck State College, North Dakota State College of Science, Lake Region State College, Valley City State University, and Williston State College. He said the remaining institutions will deploy the system between January and August of 2018. He said the project is 14.3 percent under budget and 2.1 percent behind schedule.

In response to a question from Chairman Mock, Mr. King said all institutions were paying some type of fee for learning management and that each campus is responsible to pay the fees. He said the Blackboard Inc. learning management system is hosted at a single site and allows for the consolidation of licensing fees so the fees are now paid by the North Dakota University System Core Technology Services division budget.

Mr. King said the University System is consolidating email systems from over 12 to a single instance of Microsoft Office 365. He said 10 institutions and 1 departmental unit have been successfully migrated and the last institution will be completed in November 2017. Regarding security, he said the University System has implemented multi-factor authentication for over 13,000 employees to protect student, human resources, and financial data and implemented enterprise endpoint management to protect over 6,700 endpoints at 10 institutions. He said log management was implemented to better prevent, detect, and respond to security incidents.

Education Technology Council

Ms. Rosi Kloberdanz, Director, Educational Technology Council, Information Technology Department, presented information ([Appendix M](#)) on the status of elementary and secondary education information technology activities. She said the Educational Technology Council awarded \$1.5 million to 101 projects in 85 school districts during the 2015-17 biennium. She said the Legislative Assembly did not appropriate the Education Technology Council grant funding for the 2017-19 biennium. She said the EduTech Help Desk completes an average of 12,000 information technology support tickets per year, although the 2015-17 biennium total tickets completed was approximately 28,000.

Ms. Kloberdanz said PowerSchool, which is North Dakota's student information system, has now been upgraded to version 11.0.1.0. She said there is immediate support available for PowerSchool through the EduTech Help Desk, including for the statewide longitudinal data system and eTranscript support. She said as of July 2017, there were 112,041 active students in PowerSchool.

Ms. Kloberdanz said STAGEnet was provided \$2.69 million for the 2017-19 biennium, of which approximately \$970,000, or 36 percent, is from the general fund and \$1.72 million, or 64 percent, is from special funds provided by the Universal Services Administrative Company. She said there have been 268 applications and 525 funding requests. She said EduTech has applied for \$10 million of federal grants and to date, North Dakota schools have received funding commitments for \$5.57 million for fiscal year 2018.

Ms. Kloberdanz said the North Dakota Center for Distance Education has experienced 12 percent enrollment growth compared to the 2015-17 biennium and has a 96 percent course completion rate, which is one of the highest rates in the United States among digital schools. She said the center served students in all North Dakota school districts and supports more than 150,000 communications per day. She said the center now provides over 300 online courses.

LARGE PROJECT REPORTING

The Legislative Council staff presented a memorandum entitled [Major Information Technology Project Life Cycle](#). The memorandum provides a summary of the project management life cycle process, executive and legislative branch activities, and statutory provisions related to planning and executing major information technology projects.

Startup and Closeout Reports

Mr. Justin Data, Data Manager, Enterprise Service Division, Information Technology Department, presented information ([Appendix N](#)) regarding an overview of project management. He said the Legislative Assembly implemented project management standards in 2005 and required project startup and closeout reports beginning in 2007. He said in 2016, iterative reports began being provided for programs and multi-year phased projects. He said the four stages of project management are initiating, planning, executing, and closing.

Mr. Data provided information ([Appendix Q](#)) regarding the most recent quarterly summary status report on large information technology projects. He said schedule and budget variance are illustrated in green, yellow, and red. He said projects in green mean the project is within 20 percent variance and is expected to meet all business objectives established in the project charter. He said projects in yellow exceed the 20 percent variance and expect to meet all business objectives established in the project charter. He said projects in red are at risk of termination or at risk of not substantially meeting business objectives established in the project charter.

Mr. Data said the following two projects were completed during the second quarter of 2017--DHS transformed Medicaid statistical information system and the Workforce Safety and Insurance (WSI) extranet portal. He said of the five projects with budgets in excess of \$5 million, four are considered in green status while one project, the DHS eligibility status project, is in yellow status. He said there are also six other projects with budgets between \$500,000 and \$5 million, of which five are considered in green status, and one, the DHS operating rules health enterprise project, is considered in yellow status. He said there are currently no projects in red status.

Mr. Data provided a copy ([Appendix P](#)) of project startup and closeout reports completed between September 2016 and September 2017. He said the startup reports relate to the ITD statewide longitudinal data system data utilization project, DHS operating rules health enterprise project, WSI extranet project, and WSI myWSI enhancements project. He said the closeout reports relate to the ITD statewide longitudinal data system project, the judicial branch North Dakota courts disaster recovery project, DOT motor vehicle system redesign, the WSI extranet, and the Department of Public Instruction NDFoods 2.0 project. He said all projects with closeout reports met 100 percent of the project objectives except the DOT motor vehicle system redesign, which achieved 92 percent of the project objectives.

In response to a question from Chairman Mock, Mr. Data said if a project is provided a new baseline budget, the project closeout report will include comparisons to the new baseline budget, not the original baseline budget.

Status of Selected Projects

Workforce Safety and Insurance

Mr. Timothy Schenfisch, Director, Information Technology, Workforce Safety and Insurance, presented information ([Appendix Q](#)) regarding the status of the WSI claims and policy system replacement project. He said WSI uses two main applications to provide workers compensation and safety services, including a claims management system and the policy information computer system. He said the claims and policy system project is a browser-based program that will replace the current applications. He said there are five phases to the claims and policy system project, including planning and analysis, shared-components refacing, policy application refacing, claims application refacing, and transition and program closeout. He said each phase consists of several releases, which are 6-month to 9-month projects. He said Phase 1 was completed in June 2015 and Phase 2 was completed in February 2017. He said release 4 within Phase 3 is approximately 90 percent complete and is scheduled to be in production in October 2017. He said release 4 is within budget and on schedule.

Department of Human Services

Ms. Jennifer Witham, Director, Information Technology Services, Department of Human Services, presented information ([Appendix R](#)) regarding the status of the eligibility systems modernization project and an overview of the functionality of the Medicaid management information system. She said there are two phases to the eligibility systems modernization project. She said the first phase, which included the implementation of Medicaid eligibility determination for individuals under the federal Affordable Care Act, went into production in February 2016. She said the second phase of the project, which will include the integration of economic assistance programs, has an estimated completion date of April 2018.

Ms. Witham said the Medicaid management information system was implemented in October 2015. In October 2016, she said, DHS transferred the provider call center support from Xerox's Mississippi call center to DHS operations in Bismarck. She said in 2017 claim processing volume is averaging 44,576 claims per week with 70 percent of claims paying, 21 percent of the claims denying, and 9 percent suspending. She said during August 2017, DHS has processed 98.8 percent of all clean claims within 30 days of date of receipt, and 99.6 percent within 90 days of receipt.

In response to a question from Senator Wanzek, Ms. Witham said the difference between a denied claim and a suspended claim is that a denied claim has incorrect information and the claim will not be paid, while a suspended claim needs additional information to further evaluate claim eligibility.

Secretary of State

Mr. Jim Silrum, Deputy Secretary of State, Secretary of State's office, presented information ([Appendix S](#)) regarding the status of the File 2.0 project. He said as of June 2017, the project is 9.8 percent under budget and

1 percent ahead of schedule. He said the project is a business and license software system that started in October 2015 and will allow new companies to register businesses with the Secretary of State's office and businesses to file reports required by the Secretary of State. He said the new system will reduce the number of staff hours necessary to process these reports. He said the estimated project completion date is September 2018 with an estimated cost of \$2.5 million compared to a project budget of \$3.05 million.

STUDY OF INFORMATION TECHNOLOGY DEPARTMENT SERVICE RATES

The Legislative Council staff presented a memorandum entitled [Information Technology Department Rates - Background Memorandum](#). He said the memorandum provides a summary of ITD history, the department's funding and revenue, department service rates, and provides a proposed study plan related to ITD service rates for the committee to consider related to the requirements of Section 8 of 2017 Senate Bill No. 2001. He said ITD is considered a service agency, providing certain information technology services to other state agencies in exchange for funding provided by the agency receiving services. He said funding for ITD derived from special funds is primarily provided by state agencies receiving information technology services from ITD. He said funding provided by state agencies to ITD for information technology services generally originates equally from general funds, special funds, and federal funds.

The Legislative Council staff said ITD provides 96 unique data processing services and 22 telecommunications services while applying a 4.9 percent overhead charge for all services provided. In June 2016, ITD estimated the overall cost increase to state agencies for department services from the 2015-17 biennium to the 2017-19 biennium would be approximately \$900,000, or 0.75 percent. He said this compares to a \$3.3 million increase, or 2.74 percent, from the 2013-15 biennium to the 2015-17 biennium and an increase of \$1.6 million, or 1.46 percent, from the 2011-13 biennium to the 2013-15 biennium. He said the proposed study plan for the ITD service rates study includes reviewing various information from ITD, including rate types and fee structures, federal requirements, and services provided to state agencies; reviewing information from the University System regarding higher education service rates; and reviewing information from state agencies receiving services from ITD.

Mr. Sipes presented information ([Appendix T](#)) related to ITD service rates. He said the funding associated with ITD service rates is \$134.8 million in the 2017-19 biennium, which consists of \$163.5 million from special funds provided for ITD operations--i.e., salaries and wages, operating expenses, and capital assets--less \$28.7 million of funding provided for the statewide interoperable radio network. He said some services provided include computer hosting, network services, software development, and enterprise project management. He said ITD operates as an internal service fund, which results in the federal government auditing ITD regularly to ensure ITD is not exceeding reserve maximums related to revenue collected for services provided to other state agencies. He said the maximum amount of reserves the federal government allows ITD to maintain is equivalent to approximately 2 months of operating needs. He said the reserve balance is calculated on June 30th of each year. He said the 2 month operating reserve is minimal to provide for capital investments and as a result, many other internal service agencies in other states intentionally exceed this maximum with the knowledge that they will be penalized by the federal government. He said ITD has been successful at maintaining the 2-month operating reserve without being penalized by the federal government. He said if ITD anticipates its reserves will exceed this amount, the department lowers its reserves by refunding agencies for services provided or by lowering service rates.

Mr. Sipes said fiscal year 2017 service billings totaled \$60 million with DHS accounting for 40.3 percent of this amount. He said other agencies and significant areas included DOT (7.8 percent), higher education (5.5 percent), WSI (4.3 percent), Office of Management and Budget (3.4 percent), and Bank of North Dakota (2.8 percent). He said the most common service provided was computer hosting, which accounted for 30 percent of total service billings. He said the remaining common services provided include software development (27.7 percent), direct bill back services (19.5 percent), network services (16.7 percent), telephone services (5.6 percent), and other services (0.5 percent). He said direct bill back services are costs incurred when a specific hardware or software component are purchased for an agency project, resulting in ITD directly billing the agency for this item, rather than incorporating the item's cost into a service rate.

Mr. Sipes said service rates are set for the upcoming biennium in March of each even-numbered year. As a result, he said, ITD makes an effort to maintain the established rates during the biennium, as state agencies do not budget for rate increases in the middle of a biennium. He said ITD reduced rates during the 2015-17 biennium, resulting in \$9.2 million in reduced revenue. Of this amount, he said, disk storage revenue was reduced by \$4.7 million and server revenue was reduced by \$2.3 million.

In response to a question from Representative Boehning, Mr. Sipes said ITD does not pay sales tax for services provided, but does pay state cell phone-related taxes. He said the state does not pay taxes on landline telephones since it is the direct provider of these services.

Senator Davison suggested the committee receive information on the current service rate structure, ITD's rate model compared to other states, and how the current rate structure affects staffing and the billing process.

Chairman Mock suggested the committee consider receiving information related to the source of funding for other state's ITD equivalent agencies.

In response to a question from Representative Boehning, Mr. Sipes said ITD provides services to political subdivisions, as each political subdivision is required to use STAGEnet.

Chairman Mock asked the Legislative Council staff to conduct a survey of state agencies regarding the information technology services provided by ITD.

OTHER INFORMATION

Chairman Mock suggested the committee receive information on the ITD Help Desk, including data on information technology support ticket volume and completion timeliness. Mr. Riley said this information is currently being gathered by ITD and can be presented at a future meeting.

Mr. Russ Buchholz, Director, Information Technology Division, Department of Transportation, provided information on driver's license costs and department mainframe costs. He said the cost to issue a driver's license is \$21 to the state, and the department charges customers \$15, resulting in a \$6 loss for every driver's license produced.

In response to a question from Chairman Mock, Mr. Buchholz said he was unsure whether the cost for driver's licenses would decrease once the department is no longer utilizing the mainframe, as the cost to maintain a new system is unknown.

Chairman Mock said the next committee meeting will be December 20, 2017.

No further business appearing, Chairman Mock adjourned the meeting at 4:25 p.m.

Levi Kinnischtzke
Fiscal Analyst

ATTACH:20