

INFORMATION TECHNOLOGY DEPARTMENT RATES - BACKGROUND MEMORANDUM

Section 8 of 2017 Senate Bill No. 2001 ([Appendix A](#)) provides for a study during the 2017-18 interim regarding the delivery and cost of the Information Technology Department's (ITD) services provided to state agencies. The study must include a review of ITD's cost of services, staffing, and billing processes and must identify improvements to the efficiency and effectiveness of ITD's services that will result in reduced costs for state agencies. The Legislative Management is required to report its findings and recommendations, together with any legislation necessary to implement the recommendations, to the 66th Legislative Assembly. The Legislative Management has assigned the responsibility for this study to the Information Technology Committee.

DEPARTMENT HISTORY

In 1969 the Central Data Processing Division of the Office of Management and Budget was established to create an electronic data processing center to be used by all state agencies except the institutions of higher education, Job Service North Dakota, and the Adjutant General. In 1981 the Director of the Central Data Processing Division was directed to supervise all executive branch agency data processing activities and to approve data processing equipment acquisitions. In 1989 the division was renamed the Information Services Division and was directed to prepare guidelines for agency information technology plans; develop a statewide plan based on those plans; develop statewide information technology policies, standards, and guidelines; coordinate services with political subdivisions and higher education; and report noncompliance to the Legislative Assembly.

In 1999 the Information Services Division of the Office of Management and Budget was established as a separate cabinet-level agency called the Information Technology Department and the Chief Information Officer position was created. See [Appendix B](#) for the ITD organizational chart. The following is a summary of major department changes since ITD was established in 1999:

- 2001 - The Education Technology Council was created and moved to ITD for coordination of all K-12 education initiatives.
- 2001 - The criminal justice information sharing program was established for exchanging information among criminal justice-related entities.
- 2001 - The geographic information system was implemented to share geospatial information between state agencies.
- 2001 - ITD and the North Dakota University System launched ConnectND to replace all financial, human resources, and student information systems.
- 2003 - The State Information Technology Advisory Committee was given responsibility for the prioritization of state government strategic initiatives.
- 2004 - Server consolidation was launched, resulting in maintenance efficiencies and cost savings.
- 2007 - The statewide longitudinal data system began providing data.
- 2009 - The Health Information Technology Office began implementing statewide interoperable health information infrastructure.
- 2014 - Centralized desktop support services were launched for 19 agencies.
- 2015 - The criminal justice information sharing program was transferred to the Attorney General's office

DEPARTMENT FUNDING AND REVENUE

The Information Technology Department is considered a service agency, providing certain information technology services to other state agencies in exchange for funding provided by the agency receiving services. Prior to the beginning of each biennium, ITD estimates the rates and fees for services provided to state agencies for the upcoming biennium. When state agencies prepare budget requests for the upcoming biennium, the agencies request funding to accommodate anticipated services needed based on the estimated rates provided by ITD. Following approval by the Legislative Assembly, state agencies will use the funding appropriated to pay ITD for the information technology services performed for the agency.

Funding for ITD derived from special funds is primarily provided by state agencies receiving information technology services from ITD. Generally, the funding provided by state agencies to ITD for information technology services originates equally from the general fund, special funds, and federal funds. Thus, the funding ITD receives

through its special funds from state agencies is approximately one-third from agencies' general fund appropriations, approximately one-third from agencies' special funds appropriations, and approximately one-third from agencies' federal funds appropriations.

The following table provides information on how special fund revenues received by ITD from state agencies were budgeted for the 2013-15, 2015-17, and 2017-19 bienniums.

Program	2017-19 Biennium Special Funds	2015-17 Biennium Special Funds	2013-15 Biennium Special Funds
ITD operations (including salaries, operating expenses, and capital assets)	\$134,805,999	\$133,376,791	\$127,549,748
Center for Distance Education	3,050,000	3,050,000	2,052,536
Statewide longitudinal data system			
Educational Technology Council	100,000	100,000	100,000
EduTech	6,564,518	5,514,599	5,210,125
K-12 wide area network	100,000	100,000	100,000
Geographic information system			
Health Information Technology Office ¹	48,371,471	4,983,528	4,445,144
Criminal justice information sharing			192,000
Statewide interoperable radio network ²	28,700,000	1,500,000	
Total	\$221,691,988	\$148,624,918	\$139,649,553

¹Of the special funds appropriated to ITD for the Health Information Technology Office for the 2017-19 biennium, \$40.8 million is provided from federal funds received by the Department of Human Services.

²Of the amount appropriated to ITD for the statewide interoperable radio network for the 2017-19 biennium, \$15 million is provided as a loan from the Bank of North Dakota. The remaining \$13.7 million is the projected revenue to be collected as a result of an additional \$0.50 fee imposed on assessed communication services, as approved by the 2017 Legislative Assembly in House Bill No. 1178. Revenue collected must be deposited in the statewide interoperable radio network fund.

The following table provides information on funding appropriated by the Legislative Assembly to ITD for the 2013-15, 2015-17, and 2017-19 bienniums.

Funding Source	2017-19 Biennium	2015-17 Biennium ¹	2013-15 Biennium
General fund	\$20,532,334	\$26,078,145	\$21,254,428
Special funds	221,691,988	148,624,918	139,649,553
Federal funds	2,875,000	3,088,121	10,025,000
Total	\$245,099,322	\$177,791,184	\$170,928,981

¹The general fund amount shown for the 2015-17 biennium reflects a \$1,827,842 general fund reduction approved by the Legislative Assembly during the August 2016 special legislative session.

SERVICE RATES

The Information Technology Department provides 96 unique data processing services and 22 telecommunications services while also 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. See [Appendix C](#) and [Appendix D](#) for more information on these rates. 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.

The estimated 2017-19 biennium increase assumes agencies will procure the same quantity of services during the 2017-19 biennium as the 2015-17 biennium. The increase is due to the following service rate changes:

Service	Increase
Development and hourly billed staff	\$2,000,000
Network rates to agencies and political subdivisions, primarily technology fee increase	1,100,000
ConnectND hosting	600,000
General hosting - Decreases in servers, storage resource management, and disk	(1,600,000)
Recurring charges and maintenance bill back	(600,000)
Mainframe and AS/400 hosting - Staffing and maintenance	(400,000)
Telephone	(200,000)
Total	\$900,000

The following is a list of agencies with the largest increase in service rates from the 2015-17 biennium to the 2017-19 biennium:

Agency	Increase
Department of Transportation	\$690,582
Department of Human Services	\$542,659
Attorney General	\$316,271
Secretary of State	\$262,078
Office of Management and Budget	\$197,744
North Dakota University System	\$149,789
Department of Corrections and Rehabilitation	\$121,542
Department of Public Instruction	\$104,337

The following table provides information on ITD service rates for fiscal years 2016, 2014, 2012, 2010, and 2008:

Service	Fiscal Year 2016	Fiscal Year 2014	Fiscal Year 2012	Fiscal Year 2010	Fiscal Year 2008
Central computer central processing unit (CPU) rates	Batch CPU - \$.64 per second	Batch CPU - \$.58 per second	Batch CPU - \$.62 per second	Batch CPU - \$1.07 per second	Batch CPU - \$.93 per second
	CICS CPU - \$.64 per second	CICS CPU - \$.58 per second	CICS CPU - \$.62 per second	CICS CPU - \$1.07 per second	CICS CPU - \$.93 per second
Network fees	ADABAS CPU - \$.64 per second	ADABAS CPU - \$.58 per second	ADABAS CPU - \$.62 per second	ADABAS CPU - \$1.17 per second	ADABAS CPU - \$.98 per second
	TSO CPU - \$.64 per second	TSO CPU - \$.58 per second	TSO CPU - \$.62 per second	TSO CPU - \$1.07 per second	TSO CPU - \$.93 per second
	Device fee - \$59.00 per device per month	Device fee - \$49.50 per device per month	Device fee - \$49.00 per device per month	Device fee - \$43.50 per device per month	Device fee - \$30.75 per device per month
	DSL service - Actual cost plus \$175/5mb	DSL service - Actual cost plus \$175/5mb	DSL service - Actual cost plus \$175/5mb	DSL service - Actual cost (ranges from \$40 to \$199)	DSL service - Actual cost (ranges from \$40 to \$120)
	Access, information, enterprise management fee - Included				
	ETS-5 service - \$765 per month	ETS-5 service - \$765 per month	ETS-5 service - \$765 per month	ETS-5 service - \$890 per month	ATM T-1 service - \$890 per month
	Desktop support - \$100 per device per month	N/A	N/A	N/A	N/A

RATES COMPARISON WITH SELECTED STATES AND THE PRIVATE SECTOR

The Information Technology Department monitors the cost and revenue for each service to ensure that one service is not subsidizing another service. 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 in an effort to maintain quality services at a fair price. The following is a summary of rate comparisons from fiscal year 2015 for the services that generate a majority of ITD's revenue:

Service	North Dakota ITD Rates	South Dakota Bureau of Information and Telecommunications Rates	Montana Information Technology Services Division Rates	Minnesota Office of Enterprise Technology Rates
Central computer CPU rates	Batch CPU - \$.64 per second	Batch CPU - \$.50 per second	Batch CPU - \$2.71 per second	Batch CPU - N/A
	Other CPU rates - \$.64 per second	Other CPU rates - \$.50 per second	Other CPU rates - \$1.20 - \$1.90 per second	Other CPU rates - N/A
Network fees	Device fee - \$59.00 per device per month	Device fee - \$73.00 per device per month	Device fee - \$71.41 per device per month	Device fee - \$66.95 per device per month
	Desktop support - \$100 per device per month	Desktop support - Included	Desktop support - \$101.25 per hour	Desktop support - \$78.00 per hour
	Access, information, enterprise management fee - Included	Access, information, enterprise management fee - \$53.25 per device per month	Access, information, enterprise management fee - N/A	Access, information, enterprise management fee - N/A
	DSL service - Cost plus \$175/5mb	DSL service - Actual cost	DSL service - \$410.49/1.5mb	DSL service - Cost plus 15 percent
	ETS-5 service - \$765 per month	ETS-5 service - Actual cost	ETS-5 service - Actual cost	ETS-5 service - \$220 plus circuit costs

Software Development		
	Location	Billing Rate Per Hour of Service
ITD	Bismarck, ND	\$81 to \$115
Applied Engineering, Inc.	Bismarck, ND	\$88 to \$102
Eide Bailly LLP	Bismarck, ND	\$90 to \$165
Enterprise Solutions, Inc.	Bismarck, ND	\$90 to \$140
Nexus Innovations	Bismarck, ND	\$94 to \$140
Agency MABU	Bismarck, ND	\$75 to \$80
Connvertex	Sandy, UT	\$100 to \$130
Bpro, Inc.	Pierre, SD	\$55 to \$75
Integration Architects	Minneapolis, MN	\$90 to \$125
QA Technologies	Omaha, NE	\$88 to \$95
Seven Seas Technologies	Chesterfield, MO	\$88 to \$103
TEK Systems	Atlanta, GA	\$88 to \$103

STUDY PLAN

The following is a proposed study plan for the committee's consideration in its study of ITD service rates:

1. Receive and review information from representatives of ITD regarding:
 - a. Rate types and fee structures;
 - b. Rate trends and changes in service fees from previous bienniums;
 - c. Federal requirements regarding rates;
 - d. How rates are established for each service;
 - e. Services provided to state agencies;
 - f. Large projects performed by ITD for state agencies in previous bienniums and for the 2017-19 biennium;
 - g. A comparison of ITD rates and time necessary to complete projects compared to private provider rates and time necessary to complete projects;
 - h. The effect on rates if ITD contracts with third parties for services;

- i. The effect of salary and health insurance increases on service rates;
 - j. How the potential of cloud hosting affects service rates; and
 - k. How proposed state agency information technology unification will impact service rates.
2. Receive and review information from representatives of the University System regarding information technology services and rates related to higher education.
3. Receive and review information from representatives of state agencies receiving information technology services from ITD, including the budget process for ITD services within agency budgets and any budgeting issues or concerns.
4. Receive and review information from interested persons regarding the committee's study of ITD service rates.
5. Develop recommendations and any bill drafts necessary to implement the recommendations.
6. Prepare a final report for submission to the Legislative Management.

ATTACH:4