

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1015

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2003 HOUSE APPROPRIATIONS
HB 1015

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2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1015

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date 01-10-03

Tape Number	Side A	Side B	Meter #
1	X	X	All
2	X	X	All
3	X	X	All
Committee Clerk Signature <i>Chris S. Myles</i>			

Minutes:

Eric Hardmeyer President of the Bank of North Dakota.

Rep. Carlson What would you want your assets to capital bank if you were a traditional bank, not the bank of ND? What is a good number to have industry wide?

Hardmeyer 8.66 is a healthy ratio. 7% is the baseline when the banking commission starts to get nervous. The banking commissioner prefers to use a straight out leverage ratio. At 7% he is nervous. At 8.66 he is very comfortable. Banks around ND have a higher capital ratio than those around the country, and they average between 9-10%.

An additional 25 million dollars may be coming out of the "rainy day fund." We are not sure how we will end the biennium. This will come out of capital since most of our profits are used for the 60 million dollar transfer.

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10/30/03
Date

Page 2

Government Operations Division

Bill/Resolution Number HB 1015

Hearing Date 01-10-03

Rep. Koppleman What is the primary source of interest income at the bank? What are your reserves invested in?

Hardmeyer Our primary asset is loans at about 1 billion 330 thousand. Of that, 223 million are farm loans, 365 million are student loans, 433 million are business and commercial loans, and 309 million are residential loans.

Rep. Glassheim I calculated the asset to capital ratio and I took 25 million out of 171 million then I get 7.3%, and that is approaching problematic.

Hardmeyer Yes, correct, our ratio after the transfer would be about 7.25%. But in addition to the capital we do have a healthy loan loss reserve of about 25 million dollars. That is about 1.88% extra 55-57% of the loans that we have are guaranteed by the federal government due to the student loans. Also, the residential loans are all made up of FHA which are 100% guaranteed and VA range from 20-60% guaranteed.

Rep. Carlson Are typical banks are they required to have a loan loss reserve? And what would that number be?

Hardmeyer Yes, typical banks hold 1.8%.

Rep. Carlson Could you get how those loans are guaranteed?

Rep. Timm Are there any programs now that anticipates a large loss?

Hardmeyer No, we do not have anything in our portfolio that we are concerned about.

Rep. Koppleman 43-55% of the exposure is not guaranteed. The rest of that is backed by the bank of ND? What would happen if the bank should how a loss?

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10/30/03
Date

Page 3

Government Operations Division

Bill/Resolution Number HB 1015

Hearing Date 01-10-03

Hardmeyer To my recollection the bank suffered significant loan losses of 8-10 million dollars in the 80's. What happens there is it first comes out of reserves, then out of capital. The way the bank is positioned today I don't foresee any surprises.

Rep. Koppleman If it did happen then where would the money come from?

Hardmeyer The deposits in the bank are guaranteed, not the loans.

Rep. Thoreson Are there any years the bank did not show a profit?

Hardmeyer Not in recent years.

Rep. Skarphol The balance of assets shown is 1.9 million, where is the other 675 million?

Hardmeyer In other investments to assure liquidity for the bank to make sure that we have money available to fund our loan growth. They are also in short term investments like Fed. Funds. They are all in good, solid investments. They are all in agencies or government treasuries.

Rep. Skarphol What kind of earnings are there on those?

Senior VP of treasury Duration is about 1.2 years, investment portfolio is 270, the average life of less than 5 years. 2-year government is 1.70, and short term is 1.25 percent.

Rep. Warner Is the 140 million in statute SB 2015, or is it in OMB budget bill?

Hardmeyer That is in the bill 2015, so it is in law.

Rep. Carlson What happens if bad times come?

Hardmeyer If there are losses they would hit the 25 million loan loss reserve fund before they hit our capital. We come out to about 23 million worst case scenario, our reserve is very adequate.

Rep. Carlson 25 million was a 1 time transfer that is not in this budget?

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Operator's Signature

10/30/03
Date

Page 4
Government Operations Division
Bill/Resolution Number HB 1015
Hearing Date 01-10-03

Hardmeyer That is correct.

Rep. Carlson That was not to be replenished?

Hardmeyer Not that I am aware of, and the only way it could be replenished is a transfer back or some retention earnings.

Rep. Carlson The language is there, but the money is not?

Hardmeyer Correct.

Rep. Koppleman How often has the legislature taken from capital to get to the 140 million dollar benchmark ?

Hardmeyer Prior to last session the benchmark was 100 million. It is uncommon to dip into capital to reach a benchmark.

Rep. Glassheim OMB, in the budget is any amount beyond 25 million included to the ending 2005 balance?

Sandy From OMB, no it is not included.

Rep. Glassheim If less than 60 million dollars of profit were taken from the general fund what would you do with the money?

Hardmeyer For every 1 million taken out of capital would lose revenue of 55,000 dollars.

It costs us on the profit side and cost of money goes down as we retain earnings meaning we could lend money cheaper.

Rep. Carlson Is it a common practice among banks that they would borrow money to lend money instead of using their own money?

Hardmeyer Yes.

Chairman Carlisle What is the employee turnover?

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10/30/03
Date

Page 5
Government Operations Division
Bill/Resolution Number HB 1015
Hearing Date 01-10-03

Hardmeyer very low, we have 178 employees and we have between 5-7 openings at any time.

Chairman Carlisle Are operating expenses less expensive with ITD?

Hardmeyer Yes, with 20,000/month savings with Guarantor-lender system savings. As soon as we convert the lender system we will save about 100,000/month.

Chairman Carlisle Is that reflected in the budget?

Sandy I will make a note of that.

Rep. Skarphol Are you over or under budget stating IT cost in the projected budget?

Hardmeyer Probably under estimating.

Rep. Skarphol From the 01-03 session and the 03-05 session you estimated 2 million dollar savings in IT?

Hardmeyer Correct.

Rep. Skarphol The total cost is going to be over 5 years?

Hardmeyer We would buy one integrated system and put that into play this biennium. We would pay for this over 3-5 years.

Rep. Glassheim How does that system work with ERP?

Hardmeyer This is a banking system and not the same as ERP, however they may overlap a little bit.

Rep. Warner Are there any large market banks that have a portfolio of student loans that are comparable in size to yours nationally? And do they have a commercially available software available instead of starting from scratch.

Hardmeyer Sallie May has a comparable software, but we would be vulnerable to them and though that not the best choice.

Page 6
Government Operations Division
Bill/Resolution Number HB 1015
Hearing Date 01-10-03

Rep. Warner When you transfer checks between banks are they done electronically yet?

Hardmeyer We still process about 4 million checks on paper, but the industry is going to electronic transfers.

Rep. Skarphol Do you think that if you would have more professional participation in the planning stage of student loan IT change would it have gone smoother?

Hardmeyer Yes, I think we could have improved on that.

Rep. Skarphol Could you give us a rough estimate on the time delays on when you were scheduled to be online and when you actually will be?

Hardmeyer About 1 year.

Rep. Skarphol Regarding ERP and bank needs for security and confidentiality, do you have those concerns?

Hardmeyer We have spent roughly about 135,000 on a security audit conducted by Idie Bailey. We have identified a number of areas of concern and most of them have now been resolved.

Rep. Skarphol Is there a need for legislation to exempt the bank of ND from the open records law?

Hardmeyer There is existing legislation to protect us from that.

Rep. Glassheim Do you anticipate a large carry-over or spent down?

Hardmeyer We will likely have a 1 million dollar carry-over.

Rep. Carlson What are we buying down to?

Hardmeyer We are buying loans down to 1%.

Rep. Carlson Do we track success and failures in the PACE program?

Hardmeyer Yes.

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10/30/03
Date

Page 7
Government Operations Division
Bill/Resolution Number HB 1015
Hearing Date 01-10-03

Rep. Timm Are buy downs generated by Economic Development or can it be done privately?

Hardmeyer A local match has to be established, borrower has to work with local economic developers.

Rep. Thoreson What are the reasons for the large numbers in the northwest regions in the state?

Hardmeyer Yes, it is because of the Bushel-42 project, a value added ag project.

Rep. Koppleman So individuals have borrowed to make investments, and borrowing from the bank of ND. It is the ability to borrow money for 1%.

Rep. Koppleman Is that available to people other than farmers?

Hardmeyer No, it is specifically designed for the farming community. Although another program called INVEST allows non-farming individuals to borrow money to use as equity into these value added projects. It is at 1% below our base rate.

Rep. Timm The PACE loans have to be initiated through local economic development? How about the

Hardmeyer The loan is initiated through a local bank. There are two pieces to it, the first is the loan and the second is the buydown. The Ag PACE loan has no local community match. The farmer comes through his local bank and if he qualifies then he automatically is eligible for the subsidy.

Rep. Carlson Requested results of Ag PACE fund program in writing.

Rep. Carlson How do you do transfers from the Ag PACE program to the Beginning Farmer Program?

Hardmeyer There is a bill to allow us to transfer money, and that is HB 1118.

Rep. Timm How much money do you plan on transferring from Ag PACE to Beginning Farmer.

Page 8
Government Operations Division
Bill/Resolution Number HB 1015
Hearing Date 01-10-03

Hardmeyer \$500,000.

Vance Taylor President of the State Mill

Rep. Carlson Have strategic plans been done in the past and do you have the results of them?

Taylor They have been done in the past and we will get that information to you.

Rep. Timm Why wouldn't customers pay for demerage fees instead of the mill. Is demerage part of selling techniques?

Taylor The customers pay demerage some times. It is part of our selling technique when the unloading delay is out of the customer's control. We pay it when we ship a car early.

Rep. Kroeber Is 121 the total number or FTEs?

Taylor that is the total number of employees we are allowed under the current budget.

We are at about 119-121.

Rep. Skarphol Was Cuba shipment paid in advance?

Taylor It was paid for before it was loaded on the ship.

Rep. Timm What is the trend for 2003 in mill closings.

Taylor It is humored that more could close, there is excessive capacity.

Rep. Skarphol Art these closures new or old mills?

Taylor They are mostly older mills that have not had much money put into them. But there were a couple of new mills that were shut down.

Rep. Skarphol Who owned them?

Taylor 25% were small companies, the rest were large corporations.

Rep. Warner Are there any new products coming out?

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10/30/03
Date

Page 9
Government Operations Division
Bill/Resolution Number HB 1015
Hearing Date 01-10-03

Taylor Family Flour is a declining market. The new products are pancake mixes, organic pancake mix, and organic flour.

Rep. Warner How is the Dakota Maid label accepted nationally?

Taylor In further away areas from ND, there is less product recognition.

Rep. Carlson Are you hiring independent food brokers to market your product?

Taylor Yes, on the retail side and the marketing side. On the retail side we pay for the marketing costs and on the brokerage side they pay for it.

Rep. Carlson Could we do a better job in terms of marketing our products?

Taylor There are always room for improvement. We have been running the mill at full capacity, so there is a huge demand.

Rep. Carlson What percentage of what you sell ends up on the retail shelf?

Taylor It is small, only 3% goes to retail shelf and we plan to grow that area.

Rep. Thoreson What are the sales on the online store?

Taylor It is a small volume of sales that are not significant.

Rep. Thoreson Is that a self operating site?

Taylor We work with a 3rd party on that, but we make the decisions.

Rep. Skarphol Are salaries comparable with union/nonunion wages?

Taylor Recently, yes they are.

Rep Carlson Are these union workers considered state FTE's?

Taylor Yes.

Sandy from OMB All employees are in the pay plan whether they are union or they are not.

Ed Barchinger Controller/Financial Manager of Mill

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Operator's Signature

10/30/03
Date

Page 10

Government Operations Division

Bill/Resolution Number HB 1015

Hearing Date 01-10-03

Rep. Warner Who is your insurance underwriter?

Taylor Ballard insurance. They work with other larger reinsurers, but they are our broker.

Rep. Warner Why do you not use the state insurance pool?

Taylor It was felt best that we work directly with the insurance company.

Rep. Skarphol Have you had significant claims by your clients in the past?

Taylor We have not had any claims since I have been manager.

Rep. Skarphol Please provide a breakdown of insurance coverage with Ballard Insurance.

Taylor We will provide that. We have catastrophe, liability and property insurance mainly.

Chairman Carlisle What is the 2002 net income?

Taylor 1.9 million profit, the projected 2003 profit is 2.5 million.

Rep. Skarphol Why is there a difference in written presentation and on the web site?

Taylor Due to the fact that we include the emergency appropriation we received from the budget section.

Rep. Skarphol Without emergency commission approval, you are asking for a 5.4 million dollar increase?

Taylor Yes.

Rep. Skarphol It will cost over \$1/bushel to process the grain with additional operating costs?

Taylor It is not as simple as it sounds, you have to factor in energy costs, union contracts, insurance, operating costs. It is not a 1:1 relationship to the increase in production.

Rep. Skarphol What is the reason and logic behind the decrease in your WAPA?

Taylor It is a 20 year contract, and there will more reductions in the future, but the next one is in like 5 years.

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Operator's Signature

10/30/03
Date

Page 11
Government Operations Division
Bill/Resolution Number HB 1015
Hearing Date 01-10-03

Rep. Timm Sales need to increase to pay the 5 million borrowed to pay the state of ND.

Taylor The 5 million would be paid in 2005 dues to projects and competition our operating loan will go up and down. Our equity will decrease by difference of profit and payment.

Rep. Timm Is your main objective to supply the ND farmers with a market for their grain or is it to turn over a profit to the state of ND?

Taylor Both.

Rep. Carlson What was the total amount bonded for improvements on the mill a few bienniums ago?

Karlene Fine The mill did not borrow any money for the construction and progress. They did now borrow that money, but there are no outstanding bill. There was a 19 million dollar transfer to improve their assets.

Rep. Carlson Where are we paying back this 19 million dollars?

Taylor We have about 10 million borrowed from the state of ND. The other 7.5 million borrowed from the state of ND is part of our operating line. 1/2 of it is being paid back in cash and 1/2 of it is with borrowed funds.

Rep. Carlson Are we borrowing to make payments?

Taylor Are we better for the 19.5 million dollar project? Yes. We don't have 5 million cash to make payment. We are borrowing the \$.

Chairman Carlisle Please include this explanation in writing.

Rep. Carlson Why did you bond?

Fine The mill management thought that it was the best option to use cash and work with the Bank of ND.

Page 12
Government Operations Division
Bill/Resolution Number HB 1015
Hearing Date 01-10-03

Rep. Fine How much cash is borrowed?

Taylor 10 million is borrowed 9.5 million cash was put into it approximately.

Rep. Koppleman Your asking for about 5 million dollars more and you are projecting 1 million dollars more profit. Is that a good ratio?

Taylor We are projecting 2.5 million for the next biennium. The milling industry is not a high profit industry.

Rep. Glassheim Where are your payments to the bank in operating expense?

Taylor This is as of fiscal year 2002. Look at exhibit C. It shows the data better.

Ed Barchenger We budget interest expense not principal payment. We have a 5 year, amortizing loan. We budget interest expense.

Rep. Timm Insurance has increased by 4 times since the 2001-2003 budget. Why.

Taylor Insurance has changed since 9/11.

Rep. Timm Operating expenses have doubled?

Taylor It includes our interest expense.

Rep. Warner Requests presentation from the Insurance Pool for representing the State Mill.

Chairman Carlisle So noted.

Rep. Skarphol What are demerage rates, shifts, and overtime costs?

Taylor 150,000-200,000 dollars. The Shifts are 24/7. The overtime is based on Saturday and Sunday work or to cover vacation leave.

Rep. Skarphol There is a 10 percent increase in salaries, a 77% increase in temporary/overtime workers.

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Operator's Signature

10/30/03
Date

Page 13
Government Operations Division
Bill/Resolution Number HB 1015
Hearing Date 01-10-03

Taylor Hiring to lower overtime doesn't work for us. We would need to add a shift and rotate and eliminate overtime. Employees count on overtime pay.

Rep. Skarphol When was the last time that you actually put out an RSP and allowed competitive bidding for your insurance? How many bids do you get?

Taylor There are very few agencies that love to bid on flower mill insurance.

Chairman Carlisle Please overview a memo to committee. Representative Skarphol will be assigned to the mill budget.

Karlene Fine Executive Director/Secretary

Testified on the Administration Tab of the written testimony.

John Dwyer Chairman of the Lignite Research Council.

Testified under the LRP Tab in the written testimony.

Rep. Glassheim Can you explain where we are with air standards?

Dwyer The measurement is minute, computer models are used to measure it and calculate it. ND was notified in 2001 that it didn't comply with the Class-1 standard. EPA/Feds later determined we were in compliance. The state of ND insists that we are in compliance.

Rep. Glassheim Would there be any plant closure upon completion of a new plant?

Dwyer No, that is not our plan.

Rep. Carlson Is transmission our biggest challenge?

Rep. Dwyer Yes, because of cost.

Rep. Carlson Wind power needs to contribute to the transmission issue with money.

Lynn Helms Director of the Oil and Gas Division

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10/30/03
Date

Page 14

Government Operations Division

Bill/Resolution Number HB 1015

Hearing Date 01-10-03

Helms the actual data that is acquired is confidential under private agreements between the company that acquires the information and the oil company that purchases it. Our regulatory part is to make sure our holes are drilled in the correct places to protect underground drinking water.

Rep. Warner Is there any way to increase the extraction process by consolidating information?

Helms In my opinion, this would not assist that.

Rep. Warner Could you give me information on confidentiality of seismic information?

Chairman Carlisle Is the Secretary of State involved in the permit process.

Helms The business has to be registered with the Secretary of State.

Chairman Carlisle How is our environment?

Helms We are competitive with sister states. We lost ground with Saskatchewan. The federal government propose challenges with land acquisition.

Rep. Timm What are IT costs and are you happy with the services?

Helms 113,000 per biennium. We use limited services.

Rep. Timm How many FTEs were cut because of computer use?

Helms Yes, we have reduced .5 FTEs in 4 years. We have 35 employees.

Rep. Skarphol Why is there a \$14,000 increase in lease rent?

Helms There is a 5% per biennium increase written into a landlord lease.

Rep. Skarphol Why was there a \$25,000 increase in travel costs?

Helms DOT controlled the vehicles. We utilize 15 vehicles.

Ed Murphy With the state Geological Survey

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10/30/03
Date

Page 15

Government Operations Division

Bill/Resolution Number HB 1015

Hearing Date 01-10-03

Rep. Skarphol Where do you purchase your insurance?

Murphy ND Reserve Insurance Fund.

Murphy We would like to maintain 1 vacant FTE in anticipation of programs opening up.

Pat Fricke Executive Director of ND Housing Finance Agency

Chairman Carlisle What is the default rate?

Fricke 3.5 -4.5% comparable to other ND entities.

Rep. Skarphol What is the increase in your salary line and decrease in your operating line?

Fricke The reduction in the operating line is largely due to interest expense.

Ed Sather Executive Director of the Student Loan Trust

Karlene Fine Industrial Commission

Rep. Kroeber We transferred 9 million to the General Fund from the bond 1979 Bond Resolution.

Fine Correct

Fine 9 million is coming from the trust to the general fund. 1,258,000 is going to the Board of Higher Education.

Rep. Kroeber Does this effect student loans after the transfer?

Sather 25.9 million remains for loans.

Rep Kroeber If I am correct it is a 9.5 % loan. Has that been consistent over time?

Sather The federal government guarantees a rate of 9.5 % on new loans. The difference between what the borrower is paying and the 9.5 rate that we are guaranteeing is paid to us.

Rep. Kroeber Is that rate fixed or adjustable?

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Operator's Signature

10/30/03
Date

Page 16

Government Operations Division

Bill/Resolution Number HB 1015

Hearing Date 01-10-03

Sather Variable. A new program called Consolidated Loan Program allows students to reconsolidate all loans at one rate

Rep. Glassheim Will this 9.5 % continue or is it stopping?

Sather As long as the 1979 bond resolution is outstanding, that trust can recycle 48 million dollars in student loans that are guaranteed by Uncle Sam.

Rep. Kroeber How has the money been used?

Fine It has never been used for the general fund, but they have been used for the guaranteed agency.

Rep. Skarphol What is the total volume of student loans?

Sather 40-50 million dollars net growth annually.

Rep. Glassheim If the money was left in the trust, would more loans be available? What would the impact be?

Sather We would earn more money in the trust fund.

Chairman Carlisle Adjourned at 3:00.

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1015

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date January 22, 2003

Tape Number	Side A	Side B	Meter #
Committee Clerk Signature <i>Kelly Schmidt</i>			

Minutes: Committee Work

Eric Hardmeyer, President Bank of North Dakota, shared information regarding the New Student Software Program. This software replaces the lender and the guarantee system. The cost of the program is 6-7M for software which includes a interactive web site, and bank savings 1 M in ITD production costs. 80% of production costs will be reduced. His department is current with technology and bullish to reduce overhead and responsible spending. There computers are on a 3 year replacement cycle @ \$2,000 per computer, all employees have one. Programs that would impact the Bank of ND would be SB 2232, a transfer bill from the student loan trust to the residual bond fund, this is backed by Bank of ND.

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2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1015

House Appropriations Committee
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Hearing Date HB 1015

Tape Number	Side A	Side B	Meter #
1	XX		
Committee Clerk Signature <i>Kelly Schmidt</i>			

Minutes: COMMITTEE WORK

Karlene Fine, Bank of North Dakota outlined the State Bonding hand out (See written testimony)

Ed Sather, Bank of North Dakota, Student Loan Division (see written testimony) Projected balance sheet. ND Student Loan Trust. His department would look at current interest environment before transferring money from the fund balance. As long as the trust can make money, the bonds will continue to be carried. Should things change in rates it make an advantage to sell student loans to the Bank of ND.

Karlene Fine, Than bank has seen a reduction due to technology and what ITD has provided. She also indicated that SB 2232 does not have to pass in transfer funds. If the bill does not pass the 6% interest received from the Federal Government will be lost. The residual bond amount

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Deanna Ball
Operator's Signature

10/30/03
Date

Page 2
Government Operations Division
Bill/Resolution Number HB1500
Hearing Date January 31, 2003

will be \$16,480,000, the term of this bond is yet to be determined. Since 1979 the Bank of ND
has serviced 99M in student loans.

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2003 HOUSE STANDING COMMITTEE MINUTES

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House Appropriations Committee
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Hearing Date February 4, 2003

Tape Number	Side A	Side B	Meter #
1	xx		
Committee Clerk Signature <i>Kelly Shim dt.</i>			

Minutes: **COMMITTEE WORK**

Rep. Carlson discussion regarding the "freeze" of hires. The top number of employees would be frozen, there will be no distinguishing from general funds and federal funds.

Mill and Elevator discussion. Insurance issues have been addressed, a bill is pending to allow the department to bid on their insurance. This would be an advantage to the agency. There was discussion to add an amendment limiting the transfer amount. . Legislative Council advised, the transfer to the general fund is in the bill, thus an amendment is not necessary. There was also discussion regarding a reduction in the transfer amount so the Mill and Elevator could accommodate their renovation debt instead of bonding. Management made the decision to use cash, it was also noted this agency is under new management. Legislative council will do some checking into all debt held by the Mill and Elevator and report back to the committee.

Hearing no further discussion the meeting adjourned.

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10/30/03
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2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. COMMITTEE WORK

House Appropriations Committee
Education and Environment Division

☐ Check here for Conference Committee

Hearing Date February 5, 2003

Tape Number	Side A	Side B	Meter #
1	X		
Committee Clerk Signature <i>Celste Keller</i>			

Minutes: COMMITTEE WORK

Chairman Martinson called the hearing to order. He previously asked Karlene Fine and Ed Sather from the Bank of North Dakota to come and answer some bonding questions.

Karlene Fine See attached testimony.

Ed Sather from Bank of North Dakota. Walked through projected balance sheet of the North Dakota Student Loan Trust. See attached testimony.

Chairman Martinson What concerned most of us was your white sheet that you passed out to the Senate where you talk about a loss of 1.6 million annually. That precipitated all of the concern about why we are doing this when we are going to lose 3.2 over the biennium by transferring this money.

Sather That number has been revised. If funds are transferred out of the trust, we would lose approximately 1.2 million per year versus the 1.6. What we have said here is that if we can use

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10/30/03
Date

Page 2

Education and Environment Division

Bill/Resolution Number COMMITTEE WORK

Hearing Date February 5, 2003

the issuance of bonds versus liquidating the student loans, because the interest rate on the borrowing is much less than the interest rate on the student loans at 9.5%, we can capture that 1.2 million dollars per year.

Chairman Martinson You can capture it back?

Sather Yes, we can.

Chairman Martinson There is no net loss?

Sather The net loss that we figure is going to be based upon current interest rates. The interest cost to the trust would be approximately \$400,000 per year. That is where we go from the 1.6 million to the 1.2 million. In essence, if we do nothing we would make 1.6 million, if there is no transfers out of the trust. If we do transfer out of the trust, the 26 million, we would lose that if we do not use this bonding mechanism to fund that transfer. If we fund the transfer by issuing new debt, the cost of that funding would be about \$400,000. That would be the loss that we would incur.

Chairman Martinson Is that per year also?

Sather Yes, that is per year. We go from making 1.6 million to making 1.2 million. That would also facilitate the transfer of 26 million that is proposed in the next biennium.

Chairman Martinson Are you saying that if we do transfer that money, that it is very critical that we pass the 2232?

Sather I think so, because of the tax law it provides an opportunity to maximize that rate of return. We are not liquidating the student loans and losing a 9.5% interest rate.

Page 3
Education and Environment Division
Bill/Resolution Number COMMITTEE WORK
Hearing Date February 5, 2003

Rep. Aarsvold Would the obligation that we would incur by virtue of issuing the bonds, would that repayment be based on student return to the fund or is that a general obligation the state would incur?

Sather It is not an obligation of the state. It is a revenue bond that is repaid based on the cash flow of student loans.

Rep. Gulleson Revenue bonds, do they count against the whole portfolio of bonding that the state looks at when we make that decision as to whether the level is comfortable enough to keep us at a good bond rating?

Sather I would just say that basically the state of North Dakota has its own rating. Currently the state has no general obligations. These bonds issued by the student loan trust are backed up by guaranteed student loans that are guaranteed by the North Dakota Guarantee Agency and the federal government with a co-guarantee. So they are 98% government guaranteed.

Kathleen Fine If there were additional bonds issued there would not be any limitations on the state. These are looked at separately from the state of North Dakota because it is a revenue bond.

Chairman Martinson If we do the whole transfer, pass the 2232, our net loss and interest income would be \$400,000 per year?

Sather Yes, based upon current interest rates. The margin today is 7.5%. If we can borrow money at 2%, the current interest rate environment, we are still making 5.5%. That assumption on \$400,000 is based upon current interest rates of 2%. Over time if interest rates rise, that would increase. Also, we would structure this, if there is a mechanism in place, that when it reaches a break even point, we can reevaluate the bonds. There would be no negative earning aspect to the trust.

Page 4

Education and Environment Division
Bill/Resolution Number COMMITTEE WORK
Hearing Date February 5, 2003

Chairman Martinson There is about 7 million of new money in the Higher Ed budget for Centers of Excellence and the Internship Program, if we took that out and decreased the amount that we would put into these budgets by 7 million, is there a formula that we could use to say it would be so many dollars per year rather than a \$400,000 loss per year?

Sather Yes. Based on the full transfer of 26 million. Under current interest rates, the cost of the trust of issuing the bonds is 2%. I would say if you do not transfer 7 million you would reduce the borrowing by 7 million at 2% which would be \$140,000 per year.

Chairman Martinson So we could take the 140 off the 400?

Sather That is correct.

Chairman Martinson We can use the 2% if we eliminate 10 and it's 2% of the 10 that we take off the 400?

Sather That is correct.

Rep. Svedjan Looking at your spreadsheet, it looks to me that you are issuing 27.19 million in residual bonds, is that correct?

Sather The total amount that would be issued would be the column to the far right under 6-30-05. This is the projected balance sheet using the cash flows. It would show that the amount of residual bonds outstanding would be \$16,480,000.

Rep. Svedjan Just to clarify, you would issue 10.7 million by 6-30-04 and then an additional amount to get you up to 16 in 05. Is that right?

Sather That is correct. Referred to blue testimony.

Rep. Svedjan Reading the fund balance line, it looks like we are reducing the equity in that fund by almost half from 02-05.

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Operator's Signature

10/30/03
Date

Page 5

Education and Environment Division

Bill/Resolution Number COMMITTEE WORK

Hearing Date February 5, 2003

Sather That is correct. We assume that when you incur debt, you are still going to reduce your equity. If we liquidated the student loans for 26 million and converted it to cash, the fund balance would go to 26 million right now. In essence, instead of liquidating and transferring out that cash, we are incurring additional debt with the residual bonds.

Rep. Svedjan What was the starting equity in that fund? This was funded with bonds in the first place, right?

Sather That is correct. I believe the first bond issue was in 1979. Since that time the trust has issued over 900 million dollars in bonds. Under the 79, it currently has 4.5 million outstanding and there is 100 and some million under the 96 resolution. This equity has accumulated since that time based upon the interest rates on the student loans and the cost of issuance. This has been a net income that has accumulated in the trust since 1979.

Rep. Svedjan You don't recall what the original fund was? Where did it start and what did it go to?

Sather I would think that this is probably the highest balance it has had in terms of equity today. It started with a zero balance. It issued bonds in 79 to purchase student loans and then it accumulated based upon the net income. The higher rate of the student loans versus the cost of the bond allotted to accumulate earnings. This is the net effect in the 1979 bond resolution, this is the accumulation of those earnings.

Rep. Svedjan There is no benchmark necessarily as to where we start dipping into equity as compared to using just the earnings from the fund?

Sather The first time funds of that equity have been used or transferred out of the student loan trust to the state was in the current biennium, which is this 9 million dollars.

Page 6
Education and Environment Division
Bill/Resolution Number COMMITTEE WORK
Hearing Date February 5, 2003

Chairman Martinson I have not read the 2232, does that give you the flexibility to increase or decrease depending on what we actually end up doing this session?

Sather Yes, it does. The reason we introduced this legislation is that currently under statute, the student loan trust can only issue bonds to purchase student loans. This would provide us a mechanism to issue bonds for "the public will otherwise benefit". We are saying that would be the mechanism that would allow us to issue the bonds and not buy student loans but to make the transfers.

Chairman Martinson If we didn't have that 2232, as a banker trying to do the best investment that you can, you certainly wouldn't want us to do these transfers would you? That just wouldn't make any sense at all.

Sather That is more of a policy issue between the legislature and the governor. We look at it to maximize the rate of return. The equity is in the student loan trust. If nothing is done in 2005, this bond issue becomes paid in full and the equity is transferred to the industrial commission, which I assume would go in the general fund. I would like to make one thing clear, in other testimony there seems to be confusion between the student loan trust and the Bank of North Dakota. The student loan trust is a stand alone. It was a mechanism that was created that allowed the Bank of North Dakota to sell student loans for liquidity purposes. Everything in the student loan trust or anything we are proposing here does not impact the ability of students to get student loans in North Dakota. All of the student loans are basically made by the Bank of North Dakota and we will continue to make them. The trust can buy them from the Bank of North Dakota, they don't make them originally. The ability to borrow student loans is done by the Bank of North Dakota.

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10/30/03
Date

Page 7
Education and Environment Division
Bill/Resolution Number COMMITTEE WORK
Hearing Date February 5, 2003

Rep. Wald You are allowed to earn 9.5% on the student loan trust and by bonding it you can achieve about a 5% spread net, am I right?

Sather Yes. The overall return to the state under current interest rate environment would be 5.5%.

Rep. Wald The 5% will yield how much in your 02, 03, 04? Which column shows the 5% earnings?

Sather The earnings based upon that 5.5% would be approximately 1.2 million per year.

Rep. Svedjan You said at the end of the 03-05 biennium, if nothing is done with this fund, it would reach a maturity point where all of the funds would go to the industrial commission, which you thought then would become general fund money?

Sather That is correct. Right now, the flow of funds and where they go is determined by the outstanding bond resolution. If you look at the 9-30 there, 4.5 million dollars of bonds are outstanding. The final maturity of those bonds is 7-1-05. There would be no more debt outstanding and once all the funds are paid, then the flow of funds, or cash, would go to the issuer. In this case the student loan trust is under the industrial commission. I am assuming that if they receive cash, they would deposit it in the general fund.

Rep. Svedjan The loans are actually made by the Bank of North Dakota, not by the student loan trust fund?

Sather That is correct.

Rep. Svedjan What role does the trust play? It would seem to me it was established in the first place to make the loans and that the loans were made and the interest was paid on the loans and that is what helped generate the excess in the fund over the years. Now you are saying that this

Page 8
Education and Environment Division
Bill/Resolution Number COMMITTEE WORK
Hearing Date February 5, 2003

fund would reach a maturity point in 05 where it would really no longer have a function of loaning money for student purposes, but the Bank of North Dakota makes the loans?

Sather Under the trust, it doesn't originate loans. The creation of the trust resulted back to 1979. Interest rates went up to 21.5%. The economy in the state from the ag side and even the oil was on the down turn. In order to maintain liquidity or to get funds at the Bank of North Dakota, we didn't want to pay interest rates at 21.5%, so a mechanism was the trust issued debt which it could issue which is tax exempt with lower interest rates. The Bank of North Dakota then sold its student loans to the trust. What this did is it provided liquidity or gave cash to the bank so we could continue to make other loans. The concept of the mechanism of the trust is unique with the Bank of North Dakota. As we look at our balance sheet as we grow, a source of getting funds if we need it for commercial or ag loans is we can liquidate assets by selling some of the student loans to the trust and provide cash to the bank to help us fund our programs. At this point in time, we don't need to sell or liquify any assets, we have plenty of liquidity. From inception, the trust was a mechanism that was used.

Chairman Martinson The only purpose of the trust was to allow you to maximize your investment and to buy the student loans?

Sather That is correct.

Chairman Martinson I think what the confusion may be is when we talk about trust funds, you think about things that are set aside forever. Is it always called a trust fund or is there another name?

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10/30/03
Date

Page 9
Education and Environment Division
Bill/Resolution Number COMMITTEE WORK
Hearing Date February 5, 2003

Sather It is called the student loan trust. That is the way it is set up in statute. It is in trust. All of the assets are held and maintained by a trustee. The bond documents dictate the flow of funds and the trustee insures that those flow of funds are in accordance with the bond documents.

Chairman Martinson If we were to take money from that trust fund, is that the interest that the students have paid on their loans?

Sather It is a combination of both. It's interest the students have paid but also it is interest the government has paid.

Chairman Martinson It is more government than students though, isn't it?

Sather It depends upon the interest. Student loans have gone through evolution. In the 70's there were 8% fixed rates and today student loan rates are around 3.5%. The government pays interest while you are in school on the student loan. If interest rates rise, there is a special allowance payment that is made by the government. The accumulation of earning is a combination of both government payment and student interest payments.

Rep. Wald You said that the trust was a stand alone entity?

Sather It is created in statute as a student loan trust.

Rep. Wald If you were to show me the bank's financial statement, would the trust show up as an asset on the asset side of your bank statement, so to speak?

Sather No. It is not an asset of the Bank of North Dakota.

Rep. Wald So it is truly a stand alone operation?

Sather Correct.

Rep. Wald And you merely manage the funds and take a management fee or something?

Page 10
Education and Environment Division
Bill/Resolution Number COMMITTEE WORK
Hearing Date February 5, 2003

Sather That is correct. Bank of North Dakota is the trustee. Student loans of North Dakota services the student loans for the trust and the North Dakota Guarantee Agency guarantees them. They are not assets of the bank, the bank charges fees for its servicing and its trustee fees. It is a stand alone agency.

Rep. Svedian Going back to the question about dipping into equity, it is really a non issue. The reason I say this is that you said as we reach 6-30-05 when the liability is paid off, that fund, even though it is a stand alone fund, would revert to the industrial commission and would very likely be general fund money. The issue of dipping into equity is, in my view, a non issue.

Sather I would agree. In essence what it is allowing you to do is access some of that money today versus waiting until 2005.

Rep. Svedian In order to maintain the earning rate of 9.25, I believe, we would need to pass 2232 to replenish the fund so that we can ensure earning at that level?

Sather 2232 doesn't replenish the fund, it becomes a mechanism that allows the fund to maximize its rate of return. Irrespective of transferring cash and liquidating student loans or issuing additional debt to provide that cash flow, the equity fund balance will go down to 26 million dollars.

Rep. Svedian At the end of 6-30-05 there would be a sum of money there that would virtually become part of the general fund?

Sather That is correct. Based upon this calculation there would be another 26 million dollars in 6-30-05.

Page 11
Education and Environment Division
Bill/Resolution Number COMMITTEE WORK
Hearing Date February 5, 2003

Rep. Svedjan The issue of issuing student loans is possible because the Bank of North Dakota issues the student loans. We at that point, 6-30-05, would no longer have this fund that would keep earning at a rate of 9.25%?

Sather We are looking at avenues so we can extend that as long as we can maximize that rate of return.

Rep. Svedjan With the issuance of residual bonds under 2232, what is the length of that bond issue?

Sather We are thinking probably 15-20 years.

Rep. Svedjan Would that not keep that fund in place for another 15-20 years?

Sather To facilitate that, yes it would.

Rep. Svedjan The state would at least be looking at a revenue source much like what we are using the 9 million for this time or maybe even the 17 million in this case for 15-20 years out?

Sather I would say yes. The structure of the trust will be to maximize the rate of return. It is very attractive today because interest rates are very low and it really maximizes that return. In the future whether that is 2, 5, or 10 years from now, if interest rates rise dramatically it might not be advantageous.

Rep. Brusegaard Is there a significance to timing of the transfer of the general fund of 9 million on January 1, 2005, is there a reason that isn't transferred earlier in the biennium?

Sather In the current session, OMB requested the transfer January of this year. We assumed they would ask for it in the same time frame next biennium. That is an assumption.

Rep. Monson This is a pool of money not owed to anybody, this is actually just a pot of money that the state has as an asset. It shows up on no other Bank of North Dakota books, it shows up

Page 12

Education and Environment Division

Bill/Resolution Number COMMITTEE WORK

Hearing Date February 5, 2003

no place else. It is just a pot of money that has accumulated over the years since 1979 from government and student interest payments to it. This is really just an asset of the state of North Dakota, and we can use that in any time, in any fashion, but if we don't do anything with it, in 2005 it is going to max out and all of the bonds will be paid back and there will be no more money coming into this pot of money, is that correct?

Sather The reason we say 2005 is because right now the flow of funds and use of the funds is determined by the general bond resolution because there are bonds outstanding. It allows funds to be used to buy student loans, to pay debt service. In 2005 when that bond is paid, that equity of those funds are free and clear to be used at the direction of the Industrial Commission, whatever they would do. I assume that they would deposit it in the general fund. Also, to facilitate the transfer to the general fund, which we had to do in January of this year for the 9 million, we had to go the insurer of the bonds to get them to amend the documents to allow us to transfer the 9 million because it was outside of the scope. Since there is 4.5 million in bonds and 52 million in equity, they had no problem in allowing us to do that.

Rep. Monson If we don't make this transfer, what happens in 2005? We have 53 or 54 million that would have grown to that point at that time. There are no more revenues coming in because there are no more bonds being paid off to come in, and it is earning interest available. Is that what happens?

Sather If no funds are transferred out of the trust until 2005, you will maximize its earnings. The cash would be invested in governments or agencies. The student loans would be in there at 9.5%, we can purchase up to 42 million. The fund would continue to have net income each year. In 2005, it goes to the commission and I am assuming it would go the general fund.

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10/30/03
Date

Page 13
Education and Environment Division
Bill/Resolution Number COMMITTEE WORK
Hearing Date February 5, 2003

Rep. Aarsvold You talked about proceeds from government interest subsidies, we are talking about the federal government, right? Are there state dollars or only federal dollars?

Sather It is federal dollars. Current interest rates on student loans are variable, set annually. In today's interest rate environment the student loan rate in school is 3.5%, if you are in repayment it is 4.10% today. That is what the student pays. If it is in the student loan trust, the 79, since the government has agreed to provide a 4.9 1/2%, the government pays that difference which we call a special allowance payment. It is all government dollars.

Rep. Monson If we don't make this transfer, we end up with say 53-54 million maxed out in 2005 with no other real good source of income. We would be smart perhaps to try and sell these residual bonds anyway. We could then see a stream of revenue come back into this for the next 15-20 years and keep building that, am I understanding that right?

Sather Yes, that is a very good observation. That is what we believe. Because of the tax laws this 79 bond resolution gets this 9.5%. In 2005, when bonds go away, you no longer get the 9.5%. Our concept is, if we extend those maturities, we still get the 9.5% as long as we are maximizing that return, it makes sense. At some point if it is not cost effective or advantageous, we would call the bonds, reduce it and then liquidate. Our aspect is looking at it saying, how can we maximize the rate of return. There is no cost to the student, it is paid by the department of education. It seems to make sense that this is a mechanism to help maximize the return to the state.

Rep. Wald On June 30, 2005 what is the legislature or the taxpayer's obligation to the trust?

Sather There is no obligation of the legislature or the state to the trust.

Page 14

Education and Environment Division

Bill/Resolution Number COMMITTEE WORK

Hearing Date February 5, 2003

Rep. Wald So this loan that we did self destructs on June 30? In the meantime there would be a 5% spread earning on 42 million?

Sather That spread of 5.5% would be based upon the amount that is transferred. It is only going to be on the 26 million that would be transferred.

Rep. Wald I'm sorry 26 not 42.

Sather The outstanding bonds is 16.4 million, will be repaid from the cash flows of the trust. What it receives, principle and interest payments, off of the student loans. That is the revenue source to pay the residual bond.

Rep. Wald As a banker, when I look at this statement on June 30, 2005, the fund balance dropped from 51.8 million to 26.6. Your liability increased by \$13,500,000 to \$18,980,000. Your liabilities are up and your equity is down?

Sather That is correct. That is because, in essence, we have issued debt to make the cash transfers to the state. For example, if you would go to 9-30-02, if we had to liquidate assets or sell student loans to make those cash transfers, that balance would be approximately 25 million dollars of equity. Either way the equity is going to be about the same. Instead of reducing the total asset, you have just incurred a debt, but the equity still remains the same. In essence, you have made the transfer of 26 million cash to this general fund.

Rep. Rennerfeldt Is this basically a one time transfer?

Sather Yes, this is under the assumption that the current appropriations would be transferred out on the next biennium which has been identified to be around 26 million.

Rep. Rennerfeldt You say the 9% interest could be extended beyond 2005. Would they go along with that?

Page 15

Education and Environment Division
Bill/Resolution Number COMMITTEE WORK
Hearing Date February 5, 2003

Sather Based upon legal review, as long as the 79 bond indenture is outstanding, their interpretation is under the old tax law, up to 42 million in student loans could be held in the trust and earn 9.5%.

Rep. Monson You could do this anyway, even without a transfer. The transfer is really quite insignificant to the state as far as you are concerned. We can take the pool money out or we don't have to. If we pass this bill, you could actually earn more money for this trust fund and for the state of North Dakota for the pool of money for the industrial commission or whoever. If we pass this bill and you issued new bonds, you would just maximize this for more years and the bond would continue to make more money. The transfer is incidental except that if we make the transfer and don't pass this bill, then we don't maximize the interest that we could have because we are now jeopardizing that flow of money back in from the government, is that right?

Sather That is correct. Especially with current interest rates, it is very attractive to maximize the return. As I look at it as an investment individual saying, I wouldn't want to liquidate a 9.5% asset to make the transfer.

Rep. Monson The more money we need in this fund, the more money you could roll, if this bill passed, into higher rate of return bonds and we would be smart to maybe not tap into this so you would have more money that you could have available to roll, right?

Sather Based upon the legal review and the legal analysis and to take advantage of the 79 tax law, they had said the maximum amount of student loans that this trust can hold that can make 9.5 is only 42 million. They would not be buying more than 42 million because they don't earn 9.5.

Page 16
Education and Environment Division
Bill/Resolution Number COMMITTEE WORK
Hearing Date February 5, 2003

Rep. Monson If we just brought this down to 42 million, say we transferred 10 million out, we would then be pretty much maximizing the loans and doing the best we could for bringing in money to the state, correct?

Sather If you look at the blue sheet, the financial statement, under that theory the max that we can have is 42 million in student loans. You'll see in 6-30-03, there is 15.8 million dollars of cash. That would be available for transfers because the max we can invest is 42 million in student loans. That 15 million would be available for the transfer. Any transfers exceeding the 15 million, we would use the residual bonds to maximize the return.

Chairman Martinson It seems that if this hadn't been proposed by the governor's office, and maybe it did come from you, that you might have been going around telling people we need to move some of that money out of there so that we can rebond and keep it going for another 15-20 years.

Sather This came to light, the advantage of getting the 9.5%, this is relatively new to us. We realize that by looking and reviewing with bond counsel in August of this year, that we had the advantage to earn this 9.5%. This whole transition was new to us to maximize those earnings. It just seems to make sense that if there is going to be a transfer of more than 16 million out of the fund, that 2232 would be the mechanism to issue bonds to meet those cash flow expectations or transfers and we can maximize the rate of return. At some point in time, if interest rates rise and it's not advantageous, we unwind. As long as the fund can earn 9.5%, it seems to be prudent to extend the life of that general bond resolution to take advantage of the tax laws, especially since it is paid by the government and it is not paid by the student.

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10/30/03
Date

Page 17
Education and Environment Division
Bill/Resolution Number COMMITTEE WORK
Hearing Date February 5, 2003

Rep. Rennerfeldt The only reason where you would be able to do this is because of low interest rates, how much would they have to increase to take this advantage away?

Sather The quick answer is that we were looking at a margin of 5.5%, so to me once it gets to approximately 7.5%, it is break even.

Rep. Monson Wouldn't we maybe be smart to leave 42 million in here to maximize it in case interest rates go a lot higher down the road and we have to issue bonds to be able to get cash flow at a better rate for our student loans? Wouldn't it be wise to maybe keep this student loan trust fund viable with something in it so that if interest rates do go way up again we don't find ourselves in the same boat as we did in 1979 with very high interest rates and have to start right from scratch again to be able to generate some money to issue loans?

Sather It is advantageous, we think, to extend the life of the 79 because of the 9.5%. There is also another bond issue in the student loan trust called the 96. It is outstanding. It has 100 million of debt and 100 million of student loans in it so the student trust is a viable entity that can issue debt to buy student loans if it is needed. The difference here is that the tax laws are totally different for the 96. The government took away this big margin and says the maximum amount you can earn is 2% above your cost of funds, and that pays all of your operating expense. It is not as profitable as it was in the past. To maintain this 9.5%, the 79, up to 42 million, where we are able to maximize that return, it seems to be wise to extend it as long as we can maintain those margins.

Chairman Martinson closed discussion and adjourned until 10:15 a.m.

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1015

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date February 5, 2003

Tape Number	Side A	Side B	Meter #
1	x		

Committee Clerk Signature

Minutes: **COMMITTEE WORK**

Mill and Elevator hand out was distributed. \$2,139,000 is a loan. They have the authority to bond, but they didn't use it. The bonding authority expires after 2 years.

Continued discussion of student loan trust fund and SB 2232, this bill is in Senate Approps.

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Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1015

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date February 10, 2003

Tape Number	Side A	Side B	Meter #
1	x		
Committee Clerk Signature <i>Kelly Schmidt</i>			

Minutes: COMMITTEE WORK

Rep. Skarphol indicated he is awaiting the action on HB 1385 to adjust the petroleum engineering department in the Land Dept. Budget.

OMB shared the outline of the letter from received from the Bank of North Dakota regarding their vacancies.

REP. GLASSHEIM MOVED TO PASS AMENDMENT 38015.0101, SECOND BY REP.

WARNER. Discussion was held regarding the Mill & Elevator profits, and the transfers made at the end of the biennium. THE ROLL CALL VOTE WAS TAKEN WITH 8 YEAH, 0

NAYS, AND REP. KOPPELMAN ABSENT AND NOT VOTING. MOTION CARRIES.

Rep. Kroeber noted he would like to see a vote on the employee amendment in full committee.

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Dennis G. Ball
Operator's Signature

10/30/03
Date

Page 2
Government Operations Division
Bill/Resolution Number HB1015
Hearing Date February 10, 2003

REP. THORESON MOTION TO PASS HB 1015 AS AMENDED, SECOND BY REP.

SKARPHOL. HEARING NO DISCUSSION, CHAIRMAN CARLISLE CALLED FOR

THE VOTE, 8 YEAH, 0 NAYS, REP. KOPPELMAN ABSENT AND NOT VOTING.

The bill will be carried by Rep. Thoreson.

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Deanna G. Ball
Operator's Signature

10/30/03
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1015

House Appropriations Committee

☐ Conference Committee

Hearing Date 02-14-03

Tape Number	Side A	Side B	Meter #
1	X		19.4 - end of tape
2		X	0.0-8.0
Committee Clerk Signature <i>Chris I. Nyhus</i>			

Minutes:

Chairman Svedjan Opened HB 1015 for discussion.

Rep. Thoreson There are 15 million of general fund dollars in the budget. I move amendment 38015.0101 to HB 1015. 2nd by Rep. Carlisle

Rep. Monson With borrowing they were also paying of debts early, but that kept their cash low.

Rep. Skarphol Rep. Monson is right.

Rep. Carlisle So, 16 old mills have closed nationwide

Chairman Svedjan The mill would like this more than the way it was?

Rep. Skarphol I didn't get a read on this.

Rep. Warner There are two types of debt. Capital debt is in fixed operation schedules and the amendment won't affect the bottom line.

Chairman Svedjan The borrowing done was through operating debt.

Rep. Delzer What happens to the general fund?

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Deanna Hall
Operator's Signature

10/30/03
Date

Page 2
House Appropriations Committee
Bill/Resolution Number HB 1015
Hearing Date 02-14-03

Rep. Carlisle It will remain unchanged after the transfer.

Rep. Delzer What does this do to the numbers in the Governor's budget?

Rep. Carlisle The numbers match.

Rep. Glassheim It's like any other projection, it's not certain.

Motion Carries.

Rep. Carlisle I move to adopt amendment number 38015.0102 to HB 1015. 2nd. Motion Carries.

Rep. Kempenich What is the emergency clause doing on there?

Timm It has to do with the Ag. Pace funds.

Rep. Skarphol If we pass HB 1385 we may need to add an FTE to this bill.

Chairman Svedjan The adjustment can be made in the 2nd half.

Rep. Thoreson I move a Do Pass As Amended. 2nd.

Rep. Delzer Section 11 is the total bond payment for general obligation bonds and its also in the other budgets! I'd like an explanation of section 13.

Karlene Fine, Industrial Commission 24 million dollars are from other sources, the remainder is from the general fund.

Rep. Wald What is the mill insurance coverage?

Fine Unless they waive the coinsurance penalty, they will collect \$.25 on the dollar.

Rep. Timm They can't find reinsurers, no one wants to insure milling elevators.

Rep. Wald That's scary!

Rep. Skarphol They haven't had substantial claims. Only \$665,000 since 1993.

Motion Carries 23-0-0. Rep. Thoreson will carry this bill to the floor.

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Deanna Hall
Operator's Signature

10/30/03
Date

8015.0101

38015.0101
Title.

Prepared by the Legislative Council staff for
Representative Glasshelm
February 5, 2003

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1015

Page 4, line 9, after the period insert "The cumulative transfers during the 2003-05 biennium may not exceed the mill and elevator association's estimated net income for the 2003-05 biennium as projected by the industrial commission."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Dept. 475 - Mill and Elevator

HOUSE - This amendment limits the 2003-05 biennium transfer of funds from the Mill and Elevator to the general fund to the 2003-05 estimated net income of the Mill and Elevator as projected by the Industrial Commission.

Date:02-10-03
Roll Call Vote #: 2

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1015

House Appropriations: Government Operations Division Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 38015.0101

Action Taken DO PASS AS AMENDED

Motion Made By Rep. Thoreson Seconded By Rep. Skarphol

Representatives	Yes	No	Representatives	Yes	No
Chairman Carlisle	X				
Vice Chairman Carlson	X				
Rep. Koppelman					
Rep. Skarphol	X				
Rep. Thoreson	X				
Rep. Timm	X				
Rep. Glassheim	X				
Rep. Kroeber	X				
Rep. Warner	X				

Total (Yes) 8 No 0

Absent 1

Floor Assignment Rep. Thoreson

If the vote is on an amendment, briefly indicate intent:
See attached amendment

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Deanna Hall
Operator's Signature

10/30/03
Date

38015.0102
Title
Fiscal No. 1

Prepared by the Legislative Council staff for
House Appropriations - Government
Operations

February 10, 2003

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1015

Page 1, line 14, "6,332,714" with "6,264,047"

Page 1, line 19, replace "44,449,595" with "44,380,928"

Page 1, line 20, replace "37,302,824" with "37,296,489"

Page 1, line 21, replace "7,146,771" with "7,084,439"

Page 2, line 1, replace "16,722,966" with "16,546,603"

Page 2, line 5, replace "30,419,966" with "30,243,603"

Page 2, line 21, replace "3,976,792" with "3,934,267"

Page 2, line 25, replace "33,660,732" with "33,618,207"

Page 2, line 26, replace "15,221,771" with "15,159,439"

Page 2, line 27, replace "131,401,804" with "131,176,581"

Page 2, line 28, replace "146,623,575" with "146,336,020"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1015 - Summary of House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Industrial Commission			
Total all funds	\$44,449,595	(\$66,667)	\$44,380,928
Less estimated income	37,302,824	(8,335)	37,296,489
General fund	\$7,146,771	(\$62,332)	\$7,084,439
Bank of North Dakota			
Total all funds	\$36,494,966	(\$176,363)	\$36,318,603
Less estimated income	30,419,966	(176,363)	30,243,603
General fund	\$6,075,000	\$0	\$6,075,000
Housing Finance Agency			
Total all funds	\$33,660,732	(\$42,525)	\$33,618,207
Less estimated income	33,660,732	(42,525)	33,618,207
General fund	\$0	\$0	\$0
Mill and Elevator			
Total all funds	\$30,018,282	\$0	\$30,018,282
Less estimated income	30,018,282	\$0	30,018,282
General fund	\$0	\$0	\$0
BH Total			
Total all funds	\$146,623,575	(\$267,555)	\$146,336,020
Less estimated income	131,401,804	(225,223)	131,176,581
General fund	\$15,221,771	(\$62,332)	\$15,159,439

House Bill No. 1015 - Industrial Commission - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$6,332,714	(\$66,667)	\$6,264,047

Page No. 1

38015.0102

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Operator's Signature

10/30/03
Date

Grants	27,188,380		27,188,380
HFA contingencies	<u>100,000</u>		<u>100,000</u>
Total all funds	\$33,000,732	(\$42,525)	\$33,018,207
Less estimated income	<u>33,000,732</u>	<u>(42,525)</u>	<u>33,018,207</u>
General fund	\$0	\$0	\$0
FTE	43.00	0.00	43.00

Dept. 473 - Housing Finance Agency - Detail of House Changes

	REMOVED RECOMMENDED SALARY INCREASE 1	TOTAL HOUSE CHANGES
Salaries and wages	(\$42,525)	(\$42,525)
Operating expenses		
Grants		
HFA contingencies		
Total all funds	(\$42,525)	(\$42,525)
Less estimated income	<u>(42,525)</u>	<u>(42,525)</u>
General fund	\$0	\$0
FTE	0.00	0.00

1 This amendment removes the Governor's recommendation for state employee salary increases and retains the recommended state payment for health insurance premiums.

38015.0103
Title.0200
Fiscal No. 3

Prepared by the Legislative Council staff for
House Appropriations
February 14, 2003

VK
2/18/03
1083

HOUSE AMENDMENTS TO HOUSE BILL NO. 1015 APP 2-19-03

- Page 1, line 14, replace "6,332,714" with "6,264,047"
Page 1, line 19, replace "44,449,595" with "44,380,928"
Page 1, line 20, replace "37,302,824" with "37,296,489"
Page 1, line 21, replace "7,146,771" with "7,084,439"

HOUSE AMENDMENTS TO HB 1015 APP 2-19-03

- Page 2, line 1, replace "16,722,966" with "16,546,603"
Page 2, line 5, replace "30,419,966" with "30,243,603"
Page 2, line 21, replace "3,976,792" with "3,934,267"
Page 2, line 25, replace "33,660,732" with "33,618,207"
Page 2, line 26, replace "15,221,771" with "15,159,439"
Page 2, line 27, replace "131,401,804" with "131,176,581"
Page 2, line 28, replace "146,623,575" with "146,336,020"

HOUSE AMENDMENTS TO HB 1015 APP 2-19-03

- Page 4, line 9, after the period insert "The cumulative transfers during the 2003-05 biennium may not exceed the mill and elevator association's estimated net income for the 2003-05 biennium as projected by the industrial commission."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1015 - Summary of House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Industrial Commission			
Total all funds	\$44,449,595	(\$68,667)	\$44,380,928
Less estimated income	37,302,824	(8,335)	37,296,489
General fund	\$7,146,771	(\$82,332)	\$7,084,439
Bank of North Dakota			
Total all funds	\$38,494,866	(\$176,363)	\$38,318,503
Less estimated income	30,419,966	(176,363)	30,243,603
General fund	\$8,075,000	\$0	\$8,075,000
Housing Finance Agency			
Total all funds	\$33,660,732	(\$42,525)	\$33,618,207
Less estimated income	33,660,732	(42,525)	33,618,207
General fund	\$0	\$0	\$0
Mill and Elevator			
Total all funds	\$30,018,282	\$0	\$30,018,282
Less estimated income	30,018,282		30,018,282
General fund	\$0	\$0	\$0
Bill Total			
Total all funds	\$146,623,575	(\$267,555)	\$146,336,020
Less estimated income	131,401,804	(225,223)	131,176,581
General fund	\$15,221,771	(\$82,332)	\$15,159,439

Page No. 1

38015.0103

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Deanna Ballantyne
Operator's Signature

10/30/03
Date

HOUSE AMENDMENTS TO HB 1015
House Bill No. 1015 - Industrial Commission - House Action

APP 2-19-03³

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$6,332,714	(\$68,667)	\$6,264,047
Operating expenses	1,947,591		1,947,591
Capital assets	68,300		68,300
Grants	16,270,000		16,270,000
Bond payments	<u>19,830,990</u>		<u>19,830,990</u>
Total all funds	\$44,449,595	(\$68,667)	\$44,380,928
Less estimated income	<u>37,301,824</u>	<u>(6,335)</u>	<u>37,295,489</u>
General fund	\$7,146,771	(\$62,332)	\$7,084,439
FTE	68.37	0.00	68.37

Dept. 405 - Industrial Commission - Detail of House Changes

	REMOVES RECOMMENDED SALARY INCREASE ¹	TOTAL HOUSE CHANGES
Salaries and wages	(\$68,667)	(\$68,667)
Operating expenses		
Capital assets		
Grants		
Bond payments		
Total all funds	(\$68,667)	(\$68,667)
Less estimated income	<u>(6,335)</u>	<u>(6,335)</u>
General fund	(\$62,332)	(\$62,332)
FTE	0.00	0.00

¹ This amendment removes the Governor's recommendation for state employee salary increases and retains the recommended state payment for health insurance premiums.

House Bill No. 1015 - Bank of North Dakota - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$16,722,968	(\$178,363)	\$16,544,605
Operating expenses	11,372,000		11,372,000
Capital assets	825,000		825,000
Contingencies	1,500,000		1,500,000
PAGE fund	5,700,000		5,700,000
Agriculture PAGE fund	1,425,000		1,425,000
Beginning farmer	<u>950,000</u>		<u>950,000</u>
Total all funds	\$38,494,968	(\$178,363)	\$38,316,605
Less estimated income	<u>30,419,968</u>	<u>(178,363)</u>	<u>30,241,605</u>
General fund	\$8,075,000	\$0	\$8,075,000
FTE	178.50	0.00	178.50

Dept. 471 - Bank of North Dakota - Detail of House Changes

	REMOVES RECOMMENDED SALARY INCREASE ¹	TOTAL HOUSE CHANGES
Salaries and wages	(\$178,363)	(\$178,363)
Operating expenses		
Capital assets		
Contingencies		
PAGE fund		
Agriculture PAGE fund		
Beginning farmer		
Total all funds	(\$178,363)	(\$178,363)
Less estimated income	<u>(178,363)</u>	<u>(178,363)</u>
General fund	\$0	\$0
FTE	0.00	0.00

¹ This amendment removes the Governor's recommendation for state employee salary increases and retains the recommended state payment for health insurance premiums.

HOUSE AMENDMENTS TO HB 1015
House Bill No. 1015 - Housing Finance Agency - House Action

APP 2-19-03 ^{3 of 3}

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$3,978,792	(\$42,525)	\$3,934,267
Operating expenses	2,415,560		2,415,560
Grants	27,188,380		27,188,380
HFA contingencies	100,000		100,000
Total all funds	\$33,680,732	(\$42,525)	\$33,618,207
Less estimated income	33,680,732	(42,525)	33,618,207
General fund	\$0	\$0	\$0
FTE	43.00	0.00	43.00

Dept. 473 - Housing Finance Agency - Detail of House Changes

	REMOVES RECOMMENDED SALARY INCREASE 1	TOTAL HOUSE CHANGES
Salaries and wages	(\$42,525)	(\$42,525)
Operating expenses		
Grants		
HFA contingencies		
Total all funds	(\$42,525)	(\$42,525)
Less estimated income	(42,525)	(42,525)
General fund	\$0	\$0
FTE	0.00	0.00

1 This amendment removes the Governor's recommendation for state employee salary increases and retains the recommended state payment for health insurance premiums.

House Bill No. 1015 - Mill and Elevator - House Action

This amendment limits the 2003-05 biennium transfer of funds from the Mill and Elevator to the general fund to the 2003-05 estimated net income of the Mill and Elevator as projected by the Industrial Commission.

38016.0107
Title.0200
Fiscal No. 1

Prepared by the Legislative Council staff for
Representative Delzer
February 13, 2003

VK
2/17/03
1062

HOUSE AMENDMENTS TO HOUSE BILL NO. 1016 Approp. 2-17-03

Page 1, line 2, remove "to authorize a request for a supplemental appropriation from the"

Page 1, line 3, remove "fifty-ninth legislative assembly;"

Page 1, line 11, replace "21,632,548" with "20,461,983"

Page 1, line 12, replace "71,185,029" with "66,836,583"

Page 1, line 13, replace "9,615,306" with "9,651,218"

Page 1, line 14, replace "11,476,494" with "11,602,021"

Page 1, line 15, replace "113,909,377" with "108,551,805"

Page 1, line 16, replace "30,992,766" with "30,135,194"

Page 1, line 17, replace "82,916,611" with "78,416,611"

HOUSE AMENDMENTS TO HB 1016 Approp. 2-17-03

Page 2, remove lines 4 through 12

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1016 - Department of Corrections and Rehabilitation - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Field Services Division	\$21,632,548	(\$1,170,565)	\$20,461,983
Prisons Division	71,185,029	(4,348,448)	66,836,583
Juvenile community services	9,615,306	35,912	9,651,218
Youth Correctional Center	11,476,494	126,527	11,602,021
Total all funds	\$113,909,377	(\$5,357,572)	\$108,551,805
Less estimated income	30,992,766	(657,572)	30,135,194
General fund	\$82,916,611	(\$4,500,000)	\$78,416,611
FTE	717.18	(76.00)	641.18

Dept. 530 - Department of Corrections and Rehabilitation - Detail of House Changes

	REMOVES RECOMMENDED SALARY INCREASE ¹	RESTORES PAY PLAN UNDER- FUND ²	REMOVES FUNDING AND FTE POSITIONS FOR PROPOSED WOMEN'S PRISON ³	ADDS FUNDING FOR CONTRACT HOUSING FOR WOMEN INMATES ⁴	REMOVES NEW FTE POSITIONS ⁵	REDUCES GENERAL FUND FUNDING ⁶
Field Services Division	(\$84,631)	\$221,281			(\$180,752)	(\$1,126,483)
Prisons Division	(423,324)	1,116,177	(\$7,560,574)	\$8,842,320	(684,903)	(3,708,142)
Juvenile community services	(30,542)	68,454				
Youth Correctional Center	(87,278)	212,605				
Total all funds	(\$825,775)	\$1,616,717	(\$7,560,574)	\$8,842,320	(\$845,655)	(\$4,834,605)
Less estimated income	(51,417)		(1,294,803)	1,243,727	(755,279)	
General fund	(\$574,358)	\$1,616,717	(\$6,265,971)	\$5,398,593	(\$90,376)	(\$4,834,605)
FTE	0.00	0.00	(85.00)	0.00	(11.00)	0.00

HOUSE AMENDMENTS TO HB 1016 Approp. 2-17-03

2082

	ADDS FUNDING FOR HEPATITIS A AND B VACCINES	TOTAL HOUSE CHANGES
Field Services Division		(\$1,170,565)
Prisons Division	\$250,000	(4,348,448)
Juvenile community services		35,912
Youth Correctional Center		125,527
Total all funds	\$250,000	(\$5,357,572)
Less estimated income		(857,572)
General fund	\$250,000	(\$4,500,000)
FTE	0.00	(75.00)

- 1 This amendment removes the Governor's recommendation for state employee salary increases and retains the recommended state payment for health insurance premiums.
- 2 This amendment restores the Governor's recommendation that underfunds the department's general fund pay plan by 3 percent.
- 3 This amendment removes the funding and 85 FTE positions for the Governor's recommendation for a women's prison at the State Hospital LaHaug Building.
- 4 This amendment adds funding to contract to house all women inmates for the 2003-05 biennium.
- 5 This amendment removes 11 new FTE positions as follows:
 - Field Services Division:
 - Removes two parole and probation officer II positions
 - Adult Services Division:
 - Removes three FTE positions for the State Penitentiary
 - Removes six FTE positions for the James River Correctional Center
 - New FTE positions remaining in the budget are:
 - 23 FTE positions for James River Correctional Center Phase II
 - 2 FTE positions for the assessment center
 - 1 FTE parole and probation officer
- 6 This amendment reduces the general fund amount for the Field Services Division and the Prisons Division.

This amendment also removes Section 4 of the bill, relating to supplemental general fund appropriation request for salaries and wages.

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Operator's Signature Deanna G. Hall

10/30/03
Date

REPORT OF STANDING COMMITTEE (410)
February 19, 2003 8:16 a.m.

Module No: HR-32-3214
Carrier: Thoreson
Insert LC: 38015.0103 Title: .0200

REPORT OF STANDING COMMITTEE

HB 1015: Appropriations Committee (Rep. Svedjan, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (23 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1015 was placed on the Sixth order on the calendar.

Page 1, line 14, replace "6,332,714" with "6,264,047"

Page 1, line 19, replace "44,449,595" with "44,380,928"

Page 1, line 20, replace "37,302,824" with "37,296,489"

Page 1, line 21, replace "7,146,771" with "7,084,439"

Page 2, line 1, replace "16,722,966" with "16,546,603"

Page 2, line 5, replace "30,419,966" with "30,243,603"

Page 2, line 21, replace "3,976,792" with "3,934,267"

Page 2, line 25, replace "33,660,732" with "33,618,207"

Page 2, line 26, replace "15,221,771" with "15,159,439"

Page 2, line 27, replace "131,401,804" with "131,176,581"

Page 2, line 28, replace "146,623,575" with "146,336,020"

Page 4, line 9, after the period insert "The cumulative transfers during the 2003-05 biennium may not exceed the mill and elevator association's estimated net income for the 2003-05 biennium as projected by the industrial commission."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1015 - Summary of House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Industrial Commission			
Total all funds	\$44,449,595	(\$68,667)	\$44,380,928
Less estimated income	37,302,824	(6,335)	37,296,489
General fund	\$7,146,771	(\$62,332)	\$7,084,439
Bank of North Dakota			
Total all funds	\$38,494,966	(\$176,363)	\$38,318,603
Less estimated income	30,419,966	(176,363)	30,243,603
General fund	\$8,075,000	\$0	\$8,075,000
Housing Finance Agency			
Total all funds	\$33,660,732	(\$42,525)	\$33,618,207
Less estimated income	33,660,732	(42,525)	33,618,207
General fund	\$0	\$0	\$0
Mill and Elevator			
Total all funds	\$30,018,282	\$0	\$30,018,282
Less estimated income	30,018,282		30,018,282
General fund	\$0	\$0	\$0
BH Total			
Total all funds	\$146,623,575	(\$287,555)	\$146,336,020
Less estimated income	131,401,804	(225,223)	131,176,581
General fund	\$15,221,771	(\$62,332)	\$15,159,439

(2) DESK, (3) COMM

Page No. 1

HR-32-3214

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10/30/03

REPORT OF STANDING COMMITTEE (410)
February 19, 2003 8:16 a.m.

Module No: HR-32-3214
Carrier: Thoreson
Insert LC: 38015.0103 Title: .0200

House Bill No. 1015 - Industrial Commission - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$8,332,714	(\$68,667)	\$8,264,047
Operating expenses	1,947,591		1,947,591
Capital assets	68,300		68,300
Grants	16,270,000		16,270,000
Bond payments	<u>19,630,990</u>		<u>19,630,990</u>
Total all funds	\$44,449,595	(\$68,667)	\$44,380,928
Less estimated income	<u>37,301,424</u>	<u>(6,335)</u>	<u>37,295,089</u>
General fund	\$7,148,771	(\$62,332)	\$7,086,439
FTE	58.37	0.00	58.37

Dept. 405 - Industrial Commission - Detail of House Changes

	REMOVES RECOMMENDED SALARY INCREASE 1	TOTAL HOUSE CHANGES
Salaries and wages	(\$68,667)	(\$68,667)
Operating expenses		
Capital assets		
Grants		
Bond payments		
Total all funds	(\$68,667)	(\$68,667)
Less estimated income	<u>(6,335)</u>	<u>(6,335)</u>
General fund	(\$62,332)	(\$62,332)
FTE	0.00	0.00

1 This amendment removes the Governor's recommendation for state employee salary increases and retains the recommended state payment for health insurance premiums.

House Bill No. 1015 - Bank of North Dakota - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$16,722,966	(\$176,363)	\$16,546,603
Operating expenses	11,372,000		11,372,000
Capital assets	825,000		825,000
Contingencies	1,500,000		1,500,000
PACE fund	5,700,000		5,700,000
Agriculture PACE fund	1,425,000		1,425,000
Beginning farmer	<u>950,000</u>		<u>950,000</u>
Total all funds	\$38,494,966	(\$176,363)	\$38,318,603
Less estimated income	<u>30,419,966</u>	<u>(176,363)</u>	<u>30,243,603</u>
General fund	\$8,075,000	\$0	\$8,075,000
FTE	178.50	0.00	178.50

Dept. 471 - Bank of North Dakota - Detail of House Changes

	REMOVES RECOMMENDED SALARY INCREASE 1	TOTAL HOUSE CHANGES
Salaries and wages	(\$176,363)	(\$176,363)

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Page No. 2

HR-32-3214

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Operating expenses
 Capital assets
 Contingencies
 PACE fund
 Agriculture PACE fund
 Beginning farmer

Total all funds	(\$176,363)	(\$176,363)
Less estimated income	(176,363)	(176,363)
General fund	\$0	\$0
FTE	0.00	0.00

¹ This amendment removes the Governor's recommendation for state employee salary increases and retains the recommended state payment for health insurance premiums.

House Bill No. 1015 - Housing Finance Agency - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$3,976,792	(\$42,525)	\$3,934,267
Operating expenses	2,415,560		2,415,560
Grants	27,168,380		27,168,380
HFA contingencies	100,000		100,000
Total all funds	\$33,660,732	(\$42,525)	\$33,618,207
Less estimated income	33,660,732	(42,525)	33,618,207
General fund	\$0	\$0	\$0
FTE	43.00	0.00	43.00

Dept. 473 - Housing Finance Agency - Detail of House Changes

	REMOVES RECOMMENDED SALARY INCREASE ¹	TOTAL HOUSE CHANGES
Salaries and wages	(\$42,525)	(\$42,525)
Operating expenses		
Grants		
HFA contingencies		
Total all funds	(\$42,525)	(\$42,525)
Less estimated income	(42,525)	(42,525)
General fund	\$0	\$0
FTE	0.00	0.00

¹ This amendment removes the Governor's recommendation for state employee salary increases and retains the recommended state payment for health insurance premiums.

House Bill No. 1015 - Mill and Elevator - House Action

This amendment limits the 2003-05 biennium transfer of funds from the Mill and Elevator to the general fund to the 2003-05 estimated net income of the Mill and Elevator as projected by the Industrial Commission.

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2003 SENATE APPROPRIATIONS

HB 1015

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1015

Senate Appropriations Committee

☐ Conference Committee

Hearing Date 3-7-03, 3-11-03

Tape Number	Side A	Side B	Meter #
1	X		1629 - 5529
Committee Clerk Signature <i>Sandra Davis</i>			

Minutes: CHAIRMAN HOLMBERG opened the hearing to HB 2015 . Attendance roll was called, a quorum was established. A bill relating to provide an appropriation for defraying the expenses of the state industrial commission and the agencies under the management of the industrial commission; to provide a continuing appropriation; to provide an exemption; to authorize transfers; to declare an emergency.

(Meter 150) KARLENE FINE, Executive Director and Secretary of the Industrial Commission Administration Office testified on HB 1015 on regard to the building authority. See written testimony Exhibit 1. She focused her testimony on Subdivision 1 or budget 405 and this includes the appropriations for the administrative office of Oil and Gas Division, Geological Survey, the Lignite Research Developing Marketing Program and the Lease payments for the building authority. She pointed out the Exhibits in her testimony.

(Meter 211) CHAIRMAN HOLMBERG announced the subcommittee of SENATORS SCHOBINGER, KRINGSTAD, AND LINDAAS.

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10/30/03
Date

Page 2

Senate Appropriations Committee

Bill/Resolution Number HB 1015

Hearing Date 3-7-03, 3-11-03

(Meter 583) SENATOR GRINDBERG asked is any value of attaching study resolution to this bill to take a look at the debt service sales tax limitations? KARLENE FINE stated it has been a number of years since that has been looked at. When it began, it was at a 12% limitation and it was gradually decreased down to 10% and has remained at that level for three biennium. The legislature feels they want to set is the limitation. We are one of the lowest debt states compare to other states.

(Meter 676) VANCE TAYLOR, General Manager of the ND State Mill testified on HB 1015.

See his written testimony Exhibit 2.

(Meter 1348) CHAIRMAN HOLMBERG stated that from the standpoint of the Mill, having that provision in the statute that you don't have to borrow money to pay what the state has state you are going to have to pay. How much debt end of this biennium to reach 6 million dollars that the general funds anticipates and how do you repay? VANCE TAYLOR stated that the debt is reduced going forward using their profits, what is left over after the transfer of the general fund. Looking at in on a biennium by biennium basis. Going into the expansion and renovation projects the Mill had around 10 million dollars in cash, the total amount of the projects was 19.5 so that put them at a level of borrowing 10 million dollars, about half of the amount of the project. The payment to general funds at the end of this biennium, the borrowing will be somewhere about 15, 16, 17 million dollar range. Depending on the price of grain. (Meter 1487) CHAIRMAN HOLMBERG asked to meet the 6 million dollar requirement this biennium, do you have profits of 6 million dollars or what is the difference? VANCE TAYLOR stated the total profits for the biennium is estimated at 4.5 million dollar and the transfer to the general funds

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10/30/03
Date

Page 3
Senate Appropriations Committee
Bill/Resolution Number HB 1015
Hearing Date 3-7-03, 3-11-03

will be 6 million dollars so the difference will be 1.5 million. That is what is being borrowed and paid back.

(Meter 1546) SENATOR SCHOBINGER asked about Section 9, in the amendment that the House added. What is the industrial commission projecting for estimated income for the 03-05 biennium for the Mill? VANCE TAYLOR stated they estimate 5 million dollars profit for the biennium. (Meter 1583) SENATOR SCHOBINGER then asked if that can be revised at any time? VANCE TAYLOR stated that due to marketing conditions and other factors, it is his understanding that it could be moved going forward and any revised estimate would come from the industrial commission. (Meter 1669) CHAIRMAN HOLMBERG stated would it not be fair to say that this is extremely different than other budgets and how they have been handled in the past? For example, we are towards the end of the biennium and we estimate that the Secretary of State will turn back a million dollars, and they only turns back \$800,000. That is what the turn back. But the way the Mill and Elevator has been handled, if we are saying you are going to turn over to us 6 million and you can't get 6 million, you have to go out and borrow the money because we are having that entire 6 million. Is that correct? VANCE TAYLOR stated that in the past, that is correct. Whatever the amount was set at prior to the biennium, that would be their contribution.

(Meter 1730) SENATOR BOWMAN stated he is looking at potential marketing areas and when you talk about areas that have mills that are closing, the suppliers have to have products to fill their orders. Do you try to jump into those marketing areas with our products? With 5 mills closing, that means that the suppliers of the product don't have the product? VANCE TAYLOR stated that there has actually been 16 mills that have shut down in 2 1/2 years and that is exactly

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10/30/03
Date

Page 4

Senate Appropriations Committee

Bill/Resolution Number HB 1015

Hearing Date 3-7-03, 3-11-03

what they do. Once they hear there is a mill closure, they try to identify those customers and if they have open capacity, they try pick those customers up and add them to their list.

(Meter 1842) SENATOR ANDRIST asked what they do with durum? Make semolina?

(Meter 1853) VANCE TAYLOR said they have a long list of various products with several different grades of semolina and manufacture a durum flour that is popular around the market.

They have a lot of demand for a durum second clear product which is a by-product of the semolina so altogether on the durum side there are 20 different grades of semolina and flour.

The durum is not sold at the retail level. Most of the durum is packaged and filtered through distributors to smaller pasta manufacturers and organic durum products.

(Meter 1952) SENATOR THANE asked if Dakota Maid Flour is still a blend of barley flour and wheat flour? VANCE TAYLOR explained that no, it is 100% spring wheat flour. SENATOR THANE asked if the new flour mill at Fairmount with new state of the art, do they compete with you or are they milling specialty flours. Are you familiar with them and do they provide competition or do they provide a market that you don't provide? VANCE TAYLOR answered that they do compete with them in certain markets, they do mostly bulk rail cars out of that facility and some trucks. They don't do any packing at all. They are a competitor for large bakeries that take rail cars or bulk trucks.

(Meter 2190) SENATOR KRINGSTAD asked how many mills are in the USA? VANCE TAYLOR stated about 190 mills left in the United States.

(Meter 2235) SENATOR KRAUTER wanted clarification of what the House amendments did to the bill. Quoting what the first line of Section 9 says, shall transfer to the general funds the sum of 5 million" and the House amendment states "the accumulative transfer may not exceed" so he

Page 5

Senate Appropriations Committee

Bill/Resolution Number HB 1015

Hearing Date 3-7-03, 3-11-03

then asked if they are forced to borrow the 5 million if they don't have the difference? VANCE

TAYLOR explained that equity budgeted amount of the transfer that would be higher than the profit. When you look at the total borrowing month by month, is effected by a lot of things, the high price of grain, causes the borrowing level to be higher, accounts receivable.

(Meter 2362) SENATOR KRAUTER asked under the current biennium did we make the transfer already from the State Mill general funds? VANCE TAYLOR stated no, that hasn't happened yet. SENATOR KRAUTER asked if we anticipate to meet that obligation of 6 million without borrowing? He felt that it should read in line 5, Section 9, "the industrial commission shall transfer to the general to the state treasury up to the sum of 5 million " VANCE TAYLOR stated yes, it will increase our borrowing level.

(Meter 2566) CHAIRMAN HOLMBERG stated to have Legislative Council legal staff to look at the language to make sure it says what they want it to say.

(Meter 2626) PAT FRICKE, Executive Director of the ND Housing Finance Agency testified on HB 1015. See Exhibit 3.

(Meter 3975) SENATOR MATHERN asked what does \$50,000 do in Native American programs? It seems like such a small amount, what can you do in housing to have an impact with \$50,000. PAT FRICKE replied the \$50,000 is for administrative costs to that program to hiring one staff person. It is not being used for programing, construction or anything like that. USDA rural development committed larger amounts. The commitment is to provide salary and operating (traveling) expenses for a two year budget period.

(Meter 4113) SENATOR ANDRIST asked to help him understand if somebody wants to build a single home in Bowman, Crosby or wherever, how does he plug into this program? PAT

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10/30/03
Date

Page 6

Senate Appropriations Committee

Bill/Resolution Number HB 1015

Hearing Date 3-7-03, 3-11-03

FRICKE stated first time home buyer program would work through their local bank or mortgage company. If they are building a home, they would likely obtain a construction loan from that lender. They would not have a part in construction loan itself. Typically that borrower would have obtained a loan commitment for the permanent financing from that same borrower, then obtain a construction loan that would be used for the materials and labor during the course of the construction. By the time the house is completed, the permit financing loan would retire the construction loan, the lender would then see if that loan was eligible for their program, then they would purchase that loan from that lender. Three fourths of the loans are serviced by them so the borrower would make his payments to the agency. Those dollars would pay the bond holders.

(Meter 4320) VICE CHAIRMAN BOWMAN closed the hearing to HB 1015.

3-11-03 Tape 1 Side A

(Meter 1364) KARLENE FINE, Executive Director and Secretary of the Industrial Commission Administration Office testified on HB 1015 on regard to the building authority. See written testimony Exhibit 1. She pointed out Exhibit C and Exhibit E in her testimony that she was replacing because of the new forecasts. She went over the new forecast numbers in the exhibits mentioned above. She also stated the new forecast dropped sales and vehicle sales taxes.

(Meter 1961) SENATOR CHRISTMANN stated at looking at the bonds, why is that amount that we owe going up and down each biennium? Where do the payments come from? KARLENE FINE replied what changed this biennium, because of the lower bond rates, they were able to go in and refund three of the outstanding series. They captured about 2.2 million dollars in savings and split that savings with OMB. Some of the savings showed up in the 03-05 biennium and

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10/30/03
Date

Page 7

Senate Appropriations Committee

Bill/Resolution Number HB 1015

Hearing Date 3-7-03, 3-11-03

some showed up in the 05-07 biennium. She explained that the legislature gives authority to bond during the next biennium but they don't get payment until subsequent biennium. So when approving the bonding, it is four years out. The department has been able to at different times, been able to capture some refunding opportunities that has been able to go in and lower their costs. (Meter 2141) SENATOR CHRISTMANN asked about specific examples and KARLENE FINE answered that all are within a general range. They set up a level debt service schedule and they have their individuals run the numbers for financing, they set it up so it is pretty level subsequent to the biennium. Sometime they pay in \$5,000 increments and sometimes you will have smaller change.

(Meter 2249) SENATOR CHRISTMANN asked if they could sell bonds and not make a payment each biennium? KARLENE FINE answered yes,

(Meter 2281) CHAIRMAN HOLMBERG asked if these would be at a reasonable rate?

KARLENE stated all of the rates are at the highest is 551 for 2,000A because it is so recently issued. The commission has decided that they has to be a 2% savings before they would issue a refunding. She stated they could skip a biennium payment but must pay the interest to the bond holder. Those interest costs would be kept alive and would add to the overall cost of the bond issue and drive it up. She stated they do issue bonds and gave an example saying such as this August the first principle payment won't be for three years but they will be paying interest and they capitalized those interest costs. And that increases the size of the bond issue and we do have to pay at least the interest to our bond holders.

CHAIRMAN HOLMBERG closed the hearing to HB 1015

3-11-03 Tape 2 Side B

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10/30/03

Page 8
Senate Appropriations Committee
Bill/Resolution Number HB 1015
Hearing Date 3-7-03, 3-11-03

(Meter 1635) KARLENE FINE introduced the Geological Survey written presentation Exhibit 4.

ED MURPHY gave that presentation for John Bluemle.

(Meter 2076) SENATOR ANDRIST asked if exploration relatively complete? ED MURPHY answered it is always an evolving process. But 20 years ago when the map was put together, they probably used three or four thousand drill holes, they used over 28,000. So if is a gigantic leads the map that was used before, just shows big blobs across counties, and they came in and pinpointed areas.

(Meter 2470) SENATOR LINDAAS stated referring to landslides on the map, are they natural occurring or is that something that happens as a result of man's intrusion? ED MURPHY explained that it is something that is naturally occurring. Many landslides are thousands of years old, and the problem is when you put an infrastructure on top of that, you can the percolation of water, pond water and reactivate these old slides. He spoke on fossil digs that have been popular. He went through the maps and touched base on pages 2-4 on John's testimony.

(Meter 2939) KARLENE FINE stated that the length of employees range from 15 down to 5 years of employment.

(Meter 2921) tape 2 side B

SENATOR ANDRIST stated that the Industrial commission spent time assessing on alkali in the Stanley area. He stated at one time there was talk of some promise of potential use of that for emission use of power plant smoke stack, is there any more info on that? (Meter 3049) ED MURPHY stated that of right after that study was completed, the market historically has been so up and down on that potassium sulfate has high potential.

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Page 9
Senate Appropriations Committee
Bill/Resolution Number HB 1015
Hearing Date 3-7-03, 3-11-03

(Meter 3140) LYNN HELMS, Director of Oil and Gas Division of the ND Industrial Commission testified on HB 1015. See written testimony Exhibit 8.

(Meter 3725) SENATOR KRAUTER asked to recap the charts 7-14 and clarify the rigs drilling verses wells pumping charts. (Meter 3805) LYNN HELMS stated on page 17 is the rig count and page 18 is the wells producing. The state is running only 10 rigs in ND. The importance is that every drilling rig produces 47 direct jobs and about 100 indirect jobs in the community. There is about 3,300 active producing wells in the state of ND and every one of those creates about 1.1 direct jobs through the service company, the pumpers and all the people that visit them.

(Meter 3909) SENATOR KRAUTER asked if the prices of oil per barrel right now was commented at the forecast meeting that is a little over \$30 a barrel and then the comment was made that this budget was based on \$18 a barrel or \$21 a barrel. Is there a forecast revenue change? (Meter 3962) LYNN HELMS stated the current price of oil in ND is \$32 per barrel. That contains a war premium for the expected conflict in Iraq of about \$6 a barrel. There is also a premium built in there for about \$4 or \$5 a barrel for strike in Venezuela which has cut their production by two-thirds. With those two numbers off, the price is in the lower twenties.

According to Ecomony.com we should expect a oil price of the low \$20 in the first part of the biennium dropping down to the upper teens (\$18) in 2005. He recommends to use the average of \$21 a barrel. He stated he can not predict how much damage the Iraq conflict will do to their industry or how quickly they will come back.

(Meter 4119) SENATOR KRAUTER stated that he is trying to calculate the history of the price of oil per barrel. (Meter 4163) LYNN HELMS stated to go to page 15, the dotted line is the history of daily oil produced and the price of ND crude oil.

Page 10

Senate Appropriations Committee

Bill/Resolution Number HB 1015

Hearing Date 3-7-03, 3-11-03

(Meter 4220) SENATOR ROBINSON stated he realizes the impact of a 95% budgets on agencies, especially small agencies. He asked if he has encountered similar situation where you had to reduce your staff because of a 955 budget? (Meter 4292) LYNN HELMS stated he went through all the budgets prior to 1993 for his division and every year there was potential reduction in those budgets but every budget was able to restore those position. This biennium may be different because of the revenue situation.

(Meter 4360) SENATOR BOWMAN asked if when this coal methane project takes off, will it cause a strain on his department? (Meter 4398) LYNN HELMS stated they are planning to implement coal methane pilot project next year, this fall. If that takes off, there is a potential of as many as 5,000 coal methane wells. That will require someone in the Bismarck office to do permitting and additional field assessor. It takes about 3 days to drill one of those wells, it's a very small rig and they move very quickly, it is more like seismic. (Meter 4508) SENATOR BOWMAN asked how deep are these wells? LYNN HELMS stated they will vary from about 300 feet to 700/800 but are less than 1,000 feet.

(Meter 4550) JOHN DWYER, Chairman of the Lignite Research Council, Industrial Commission testified on HB 1015. See written testimony Exhibit 7.

No further questions were asked.

CHAIRMAN HOLMBERG closed the hearing to HB 1015.

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1015

Senate Appropriations Committee

☐ Conference Committee

Hearing Date March 14, 2003

Tape Number	Side A	Side B	Meter #
#1	x		3,727- end
#1		x	0- 4467
Committee Clerk Signature <i>Jan Henderson</i>			

Minutes:

Meeting was reconvened by Vice Chairman, Senator Grindberg, with the Industrial Commission budget continuation from March 11, 2003.

Eric Hardmeyer, President of Bank of North Dakota (#3727) Written testimony is attached and marked as Exhibit #4 (following previous list of exhibits). Mr. Hardmeyer talked about the Bank of North Dakota operations. He talked at length regarding the income numbers for the Bank of North Dakota. They ended the 2002 year with a profit of \$32.2 million which is down about \$900,000 but up about \$800,000 from what was budgeted. Reason for decrease is shrinking margins in low-rate environment, which will affect 2003 with projected income only at \$31 million. They ended 2002 with assets just under \$2 billion, capital at \$149 million. He explained the ratio and the reasons for the change. (See written testimony)

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Date

Page 2

Senate Appropriations Committee

Bill/Resolution Number HB 1015

Hearing Date March 15, 2003

Senator Grindberg (#4204): He had questions regarding last weeks economy.com meeting and if OMB had revised their transfer. **Mr. Hardmeyer** replied that yes, with the revised OMB forecast, they are now looking at a \$17.5 million transfer from the Bank, which would allow the Bank to recoup somewhere around \$4 to \$4.5 million of liability that would be transferred back into their equity accounts, so their equity would actually increase from about \$149 million basically up to \$155 million. That puts the bank back around 7.3/4% for equity. He explained money that is transferred to the general fund is after all expenses have been paid. He stated that they did not get an appropriation, they pay to the general fund .

Senator Lindaas (#4431) He wanted to know if **Mr. Hardmeyer** had a running list of transfers from the Bank, historically. When did they begin, way back, he would be interested in looking at this historical record. **Mr. Hardmeyer** responded that yes the Bank has this information, and they would provide that information to him.

Senator Tallackson: What percentage, or what time, is some of this diverted to reserves? Do you take the profit and put into reserves? **Mr. Hardmeyer** asked if Senator Tallackson was talking about equity or loan loss reserves? **Senator Tallackson** stated he was talking about the \$149. **Mr. Hardmeyer** stated that to the extent that the general fund transfer does not exceed the profitability, it would be put into capital, but what has happened the last several sessions, the amount of general fund transfer roughly equals their earnings, so there is not a lot to put into capital. The capital as dropped from \$170 to \$149 million because of the \$60 million transfers and the additional rainy day fund that they are obligated up to \$25 million so that has decreased the capital. So to the extent that the general fund transfers are less than the profitability, then they will be able to build

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Page 3
Senate Appropriations Committee
Bill/Resolution Number HB 1015
Hearing Date March 15, 2003

capital. Right now, as the forecast for the income for the Bank at about \$30-\$31 million per year, roughly all of their earnings are going to a liability account for transfers, so they will not be able to build capital for the next 2 year. Senator Tallackson continued: Is the goal as far as ratio still about 8%? **Mr. Hardmeyer** replied that it was. There is another reserve that is a loan loss reserve that is held aside for bad loans and that has been building for the last several years and that is now at \$25 million. That is a reserve against had loans which also does the same thing as equity. He also referred to the bottom of page 2 regarding the loan portfolio.

Senator Thane (#4863): He wanted to know if that reserve can be tapped by anyone or is it safe. **Mr. Hardmeyer** responded that it was safe, it is set aside reserved. It is not one of the funds or trusts that are being looked at for money to be transferred out of.

Senator Lindaas (#4958) With regard to the reserve, is that the amount that is put in that is that up by Banking rules or a figure that is derived by the controlling people at the Bank of North Dakota? **Mr. Hardmeyer**: That is controlled by the members of the Bank of North Dakota, they take a look at the loan portfolio, exposure, on a loan by loan basis and then a reserve is set based they think the worst case scenario could be, and it so happens that at 1.88% they are slightly above the industry norm which is 1.78%.

Mr. Hardmeyer continued on page 3 with the actual appropriation which is about \$550,000 less than previous biennium. They are not a general fund agency so they were subject to the 95% budget. But a budget has been submitted less than in the previous biennium. He then went through the major expenses accounts, which included the salaries and wages and the FTE's which can be found in his written testimony.

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10/30/03
Date

Page 4
Senate Appropriations Committee
Bill/Resolution Number HB 1015
Hearing Date March 15, 2003

Senator Lindaas (#5640) He wanted to know if they use part-time help, are there situations that full time employees would have to be paid overtime? **Mr. Hardmeyer** stated that they do hire part-time help and there are some situations where they have to pay overtime, especially in the student loan department where there is some seasonal activity.

Mr. Hardmeyer continued with the operating expenses which is a decrease of 3.12% or 1.56% per annum. See his written testimony page 3 & 4. They are working on a new project that will save approximately \$2 million per biennium. This project will take the Bank off the main frame and using their computers and going to an AS 400.

Tape # 3 Side A ends, Side b Begins

Senator Robinson (# 94) He wondered about the AS400. There were several of these around in different agencies and he was wondering about the need for that many and if there was any potential for sharing. **Mr. Hardmeyer** stated that this was purchased some time ago, 1 1/2 to 2 years ago. They lease this, and he didn't remember the cost per month. It is such a size that ITD is able to help other agencies to put some of their information on there as well. There are some security issues, but they are being worked on.

Eric continued with his testimony, starting on page 5.

Senator Krauter (#704) What other functions is there on ITD's mainframe? **Eric** answered that a lot of the Core Banking, Operations (could not hear the speaker from the audience), general ledger. **Eric** continued by stating that when the student loan information is moved, then those costs will disappear.

Eric continued with page 7 -10 of his written testimony.

Page 5
Senate Appropriations Committee
Bill/Resolution Number HB 1015
Hearing Date March 15, 2003

Senator Grindberg (#1223) Looking at the map on page 10 of his testimony, Cass County, Grand Forks County, Ward County, Williams County and Stark County all have larger numbers of PACE loans, why does Burleigh have such a low number? **Eric** answered that they tend to put a lot of money into specific projects. **Senator Grindberg:** Sales Tax dollars? **Eric:** Yes

Senator Krauter (#1307) Looking at the remaining balance of \$2.2 million, there have been times when they have run out of PACE money, what is the history of any remaining money?

Eric: They have run out of money in the last 2 or 3 biennium's, then they have to put people on a waiting list. Due to the economy, the North Dakota is suffering, they are not seeing the activity that in the years in past. The Bank has not seen projects that normally would come out of Minot. There has not been any major projects come out of Bismarck. There are few that continue in Fargo, but the economic slow-down has had an effect. **Senator Krauter** wanted to know if there was any activity since this report was printed which was January 1, 2003. **Eric** reported that he looked at the numbers at the end of February and the numbers were static. So about \$2.2 million. **Eric** continued with page 11-12 of his testimony.

Senator Thane: (#1690) Looking at the map on page 12 (AG PACE loan program) and that Divide seems to have the most loans at 92, why are they so high? **Eric** responded: In Divide county there was a plant that was established a year or two ago, (a pasta plant), this program was used extensively to help farmers to purchase equity shares into that plant and so it was the first opportunity to use the Ag PACE program to help farmers borrow money so they could provide equity injections into the pasta plant. He thought they also used that on the alfalfa plant and a number of projects in that area. **Senator Thane:** He stated that he didn't believe they participated in ProGold. **Eric** responded that this program was not established to do this, it wasn't an eligible

Page 6
Senate Appropriations Committee
Bill/Resolution Number HB 1015
Hearing Date March 15, 2003

use then, the program was expanded since then. They continue to look at the program to see if there are ways to help the farm economy.

Senator Bowman (#1892) He had a question with the value-added, seems like one of the biggest drawbacks they always run into is the marketing aspect. Is there money available so that if the right project comes online so that the right research can be done on how to market so that there is a market for the product that it trying to be sold. Seems like we should be getting into the marketing more, or we are spending a lot of money and going nowhere. **Eric** agreed with **Senator Bowman**, that is one of the biggest problems that he has seen. There are a lot of great products made in North Dakota but the problem is selling them. Marketing seems to be the lacking component in making these things really work. Their experience in value-added agriculture that 75% to 80% of these projects fail. When the reasons for failure are looked at it is usually management, but it comes down to their ability to sell their product. **Senator Bowman** wanted to know if **Eric** thought this should be started in the Universities and **Eric** agreed.

Senator Andrist (#2154) Ag PACE loans were really a plus for Divide county. **Eric** agreed.

Senator Schobinger: (#2244) How are the equity purchases structured? What is the duration of these? What is the total amount of dollars that were invested in the plants in Divide County?

Eric replied that he didn't have those specific numbers, but generally they are structured on a 5 year pay back. Generally they will take a security interest in existing equipment, added on to the current security documents, generally it is collateral other than the equity stock.

Senator Lindaas remarked that value added was not a new concept.

Senator Krauter (#2475) He would like the balance of the AG PACE program as of Feb. 28.

Eric: PACE is about the same as now, AG PACE balance is \$1,359,000; Buy down used:

Page 7

Senate Appropriations Committee

Bill/Resolution Number HB 1015

Hearing Date March 15, 2003

\$680,592, leaving a remaining buy down of \$678,428.00. The beginning farmer now increases to \$2,070,889.00 and the box at the top of 14 the buy down is broken down into 2 components, one is real estate and one is chattel. On the real estate side they have used \$1,306,599 and the chattel they have used \$550,336. So if the transfer had not been done, they would have been under water.

Eric continued with the beginning farmer programs 13-15.

Senator Christmann: (#2672) How is principal occupation defined? **Eric:** Basically they look at gross farm income and how that relates to of farming income and make sure that gross farm income exceeds net. **Senator Christmann continued:** How many fail? **Eric:** Failure rate is low, 1% or less. **Senator Christmann:** Are these shared with a local bank? **Eric:** On the real estate side, Bank of North Dakota has the whole loan. On a chattel loan they do participate with a local bank. **Senator Christmann:** On the real estate the Bank of North Dakota sold one out recently in his area and it just caused him to question and to follow the money. What happens to the mineral ownership when someone is sold out? **Eric** replied that he didn't know if he could answer that, he could check on to see if the mineral rights were kept or not. He agreed to find out the information for **Senator Christmann**.

Senator Thane (#2873) Can these loans be used to buy out the parent? **Eric:** Generally, yes, they are buying from their parents or a relative.

Senator Tallackson: (#2959) He wanted to know if **Eric** was going to cover what the House changes were on this? **Eric** replied that the only House change was the salary line item was removed.

Page 8
Senate Appropriations Committee
Bill/Resolution Number HB 1015
Hearing Date March 15, 2003

Senator Krauter: (#3035) page 2, bank income: Are there any projections for 2004-05? **Eric** replied that it depends on the interest rates, what the economy does, if they are willing to increase interest rates. As interest rates goes down, our income has gone down. Based on what they see today, \$30-\$31 millions probably a good number, if the economy improves, rates start picking up a little, income will improve, then maybe \$33-\$35 million. **Senator Krauter** wanted to know if they would be able to meet the \$60 million? **Eric:** Yes **Senator Krauter** stated that he heard the interest rates would go down again. **Eric** replied yes, that was true, down another 1/4 % in May. Prime is now at 4 1/4%. **Eric** stated that he would like to see the legislature restrict the amount of the withdrawal from the Bank of North Dakota restricted to \$25 million. He talked a little about the college save program and the student loan trust **Ed Sather** (? spelling) Senior Vice President at the Bank of North Dakota, stated that as of July 1, 2003 there will be approximately \$52 million in the Equity Fund Balance in the Student Loan Trust, and with the projected transfers in the 2003-05 biennium of about \$26 million, it would leave a balance of \$26 million as of July 1, 2005.

Tim Porter (#3718), Executive Director of the Municipal Bond Bank. Written testimony is attached (Exhibit #6). See attached testimony.

Questions:

Senator Mathern: (#3981) In light of the decreasing interests rates, do you have a system of reviewing everyone bonds? **Tim:** Most of the bonds have a 10 year no call provision, so that they can't be called within the first 10 years and after that they are allowed to call. They purchase the bonds directly from the municipality and then they sell their own bonds.

Page 9

Senate Appropriations Committee

Bill/Resolution Number HB 1015

Hearing Date March 15, 2003

Senator Grindberg (#4109) Do you have another annual report, etc. **Tim:** It is included with the testimony today.

Senator Thane (4159): He wondered how a bond could be a moral obligation bond. **Tim** replied that is the backing of the state. **Senator Thane** wondered if that any effect on the rating? **Tim** stated that it did, it increases the rating of the bond.

Karlene Fine: (#4278) She stated that she did provide some information in her testimony on moral and general obligation bonds, so if Senator Thane wants more information it is there. One quick clarification for the RIF'ed employees. In the oil category they range from 22 years to 10 years and in the oil division they range from 35 years down to 16 years, they are long term employees.

With no other testimony, the hearing was closed on HB 1015: (#4467)

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1015 Vote

Senate Appropriations Committee

☐ Conference Committee

Hearing Date April 9, 2003

Tape Number	Side A	Side B	Meter #
1	x		1235 - 3220
Committee Clerk Signature <i>Sandra Davison</i>			

Minutes:

CHAIRMAN HOLMBERG opened the discussion on HB 1015.

SENATOR SCHOBINGER said there are two sets of amendments. 38015.0205 is a legal document pertaining to the amendment. 38015.0204 is language we need to adopt in order to accomplish the fiscal part of the amendment.

SENATOR SCHOBINGER discussed page 4 line 11 of .0204 . It is language the committee requested regarding transfer of not more than \$5 million in profits from the mill and elevator.

On page 2 footnote 1 reduces the health insurance premiums as they are doing for all state employees. Footnote 2 applies the agency wide reduction for information technology.

These amendments (footnote 3) effectively merge the oil and gas and the geological survey and removes 6 FTE's as a result of this merger. Footnote 4 restores a position removed in the executive budget that is desperately needed.

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Page 2
Senate Appropriations Committee
Bill/Resolution Number HB 1015
Hearing Date 04/09/03

On page 3, the Bank of North Dakota, an adjustment is made for health insurance premiums and the reduction in information technology. Housing Finance Agency stays the same other than health insurance. The Mill and Elevator, the only reduction is for health insurance premiums and the requirement to report estimated profits to the 59th Legislative Assembly.

CHAIRMAN HOLMBERG asked if the second set of amendments are housekeeping measures to conform with the merger? (meter 1898)

SENATOR ROBINSON said during the course of the presentation by the Geological Survey, some of the FTE reductions were long time employees and those reductions would be problematic. What has happened with this situation?

SENATOR SCHOBINGER said the executive budget came with 3 FTE reductions, 2 from Oil and Gas and 1 from Geological Survey. We are putting back one of those positions, the Petroleum Engineer IV.

CHAIRMAN HOLMBERG said the difference is the salary and health adjustment which is why they don't match exactly.

SENATOR THANE asked on section 28, is the reason for the language change and removal because they are archaic?

SENATOR SCHOBINGER said that is his understanding. The Geological Survey is being merged into Oil and Gas.

SENATOR LINDAAS said as a member of the committee he was not convinced of the benefits or efficiencies of combining those two divisions and he will not support the amendments.

SENATOR MATHERN said he is trying to understand the savings of 6 FTE's. Are there 6 people doing the exact same functions?

Page 3
Senate Appropriations Committee
Bill/Resolution Number HB 1015
Hearing Date 04/09/03

SENATOR SCHOBINGER said they found in the hearing some of the duties of the divisions under the merger can be consolidated.

SENATOR LINDAAS said with that reasoning in mind, there are 6 people doing half time jobs. He will resist this.

SENATOR TALLACKSON asked if there was testimony in the sub committee to back that up?

SENATOR LINDAAS said he didn't think so. Everyone worked full time.

CHAIRMAN HOLMBERG said the committee had a hearing on this issue.

SENATOR ROBINSON said that is one reason he questions the reduction of one FTE in the Geological Survey. Testimony reflected concern over the 95% budget. When combined with the consolidation, it poses some questions.

CHAIRMAN HOLMBERG said they are co-located at the present time.

SENATOR KRAUTER reviewed the FTE reductions. (meter # 2630) Doesn't this also reduce other operating costs such as travel?

SENATOR SCHOBINGER said at some point that may be the case. Initially its wise to continue to appropriate those dollars so those employees left have the resources they need.

Amendment 38015.0204 was adopted on a voice vote.

It was moved by SENATOR SCHOBINGER and seconded that the committee adopt amendment 38105.0205.

SENATOR MATHERN asked if anyone recalled the testimony on the merger?

SENATOR SCHOBINGER said they had a hearing on the merger and it was a good hearing.

One division is doing work in Canada and he questioned the need for that. It has been discussed in this committee when these areas came together there were many more wells working in North

Page 4
Senate Appropriations Committee
Bill/Resolution Number HB 1015
Hearing Date 04/09/03

Dakota than there are today. Its something the committee can continue to look at and check on the progress.

Amendment 38105.0264 was adopted on a roll call vote.

It was moved by SENATOR SCHOBINGER and seconded by SENATOR ANDRIST that the committee take a DO PASS AS AMENDED action on HB 1015. Motion passed on a roll call vote (9 yes, 5 no, 0 absent and not voting). SENATOR SCHOBINGER will carry the bill to the floor.

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10/30/03
Date

38015.0204
Title.
Fiscal No. 2

Prepared by the Legislative Council staff for
Senator Schobinger
April 9, 2003

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1015

Page 1, line 14, replace "6,264,047" with "5,871,834"

Page 1, line 15, replace "1,947,591" with "1,916,559"

Page 1, line 19, replace "44,380,928" with "43,957,683"

Page 1, line 20, replace "37,296,489" with "37,295,870"

Page 1, line 21, replace "7,084,439" with "6,661,813"

Page 2, line 1, replace "16,546,603" with "16,527,614"

Page 2, line 2, replace "11,372,000" with "11,014,932"

Page 2, line 5, replace "30,243,603" with "29,867,546"

Page 2, line 14, replace "16,703,856" with "16,690,956"

Page 2, line 18, replace "30,018,262" with "30,005,382"

Page 2, line 21, replace "3,934,267" with "3,929,907"

Page 2, line 25, replace "33,618,207" with "33,613,847"

Page 2, line 26, replace "15,159,439" with "14,736,813"

Page 2, line 27, replace "131,176,581" with "130,782,645"

Page 2, line 28, replace "146,336,020" with "145,519,458"

Page 4, line 5, after "TRANSFER" insert "- INDUSTRIAL COMMISSION REPORT"

Page 4, line 11, after the period insert "The industrial commission shall report to the fifty-ninth legislative assembly regarding the mill and elevator association's net income to date and estimated net income for the remainder of the 2003-05 biennium."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1015 - Summary of Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Industrial Commission				
Total all funds	\$44,449,595	\$44,380,928	(\$423,245)	\$43,957,683
Less estimated income	37,302,824	37,296,489	(619)	37,295,870
General fund	\$7,146,771	\$7,084,439	(\$422,620)	\$6,661,813

Bank of North Dakota				
Total all funds	\$38,494,968	\$38,318,603	(\$378,057)	\$37,942,546
Less estimated income	30,419,968	30,243,603	(378,057)	29,867,546
General fund	\$8,075,000	\$8,075,000	\$0	\$8,075,000
Housing Finance Agency				
Total all funds	\$33,680,732	\$33,618,207	(\$4,380)	\$33,613,847
Less estimated income	33,680,732	33,618,207	(4,380)	33,613,847
General fund	\$0	\$0	\$0	\$0
MW and Elevator				
Total all funds	\$30,018,282	\$30,018,282	(\$12,900)	\$30,005,382
Less estimated income	30,018,282	30,018,282	(12,900)	30,005,382
General fund	\$0	\$0	\$0	\$0
Bill Total				
Total all funds	\$148,623,575	\$148,336,020	(\$816,562)	\$145,519,458
Less estimated income	131,401,804	131,178,881	(393,838)	130,782,645
General fund	\$15,221,771	\$15,159,439	(\$422,626)	\$14,736,813

House Bill No. 1015 - Industrial Commission - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$8,332,714	\$8,264,047	(\$392,213)	\$5,871,834
Operating expenses	1,947,591	1,947,591	(31,032)	1,916,559
Capital assets	68,300	68,300		68,300
Grants	18,270,000	18,270,000		18,270,000
Bond payments	12,830,990	12,830,990		12,830,990
Total all funds	\$44,449,595	\$44,380,928	(\$423,245)	\$44,057,683
Less estimated income	37,302,824	37,298,489	(619)	37,295,870
General fund	\$7,146,771	\$7,084,439	(\$422,626)	\$6,661,813
FTE	58.37	58.37	(5.00)	53.37

Dept. 405 - Industrial Commission - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS ²	REDUCES FUNDING FOR SALARIES AND WAGES AND REMOVES 6 FTE POSITIONS ³	ADDS FUNDING AND 1 FTE POSITION FOR PETROLEUM ENGINEER ⁴	TOTAL SENATE CHANGES
Salaries and wages	(\$8,089)		(\$535,500)	\$149,376	(\$392,213)
Operating expenses		(\$31,032)			(31,032)
Capital assets					
Grants					
Bond payments					
Total all funds	(\$8,089)	(\$31,032)	(\$535,500)	\$149,376	(\$423,245)
Less estimated income	(619)				(619)
General fund	(\$5,470)	(\$31,032)	(\$535,500)	\$149,376	(\$422,626)
FTE	0.00	0.00	(6.00)	1.00	(5.00)

¹ This amendment reduces the funding for state employee health insurance premiums from \$493 to \$468.70 per month.

² This amendment reduces funding for information technology by \$31,032 from the general fund, which represents a reduction in information technology funding from the general fund of approximately 4 percent.

³ This amendment reduces funding for salaries and wages by \$535,500 from the general fund and removes six FTE positions as a result of the merger of the Oil and Gas Division and the Geological Survey.

⁴ This amendment adds funding and one FTE for the petroleum engineer IV position which was removed from the Oil and Gas Division in the Governor's recommendation.

House Bill No. 1015 - Bank of North Dakota - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$16,722,968	\$16,546,603	(\$18,969)	\$16,527,614
Operating expenses	11,372,000	11,372,000	(257,068)	11,014,932
Capital assets	825,000	825,000		825,000
Contingencies	1,500,000	1,500,000		1,500,000
PACE fund	5,700,000	5,700,000		5,700,000
Agriculture PACE fund	1,425,000	1,425,000		1,425,000
Beginning farmer	950,000	950,000		950,000
Total all funds	\$38,494,968	\$38,318,603	(\$378,057)	\$37,942,546
Less estimated income	30,419,968	30,243,603	(378,057)	29,867,546
General fund	\$8,075,000	\$8,075,000	\$0	\$8,075,000

FTE	178.50	178.50	0.00	178.50
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Dept. 471 - Bank of North Dakota - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE 1	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS 2	TOTAL SENATE CHANGES
Salaries and wages	(\$18,989)		(\$18,989)
Operating expenses		(\$357,068)	(357,068)
Capital assets			
Contingencies			
PAGE fund			
Agriculture PAGE fund			
Beginning farmer			
Total all funds	(\$18,989)	(\$357,068)	(\$376,057)
Less estimated income	(18,989)	(357,068)	(376,057)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

2 This amendment reduces funding for information technology by \$357,068 from special funds, which represents a reduction in information technology funding from special funds of approximately 4 percent.

House Bill No. 1015 - Housing Finance Agency - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$3,976,792	\$3,934,287	(\$4,360)	\$3,929,907
Operating expenses	2,415,560	2,415,560		2,415,560
Grants	27,168,380	27,168,380		27,168,380
HFA contingencies	100,000	100,000		100,000
Total all funds	\$33,660,732	\$33,618,207	(\$4,360)	\$33,613,847
Less estimated income	33,660,732	33,618,207	(4,360)	33,613,847
General fund	\$0	\$0	\$0	\$0
FTE	43.00	43.00	0.00	43.00

Dept. 473 - Housing Finance Agency - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE 1	TOTAL SENATE CHANGES
Salaries and wages	(\$4,360)	(\$4,360)
Operating expenses		
Grants		
HFA contingencies		
Total all funds	(\$4,360)	(\$4,360)
Less estimated income	(4,360)	(4,360)
General fund	\$0	\$0
FTE	0.00	0.00

1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

House Bill No. 1015 - Mill and Elevator - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$16,703,856	\$16,703,856	(\$12,900)	\$16,690,956
Operating expenses	13,014,426	13,014,426		13,014,426
Contingencies	250,000	250,000		250,000
Agriculture promotion	50,000	50,000		50,000
Total all funds	\$30,018,282	\$30,018,282	(\$12,900)	\$30,005,382
Less estimated income	30,018,282	30,018,282	(12,900)	30,005,382
General fund	\$0	\$0	\$0	\$0
FTE	125.00	125.00	0.00	125.00

Dept. 475 - Mill and Elevator - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE 1	TOTAL SENATE CHANGES
Salaries and wages	(\$12,900)	(\$12,900)
Operating expenses		
Contingencies		
Agriculture promotion		
Total all funds	\$12,900	(\$12,900)
Less estimated income	(12,900)	(12,900)
General fund	\$0	\$0
FTE	0.00	0.00

1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$486.70 per month.

This amendment also requires the Mill and Elevator Association to report to the 56th Legislative Assembly regarding the Mill and Elevator's net income to date and estimated net income for the remainder of the 2003-05 biennium.

38015.0205
Title.

Prepared by the Legislative Council staff for
Senator Schobinger
April 9, 2003

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1015

Page 1, line 3, after the third semicolon insert "to amend and reenact sections 15-05-07, 15-05-16, and 23-20.2-03, subsections 2 and 4 of section 23-25-02, sections 23-29-07.6, 23-29-07.7, and 23-33-10, subdivision k of subsection 1 of section 38-08-04, sections 38-08-04.2, 38-12-02, 38-12-03, 38-12.1-01, 38-12.1-02, and 38-12.1-04, subsection 1 of section 38-12.1-05, subsections 12 and 24 of section 38-14.1-03, subsection 2 of section 38-14.1-21, sections 38-15-03, 38-19-03, 38-19-04, 54-17.3-02, 54-17.3-03, 54-17.3-04, 54-17.3-05, 54-17.3-06, 54-17.3-07, and 54-17.4-01, subsection 14 of section 54-17.4-02, sections 54-17.4-06, 54-17.4-07, 54-17.4-09, 54-17.4-10, 54-17.4-11, and 54-17.4-12, and subsection 1 of section 61-28-03 of the North Dakota Century Code, relating to the state geologist; to repeal section 54-17.4-05 of the North Dakota Century Code, relating to the state geologist; to provide an effective date;"

Page 5, after line 31, insert:

"SECTION 14. AMENDMENT. Section 15-05-07 of the North Dakota Century Code is amended and reenacted as follows:

15-05-07. Board to ascertain and keep schedule of all lands on which coal exists. The board of university and school lands, with the assistance of the state geologist director of oil and gas, shall ascertain and determine the quantity and description of all lands under its control on which coal exists and shall compile and keep a statement and schedule of all such lands.

SECTION 15. AMENDMENT. Section 15-05-16 of the North Dakota Century Code is amended and reenacted as follows:

15-05-16. Reports - State geologist Director of oil and gas - State department of health. The state geologist director of oil and gas or the state department of health, on the request of the board of university and school lands, shall visit any land leased under section 15-05-09 and shall make a report of the visit to the board. The state geologist director of oil and gas or the state department of health may not receive a fee for making the examination and report but must be paid necessary expenses incurred in connection therewith.

SECTION 16. AMENDMENT. Section 23-20.2-03 of the North Dakota Century Code is amended and reenacted as follows:

23-20.2-03. Jurisdiction of the industrial commission. The commission has jurisdiction and authority and is charged with the responsibility to enforce the provisions of this chapter. This chapter does not apply to any activity regulated under chapters 23-29, 38-08, 38-12, 61-28, and 61-28.1. The commission acting through the office of the state geologist director of oil and gas has the authority:

1. To require:
 - a. Identification of ownership of all facilities and equipment used for the underground storage and retrieval of material and waste disposal.

Page No. 1

38015.0205

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Deanna G. Hall
Operator's Signature

10/30/03
Date

- b. The making and filling of all logs and reports on facility location, drilling, boring, excavating, and construction and the filing, free of charge, of samples, core chips, and complete cores, when requested, in the office of the state geologist director of oil and gas.
 - c. The drilling, boring, excavating, and construction of facilities in a manner to prevent contamination and pollution of surface and ground water sources and the environment.
 - d. The furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the provisions of this chapter, and the rules of the commission relating to the underground storage and retrieval of material and waste disposal.
 - e. Metering or other measuring of all material injected, emplaced, stored, disposed into, or retrieved from any facility regulated by this chapter.
 - f. That every person who operates a facility for the underground storage and retrieval of material or for waste disposal in this state shall keep and maintain complete and accurate records of the quantities and nature of material stored, retrieved, or disposed of, which records must be available to the commission or its agents at all times, and that every such person file with the commission such reports as it may prescribe.
 - g. That upon termination of the operation of any facility or activity regulated by this chapter, the operator of such facility shall restore the surface as nearly as possible to its original condition and productivity.
- 2. To regulate:
 - a. The drilling, boring, excavating, and construction of all underground storage, retrieval, and waste disposal facilities.
 - b. Operations to assure the optimum performance of all facilities regulated by this chapter.
 - 3. To limit and prescribe the nature, quantity, and source of materials to be stored in, whether as waste or otherwise, or retrieved from any facility regulated by this chapter.
 - 4. To promulgate and to enforce rules, regulations, and orders to effectuate the purposes of this chapter.

The jurisdiction granted the commission by this chapter is not exclusive and does not affect the jurisdiction of other governmental entities.

SECTION 17. AMENDMENT. Subsections 2 and 4 of section 23-25-02 of the North Dakota Century Code are amended and reenacted as follows:

- 2. There is hereby established an air pollution control advisory council, hereinafter referred to as the advisory council, of nine members to include the state health officer, the state geologist director of oil and gas, the director of the department of transportation, and six other members to be appointed by the governor, one of whom must be a representative of county or municipal government, one a representative of the solid fuels industry, one a representative of the fluid and gas fuels industry, one a representative of the environmental sciences, and two appointed at large.

4. The advisory council shall select its own chairman from among its members. The state health officer, ~~state geologist~~ director of oil and gas, and director of the department of transportation each may designate a principal deputy or assistant to act in the officer's place and stead. The chief sanitary engineer of the state department of health, or that officer's designated assistant, must be the principal administrative officer of the council.

SECTION 18. AMENDMENT. Section 23-29-07.6 of the North Dakota Century Code is amended and reenacted as follows:

23-29-07.6. Preconstruction site review. The department, in cooperation with the state engineer and the ~~state geologist~~ director of oil and gas, shall develop criteria for siting a solid waste disposal facility based upon potential impact on environmental resources. Any application for a landfill permit received after the department develops siting criteria as required by this section must be reviewed for site suitability by the department after consultation with the state engineer and ~~state geologist~~ director of oil and gas before any site development. Site development does not include the assessment or monitoring associated with the review as required by the department in consultation with the state engineer and ~~state geologist~~ director of oil and gas.

SECTION 19. AMENDMENT. Section 23-29-07.7 of the North Dakota Century Code is amended and reenacted as follows:

23-29-07.7. Review of existing municipal waste landfills. By July 1, 1995, the state engineer and ~~state geologist~~ director of oil and gas shall complete site suitability reviews of all existing municipal waste landfills within the state. The reports of such reviews must be provided to the department for use in site improvement, site remediation, or landfill closure.

SECTION 20. AMENDMENT. Section 23-33-10 of the North Dakota Century Code is amended and reenacted as follows:

23-33-10. Wellhead protection program. The department in cooperation with the state engineer and ~~state geologist~~ director of oil and gas shall assist in implementing a public water supply wellhead protection program for protection of ground water resources utilizing existing state and local statutory authority.

SECTION 21. AMENDMENT. Subdivision k of subsection 1 of section 38-08-04 of the North Dakota Century Code is amended and reenacted as follows:

- k. The filling free of charge of samples and core chips and of complete cores when requested in the office of the ~~state geologist~~ director of oil and gas within six months after the completion or abandonment of the well.

SECTION 22. AMENDMENT. Section 38-08-04.2 of the North Dakota Century Code is amended and reenacted as follows:

38-08-04.2. Director of oil and gas. The industrial commission is authorized to appoint a director of oil and gas and to set the director's salary within the limits of legislative appropriations. ~~The industrial commission may designate the state geologist as the director of oil and gas.~~

SECTION 23. AMENDMENT. Section 38-12-02 of the North Dakota Century Code is amended and reenacted as follows:

38-12-02. Jurisdiction of commission. The commission has jurisdiction and authority over all persons and property, public and private, necessary to enforce effectively the provisions of this chapter. Subject to the provisions of section 38-08-21,

the ~~state geologist~~ director of oil and gas shall act as a supervisor charged with the duty of enforcing the regulations and orders of the commission applicable to the subsurface mineral resources of this state and the provisions of this chapter. The commission has authority to make such investigations as it deems proper to determine whether facts exist which justify action by the commission. The commission acting through the office of the ~~state geologist~~ director of oil and gas has the authority:

1. To require:

- a. The furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the provisions of this chapter, and the rules and regulations of the commission prescribed to govern the exploration, development, and production of subsurface minerals on state and private lands within the state of North Dakota.
- b. The delivery, free of charge, to the ~~state geologist~~ director of oil and gas of the basic exploration data collected by the operator, within thirty days of field collection of such data. This data must include:
 - (1) Sample cuts, core chips, or whole cores.
 - (2) Sample logs, radioactivity logs, resistivity logs, or other types of electrical or mechanical logs.
 - (3) Elevation and location information on the data collection points.
 - (4) Other pertinent information as may be requested by the ~~state geologist~~ director of oil and gas.

The data so submitted is confidential for a period of one year when so requested by the operator and such period may be further extended upon approval by the commission.

- c. The filing of monthly production reports in the manner prescribed by the commission, and any other reports deemed necessary by the commission.
 - d. The conducting of all exploration, development, and production operations in such a manner as to prevent pollution of freshwater supplies, to provide for the protection of the environment and public safety, and to ensure the optimum recovery of the mineral resource.
 - e. The reclamation of all land disturbed by operations regulated by this chapter to a condition consistent with prior land use and productive capacity.
2. To regulate the drilling, and abandonment of exploration test holes and producing wells and all other exploration, development, production, and reclamation operations.
 3. To promulgate and to enforce rules, regulations, and orders to effectuate the purposes and the intent of this chapter.
 4. To inspect all exploration, development, and production sites. For the purposes of this subsection, the ~~state geologist~~ director of oil and gas or his representative shall have access to all exploration, development or production installations for purposes of inspection and shall have the authority to require the operator's aid if same is necessary and is requested.

SECTION 24. AMENDMENT. Section 38-12-03 of the North Dakota Century Code is amended and reenacted as follows:

38-12-03. Permit required. It is unlawful to commence operations for the exploration, development, or production of subsurface minerals without first obtaining a permit from the ~~state geologist~~ director of oil and gas, under such rules and regulations as may be prescribed by the commission and paying to the commission a fee for each such permit in an amount to be prescribed by the commission.

SECTION 25. AMENDMENT. Section 38-12.1-01 of the North Dakota Century Code is amended and reenacted as follows:

38-12.1-01. Legislative findings. The legislative assembly of the state of North Dakota finds that:

1. The discovery and evaluation of coal deposits is advantageous in an industrial society.
2. Coal occurs hidden under the ground and must be searched for by diverse techniques, and that the search, exploration, or prospecting for coal is a necessary and expensive prerequisite to coal extraction and for land use planning in coal-bearing areas.
3. It is to the benefit of society to allow coal exploration and to require the information generated from exploration to be available to the ~~office of the state geologist~~ director of oil and gas.

SECTION 26. AMENDMENT. Section 38-12.1-02 of the North Dakota Century Code is amended and reenacted as follows:

38-12.1-02. Declaration of policy. It is hereby declared to be in the public interest to have persons engaged in coal exploration or evaluation report their findings to the ~~office of the state geologist~~ director of oil and gas so that data on the location, quantity, and quality of coal, and the characteristics of associated material, will be available to assist the state in determining what the attitude of the state should be regarding future development of coal resources.

SECTION 27. AMENDMENT. Section 38-12.1-04 of the North Dakota Century Code is amended and reenacted as follows:

38-12.1-04. Jurisdiction of commission. The commission has jurisdiction and authority over all persons and property, both public and private, necessary to effectively enforce the provisions of this chapter. The ~~state geologist~~ director of oil and gas shall act as a supervisor charged with the duty of enforcing the regulations and orders of the commission applicable to the provisions of this chapter. The commission has authority to make such investigations as it ~~deems~~ determines proper to determine whether facts exist which justify action by the commission. The commission acting through the ~~office of the state geologist~~ director of oil and gas has the authority:

1. To require:
 - a. The furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the provisions of this chapter, and the rules and regulations of the commission prescribed to govern the exploration for coal on state and private lands and roads used in coal exploration within the state of North Dakota.
 - b. The delivery, free of charge, to the ~~state geologist~~ director of oil and gas of the basic data collected during the course of the exploration within a reasonable time as may be prescribed by the ~~state geologist~~ director of oil and gas.

director of oil and gas. The data so submitted is confidential and available only to the office of the ~~state geologist~~ director of oil and gas for official purposes for a period of two years, and such period of confidentiality must, upon application, be extended for one-year periods by the ~~state geologist~~ director of oil and gas, for a total period not to exceed ten years unless it is demonstrated that such period should be further extended in order to prevent possible resulting harm to the person, his successors, and assigns, who delivered such basic data to the ~~state geologist~~ director of oil and gas. The basic data must include, if specifically requested by the ~~state geologist~~ director of oil and gas and if the information has been developed by or for a person conducting the exploration:

- (1) Sample cuts.
 - (2) Drillers' logs, sample logs, radioactivity logs, resistivity logs, or other types of electrical or mechanical logs.
 - (3) Elevation and location information on the data collection points.
 - (4) Other pertinent information as may be required by the ~~state geologist~~ director of oil and gas.
2. To require the plugging, covering, or reburial in an appropriate manner so as to protect environmental quality, general health and safety, and economic values, of all holes, pits, or trenches excavated during the course of coal exploration.
 3. To promulgate and enforce rules, regulations, and orders to effectuate the provisions, purpose, and intent of this chapter.
 4. To inspect all drilling or exploration sites. For the purposes of this subsection, the ~~state geologist~~ director of oil and gas or ~~his~~ the director's representative ~~shall have~~ has access to all drilling or exploration installations regulated by this chapter for the purpose of inspection and sampling and ~~shall have the authority to~~ may require the operators' aid if ~~he~~ the director finds it necessary and requests it.
 5. Notwithstanding any of the other provisions of this section, the commission acting through the office of the ~~state geologist~~ director of oil and gas shall require that any lands substantially disturbed in coal exploration, including excavations, roads, drill holes, and the removal of necessary facilities and equipment be reclaimed in accordance with the applicable performance standards of section 38-14.1-24. Reclamation must be accomplished so as to protect environmental quality, general health and safety, and economic values.

SECTION 28. AMENDMENT. Subsection 1 of section 38-12.1-05 of the North Dakota Century Code is amended and reenacted as follows:

1. It is unlawful to commence operations for drilling for the exploration for coal without first obtaining a permit from the ~~state geologist~~ director of oil and gas, under such rules and regulations as may be prescribed by the commission, and paying to the commission a fee of one hundred dollars for each such permit area. The permit application must include a description of the exploration area, and the period of proposed exploration. The permit must be granted within thirty days after proper application is submitted therefor.

SECTION 29. AMENDMENT. Subsections 12 and 24 of section 38-14.1-03 of the North Dakota Century Code are amended and reenacted as follows:

12. To ~~promulgate regulations~~ adopt rules consistent with state law, in consultation with the ~~state geologist~~ director of oil and gas, state department of health, and the state engineer for the protection of the quality and quantity of waters affected by surface coal mining operations.
24. To provide by ~~regulation~~ rule for the conservation and utilization of other minerals found within the permit area during surface coal mining and reclamation operations in consultation with the ~~state geologist~~ director of oil and gas and to approve plans for the use of such other minerals outside the permit area so long as the permittee affirmatively demonstrates that such removal is lawful and will provide equal or greater protection to the environment and to public health and safety and will achieve reclamation consistent with the purposes of this chapter.

SECTION 30. AMENDMENT. Subsection 2 of section 38-14.1-21 of the North Dakota Century Code is amended and reenacted as follows:

2. The commission's approval or modification of the permit or permit revision application must include consideration of the advice and technical assistance of the state historical society, the state department of health, the state soil conservation committee, the state game and fish department, the state forester, the ~~state geologist~~ director of oil and gas, and the state engineer, and may also include those state agencies versed in soils, agronomy, ecology, geology, and hydrology, and other agencies and individuals experienced in reclaiming surface mined lands.

SECTION 31. AMENDMENT. Section 38-15-03 of the North Dakota Century Code is amended and reenacted as follows:

38-15-03. Jurisdiction of commission. The commission has continuing jurisdiction and authority over all persons and property, public and private, necessary to enforce effectively the provisions of this chapter. The ~~state geologist~~ director of oil and gas shall act as a supervisor charged with enforcing the regulations and orders of the commission applicable to the provisions of this chapter. The commission has authority to make investigations it deems proper to determine whether facts exist which justify action by the commission. The commission has the authority:

1. To require the furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the provisions of this chapter, and the rules and regulations of the commission prescribed to govern, satisfy, and resolve conflicting interests among producers within North Dakota.
2. To resolve conflicting interests of producers of natural resources which cannot be voluntarily concluded by them in the public interest to eliminate waste, to the end that the producer, landowner, and mineral owner realize the greatest possible economic advantage.
3. To promulgate and to enforce rules, regulations, and orders to effectuate the purposes and intent of this chapter.

SECTION 32. AMENDMENT. Section 38-19-03 of the North Dakota Century Code is amended and reenacted as follows:

38-19-03. Jurisdiction of the commission. The commission has jurisdiction and authority and is charged with the responsibility to enforce ~~the provisions of this~~ chapter. This chapter does not apply to any activity regulated under chapters 38-08,

38-12, 38-12.1, 38-14.1, and 61-28. The jurisdiction granted to the commission by this chapter is not exclusive and does not affect the jurisdiction of other governmental entities. The commission acting through the office of the state geologist director of oil and gas has the authority:

1. To require:

- a. Identification of ownership of all facilities, installations, and equipment used in the extraction of geothermal energy.
- b. The making and filing of all logs and reports on facility location, drilling, boring, excavating, and construction and the filing, free of charge, of samples, core chips, and complete cores, when requested, in the office of the state geologist director of oil and gas.
- c. The drilling, boring, casing, excavating, plugging, and construction of facilities in a manner to prevent contamination and pollution of surface and ground water sources and unnecessary environmental degradation.
- d. The furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the rules of the commission relating to the extraction of geothermal energy.
- e. Metering or measuring all products extracted from or by means of a facility regulated by this chapter.
- f. That every person who operates a geothermal energy extraction facility in this state shall keep and maintain complete and accurate records of the quantities and nature of products extracted from or by means of any facility, and the ultimate disposition of such products, which records must be available to the commission or its agents at all times, and that every such person file with the commission such reports as it may prescribe.
- g. That upon termination of the operation of any facility or activity regulated by this chapter, the operator of the facility shall restore the surface as nearly as possible to its original condition and productivity.

2. To regulate:

- a. The drilling, boring, excavating, and construction of all geothermal energy extraction facilities.
- b. Operations to assure the optimum performance of all facilities regulated under this chapter.

3. To limit and prescribe the nature, quantity, and source of geothermal energy to be extracted from any facility regulated by this chapter.

4. To adopt rules and issue orders to effectuate the purposes of this chapter.

SECTION 33. AMENDMENT. Section 38-19-04 of the North Dakota Century Code is amended and reenacted as follows:

38-19-04. Permit or report required. It is unlawful to commence any operations for the drilling, boring, excavating, or construction of a geothermal energy extraction facility, which is used for other than private residential heating and cooling purposes, without first securing a permit from the state geologist director of oil and gas, under such rules as may be adopted by the commission and after paying to the

commission a fee for each such facility in an amount to be prescribed by the commission by rule. The fee set must be related to the cost of regulation and inspection under this chapter.

A report is required upon completion of any geothermal energy extraction facility used solely for private residential heating or cooling purposes. The report must be prepared by the geothermal energy extraction facility installer on a form provided by the ~~state geologist director of oil and gas~~ and must be furnished to the ~~state geologist director of oil and gas~~ within thirty days after the completion of the facility. The report must contain relevant information the ~~state geologist director of oil and gas~~ requires relating to the environmental safety of the facility, including the facility owner and location, a log of formations penetrated, if any, system specifications and design, and fluids used in the facility.

All construction of geothermal energy extraction facilities must comply with rules adopted under this chapter.

SECTION 34. AMENDMENT. Section 54-17.3-02 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-02. Jurisdiction of the commission. The commission, acting through the ~~office of the state geologist director of oil and gas~~, has jurisdiction and authority to enforce the provisions of sections 54-17.3-01 through 54-17.3-08. The commission has authority to make such investigations as it deems proper to determine whether facts exist which justify action by the commission. The commission has authority to adopt rules and issue orders to effectuate the provisions of sections 54-17.3-01 through 54-17.3-08.

SECTION 35. AMENDMENT. Section 54-17.3-03 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-03. Permit required. A permit must be obtained by any person, organization, institution, or company engaged on one's own behalf or on behalf of another to:

1. Identify or evaluate paleontological resources to satisfy state or federal requirements; or
2. Investigate, excavate, collect, or otherwise record paleontological resources on land owned by the state or its political subdivisions.

A permit may be issued upon filing of an application that contains information prescribed by the ~~state geologist director of oil and gas~~ and upon the applicant's payment to the ~~state geologist director of oil and gas~~ of the fee set by the ~~state geologist director of oil and gas~~. The ~~state geologist director of oil and gas~~ may waive the fee requirement if the applicant is an instrumentality of the state. A permit may be issued only for the activities and at the locations described in the permit application.

SECTION 36. AMENDMENT. Section 54-17.3-04 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-04. Permit - Duration - Revocation. A permit issued under sections 54-17.3-01 through 54-17.3-08 expires on December thirty-first of the year in which it is issued. A permit may be extended upon written request to the ~~state geologist director of oil and gas~~ before expiration of the permit and upon payment to the ~~state geologist director of oil and gas~~ of the fee set by the ~~state geologist director of oil and gas~~. A permit may be revoked at any time if it appears the permittee secured the permit through false information or that any activities performed by the permittee are being conducted negligently or improperly, or without regard for the careful preservation and conservation of the paleontological resource.

SECTION 37. AMENDMENT. Section 54-17.3-05 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-05. Coordination of quaternary fossil finds. The ~~state geologist~~ director of oil and gas shall notify the director of the state historical society of all quaternary paleontological finds reported to the ~~state geologist~~ director of oil and gas which potentially or actually contain cultural resources. The treatment of sites containing both paleontological remains and cultural resources must be handled in a manner jointly agreed upon by the ~~state geologist~~ director of oil and gas and the director. The term cultural resources has the same definition as the term is defined in section 55-03-00.1.

SECTION 38. AMENDMENT. Section 54-17.3-06 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-06. Protection of paleontological specimens and sites. Any paleontological resource found or located upon any land owned by the state or its political subdivisions may not be destroyed, defaced, altered, removed, or otherwise disposed of in any manner without approval of the ~~state geologist~~ director of oil and gas. The ~~state geologist~~ director of oil and gas shall determine the significance of the paleontological resource to the understanding of the paleontologic and geologic history of North Dakota. It is the responsibility of the state and its political subdivisions to cooperate with the ~~state geologist~~ director of oil and gas in identifying and implementing any reasonable alternative to destruction or alteration of any paleontological resource.

SECTION 39. AMENDMENT. Section 54-17.3-07 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-07. Transfer of paleontological resources. The ~~state geologist~~ director of oil and gas may exchange with or transfer to universities, colleges, governmental bodies, and scientific institutions duplicate paleontological resources it holds. The state historical society must receive preference for the receipt of duplicate paleontological resources.

SECTION 40. AMENDMENT. Section 54-17.4-01 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-01. Definitions. As used in this chapter, unless the context otherwise requires:

1. "Commission" means the North Dakota industrial commission.
2. "~~State geologist~~ means the North Dakota state geologist Director" means the director of oil and gas.
3. "Survey" means the North Dakota geological survey.

SECTION 41. AMENDMENT. Subsection 14 of section 54-17.4-02 of the North Dakota Century Code is amended and reenacted as follows:

14. Consider such other scientific and economic questions in the field of geology as in the judgment of the ~~state geologist~~ director is deemed determined to be of value to the people of the state.

SECTION 42. AMENDMENT. Section 54-17.4-06 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-06. State geologist Director - Authority. The ~~state geologist~~ director is the executive and administrative head of the survey and shall exercise the powers of the office and be responsible for the execution of its duties.

SECTION 43. AMENDMENT. Section 54-17.4-07 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-07. State-geologist Director - Grants, funds, and contracts. The ~~state-geologist director~~, with the approval of the commission, may accept and expend money from and enter into contracts with federal, state, local, or other public entities to carry out the purposes of this chapter or to provide geological services. If such funds exceed appropriations made by the legislative assembly, the ~~state-geologist director~~ shall seek emergency commission approval for their expenditure.

SECTION 44. AMENDMENT. Section 54-17.4-09 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-09. State-geologist Director - Specimens collected - Exhibited - Exchanged. The ~~state-geologist director~~ shall cause proper specimens, skillfully prepared, secured, and labeled, of rocks, minerals, ores, coals, fossils, and other earth materials discovered or examined in the course of the geological surveys to be preserved for public inspection free of cost. The ~~state-geologist director~~, when practicable, shall cause duplicate specimens in reasonable numbers and quantities to be collected and preserved for the purpose of exchange with or transfer to universities, colleges, governmental bodies, and scientific institutions.

SECTION 45. AMENDMENT. Section 54-17.4-10 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-10. State-geologist Director - Purchase and sale of maps - Appropriation. The ~~state-geologist is authorized to~~ director may purchase cartographic products from the federal government for the purpose of reselling the products to the public at a fee set by the ~~state-geologist director~~. All moneys collected from the sale of the products must be deposited in the cartographic products fund. This fund must be maintained as a special fund and all moneys transferred into the fund are ~~hereby~~ appropriated and must be used and disbursed solely for the purpose of paying the ~~state-geologist's~~ director's cost of purchasing and reselling the products.

SECTION 46. AMENDMENT. Section 54-17.4-11 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-11. State-geologist Director - Colleges and universities - Cooperation. The board of higher education and the survey shall develop a cooperative agreement for the sharing of books, equipment, and other physical resources.

SECTION 47. AMENDMENT. Section 54-17.4-12 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-12. State-geologist Director - Collection of global positioning system data - Fee. All moneys collected for the sale of global positioning system community-base station data must be deposited in the global positioning system community-base station fund. This fund must be maintained as a revolving fund and all moneys transferred into the fund are hereby appropriated and must be used and disbursed solely for the purpose of paying the ~~state-geologist's~~ director's cost of collecting and distributing the data. This fund is not subject to section 54-44.1-11.

SECTION 48. AMENDMENT. Subsection 1 of section 61-28-03 of the North Dakota Century Code is amended and reenacted as follows:

1. The state water pollution control board consists of thirteen persons. The board must include the state health officer, state engineer, director of the game and fish department, ~~state-geologist director of oil and gas~~, and nine other members appointed by the governor, three of whom must be

representatives of production agriculture, two of whom must be
representatives of manufacturing and processing, one of whom must be a
representative of the solid fuels industry, one of whom must be a
representative of the fluid and gas fuels industry, one of whom must be a
representative of the environmental sciences, and one of whom must be a
representative of county or municipal government.

SECTION 49. REPEAL. Section 54-17.4-05 of the North Dakota Century Code
is repealed.

SECTION 50. EFFECTIVE DATE. Sections 14 through 49 of this Act become
effective on January 1, 2004."

Renumber accordingly

38015.0206
Title.0300
Fiscal No. 2

Prepared by the Legislative Council staff for
Senate Appropriations
April 9, 2003

JB
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PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1015

Page 1, line 3, after the third semicolon insert "to amend and reenact sections 15-05-07, 15-05-16, and 23-20.2-03, subsections 2 and 4 of section 23-25-02, sections 23-29-07.6, 23-29-07.7, and 23-33-10, subdivision k of subsection 1 of section 38-08-04, sections 38-08-04.2, 38-12-02, 38-12-03, 38-12.1-01, 38-12.1-02, and 38-12.1-04, subsection 1 of section 38-12.1-05, subsections 12 and 24 of section 38-14.1-03, subsection 2 of section 38-14.1-21, sections 38-15-03, 38-19-03, 38-19-04, 54-17.3-02, 54-17.3-03, 54-17.3-04, 54-17.3-05, 54-17.3-06, 54-17.3-07, and 54-17.4-01, subsection 14 of section 54-17.4-02, sections 54-17.4-06, 54-17.4-07, 54-17.4-09, 54-17.4-10, 54-17.4-11, and 54-17.4-12, and subsection 1 of section 61-28-03 of the North Dakota Century Code, relating to the state geologist; to repeal section 54-17.4-05 of the North Dakota Century Code, relating to the state geologist; to provide an effective date;"

Page 1, line 14, replace "6,264,047" with "5,871,834"

Page 1, line 15, replace "1,947,591" with "1,916,559"

Page 1, line 19, replace "44,380,928" with "43,957,683"

Page 1, line 20, replace "37,296,489" with "37,295,870"

Page 1, line 21, replace "7,084,439" with "6,661,813"

Page 2, line 1, replace "16,546,603" with "16,527,614"

Page 2, line 2, replace "11,372,000" with "11,014,932"

Page 2, line 5, replace "30,243,603" with "29,867,546"

Page 2, line 14, replace "16,703,856" with "16,690,956"

Page 2, line 18, replace "30,018,282" with "30,005,382"

Page 2, line 21, replace "3,934,267" with "3,929,907"

Page 2, line 25, replace "33,618,207" with "33,613,847"

Page 2, line 26, replace "15,159,439" with "14,736,813"

Page 2, line 27, replace "131,176,581" with "130,782,645"

Page 2, line 28, replace "146,336,020" with "145,519,458"

Page 4, line 5, after "TRANSFER" insert "- INDUSTRIAL COMMISSION REPORT"

Page No. 1

38015.0206

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Deanna Williams
Operator's Signature

10/30/03
Date

2 of 5
Page 4, line 11, after the period insert "The industrial commission shall report to the fifty-ninth legislative assembly regarding the mill and elevator association's net income to date and estimated net income for the remainder of the 2003-05 biennium."

Page 5, after line 31, insert:

"SECTION 14. AMENDMENT. Section 15-05-07 of the North Dakota Century Code is amended and reenacted as follows:

15-05-07. Board to ascertain and keep schedule of all lands on which coal exists. The board of university and school lands, with the assistance of the ~~state geologist~~ director of oil and gas, shall ascertain and determine the quantity and description of all lands under its control on which coal exists and shall compile and keep a statement and schedule of all such lands.

SECTION 15. AMENDMENT. Section 15-05-16 of the North Dakota Century Code is amended and reenacted as follows:

15-05-16. Reports - ~~State geologist~~ Director of oil and gas - State department of health. The ~~state geologist~~ director of oil and gas or the state department of health, on the request of the board of university and school lands, shall visit any land leased under section 15-05-09 and shall make a report of the visit to the board. The ~~state geologist~~ director of oil and gas or the state department of health may not receive a fee for making the examination and report but must be paid necessary expenses incurred in connection therewith.

SECTION 16. AMENDMENT. Section 23-20.2-03 of the North Dakota Century Code is amended and reenacted as follows:

23-20.2-03. Jurisdiction of the industrial commission. The commission has jurisdiction and authority and is charged with the responsibility to enforce the provisions of this chapter. This chapter does not apply to any activity regulated under chapters 23-29, 38-08, 38-12, 61-28, and 61-28.1. The commission acting through the ~~office of the state geologist~~ director of oil and gas has the authority:

1. To require:
 - a. Identification of ownership of all facilities and equipment used for the underground storage and retrieval of material and waste disposal.
 - b. The making and filing of all logs and reports on facility location, drilling, boring, excavating, and construction and the filing, free of charge, of samples, core chips, and complete cores, when requested, in the office of the ~~state geologist~~ director of oil and gas.
 - c. The drilling, boring, excavating, and construction of facilities in a manner to prevent contamination and pollution of surface and ground water sources and the environment.
 - d. The furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the provisions of this chapter, and the rules of the commission relating to the underground storage and retrieval of material and waste disposal.
 - e. Metering or other measuring of all material injected, emplaced, stored, disposed into, or retrieved from any facility regulated by this chapter.

Page No. 2

38015.0206

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Deanna G. Ball
Operator's Signature

10/30/03
Date

3 of 15

- f. That every person who operates a facility for the underground storage and retrieval of material or for waste disposal in this state shall keep and maintain complete and accurate records of the quantities and nature of material stored, retrieved, or disposed of, which records must be available to the commission or its agents at all times, and that every such person file with the commission such reports as it may prescribe.
 - g. That upon termination of the operation of any facility or activity regulated by this chapter, the operator of such facility shall restore the surface as nearly as possible to its original condition and productivity.
2. To regulate:
 - a. The drilling, boring, excavating, and construction of all underground storage, retrieval, and waste disposal facilities.
 - b. Operations to assure the optimum performance of all facilities regulated by this chapter.
 3. To limit and prescribe the nature, quantity, and source of materials to be stored in, whether as waste or otherwise, or retrieved from any facility regulated by this chapter.
 4. To promulgate and to enforce rules, regulations, and orders to effectuate the purposes of this chapter.

The jurisdiction granted the commission by this chapter is not exclusive and does not affect the jurisdiction of other governmental entities.

SECTION 17. AMENDMENT. Subsections 2 and 4 of section 23-25-02 of the North Dakota Century Code are amended and reenacted as follows:

2. There is hereby established an air pollution control advisory council, hereinafter referred to as the advisory council, of nine members to include the state health officer, the state geologist director of oil and gas, the director of the department of transportation, and six other members to be appointed by the governor, one of whom must be a representative of county or municipal government, one a representative of the solid fuels industry, one a representative of the fluid and gas fuels industry, one a representative of the environmental sciences, and two appointed at large.
4. The advisory council shall select its own chairman from among its members. The state health officer, state geologist director of oil and gas, and director of the department of transportation each may designate a principal deputy or assistant to act in the officer's place and stead. The chief sanitary engineer of the state department of health, or that officer's designated assistant, must be the principal administrative officer of the council.

SECTION 18. AMENDMENT. Section 23-29-07.6 of the North Dakota Century Code is amended and reenacted as follows:

23-29-07.6. Preconstruction site review. The department, in cooperation with the state engineer and the state geologist director of oil and gas, shall develop criteria for siting a solid waste disposal facility based upon potential impact on environmental resources. Any application for a landfill permit received after the department develops siting criteria as required by this section must be reviewed for site suitability by the department after consultation with the state engineer and state geologist director of oil and gas before any site development. Site development does not include the

4015
assessment or monitoring associated with the review as required by the department in consultation with the state engineer and state geologist director of oil and gas.

SECTION 19. AMENDMENT. Section 23-29-07.7 of the North Dakota Century Code is amended and reenacted as follows:

23-29-07.7. Review of existing municipal waste landfills. By July 1, 1995, the state engineer and state geologist director of oil and gas shall complete site suitability reviews of all existing municipal waste landfills within the state. The reports of such reviews must be provided to the department for use in site improvement, site remediation, or landfill closure.

SECTION 20. AMENDMENT. Section 23-33-10 of the North Dakota Century Code is amended and reenacted as follows:

23-33-10. Wellhead protection program. The department in cooperation with the state engineer and state geologist director of oil and gas shall assist in implementing a public water supply wellhead protection program for protection of ground water resources utilizing existing state and local statutory authority.

SECTION 21. AMENDMENT. Subdivision k of subsection 1 of section 38-08-04 of the North Dakota Century Code is amended and reenacted as follows:

- k. The filing free of charge of samples and core chips and of complete cores when requested in the office of the state geologist director of oil and gas within six months after the completion or abandonment of the well.

SECTION 22. AMENDMENT. Section 38-08-04.2 of the North Dakota Century Code is amended and reenacted as follows:

38-08-04.2. Director of oil and gas. The industrial commission is authorized to appoint a director of oil and gas and to set the director's salary within the limits of legislative appropriations. ~~The industrial commission may designate the state geologist as the director of oil and gas.~~

SECTION 23. AMENDMENT. Section 38-12-02 of the North Dakota Century Code is amended and reenacted as follows:

38-12-02. Jurisdiction of commission. The commission has jurisdiction and authority over all persons and property, public and private, necessary to enforce effectively the provisions of this chapter. Subject to the provisions of section 38-08-21, the state geologist director of oil and gas shall act as a supervisor charged with the duty of enforcing the regulations and orders of the commission applicable to the subsurface mineral resources of this state and the provisions of this chapter. The commission has authority to make such investigations as it deems proper to determine whether facts exist which justify action by the commission. The commission acting through the office of the state geologist director of oil and gas has the authority:

1. To require:
 - a. The furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the provisions of this chapter, and the rules and regulations of the commission prescribed to govern the exploration, development, and production of subsurface minerals on state and private lands within the state of North Dakota.
 - b. The delivery, free of charge, to the state geologist director of oil and gas of the basic exploration data collected by the operator, within thirty days of field collection of such data. This data must include:

5 of 15

- (1) Sample cuts, core chips, or whole cores.
- (2) Sample logs, radioactivity logs, resistivity logs, or other types of electrical or mechanical logs.
- (3) Elevation and location information on the data collection points.
- (4) Other pertinent information as may be requested by the state geologist director of oil and gas.

The data so submitted is confidential for a period of one year when so requested by the operator and such period may be further extended upon approval by the commission.

- c. The filing of monthly production reports in the manner prescribed by the commission, and any other reports deemed necessary by the commission.
 - d. The conducting of all exploration, development, and production operations in such a manner as to prevent pollution of freshwater supplies, to provide for the protection of the environment and public safety, and to ensure the optimum recovery of the mineral resource.
 - e. The reclamation of all land disturbed by operations regulated by this chapter to a condition consistent with prior land use and productive capacity.
2. To regulate the drilling, and abandonment of exploration test holes and producing wells and all other exploration, development, production, and reclamation operations.
 3. To promulgate and to enforce rules, regulations, and orders to effectuate the purposes and the intent of this chapter.
 4. To inspect all exploration, development, and production sites. For the purposes of this subsection, the state geologist director of oil and gas or his representative shall have access to all exploration, development or production installations for purposes of inspection and shall have the authority to require the operator's aid if same is necessary and is requested.

SECTION 24. AMENDMENT. Section 38-12-03 of the North Dakota Century Code is amended and reenacted as follows:

38-12-03. Permit required. It is unlawful to commence operations for the exploration, development, or production of subsurface minerals without first obtaining a permit from the state geologist director of oil and gas, under such rules and regulations as may be prescribed by the commission and paying to the commission a fee for each such permit in an amount to be prescribed by the commission.

SECTION 25. AMENDMENT. Section 38-12.1-01 of the North Dakota Century Code is amended and reenacted as follows:

38-12.1-01. Legislative findings. The legislative assembly of the state of North Dakota finds that:

1. The discovery and evaluation of coal deposits is advantageous in an industrial society.

- 6012
2. Coal occurs hidden under the ground and must be searched for by diverse techniques, and that the search, exploration, or prospecting for coal is a necessary and expensive prerequisite to coal extraction and for land use planning in coal-bearing areas.
 3. It is to the benefit of society to allow coal exploration and to require the information generated from exploration to be available to the ~~office of the state geologist~~ director of oil and gas.

SECTION 26. AMENDMENT. Section 38-12.1-02 of the North Dakota Century Code is amended and reenacted as follows:

38-12.1-02. Declaration of policy. It is hereby declared to be in the public interest to have persons engaged in coal exploration or evaluation report their findings to the ~~office of the state geologist~~ director of oil and gas so that data on the location, quantity, and quality of coal, and the characteristics of associated material, will be available to assist the state in determining what the attitude of the state should be regarding future development of coal resources.

SECTION 27. AMENDMENT. Section 38-12.1-04 of the North Dakota Century Code is amended and reenacted as follows:

38-12.1-04. Jurisdiction of commission. The commission has jurisdiction and authority over all persons and property, both public and private, necessary to effectively enforce the provisions of this chapter. The ~~state geologist~~ director of oil and gas shall act as a supervisor charged with the duty of enforcing the regulations and orders of the commission applicable to the provisions of this chapter. The commission has authority to make such investigations as it ~~deems~~ determines proper to determine whether facts exist which justify action by the commission. The commission acting through the ~~office of the state geologist~~ director of oil and gas has the authority:

1. To require:
 - a. The furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the provisions of this chapter, and the rules and regulations of the commission prescribed to govern the exploration for coal on state and private lands and roads used in coal exploration within the state of North Dakota.
 - b. The delivery, free of charge, to the ~~state geologist~~ director of oil and gas of the basic data collected during the course of the exploration within a reasonable time as may be prescribed by the ~~state geologist~~ director of oil and gas. The data so submitted is confidential and available only to the office of the ~~state geologist~~ director of oil and gas for official purposes for a period of two years, and such period of confidentiality must, upon application, be extended for one-year periods by the ~~state geologist~~ director of oil and gas, for a total period not to exceed ten years unless it is demonstrated that such period should be further extended in order to prevent possible resulting harm to the person, his successors, and assigns, who delivered such basic data to the ~~state geologist~~ director of oil and gas. The basic data must include, if specifically requested by the ~~state geologist~~ director of oil and gas and if the information has been developed by or for a person conducting the exploration:
 - (1) Sample cuts.
 - (2) Drillers' logs, sample logs, radioactivity logs, resistivity logs, or other types of electrical or mechanical logs.

70415

- (3) Elevation and location information on the data collection points.
 - (4) Other pertinent information as may be required by the state geologist director of oil and gas.
2. To require the plugging, covering, or reburial in an appropriate manner so as to protect environmental quality, general health and safety, and economic values, of all holes, pits, or trenches excavated during the course of coal exploration.
 3. To promulgate and enforce rules, regulations, and orders to effectuate the provisions, purpose, and intent of this chapter.
 4. To inspect all drilling or exploration sites. For the purposes of this subsection, the state geologist director of oil and gas or his the director's representative ~~shall have~~ has access to all drilling or exploration installations regulated by this chapter for the purpose of inspection and sampling and ~~shall have the authority to~~ may require the operators' aid if ~~he the director~~ finds it necessary and requests it.
 5. Notwithstanding any of the other provisions of this section, the commission acting through the office of the state geologist director of oil and gas shall require that any lands substantially disturbed in coal exploration, including excavations, roads, drill holes, and the removal of necessary facilities and equipment be reclaimed in accordance with the applicable performance standards of section 38-14.1-24. Reclamation must be accomplished so as to protect environmental quality, general health and safety, and economic values.

SECTION 28. AMENDMENT. Subsection 1 of section 38-12.1-05 of the North Dakota Century Code is amended and reenacted as follows:

1. It is unlawful to commence operations for drilling for the exploration for coal without first obtaining a permit from the state geologist director of oil and gas, under such rules and regulations as may be prescribed by the commission, and paying to the commission a fee of one hundred dollars for each such permit area. The permit application must include a description of the exploration area, and the period of proposed exploration. The permit must be granted within thirty days after proper application is submitted therefor.

SECTION 29. AMENDMENT. Subsections 12 and 24 of section 38-14.1-03 of the North Dakota Century Code are amended and reenacted as follows:

12. To ~~promulgate regulations~~ adopt rules consistent with state law, in consultation with the state geologist director of oil and gas, state department of health, and the state engineer for the protection of the quality and quantity of waters affected by surface coal mining operations.
24. To provide by ~~regulation~~ rule for the conservation and utilization of other minerals found within the permit area during surface coal mining and reclamation operations in consultation with the state geologist director of oil and gas and to approve plans for the use of such other minerals outside the permit area so long as the permittee affirmatively demonstrates that such removal is lawful and will provide equal or greater protection to the environment and to public health and safety and will achieve reclamation consistent with the purposes of this chapter.

SECTION 30. AMENDMENT. Subsection 2 of section 38-14.1-21 of the North Dakota Century Code is amended and reenacted as follows:

- 8 of 15
2. The commission's approval or modification of the permit or permit revision application must include consideration of the advice and technical assistance of the state historical society, the state department of health, the state soil conservation committee, the state game and fish department, the state forester, the state geologist director of oil and gas, and the state engineer, and may also include those state agencies versed in soils, agronomy, ecology, geology, and hydrology, and other agencies and individuals experienced in reclaiming surface mined lands.

SECTION 31. AMENDMENT. Section 38-15-03 of the North Dakota Century Code is amended and reenacted as follows:

38-15-03. Jurisdiction of commission. The commission has continuing jurisdiction and authority over all persons and property, public and private, necessary to enforce effectively the provisions of this chapter. The state geologist director of oil and gas shall act as a supervisor charged with enforcing the regulations and orders of the commission applicable to the provisions of this chapter. The commission has authority to make investigations it deems proper to determine whether facts exist which justify action by the commission. The commission has the authority:

1. To require the furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the provisions of this chapter, and the rules and regulations of the commission prescribed to govern, satisfy, and resolve conflicting interests among producers within North Dakota.
2. To resolve conflicting interests of producers of natural resources which cannot be voluntarily concluded by them in the public interest to eliminate waste, to the end that the producer, landowner, and mineral owner realize the greatest possible economic advantage.
3. To promulgate and to enforce rules, regulations, and orders to effectuate the purposes and intent of this chapter.

SECTION 32. AMENDMENT. Section 38-19-03 of the North Dakota Century Code is amended and reenacted as follows:

38-19-03. Jurisdiction of the commission. The commission has jurisdiction and authority and is charged with the responsibility to enforce the provisions of this chapter. This chapter does not apply to any activity regulated under chapters 38-08, 38-12, 38-12.1, 38-14.1, and 61-28. The jurisdiction granted to the commission by this chapter is not exclusive and does not affect the jurisdiction of other governmental entities. The commission acting through the office of the state geologist director of oil and gas has the authority:

1. To require:
 - a. Identification of ownership of all facilities, installations, and equipment used in the extraction of geothermal energy.
 - b. The making and filing of all logs and reports on facility location, drilling, boring, excavating, and construction and the filing, free of charge, of samples, core chips, and complete cores, when requested, in the office of the state geologist director of oil and gas.
 - c. The drilling, boring, casing, excavating, plugging, and construction of facilities in a manner to prevent contamination and pollution of surface and ground water sources and unnecessary environmental degradation.

- 7045
- d. The furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the rules of the commission relating to the extraction of geothermal energy.
 - e. Metering or measuring all products extracted from or by means of a facility regulated by this chapter.
 - f. That every person who operates a geothermal energy extraction facility in this state shall keep and maintain complete and accurate records of the quantities and nature of products extracted from or by means of any facility, and the ultimate disposition of such products, which records must be available to the commission or its agents at all times, and that every such person file with the commission such reports as it may prescribe.
 - g. That upon termination of the operation of any facility or activity regulated by this chapter, the operator of the facility shall restore the surface as nearly as possible to its original condition and productivity.

2. To regulate:

- a. The drilling, boring, excavating, and construction of all geothermal energy extraction facilities.
 - b. Operations to assure the optimum performance of all facilities regulated under this chapter.
3. To limit and prescribe the nature, quantity, and source of geothermal energy to be extracted from any facility regulated by this chapter.
4. To adopt rules and issue orders to effectuate the purposes of this chapter.

SECTION 33. AMENDMENT. Section 38-19-04 of the North Dakota Century Code is amended and reenacted as follows:

38-19-04. Permit or report required. It is unlawful to commence any operations for the drilling, boring, excavating, or construction of a geothermal energy extraction facility, which is used for other than private residential heating and cooling purposes, without first securing a permit from the ~~state geologist~~ director of oil and gas, under such rules as may be adopted by the commission and after paying to the commission a fee for each such facility in an amount to be prescribed by the commission by rule. The fee set must be related to the cost of regulation and inspection under this chapter.

A report is required upon completion of any geothermal energy extraction facility used solely for private residential heating or cooling purposes. The report must be prepared by the geothermal energy extraction facility installer on a form provided by the ~~state geologist~~ director of oil and gas and must be furnished to the ~~state geologist~~ director of oil and gas within thirty days after the completion of the facility. The report must contain relevant information the ~~state geologist~~ director of oil and gas requires relating to the environmental safety of the facility, including the facility owner and location, a log of formations penetrated, if any, system specifications and design, and fluids used in the facility.

All construction of geothermal energy extraction facilities must comply with rules adopted under this chapter.

SECTION 34. AMENDMENT. Section 54-17.3-02 of the North Dakota Century Code is amended and reenacted as follows:

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54-17.3-02. Jurisdiction of the commission. The commission, acting through the office of the state geologist director of oil and gas, has jurisdiction and authority to enforce the provisions of sections 54-17.3-01 through 54-17.3-08. The commission has authority to make such investigations as it deems proper to determine whether facts exist which justify action by the commission. The commission has authority to adopt rules and issue orders to effectuate the provisions of sections 54-17.3-01 through 54-17.3-08.

SECTION 35. AMENDMENT. Section 54-17.3-03 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-03. Permit required. A permit must be obtained by any person, organization, institution, or company engaged on one's own behalf or on behalf of another to:

1. Identify or evaluate paleontological resources to satisfy state or federal requirements; or
2. Investigate, excavate, collect, or otherwise record paleontological resources on land owned by the state or its political subdivisions.

A permit may be issued upon filing of an application that contains information prescribed by the state geologist director of oil and gas and upon the applicant's payment to the state geologist director of oil and gas of the fee set by the state geologist director of oil and gas. The state geologist director of oil and gas may waive the fee requirement if the applicant is an instrumentality of the state. A permit may be issued only for the activities and at the locations described in the permit application.

SECTION 36. AMENDMENT. Section 54-17.3-04 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-04. Permit - Duration - Revocation. A permit issued under sections 54-17.3-01 through 54-17.3-08 expires on December thirty-first of the year in which it is issued. A permit may be extended upon written request to the state geologist director of oil and gas before expiration of the permit and upon payment to the state geologist director of oil and gas of the fee set by the state geologist director of oil and gas. A permit may be revoked at any time if it appears the permittee secured the permit through false information or that any activities performed by the permittee are being conducted negligently or improperly, or without regard for the careful preservation and conservation of the paleontological resource.

SECTION 37. AMENDMENT. Section 54-17.3-05 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-05. Coordination of quaternary fossil finds. The state geologist director of oil and gas shall notify the director of the state historical society of all quaternary paleontological finds reported to the state geologist director of oil and gas which potentially or actually contain cultural resources. The treatment of sites containing both paleontological remains and cultural resources must be handled in a manner jointly agreed upon by the state geologist director of oil and gas and the director. The term cultural resources has the same definition as the term is defined in section 55-03-00.1.

SECTION 38. AMENDMENT. Section 54-17.3-06 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-06. Protection of paleontological specimens and sites. Any paleontological resource found or located upon any land owned by the state or its political subdivisions may not be destroyed, defaced, altered, removed, or otherwise disposed of in any manner without approval of the state geologist director of oil and

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gas. The ~~state-geologist director of oil and gas~~ shall determine the significance of the paleontological resource to the understanding of the paleontologic and geologic history of North Dakota. It is the responsibility of the state and its political subdivisions to cooperate with the ~~state-geologist director of oil and gas~~ in identifying and implementing any reasonable alternative to destruction or alteration of any paleontological resource.

SECTION 39. AMENDMENT. Section 54-17.3-07 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-07. Transfer of paleontological resources. The ~~state-geologist director of oil and gas~~ may exchange with or transfer to universities, colleges, governmental bodies, and scientific institutions duplicate paleontological resources it holds. The state historical society must receive preference for the receipt of duplicate paleontological resources.

SECTION 40. AMENDMENT. Section 54-17.4-01 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-01. Definitions. As used in this chapter, unless the context otherwise requires:

1. "Commission" means the North Dakota Industrial commission.
2. ~~"State-geologist" means the North Dakota state-geologist~~ Director" means the director of oil and gas.
3. "Survey" means the North Dakota geological survey.

SECTION 41. AMENDMENT. Subsection 14 of section 54-17.4-02 of the North Dakota Century Code is amended and reenacted as follows:

14. Consider such other scientific and economic questions in the field of geology as in the judgment of the ~~state-geologist director~~ is deemed determined to be of value to the people of the state.

SECTION 42. AMENDMENT. Section 54-17.4-06 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-06. State-geologist Director - Authority. The ~~state-geologist director~~ is the executive and administrative head of the survey and shall exercise the powers of the office and be responsible for the execution of its duties.

SECTION 43. AMENDMENT. Section 54-17.4-07 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-07. State-geologist Director - Grants, funds, and contracts. The ~~state-geologist director~~, with the approval of the commission, may accept and expend money from and enter into contracts with federal, state, local, or other public entities to carry out the purposes of this chapter or to provide geological services. If such funds exceed appropriations made by the legislative assembly, the ~~state-geologist director~~ shall seek emergency commission approval for their expenditure.

SECTION 44. AMENDMENT. Section 54-17.4-09 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-09. State-geologist Director - Specimens collected - Exhibited - Exchanged. The ~~state-geologist director~~ shall cause proper specimens, skillfully prepared, secured, and labeled, of rocks, minerals, ores, coals, fossils, and other earth materials discovered or examined in the course of the geological surveys to be preserved for public inspection free of cost. The ~~state-geologist director~~, when

12015

practicable, shall cause duplicate specimens in reasonable numbers and quantities to be collected and preserved for the purpose of exchange with or transfer to universities, colleges, governmental bodies, and scientific institutions.

SECTION 45. AMENDMENT. Section 54-17.4-10 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-10. State geologist Director - Purchase and sale of maps - Appropriation. The ~~state geologist is authorized to~~ director may purchase cartographic products from the federal government for the purpose of reselling the products to the public at a fee set by the ~~state geologist director~~. All moneys collected from the sale of the products must be deposited in the cartographic products fund. This fund must be maintained as a special fund and all moneys transferred into the fund are ~~hereby~~ appropriated and must be used and disbursed solely for the purpose of paying the ~~state geologist's~~ director's cost of purchasing and reselling the products.

SECTION 46. AMENDMENT. Section 54-17.4-11 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-11. State geologist Director - Colleges and universities - Cooperation. The board of higher education and the survey shall develop a cooperative agreement for the sharing of books, equipment, and other physical resources.

SECTION 47. AMENDMENT. Section 54-17.4-12 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-12. State geologist Director - Collection of global positioning system data - Fee. All moneys collected for the sale of global positioning system community-base station data must be deposited in the global positioning system community-base station fund. This fund must be maintained as a revolving fund and all moneys transferred into the fund are hereby appropriated and must be used and disbursed solely for the purpose of paying the ~~state geologist's~~ director's cost of collecting and distributing the data. This fund is not subject to section 54-44.1-11.

SECTION 48. AMENDMENT. Subsection 1 of section 61-28-03 of the North Dakota Century Code is amended and reenacted as follows:

1. The state water pollution control board consists of thirteen persons. The board must include the state health officer, state engineer, director of the game and fish department, ~~state geologist director of oil and gas~~, and nine other members appointed by the governor, three of whom must be representatives of production agriculture, two of whom must be representatives of manufacturing and processing, one of whom must be a representative of the solid fuels industry, one of whom must be a representative of the fluid and gas fuels industry, one of whom must be a representative of the environmental sciences, and one of whom must be a representative of county or municipal government.

SECTION 49. REPEAL. Section 54-17.4-05 of the North Dakota Century Code is repealed.

SECTION 50. EFFECTIVE DATE. Sections 14 through 49 of this Act become effective on January 1, 2004."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1015 - Summary of Senate Action

Page No. 12

38015.0206

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10/30/03
Date

13 of 15

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Industrial Commission				
Total all funds	\$44,449,595	\$44,380,928	(\$423,245)	\$13,957,663
Less estimated income	37,302,624	37,296,489	(619)	37,295,870
General fund	\$7,146,771	\$7,084,439	(\$422,626)	\$8,661,813
Bank of North Dakota				
Total all funds	\$38,494,966	\$38,318,603	(\$376,057)	\$37,942,548
Less estimated income	30,419,998	30,243,603	(376,057)	29,867,548
General fund	\$8,075,000	\$8,075,000	\$0	\$8,075,000
Housing Finance Agency				
Total all funds	\$33,660,732	\$33,618,207	(\$4,360)	\$33,613,847
Less estimated income	33,660,732	33,618,207	(4,360)	33,613,847
General fund	\$0	\$0	\$0	\$0
Mill and Elevator				
Total all funds	\$30,018,282	\$30,018,282	(\$12,900)	\$30,005,382
Less estimated income	30,018,282	30,018,282	(12,900)	30,005,382
General fund	\$0	\$0	\$0	\$0
Bill Total				
Total all funds	\$146,623,575	\$146,336,020	(\$287,555)	\$145,519,458
Less estimated income	131,401,804	131,176,581	(393,936)	130,782,645
General fund	\$15,221,771	\$15,159,439	(\$422,626)	\$14,736,813

House Bill No. 1015 - Industrial Commission - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$6,332,714	\$6,264,047	(\$392,213)	\$5,871,834
Operating expenses	1,947,591	1,947,591	(31,032)	1,916,559
Capital assets	68,300	68,300		68,300
Grants	18,270,000	18,270,000		18,270,000
Bond payments	19,830,990	19,830,990		19,830,990
Total all funds	\$44,449,595	\$44,380,928	(\$423,245)	\$43,957,683
Less estimated income	37,302,624	37,296,489	(619)	37,295,870
General fund	\$7,146,771	\$7,084,439	(\$422,626)	\$8,661,813
FTE	58.37	58.37	(5.00)	53.37

Dept. 405 - Industrial Commission - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS ²	REDUCES FUNDING FOR SALARIES AND WAGES AND REMOVES 6 FTE POSITIONS ³	ADDS FUNDING AND 1 FTE POSITION FOR PETROLEUM ENGINEER ⁴	TOTAL SENATE CHANGES
Salaries and wages	(\$6,089)		(\$535,500)	\$149,376	(\$392,213)
Operating expenses		(\$31,032)			(31,032)
Capital assets					
Grants					
Bond payments					
Total all funds	(\$6,089)	(\$31,032)	(\$535,500)	\$149,376	(\$423,245)
Less estimated income	(619)				(619)
General fund	(\$5,470)	(\$31,032)	(\$535,500)	\$149,376	(\$422,626)
FTE	0.00	0.00	(6.00)	1.00	(5.00)

¹ This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

² This amendment reduces funding for information technology by \$31,032 from the general fund, which represents a reduction in information technology funding from the general fund of approximately 4 percent.

³ This amendment reduces funding for salaries and wages by \$535,500 from the general fund and removes six FTE positions as a result of the merger of the Oil and Gas Division and the Geological Survey.

⁴ This amendment adds funding and one FTE for the petroleum engineer IV position which was removed from the Oil and Gas Division in the Governor's recommendation.

House Bill No. 1015 - Bank of North Dakota - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$16,722,966	\$16,546,803	(\$18,989)	\$16,527,814
Operating expenses	11,372,000	11,372,000	(357,068)	11,014,932
Capital assets	825,000	825,000		825,000
Contingencies	1,500,000	1,500,000		1,500,000

14 of 1

PAGE fund	5,700,000	5,700,000		5,700,000
Agriculture PAGE fund	1,425,000	1,425,000		1,425,000
Beginning farmer	950,000	950,000		950,000
Total all funds	\$38,494,988	\$38,318,603	(\$378,057)	\$37,942,546
Less estimated income	<u>30,419,988</u>	<u>30,243,603</u>	<u>(378,057)</u>	<u>29,667,546</u>
General fund	\$8,075,000	\$8,075,000	\$0	\$8,075,000
FTE	178.50	178.50	0.00	178.50

Dept. 471 - Bank of North Dakota - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE 1	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS 2	TOTAL SENATE CHANGES
Salaries and wages	(\$18,989)		(\$18,989)
Operating expenses		(\$357,068)	(357,068)
Capital assets			
Contingencies			
PAGE fund			
Agriculture PAGE fund			
Beginning farmer			
Total all funds	(\$18,989)	(\$357,068)	(\$376,057)
Less estimated income	<u>(18,989)</u>	<u>(357,068)</u>	<u>(376,057)</u>
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

2 This amendment reduces funding for information technology by \$357,068 from special funds, which represents a reduction in information technology funding from special funds of approximately 4 percent.

House Bill No. 1015 - Housing Finance Agency - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$3,976,792	\$3,934,267	(\$4,360)	\$3,929,907
Operating expenses	2,415,560	2,415,560		2,415,560
Grants	27,168,380	27,168,380		27,168,380
HFA contingencies	100,000	100,000		100,000
Total all funds	\$33,660,732	\$33,618,207	(\$4,360)	\$33,613,847
Less estimated income	<u>33,660,732</u>	<u>33,618,207</u>	<u>(4,360)</u>	<u>33,613,847</u>
General fund	\$0	\$0	\$0	\$0
FTE	43.00	43.00	0.00	43.00

Dept. 473 - Housing Finance Agency - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE 1	TOTAL SENATE CHANGES
Salaries and wages	(\$4,360)	(\$4,360)
Operating expenses		
Grants		
HFA contingencies		
Total all funds	(\$4,360)	(\$4,360)
Less estimated income	<u>(4,360)</u>	<u>(4,360)</u>
General fund	\$0	\$0
FTE	0.00	0.00

1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

House Bill No. 1015 - Mill and Elevator - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$16,703,858	\$16,703,858	(\$12,900)	\$16,690,958
Operating expenses	13,014,428	13,014,428		13,014,428
Contingencies	250,000	250,000		250,000
Agriculture promotion	50,000	50,000		50,000

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10/30/03

15 of 15

Total all funds	\$30,018,282	\$30,018,282	(\$12,900)	\$30,005,382
Less estimated income	<u>30,018,282</u>	<u>30,018,282</u>	<u>(12,900)</u>	<u>30,005,382</u>
General fund	\$0	\$0	\$0	\$0
FTE	125.00	125.00	0.00	125.00

Dept. 475 - Mill and Elevator - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE 1	TOTAL SENATE CHANGES
Salaries and wages	(\$12,900)	(\$12,900)
Operating expenses		
Contingencies		
Agriculture promotion		
Total all funds	(\$12,900)	(\$12,900)
Less estimated income	<u>(12,900)</u>	<u>(12,900)</u>
General fund	\$0	\$0
FTE	0.00	0.00

1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

This amendment also requires the Mill and Elevator Association to report to the 59th Legislative Assembly regarding the Mill and Elevator's net income to date and estimated net income for the remainder of the 2003-05 biennium.

Sections are added changing the statutory reference from State Geologist to director of oil and gas, effective January 1, 2004.

Deanna Ballantyne
Operator's Signature

10/30/03
Date

Date: 4/9/03
Roll Call Vote #: /

2003 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1015

Senate Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken DO Pass AS Amended

Motion Made By Schoenberg Seconded By Andrist

Senators	Yes	No	Senators	Yes	No
Senator Holmberg, Chairman	✓				
Senator Bowman, Vice Chair	✓				
Senator Grindberg, Vice Chair	✓				
Senator Andrist	✓				
Senator Christmann	✓				
Senator Kilzer	✓				
Senator Krauter		✓			
Senator Kringstad	✓				
Senator Lindaas		✓			
Senator Mathern		✓			
Senator Robinson		✓			
Senator Schobinge	✓				
Senator Tallackson		✓			
Senator Thane	✓				

Total (Yes) 9 No 5

Absent _____

Floor Assignment Schoenberg

If the vote is on an amendment, briefly indicate intent:

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10/30/03
Date

REPORT OF STANDING COMMITTEE (410)
April 10, 2003 10:01 a.m.

Module No: SR-65-7303
Carrier: Schobinger
Insert LC: 38015.0206 Title: .0300

REPORT OF STANDING COMMITTEE

HB 1015, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (9 YEAS, 5 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1015 was placed on the Sixth order on the calendar.

Page 1, line 3, after the third semicolon insert "to amend and reenact sections 15-05-07, 15-05-16, and 23-20.2-03, subsections 2 and 4 of section 23-25-02, sections 23-29-07.6, 23-29-07.7, and 23-33-10, subdivision k of subsection 1 of section 38-08-04, sections 38-08-04.2, 38-12-02, 38-12-03, 38-12.1-01, 38-12.1-02, and 38-12.1-04, subsection 1 of section 38-12.1-05, subsections 12 and 24 of section 38-14.1-03, subsection 2 of section 38-14.1-21, sections 38-15-03, 38-19-03, 38-19-04, 54-17.3-02, 54-17.3-03, 54-17.3-04, 54-17.3-05, 54-17.3-06, 54-17.3-07, and 54-17.4-01, subsection 14 of section 54-17.4-02, sections 54-17.4-06, 54-17.4-07, 54-17.4-09, 54-17.4-10, 54-17.4-11, and 54-17.4-12, and subsection 1 of section 61-28-03 of the North Dakota Century Code, relating to the state geologist; to repeal section 54-17.4-05 of the North Dakota Century Code, relating to the state geologist; to provide an effective date;"

Page 1, line 14, replace "6,264,047" with "5,871,834"

Page 1, line 15, replace "1,947,591" with "1,916,559"

Page 1, line 19, replace "44,380,928" with "43,957,683"

Page 1, line 20, replace "37,296,489" with "37,295,870"

Page 1, line 21, replace "7,084,439" with "6,661,813"

Page 2, line 1, replace "16,546,603" with "16,527,614"

Page 2, line 2, replace "11,372,000" with "11,014,932"

Page 2, line 5, replace "30,243,603" with "29,867,546"

Page 2, line 14, replace "16,703,856" with "16,690,956"

Page 2, line 18, replace "30,018,282" with "30,005,382"

Page 2, line 21, replace "3,934,267" with "3,929,907"

Page 2, line 25, replace "33,618,207" with "33,613,847"

Page 2, line 26, replace "15,159,439" with "14,736,813"

Page 2, line 27, replace "131,176,581" with "130,782,645"

Page 2, line 28, replace "146,336,020" with "145,519,458"

Page 4, line 5, after "TRANSFER" insert "- INDUSTRIAL COMMISSION REPORT"

Page 4, line 11, after the period insert "The industrial commission shall report to the fifty-ninth legislative assembly regarding the mill and elevator association's net income to date and estimated net income for the remainder of the 2003-05 biennium."

Page 5, after line 31, insert:

(2) DESK, (3) COMM

Page No. 1

SR-65-7303

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"SECTION 14. AMENDMENT. Section 15-05-07 of the North Dakota Century Code is amended and reenacted as follows:

15-05-07. Board to ascertain and keep schedule of all lands on which coal exists. The board of university and school lands, with the assistance of the state geologist director of oil and gas, shall ascertain and determine the quantity and description of all lands under its control on which coal exists and shall compile and keep a statement and schedule of all such lands.

SECTION 15. AMENDMENT. Section 15-05-16 of the North Dakota Century Code is amended and reenacted as follows:

15-05-16. Reports - ~~State geologist~~ Director of oil and gas - State department of health. The ~~state geologist director of oil and gas~~ or the state department of health, on the request of the board of university and school lands, shall visit any land leased under section 15-05-09 and shall make a report of the visit to the board. The ~~state geologist director of oil and gas~~ or the state department of health may not receive a fee for making the examination and report but must be paid necessary expenses incurred in connection therewith.

SECTION 16. AMENDMENT. Section 23-20.2-03 of the North Dakota Century Code is amended and reenacted as follows:

23-20.2-03. Jurisdiction of the industrial commission. The commission has jurisdiction and authority and is charged with the responsibility to enforce the provisions of this chapter. This chapter does not apply to any activity regulated under chapters 23-29, 38-08, 38-12, 61-28, and 61-28.1. The commission acting through the ~~office of the state geologist director of oil and gas~~ has the authority:

1. To require:
 - a. Identification of ownership of all facilities and equipment used for the underground storage and retrieval of material and waste disposal.
 - b. The making and filing of all logs and reports on facility location, drilling, boring, excavating, and construction and the filing, free of charge, of samples, core chips, and complete cores, when requested, in the office of the ~~state geologist director of oil and gas~~.
 - c. The drilling, boring, excavating, and construction of facilities in a manner to prevent contamination and pollution of surface and ground water sources and the environment.
 - d. The furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the provisions of this chapter, and the rules of the commission relating to the underground storage and retrieval of material and waste disposal.
 - e. Metering or other measuring of all material injected, emplaced, stored, disposed into, or retrieved from any facility regulated by this chapter.
 - f. That every person who operates a facility for the underground storage and retrieval of material or for waste disposal in this state shall keep and maintain complete and accurate records of the quantities and nature of material stored, retrieved, or disposed of, which records must be available to the commission or its agents at all

times, and that every such person file with the commission such reports as it may prescribe.

- g. That upon termination of the operation of any facility or activity regulated by this chapter, the operator of such facility shall restore the surface as nearly as possible to its original condition and productivity.
2. To regulate:
 - a. The drilling, boring, excavating, and construction of all underground storage, retrieval, and waste disposal facilities.
 - b. Operations to assure the optimum performance of all facilities regulated by this chapter.
3. To limit and prescribe the nature, quantity, and source of materials to be stored in, whether as waste or otherwise, or retrieved from any facility regulated by this chapter.
4. To promulgate and to enforce rules, regulations, and orders to effectuate the purposes of this chapter.

The jurisdiction granted the commission by this chapter is not exclusive and does not affect the jurisdiction of other governmental entities.

SECTION 17. AMENDMENT. Subsections 2 and 4 of section 23-25-02 of the North Dakota Century Code are amended and reenacted as follows:

2. There is hereby established an air pollution control advisory council, hereinafter referred to as the advisory council, of nine members to include the state health officer, the ~~state geologist~~ director of oil and gas, the director of the department of transportation, and six other members to be appointed by the governor, one of whom must be a representative of county or municipal government, one a representative of the solid fuels industry, one a representative of the fluid and gas fuels industry, one a representative of the environmental sciences, and two appointed at large.
4. The advisory council shall select its own chairman from among its members. The state health officer, ~~state geologist~~ director of oil and gas, and director of the department of transportation each may designate a principal deputy or assistant to act in the officer's place and stead. The chief sanitary engineer of the state department of health, or that officer's designated assistant, must be the principal administrative officer of the council.

SECTION 18. AMENDMENT. Section 23-29-07.6 of the North Dakota Century Code is amended and reenacted as follows:

23-29-07.6. Preconstruction site review. The department, in cooperation with the state engineer and the ~~state geologist~~ director of oil and gas, shall develop criteria for siting a solid waste disposal facility based upon potential impact on environmental resources. Any application for a landfill permit received after the department develops siting criteria as required by this section must be reviewed for site suitability by the department after consultation with the state engineer and ~~state geologist~~ director of oil and gas before any site development. Site development does not include the assessment or monitoring associated with the review as required by the

REPORT OF STANDING COMMITTEE (410)
April 10, 2003 10:01 a.m.

Module No: SR-65-7303
Carrier: Schobinger
Insert LC: 38015.0206 Title: .0300

department in consultation with the state engineer and ~~state geologist~~ director of oil and gas.

SECTION 19. AMENDMENT. Section 23-29-07.7 of the North Dakota Century Code is amended and reenacted as follows:

23-29-07.7. Review of existing municipal waste landfills. By July 1, 1995, the state engineer and ~~state geologist~~ director of oil and gas shall complete site suitability reviews of all existing municipal waste landfills within the state. The reports of such reviews must be provided to the department for use in site improvement, site remediation, or landfill closure.

SECTION 20. AMENDMENT. Section 23-33-10 of the North Dakota Century Code is amended and reenacted as follows:

23-33-10. Wellhead protection program. The department in cooperation with the state engineer and ~~state geologist~~ director of oil and gas shall assist in implementing a public water supply wellhead protection program for protection of ground water resources utilizing existing state and local statutory authority.

SECTION 21. AMENDMENT. Subdivision k of subsection 1 of section 38-08-04 of the North Dakota Century Code is amended and reenacted as follows:

- k. The filing free of charge of samples and core chips and of complete cores when requested in the office of the ~~state geologist~~ director of oil and gas within six months after the completion or abandonment of the well.

SECTION 22. AMENDMENT. Section 38-08-04.2 of the North Dakota Century Code is amended and reenacted as follows:

38-08-04.2. Director of oil and gas. The industrial commission is authorized to appoint a director of oil and gas and to set the director's salary within the limits of legislative appropriations. ~~The industrial commission may designate the state geologist as the director of oil and gas.~~

SECTION 23. AMENDMENT. Section 38-12-02 of the North Dakota Century Code is amended and reenacted as follows:

38-12-02. Jurisdiction of commission. The commission has jurisdiction and authority over all persons and property, public and private, necessary to enforce effectively the provisions of this chapter. Subject to the provisions of section 38-08-21, the ~~state geologist~~ director of oil and gas shall act as a supervisor charged with the duty of enforcing the regulations and orders of the commission applicable to the subsurface mineral resources of this state and the provisions of this chapter. The commission has authority to make such investigations as it deems proper to determine whether facts exist which justify action by the commission. The commission acting through the office of the ~~state geologist~~ director of oil and gas has the authority:

1. To require:
 - a. The furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the provisions of this chapter, and the rules and regulations of the commission prescribed to govern the exploration, development, and production of subsurface minerals on state and private lands within the state of North Dakota.

REPORT OF STANDING COMMITTEE (410)
April 10, 2003 10:01 a.m.

Module No: SR-65-7303
Carrier: Schobinger
Insert LC: 38015.0206 Title: .0300

b. The delivery, free of charge, to the ~~state geologist~~ director of oil and gas of the basic exploration data collected by the operator, within thirty days of field collection of such data. This data must include:

- (1) Sample cuts, core chips, or whole cores.
- (2) Sample logs, radioactivity logs, resistivity logs, or other types of electrical or mechanical logs.
- (3) Elevation and location information on the data collection points.
- (4) Other pertinent information as may be requested by the ~~state geologist~~ director of oil and gas.

The data so submitted is confidential for a period of one year when so requested by the operator and such period may be further extended upon approval by the commission.

- c. The filing of monthly production reports in the manner prescribed by the commission, and any other reports deemed necessary by the commission.
 - d. The conducting of all exploration, development, and production operations in such a manner as to prevent pollution of freshwater supplies, to provide for the protection of the environment and public safety, and to ensure the optimum recovery of the mineral resource.
 - e. The reclamation of all land disturbed by operations regulated by this chapter to a condition consistent with prior land use and productive capacity.
2. To regulate the drilling, and abandonment of exploration test holes and producing wells and all other exploration, development, production, and reclamation operations.
 3. To promulgate and to enforce rules, regulations, and orders to effectuate the purposes and the intent of this chapter.
 4. To inspect all exploration, development, and production sites. For the purposes of this subsection, the ~~state geologist~~ director of oil and gas or his representative shall have access to all exploration, development or production installations for purposes of inspection and shall have the authority to require the operator's aid if same is necessary and is requested.

SECTION 24. AMENDMENT. Section 38-12-03 of the North Dakota Century Code is amended and reenacted as follows:

38-12-03. Permit required. It is unlawful to commence operations for the exploration, development, or production of subsurface minerals without first obtaining a permit from the ~~state geologist~~ director of oil and gas, under such rules and regulations as may be prescribed by the commission and paying to the commission a fee for each such permit in an amount to be prescribed by the commission.

SECTION 25. AMENDMENT. Section 38-12.1-01 of the North Dakota Century Code is amended and reenacted as follows:

REPORT OF STANDING COMMITTEE (410)
April 10, 2003 10:01 a.m.

Module No: SR-65-7303
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38-12.1-01. Legislative findings. The legislative assembly of the state of North Dakota finds that:

1. The discovery and evaluation of coal deposits is advantageous in an industrial society.
2. Coal occurs hidden under the ground and must be searched for by diverse techniques, and that the search, exploration, or prospecting for coal is a necessary and expensive prerequisite to coal extraction and for land use planning in coal-bearing areas.
3. It is to the benefit of society to allow coal exploration and to require the information generated from exploration to be available to the ~~office of the state geologist~~ director of oil and gas.

SECTION 26. AMENDMENT. Section 38-12.1-02 of the North Dakota Century Code is amended and reenacted as follows:

38-12.1-02. Declaration of policy. It is hereby declared to be in the public interest to have persons engaged in coal exploration or evaluation report their findings to the ~~office of the state geologist~~ director of oil and gas so that data on the location, quantity, and quality of coal, and the characteristics of associated material, will be available to assist the state in determining what the attitude of the state should be regarding future development of coal resources.

SECTION 27. AMENDMENT. Section 38-12.1-04 of the North Dakota Century Code is amended and reenacted as follows:

38-12.1-04. Jurisdiction of commission. The commission has jurisdiction and authority over all persons and property, both public and private, necessary to effectively enforce the provisions of this chapter. The ~~state geologist~~ director of oil and gas shall act as a supervisor charged with the duty of enforcing the regulations and orders of the commission applicable to the provisions of this chapter. The commission has authority to make such investigations as it ~~deems~~ determines proper to determine whether facts exist which justify action by the commission. The commission acting through the ~~office of the state geologist~~ director of oil and gas has the authority:

1. To require:
 - a. The furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the provisions of this chapter, and the rules and regulations of the commission prescribed to govern the exploration for coal on state and private lands and roads used in coal exploration within the state of North Dakota.
 - b. The delivery, free of charge, to the ~~state geologist~~ director of oil and gas of the basic data collected during the course of the exploration within a reasonable time as may be prescribed by the ~~state geologist~~ director of oil and gas. The data so submitted is confidential and available only to the office of the ~~state geologist~~ director of oil and gas for official purposes for a period of two years, and such period of confidentiality must, upon application, be extended for one-year periods by the ~~state geologist~~ director of oil and gas, for a total period not to exceed ten years unless it is demonstrated that such period should be further extended in order to prevent possible resulting harm to the person, his successors, and assigns, who delivered such basic data to the ~~state geologist~~ director of oil and gas. The basic data

(2) DESK, (3) COMM

Page No. 6

SR-65-7303

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REPORT OF STANDING COMMITTEE (410)
April 10, 2003 10:01 a.m.

Module No: SR-65-7303
Carrier: Schobinger
Insert LC: 38015.0206 Title: .0300

must include, if specifically requested by the ~~state geologist~~ director of oil and gas and if the information has been developed by or for a person conducting the exploration:

- (1) Sample cuts.
 - (2) Drillers' logs, sample logs, radioactivity logs, resistivity logs, or other types of electrical or mechanical logs.
 - (3) Elevation and location information on the data collection points.
 - (4) Other pertinent information as may be required by the ~~state geologist~~ director of oil and gas.
2. To require the plugging, covering, or reburial in an appropriate manner so as to protect environmental quality, general health and safety, and economic values, of all holes, pits, or trenches excavated during the course of coal exploration.
 3. To promulgate and enforce rules, regulations, and orders to effectuate the provisions, purpose, and intent of this chapter.
 4. To inspect all drilling or exploration sites. For the purposes of this subsection, the ~~state geologist~~ director of oil and gas or his ~~representatives~~ shall have access to all drilling or exploration installations regulated by this chapter for the purpose of inspection and sampling and ~~shall have the authority to may~~ require the operators' aid if ~~he the director~~ finds it necessary and requests it.
 5. Notwithstanding any of the other provisions of this section, the commission acting through the office of the ~~state geologist~~ director of oil and gas shall require that any lands substantially disturbed in coal exploration, including excavations, roads, drill holes, and the removal of necessary facilities and equipment be reclaimed in accordance with the applicable performance standards of section 38-14.1-24. Reclamation must be accomplished so as to protect environmental quality, general health and safety, and economic values.

SECTION 28. AMENDMENT. Subsection 1 of section 38-12.1-05 of the North Dakota Century Code is amended and reenacted as follows:

1. It is unlawful to commence operations for drilling for the exploration for coal without first obtaining a permit from the ~~state geologist~~ director of oil and gas, under such rules and regulations as may be prescribed by the commission, and paying to the commission a fee of one hundred dollars for each such permit area. The permit application must include a description of the exploration area, and the period of proposed exploration. The permit must be granted within thirty days after proper application is submitted therefor.

SECTION 29. AMENDMENT. Subsections 12 and 24 of section 38-14.1-03 of the North Dakota Century Code are amended and reenacted as follows:

12. To ~~promulgate regulations~~ adopt rules consistent with state law, in consultation with the ~~state geologist~~ director of oil and gas, state department of health, and the state engineer for the protection of the quality and quantity of waters affected by surface coal mining operations.

(2) DESK, (3) COMM

Page No. 7

SR-65-7303

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10/30/03
Date

24. To provide by ~~regulation rule~~ for the conservation and utilization of other minerals found within the permit area during surface coal mining and reclamation operations in consultation with the ~~state geologist director of oil and gas~~ and to approve plans for the use of such other minerals outside the permit area so long as the permittee affirmatively demonstrates that such removal is lawful and will provide equal or greater protection to the environment and to public health and safety and will achieve reclamation consistent with the purposes of this chapter.

SECTION 30. AMENDMENT. Subsection 2 of section 38-14.1-21 of the North Dakota Century Code is amended and reenacted as follows:

2. The commission's approval or modification of the permit or permit revision application must include consideration of the advice and technical assistance of the state historical society, the state department of health, the state soil conservation committee, the state game and fish department, the state forester, the ~~state geologist director of oil and gas~~, and the state engineer, and may also include those state agencies versed in soils, agronomy, ecology, geology, and hydrology, and other agencies and individuals experienced in reclaiming surface mined lands.

SECTION 31. AMENDMENT. Section 38-15-03 of the North Dakota Century Code is amended and reenacted as follows:

38-15-03. Jurisdiction of commission. The commission has continuing jurisdiction and authority over all persons and property, public and private, necessary to enforce effectively the provisions of this chapter. The ~~state geologist director of oil and gas~~ shall act as a supervisor charged with enforcing the regulations and orders of the commission applicable to the provisions of this chapter. The commission has authority to make investigations it deems proper to determine whether facts exist which justify action by the commission. The commission has the authority:

1. To require the furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the provisions of this chapter, and the rules and regulations of the commission prescribed to govern, satisfy, and resolve conflicting interests among producers within North Dakota.
2. To resolve conflicting interests of producers of natural resources which cannot be voluntarily concluded by them in the public interest to eliminate waste, to the end that the producer, landowner, and mineral owner realize the greatest possible economic advantage.
3. To promulgate and to enforce rules, regulations, and orders to effectuate the purposes and intent of this chapter.

SECTION 32. AMENDMENT. Section 38-19-03 of the North Dakota Century Code is amended and reenacted as follows:

38-19-03. Jurisdiction of the commission. The commission has jurisdiction and authority and is charged with the responsibility to enforce ~~the provisions of~~ this chapter. This chapter does not apply to any activity regulated under chapters 38-08, 38-12, 38-12.1, 38-14.1, and 61-28. The jurisdiction granted to the commission by this chapter is not exclusive and does not affect the jurisdiction of other governmental entities. The commission acting through the office of the ~~state geologist director of oil and gas~~ has the authority:

REPORT OF STANDING COMMITTEE (410)
April 10, 2003 10:01 a.m.

Module No: SR-65-7303
Carrier: Schobinger
Insert LC: 38015.0206 Title: .0300

1. To require:

- a. Identification of ownership of all facilities, installations, and equipment used in the extraction of geothermal energy.
- b. The making and filing of all logs and reports on facility location, drilling, boring, excavating, and construction and the filing, free of charge, of samples, core chips, and complete cores, when requested, in the office of the ~~state geologist~~ director of oil and gas.
- c. The drilling, boring, casing, excavating, plugging, and construction of facilities in a manner to prevent contamination and pollution of surface and ground water sources and unnecessary environmental degradation.
- d. The furnishing of a reasonable bond with good and sufficient surety, conditioned upon the full compliance with the rules of the commission relating to the extraction of geothermal energy.
- e. Metering or measuring all products extracted from or by means of a facility regulated by this chapter.
- f. That every person who operates a geothermal energy extraction facility in this state shall keep and maintain complete and accurate records of the quantities and nature of products extracted from or by means of any facility, and the ultimate disposition of such products, which records must be available to the commission or its agents at all times, and that every such person file with the commission such reports as it may prescribe.
- g. That upon termination of the operation of any facility or activity regulated by this chapter, the operator of the facility shall restore the surface as nearly as possible to its original condition and productivity.

2. To regulate:

- a. The drilling, boring, excavating, and construction of all geothermal energy extraction facilities.
 - b. Operations to assure the optimum performance of all facilities regulated under this chapter.
3. To limit and prescribe the nature, quantity, and source of geothermal energy to be extracted from any facility regulated by this chapter.
4. To adopt rules and issue orders to effectuate the purposes of this chapter.

SECTION 33. AMENDMENT. Section 38-19-04 of the North Dakota Century Code is amended and reenacted as follows:

38-19-04. Permit or report required. It is unlawful to commence any operations for the drilling, boring, excavating, or construction of a geothermal energy extraction facility, which is used for other than private residential heating and cooling purposes, without first securing a permit from the ~~state geologist~~ director of oil and gas, under such rules as may be adopted by the commission and after paying to the commission a fee for each such facility in an amount to be prescribed by the

REPORT OF STANDING COMMITTEE (410)
April 10, 2003 10:01 a.m.

Module No: SR-65-7303
Carrier: Schobinger
Insert LC: 38015.0206 Title: .0300

commission by rule. The fee set must be related to the cost or regulation and inspection under this chapter.

A report is required upon completion of any geothermal energy extraction facility used solely for private residential heating or cooling purposes. The report must be prepared by the geothermal energy extraction facility installer on a form provided by the ~~state geologist director of oil and gas~~ and must be furnished to the ~~state geologist director of oil and gas~~ within thirty days after the completion of the facility. The report must contain relevant information the ~~state geologist director of oil and gas~~ requires relating to the environmental safety of the facility, including the facility owner and location, a log of formations penetrated, if any, system specifications and design, and fluids used in the facility.

All construction of geothermal energy extraction facilities must comply with rules adopted under this chapter.

SECTION 34. AMENDMENT. Section 54-17.3-02 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-02. Jurisdiction of the commission. The commission, acting through the ~~office of the state geologist director of oil and gas~~, has jurisdiction and authority to enforce the ~~provisions of~~ sections 54-17.3-01 through 54-17.3-08. The commission has authority to make such investigations as it deems proper to determine whether facts exist which justify action by the commission. The commission has authority to adopt rules and issue orders to effectuate the ~~provisions of~~ sections 54-17.3-01 through 54-17.3-08.

SECTION 35. AMENDMENT. Section 54-17.3-03 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-03. Permit required. A permit must be obtained by any person, organization, institution, or company engaged on one's own behalf or on behalf of another to:

1. Identify or evaluate paleontological resources to satisfy state or federal requirements; or
2. Investigate, excavate, collect, or otherwise record paleontological resources on land owned by the state or its political subdivisions.

A permit may be issued upon filing of an application that contains information prescribed by the ~~state geologist director of oil and gas~~ and upon the applicant's payment to the ~~state geologist director of oil and gas~~ of the fee set by the ~~state geologist director of oil and gas~~. The ~~state geologist director of oil and gas~~ may waive the fee requirement if the applicant is an instrumentality of the state. A permit may be issued only for the activities and at the locations described in the permit application.

SECTION 36. AMENDMENT. Section 54-17.3-04 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-04. Permit - Duration - Revocation. A permit issued under sections 54-17.3-01 through 54-17.3-08 expires on December thirty-first of the year in which it is issued. A permit may be extended upon written request to the ~~state geologist director of oil and gas~~ before expiration of the permit and upon payment to the ~~state geologist director of oil and gas~~ of the fee set by the ~~state geologist director of oil and gas~~. A permit may be revoked at any time if it appears the permittee secured the permit through false information or that any activities performed by the permittee are being

REPORT OF STANDING COMMITTEE (410)
April 10, 2003 10:01 a.m.

Module No: SR-65-7303
Carrier: Schobinger
Insert LC: 38015.0206 Title: .0300

conducted negligently or improperly, or without regard for the careful preservation and conservation of the paleontological resource.

SECTION 37. AMENDMENT. Section 54-17.3-05 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-05. Coordination of quaternary fossil finds. The ~~state geologist~~ director of oil and gas shall notify the director of the state historical society of all quaternary paleontological finds reported to the ~~state geologist~~ director of oil and gas which potentially or actually contain cultural resources. The treatment of sites containing both paleontological remains and cultural resources must be handled in a manner jointly agreed upon by the ~~state geologist~~ director of oil and gas and the director. The term cultural resources has the same definition as the term is defined in section 55-03-00.1.

SECTION 38. AMENDMENT. Section 54-17.3-06 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-06. Protection of paleontological specimens and sites. Any paleontological resource found or located upon any land owned by the state or its political subdivisions may not be destroyed, defaced, altered, removed, or otherwise disposed of in any manner without approval of the ~~state geologist~~ director of oil and gas. The ~~state geologist~~ director of oil and gas shall determine the significance of the paleontological resource to the understanding of the paleontologic and geologic history of North Dakota. It is the responsibility of the state and its political subdivisions to cooperate with the ~~state geologist~~ director of oil and gas in identifying and implementing any reasonable alternative to destruction or alteration of any paleontological resource.

SECTION 39. AMENDMENT. Section 54-17.3-07 of the North Dakota Century Code is amended and reenacted as follows:

54-17.3-07. Transfer of paleontological resources. The ~~state geologist~~ director of oil and gas may exchange with or transfer to universities, colleges, governmental bodies, and scientific institutions duplicate paleontological resources it holds. The state historical society must receive preference for the receipt of duplicate paleontological resources.

SECTION 40. AMENDMENT. Section 54-17.4-01 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-01. Definitions. As used in this chapter, unless the context otherwise requires:

1. "Commission" means the North Dakota Industrial commission.
2. "~~State geologist~~ means the North Dakota ~~state geologist~~ Director" means the director of oil and gas.
3. "Survey" means the North Dakota geological survey.

SECTION 41. AMENDMENT. Subsection 14 of section 54-17.4-02 of the North Dakota Century Code is amended and reenacted as follows:

14. Consider such other scientific and economic questions in the field of geology as in the judgment of the ~~state geologist~~ director is deemed determined to be of value to the people of the state.

REPORT OF STANDING COMMITTEE (410)
April 10, 2003 10:01 a.m.

Module No: SR-65-7303
Carrier: Schobinger
Insert LC: 38015.0206 Title: .0300

SECTION 42. AMENDMENT. Section 54-17.4-06 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-06. State-geologist Director - Authority. The ~~state-geologist director~~ is the executive and administrative head of the survey and shall exercise the powers of the office and be responsible for the execution of its duties.

SECTION 43. AMENDMENT. Section 54-17.4-07 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-07. State-geologist Director - Grants, funds, and contracts. The ~~state-geologist director~~, with the approval of the commission, may accept and expend money from and enter into contracts with federal, state, local, or other public entities to carry out the purposes of this chapter or to provide geological services. If such funds exceed appropriations made by the legislative assembly, the ~~state-geologist director~~ shall seek emergency commission approval for their expenditure.

SECTION 44. AMENDMENT. Section 54-17.4-09 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-09. State-geologist Director - Specimens collected - Exhibited - Exchanged. The ~~state-geologist director~~ shall cause proper specimens, skillfully prepared, secured, and labeled, of rocks, minerals, ores, coals, fossils, and other earth materials discovered or examined in the course of the geological surveys to be preserved for public inspection free of cost. The ~~state-geologist director~~, when practicable, shall cause duplicate specimens in reasonable numbers and quantities to be collected and preserved for the purpose of exchange with or transfer to universities, colleges, governmental bodies, and scientific institutions.

SECTION 45. AMENDMENT. Section 54-17.4-10 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-10. State-geologist Director - Purchase and sale of maps - Appropriation. The ~~state-geologist is authorized to~~ ~~director may~~ purchase cartographic products from the federal government for the purpose of reselling the products to the public at a fee set by the ~~state-geologist director~~. All moneys collected from the sale of the products must be deposited in the cartographic products fund. This fund must be maintained as a special fund and all moneys transferred into the fund are hereby appropriated and must be used and disbursed solely for the purpose of paying the ~~state-geologist director's~~ cost of purchasing and reselling the products.

SECTION 46. AMENDMENT. Section 54-17.4-11 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-11. State-geologist Director - Colleges and universities - Cooperation. The board of higher education and the survey shall develop a cooperative agreement for the sharing of books, equipment, and other physical resources.

SECTION 47. AMENDMENT. Section 54-17.4-12 of the North Dakota Century Code is amended and reenacted as follows:

54-17.4-12. State-geologist Director - Collection of global positioning system data - Fee. All moneys collected for the sale of global positioning system community-base station data must be deposited in the global positioning system community-base station fund. This fund must be maintained as a revolving fund and all

Deanna Hall
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10/30/03
Date

REPORT OF STANDING COMMITTEE (410)
April 10, 2003 10:01 a.m.

Module No: SR-65-7303
Carrier: Schobinger
Insert LC: 38015.0206 Title: .0300

moneys transferred into the fund are hereby appropriated and must be used and disbursed solely for the purpose of paying the ~~state geologist's~~ director's cost of collecting and distributing the data. This fund is not subject to section 54-44.1-11.

SECTION 48. AMENDMENT. Subsection 1 of section 61-28-03 of the North Dakota Century Code is amended and reenacted as follows:

1. The state water pollution control board consists of thirteen persons. The board must include the state health officer, state engineer, director of the game and fish department, ~~state geologist~~ director of oil and gas, and nine other members appointed by the governor, three of whom must be representatives of production agriculture, two of whom must be representatives of manufacturing and processing, one of whom must be a representative of the solid fuels industry, one of whom must be a representative of the fluid and gas fuels industry, one of whom must be a representative of the environmental sciences, and one of whom must be a representative of county or municipal government.

SECTION 49. REPEAL. Section 54-17.4-05 of the North Dakota Century Code is repealed.

SECTION 50. EFFECTIVE DATE. Sections 14 through 49 of this Act become effective on January 1, 2004."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1015 - Summary of Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Industrial Commission				
Total all funds	\$44,448,595	\$44,380,928	(\$423,245)	\$43,957,683
Less estimated income	37,302,824	37,298,489	(619)	37,295,870
General fund	\$7,145,771	\$7,084,439	(\$422,626)	\$6,661,813
Bank of North Dakota				
Total all funds	\$38,494,966	\$38,318,603	(\$376,057)	\$37,942,546
Less estimated income	30,419,966	30,243,603	(376,057)	29,867,546
General fund	\$8,075,000	\$8,075,000	\$0	\$8,075,000
Housing Finance Agency				
Total all funds	\$33,660,732	\$33,618,207	(\$4,360)	\$33,613,847
Less estimated income	33,660,732	33,618,207	(4,360)	33,613,847
General fund	\$0	\$0	\$0	\$0
Mill and Elevator				
Total all funds	\$30,018,282	\$30,018,282	(\$12,900)	\$30,005,382
Less estimated income	30,018,282	30,018,282	(12,900)	30,005,382
General fund	\$0	\$0	\$0	\$0
Bill Total				
Total all funds	\$146,623,575	\$146,336,020	(\$616,562)	\$145,519,458
Less estimated income	131,401,804	131,176,581	(393,838)	130,782,645
General fund	\$15,221,771	\$15,159,439	(\$422,626)	\$14,736,813

House Bill No. 1015 - Industrial Commission - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$6,332,714	\$6,264,047	(\$392,213)	\$5,871,834
Operating expenses	1,947,591	1,947,591	(31,032)	1,916,559

(2) DESK, (3) COMM

Page No. 13

SR-65-7303

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Date

REPORT OF STANDING COMMITTEE (410)
April 10, 2003 10:01 a.m.

Module No: SR-65-7303
Carrier: Schobinger
Insert LC: 38015.0206 Title: .0300

Capital assets	68,300	68,300		68,300
Grants	16,270,000	16,270,000		16,270,000
Bond payments	19,830,990	19,830,990		19,830,990
Total all funds	\$44,449,595	\$44,380,926	(\$423,245)	\$43,957,683
Less estimated income	37,302,824	37,299,489	(619)	37,295,670
General fund	\$7,148,771	\$7,084,439	(\$422,626)	\$6,661,813
FTE	58.37	58.37	(5.00)	53.37

Dept. 405 - Industrial Commission - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE 1	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS 2	REDUCES FUNDING FOR SALARIES AND WAGES AND REMOVES 6 FTE POSITIONS 3	ADDS FUNDING AND 1 FTE POSITION FOR PETROLEUM ENGINEER 4	TOTAL SENATE CHANGES
Salaries and wages	(\$6,089)		(\$535,500)	\$149,376	(\$392,213)
Operating expenses		(\$31,032)			(31,032)
Capital assets					
Grants					
Bond payments					
Total all funds	(\$6,089)	(\$31,032)	(\$535,500)	\$149,376	(\$423,245)
Less estimated income	(619)				(619)
General fund	(\$5,470)	(\$31,032)	(\$535,500)	\$149,376	(\$422,626)
FTE	0.00	0.00	(6.00)	1.00	(5.00)

1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

2 This amendment reduces funding for information technology by \$31,032 from the general fund, which represents a reduction in information technology funding from the general fund of approximately 4 percent.

3 This amendment reduces funding for salaries and wages by \$535,500 from the general fund and removes six FTE positions as a result of the merger of the Oil and Gas Division and the Geological Survey.

4 This amendment adds funding and one FTE for the petroleum engineer IV position which was removed from the Oil and Gas Division in the Governor's recommendation.

House Bill No. 1015 - Bank of North Dakota - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$16,722,966	\$16,548,603	(\$18,989)	\$16,527,614
Operating expenses	11,372,000	11,372,000	(357,088)	11,014,932
Capital assets	825,000	825,000		825,000
Contingencies	1,500,000	1,500,000		1,500,000
PACE fund	5,700,000	5,700,000		5,700,000
Agriculture PACE fund	1,425,000	1,425,000		1,425,000
Beginning farmer	950,000	950,000		950,000
Total all funds	\$38,494,966	\$38,318,603	(\$376,057)	\$37,942,546
Less estimated income	30,419,966	30,243,603	(376,057)	29,867,546
General fund	\$8,075,000	\$8,075,000	\$0	\$8,075,000
FTE	178.50	178.50	0.00	178.50

Dept. 471 - Bank of North Dakota - Detail of Senate Changes

REDUCES RECOMMENDED FUNDING FOR	REDUCES FUNDING FOR INFORMATION	TOTAL
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(2) DESK, (3) COMM

Page No. 14

SR-65-7303

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10/30/03

REPORT OF STANDING COMMITTEE (410)
April 10, 2003 10:01 a.m.

Module No: SR-65-7303
Carrier: Schobinger
Insert LC: 38015.0206 Title: .0300

	HEALTH INSURANCE 1	TECHNOLOGY COSTS 2	SENATE CHANGES
Salaries and wages	(\$16,969)		(\$16,969)
Operating expenses		(\$357,068)	(357,068)
Capital assets			
Contingencies			
PACE fund			
Agriculture PACE fund			
Beginning farmer			
Total all funds	(\$16,969)	(\$357,068)	(\$376,057)
Less estimated income	(16,969)	(357,068)	(376,057)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

2 This amendment reduces funding for information technology by \$357,068 from special funds, which represents a reduction in information technology funding from special funds of approximately 4 percent.

House Bill No. 1015 - Housing Finance Agency - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$3,976,792	\$3,934,267	(\$4,360)	\$3,929,907
Operating expenses	2,415,560	2,415,560		2,415,560
Grants	27,166,380	27,166,380		27,166,380
HFA contingencies	100,000	100,000		100,000
Total all funds	\$33,660,732	\$33,616,207	(\$4,360)	\$33,613,847
Less estimated income	33,660,732	33,616,207	(4,360)	33,613,847
General fund	\$0	\$0	\$0	\$0
FTE	43.00	43.00	0.00	43.00

Dept. 473 - Housing Finance Agency - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE 1	TOTAL SENATE CHANGES
Salaries and wages	(\$4,360)	(\$4,360)
Operating expenses		
Grants		
HFA contingencies		
Total all funds	(\$4,360)	(\$4,360)
Less estimated income	(4,360)	(4,360)
General fund	\$0	\$0
FTE	0.00	0.00

1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

House Bill No. 1015 - Mill and Elevator - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$16,703,858	\$16,703,858	(\$12,900)	\$16,690,958
Operating expenses	13,014,426	13,014,426		13,014,426
Contingencies	250,000	250,000		250,000
Agriculture promotion	50,000	50,000		50,000

(2) DESK, (3) COMM

Page No. 15

SR-65-7303

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Operator's Signature

Date

REPORT OF STANDING COMMITTEE (410)
April 10, 2003 10:01 a.m.

Module No: SR-65-7303
Carrier: Schobinger
Insert LC: 38015.0206 Title: .0300

Total all funds	\$30,018,282	\$30,018,282	(\$12,900)	\$30,005,382
Less estimated income	<u>30,018,282</u>	<u>30,018,282</u>	<u>(12,900)</u>	<u>30,005,382</u>
General fund	\$0	\$0	\$0	\$0
FTE	125.00	125.00	0.00	125.00

Dept. 475 - Mill and Elevator - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	TOTAL SENATE CHANGES
Salaries and wages	(\$12,900)	(\$12,900)
Operating expenses		
Contingencies		
Agriculture promotion		
Total all funds	(\$12,900)	(\$12,900)
Less estimated income	<u>(12,900)</u>	<u>(12,900)</u>
General fund	\$0	\$0
FTE	0.00	0.00

¹ This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

This amendment also requires the Mill and Elevator Association to report to the 59th Legislative Assembly regarding the Mill and Elevator's net income to date and estimated net income for the remainder of the 2003-05 biennium.

Sections are added changing the statutory reference from State Geologist to director of oil and gas, effective January 1, 2004.

2003 HOUSE APPROPRIATIONS
CONFERENCE COMMITTEE

HB 1015

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Deanna G. Ball
Operator's Signature

10/30/03
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1015

House Appropriations Committee
Government Operations Division

☒ Conference Committee

Hearing Date April 15, 2003

Tape Number	Side A	Side B	Meter #
1		xx	0-13.9
Committee Clerk Signature: <i>Elly Schmitt</i>			

Minutes: Conference Committee

Sen. Schobinger reviewed the Senate changes on HB 1015 as noted on the Senate amendment.

Rep. Warner asked if the State Geologist duties were related to Oil?

Sen. Kringstad noted they deal with several issues, soil, gravel, subsoil samples etc.

Sen. Schobinger after the amendment was adopted the Senate intent wasn't to remove the State Geologist, but to include language to keep a person at the State Geologist Dept.

Rep. Skarphol is the net FTE reduction related to the field staff?

Sen. Schobinger that would be determined by the director for efficiencies.

Rep. Skarphol did the Senate discuss a name change to be more reflective of the duties?

Sen. Schobinger yes, it was discussed, we felt we could come back and make a name change after the merger takes place. The house did an excellent job with this bill.

Rep. Skarphol Has the State Mill borrowing been deleted?

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Deanna Sullivan
Operator's Signature

10/30/03
Date

Page 2

Government Operations Division

Bill/Resolution Number HB 1015

Hearing Date April 17, 2003

Sen. Schobinger we added additional language to what you had, Section 9, lines 20-22 of

38015.0300

Rep. Warner when are the transfers usually made?

Karlene Fine, Industrial Commission we work on a schedule with OMB, quarterly on the Bank of ND, the Mill & Elevator is scheduled for the end of the biennium, June 3, 2003.

Rep. Skarphol how many geologists does this remove

Sen. Kringstad There are currently 9 geologist, this would remove 6, leaving 3.

Rep. Thoreson we will take the suggestion to rename to leadership, and the transfer of the Bank language in Section 9.

Rep. Skarphol that would reflect what we had in mind.

Rep. Thoreson noted a letter received from the Oil & Gas Association in reference to the merger. (See Letter) He noted the IT issue still remains.

Meeting adjourned.

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Deanna Ballman
Operator's Signature

10/30/03
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1015

House Appropriations Committee
Government Operations Division

☒ Conference Committee

Hearing Date April 17, 2003

Tape Number	Side A	Side B	Meter #
1	xx		0-31.9

Committee Clerk Signature

Minutes: Conference Committee

Chairman Thoreson called the meeting to order. Members in attendance included **Rep. Thoreson, Rep. Skarphol, Rep. Warner, Sen. Schobinger, Sen. Kringstad and Sen. Lindaas.**

Rep. Thoreson address the handout from the ND Geological Society.

Mark Gonzales, ND Geological Survey in reference to the Oil/Gas Division and Geological Survey merger he shared an overview of the activities of his agency. (see written testimony)

John Bluemle, ND Geological Survey commented his agency has diversified more in the last 10 years. They have more state government contact and response since moving their offices from Grand Forks. He feels there is a good cooperative effort between his department and other agencies.

Rep. Skarphol noted a substantial reduction in the departments publications.

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Date

10/30/03

Page 2
Government Operations Division
Bill/Resolution Number HB 1015
Hearing Date April 17, 2003

John Bluemle, ND Geological Survey the Internet site makes information more available. Over half of the departments publications have been transferred to that site. Publications are published in the National journals and not necessarily within the state. It take 2-3 years to put a publication together. He noted his department is quite particular regarding what is released.

Sen. Lindaas stated concerns with the amendment to merge divisions, and noted is didn't have an adequate hearing process.

Karlene Fine, Industrial Commission shared FTE information regarding the department. (see written testimony)

Chairman Thoreson noted there had been discussion on the House side and felt there was merit to the merger. There had also be discussion relative to the full 5 positions.

Karlene Fine, Industrial Commission noted the department has taken no position on the merger, however, they would like to see a study.

Rep. Warner asked if she recommended the Industrial Commission study or the Interim Committee.

Karlene Fine, Industrial Commission she noted no preference to who does the study. Her only concern was if it would be chosen for study during the interim. They would like more time for the study and the preparation of legislation for the next session.

Rep. Warner asked if the Industrial Commission has authority to do early buy outs for retirement etc.

Karlene, yes.

Sen. Lindaas commented he would be in favor of a study during the interim and address the issue next session.

Page 3
Government Operations Division
Bill/Resolution Number HB 1015
Hearing Date April 17, 2003

Rep. Warner noted he would favor a hiring freeze during the interim and a Good Faith effort with study might be favorable.

Rep. Skarphol also noted he was in favor of a study, and the needed time for agency discussion.

He noted a concern to with which area the study should be placed.

Sen. Lindaas would prefer a Legislative study

Sandy, OMB advised the committee a study had been requested in the past, but it was not chosen.

Sen. Schobinger we held a subcommittee on this issue, based on the information we received we came to this conclusion. We are open to doing the right thing, if the House has ideas for a positive change we are open to those ideas.

Sen. Kringstad Noted John Dwyer of the Lignite Council was in the room and requested if he had an opinion.

John Dwyer, Lignite Council Noted it was important to maintain the State Geologist. We support the Industrial Commission Study.

Rep. Thoreson also noted he would be in support of a Industrial Commission Study.

The meeting adjourned.

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1015

House Appropriations Government Operations Committee

☐ Conference Committee

Hearing Date 4-18-03

Tape Number	Side A	Side B	Meter #
3	x		42.7-end
3		x	0-9.6

Committee Clerk Signature *Jody Penner*

Minutes: Conference Committee on HB 1015 was called to order, all committee members were present.

Senator Schobinger: I talked to Jim Smith about the amendments, and he is working on some additions and changes, and I think the discussion we had yesterday there was a proposal made for a hiring freeze over the next year, I think that is a good idea. I believe these amendments called for one additional employee, as opposed to the 5 in the Senate amendments. One other change I have asked for and hopefully we can discuss is the study review section 14, I hope that the merger is to take place, and rather than the Industrial Commission study whether it should or shouldn't take place, but how the merger will take place, and submit that to the next legislative assembly, the verbiage on this some how implies whether it will or won't instead address how they plan to do it. There is an area that we can't quantify and that would be any retirement that would take place, these amendments would only quantify that number.

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Operator's Signature *Dennis Gallardo*

10/30/03
Date

Page 2

House Appropriations Government Operations Committee

Bill/Resolution Number HB 1015

Hearing Date 4-18-03

L.C.: this amendment for the Industrial Commission can add 1 FTE and removes 1 as result of merger- net =2 , and savings on that would be \$75,000 on footnote 5, footnote 4 removes partial funding. Total amount reflected would be \$162,000.00.

Senator Schobinger: the Senate added FTE from the executive budget, the Petroleum Engineer that has been added back.

L.C.: Senate has to recede from its amendments to go back to House version.

Senator Lindaas: section 14, I am not in favor of merger unless study is done first.

Senator Kringstad: my concern is are we going to be naming the Division of Environmental Services?

Representative Thoreson: I think that the idea that oil and gas doesn't describe the overall role that the agency would play in consideration.

Senator Schobinger: I believe we would leave that language to consider.

Senator Kringstad: I think it would be very wise to leave it to oil and gas and the geological Survey to come up with a name to enhance all three of them.

Senator Schobinger: IT, the concern I have relates to the Bank of ND, in the Senate amendments, would we allocate the 4% allowed the Bank to retain that as I understand and the new amendments 5% will now be transferred to the general fund? We already transfer 60 million from the Bank to the general fund we are getting close to cap, and I wonder if we shouldn't have a discussion on appropriate additional transfers?

Representative Skarphol: SB 2015 there will be no additional transfer beyond the 60 million, that is disallowed, that is reassurance. Capital reserve is still over 145 million. 60 million is it, with 5-7 million cushion.

Page 3

House Appropriations Government Operations Committee

Bill/Resolution Number HB 1015

Hearing Date 4-18-03

Eric Hardmeyer, President Bank of ND: as I understand 2015, the amendment for the contingency has been removed which is the additional 25 million dollars, there is also the 60 million dollar transfer from the bank, I am not sure how this would impair your ability to take the additional 500,000 dollars. It would be my feeling however that 60 million dollars would be sufficient to earnings and capital.

Senator Schobinger: This bank I think is pretty unique, to supplement the general fund.

Representative Thoreson: we should speak with leadership.

Representative Skarphol: Senator Schobinger, would it be your intention to not take any money from the bank or would you like to see reduced numbers from the bank?

The reason I ask is it conceivable to ask L.C. to draft 2 scenarios of amendments, so that on Monday they would be able to move on one or the other, they would be available rather than have to wait?

Senator Schobinger: if it were reduced or part of that be retained by the bank, stay consistent across the board.

Representative Skarphol: how about draft one with 5% and one with 3.5% amendments?

Can L.C. do that?

L.C.: yes we can do that.

Meeting adjourned.

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1015

House Appropriations Committee
Government Operations Division

☒ Conference Committee

Hearing Date April 21, 2003

Tape Number	Side A	Side B	Meter #
2	xx		0-10.3
Committee Clerk Signature <i>Kelly Schmitt</i>			

Minutes: Conference Committee

Chairman Thoreson called the Conference Committee to order, Members in attendance,

Rep. Thoreson, Rep. Skarphol, Rep. Kroeber, Sen. Schobinger, Sen. Kringstad, Sen.

Lindaas

Sen. Lindaas reviewed his amendment 38015.0212. Section 14 would initiate a study before the merger of the Oil and Gas division and the Geological Survey. This would also include a reduction in the IT line of 5% for the Bank of North Dakota.

SEN. LINDAAS MOVED A DO PASS ON AMENDMENT 38015.0212 SECOND BY REP. KROEBER.

Rep. Kroeber I agree with this amendment and following through with a study before the action

Sen. Lindaas commented the merger idea didn't have a full hearing.

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10/30/03
Date

Page 2
Government Operations Division
Bill/Resolution Number HB 1015
Hearing Date April 21, 2003

Sen. Schobinger We had a hearing in subcommittee, we felt this was important and needed to fully heard.

Rep. Thoreson noted we have been receptive of full disclosure during the conference committee process.

Rep. Skarphol commented amendment .0208, would allow for another session before the merger takes place. The industrial commission would have the time necessary for the evaluation. The study in .0212 is pretty vague.

Sen. Lindaas This would allow for the gathering of information. I have received numerous communications opposed to a merger, many indicated they were not aware this was being introduced. They view the independence of each agency as a positive.

ROLL CALL VOTE ON AMENDMENT 38015.0212, 4 NAY 2 YEAH...

MOTION FAILS

REP. SKARPHOL MOVED THE SENATE RECEDE FROM IT'S AMENDMENTS AND ADOPT AMENDMENT .0208, SECOND BY SEN. SCHOBINGER.

Rep. Skarphol noted the IT lines are in order

Sen. Schobinger noted there is no net change in FTE's.

ROLL CALL VOTE ON 38015.0208 4 YEAH 2 NAY MOTION CARRIES

REP. SKARPHOL MOVED A DO PASS AS AMENDED ON HB 1015, SECOND BY SEN.

SCHOBINGER, ROLL CALL VOTE 4 YEAH, 2 NAY MOTION CARRIES.

Rep. Thoreson will carry on the House side, **Sen. Schobinger** will carry on the Senate side

Meeting adjourned.

38015.0207
Title.
Fiscal No. 1

Prepared by the Legislative Council staff for
Conference Committee
April 18, 2003

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1015

That the Senate recede from its amendments as printed on pages 1480-1493 of the House Journal and pages 1314-1326 of the Senate Journal and that Engrossed House Bill No. 1015 be amended as follows:

Page 1, line 3, after "appropriation" insert "; to provide for an industrial commission review"

Page 1, line 14, replace "6,264,047" with "6,244,663"

Page 1, line 15, replace "1,947,591" with "1,904,767"

Page 1, line 19, replace "44,380,928" with "44,318,720"

Page 1, line 20, replace "37,296,489" with "37,291,836"

Page 1, line 21, replace "7,084,439" with "7,026,884"

Page 2, line 1, replace "16,546,603" with "16,527,614"

Page 2, line 2, replace "11,372,000" with "10,925,665"

Page 2, line 5, replace "30,243,603" with "29,778,279"

Page 2, line 14, replace "16,703,856" with "16,690,956"

Page 2, line 15, replace "13,014,426" with "12,991,196"

Page 2, line 18, replace "30,018,282" with "29,982,152"

Page 2, line 21, replace "3,934,267" with "3,929,907"

Page 2, line 22, replace "2,415,560" with "2,391,480"

Page 2, line 25, replace "33,618,207" with "33,589,767"

Page 2, line 26, replace "15,159,439" with "15,101,884"

Page 2, line 27, replace "131,176,581" with "130,642,034"

Page 2, line 28, replace "146,336,020" with "145,743,918"

Page 4, line 5, after "TRANSFER" insert "- INDUSTRIAL COMMISSION REPORT"

Page 4, line 11, after the period insert "The industrial commission shall report to the fifty-ninth legislative assembly regarding the mill and elevator association's net income to date and estimated net income for the remainder of the 2003-05 biennium."

Grants						
Bond payments						
Total all funds	(\$6,089)	(\$42,824)	\$149,376	(\$87,671)	(\$75,000)	(\$82,208)
Less estimated income	(619)	(4,034)				(4,653)
General fund	(\$5,470)	(\$38,790)	\$149,376	(\$87,671)	(\$75,000)	(\$57,555)
FTE	0.00	0.00	1.00	0.00	(1.00)	0.00

- 1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.
- 2 This amendment reduces funding for information technology by \$42,824, which is \$38,790 from the general fund and \$4,034 from other funds, which represents a reduction in total information technology funding of approximately 5 percent.
- 3 This amendment adds funding and 1 FTE for the petroleum engineer IV position which was removed from the Oil and Gas Division in the Governor's recommendation.
- 4 This amendment removes partial funding for a geologist position which will terminate July 1, 2004.
- 5 This amendment removes one position and funding from the Geological Survey.

This amendment also adds a section for Industrial Commission review of an Oil and Gas Division and Geological Survey merger, a report to the Budget Section, and a report to the Fifty-ninth Legislative Assembly.

House Bill No. 1015 - Bank of North Dakota - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$16,722,966	\$16,546,603	(\$18,989)	\$16,527,614	\$16,527,614	
Operating expenses	11,372,000	11,372,000	(446,335)	10,925,665	11,014,832	(\$89,267)
Capital assets	825,000	825,000		825,000	825,000	
Contingencies	1,500,000	1,500,000		1,500,000	1,500,000	
PACE fund	5,700,000	5,700,000		5,700,000	5,700,000	
Agriculture PACE fund	1,425,000	1,425,000		1,425,000	1,425,000	
Beginning farmer	950,000	950,000		950,000	950,000	
Total all funds	\$38,494,966	\$38,316,603	(\$465,324)	\$37,853,279	\$37,942,546	(\$89,267)
Less estimated income	30,419,966	30,243,603	(465,324)	29,778,279	29,867,546	(\$89,267)
General fund	\$8,075,000	\$8,075,000	\$0	\$8,075,000	\$8,075,000	\$0
FTE	178.50	178.50	0.00	178.50	178.50	0.00

Dept. 471 - Bank of North Dakota - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE 1	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS 2	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$18,989)		(\$18,989)
Operating expenses		(\$446,335)	(446,335)
Capital assets			
Contingencies			
PACE fund			
Agriculture PACE fund			
Beginning farmer			
Total all funds	(\$18,989)	(\$446,335)	(\$465,324)
Less estimated income	(18,989)	(446,335)	(465,324)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

- 1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.
- 2 This amendment reduces funding for information technology by \$446,335 from special funds, which represents a reduction in information technology funding from special funds of approximately 5 percent.

House Bill No. 1015 - Housing Finance Agency - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$3,978,782	\$3,934,267	(\$4,360)	\$3,929,907	\$3,929,907	
Operating expenses	2,415,560	2,415,560	(24,080)	2,391,480	2,415,560	(\$24,080)
Grants	27,168,380	27,168,380		27,168,380	27,168,380	
HFA contingencies	100,000	100,000		100,000	100,000	
Total all funds	\$33,660,732	\$33,618,207	(\$28,440)	\$33,589,767	\$33,613,847	(\$24,080)

Less estimated income	33,660,732	33,618,207	(28,440)	33,589,767	33,613,647	(24,080)
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	43.00	43.00	0.00	43.00	43.00	0.00

Dept. 473 - Housing Finance Agency - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS ²	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$4,360)		(\$4,360)
Operating expenses		(\$24,080)	(24,080)
Grants			
HFA contingencies			
Total all funds	(\$4,360)	(\$24,080)	(\$28,440)
Less estimated income	(4,360)	(24,080)	(28,440)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

² This amendment reduces information technology by \$24,080 from special funds, which represents a reduction in information technology funding from special funds of approximately 5 percent.

House Bill No. 1015 - Mill and Elevator - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$16,703,856	\$16,703,856	(\$12,900)	\$16,690,956	\$16,690,956	
Operating expenses	13,014,426	13,014,426	(23,230)	12,991,196	13,014,426	(\$23,230)
Contingencies	250,000	250,000		250,000	250,000	
Agriculture promotion	50,000	50,000		50,000	50,000	
Total all funds	\$30,018,282	\$30,018,282	(\$36,130)	\$29,982,152	\$30,005,382	(\$23,230)
Less estimated income	30,018,282	30,018,282	(36,130)	29,982,152	30,005,382	(23,230)
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	125.00	125.00	0.00	125.00	125.00	0.00

Dept. 475 - Mill and Elevator - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS ²	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$12,900)		(\$12,900)
Operating expenses		(\$23,230)	(23,200)
Contingencies			
Agriculture promotion			
Total all funds	(\$12,900)	(\$23,230)	(\$36,130)
Less estimated income	(12,900)	(23,230)	(36,130)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

² This amendment reduces funding for information technology by \$23,230 from special funds, which represents a reduction in information technology funding from special funds of approximately 5 percent.

This amendment also requires the Mill and Elevator Association to report to the Fifty-ninth Legislative Assembly regarding the Mill and Elevator's net income to date and estimated net income for the remainder of the 2003-05 biennium.

Page 5, after line 31, insert:

"SECTION 14. INDUSTRIAL COMMISSION REVIEW - OIL AND GAS DIVISION AND GEOLOGICAL SURVEY MERGER - BUDGET SECTION REPORT.

The industrial commission shall review the potential merger of the oil and gas division and the geological survey. In conducting the review, the industrial commission shall consider allowing the oil and gas director to appoint the state geologist, consider changing the name of the merged oil and gas division and geological survey to "division of environmental services", and identify potential efficiencies and savings that may result from the merger. The industrial commission shall present a report to the budget section, prior to November 1, 2004, regarding the results of the oil and gas division and geological survey merger review. The industrial commission shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the fifty-ninth legislative assembly."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1015 - Summary of Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Industrial Commission						
Total all funds	\$44,449,595	\$44,380,928	(\$62,208)	\$44,318,720	\$43,957,683	\$361,037
Less estimated income	37,302,824	37,296,489	(4,653)	37,291,836	37,295,870	(4,034)
General fund	\$7,146,771	\$7,084,439	(\$57,555)	\$7,026,884	\$6,661,813	\$365,071
Bank of North Dakota						
Total all funds	\$38,494,966	\$38,318,603	(\$465,324)	\$37,853,279	\$37,942,546	(\$89,267)
Less estimated income	30,419,966	30,243,603	(465,324)	29,778,279	29,667,546	(89,267)
General fund	\$8,075,000	\$8,075,000	\$0	\$8,075,000	\$8,075,000	\$0
Housing Finance Agency						
Total all funds	\$33,660,732	\$33,618,207	(\$28,440)	\$33,589,767	\$33,613,847	(\$24,080)
Less estimated income	33,660,732	33,618,207	(28,440)	33,589,767	33,613,847	(24,080)
General fund	\$0	\$0	\$0	\$0	\$0	\$0
MW and Elevator						
Total all funds	\$30,018,282	\$30,018,282	(\$36,130)	\$29,982,152	\$30,005,382	(\$23,230)
Less estimated income	30,018,282	30,018,282	(36,130)	29,982,152	30,005,382	(23,230)
General fund	\$0	\$0	\$0	\$0	\$0	\$0
BW Total						
Total all funds	\$146,823,575	\$146,336,020	(\$592,102)	\$145,743,918	\$145,519,458	\$224,460
Less estimated income	131,401,804	131,170,581	(534,547)	130,642,034	130,782,645	(140,611)
General fund	\$15,221,771	\$15,159,439	(\$57,555)	\$15,101,884	\$14,736,813	\$365,071

House Bill No. 1015 - Industrial Commission - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$6,332,714	\$6,264,047	(\$19,384)	\$6,244,663	\$5,871,834	\$372,829
Operating expenses	1,947,591	1,947,591	(42,824)	1,904,767	1,916,559	(11,792)
Capital assets	68,300	68,300		68,300	68,300	
Grants	16,270,000	16,270,000		16,270,000	16,270,000	
Bond payments	19,830,990	19,830,990		19,830,990	19,830,990	
Total all funds	\$44,449,595	\$44,380,928	(\$62,208)	\$44,318,720	\$43,957,683	\$361,037
Less estimated income	37,302,824	37,296,489	(4,653)	37,291,836	37,295,870	(4,034)
General fund	\$7,146,771	\$7,084,439	(\$57,555)	\$7,026,884	\$6,661,813	\$365,071
FTE	58.37	58.37	0.00	58.37	53.37	5.00

Dept. 405 - Industrial Commission - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS ²	ADDS FUNDING AND 1 FTE FOR PETROLEUM ENGINEER ³	REMOVES PARTIAL FUNDING FOR GEOLOGIST POSITION ⁴	REMOVES POSITION AND FUNDING ⁵	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$6,089)		\$149,378	(\$87,871)	(\$75,000)	(\$19,384)
Operating expenses		(\$42,824)				(42,824)
Capital assets						

38015.0208
Title.
Fiscal No. 1

Prepared by the Legislative Council staff for
Senator Schobinger
April 21, 2003

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1015

That the Senate recede from its amendments as printed on pages 1480-1493 of the House Journal and pages 1314-1326 of the Senate Journal and that Engrossed House Bill No. 1015 be amended as follows:

Page 1, line 3, after "appropriation" insert "; to provide for an industrial commission review"

Page 1, line 14, replace "6,264,047" with "6,244,663"

Page 1, line 15, replace "1,947,591" with "1,904,767"

Page 1, line 19, replace "44,380,928" with "44,318,720"

Page 1, line 20, replace "37,296,489" with "37,291,836"

Page 1, line 21, replace "7,084,439" with "7,026,884"

Page 2, line 1, replace "16,546,603" with "16,527,614"

Page 2, line 2, replace "11,372,000" with "10,925,665"

Page 2, line 5, replace "30,243,603" with "29,778,279"

Page 2, line 14, replace "16,703,856" with "16,690,956"

Page 2, line 15, replace "13,014,426" with "12,991,196"

Page 2, line 18, replace "30,018,282" with "29,982,152"

Page 2, line 21, replace "3,934,267" with "3,929,907"

Page 2, line 22, replace "2,415,560" with "2,391,480"

Page 2, line 25, replace "33,618,207" with "33,589,767"

Page 2, line 26, replace "15,159,439" with "15,101,884"

Page 2, line 27, replace "131,176,581" with "130,642,034"

Page 2, line 28, replace "146,336,020" with "145,743,918"

Page 4, line 5, after "TRANSFER" insert "- INDUSTRIAL COMMISSION REPORT"

Page 4, line 11, after the period insert "The industrial commission shall report to the fifty-ninth legislative assembly regarding the mill and elevator association's net income to date and estimated net income for the remainder of the 2003-05 biennium."

PASSED
4-2

Page 5, after line 31, insert:

"SECTION 14. INDUSTRIAL COMMISSION REVIEW - OIL AND GAS DIVISION AND GEOLOGICAL SURVEY MERGER - BUDGET SECTION REPORT.
The industrial commission shall review the implementation of the merger of the oil and gas division and the geological survey to be accomplished by July 1, 2005. In conducting the review, the industrial commission shall consider allowing the oil and gas director to appoint the state geologist, recommend a name change for the merged oil and gas division and geological survey, and identify efficiencies and savings that will result from the merger. The industrial commission shall present a report to the budget section, prior to November 1, 2004, regarding the recommendations for the oil and gas division and geological survey merger. The industrial commission shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the fifty-ninth legislative assembly.

SECTION 15. OIL AND GAS DIVISION AND GEOLOGICAL SURVEY EMPLOYEE POSITIONS. Any full-time equivalent employee position in the oil and gas division and geological survey that becomes vacant because of an employee retirement or an employee resignation shall remain vacant for the remainder of the 2003-05 biennium."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1015 - Summary of Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Industrial Commission						
Total all funds	\$44,449,595	\$44,380,928	(\$68,200)	\$44,318,720	\$43,957,683	\$361,037
Less estimated income	37,302,824	37,296,489	(4,653)	37,291,836	37,295,870	(4,034)
General fund	\$7,146,771	\$7,084,439	(\$57,555)	\$7,026,884	\$6,661,813	\$365,071
Bank of North Dakota						
Total all funds	\$38,494,966	\$38,318,603	(\$465,324)	\$37,853,279	\$37,942,546	(\$89,267)
Less estimated income	30,419,966	30,243,603	(465,324)	29,778,279	29,667,646	(89,267)
General fund	\$8,075,000	\$8,075,000	\$0	\$8,075,000	\$8,075,000	\$0
Housing Finance Agency						
Total all funds	\$33,660,732	\$33,618,207	(\$28,440)	\$33,589,767	\$33,613,847	(\$24,080)
Less estimated income	33,660,732	33,618,207	(28,440)	33,589,767	33,613,847	(24,080)
General fund	\$0	\$0	\$0	\$0	\$0	\$0
Mill and Elevator						
Total all funds	\$30,016,282	\$30,018,282	(\$36,130)	\$29,982,152	\$30,005,382	(\$23,230)
Less estimated income	30,016,282	30,018,282	(36,130)	29,982,152	30,005,382	(23,230)
General fund	\$0	\$0	\$0	\$0	\$0	\$0
Bill Total						
Total all funds	\$146,623,575	\$146,336,020	(\$592,102)	\$145,743,918	\$145,519,458	\$224,460
Less estimated income	131,401,804	131,176,581	(534,547)	130,642,034	130,782,645	(140,611)
General fund	\$15,221,771	\$15,159,439	(\$57,555)	\$15,101,884	\$14,738,613	\$365,071

House Bill No. 1015 - Industrial Commission - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$8,332,714	\$8,264,047	(\$19,384)	\$8,244,663	\$5,871,834	\$372,829
Operating expenses	1,947,591	1,947,591	(42,824)	1,904,767	1,916,559	(11,792)
Capital assets	68,300	68,300		68,300	68,300	
Grants	16,270,000	16,270,000		16,270,000	16,270,000	
Bond payments	19,830,990	19,830,990		19,830,990	19,830,990	
Total all funds	\$44,449,595	\$44,380,928	(\$68,208)	\$44,318,720	\$43,957,683	\$361,037
Less estimated income	37,302,824	37,296,489	(4,653)	37,291,836	37,295,870	(4,034)
General fund	\$7,146,771	\$7,084,439	(\$57,555)	\$7,026,884	\$6,661,813	\$365,071
FTE	58.37	58.37	0.00	58.37	53.37	5.00

Dept. 405 - Industrial Commission - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS ²	ADDS FUNDING AND 1 FTE FOR PETROLEUM ENGINEER ³	REMOVES PARTIAL FUNDING FOR GEOLOGIST POSITION ⁴	REMOVES POSITION AND FUNDING ⁵	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$6,089)		\$149,376	(\$87,671)	(\$75,000)	(\$19,381)
Operating expenses		(\$42,824)				(\$42,824)
Capital assets						
Grants						
Bond payments						
Total all funds	(\$6,089)	(\$42,824)	\$149,376	(\$87,671)	(\$75,000)	(\$82,208)
Less estimated income	(819)	(4,034)				(4,853)
General fund	(\$5,470)	(\$38,790)	\$149,376	(\$87,671)	(\$75,000)	(\$57,555)
FTE	0.00	0.00	1.00	0.00	(1.00)	0.00

¹ This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

² This amendment reduces funding for information technology by \$42,824, which is \$38,790 from the general fund and \$4,034 from other funds, which represents a reduction in total information technology funding of approximately 5 percent.

³ This amendment adds funding and 1 FTE for the petroleum engineer IV position which was removed from the Oil and Gas Division in the Governor's recommendation.

⁴ This amendment removes partial funding for a geologist position which will terminate July 1, 2004.

⁵ This amendment removes one position and funding from the Geological Survey.

This amendment also adds a section for Industrial Commission review of an Oil and Gas Division and Geological Survey merger, a report to the Budget Section, and a report to the Fifty-ninth Legislative Assembly, and adds a section to provide that employee positions that become vacant for the Oil and Gas Division and Geological Survey remain vacant.

House Bill No. 1015 - Bank of North Dakota - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$16,722,966	\$16,548,603	(\$18,989)	\$16,527,614	\$16,527,614	
Operating expenses	11,372,000	11,372,000	(446,335)	10,925,665	11,014,932	(\$89,267)
Capital assets	825,000	825,000		825,000	825,000	
Contingencies	1,500,000	1,500,000		1,500,000	1,500,000	
PACE fund	5,700,000	5,700,000		5,700,000	5,700,000	
Agriculture PACE fund	1,425,000	1,425,000		1,425,000	1,425,000	
Beginning farmer	950,000	950,000		950,000	950,000	
Total all funds	\$38,494,966	\$38,318,603	(\$465,324)	\$37,853,279	\$37,942,548	(\$89,267)
Less estimated income	30,419,966	30,243,603	(465,324)	29,778,279	29,667,548	(\$89,267)
General fund	\$8,075,000	\$8,075,000	\$0	\$8,075,000	\$8,075,000	\$0
FTE	178.50	178.50	0.00	178.50	178.50	0.00

Dept. 471 - Bank of North Dakota - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS ²	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$18,989)		(\$18,989)
Operating expenses		(\$446,335)	(446,335)
Capital assets			
Contingencies			
PACE fund			
Agriculture PACE fund			
Beginning farmer			
Total all funds	(\$18,989)	(\$446,335)	(\$465,324)
Less estimated income	(18,989)	(446,335)	(465,324)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

² This amendment reduces funding for information technology by \$446,335 from special funds, which represents a reduction in information technology funding from special funds of approximately 5 percent.

House Bill No. 1015 - Housing Finance Agency - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$3,978,792	\$3,934,267	(\$4,360)	\$3,929,907	\$3,929,907	
Operating expenses	2,415,560	2,415,560	(24,080)	2,391,480	2,415,560	(\$24,080)
Grants	27,168,380	27,168,380		27,168,380	27,168,380	
HFA contingencies	100,000	100,000		100,000	100,000	
Total all funds	\$33,660,732	\$33,618,207	(\$28,440)	\$33,589,767	\$33,613,847	(\$24,080)
Less estimated income	<u>33,660,732</u>	<u>33,618,207</u>	<u>(28,440)</u>	<u>33,589,767</u>	<u>33,613,847</u>	<u>(24,080)</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	43.00	43.00	0.00	43.00	43.00	0.00

Dept. 473 - Housing Finance Agency - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS ²	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$4,360)		(\$4,360)
Operating expenses		(\$24,080)	(24,080)
Grants			
HFA contingencies			
Total all funds	(\$4,360)	(\$24,080)	(\$28,440)
Less estimated income	<u>(4,360)</u>	<u>(24,080)</u>	<u>(28,440)</u>
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

² This amendment reduces information technology by \$24,080 from special funds, which represents a reduction in information technology funding from special funds of approximately 5 percent.

House Bill No. 1015 - Mill and Elevator - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$16,703,856	\$16,703,856	(\$12,900)	\$16,690,956	\$16,690,956	
Operating expenses	13,014,426	13,014,426	(23,230)	12,991,196	13,014,426	(\$23,230)
Contingencies	250,000	250,000		250,000	250,000	
Agriculture promotion	50,000	50,000		50,000	50,000	
Total all funds	\$30,018,282	\$30,018,282	(\$36,130)	\$29,982,152	\$30,005,382	(\$23,230)
Less estimated income	<u>30,018,282</u>	<u>30,018,282</u>	<u>(36,130)</u>	<u>29,982,152</u>	<u>30,005,382</u>	<u>(23,230)</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	125.00	125.00	0.00	125.00	125.00	0.00

Dept. 475 - Mill and Elevator - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS ²	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$12,900)		(\$12,900)
Operating expenses		(\$23,230)	(23,230)
Contingencies			
Agriculture promotion			
Total all funds	(\$12,900)	(\$23,230)	(\$36,130)
Less estimated income	<u>(12,900)</u>	<u>(23,230)</u>	<u>(36,130)</u>
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

² This amendment reduces funding for information technology by \$23,230 from special funds, which represents a reduction in information technology funding from special funds of approximately 5 percent.

This amendment also requires the Mill and Elevator Association to report to the Fifty-ninth Legislative Assembly regarding the Mill and Elevator's net income to date and estimated net income for the remainder of the 2003-05 biennium.

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Deanna Ballantyne
Operator's Signature

10/30/03
Date

38015.0212
Title.
Fiscal No. 1

Prepared by the Legislative Council staff for
Senator Lindaas
April 21, 2003

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1015

That the Senate recede from its amendments as printed on pages 1480-1493 of the House Journal and pages 1314-1326 of the Senate Journal and that Engrossed House Bill No. 1015 be amended as follows:

Page 1, line 3, after "appropriation" insert "; to provide for a legislative council study"

Page 1, line 14, replace "6,264,047" with "6,244,663"

Page 1, line 15, replace "1,947,591" with "1,904,767"

Page 1, line 19, replace "44,380,928" with "44,318,720"

Page 1, line 20, replace "37,296,489" with "37,291,836"

Page 1, line 21, replace "7,084,439" with "7,026,884"

Page 2, line 1, replace "16,546,603" with "16,527,614"

Page 2, line 2, replace "11,372,000" with "10,925,665"

Page 2, line 5, replace "30,243,603" with "29,778,279"

Page 2, line 14, replace "16,703,856" with "16,690,956"

Page 2, line 15, replace "13,014,426" with "12,991,196"

Page 2, line 18, replace "30,018,282" with "29,982,152"

Page 2, line 21, replace "3,934,267" with "3,929,907"

Page 2, line 22, replace "2,415,560" with "2,391,480"

Page 2, line 25, replace "33,618,207" with "33,589,767"

Page 2, line 26, replace "15,159,439" with "15,101,884"

Page 2, line 27, replace "131,176,581" with "130,642,034"

Page 2, line 28, replace "146,336,020" with "145,743,918"

Page 4, line 5, after "TRANSFER" insert "- INDUSTRIAL COMMISSION REPORT"

Page 4, line 11, after the period insert "The industrial commission shall report to the fifty-ninth legislative assembly regarding the mill and elevator association's net income to date and estimated net income for the remainder of the 2003-05 biennium."

FAILED
4-2

Page 5, after line 31, insert:

"SECTION 14. LEGISLATIVE COUNCIL STUDY - OIL AND GAS DIVISION AND GEOLOGICAL SURVEY MERGER. The legislative council shall consider studying, during the 2003-04 interim, the potential merger of the oil and gas division and the geological survey. The legislative council shall report its findings and recommendations regarding the results of the oil and gas division and geological survey merger study, together with any legislation required to implement the recommendations, to the fifty-ninth legislative assembly."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1015 - Summary of Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Industrial Commission						
Total all funds	\$44,449,595	\$44,380,928	(\$62,208)	\$44,318,720	\$43,957,633	\$361,037
Less estimated income	37,302,824	37,298,489	(4,653)	37,291,836	37,295,870	(4,034)
General fund	\$7,146,771	\$7,084,439	(\$57,555)	\$7,026,884	\$6,661,813	\$365,071
Bank of North Dakota						
Total all funds	\$38,494,966	\$38,316,603	(\$465,224)	\$37,853,279	\$37,942,548	(\$89,267)
Less estimated income	30,419,966	30,243,603	(465,324)	29,778,279	29,867,548	(\$89,267)
General fund	\$8,075,000	\$8,075,000	\$0	\$8,075,000	\$8,075,000	\$0
Housing Finance Agency						
Total all funds	\$33,660,732	\$33,616,207	(\$26,440)	\$33,589,767	\$33,613,847	(\$24,080)
Less estimated income	33,660,732	33,616,207	(26,440)	33,589,767	33,613,847	(\$24,080)
General fund	\$0	\$0	\$0	\$0	\$0	\$0
Mill and Elevator						
Total all funds	\$30,016,282	\$30,016,282	(\$36,130)	\$29,982,152	\$30,005,382	(\$23,230)
Less estimated income	30,016,282	30,016,282	(36,130)	29,982,152	30,005,382	(\$23,230)
General fund	\$0	\$0	\$0	\$0	\$0	\$0
Bill Total						
Total all funds	\$146,623,575	\$146,336,020	(\$592,102)	\$145,743,918	\$145,519,458	\$224,460
Less estimated income	131,401,604	131,178,581	(534,647)	130,842,034	130,782,845	(140,611)
General fund	\$15,221,771	\$15,159,439	(\$57,555)	\$15,101,884	\$14,736,813	\$365,071

House Bill No. 1015 - Industrial Commission - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$6,332,714	\$6,264,047	(\$19,384)	\$6,244,663	\$5,871,834	\$372,829
Operating expenses	1,947,591	1,947,591	(42,824)	1,904,767	1,916,559	(11,792)
Capital assets	68,300	68,300		68,300	68,300	
Grants	16,270,000	16,270,000		16,270,000	16,270,000	
Bond payments	19,830,990	19,830,990		19,830,990	19,830,990	
Total all funds	\$44,449,595	\$44,380,928	(\$62,208)	\$44,318,720	\$43,957,683	\$361,037
Less estimated income	37,302,824	37,298,489	(4,653)	37,291,836	37,295,870	(4,034)
General fund	\$7,146,771	\$7,084,439	(\$57,555)	\$7,026,884	\$6,661,813	\$365,071
FTE	58.37	58.37	0.00	58.37	53.37	5.00

Dept. 405 - Industrial Commission - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE 1	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS 2	ADDS FUNDING AND 1 FTE FOR PETROLEUM ENGINEER 3	REMOVES PARTIAL FUNDING FOR GEOLOGIST POSITION 4	REMOVES POSITION AND FUNDING 5	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$6,089)		\$149,376	(\$87,871)	(\$75,000)	(\$19,384)
Operating expenses		(\$42,824)				(42,824)
Capital assets						
Grants						
Bond payments						
Total all funds	(\$6,089)	(\$42,824)	\$149,376	(\$87,871)	(\$75,000)	(\$62,208)
Less estimated income	(619)	(4,034)				(4,653)
General fund	(\$5,470)	(\$38,790)	\$149,376	(\$87,871)	(\$75,000)	(\$57,555)

Page No. 2

38015.0212

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Operator's Signature

Date

FTE	0.00	0.00	1.00	0.00	(1.00)	0.00
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- 1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$468.70 per month.
- 2 This amendment reduces funding for information technology by \$42,624, which is \$38,790 from the general fund and \$4,034 from other funds, which represents a reduction in total information technology funding of approximately 5 percent.
- 3 This amendment adds funding and 1 FTE for the petroleum engineer IV position which was removed from the Oil and Gas Division in the Governor's recommendation.
- 4 This amendment removes partial funding for a geologist position which will terminate July 1, 2004.
- 5 This amendment removes one position and funding from the Geological Survey.

This amendment also adds a section for a Legislative Council study of an Oil and Gas Division and Geological Survey merger and a report to the Fifty-ninth Legislative Assembly.

House Bill No. 1015 - Bank of North Dakota - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$16,722,968	\$16,546,803	(\$18,989)	\$16,527,814	\$16,527,814	
Operating expenses	11,372,000	11,372,000	(446,335)	10,925,665	11,014,832	(\$89,267)
Capital assets	825,000	825,000		825,000	825,000	
Contingencies	1,500,000	1,500,000		1,500,000	1,500,000	
PACE fund	5,700,000	5,700,000		5,700,000	5,700,000	
Agriculture PACE fund	1,425,000	1,425,000		1,425,000	1,425,000	
Beginning farmer	950,000	950,000		950,000	950,000	
Total all funds	\$38,484,968	\$38,318,803	(\$465,324)	\$37,853,279	\$37,942,546	(\$89,267)
Less estimated income	30,419,968	30,243,803	(465,324)	29,778,279	29,867,546	(\$89,267)
General fund	\$8,075,000	\$8,075,000	\$0	\$8,075,000	\$8,075,000	\$0
FTE	178.50	178.50	0.00	178.50	178.50	0.00

Dept. 471 - Bank of North Dakota - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE 1	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS 2	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$18,989)		(\$18,989)
Operating expenses		(\$446,335)	(446,335)
Capital assets			
Contingencies			
PACE fund			
Agriculture PACE fund			
Beginning farmer			
Total all funds	(\$18,989)	(\$446,335)	(\$465,324)
Less estimated income	(18,989)	(446,335)	(465,324)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

- 1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$468.70 per month.
- 2 This amendment reduces funding for information technology by \$446,335 from special funds, which represents a reduction in information technology funding from special funds of approximately 5 percent.

House Bill No. 1015 - Housing Finance Agency - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$3,976,792	\$3,934,267	(\$4,360)	\$3,929,907	\$3,929,907	
Operating expenses	2,415,560	2,415,560	(24,080)	2,391,480	2,415,560	(\$24,080)
Grants	27,168,380	27,168,380		27,168,380	27,168,380	
HFA contingencies	100,000	100,000		100,000	100,000	
Total all funds	\$33,660,732	\$33,618,207	(\$28,440)	\$33,589,767	\$33,613,847	(\$24,080)
Less estimated income	33,660,732	33,618,207	(28,440)	33,589,767	33,613,847	(24,080)
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	43.00	43.00	0.00	43.00	43.00	0.00

Dept. 473 - Housing Finance Agency - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS ²	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$4,360)		(\$4,360)
Operating expenses		(\$24,080)	(24,080)
Grants			
HFA contingencies			
Total all funds	(\$4,360)	(\$24,080)	(\$28,440)
Less estimated income	(4,360)	(24,080)	(28,440)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

² This amendment reduces information technology by \$24,080 from special funds, which represents a reduction in information technology funding from special funds of approximately 5 percent.

House Bill No. 1015 - Mill and Elevator - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$16,703,856	\$16,703,856	(\$12,900)	\$16,690,956	\$16,690,956	
Operating expenses	13,014,426	13,014,426	(23,230)	12,991,196	13,014,426	(\$23,230)
Contingencies	250,000	250,000		250,000	250,000	
Agriculture promotion	50,000	50,000		50,000	50,000	
Total all funds	\$30,018,282	\$30,018,282	(\$36,130)	\$29,982,152	\$30,005,382	(\$23,230)
Less estimated income	30,018,282	30,018,282	(36,130)	29,982,152	30,005,382	(23,230)
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	125.00	125.00	0.00	125.00	125.00	0.00

Dept. 475 - Mill and Elevator - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS ²	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$12,900)		(\$12,900)
Operating expenses		(\$23,230)	(23,230)
Contingencies			
Agriculture promotion			
Total all funds	(\$12,900)	(\$23,230)	(\$36,130)
Less estimated income	(12,900)	(23,230)	(36,130)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

² This amendment reduces funding for information technology by \$23,230 from special funds, which represents a reduction in information technology funding from special funds of approximately 5 percent.

This amendment also requires the Mill and Elevator Association to report to the Fifty-ninth Legislative Assembly regarding the Mill and Elevator's net income to date and estimated net income for the remainder of the 2003-05 biennium.

REPORT OF CONFERENCE COMMITTEE (420)
April 21, 2003 4:52 p.m.

Module No: SR-72-8001

Insert LC: 38015.0214

REPORT OF CONFERENCE COMMITTEE

HB 1015, as engrossed: Your conference committee (Sens. Schobinger, Kringstad, Lindaas and Reps. Thoreson, Skarphol, Kroeber) recommends that the **SENATE RECEDE** from the Senate amendments on HJ pages 1480-1493, adopt amendments as follows, and place HB 1015 on the Seventh order:

That the Senate recede from its amendments as printed on pages 1480-1493 of the House Journal and pages 1314-1326 of the Senate Journal and that Engrossed House Bill No. 1015 be amended as follows:

Page 1, line 3, after "appropriation" insert "; to provide for an industrial commission review"

Page 1, line 14, replace "6,264,047" with "6,244,663"

Page 1, line 15, replace "1,947,591" with "1,904,767"

Page 1, line 19, replace "44,380,928" with "44,318,720"

Page 1, line 20, replace "37,296,489" with "37,291,836"

Page 1, line 21, replace "7,084,439" with "7,026,884"

Page 2, line 1, replace "16,546,603" with "16,527,614"

Page 2, line 2, replace "11,372,000" with "10,925,665"

Page 2, line 5, replace "30,243,603" with "29,778,279"

Page 2, line 14, replace "16,703,856" with "16,690,956"

Page 2, line 15, replace "13,014,426" with "12,991,196"

Page 2, line 18, replace "30,018,282" with "29,982,152"

Page 2, line 21, replace "3,934,267" with "3,929,907"

Page 2, line 22, replace "2,415,560" with "2,391,480"

Page 2, line 25, replace "33,618,207" with "33,589,767"

Page 2, line 26, replace "15,159,439" with "15,101,884"

Page 2, line 27, replace "131,176,581" with "130,642,034"

Page 2, line 28, replace "146,336,020" with "145,743,918"

Page 4, line 5, after "TRANSFER" insert "- INDUSTRIAL COMMISSION REPORT"

Page 4, line 11, after the period insert "The industrial commission shall report to the fifty-ninth legislative assembly regarding the mill and elevator association's net income to date and estimated net income for the remainder of the 2003-05 biennium."

Page 5, after line 31, insert:

**"SECTION 14. INDUSTRIAL COMMISSION REVIEW - OIL AND GAS
DIVISION AND GEOLOGICAL SURVEY MERGER - BUDGET SECTION REPORT.**
The industrial commission shall review the implementation of the merger of the oil and

(2) DESK, (2) COMM

Page No. 1

SR-72-8001

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Operator's Signature

Date

10/30/03

gas division and the geological survey to be accomplished by July 1, 2005. In conducting the review, the industrial commission shall consider allowing the oil and gas director to appoint the state geologist, recommend a name change for the merged oil and gas division and geological survey, and identify efficiencies and savings that will result from the merger. Before November 1, 2004, the industrial commission shall present a report to the budget section regarding the recommendations for the oil and gas division and geological survey merger. The industrial commission shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the fifty-ninth legislative assembly.

SECTION 15. OIL AND GAS DIVISION AND GEOLOGICAL SURVEY EMPLOYEE POSITIONS. Any full-time equivalent employee position in the oil and gas division and geological survey that becomes vacant because of an employee retirement or an employee resignation must remain vacant for the remainder of the 2003-05 biennium."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1015 - Summary of Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Industrial Commission						
Total all funds	\$44,449,595	\$44,380,928	(\$62,208)	\$44,318,720	\$43,957,883	\$361,037
Less estimated income	37,302,824	37,298,489	(4,653)	37,291,838	37,295,870	(4,034)
General fund	\$7,146,771	\$7,084,439	(\$57,555)	\$7,026,884	\$6,661,813	\$365,071
Bank of North Dakota						
Total all funds	\$38,494,966	\$38,318,603	(\$465,324)	\$37,853,279	\$37,942,548	(\$89,267)
Less estimated income	30,419,966	30,243,603	(465,324)	29,778,279	29,667,548	(110,267)
General fund	\$8,075,000	\$8,075,000	\$0	\$8,075,000	\$8,075,000	\$0
Housing Finance Agency						
Total all funds	\$33,660,732	\$33,818,207	(\$26,440)	\$33,589,767	\$33,813,847	(\$24,080)
Less estimated income	33,660,732	33,818,207	(26,440)	33,589,767	33,813,847	(24,080)
General fund	\$0	\$0	\$0	\$0	\$0	\$0
MHI and Elevator						
Total all funds	\$30,018,282	\$30,018,282	(\$36,130)	\$29,982,152	\$30,005,382	(\$23,230)
Less estimated income	30,018,282	30,018,282	(36,130)	29,982,152	30,005,382	(23,230)
General fund	\$0	\$0	\$0	\$0	\$0	\$0
Bill Total						
Total all funds	\$146,623,575	\$146,338,020	(\$592,102)	\$145,743,918	\$145,519,458	\$224,460
Less estimated income	131,401,804	131,176,581	(534,547)	130,642,034	130,782,845	(140,611)
General fund	\$15,221,771	\$15,159,439	(\$57,555)	\$15,101,884	\$14,738,613	\$365,071

House Bill No. 1015 - Industrial Commission - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$6,332,714	\$6,264,047	(\$19,384)	\$6,244,663	\$5,871,834	\$372,829
Operating expenses	1,947,591	1,947,591	(42,824)	1,904,767	1,918,559	(11,792)
Capital assets	68,300	68,300		68,300	68,300	
Grants	16,270,000	16,270,000		16,270,000	16,270,000	
Bond payments	19,830,990	19,830,990		19,830,990	19,830,990	
Total all funds	\$44,449,595	\$44,380,928	(\$62,208)	\$44,318,720	\$43,957,883	\$361,037
Less estimated income	37,302,824	37,298,489	(4,653)	37,291,838	37,295,870	(4,034)
General fund	\$7,146,771	\$7,084,439	(\$57,555)	\$7,026,884	\$6,661,813	\$365,071
FTE	58.37	58.37	0.00	58.37	53.37	5.00

(2) DESK, (2) COMM

REPORT OF CONFERENCE COMMITTEE (420)
April 21, 2003 4:52 p.m.

Module No: SR-72-8001

Insert LC: 38015.0214

Dept. 405 - Industrial Commission - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE 1	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS 2	ADDS FUNDING AND 1 FTE FOR PETROLEUM ENGINEER 3	REMOVES PARTIAL FUNDING FOR GEOLOGIST POSITION 4	REMOVES POSITION AND FUNDING 5	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$6,089)		\$149,378	(\$87,671)	(\$75,000)	(\$19,384)
Operating expenses		(\$42,824)				(42,824)
Capital assets						
Grants						
Bond payments						
Total all funds	(\$6,089)	(\$42,824)	\$149,378	(\$87,671)	(\$75,000)	(\$62,208)
Less estimated income	(619)	(4,034)				(4,653)
General fund	(\$5,470)	(\$38,790)	\$149,378	(\$87,671)	(\$75,000)	(\$57,555)
FTE	0.00	0.00	1.00	0.00	(1.00)	0.00

1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

2 This amendment reduces funding for information technology by \$42,824, which is \$38,790 from the general fund and \$4,034 from other funds, which represents a reduction in total information technology funding of approximately 5 percent.

3 This amendment adds funding and 1 FTE for the petroleum engineer IV position which was removed from the Oil and Gas Division in the Governor's recommendation.

4 This amendment removes partial funding for a geologist position which will terminate July 1, 2004.

5 This amendment removes one position and funding from the Geological Survey.

This amendment also adds a section for Industrial Commission review of an Oil and Gas Division and Geological Survey merger, a report to the Budget Section, and a report to the Fifty-ninth Legislative Assembly, and adds a section to provide that employee positions that become vacant for the Oil and Gas Division and Geological Survey remain vacant.

House Bill No. 1015 - Bank of North Dakota - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$16,722,966	\$16,546,603	(\$16,989)	\$16,527,614	\$16,527,614	
Operating expenses	11,372,000	11,372,000	(446,335)	10,925,665	11,014,932	(\$89,267)
Capital assets	825,000	825,000		825,000	825,000	
Contingencies	1,500,000	1,500,000		1,500,000	1,500,000	
PACE fund	5,700,000	5,700,000		5,700,000	5,700,000	
Agriculture PACE fund	1,425,000	1,425,000		1,425,000	1,425,000	
Beginning farmer	950,000	950,000		950,000	950,000	
Total all funds	\$38,494,966	\$38,318,603	(\$485,324)	\$37,833,279	\$37,942,546	(\$89,267)
Less estimated income	30,419,966	30,243,603	(485,324)	29,778,279	29,867,546	(\$89,267)
General fund	\$8,075,000	\$8,075,000	\$0	\$8,075,000	\$8,075,000	\$0
FTE	178.50	178.50	0.00	178.50	178.50	0.00

Dept. 471 - Bank of North Dakota - Detail of Conference Committee Changes

REDUCES RECOMMENDED FUNDING FOR HEALTH	REDUCES FUNDING FOR INFORMATION TECHNOLOGY	TOTAL CONFERENCE COMMITTEE
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(2) DESK, (2) COMM

Page No. 3

SR-72-8001

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10/30/03

REPORT OF CONFERENCE COMMITTEE (420)
April 21, 2003 4:52 p.m.

Module No: SR-72-8001

Insert LC: 38015.0214

	INSURANCE 1	COSTS 2	CHANGES
Salaries and wages	(\$18,989)		(\$18,989)
Operating expenses		(\$448,335)	(448,335)
Capital assets			
Contingencies			
PACE fund			
Agriculture PACE fund			
Beginning farmer			
Total all funds	(\$18,989)	(\$448,335)	(\$465,324)
Less estimated income	(18,989)	(448,335)	(465,324)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

2 This amendment reduces funding for information technology by \$448,335 from special funds, which represents a reduction in information technology funding from special funds of approximately 5 percent.

House Bill No. 1015 - Housing Finance Agency - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
Salaries and wages	\$3,978,792	\$3,934,267	(\$4,360)	\$3,929,907	\$3,929,907	
Operating expenses	2,415,560	2,415,560	(24,080)	2,391,480	2,415,560	(\$24,080)
Grants	27,188,380	27,188,380		27,188,380	27,188,380	
HFA contingencies	100,000	100,000		100,000	100,000	
Total all funds	\$33,680,732	\$33,618,207	(\$28,440)	\$33,589,787	\$33,613,847	(\$24,060)
Less estimated income	33,680,732	33,618,207	(28,440)	33,589,787	33,613,847	(24,060)
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	43.00	43.00	0.00	43.00	43.00	0.00

Dept. 473 - Housing Finance Agency - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE 1	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS 2	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$4,360)		(\$4,360)
Operating expenses		(\$24,080)	(24,080)
Grants			
HFA contingencies			
Total all funds	(\$4,360)	(\$24,080)	(\$28,440)
Less estimated income	(4,360)	(24,080)	(28,440)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

1 This amendment reduces the funding for state employee health insurance premiums from \$493 to \$488.70 per month.

2 This amendment reduces information technology by \$24,080 from special funds, which represents a reduction in information technology funding from special funds of approximately 5 percent.

House Bill No. 1015 - Mill and Elevator - Conference Committee Action

	EXECUTIVE BUDGET	HOUSE VERSION	CONFERENCE COMMITTEE CHANGES	CONFERENCE COMMITTEE VERSION	SENATE VERSION	COMPARISON TO SENATE
(2) DESK, (2) COMM						

Page No. 4

SR-72-8001

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Deanna G. Sullivan
 Operator's Signature

10/30/03
 Date

REPORT OF CONFERENCE COMMITTEE (420)
April 21, 2003 4:52 p.m.

Module No: SR-72-8001

Insert LC: 38015.0214

Salaries and wages	\$18,703,856	\$18,703,856	(\$12,900)	\$18,690,956	\$18,690,956	
Operating expenses	13,014,426	13,014,426	(23,230)	12,991,196	13,014,426	(\$23,230)
Contingencies	250,000	250,000		250,000	250,000	
Agriculture promotion	50,000	50,000		50,000	50,000	
Total all funds	\$30,018,282	\$30,018,282	(\$36,130)	\$29,982,152	\$30,005,382	(\$23,230)
Less estimated income	<u>30,018,282</u>	<u>30,018,282</u>	<u>(36,130)</u>	<u>29,982,152</u>	<u>30,005,382</u>	<u>(23,230)</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	125.00	125.00	0.00	125.00	125.00	0.00

Dept. 475 - Mill and Elevator - Detail of Conference Committee Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	REDUCES FUNDING FOR INFORMATION TECHNOLOGY COSTS ²	TOTAL CONFERENCE COMMITTEE CHANGES
Salaries and wages	(\$12,900)		(\$12,900)
Operating expenses		(\$23,230)	(23,230)
Contingencies			
Agriculture promotion			
Total all funds	(\$12,900)	(\$23,230)	(\$36,130)
Less estimated income	<u>(12,900)</u>	<u>(23,230)</u>	<u>(36,130)</u>
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ This amendment reduces the funding for state employee health insurance premiums from \$493 to \$486.70 per month.

² This amendment reduces funding for information technology by \$23,230 from special funds, which represents a reduction in information technology funding from special funds of approximately 5 percent.

This amendment also requires the Mill and Elevator Association to report to the Fifty-ninth Legislative Assembly regarding the Mill and Elevator's net income to date and estimated net income for the remainder of the 2003-05 biennium.

Engrossed HB 1015 was placed on the Seventh order of business on the calendar.

2003 TESTIMONY

HB 1015

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Deanna G. Ballantyne
Operator's Signature

10/30/03
Date

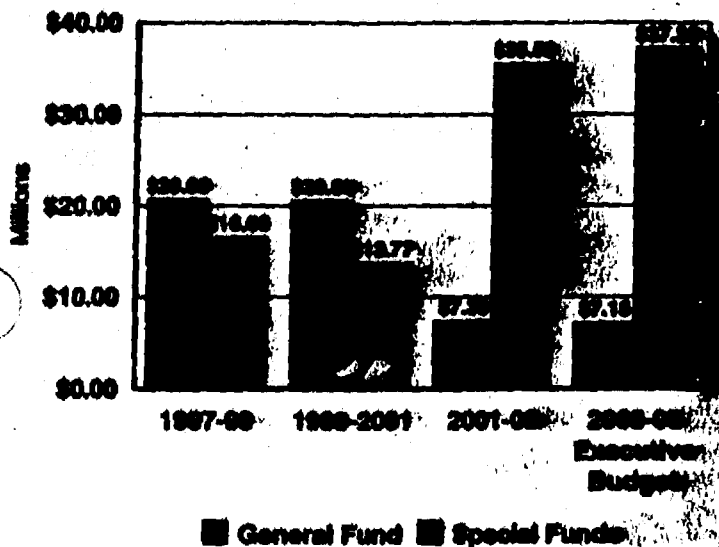
**Department 405 - Industrial Commission
House Bill No. 1015**

	FTE Positions	General Fund	Other Funds	Total
2003-05 Executive Budget	58.37	\$7,146,771	\$37,302,624	\$44,449,395
2001-03 Legislative Appropriations	63.00	7,375,627 ¹	35,587,953	42,963,580
Increase (Decrease)	(4.63)	(\$231,856)	\$1,714,671	\$1,483,015

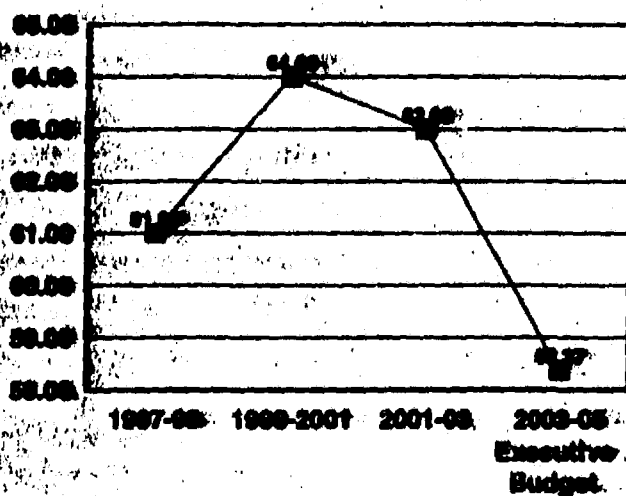
¹ The 2001-03 general fund appropriation is the amount appropriated by the 2001 Legislative Assembly and does not include a reduction of \$77,476 relating to the 1.05 percent budget allotment ordered by Governor Hoeven in July 2002.

² The 2001-03 appropriation amounts include \$16,409, \$14,448 of which is from the general fund, for the agency's share of the \$5 million funding pool appropriated to the Office of Management and Budget for special market equity adjustments for classified employees.

Agency Funding



FTE Positions



Executive Budget Highlights

1. Removes funding for the following 4.63 FTE positions:

Oil and Gas Division

.19 FTE clerk III

.19 FTE information processing coordinator II

1 FTE petroleum engineer IV

1 FTE oil and gas production analyst

Geological Survey

1 FTE geologist III

Municipal Bond Bank

1 FTE office assistant I

.25 FTE appointed

Total FTE funding removed

	General Fund	Other Funds	Total
	(\$9,583)		(\$9,583)
	(\$12,943)		(\$12,943)
	(\$151,201)		(\$151,201)
	(\$90,226)		(\$90,226)
	(\$131,152)		(\$131,152)
		(\$52,038)	(\$52,038)
		(\$39,452)	(\$39,452)
	(\$395,105)	(\$91,490)	(\$486,595)

Provides for the following Industrial Commission administration changes:

- a. Increases bond payments due to increased lease payments reflecting lower investment earnings and additional lease payments from projects financed during the 2001-03 biennium

\$1,874,931 \$1,874,931

b. Reduces grant line item to reflect the amount of funding from the lignite program's funding sources.

(\$180,000)

(\$180,000)

3. Provides funding for capital assets in three divisions, including the Oil and Gas Division (\$33,600), Geological Survey (\$22,500), and the Municipal Bond Bank (\$12,200).

\$33,600

\$12,200

\$22,500

4. Reduces operating expense line item to reflect 95 percent budget request.

\$1,150

(\$62,715)

(\$61,565)

Major Related Legislation

House Bill No. 1182 - This bill allows an election to deposit cash or property in lieu of a bond for coal exploration, subsurface mineral exploration and development, and geothermal production.

House Bill No. 1162 - This bill allows the Industrial Commission, acting as the North Dakota Building and Finance Authority, to enter into loan agreements in lieu of acquisition and leasing of any project, including the purchase or lease of software, equipment, or implementation services authorized by law or any other financing authorized by the Legislative Assembly.

Senate Bill No. 2125 - This bill allows the commission to confiscate any production-related equipment and salable oil at the well site as compensation for its costs when the commission intends to exercise or has exercised its right to plug a well or reclaim a well site.

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Operator's Signature

Deanna G. Hall

Date

10/30/03



INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Commissioner of Agriculture

**Testimony for House Bill No. 1015
Government Operations Division of the House Appropriations Committee
Karlene Fine, Executive Director and Secretary
of the Industrial Commission
January 10, 2003**

Mr. Chairman and members of the House Appropriations Committee, my name is Karlene Fine and I am Executive Director and Secretary for the Industrial Commission of North Dakota. House Bill 1015 includes the appropriations for the Industrial Commission administrative office and those agencies and programs that report to the Industrial Commission.

The Industrial Commission is made up of the Governor, as Chairman, the Attorney General and the Agriculture Commissioner. The Industrial Commission is responsible for overseeing the Bank of North Dakota, State Mill, Municipal Bond Bank, Student Loan Trust, Housing Finance Agency, oil and gas and geophysical exploration regulation through its Oil and Gas Division, Geological Survey and the various regulatory functions related to subsurface minerals, and the Lignite Research, Development and Marketing Program. In addition the Industrial Commission is the North Dakota Building Authority.

This morning I will primarily be focusing my testimony on Subdivision 1 of House Bill 1015 or Budget No. 405. Subdivision 1 includes the appropriations for the administrative office of the Industrial Commission as well as the Oil and Gas Division, Geological Survey, Municipal Bond Bank, Lignite Research, Development and Marketing Program and the lease (bond) payments for projects financed by the North Dakota Building Authority. Attached is a chart showing the various amounts for the different entities (Exhibit A). The directors of these divisions will be presenting their testimony as I have indicated on the schedule.

The administrative office for the Industrial Commission consists of two full-time employees and the budget includes funding for these two positions along with the needed dollars for operating the office. The administrative budget also includes the funding for the state's participation in the Interstate Oil and Gas Compact Commission. Governor Hoeven is currently Chairman of this multi-state organization that speaks on behalf of the oil and gas producing states before Congress and other national groups regarding legislation and regulation of the oil and gas industry.

Karlene K. Fine, Executive Director and Secretary
State Capitol, 14th Floor - 600 E Boulevard Ave Dept 405 - Bismarck, ND 58505-0840
E-Mail: kfine@state.nd.us
Phone: (701) 328-3722 FAX: (701) 328-2820
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Deanna G. Ball
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10/30/03
Date

Testimony House Bill 1015
Page 2
January 10, 2003

The administrative office budget request is \$307,726, when you exclude the Lignite Research Program and the lease payments. The administrative budget is funded by the agencies that report to the Industrial Commission. You will see this noted in Sections 4, 5, 6, 7, and 8 where authority is being requested for these agencies to transfer funds to the Industrial Commission.

To assist you in understanding the funding sources found in Subdivision 1, I have attached a separate exhibit (Exhibit B) with a breakdown of the funding. Exhibit B shows the funding sources include the General Fund dollars, non-state funds (Job Service dollars, University System building project local match, and Veterans' Home funds), transfers from the Industrial Commission agencies, Lignite Research Fund, Municipal Bond Bank funds and federal funds. No General Fund dollars are utilized for the administrative office.

Section 3 of Engrossed Senate Bill 2015 includes language that would allow the Industrial Commission to utilize funds that may become available from bonds issued by the Commission under Chapters 4-36 (agricultural revenue bonds) and 54-17.2 (North Dakota Building Authority) and Section 54-17-25 (Student Loan Trust) upon the approval of the Emergency Commission. This authority would allow reimbursement from the bond issues for extra costs incurred in preparation of the financing.

Subdivision 1 includes the lease payments (bond payments) for the North Dakota Building Authority in the amount of \$19,830,990 - see line 18 on page 1. Since 1985, the Industrial Commission has issued several series of bonds as directed by the Legislature. Projects financed have been located at the State Penitentiary, Grafton Development Center, State Hospital, Youth Correctional Center, International Peace Garden, various buildings on the University System campuses, handicapped accessibility construction on the campuses, Southeast Human Services Center in Fargo and the Veterans' Home in Lisbon.

I have attached for your information the Debt Service Schedules (Exhibits C & D) for all the outstanding and proposed North Dakota Building Authority bonds. I will be discussing these with you when House Bill 1023 is presented for consideration.

During the past two years the Commission completed the financing for projects authorized by the 2001 Legislature—Renovation of Old Main on the Minot State University Campus, State Health Department Laboratory Addition, Job Service Bismarck Service Delivery Office, and two energy conservation projects on the University of North Dakota and North Dakota State University campuses. In addition the Authority refunded the 1993A, 1993B, and 1995A outstanding bond issues and captured savings totaling \$2,280,940. These savings were directed to the 2003-2005 and 2005-2007 biennia.

Deanna Ballantyne
Operator's Signature

10/30/03
Date

Prior to the 2001-2003 biennium, the costs for the leases (debt service) on all Building Authority financings had been included only in the Industrial Commission's budget. As was done for 2001-2003 biennium the 2003-2005 Executive Budget has been prepared with the debt service costs shown in this bill as special funds. The lease payments have also been reflected in the various budgets of the agencies that received the dollars raised through bonding. Those budgets reflect whether the source of funding is General Fund dollars, federal funds or special funds (local match dollars). The projected lease payments needed during the 2003-05 biennium are as follows:

Lease Payments

Bond Issue Year	Agency	Amount
90A/93A/03A	University System (all campuses)	\$ 4,323,489
90B/93A/03A	State Penitentiary	\$ 920,474
90C/93A/03A	Veterans' Home	\$ 235,050
86A/91A/98B	Developmental Center	\$ 627,582
86A/91A/98B	State Hospital	\$ 547,608
86A/91A/98B	State Penitentiary	\$ 1,196,535
92A/98B	Southeast Human Services Center	\$ 589,075
93B/02C	Adjutant General	\$ 60,987
93B/02C	Job Service	\$ 243,330
93B/02C	University System	\$ 1,763,053
95A/02D	University System	\$ 2,875,763
98A	University System	\$ 1,059,746
98A	Youth Correctional Center	\$ 260,316
98C	University System	\$ 780,460
00A	University System	\$ 441,422
00A	Youth Correctional Center	\$ 294,282
01A	University System	\$ 1,546,756
02A	Job Service	\$ 310,264
02A	Department of Health	\$ 387,673
		\$18,463,865
02B	Energy Conservation/NDUS	\$ 1,367,125
Total		\$19,830,990

The following non-General Fund sources will be utilized to pay a portion of these costs:

Job Service North Dakota (02A)	\$ 310,264
Job Service North Dakota (93B/02C)	\$ 243,330
Veterans' Home (90C/93A/03A)	\$ 235,050
Human Services (92A/98B) (federal funds)	\$ 94,886
University System (90/93A)	\$ 312,500
University System (98A)	\$ 100,000
University System (01A)	\$ 930,000
Dept. of Health (02A) (federal funds)	\$ 251,988
	\$2,478,018

Testimony House Bill 1015
Page 4
January 10, 2003

The Industrial Commission has been responsible for the Lignite Research, Development and Marketing Program since 1987. The proposed funding for this program in the amount of \$16,270,000 is shown in Subdivision 1 on line 17--Grants. John Dwyer, Chairman of the Lignite Research Council, is here to testify on this program.

Thank you for this opportunity to present testimony on the Industrial Commission budget.

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Dennis G. Hall
Operator's Signature

10/30/03
Date

Exhibit A

2003 - 2005 Industrial Commission Budget

(as contained in House Bill 1015)

	Administration	Municipal Bond Bank	Oil & Gas	Geological Survey	Total
Salaries & Wages	202,209	314,378	3,713,073	2,103,054	6,332,714
Operating	105,517	242,500	1,028,671	570,903	1,947,591
Capital Assets	0	12,200	33,600	22,500	68,300
405 Lignite Research	16,270,000	0	0	0	16,270,000
405 Lease Payments	19,830,990	0	0	0	19,830,990
Total	36,408,716	569,078	4,775,344	2,696,457	44,449,595
General Funds	0	0	4,605,341	2,541,430	7,146,771
Federal Funds	0	0	170,003	155,027	325,030
Special Funds	36,408,716	569,078	0	0	36,977,794
Total	36,408,716	569,078	4,775,344	2,696,457	44,449,595

HB1015

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10/30/03

**House Bill 1015
Subdivision One
Breakdown of Funding Sources**

Exhibit B

Lease (Bond) Payments: (Section 11)		
Higher Education Institutions	12,790,889	
Job Service North Dakota	553,594	
Department of Human Services	589,075	
Department of Human Services - State Hospital	547,808	
Department of Human Services - Dev. Cen. Grafton	627,582	
Department of Corrections - State Penitentiary	2,117,009	
Department of Corrections - YCC	554,598	
Adjutant General	60,987	
Veteran's Home Improvement Fund	235,050	
Department of Health	387,673	
University System Energy Conservation Projects	<u>1,367,125</u>	
	19,830,990	19,830,990
Transfer for Administrative Office (Sections 4,5,6,7 & 8)		
MW & Elevator	66,407	
Bank of North Dakota	86,656	
Housing Finance Agency	57,760	
Municipal Bond Bank	20,248	
Student Loan Trust	<u>78,655</u>	
	307,726	20,138,716
Lignite Research Fund	16,270,000	38,408,716
Municipal Bond Bank Funds	569,078	36,977,794
General Funds		
Oil and Gas Division	4,605,341	
Geological Survey	<u>2,541,430</u>	
	7,146,771	44,124,565
Federal Funds		
Oil and Gas Division	170,003	
Geological Survey	<u>155,027</u>	
	325,030	44,449,595

03-05 Budget breakdown

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HB 1015
4-17-03

Industrial Commission Budget FTE & Salaries Information							
	Geological Survey	Oil and Gas Division	Total	Reduction	Effective Date	General Fund	Federal Funds
2001-2003 biennium	21.65	35.35	57			\$5,781,432	\$202,463
Executive Budget	20.65	32.97	53.62	3.38		\$5,492,313	\$323,810
House Actions	20.65	32.97	53.62			\$5,429,983	\$323,117
Senate Actions	combined		48.62	5		\$5,026,325	\$323,014
Total Reduction				8.38			
Retirement			O/G Auditor	1	7/1/2003	\$87,244	
Reduction in Hours				0.38	7/1/2003	\$22,247	
Reduction-in-Force			Geologist III	1	7/1/2003	\$127,669	
Reduction-in-Force				6	1/1/2004	\$535,500	

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Operator's signature

[Signature]

10/30/03
Date

Current Biennium

Oil and Gas Division					
1 Director/Reservoir Engineer	Lynn Helms				
1 Assistant Director/Reservoir Engineer	Bruce Hicks				
3 Petroleum Engineer IV	Mark Bohrer	Jim Legerski	Glenn Wollan		
5 Petroleum Engineer III - 3 Field - 2 Central	Dave McCusker	Kelly Triplett	Rich Hutchens	Bob Garbe	John Axtman
4 Petroleum Engineer II - Field	Jason Erickson	Todd Holweger	Jim Duffy	Tom Delling	
4 Petroleum Engineer I - Field	Darrell Nodland	Jesse Frank	Scott Dihle	Scott Ladner	
1 Meter Specialist	Daryl Gronfur				
1 Seismic Supervisor	Dave Hvinden				
1 Seismic Field Rep	Tom Torstenson				
1 Data Processing Coordinator IV	Jim Lindholm				
1 Data Processing Coordinator II	Kyle Joersz				
2 Oil & Gas Production Auditor	Sheila O'Shaughnessy	Annette Materi			
1 Legal Assistant	Marge Rixen				
1 File Clerk	Evie Roberson				
1 Administrative Secretary	Karla Lorentzen				
1 Office Assistant II	Kelly Weber				
1 Information Center Spec. II	Pete Borggreve				
1 Information Process Coordinator II	Tracy Heilman				
1 Administrative Secretary	Donna Bauer				
1 Petroleum Resource Geologist	Bruce Juenker				
1 Engineering Technician IV	Rich Baker				
	34				
Geological Survey					
1 State Geologist	John Bluemie				
1 Assistant Director/Geologist IV	Ed Murphy				
5 Geologist III - 4 Central; 1 Core Library	Randy Burke	Paul Diehl	Julie LaFever	Tom Heck	John Hoganson
2 Geologist II	Mark Gonzalez	Lorraine Manz			
5 Geo Map Tech II	Ken Urlacher	Sheila Glaser	Robert Shjeflo	Don Thom	Steve Kranich
2 Lab Technicians II - 1 Central; 1 Core Library	Kent Hollands	Russ Prange			
1 Administrative Assistant II	Linda Johnson				
1 Office Assistant III	Linda Hagen				
1 Paleontology Lab Specialist	Jon Campbell (Vacant)				
1 GIS Specialist	Eiroy Kadmas				
1 Data processing Coordinator II	Jim Martel				
	21				
Shared Positions					
1 Business Manager II	Karen Gutenkunst				
1 Administrative Officer I	Beverly Zwing				
	2				

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10/30/03
Date



INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Commissioner of Agriculture

**Testimony for Engrossed House Bill No. 1015
Senate Appropriations Committee
Karlene Fine, Executive Director and Secretary
of the Industrial Commission
March 7, 2003**

Mr. Chairman and members of the Senate Appropriations Committee, my name is Karlene Fine and I am Executive Director and Secretary for the Industrial Commission of North Dakota. Engrossed House Bill 1015 includes the appropriations for the Industrial Commission administrative office and those agencies and programs that report to the Industrial Commission.

The Industrial Commission is made up of the Governor, as Chairman, the Attorney General and the Agriculture Commissioner. The Industrial Commission is responsible for overseeing the Bank of North Dakota, State Mill, Municipal Bond Bank, Student Loan Trust, Housing Finance Agency, oil and gas and geophysical exploration regulation through its Oil and Gas Division, Geological Survey and the various regulatory functions related to subsurface minerals, and the Lignite Research, Development and Marketing Program. In addition the Industrial Commission is the North Dakota Building Authority.

This morning I will primarily be focusing my testimony on Subdivision 1 of Engrossed House Bill 1015 or Budget No. 405. Subdivision 1 includes the appropriations for the administrative office of the Industrial Commission as well as the Oil and Gas Division, Geological Survey, Municipal Bond Bank, Lignite Research, Development and Marketing Program and the lease (bond) payments for projects financed by the North Dakota Building Authority. Attached is a chart showing the various amounts for the different entities (Exhibit A). The directors of these divisions will be presenting their testimony as I have indicated on the schedule.

The administrative office for the Industrial Commission consists of two full-time employees and the budget includes funding for these two positions along with the needed dollars for operating the office. The administrative budget also includes the funding for the state's participation in the Interstate Oil and Gas Compact Commission. Governor Hoeven is currently Chairman of this multi-state organization that speaks on behalf of the oil and gas producing states before Congress and other national groups regarding legislation and regulation of the oil and gas industry.

Karlene K. Fine, Executive Director and Secretary
State Capitol, 14th Floor - 600 E Boulevard Ave Dept 405 - Bismarck, ND 58505-0840
E-Mail: kfine@state.nd.us
Phone: (701) 328-3722 FAX: (701) 328-2820
"Your Gateway to North Dakota": discovernd.com

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Deanna G. Ball
Operator's Signature

10/30/03
Date

Testimony House Bill 1015
Page 2
March 7, 2003

The administrative office budget request is \$305,523, when you exclude the Lignite Research Program and the lease payments. The administrative budget is funded by the agencies that report to the Industrial Commission. You will see this noted in Sections 4, 5, 6, 7, and 8 where authority is being requested for these agencies to transfer funds to the Industrial Commission.

To assist you in understanding the funding sources found in Subdivision 1, I have attached a separate exhibit (Exhibit B) with a breakdown of the funding. Exhibit B shows the funding sources include the General Fund dollars, non-state funds (Job Service dollars, University System building project local match, and Veterans' Home funds), transfers from the Industrial Commission agencies, Lignite Research Fund, Municipal Bond Bank funds and federal funds. No General Fund dollars are utilized for the administrative office.

Section 3 of Engrossed House Bill 1015 includes language that would allow the Industrial Commission to utilize funds that may become available from bonds issued by the Commission under Chapters 4-36 (agricultural revenue bonds) and 54-17.2 (North Dakota Building Authority) and Section 54-17-25 (Student Loan Trust) upon the approval of the Emergency Commission. This authority would allow reimbursement from the bond issues for extra costs incurred in preparation of the financing.

Subdivision 1 includes the lease payments (bond payments) for the North Dakota Building Authority in the amount of \$19,830,990 - see line 18 on page 1. Since 1985, the Industrial Commission has issued several series of bonds as directed by the Legislature. Projects financed have been located at the State Penitentiary, Development Center located in Grafton, State Hospital, Youth Correctional Center, International Peace Garden, various buildings on the University System campuses, handicapped accessibility construction on the campuses, Southeast Human Services Center in Fargo and the Veterans' Home in Lisbon.

I have attached for your information the Debt Service Schedules (Exhibits C & D) for all the outstanding and the proposed North Dakota Building Authority projects included in House Bill 1023. You have previously seen Exhibits C & D as they were provided by Sheila Peterson when you heard House Bill 1023 last week. Also attached (Exhibit E) is a Debt Service Schedule that includes the three projects (Dickinson, Mayville and Valley City) to be financed by the North Dakota Building Authority included in Engrossed House Bill 1003. Exhibit E is a new chart that includes the North Dakota University System projects that were not in the Governor's Executive Budget.

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Deanna Gullhaugen
Operator's Signature

10/30/03
Date

During the past two years the Commission completed the financing for projects authorized by the 2001 Legislature—Renovation of Old Main on the Minot State University Campus, State Health Department Laboratory Addition, Job Service Bismarck Service Delivery Office, and two energy conservation projects on the University of North Dakota and North Dakota State University campuses. In addition the Authority refunded the 1993A, 1993B, and 1995A outstanding bond issues and captured savings totaling \$2,280,940. These savings were directed to the 2003-2005 and 2005-2007 biennia.

Prior to the 2001-2003 biennium, the costs for the leases (debt service) on all Building Authority financings had been included only in the Industrial Commission's budget. As was done for 2001-2003 biennium the 2003-2005 Executive Budget has been prepared with the debt service costs shown in this bill as special funds. The lease payments have also been reflected in the various budgets of the agencies that received the dollars obtained through bonding. Those budgets reflect whether the source of funding is General Fund dollars, federal funds or special funds (local match dollars). The projected lease payments needed during the 2003-05 biennium are as follows:

Bond Issue Year	Agency	Amount
90A/93A/03A	University System (all campuses)	\$ 4,323,489
90B/93A/03A	State Penitentiary	\$ 920,474
90C/93A/03A	Veterans' Home	\$ 235,050
86A/91A/98B	Developmental Center	\$ 627,582
86A/91A/98B	State Hospital	\$ 547,608
86A/91A/98B	State Penitentiary	\$ 1,196,535
92A/98B	Southeast Human Services Center	\$ 589,075
93B/02C	Adjutant General	\$ 60,987
93B/02C	Job Service	\$ 243,330
93B/02C	University System	\$ 1,763,053
95A/02D	University System	\$ 2,875,763
98A	University System	\$ 1,059,746
98A	Youth Correctional Center	\$ 260,316
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00A	University System	\$ 441,422
00A	Youth Correctional Center	\$ 294,282
01A	University System	\$ 1,546,756
02A	Job Service	\$ 310,264
02A	Department of Health	\$ 387,673
		<u>\$18,463,865</u>
02B	Energy Conservation/NDUS	\$ 1,367,125
Total		<u>\$19,830,990</u>

Testimony House Bill 1015
Page 4
March 7, 2003

The following non-General Fund sources will be utilized to pay a portion of these costs:

Job Service North Dakota (02A)	\$ 310,264
Job Service North Dakota (93B/02C)	\$ 243,330
Veterans' Home (90C/93A/03A)	\$ 235,050
Human Services (92A/98B) (federal funds)	\$ 94,886
University System (90/93A)	\$ 312,500
University System (98A)	\$ 100,000
University System (01A)	\$ 930,000
Dept. of Health (02A) (federal funds)	<u>\$ 251,988</u>
	\$2,478,018

Thank you for this opportunity to present testimony on the Industrial Commission budget.

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Deanna Ball
Operator's Signature

10/30/03
Date

Exhibit A

2003 - 2005 Industrial Commission Budget

(as contained in Engrossed House Bill 1015)

	Municipal		Geological		
	Administration	Bond Bank	Oil & Gas	Survey	Total
Salaries & Wages	200,006	310,939	3,672,515	2,080,587	6,264,047
Operating	105,517	242,500	1,028,671	570,903	1,947,591
Capital Assets	0	12,200	33,600	22,500	68,300
405 Lignite Research	16,270,000	0	0	0	16,270,000
405 Lease Payments	19,830,990	0	0	0	19,830,990
Total	36,406,513	565,639	4,734,786	2,673,990	44,380,928
General Funds	0	0	4,564,783	2,519,656	7,084,439
Federal Funds	0	0	170,003	154,334	324,337
Special Funds	36,406,513	565,639	0	0	36,972,152
Total	36,406,513	565,639	4,734,786	2,673,990	44,380,928

HB1015

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10/30/03

**Engrossed House Bill 1015
Subdivision One
Breakdown of Funding Sources**

Exhibit B

Lease (Bond) Payments: (Section 11)		
Higher Education Institutions	12,790,689	
Job Service North Dakota	553,594	
Department of Human Services	589,075	
Department of Human Services - State Hospital	547,608	
Department of Human Services - Dev. Cen. Grafton	627,582	
Department of Corrections - State Penitentiary	2,117,009	
Department of Corrections - YCC	554,598	
Adjutant General	60,987	
Veteran's Home Improvement Fund	235,050	
Department of Health	387,673	
University System Energy Conservation Projects	<u>1,367,125</u>	
	19,830,990	19,830,990
Transfer for Administrative Office (Sections 4,5,6,7 & 8)		
Mill & Elevator	66,407	
Bank of North Dakota	84,453	
Housing Finance Agency	57,760	
Municipal Bond Bank	20,248	
Student Loan Trust	<u>76,655</u>	
	305,523	20,136,513
Lignite Research Fund	16,270,000	36,406,513
Municipal Bond Bank Funds	565,639	36,972,152
General Funds		
Oil and Gas Division	4,564,783	
Geological Survey	<u>2,519,656</u>	
	7,084,439	44,056,591
Federal Funds		
Oil and Gas Division	170,003	
Geological Survey	<u>154,334</u>	
	324,337	44,380,928

03-05 Budget breakdown

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Deanna Ballantyne
Operator's Signature

10/30/03
Date

Prepared by the North Dakota Legislative Council
staff for House Appropriations
January 7, 2003

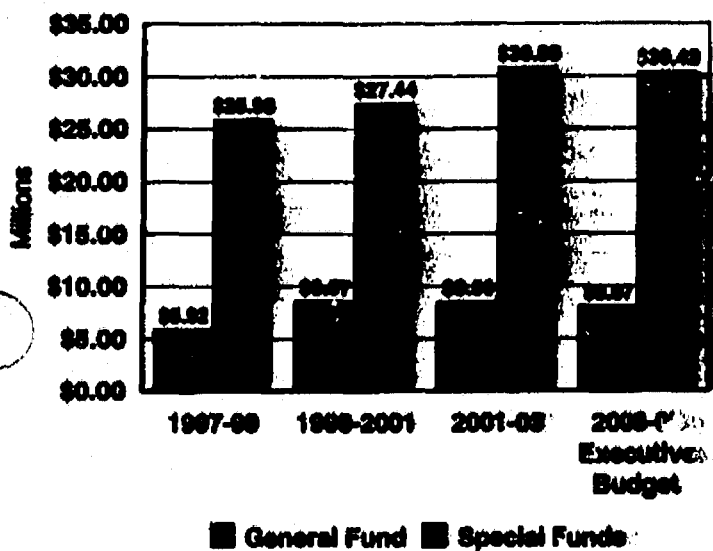
Department 471 - Bank of North Dakota
House Bill No. 1015

	FTE Positions	General Fund	Other Funds	Total
2003-05 Executive Budget	178.50	\$8,075,000	\$30,419,966	\$38,494,966
2001-03 Legislative Appropriations	178.50	8,500,000 ¹	30,881,996	39,381,996 ²
Increase (Decrease)	0.00	(\$425,000)	(\$462,032)	(\$887,032)

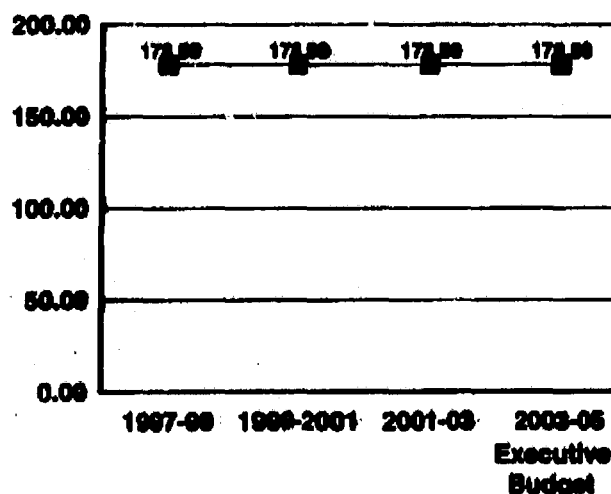
¹ The 2001-03 general fund appropriation is the amount appropriated by the 2001 Legislative Assembly and does not include a reduction of \$89,250 relating to the 1.05 percent budget allotment ordered by Governor Hoeven in July 2002.

² The 2001-03 appropriation amounts include \$101,131 of other funds for the agency's share of the \$5 million funding pool appropriated to the Office of Management and Budget for special market equity adjustments for classified employees.

Agency Funding



FTE Positions



Executive Budget Highlights

	General Fund	Other Funds	Total
1. Provides a 3.1 percent net decrease in operating expenses due in part to a reduction in information technology production costs (\$2,041,624), a reduction in information technology contractual services (\$317,000), an increase in information technology software purchases (\$450,000), an increase in professional services (\$895,000), and an increase in information technology equipment (\$320,000)		(\$366,386)	(\$366,386)
2. Reduces contingency line item from \$2,850,000 to \$1,500,000 for the potential need for additional time for the Information Technology Department to complete development of student loan software		(\$1,350,000)	(\$1,350,000)
3. Reduces general fund appropriation for PACE (\$300,000), Ag PACE (\$75,000), and beginning farmers (\$50,000) for the 2003-05 biennium by 5 percent providing the following program amounts: PACE - \$5.7 million Ag PACE - \$1.425 million Beginning farmers - \$950,000	(\$425,000)		(\$425,000)
4. Provides an increase in capital assets of \$49,062, resulting in \$825,000 for capital assets for office and information technology equipment		\$49,062	\$49,062

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Dennis G. Hall
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Major Related Legislation

House Bill No. 1116 - This bill changes the authority of the Bank of North Dakota regarding trust preferred securities transactions to include the authority to make, purchase, guarantee, or hold loans to an investment company created for completing a trust preferred securities transaction for the benefit of a financial institution located in this state.

House Bill No. 1118 - This bill provides that notwithstanding any other provision of law, the Bank may transfer any unobligated funds between funds that have been appropriated by the Legislative Assembly for interest buydown in the beginning farmers loan fund and the agriculture partnership in assisting community expansion fund.

Senate Bill No. 2015 - Section 9 of this bill provides that the Bank of North Dakota transfer \$60 million from the Bank's current earnings and accumulated undivided profits to the general fund. No more than \$15 million of the \$60 million to be transferred may come from the accumulated and undivided profits of the Bank, and no transfer may reduce the Bank's capital structure below \$140 million.

Senate Bill No. 2015 - Section 10 of this bill allows for a contingency transfer of additional funds from the Bank of North Dakota to the general fund if actual 2003-05 revenues are less than projected. The additional funds transferred may not exceed the lesser of the amount of the revenue shortfall or \$25 million, and no transfer could be made which would reduce the Bank's capital structure below \$140 million.

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**TESTIMONY TO THE
HOUSE APPROPRIATIONS COMMITTEE**

JANUARY 10, 2003

HOUSE BILL 1015

ERIC HARDMEYER - BANK OF NORTH DAKOTA

House Bill 1015 contains five sections relative to Bank of North Dakota. Those sections are listed below along with the page numbers which correspond in this testimony:

Section 1: Appropriations

Subdivision 2: BND Operations (pages 2-6)

Subdivision 3: Appropriations for PACE, Ag PACE, and Beginning Farmer (p. 7-15)

Section 5: BND Transfer to the Industrial Commission for its administration and clerical support operations (page 16)

Section 12: BND Enterprise Fund, not Government Fund (page 16)

Section 13: Exemption of contingency appropriation from provisions of section 54-44. 1-11 (page 16)

Section 14: Emergency provision for PACE, Ag PACE and Beginning Farmer funding (page 16)

Comments relative to each section and subdivision, along with supporting documentation, are attached.

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BANK OF NORTH DAKOTA
HOUSE BILL 1015, Section 1, Subdivision 2

The Bank of North Dakota's (BND) 2003-05 proposed operations budget is comprised of the five major line items outlined below. BND revenues fund all Bank expenses and profits are available to provide capital or make transfers to the General Fund.

Below is the last four years of income and the projection for 2003:

BND Income (millions)				
<u>1999</u>	<u>2000</u>	<u>2001</u>	Unaudited <u>2002</u>	Projected <u>2003</u>
\$30.5	\$32.6	\$33.1	\$32.2	\$31.0

Income over the last 4 years has been steady with growth in each of the three previous years. Although 2002 numbers are unaudited at this point, income is down by \$900,000 due to lower interest margins resulting from the current low interest rate environment. However, actual net income for 2002 was \$800,000 higher than budget, this can be attributed to increased fee income and expense control. Net income for 2003 is projected to decrease to \$31.0 million as we continue to see shrinking margins in this low-rate environment.

BND Total Assets and Capital (millions)				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	Unaudited <u>2001</u> <u>2002</u>
Assets	\$1,609	\$1,687	\$1,808	\$2,107 \$1,975
Capital	\$ 140	\$ 139	\$ 153	\$ 170 \$ 171
Ratio	8.7%	8.24%	8.46%	8.07% 8.66%

Assets over the past 4 years have shown growth with the exception of 2002, which showed a decrease of \$132 million. This decrease is due mainly to deposit maturation. For 2003, capital will decrease by the amount of the reserve transfer (up to \$25 million).

BND's Total Loan Portfolio (millions)				
<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	Unaudited <u>2002</u>
\$835	\$1,056	\$1,158	\$1,272	\$1,330

Loan growth has increased steadily over the past 5 years. In 2002 loan growth was \$58 million despite selling over \$65 million of student loans to the Student Loan Trust. The bank has experienced widespread growth, with the business and residential portfolios showing the greatest increase. BND has averaged financing 200 business and industrial projects per year or more than 1000 projects over the last 5 years, creating thousands of new jobs in North Dakota.

Overall, our requested budget is nearly \$500,000 less than the previous blennium.

MAJOR LINE ITEM EXPENSE CATEGORIES:

SALARIES AND WAGES

Budget 2003-2005	\$16,722,966
Budget 2001-2003	<u>15,517,674</u>
	\$ 1,205,292

The salaries and wages line item includes budget increases of 1% per annum the first year of the 2003-2005 blennium beginning the month of January 2004 and 2% the next year beginning in January of 2005.

BND continues to monitor efficiency ratios for salaries and wages and also in regard to the number of employees at the Bank. Expenditures for salaries and benefits are .39% of average assets. Industry average for banks in North Dakota is over 1.3%. Operating profit per employee at BND is \$190,000, compared to the industry average for banks in North Dakota of less than \$80,000. There are \$11.6 million in assets per employee at BND. The industry average for banks in North Dakota ranges from \$2 million to \$3 million per employee depending on bank size. These industry averages are taken from the 2002 Sheshunoff Publication: Banks and S&L's of the Great Plains. Sheshunoff is a nationally recognized bank analysis and consulting firm.

OPERATING EXPENSES

Budget 2003-2005	\$11,372,000
Budget 2001-2005	<u>\$11,738,386</u>
	\$ (366,386)

The overall decrease in operating expenses is 3.12%, or 1.56% per annum.

The major components under operating expense that are changing are as follows:

<u>Item</u>	<u>Change</u>
EDP Production	\$2,041,000 -
Professional Services	\$ 895,000+
Computer Software Purchases	\$ 450,000+

EDP Production expense (which is \$1,700,000 or 15% of the entire operating budget) is planned to decrease based on EDP development (new system and system maintenance) activities associated with the BND/SLND E-Business Initiative. This initiative essentially includes the development and implementation of systems that provide Bank of North Dakota and Student Loans of North Dakota customers with the ability to perform business activity electronically. Core business processes have been put online connecting BND's critical business systems with internal and external customers through multiple channels including the internet, intranet, e-mail, interactive voice response and fax. BND's existing static website has been replaced with a dynamic site allowing customers to interact with their accounts to exchange information and conduct transactions.

This initiative includes the replacement of SLND's existing lender and guarantor legacy systems which are no longer adequate to support the needs of SLND and its customers and are not cost effective to operate or support. When both SLND systems are replaced, EDP Production expense will decrease significantly, with a projected expense reduction of greater than 50%.

Project status Our plan at the beginning of the 2001-2003 biennium was to have both the guarantor and lender systems developed and deployed by July 1, 2003. However, our current schedule has the guarantor system fully developed by April 23, 2003, and tested, and deployed on June 4, 2003. The development of the lender system has begun and will use a significant portion of the code and architecture developed for the guarantor system. The completion date for the lender system has not been determined, but it is likely that it will be finished in the later part of the 2003-2005 biennium. There are no major roadblocks impeding our process, but it has proven to be more complicated and time-consuming than originally planned.

Along with funding from the Student Loan Trust, we had built \$2,850,000 in the current biennium for the development of both systems. We will have approximately \$900,000 remaining in this line item at the end of the biennium. Section 13 of this bill requests an exemption from 54-44.1-11 allowing BND to use those remaining funds in the 2003-2005 biennium to complete the development of the lender system.

As discussed above at EDP Production, SLND's existing transaction processing and customer service systems are no longer adequate to support the needs of SLND and its customers and are not cost effective to operate or support. The existing student loan systems have put SLND at a competitive disadvantage in the marketplace and are not providing North Dakota's students and schools with the timely access to accurate information about accounts that SLND's out of state competitors currently provide.

Student Loans of North Dakota's existing systems are written in programming languages that do not lend themselves to supporting the web-based interactivity that SLND's customers expect. The systems are receiving minimal support from the vendors and are consuming substantial internal resources to keep them in production. With each passing year, the inadequate condition of the systems puts the integrity of SLND's student loan data at increased risk and threatens the accomplishment of SLND's mission to maintain systems to meet the needs of student loan borrowers.

BND/SLND has conducted extensive research into alternatives available to replace the existing systems. No feasible alternatives were identified and the most effective course of action was to develop the system internally. Several factors contributed to the difficulty in locating an acceptable replacement:

1. Student Loans of North Dakota is very unusual in that it operates both a full service loan servicing function and a loan guaranty agency. For maximum efficiency, cost effectiveness, customer service and competitive advantage, SLND requires an integrated loan servicing and loan guaranty system.
2. Those systems that have been identified to-date as possible candidates to replace SLND's systems have been thoroughly investigated and subsequently determined to have system features that offer SLND little or no advantage over the existing systems.
3. The student loan industry continues to consolidate aggressively reducing the number of potential customers for student loan systems and acting as a disincentive to developers of new student loan systems.

Professional Services The State Auditors Office requested that expenses totaling \$725,000 associated with investment services and check clearing be included in the appropriation request. Previously, these expenditures had been considered non-appropriated expenditures. The other major increase in professional services relates to \$170,000 increase in other reference service product needs

Computer Software Purchases The major purchase for the 2003-2005 biennium will be replacement of core banking systems. Systems included are general ledger, investment, trust accounting, commercial loans, real estate loans and deposit systems. Included in this is an evaluation of cost and performance of existing systems versus replacement technology. All functionality of the new ERP system will be included in the analysis.

Existing core banking systems use a variety of systems that were purchased in the mid-1980's. They are stand alone systems that cannot be integrated, use antiquated technology, and are expensive to maintain. A new core banking suite will tie these functions together into one integrated system that should be cheaper to maintain and operate.

CAPITAL ASSETS

Budget 2001-2003	\$ 825,000
Budget 1997-1999	<u>775,938</u>
	\$ 49,062

The equipment budgeted expenditures include approximately \$200,000 for purchase or replacement of equipment for operations and office furniture. It also includes \$300,000 for computer hardware needs and \$100,000 for the core banking equipment.

House Bill 1015
Page 6

CONTINGENCY

Budget 2003-2005	\$ 1,500,000
Budget 1999-2001	<u>2,850,000</u> - <i>unspent 1M</i>
	\$ (1,350,000)

The \$1,500,000 requested is to budget for the potential need for additional production time from the Information Technology Department, complete the development of the student loan software, or purchase image software and hardware.

As described in the operating expense line item, there is a high probability that the lender system will not be finished until the later part of 2003-05 biennium. Until we can move off the existing lender system which is housed on ITD's mainframe, our production costs will continue to run at \$100,000 per month. Once completed, those costs are gone.

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10/30/03
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**BANK OF NORTH DAKOTA
HOUSE BILL 1015, Section 1, Subdivision 3
PACE, AG PACE, BEGINNING FARMER**

PACE FUND - The 2003-2005 request is for \$5,700,000.

The PACE Fund was established to buy down the interest rate on loans to assist North Dakota communities in expanding their economic base by providing local jobs development. The program is available to all cities and counties throughout North Dakota for business projects involved in manufacturing, processing, value-added processes and targeted service industries.

The PACE Fund began in 1991. Money provided to the PACE Fund by biennium are as follows:

1991-1993	\$5,700,000
1993-1995	4,700,000
1995-1997	4,500,000
1997-1999	4,600,000
1999-2001	6,000,000
2001-2003	6,000,000
2003-2005	<u>5,700,000</u> (Proposed)
Total	\$37,200,000

AG PACE FUND - The 2003-2005 request is for \$1,425,000.

The Ag PACE Fund was established to buy down the interest rate on loans to on-farm businesses. The program is available to businesses which are integrated into the farm operation and will supplement farm income.

The Ag PACE Fund began in 1991. Money provided to the Ag PACE Fund by biennium are as follows:

1991-1993	\$ 996,000
1993-1995	400,000
1995-1997	380,000
1997-1999	397,100
1999-2001	1,500,000
2001-2003	1,500,000
2003-2005	<u>1,425,000</u> (Proposed)
Total	\$6,598,100

House Bill 1015
Page 8

BEGINNING FARMER REVOLVING LOAN FUND - The 2003-2005 request is for \$950,000.

The Beginning Farmer Revolving Loan Fund was established to make direct loans or buy down the interest rate on loans to beginning farmers for the first purchase of farm real estate or chattels.

General Fund dollars appropriated for buying down the interest rate on these loans by biennium are as follows:

1991-1993	\$1,000,000
1993-1995	1,000,000
1995-1997	950,000
1997-1999	921,500
1999-2001	1,000,000
2001-2003	1,000,000
2003-2005	<u>950,000</u> (Proposed)
Total	\$6,821,500

A more detailed explanation of each program and the performance statistics are attached.

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PARTNERSHIP IN ASSISTING COMMUNITY EXPANSION (PACE)

The PACE program was established in 1991 to assist North Dakota communities in expanding their economic base. The program is available to all cities and counties throughout North Dakota for business projects that create new wealth (i.e. manufacturing, processing and targeted services industries). The program provides low interest loans to business entities through a partnership effort between the local community and the State. The maximum buy down amount permitted to be provided by the State is \$250,000 per biennium and the borrower must create at least one job per \$75,000 of total borrowing within the first year. The local community must also put up part of the buy down in each case thereby sharing the cost. This cost is less for smaller and more distressed communities, as they pay a lower percentage of the buy down amount than do larger or economically stronger communities.

The PACE program has been an important component of business financing in over 50 communities throughout North Dakota. The program can be tied to the creation of over 9,023 new jobs and another 100 are committed to be created within the next year.

The PACE program works well because it has clearly defined guidelines and measurable cost and benefits. The well-defined guidelines enable the effective and fair administration by the Bank of North Dakota and the effective marketing and utilization by the economic development community.

House Bill 1015
Page 10

	<u>FUNDED LOANS</u>	<u>COMMITTED LOANS</u>	<u>TOTAL LOANS</u>
NUMBER	455	12	467
AMOUNT	\$ 276.3	\$ 8.8	\$ 285.1
BUYDOWN	\$ 37.6	\$ 1.1	\$ 38.7
JOBS	9,023	100	9,123

Total Available Funds	\$6,690,024
Buydown funds - Funded/Committed Loans	\$4,450,396
Remaining Buydown Funds	\$2,239,628

IN THE FACE PROGRAM

County	Loans
Blaine	6
Burke	1
Cass	111
Cavalier	4
Pembina	7
Minnehaha	1
McRae	1
Mountrail	1
Ward	41
May	1
Pierce	3
Ramsey	14
Walsh	8
Grand Forks	1
Nelson	2
Grand Rapids	1
Eddy	2
Wells	3
Sheridan	1
Foster	1
Griggs	6
Stark	36
Billings	1
Dunn	2
Oliver	2
Burleigh	16
Bowman	17
Barnes	16
Cass	111
Slope	1
Hettinger	1
Adams	2
Bottineau	10
Logan	1
LaMoure	1
Ransom	2
Richland	10
McIntosh	6
Bismarck	4
Sargent	1

This graph depicts loan activity in the PACE Loan Program from its inception on March 2, 1990 to January 1, 2003

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House Bill 1015
Page 11

**AGRICULTURAL PARTNERSHIP IN ASSISTING COMMUNITY EXPANSION
(AG PACE)**

The sister program to PACE is Ag FACE. Developed to meet the needs of farm diversification, the program is designed to assist projects which are not involved in traditional agriculture or livestock.

By December 31, 2002, the program had funded or committed to fund 425 different loans in locations throughout North Dakota. Projects eligible to be financed under this project include; crop irrigation systems, purchase of equity shares, finishing facilities, value-added processing. By December 31, 2002, over \$16,640,000 in loans were funded under the Ag PACE program.

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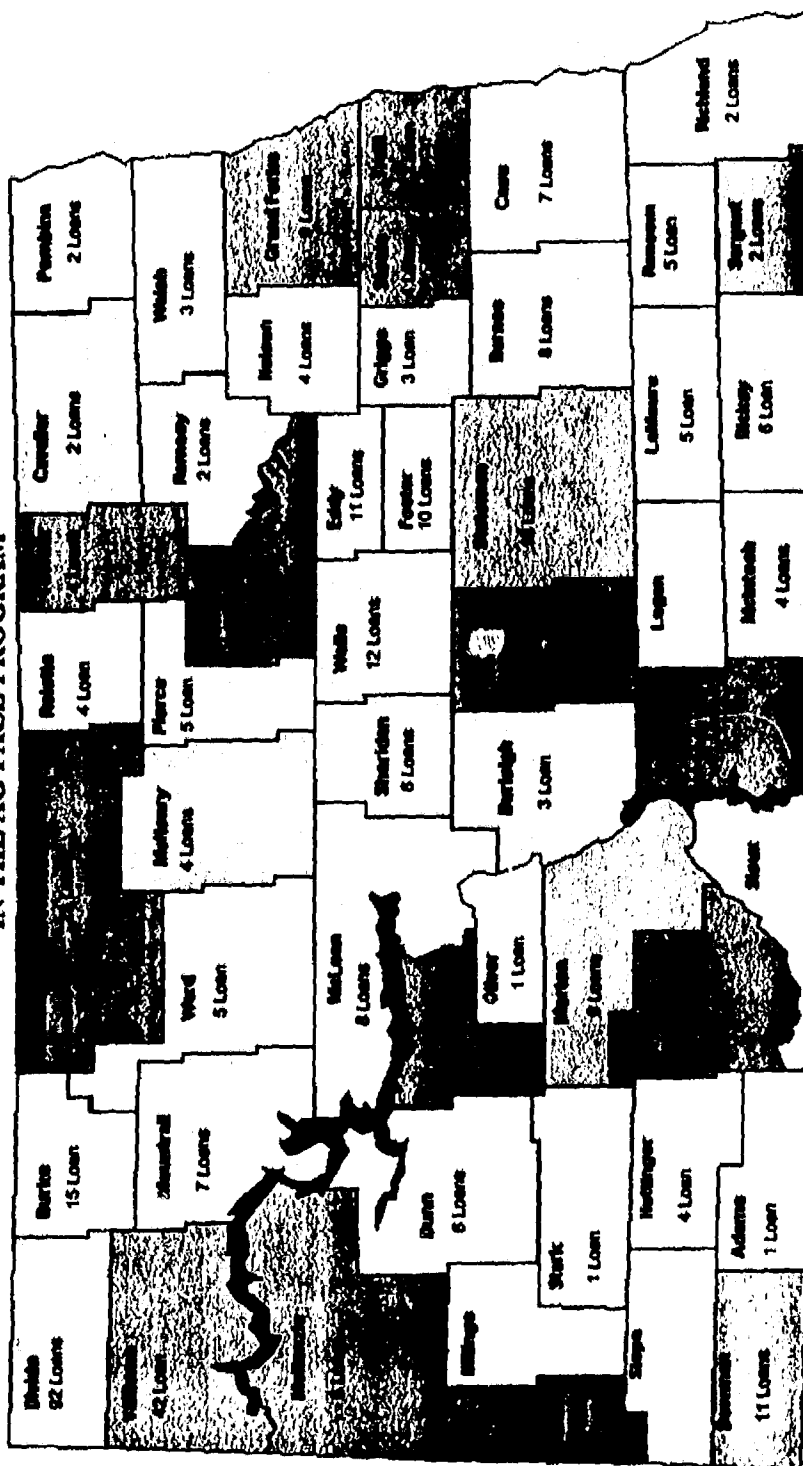
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AGP ACE LOAN PROGRAM

	<u>FUNDED LOANS</u>	<u>COMMITTED LOANS</u>	<u>TOTAL LOANS</u>	2001-2003 Biennium Buydown Fund
NUMBER	425	4	429	Total Available Funds \$2,107,694
AMOUNT	\$ 16,643,908	\$ 441,000	\$ 17,084,908	Buydown funds - Funded/Committed Loans \$ 631,785
BUYDOWN	\$ 3,437,761	\$ 50,888	\$ 3,488,649	Remaining Buydown Funds \$1,475,909

COUNTIES WHICH HAVE PARTICIPATED IN THE AG PACE PROGRAM



This graph depicts loan activity in the AG PACE Loan Program from its inception on July 1, 1991 to January 1, 2003

NOTE: Each AG PACE loan represents the creation of a new-farm business or the expansion of an on-farm business (non-traditional agriculture).

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BEGINNING FARMERS REVOLVING LOAN FUND

The Beginning Farmer Revolving Loan Fund makes direct loans to beginning farmers for the first time purchase of farm real estate. The fund also participates in loans to beginning farmers for the purchase of equipment or livestock. A beginning farmer is any person who meets all of the following criteria:

- 1) The person is a resident of North Dakota whose principal occupation is or will be the production of an agricultural commodity on a family farm.
- 2) The person intends to use the real estate, equipment, or livestock to be purchased for agricultural purposes.
- 3) The person has a net worth, including that of any dependents and spouse, of less than \$200,000.

The loan amount for a real estate purchase cannot exceed \$150,000 or 75% of the appraised value and the loan term must be 25 years or less. The total amount of the loan for a chattel purchase may not exceed \$150,000. A person is restricted to a lifetime cap of \$150,000 for real estate purchases and \$150,000 for chattel purposes. By December 31, 2002, the real estate program had funded 831 loans for \$63,820,158 and committed to another 16 loans for \$1,567,000. As of December 31, 2002, 66 loans have been funded for chattel purposes for \$4,664,000 and 5 were committed to for \$368,000.

Deanna Ballantyne
Operator's Signature

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BEGINNING FARMER REAL ESTATE LOAN PROGRAM

House Bill 1015
Page 14

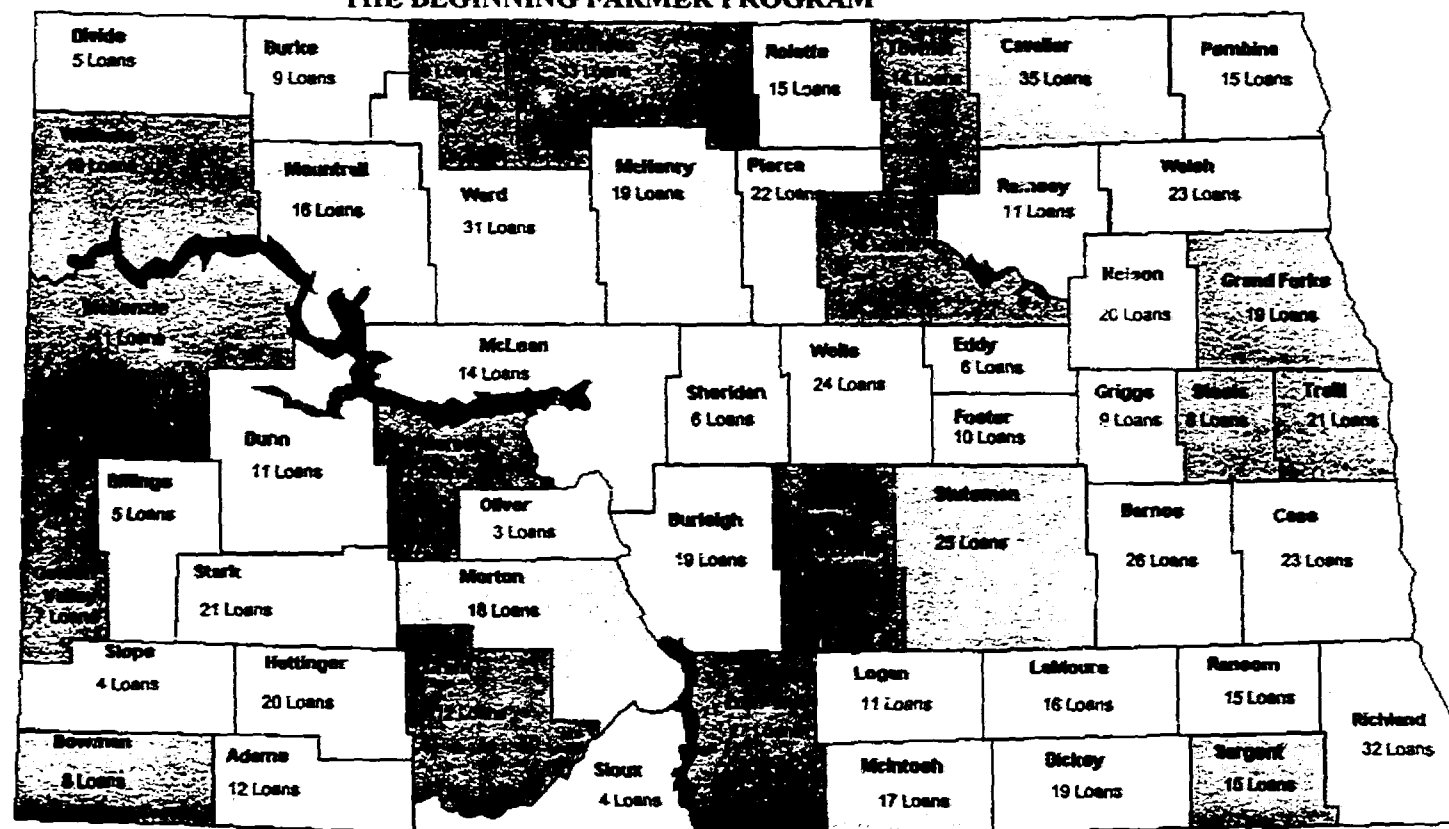
	FUNDED LOANS	COMMITTED LOANS	TOTAL LOANS
NUMBER	831	16	847
AMOUNT	\$ 63,820,158	\$ 1,567,425	\$ 65,387,583
BUYDOWN	\$ 5,854,828	\$ 150,176	\$ 6,005,004

2001-2003 Biennium Buydown Fund

Total Available Funds	\$1,316,122*
Buydown - Funded/Real Estate Committed Loans	\$1,121,656
Buydown - Funded/Chattel Committed Loans	\$ 443,820
Remaining Buydown Funds	\$ (249,354)**

*Total Buydown Funds are Shared Between Real Estate & Chattel Loans
**Funds will be transferred from Ag PACE on 1/01/03

FARM OPERATIONS WHICH HAVE UTILIZED THE BEGINNING FARMER PROGRAM



This graph depicts loan activity in the New Beginning Farmer Loan Program from its inception on July 1, 1991 to January 1, 2003
Includes loans made out of the Revolving Fund

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BEGINNING FARMER CHATTEL LOAN PROGRAM

House Bill 1015
Page 15

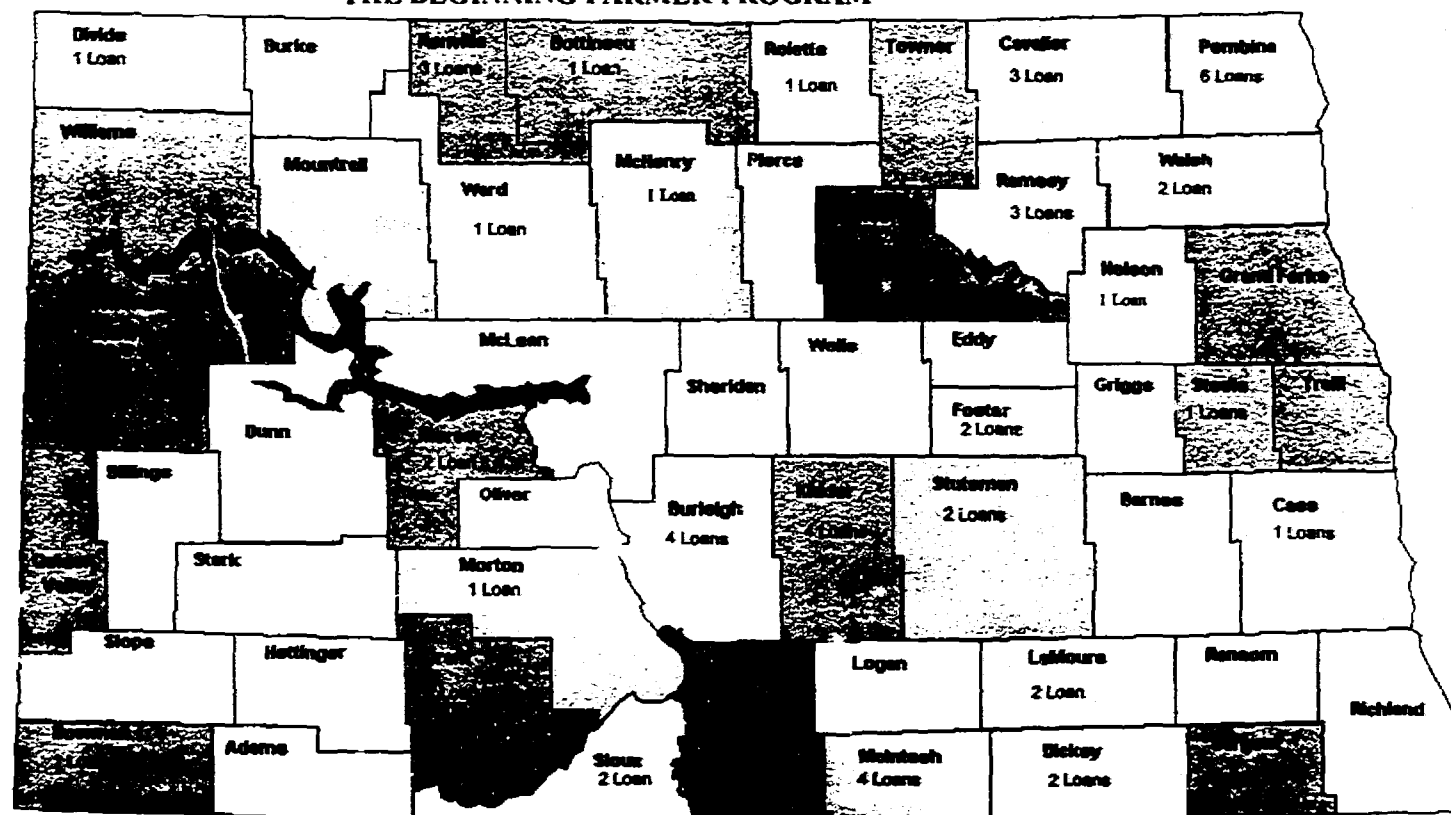
	FUNDED LOANS	COMMITTED LOANS	TOTAL LOANS
NUMBER	66	5	71
AMOUNT	\$ 4,663,322	\$ 367,600	\$ 5,030,922
BUYDOWN	\$ 413,767	\$ 30,053	\$ 443,820

2001-2003 Biennium Buydown Fund

Total Available Funds	\$1,316,122*
Buydown - Funded/Real Estate Committed Loans	\$1,121,656
Buydown - Funded/Chattel Committed Loans	\$ 443,820
Remaining Buydown Funds	\$ (249,354)**

*Total Buydown Funds are Shared Between Real Estate & Chattel Loans
**Funds will be transferred from Ag PACE on 1/01/03

FARM OPERATIONS WHICH HAVE UTILIZED THE BEGINNING FARMER PROGRAM



This graph depicts loan activity in the Beginning Farmer Chattel Loan Program from its inception on July 1, 2001 to January 1, 2003
Loans are made out of the Revolving Fund

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House Bill 1015
Page 16

HOUSE BILL 1015, SECTION 5
Transfer to the Industrial Commission

BND provides funding to the Industrial Commission each biennium for its operations including administrative and clerical costs. For the 2003-2005 biennium, the amount to be transferred is \$86,656.

HOUSE BILL 1015, SECTION 12
BND Enterprise, not Government Fund

This language is included to clarify that appropriations for the PACE, Ag PACE, and the Beginning Farmer Programs go directly to those dedicated funds, not to BND for its operations. BND is an enterprise fund, not a government fund (or general fund agency), that is, it generates revenues to cover all of its own operations. The appropriations for PACE, Ag PACE and the Beginning Farmer Programs are passed through BND because it manages the PACE, Ag PACE, and Beginning Farmer dedicated funds.

HOUSE BILL 1015, SECTION 13
EXEMPTION

This allows for any unexpended funds from the 2001-2003 contingency appropriation to be available for the continued development and operating costs of the e-business initiative.

HOUSE BILL 1015, SECTION 14
Emergency provision for PACE, Ag PACE, and Beginning Farmer funds

The buy down funding for the PACE, Ag PACE and Beginning Farmer Program is requested with an emergency provision so that it is available as soon as possible. The Beginning Farmer fund will need a transfer from the Ag PACE fund because demand is running so strong.

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BND

BANK OF NORTH DAKOTA

MEMORANDUM

TO: Government Operations Division of the
House Appropriations Committee Members

FROM: ^{EAH} Eric Hardmeyer, President

DATE: January 15, 2003

RE: Follow-up items regarding BND appropriation hearing

During the Bank of North Dakota budget appropriation hearing on January 10, 2003, there were several items that you asked for additional information. Below are those items and my response.

1. BND Capital

As I discussed with you last week, as of December 31, 2002, BND had capital of \$171 million on total assets of \$1.98 billion. This equates to capital ratio of 8.66%. A peer group comparison for banks of similar size is 8.16%, North Dakota peer average is 10.04%.

If BND is required to contribute \$25 million to fund the general fund shortfall, capital will be reduced by that amount. Based on asset levels remaining in the \$2 billion level, BND's capital ratio would fall to 7.3%. According to Bank Commissioner, Tim Karsky, banks should have minimum capital of at least 7%.

2. Consolidated Loan Portfolio (see attachment)

Attached you will see a report that shows BND's total portfolio at \$1.33 billion. The breakdown of that is comprised of \$433 million of commercial and business loans, \$365 million of student loans, \$309 million of residential real estate loans, and \$233 million of farm loans.

Of our total portfolio of approximately 53% or \$705 million has a federal guaranty attached to it. Listed below is the breakdown per loan category of the guaranty percentage and federal agency that provides the guaranty:

Student loans - 98% Department of Education
FHA residential loans - 100% HUD
VA residential loans - 38% (average) HUD

The commercial and farm loan portfolios have portions of their loans guaranteed by other federal agencies including SBA, FSA, BIA, and Rural Development.

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3. Loan Loss Reserve (see attachment)

BND's loan loss reserve at the end of the year was \$25 million or 1.89% of total loans. The industry average for all banks in North Dakota is 1.70%. With a significant portion of BND's debt covered by federal guarantees, our loan loss reserve can be viewed as a healthy one.

4. PACE, Ag PACE, and Beginning Farmer performance as of 12-31-02

The information provided below is meant to supplement the information included in my testimony, please refer to that section for more information.

	<u>Delinquency %</u>	<u># of defaults*</u>
PACE	3.66%	18
Ag PACE	0.00%	0
Beginning Farmer	0.01%	5

*Since program inception (1991) and where BND incurred a loss.

5. Transfer between Ag PACE and Beginning Farmer funds

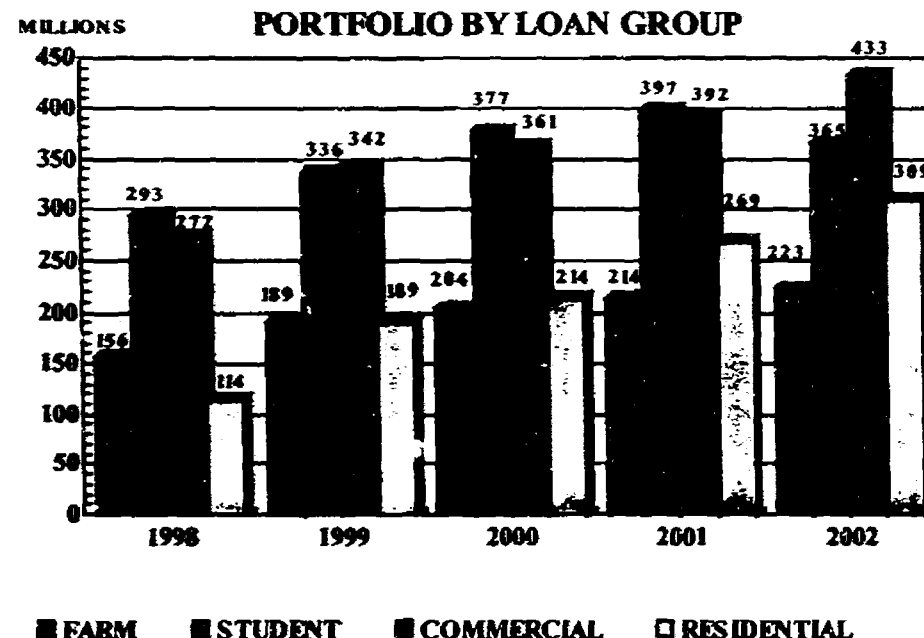
As mentioned in my testimony, the demand for the Beginning Farmer program has grown significantly with the added ability to use the program to purchase livestock or equipment. Because of this demand, the Beginning Farmer buydown fund has been depleted. As authorized by existing legislation, this month the Industrial Commission will transfer \$750,000 from the Ag PACE fund to the Beginning Farmer fund.

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10/30/03
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CONSOLIDATED LOAN PORTFOLIO YEAR END 1998-2002

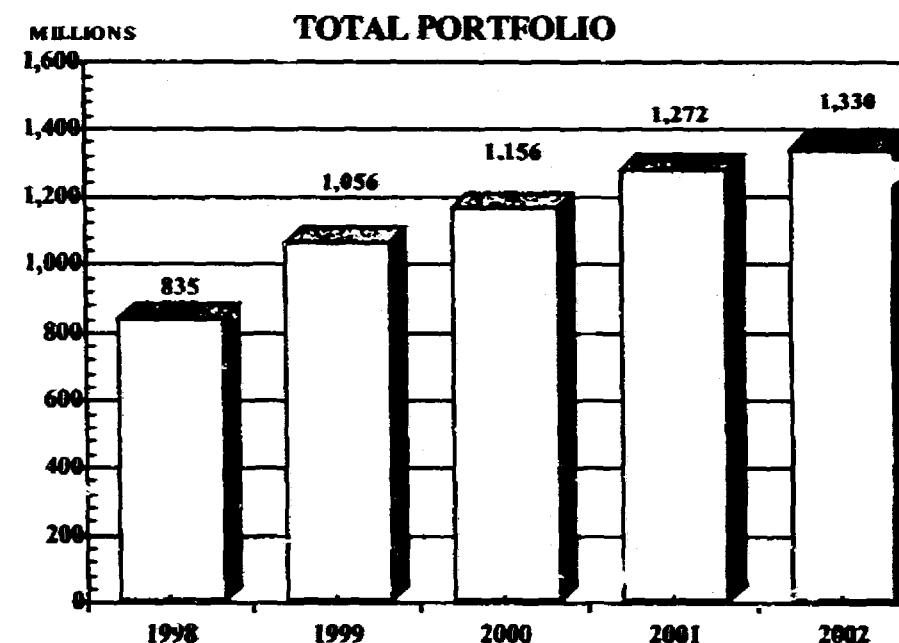


FARM - Portfolio growth in 2002 has been minimal due to the competitive interest rate environment. Demand for farm loans is steady due to BND's low interest rate loan initiative developed to assist farmers facing difficulties with low commodity prices, crop disease, and poor growing conditions.

STUDENT - BND's student loan portfolio has historically shown steady growth. This is indicative of the Bank's commitment to provide financing to students for post secondary education. The portfolio has grown during fourth quarter 2002 primarily as a result of recent loan purchases and fall disbursements. The overall portfolio is less than fourth quarter 2001 due to 2002 loan sales of \$87,500,000 to the N.D. Student Loan Trust.

COMMERCIAL - Even though the national economy has showed diminished growth since 2001, ND businesses were not as adversely affected and the commercial loan portfolio continued to increase in size. This can be attributed to the attractiveness of the Bank's economic development programs.

RESIDENTIAL - BND provides a secondary market for home loans. Most conventional mortgages are sold on the secondary market. BND retains FHA and VA guaranteed mortgages in its own portfolio, funded through borrowings from the Federal Home Loan Bank.



FARM LOANS include: Farm & Ranch, Family Farm, Farm Operating, Farm Real Estate, FSA Guaranty Purchase, Equity Loan Program, and Ag PACE.

STUDENT LOANS include: Stafford, Consolidation, Deal, Plus, and SLS.

COMMERCIAL LOANS include: Bank Participation, SBA Guaranty Purchase, Business Development, PACE, Match, Bank Stock, and Step.

RESIDENTIAL LOANS include: FHA, Conventional, and VA Loans.

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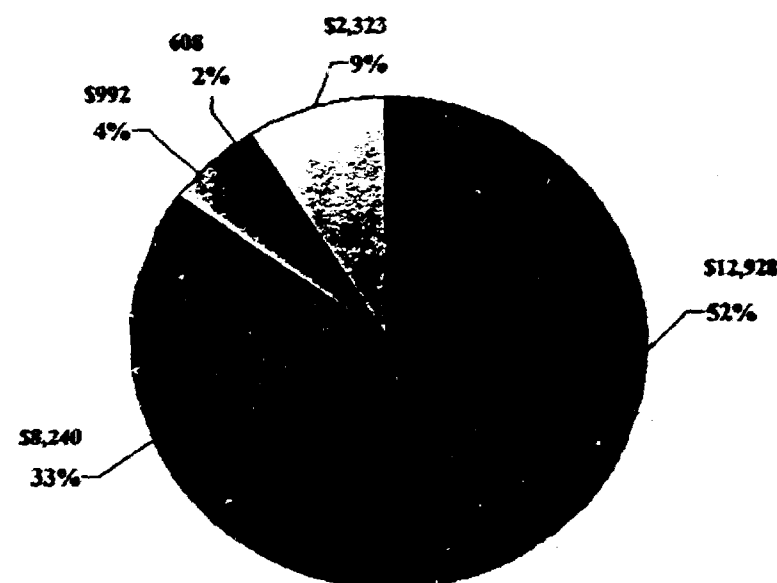
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10/30/03
Date

BND COMPOSITION OF ALLOWANCE FOR LOAN LOSS

\$000 Omitted

December 31, 2002 - \$25,091



Commercial Farm Residential/Student Commitments Cushion

Commentary

The adequacy of the allowance for loan loss is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors such as off-balance sheet risk.

As of December 31, 2002 Commercial loans required 52% of overall allowance needs followed by Farm loans which required 33%. Nine percent of the composition of the allowance has been identified as a cushion to further support BND's on-going role as a development bank for the State of North Dakota.

BND's total allowance for loan loss as a percentage of total loans is 1.89%; better than the 1.70% industry average for all insured commercial banks in the State of North Dakota.

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BND

Exhibit #4

BANK OF NORTH DAKOTA

January 13, 2003

Senator Bob Stenehjem
Senate Majority Leader

Representative Rick Berg
House Majority Leader

RE: Legislative budget initiative

Dear Senator Stenehjem and Representative Berg,

Thank you for the opportunity to tell you about the importance of Bank of North Dakota (BND) to the citizens of North Dakota. I have attached a brochure we publish and distribute to our employees, customers and other stakeholders. This brochure outlines BND's mission, vision, core values, strategic objectives, and employee skills and competencies. I hope it will be helpful to you in gaining an understanding of BND.

The main purpose of BND is to achieve our mission, **"To Deliver Quality, Sound Financial Services that Promote Agriculture, Commerce and Industry in North Dakota."**

We measure the achievement of our mission by comparing the results of our operations with our strategic objectives, which are to:

- **Develop partnerships that deliver quality programs and services to expand the economy of North Dakota.** We measure this by monitoring the utilization of our loan programs and services.
- **Maintain the strength and financial integrity of Bank of North Dakota.** We accomplish this by ensuring that we have and maintain adequate capital and loan loss reserves.
- **Generate a consistent financial return to the State of North Dakota.** We measure this by the annual net income we generate and using industry benchmarks of Return on Equity (ROE) and Return on Assets (ROA).
- **Provide a culture that develops people and is a model of efficient business and government.**

The members of the legislature can assist BND in achieving its mission and strategic objectives by:

- Understanding the mission and objectives of BND.
- Understanding the opportunities available to the Bank as well as the threats to the achievement of our mission and objectives.

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- Supporting legislation that assists us in accomplishing the Bank's mission and objectives.

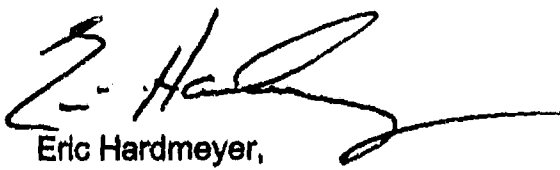
We report our results to the public so they can measure the success of our efforts in the following manner:

- BND's financial results are published in our annual report and reported through the news media. Additionally, we publish a quarterly report that reflects our financial and loan portfolio performance.
- We carry out a program to inform the public about BND and the contribution we make to North Dakota through communications such as the brochure attached to this letter, a quarterly new letter called the Exchange, news releases, representation at community and business events, and contacts made by people who are members of the BND organization.
- BND strives to be a leader in financial services in North Dakota and a model of efficient business and government. The example we set displays our commitment to our mission and objectives.

Thank you, again, for the opportunity to tell you about Bank of North Dakota's purpose, measurements of success, how the legislature can help us be successful, and how we report the results of our efforts to the public.

I look forward to visiting with you further about Bank of North Dakota. I welcome any questions from you or other members of the legislature about BND and would be most happy to give a personal tour of the Bank to anyone who is interested in doing so. Please let me know if I can provide any additional information to you about BND.

Sincerely,


Eric Hardmeyer,
President

Attachment

HB1015

Memo

To: Sandy Paulson, OFFICE OF MANAGEMENT & BUDGET
From: Eric Hardmeyer, President, BANK OF NORTH DAKOTA
Date: February 3, 2003
Subject: Vacant Positions

As of February 1, 2003, we have five positions that we are not actively recruiting to fill at this time. Those positions include:

<u>Position No.</u>	<u>Classification</u>	<u>Date Vacated</u>
0150	Auditor III	10/02
0032	Special Assets Manager	10/02
0160	Account/Budget Specialist I	2/01
0012	Compliance Officer	10/01
0083	Account Technician II	5/02

When a vacancy occurs, our managers are required to provide justification for filling that position. Managers are required to evaluate staffing needs and to discuss with executive management (1) how the position will support BND business objectives, (2) how we can restructure, streamline and improve work processes, (3) how we can utilize employees from other areas of the Bank to fill this need, and (4) what BND's risks are if the position is not filled. Managers are expected to creatively look at ways to complete their business operations more efficiently with existing staff. As a result, positions are vacant for a longer period of time as we work through the evaluation and restructure of our existing organizational structure.

The five positions noted above reflect positions in our lending services, accounting services, and our audit/compliance area. Significant organizational, position, and functional restructuring is occurring in all three of these service areas. Time and further evaluation will determine whether we are able to complete business operations without staffing these positions.

With the growth the Bank has experienced, it is imperative that we are able to address our staffing needs now and in the near future. Our commercial, ag, and residential loan portfolio has grown by approximately \$87 million to \$962.5 million over the last year. Also, our student loan servicing portfolio has grown approximately \$27 million to \$505 million over the last two years.

10/30/03

Sandy Paulson
February 3, 2003
Page Two

In addition, the challenges and expectations of our Information Technology Services staff is of concern to us as they work to develop a new student loan guarantee and lender software program. Our professional team of experts continue to work hours in excess of 40 hours every single week for extended periods of time. Turnover of staff in this area would greatly impact our ability to support our growth in the student loan industry.

Our system of staffing analysis is sound. We do not fill a position just because there is a vacancy. We fill a position based on our business need. The five vacant positions above are important to us and could be vital to our business operations. We request the ability to manage these positions and to strategically assign these positions when and where our business operations need them most, today and in the next two years.

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Deanna Ball
Operator's Signature

10/30/03
Date

**TESTIMONY TO THE
SENATE APPROPRIATIONS COMMITTEE**

MARCH 11, 2003

HOUSE BILL 1015

ERIC HARDMEYER - BANK OF NORTH DAKOTA

House Bill 1015 contains five sections relative to Bank of North Dakota. Those sections are listed below along with the page numbers which correspond in this testimony:

Section 1: Appropriations

Subdivision 2: BND Operations (pages 2-6)

Subdivision 3: Appropriations for PACE, Ag PACE, and Beginning Farmer (p. 7-15)

Section 5: BND Transfer to the Industrial Commission for its administration and clerical support operations (page 16)

Section 12: BND Enterprise Fund, not Government Fund (page 16)

Section 13: Exemption of contingency appropriation from provisions of section 54-44. 1-11 (page 16)

Section 14: Emergency provision for PACE, Ag PACE and Beginning Farmer funding (page 16)

Comments relative to each section and subdivision, along with supporting documentation, are attached.

*With the
exception of
the following pages.
Same testimony given
to Senate as
to House*

BANK OF NORTH DAKOTA
HOUSE BILL 1015, Section 1, Subdivision 2

The Bank of North Dakota's (BND) 2003-05 proposed operations budget is comprised of the five major line items outlined below. BND revenues fund all Bank expenses and profits are available to provide capital or make transfers to the General Fund.

Below is the last four years of income and the projection for 2003:

BND Income (millions)					Projected
<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2003</u>
\$30.5	\$32.6	\$33.1	\$32.2	\$31.0	\$31.0

Income over the last 4 years has been steady with growth in each of the three previous years. Although 2002 numbers are unaudited at this point, income is down by \$900,000 due to lower interest margins resulting from the current low interest rate environment. However, actual net income for 2002 was \$800,000 higher than budget, this can be attributed to increased fee income and expense control. Net income for 2003 is projected to decrease to \$31.0 million as we continue to see shrinking margins in this low-rate environment.

BND Total Assets and Capital (millions)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Assets	\$1,609	\$1,687	\$1,808	\$2,107	\$1,975
Capital	\$ 140	\$ 139	\$ 153	\$ 170	\$ 149
Ratio	8.7%	8.24%	8.46%	8.07%	7.55%

Assets over the past 4 years have shown growth with the exception of 2002, which showed a decrease of \$132 million. This decrease is due mainly to deposit maturation. At the end of 2002, BND booked a \$22 million liability which reflects the estimated transfer to the general fund to cover the projected shortfall. If in fact BND is required to contribute the full \$25 million and total assets remain at the \$2 billion level, BND's capital ratio would fall to 7.3%. According to the Department of Financial Institutions, a nation-wide comparison for banks of similar size is 8.16%. The North Dakota average for all banks is 10.04%.

BND's Total Loan Portfolio (millions)

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
\$835	\$1,056	\$1,158	\$1,272	\$1,330

Loan growth has increased steadily over the past 5 years. In 2002 loan growth was \$58 million despite selling over \$65 million of student loans to the Student Loan Trust. The bank has experienced widespread growth, with the business and residential portfolios

showing the greatest increase. BND has averaged financing 200 business and industrial projects per year or more than 1000 projects over the last 5 years, creating thousands of new jobs in North Dakota.

Overall, our requested budget is about \$550,000 less than the previous biennium.

MAJOR LINE ITEM EXPENSE CATEGORIES:

SALARIES AND WAGES

Budget 2003-2005	\$16,546,603
Budget 2001-2003	<u>15,517,674</u>
	\$ 1,028,929

The salaries and wages line item includes budget no increases for salaries for the 2003-05 biennium.

BND continues to monitor efficiency ratios for salaries and wages and also in regard to the number of employees at the Bank. Expenditures for salaries and benefits are .39% of average assets. Industry average for banks in North Dakota is over 1.3%. Operating profit per employee at BND is \$190,000, compared to the industry average for banks in North Dakota of less than \$80,000. There are \$11.6 million in assets per employee at BND. The industry average for banks in North Dakota ranges from \$2 million to \$3 million per employee depending on bank size. These industry averages are taken from the 2002 Sheshunoff Publication: Banks and S&L's of the Great Plains. Sheshunoff is a nationally recognized bank analysis and consulting firm.

We have 178.5 FTE authorized for BND. Currently we have 170 positions filled and we are actively recruiting for 2 positions. Before we fill a vacated position, we first determine if there is a way to absorb the responsibilities with existing staff. With new technology and better business practices we feel that in some cases we have generated sufficient efficiency that we can leave a position vacated. However, we are of the philosophy at BND that we all work for one organization and that resources (human, equipment, etc.) should be available to flow to the location within the bank where they are needed. Consequently, if we have a business opportunities where additional revenue can be generated, or, if there is a specific need we have the ability to move resources to meet the need.

OPERATING EXPENSES

Budget 2003-2005	\$11,372,000
Budget 2001-2003	<u>\$11,738,386</u>
	\$ (366,386)

The overall decrease in operating expenses is 3.12%, or 1.56% per annum.

The major components under operating expense that are changing are as follows:

<u>Item</u>	<u>Change</u>
EDP Production	\$2,041,000 -
Professional Services	\$ 895,000+
Computer Software Purchases	\$ 450,000+

EDP Production expense (which is \$1,700,000 or 15% of the entire operating budget) is planned to decrease based on EDP development (new system and system maintenance) activities associated with the BND/SLND E-Business Initiative. This initiative essentially includes the development and implementation of systems that provide Bank of North Dakota and Student Loans of North Dakota customers with the ability to perform business activity electronically. Core business processes have been put online connecting BND's critical business systems with internal and external customers through multiple channels including the Internet, Intranet, e-mail, interactive voice response and fax. BND's existing static website has been replaced with a dynamic site allowing customers to interact with their accounts to exchange information and conduct transactions.

This initiative includes the replacement of SLND's existing lender and guarantor legacy systems which are no longer adequate to support the needs of SLND and its customers and are not cost effective to operate or support. When both SLND systems are replaced, EDP Production expense will decrease significantly, with a projected expense reduction of greater than 50%.

Project status Our plan at the beginning of the 2001-2003 biennium was to have both the guarantor and lender systems developed and deployed by July 1, 2003. However, our current schedule has the guarantor system fully developed by April 23, 2003, and tested and deployed on June 4, 2003. The development of the lender system has begun and will use a significant portion of the code and architecture developed for the guarantor system. The completion date for the lender system has not been determined, but it is likely that it will be finished in the later part of the 2003-2005 biennium. There are no major roadblocks impeding our process, but it has proven to be more complicated and time-consuming than originally planned.

Along with funding from the Student Loan Trust, we had built \$2,850,000 in the current biennium for the development of both systems. We will have approximately \$900,000 remaining in this line item at the end of the biennium. Section 13 of this bill requests an exemption from 54-44.1-11 allowing BND to use those remaining funds in the 2003-2005 biennium to complete the development of the lender system.

As discussed above at EDP Production, SLND's existing transaction processing and customer service systems are no longer adequate to support the needs of SLND and its customers and are not cost effective to operate or support. The existing student loan systems have put SLND at a competitive disadvantage in the marketplace and are not providing North Dakota's students and schools with the timely access to accurate information about accounts that SLND's out of state competitors currently provide.

Student Loans of North Dakota's existing systems are written in programming languages that do not lend themselves to supporting the web-based interactivity that SLND's customers expect. The systems are receiving minimal support from the vendors and are consuming substantial internal resources to keep them in production. With each passing year, the inadequate condition of the systems puts the integrity of SLND's student loan data at increased risk and threatens the accomplishment of SLND's mission to maintain systems to meet the needs of student loan borrowers.

BND/SLND has conducted extensive research into alternatives available to replace the existing systems. No feasible alternatives were identified and the most effective course of action was to develop the system internally. Several factors contributed to the difficulty in locating an acceptable replacement:

1. Student Loans of North Dakota is very unusual in that it operates both a full service loan servicing function and a loan guaranty agency. For maximum efficiency, cost effectiveness, customer service and competitive advantage, SLND requires an integrated loan servicing and loan guaranty system.
2. Those systems that have been identified to-date as possible candidates to replace SLND's systems have been thoroughly investigated and subsequently determined to have system features that offer SLND little or no advantage over the existing systems.
3. The student loan industry continues to consolidate aggressively reducing the number of potential customers for student loan systems and acting as a disincentive to developers of new student loan systems.

Professional Services The State Auditors Office requested that expenses totaling \$725,000 associated with investment services and check clearing be included in the appropriation request. Previously, these expenditures had been considered non-appropriated expenditures. The other major increase in professional services relates to \$170,000 increase in other reference service product needs

Computer Software Purchases The major purchase for the 2003-2005 biennium will be replacement of core banking systems. Systems included are general ledger, investment, trust accounting, commercial loans, real estate loans and deposit systems. Included in this is an evaluation of cost and performance of existing systems versus replacement technology. All functionality of the new ERP system will be included in the analysis.

Existing core banking systems use a variety of systems that were purchased in the mid-1980's. They are stand alone systems that cannot be integrated, use antiquated technology, and are expensive to maintain. A new core banking suite will tie these functions together into one integrated system that should be cheaper to maintain and operate.

CAPITAL ASSETS

Budget 2003-2005	\$ 825,000
Budget 2001-2005	<u>775,938</u>
	\$ 49,062

The equipment budgeted expenditures include approximately \$200,000 for purchase or replacement of equipment for operations and office furniture. It also includes \$300,000 for computer hardware needs and \$100,000 for the core banking equipment.

House Bill 1015

Page 6

CONTINGENCY

Budget 2003-2005	\$ 1,500,000
Budget 2001-2003	<u>2,850,000</u>
	\$ (1,350,000)

The \$1,500,000 requested is to budget for the potential need for additional production time from the Information Technology Department, complete the development of the student loan software, or purchase image software and hardware.

As described in the operating expense line item, there is a high probability that the lender system will not be finished until the later part of 2003-05 biennium. Until we can move off the existing lender system which is housed on ITD's mainframe, our production costs will continue to run at \$100,000 per month. Once completed, those costs are gone.

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Deanna Gallardo
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10/30/03
Date

Bank of North Dakota

Achieving Results Through *Synergy*

BND

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**BND's Mission
Vision
Core Values
Strategic Objectives
Skills & Competencies**

**Eric Hardmeyer
President
Bank of North Dakota**

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Vision

At BND, we have developed a vision statement to paint a picture of our future. Our vision statement is, "Bank of North Dakota is a financial services leader in North Dakota fostering growth and economic well-being for the State and its citizens, using a partnership approach. Bank of North Dakota has knowledgeable, well-trained people delivering exceptional customer service, resulting in consistent financial returns to the State."

Our vision statement gives a snapshot of our broader vision, a more colorful picture, of the future at Bank of North Dakota. A more complete description of our vision is:

"Bank of North Dakota is a financial services leader, recognized for its uniqueness, accomplishments and partnership approach. BND fosters growth and generates economic well-being for the State of North Dakota and its citizens. This is accomplished through its knowledgeable, well-trained people who deliver exceptional customer service in a professional and timely manner. The delivery of superior customer service results in consistent financial returns for North Dakota."

At Bank of North Dakota, we are progressive and innovative in providing products and services to our customers. Examples of tools we

use include creative thinking, feedback from customers and employees, technology, clear internal and external communication channels and effective marketing of the services provided by BND. People and technology are cornerstones of the exceptional customer service we deliver. Strong partnerships assist us in delivering the service we promise.

At Bank of North Dakota, we are an organization that provides an



innovative and competitive compensation plan that rewards and recognizes people for their contributions. We thrive in a culture that fosters employee loyalty, team work, open and honest communication and empowerment, consistent with our core values. At BND, we find the work to be challenging and rewarding. Development opportunities are available to all members of the organization."

two

three

There are several key ideas within our vision that are so important we consider them separately. They are:

- **Leadership**
- **Strong Partnerships**
- **Economic Growth and Well-Being**
- **Knowledgeable Well-Trained People**
- **Exceptional Customer Service**
- **Professional, Timely Services**
- **Consistent Financial Returns**
- **Progressive and Innovative**
- **Creative Thinking**
- **Customer and Employee Feedback**
- **Use of Technology**
- **Clear Communication**
- **Effective Marketing**
- **Reward and Recognition**
- **Loyalty**
- **Teamwork**
- **Empowerment**
- **Opportunity**

Core Values

BND's Core Values describe the qualities and characteristics most important to us. We use our core values as a guide when working with others and in

decision-making. At BND, we have chosen the following core values and defined them as:

Service: "Excel and Deliver!" We make decisions based on customer needs and preferences; recognizing the importance of continuous improvement, cost effectiveness and timeliness.

Teamwork: "Together We Accomplish More!" We provide a positive work environment that fosters communication, respect, empowerment, accountability, commitment and partnerships.

Ethics: "Do The Right Thing!" We expect honesty and promote integrity and trust.

People: "Set Us Apart!" We provide a work culture that respects differences, encourages employee creativity and development, promotes work/personal balance and recognizes individuals for their unique contributions.

Strategic Objectives

BND's Strategic Objectives are the framework for all of our daily business and operational activities. We conduct business and make decisions that will contribute to the achievement of one or more of our strategic objectives:

- Develop partnerships that deliver quality programs and services to expand the economy of North Dakota.

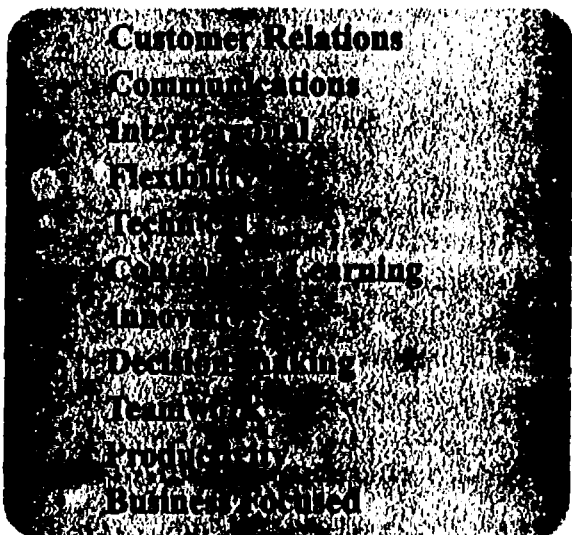
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five

- Maintain the strength and financial integrity of Bank of North Dakota.
- Generate a consistent financial return to the State of North Dakota.
- Provide a culture that develops people and is a model of efficient business and government.

Employee Skills and Competencies

BND's Employee Skills and Competencies are the essential abilities and expertises required of all members of our organization. These skills and competencies are necessary for each of us to wholly contribute to the accomplishment of the BND mission. BND Employee Skills and Competencies include:



six

Leadership Skills and Competencies

BND's Leadership Skills and Competencies are the additional abilities and expertises required of individuals in leadership positions. While 'leadership' is defined as responsibility for people, all employees are encouraged to demonstrate leadership in our daily actions.

- Strategic Thinking
- Visionary
- People Oriented
- Demonstrate Values
- Support of Learning and Development

"Achieving Results Through Synergy"

"Cooperative action among groups that creates an enhanced combined effect" is how synergy is defined. Synergy involves our customers, partnerships, work teams, and employees. In essence, synergy is how we achieve results at BND. For this reason, we have adopted "Achieving Results Through Synergy" as our motto.

If you are already a customer of Bank of North Dakota or a member of our organization, we are pleased to have the opportunity to work with you. If you are considering joining us as a customer or employee, we say:

**Welcome to
Bank of North Dakota!**

"Bank of North Dakota is a financial services leader in North Dakota fostering growth and economic well-being for the State and its citizens, using a partnership approach. Bank of North Dakota has knowledgeable, well-trained people delivering exceptional customer service, resulting in consistent financial returns to the State."

~BND Vision Statement

www.banknd.com

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Dennis G. Hall
Operator's Signature

10/30/03
Date

Eric A. Hardmeyer
04/21/2003 09:56 AM

To: Ken D. Svedjan/NDLC/NoDak@NoDak, Blair
Thoreson/NDLC/NoDak@NoDak, Bob J.
Skarphol/NDLC/NoDak@NoDak, Elliot A.
Glasshelm/NDLC/NoDak@NoDak, Randy A.
Schobinger/NDLC/NoDak@NoDak, Randel D.
Christmann/NDLC/NoDak@NoDak, Larry J.
Robinson/NDLC/NoDak@NoDak

cc:
Subject: It Budget

I am at a loss to understand the inclusion of BND in the IT Budgeting cutting process. I am sure that every agency can make a case on why they need to be funded at 100%, but for BND the impact on reducing our IT Budget could impact our ability to generate revenue. I don't understand this stance if you continue to want to view BND as a major funding source to the state General Fund - up to \$85 million this biennium, \$60 million next biennium. Then to add insult to injury, while reducing our IT budget you then require BND to transfer over the savings to general fund. Our capital already has been reduced by \$22 million because of the transfer for the contingency.

Explain to me why this makes sense!

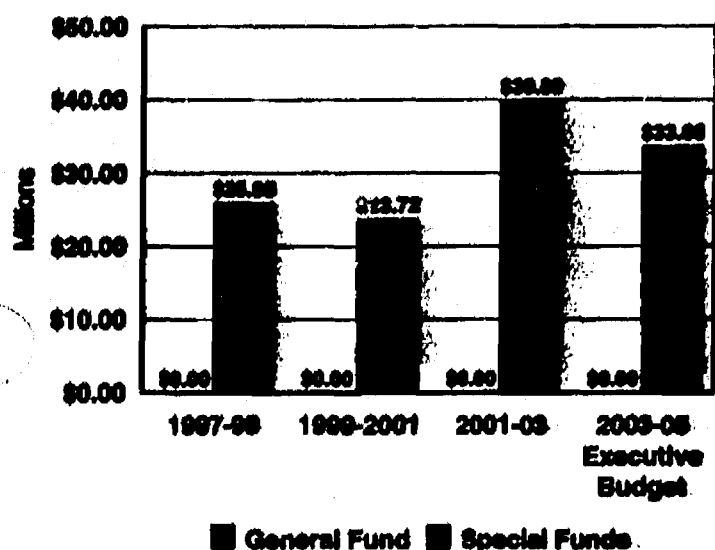
Eric Hardmeyer

Department 473 - Housing Finance Agency
House Bill No. 1015

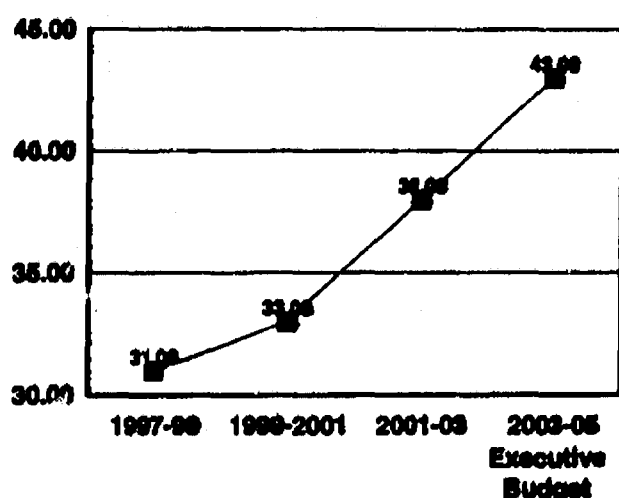
	FTE Positions	General Fund	Other Funds	Total
2003-05 Executive Budget	43.00	\$0	\$33,660,732	\$33,660,732
2001-03 Legislative Appropriations	38.00	0	39,868,331	39,868,331 ¹
Increase (Decrease)	5.00	\$0	(\$6,227,599)	(\$6,227,599)

¹ The 2001-03 appropriation amounts include \$16,068 of other funds for the agency's share of the \$5 million funding pool appropriated to the Office of Management and Budget for special market equity adjustments for classified employees. The 2001-03 appropriation amounts do not include \$521,435 of additional federal and special funds authority requested by the agency pursuant to Section 2 of Senate Bill No. 2015.

Agency Funding



FTE Positions



Executive Budget Highlights

- Provides for the following 5 new FTE positions due to increased workload associated with HUD projects and program growth:
 - 1 FTE housing program technician I
 - 1 FTE housing program administrator II
 - 1 FTE data processing coordinator I
 - 1 FTE housing program specialist I
 - 1 FTE account/budget specialist III

Total

General Fund	Other Funds	Total
	\$71,980	\$71,980
	\$109,591	\$109,591
	\$86,111	\$86,111
	\$58,727	\$58,727
	\$54,568	\$54,568
	<u>\$380,977</u>	<u>\$380,977</u>

- Reduces grants line item, primarily due to reduction in HUD grants contracts renewed at market rate (\$7,195,660), and an increase in grants for development of a multistate equity fund (\$200,000) and a new program to assist residents of the Standing Rock and Spirit Lake Reservations to obtain home loans and purchase homes on the reservation (\$50,000)

(\$6,895,660) (\$6,895,660)

Adjusts the operating expenses line item to account for anticipated decrease in interest expense and service premium purchased, inflation, and program changes

(\$397,025) (\$397,025)

Deanna G. Hall
Operator's Signature

10/30/03
Date

Major Related Legislation

At this time, no major legislation has been introduced affecting this agency.

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Deanna Gallardo
Operator's Signature

10/30/03
Date



**North Dakota
Housing Finance Agency**

PO Box 1535 • Bismarck, ND 58502-1535

INDUSTRIAL COMMISSION
JOHN HOEVEN, GOVERNOR
WAYNE STENHJEM, ATTORNEY GENERAL
ROGER JOHNSON, AGRICULTURE COMMISSIONER

PAT S. FRICKE, EXECUTIVE DIRECTOR

HB 1015

January 10, 2003

North Dakota Housing Finance Agency

Division of the State Industrial Commission

Budget No. 473.0

Testimony of Pat S. Fricke, Executive Director

Government Operations Division of the House Appropriations Committee

Budget 473.0 of HB 1015 Section 1, Subdivision 5 covers the revenues associated with the various housing programs administered by the Housing Finance Agency (HFA) solely through Special Funds. The HFA has not utilized state General Funds of any type since its 1980 creation by initiated measure. The \$33,660,732 executive recommendation for the 2003-05 biennium represents a 16.7% decrease from the last appropriation. Nearly all of the decrease is federal rental assistance funds. HFA staffing is recommended at 43, an increase of 5 FTE.

Current housing programs of the HFA are briefly described in the attached program summary. Nearly all of HFA programs involve partnerships with other entities in their delivery to program beneficiaries. These partnerships include lenders, Realtors, homebuilders, property developers, community action agencies, regional councils, apartment owners, non-profit organizations, other state and federal agencies. Funding of HFA programs is derived primarily from two general sources: 1) revenue bonds and 2) federal funds. Total bonds issued to date are \$2,416,774,741. Provisions are included for the associated administrative costs or administrative fees are assessed participants as appropriate. The assets, liabilities, and revenues resulting from bond issues of the HFA are not appropriated as they are not public funds and are held in trust by various bond trustees. The November 30, 2002 assets of these various bond funds were approximately \$763,00,000. HFA administrative costs of these bond financed programs (included herein) are accrued on a monthly basis and received from the Trustees. The HFA's largest single program, commonly referred to as the first-time homebuyer program, since its inception has funded approximately \$1.3-billion in loans representing over 24,100 homeowners. At present, over 11,200 loans remain outstanding with over \$615,000,000 in principal balance.

Annual new loan production is presently projected at approximately 1,100 loans representing \$80,000,000 of loan principal. During the past five fiscal years, the average first-time homebuyer loan demand has approximated 1,500 loans per year representing approximately \$93,000,000. As a result of the dramatic reduction in the general interest rate environment in recent months, our program loan demand has been reduced. However, I do anticipate that loan demand will return to normal levels when various interest rate indexes resume their more traditional patterns. The loan program is funded through the issuance of Mortgage Revenue Bonds. The interest we pay bond investors is exempt from both federal and state income tax. The investors require a lower interest rate which is passed on to the benefit of our borrowers. We try to maintain a minimum of 1/2 of 1% rate below the conventional interest rate markets. Through the use of unique bond structuring, we have developed a means of offering reduced interest rate lending programs. These innovative bond structures have enabled interest rate reductions during general interest rate market fluctuations, funding for the zero interest rate Start downpayment assistance program, a zero interest rate funding for Habitat for Humanity home loans, reduced interest rate programs for targeted lower income borrowers, and a special disaster recovery program following the 1997 Red River Valley flood.

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10/30/03

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Several years ago, the HFA adopted a policy which requires HFA single family loans to be serviced by in-state mortgage loan servicers. This policy was: 1) adopted in response to difficulties our borrowers were having with servicers located out of state, 2) has resulted in better and more localized service to our borrowers, and 3) has improved the credit quality of the loan portfolio. Currently, the HFA services 3/4ths (10,700) of the total single family portfolio. This has doubled from 1998 and is expected to continue to grow in the future.

The HFA administers the Low Income Housing Tax Credit created by the U.S. Congress in 1986 which is an incentive for the development of rental housing for low income occupants and currently is the only viable production program available for the creation of affordable rental housing. Through a competitive process, the HFA allocates the annual tax credit authority to project applicants and is required to perform compliance monitoring regarding program requirements for the total compliance period which extends out to 30 years. To date, nearly 4,000 units have been developed or are being developed utilizing the tax credit. The redevelopment of part of the Grafton complex to senior citizen apartments (Villa de Remer) is an example of tax credit utilization. Three North Dakota Indian Reservations have projects utilizing the tax credits.

The HFA's largest appropriated funds activity involves the administration of federally funded U.S. Department of Housing & Urban Development (HUD) housing programs. Total disbursements for grants is projected at \$27,168,380 of which \$25,225,520 is for rental assistance for the benefit of over 4,000 very low income tenants in over 180 projects located throughout the state which were originally developed through the HUD Section 8 New Construction/Substantial Rehabilitation or Moderate Rehabilitation Programs. These properties were developed and owned by the private sector or non-profit organizations beginning in the late 1970's and early 1980's. \$1,182,860 is projected for the HFA's DCA and HARP Programs (see Program Summary Information) from HUD HOME or recycled program funds. \$510,000 in appropriated grant funds are budgeted for the HFA's Helping HAND and Homebuyer Education Programs (HomeSmart) funded from HFA net operating revenues. The HFA has been instrumental in obtaining grant funds to facilitate a Homebuyer Education Task Force in establishing homebuyer education programs across the state, primarily through community action agencies. Helping HAND grants are awarded to Habitat for Humanity chapters, community action agencies, and tribal governments to address local unmet low income housing needs.

The federal Low Income Housing Tax Credit program administered by the HFA is designed to attract equity investments by corporations through the sale (syndication) of the federal tax credits. Tax credit syndicators increasingly tend to focus on larger size projects of 50 units or more. This effectively excludes potential smaller projects in rural North Dakota from being able to access the equity capital needed to develop these housing projects. Moreover, it effectively excludes small developers and local non-profit organizations from developing the expertise to use this type of financing. Many state housing agencies have helped develop (and provided "seed" money for) state or local equity funds to address these problems (there are over 20 in existence including Nebraska, Iowa, and Kansas). These funds are investment vehicles that focus on smaller projects only in the state or local area and tend to work with smaller inexperienced developers. North Dakota is too small to support such a fund by itself. Discussions with Wyoming and Montana have been ongoing since the 2002 Statewide Housing Conference regarding the potential development of a multi-state equity fund. This past November, the HFA and Industrial Commission committed \$300,000 over a four-year period (\$200,000 is being included in this biennium) in addition to similar amounts committed by the Montana Board of Housing and the Wyoming Community Development Authority to cover the administrative and organizational costs of a regional equity fund to serve the three-state area. The equity fund will enter into a loan agreement with each of the three state HFA's covering the full amount of our commitment. Repayment of the advance will be dependent upon the equity fund achieving financial self-sufficiency. Thus, we have opted to categorize the transaction as a grant as repayment is not able to be specifically scheduled.

As part of the HFA mission to make housing more affordable for North Dakota's low and moderate income residents, the HFA has devoted staff resources and time in addressing the housing needs of our Native American Reservations. These efforts have been met with varying degrees of success. The HFA recently joined with USDA Rural Development and FannieMae in committing to assist the Lewis & Clark CommunityWorks with costs associated with employing an individual entirely committed to assist individuals on our Reservations to achieve homeownership by working with the tribal housing authorities, tribes, lending institutions, and others involved in the myriad of complexities involving Reservation real estate. We have included \$50,000 in our grants line item for this purpose.

Since the inception of the Housing Finance Agency, the HFA and Industrial Commission have frequently relied on Section 2 of the Appropriations Bill, which appropriates any additional or unanticipated funds, which may become available to the HFA during the biennium.

Section 6 of the bill provides a transfer of \$57,760 during the biennium from the Housing Finance Agency to the Industrial Commission for the purpose of defraying Industrial Commission administrative costs.

The Agency's workload continues to increase as a result of continued program and portfolio growth. We are constantly searching for ways of improving our operating efficiencies in being able to do more with less. We frequently implement new procedures or technology in efforts to streamline HFA operations. Some of the increased workload continues to be addressed by overtime, temporary employees or contract labor. This HB 1015 contains an increase of five FTE which will alleviate the current overtime and temporary labor arrangements and provide the HFA with the additional staff needed to address continued program growth. The HFA has established a pattern of employing additional personnel only to the extent that staffing is needed to fulfill our responsibilities under administrative contracts and/or our bond resolutions. The additional FTE's would be utilized as follows:

- 1) Replace one temporary staff person in the Multifamily Division for HUD claims processing and a new regulatory requirement regarding applicant screening for drug abuse and other criminal activity.
- 2) Housing Tax Credit Development support – this portfolio continues to grow on an annual basis. This position would assist project application processing and project compliance monitoring.
- 3) Information Technology Coordinator – the HFA is required to utilize the ITD network and is becoming more involved with the North Dakota IT Enterprise Architecture Project. The state and ITD have also embarked on a massive project called (ERP) which will require additional HFA involvement.
- 4) Loan servicing – it is projected that the portfolio will have increased in size so as to require additional FTE effective January 2004.
- 5) Account Budget Specialist – overall general increase in program activity, quality control, and audit requirements are anticipated to have expanded such that effective July of 2004, one additional FTE will be required in the accounting area.

I must emphasize the Housing Finance Agency is not a state General Fund agency. The HFA operates very efficiently solely on the revenues generated from the administration of the various housing programs. We don't hire until needed, but need flexibility. The HFA operates similar to a profit-motivated business in order to produce net revenues and to fund the credit requirements of our financing programs. HFA financial reserves are utilized to provide a credit enhancement to the bond issues which fund the HFA's lending programs. Immediately following the 1997 flood, our Moody's Aa3 bond rating was threatened. However, Moody's removed the HFA's bonds from their credit watch list as a result of negotiations and specialized reporting procedures. Early in 2002, Moody's upgraded our bond rating to Aa2 and provided an "Issuer" rating of A2.

Recently the HFA conducted a Strategic Planning Session which approximately 30 housing professionals from across North Dakota participated in an effort to identify the major objectives and priorities for the HFA's near future. The product of that two-day session is being finalized for consideration by the HFA Advisory Board and Industrial Commission in the very near future.

The six-member HFA Advisory Board, comprised of housing industry representatives, meets monthly and provides invaluable information and recommendations for the Agency and Industrial Commission regarding HFA programming.

In summary, the HFA is North Dakota's housing finance agency providing residential real estate financing and housing assistance to literally thousands of North Dakotans with our local partners solely through Special Funds and at no cost to the state's General Fund.



**North Dakota
Housing Finance Agency**

PO Box 1535 • Bismarck, ND 58502-1535

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PAT S. FRICKE, EXECUTIVE DIRECTOR

HB 1015

North Dakota Housing Finance Agency
Division of the State Industrial Commission
Budget No. 473.0

Testimony of Pat S. Fricke, Executive Director
Senate Appropriations Committee

March 7, 2003

Budget 473.0 of HB 1015 Section 1, Subdivision 5 covers the revenues associated with the various housing programs administered by the Housing Finance Agency (HFA) solely through Special Funds. The HFA has not utilized state General Funds of any type since its 1980 creation by initiated measure. The \$33,618,207 House approved total expenditure for the 2003-05 biennium represents a 16.7% decrease from the last appropriation. Nearly all of the decrease is federal rental assistance funds. HFA staffing is approved at 43, an increase of 5 FTE.

Current housing programs of the HFA are briefly described in the attached program summary. Nearly all of HFA programs involve partnerships with other entities in their delivery to program beneficiaries. These partnerships include lenders, Realtors, homebuilders, property developers, community action agencies, regional councils, apartment owners, non-profit organizations, other state and federal agencies. Funding of HFA programs is derived primarily from two general sources: 1) revenue bonds and 2) federal funds. Total bonds issued to date are \$2,416,774,741. Provisions are included for the associated administrative costs or administrative fees are assessed participants as appropriate. The assets, liabilities, and revenues resulting from bond issues of the HFA are not appropriated as they are not public funds and are held in trust by various bond trustees. The January 31, 2003 assets of these various bond funds were approximately \$714,000,000 of HFA total assets of \$750-million. HFA administrative costs of these bond financed programs (included herein) are accrued on a monthly basis and received from the Trustees. The HFA's largest single program, commonly referred to as the first-time homebuyer program, since its inception has funded approximately \$1.3-billion in loans representing over 24,300 homeowners. At present, over 11,000 loans remain outstanding with over \$600,000,000 in principal balance.

FY 2003 new loan production is presently projected at approximately 1,150 loans representing \$80,000,000 of loan principal. During the past five fiscal years, the average first-time homebuyer loan demand has approximated 1,500 loans per year representing approximately \$93,000,000. As a result of the dramatic reduction in the general interest rate environment in recent months, our program loan demand has been reduced. However, I do anticipate that loan demand will return to normal levels when various interest rate indexes resume more traditional patterns. The loan program is funded through the issuance of Mortgage Revenue Bonds. The interest we pay bond investors is exempt from both federal and state income tax. The investors require a lower interest rate which is passed on to the benefit of our borrowers. We try to maintain a minimum of 1/2 of 1% rate below the conventional interest rate markets. Through the use of unique bond structuring, we have developed a means of offering reduced interest rate lending programs. These innovative bond structures have enabled interest rate reductions during general interest rate market fluctuations, funding for the low interest rate Start downpayment assistance program, a zero interest rate funding for Habitat for Humanity home loans, reduced interest rate programs for targeted lower income borrowers, and a special disaster recovery program following the 1997 Red River Valley flood.

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The Agency's workload continues to increase as a result of continued program and portfolio growth. We are constantly searching for ways of improving our operating efficiencies in being able to do more with less. We frequently implement new procedures or technology in efforts to streamline HFA operations. Some of the increased workload continues to be addressed by overtime, temporary employees or contract labor. We presently have no unfilled FTE's. This HB 1015 contains an increase of five FTE which will alleviate the current overtime and temporary labor arrangements and provide the HFA with the additional staff needed to address continued program growth. The HFA has established a pattern of employing additional personnel only to the extent that staffing is needed to fulfill our responsibilities under administrative contracts and/or our bond resolutions. The additional FTE's would be utilized as follows:

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In summary, the HFA is North Dakota's housing finance agency providing residential real estate financing and housing assistance to literally thousands of North Dakotans with our local partners solely through Special Funds and at no cost to the state's General Fund.



North Dakota Housing Finance Agency
Homeownership Programs

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HOMEOWNERSHIP PROGRAMS

HOME MORTGAGE FINANCE PROGRAM (HMFP)

Commonly known as the First-Time Homebuyer Program, this program provides low interest rate mortgages for North Dakota homebuyers. Participating North Dakota lenders originate the loans and sell them to NDHFA. The loans are either serviced by the participating lender or NDHFA. To qualify, applicants must not have owned a home in the past three years; meet income limits, which vary based on county and family size; meet normal credit underwriting standards; and intend to occupy the property as their principal residence. The purchase price of the property must be within program limits.

HOMEKEY PROGRAM

HomeKey provides a one percent reduction of the Home Mortgage Finance Program (HMFP) loan interest rate during the first three years of the mortgage loan. HomeKey is limited to HMFP borrowers with household income at 50 percent or less of the applicable HMFP income limit. Borrowers cannot have cash assets exceeding 10 percent of the purchase price. The purpose of the program is to enhance the purchasing power of lower-income households through reduced interest costs with an ultimate goal of expanding such households' participation in the HMFP.

RURAL REAL ESTATE MORTGAGE PROGRAM (RREM)

RREM is a secondary market for certain mortgage loans, other than those eligible for the HMFP, secured by residential real estate located in North Dakota and originated by North Dakota lenders. Eligible loans include the RHS Section 502 Guaranteed Loans and Direct Leveraged loans, as well as, the HUD Section 184 Indian Home Loan Guarantee Program. In some instances, income and purchase price limits apply and, in all cases, the property must be owner-occupied. RREM loans are purchased from participating lenders and are sold to Fannie Mae.

DOWNPAYMENT AND CLOSING COSTS ASSISTANCE PROGRAM (DCA)

DCA provides a zero interest rate deferred payment loan up to \$2,050 to assist first-time homebuyers with downpayment and closing costs. Applicants must be receiving a single family mortgage loan from NDHFA; have an annual income of 80 percent or less of the median income (adjusted for family size) for the county in which the property is located; and cannot have cash assets exceeding 10 percent of the purchase price of the home. The purchase price of the home cannot exceed the limits in effect at the time of purchase.

START PROGRAM

The Start Program provides first-time homebuyers with down payment assistance through a 10-year second mortgage loan at an interest rate of four percent per annum. The minimum loan amount is \$1,000 and the maximum loan amount is the lesser of three percent of the purchase price or \$3,000. Applicants must be receiving a Home Mortgage Finance Program (HMFP) loan. In addition to meeting the income and purchase price limits of the HMFP, borrowers cannot have cash assets exceeding 10 percent of the purchase price.

HOMEWORK PROGRAM

The HomeWork Program is a downpayment and closing cost assistance program provided to the employees of a participating employer in partnership with the North Dakota Housing Finance Agency (NDHFA). Assistance is in the form of a five year second mortgage loan at an interest rate of two percent per annum. The minimum loan amount is \$1,000 and maximum loan amount is \$5,000. The assistance levels are established by the participating employers.

HOMESMART PROGRAM

HomeSmart is a homebuyer education incentive program which helps first-time homebuyers prepare for home ownership. NDHFA borrowers, who have successfully completed an NDHFA approved homebuyer education program, receive a \$100 grant if they purchase a home with an NDHFA loan within 12 months of completing the course.

HOMEOWNERSHIP ACQUISITION AND REHABILITATION PROGRAM (HARP)

HARP is a cooperative program between NDHFA and the North Dakota Community Action Agencies. The agencies purchase and rehabilitate homes for resale to low income households. The goals are to increase homeownership opportunities for low-income households, provide education and counseling to prepare them for homeownership and improve neighborhoods by rehabilitating distressed properties.

COMMUNITYPARTNERS PROGRAM

CommunityPartners is a program to help local communities create new single-family homes or rehabilitate existing homes for households with lower incomes. A two percent reduction on the interest rate is offered for the first seven years of the mortgage and a one percent reduction for the next three years.

HABITAT FOR HUMANITY LOAN PURCHASE PROGRAM

The program creates a unique partnership whereby the Habitat for Humanity affiliate builds and sells a home to a selected family, a private lender finances the purchase of the home with a zero interest loan and NDHFA purchases the loan from the lender. The transaction provides the local Habitat affiliate with immediate return of the dollars invested in constructing the home, which can be immediately committed to building another home. The Habitat loans are serviced by NDHFA.

APPLICATION PROCESSING SERVICE (APS) (for lenders)

NDHFA provides application processing, loan underwriting, closing document preparation, loan closing disbursement, and final packaging and delivery services to inexperienced participating lenders.

06/02



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Deanna Hall
Operator's Signature

10/30/03
Date



North Dakota Housing Finance Agency
Rental and Grant Programs

1500 East Capitol Ave
PO Box 1535
Bismarck, ND 58502
www.ndhfa.org

Phone: 701-328-8080
Fax: 701-328-8090
ND Toll Free:
800-292-8621
800-366-6888 (TTY)

RENTAL PROGRAMS

LOW INCOME HOUSING TAX CREDITS (Housing Credits)

The Low Income Housing Tax Credit program provides incentives for the production and rehabilitation of affordable rental housing. This program allows owners who invest in low-income housing and accept income and rental restrictions to receive federal tax credits. Under this program, owners of low-income housing are entitled to receive an annual tax credit for up to 10 years based on various requirements such as the amount of capital invested and the level of commitment to low-income tenancy. In exchange for housing credits, owners must agree to rent the units to households whose incomes, based on HUD-published median income limits, qualify them as low-income. The housing credit program is designed to compensate the property owner for charging rents that are generally lower than would be feasible without the credits.

MODERATE REHABILITATION PROGRAM (Mod Rehab)

The HUD Section 8 Moderate Rehabilitation Program was designed for the renovation of existing substandard housing units, and it enables North Dakota's low income households to afford safe and decent housing through the use of rent subsidies. NDHFA's primary role is determining applicant eligibility and regulatory oversight of these low-income multifamily projects along with the distribution of HUD rental assistance funds.

CONTRACT ADMINISTRATION

NDHFA administers contracts for HUD project-based Section 8 housing developments located throughout North Dakota. Construction of these developments was completed in the late 1970's and early 1980's. NDHFA's primary role is the regulatory oversight of these low-income multifamily projects and the distribution of HUD rental assistance funds.

MARK-TO-MARKET RESTRUCTURING PROGRAM

The Mark-to-Market program objectives are to restructure the debt and HUD rental assistance of certain multifamily properties insured by FHA with three basic goals: 1) Social — to preserve the affordable housing stock; 2) Economic — to reduce the cost of Section 8 subsidies and minimize FHA claims; and 3) Administrative — to increase operating efficiency and ensure competent management with oversight delegated to a national network of decentralized Participating Administrative Entities (PAE). NDHFA is the PAE for North Dakota.

AFFORDABLE HOUSING DISPOSITION PROGRAM (AHDP)

NDHFA has agreed to monitor the Resolution Trust Corporation (RTC) properties sold under their Affordable Housing Disposition Program (AHDP) in North Dakota. Under the AHDP, the buyers of RTC properties agree to meet the affordability guideline established by the program which were designed to assure the property serves families in need of affordable housing.

NDHFA serves as the clearinghouse and technical assistance advisor to disseminate information about properties available in North Dakota. NDHFA also does compliance monitoring of properties sold with deed restrictions that must be maintained as affordable housing.

GRANT PROGRAMS

HELPING HOUSING ACROSS NORTH DAKOTA (Helping HAND)

This grant program provides local Habitat for Humanity chapters, tribal governments, and Community Action Agencies with a source of funds to assist in addressing critical housing needs of low-income individuals. Selection criteria is reviewed and updated annually.

RENTAL REHABILITATION ASSISTANCE PROGRAM (RRAP)

This grant program provides funds for property improvements to rental units that address the needs of people who have physical disabilities. Preference is given to rental housing organizations that address the physical requirements of Section 504 of the Rehabilitation Act of 1973, with improvements that benefit individuals participating in the North Dakota Department of Human Services Developmental Disabilities or Vocational Rehabilitation Division programs and have a dollar-for-dollar match. Non-profit organizations have priority over for-profit organizations.

All grant funds must be used to provide decent, safe and sanitary rental housing for very low-income residents.

NORTH DAKOTA HOUSING FINANCE AGENCY

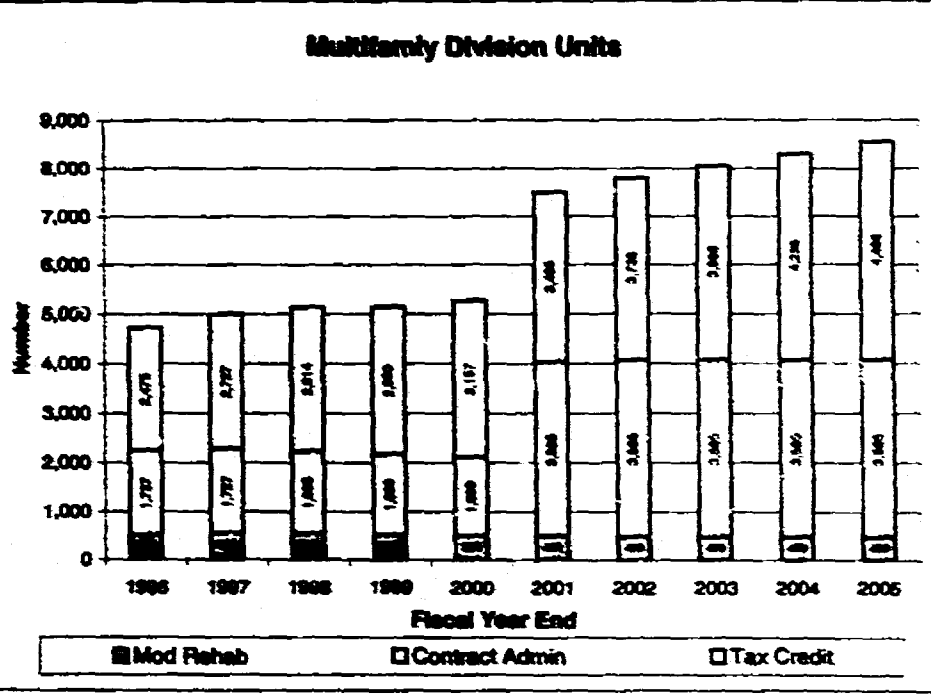
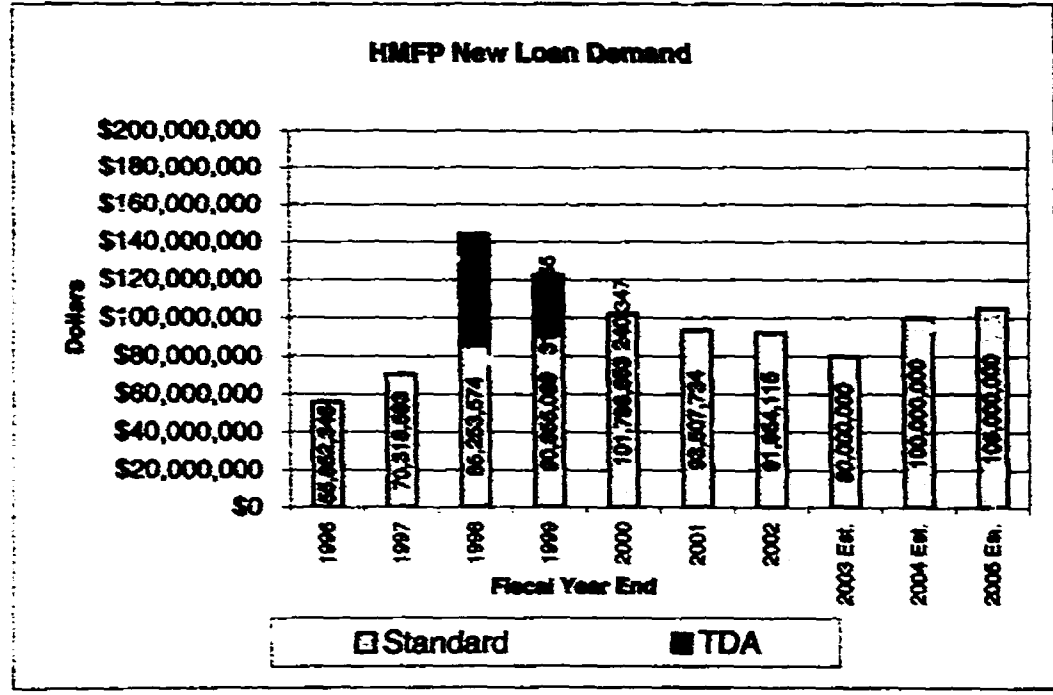
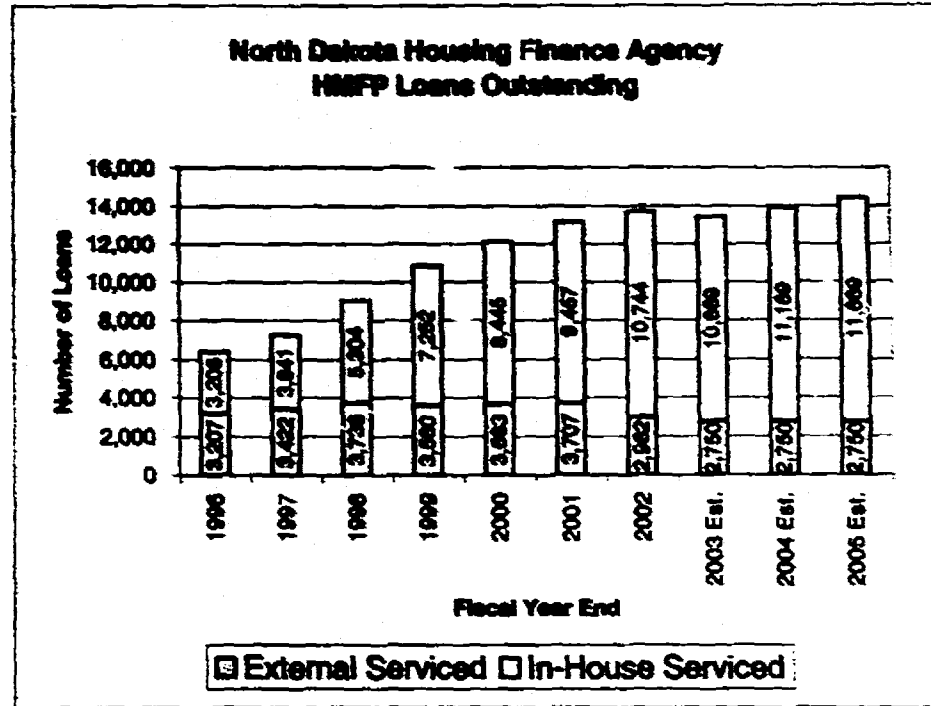
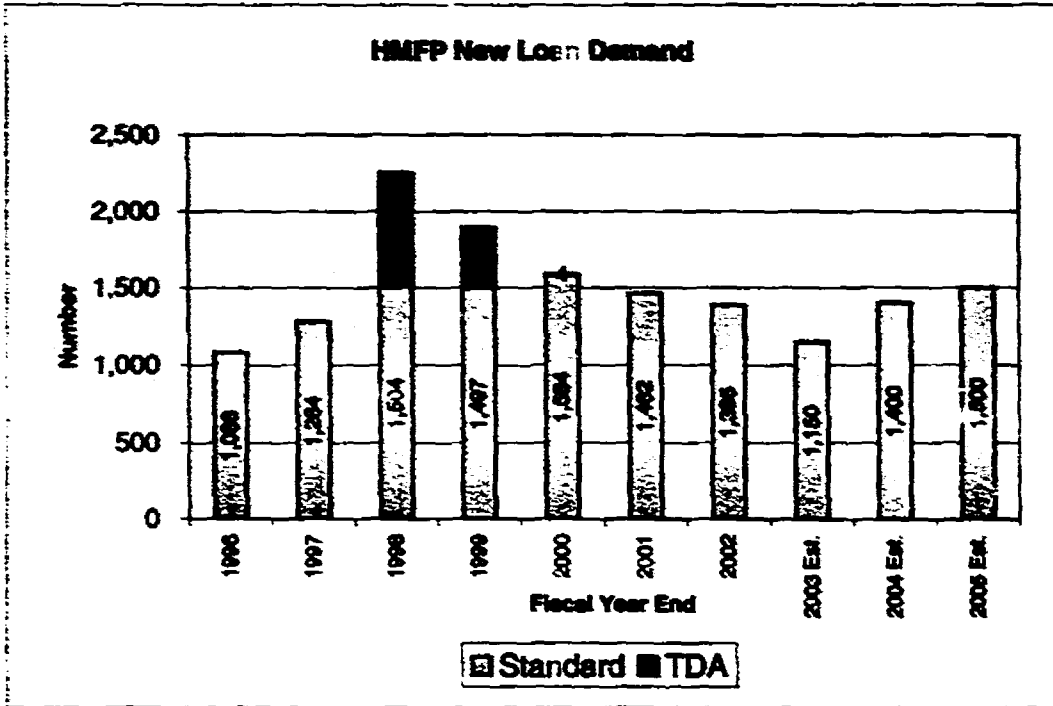
The North Dakota Housing Finance Agency (NDHFA) is a public financial institution dedicated to making housing affordable for North Dakota's residents.

By providing financing, management, information, and other appropriate assistance, NDHFA facilitates affordable mortgage financing and assures the continued availability of low-income rental housing.

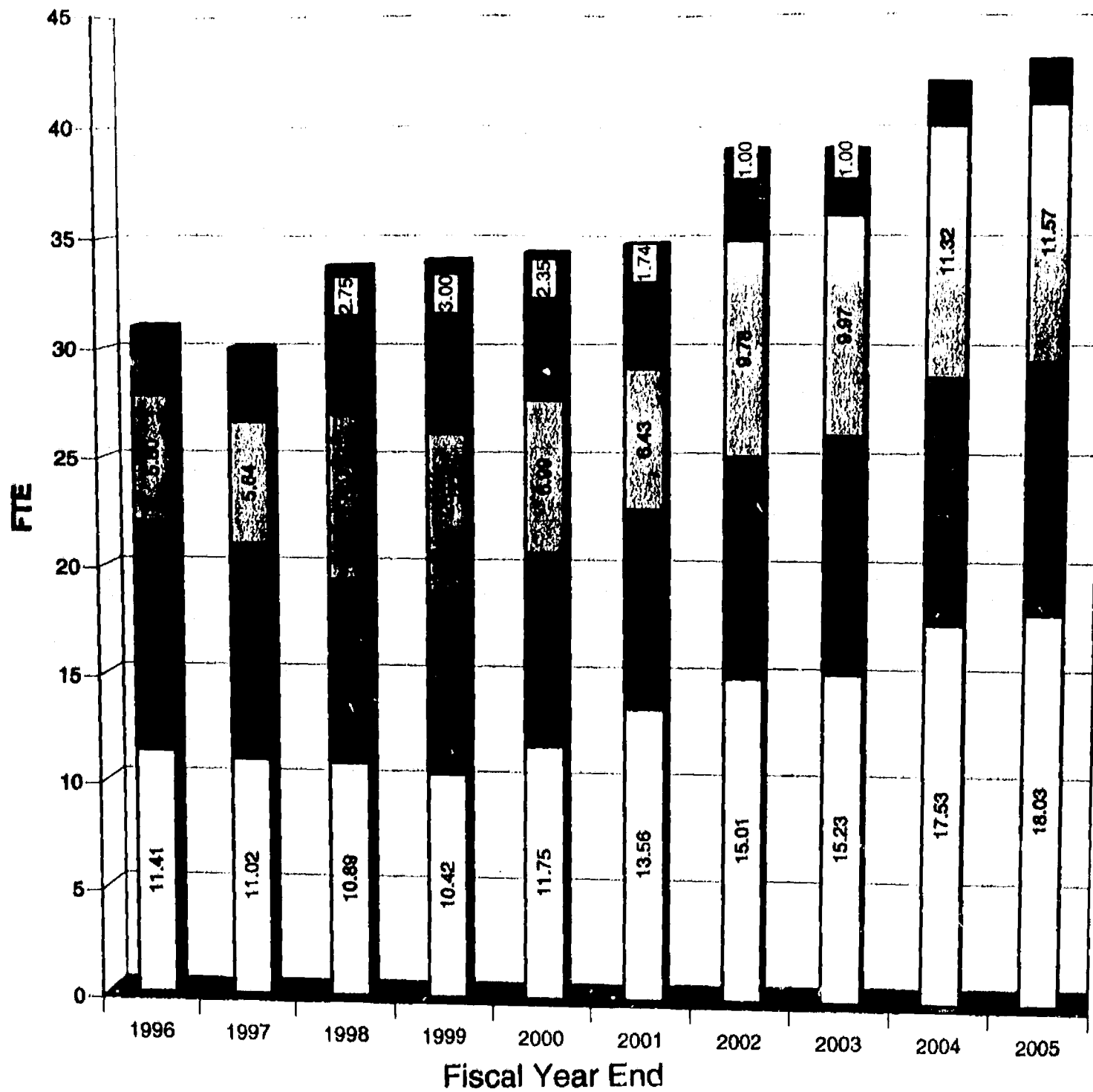
No state general funds are used in NDHFA programs, and the agency adheres to private sector business management practices. The Industrial Commission of North Dakota, consisting of the Governor, Attorney General and Agriculture Commissioner, oversees the agency with advice from a six-member citizen advisory board.

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Operator's Signature *[Signature]* 10/30/03 Date



NDHFA Departmental Staffing



Projected

- Overtime, Temporary, & Contract
- Misc. Programs
- ▨ In House Servicing
- SF Bond Admin.
- Multifamily

1:39 PM
1/9/2003

Pat S. Fricke

Chart Chart 1
Chart Chart 1

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Operator's Signature

10/30/03
Date



North Dakota
Housing Finance Agency

PO Box 1535 • Bismarck, ND 58502-1535

INDUSTRIAL COMMISSION
JOHN HOEVEN, GOVERNOR
WAYNE STENEHJEM, ATTORNEY GENERAL
ROGER JOHNSON, AGRICULTURE COMMISSIONER

PAT S. FRICKE, EXECUTIVE DIRECTOR

February 4, 2003

Senator Bob Stenehjem
Senate Majority Leader
State of North Dakota
600 East Boulevard Ave.
Bismarck, ND 58505

Representative Rick Berg
House Majority Leader
State of North Dakota
600 East Boulevard Ave.
Bismarck, ND 58505

Dear Senator Stenehjem and Representative Berg:

In your response to your request for assistance in making the most effective allocation of taxpayer dollars to address state priorities, I am submitting the following:

1. What is the main purpose of your agency?

The North Dakota 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."

The NDHFA delivers various programs in fulfillment of this mission such as: homeownership finance opportunities at below market interest rates and/or specialized programs at little or no cost to consumer, administration of federal income tax incentive for development of rental housing for lower income tenants, and administration of federal assistance to rental properties occupied by low income tenants.

2. How do you measure the achievement of your purpose?

Achievement is measured by comparison to prior activity, external and internal reporting to our citizen advisory board and the Industrial Commission, and an annual report that is available to investors and the public-at-large. The FHA and HUD, and independent financial and information technology entities also audit our program operations. Each biennium, the legislative appropriations budget contains statements of mission, purpose, and accomplishments in addition to prior budget performance and projections. The HFA utilizes a strategic planning process and periodically reports to our citizen advisory board and Industrial Commission.

3. What can the legislature do, financially and otherwise, to help you achieve your purpose?

The Legislature has been responsive to prior legislative requests for program modification or expansion in response to needs identified by our citizen advisory board, constituents, or housing partners. At this time, the HFA has not requested any specific legislative initiatives. Financially, the HFA has been able to operate solely on revenues generated from program operations and has never relied upon any State general funds. All HFA assets are encumbered as our bonds outstanding and other debt are general liabilities of the HFA.

4. How can you report (measure your results so the public can easily understand your purpose and evaluate your effectiveness?

Information is shared with the public through an annual report, press releases, newsletters, website, education courses and our annual housing conference.

Sincerely,


Pat S. Fricke
Executive Director

BISMARCK (MAIN) OFFICE
1500 EAST CAPITOL AVENUE
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YOUR PARTNER IN AFFORDABLE HOUSING
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10/30/03
Date

Information on The North Dakota Student Loan Trust

Background

In 1971 the Legislature authorized the Industrial Commission to "acquire and hold in one or more trusts [1] all unpaid United States government guaranteed or reinsured student loans and [2] North Dakota guaranteed student loans, belonging to the state of North Dakota or to any of its agencies . . ." (NDCC 54-17-24. See also NDCC 54-17-25). The creation of the North Dakota Student Loan Trust enabled the State of North Dakota to obtain low cost funds (through the sale of tax-exempt bonds) and use those funds for purchasing student loans originated or acquired by the Bank of North Dakota. Since 1971 the Industrial Commission has issued over \$900,000,000 in student loan bonds. The Student Loan Trust had just over \$125,751,000 in bonds outstanding as of September 30, 2002.

Structure of the Trust

The Student Loan Trust is composed of funds held under two General Bond Resolutions. These General Bond Resolutions determine the use and flow of funds within the Student Loan Trust.

The First General Bond Resolution (1979) includes funds from the 1979, 1988, 1989 and 1992 student loan bond issues. The following is a chart showing the assets and liabilities held under the First General Bond Resolution as of September 30, 2002 (unaudited):

	1979	1988	1989	1992	Total
Assets	3,576,727	27,314,915	24,049,376	10,398,399	65,339,417
Bonds Outstanding					
09/30/02	0	0	3,887,115 ²	0	3,887,115
Other Liabilities	0	9,000,000 ¹	1,340	0	9,001,340
Fund Balance	3,576,727	18,314,915	20,160,921	10,398,399	52,450,962

¹ The 57th Legislative Assembly directed the Student Loan Trust to make a transfer of \$9,000,000 to the North Dakota General Fund during the 2001-2003 biennium with certain conditions. It is anticipated that this transfer will be made within the next 60 days.

² Non-callable; final maturity in 2005.

The non-callable 1989 bond issue is insured by Ambac Assurance Corporation (Ambac). The assets of the First General Bond Resolution include \$42,298,454 of student loans.

The Second General Bond Resolution (1996) includes funds from the 1996, 1997, 1998 and 2000 Student Loan Bond Issues. The following chart shows the assets

and liabilities held under the Second General Bond Resolution as of September 30, 2002 (unaudited):

	1996	1997	1998	2000	Total
Assets	20,867,865	21,615,274	34,962,833	65,259,453	142,705,425
Bonds Outstanding (09/30/02)	13,550,000 ¹	15,400,000 ²	29,914,416 ³	63,000,000 ⁴	121,864,416
Other Liabilities	261,563	332,213	1,252,822	1,364,002	3,210,600
Fund Balance	7,056,302	5,883,061	3,795,595	895,451	17,630,409

¹ Bond maturities extend to 2006, 2014

² Bond maturities extend to 2027

³ Bond maturities extend to 2006

⁴ Bond maturities extend to 2025, 2035

All bond issues under the Second General Bond Resolution are insured by Ambac. The assets of the Second General Bond Resolution include \$105,508,589 of student loans.

How did the Trust accumulate its fund balances?

Bonds sold in the 1970's and 1980's were issued under favorable Federal tax legislation. From those early bond issues the Trust was able to accumulate earnings that were not subject to arbitrage rebate to the federal treasury. One of the provisions of bonds sold prior to October 1, 1993 is that student loans held by the Student Loan Trust will receive a minimum yield of 9.5%. The student loan borrower pays the prevailing rate on a student loan and the federal government will provide a Special Allowance Payment to the Trust that would result in a 9.5% yield on the loan. These loans are very valuable assets of the Trust and this 9.5% yield can only be achieved as long as there are pre-1993 bonds outstanding or proceeds of the pre-1993 bond issues are utilized to recycle student loans.

Another source of earnings for the Trust results from the fact that when bonds are issued, a debt service reserve fund is established. That debt service reserve fund (a source of repayment to the bondholders) is also invested. Some of the investment earnings on the debt service reserve fund are retained within the Trust.

How can the funds within the Trust be utilized?

Under both the First and Second General Bond Resolutions funds derived from the bond issues can be used for the following general purposes:

- 1) Purchase of student loans: Federal Family Education Loan Program Loans (FFELP) and Dakota Education Alternative Loans (DEAL), a supplemental state guaranteed program. The FFELP loans carry federal coinsurance, while the DEAL loans are guaranteed by the North Dakota Guaranteed Student Loan Program (Guarantee Agency) without federal coinsurance;
- 2) Payment of debt service to the bondholders;
- 3) Providing financial assistance to the Guarantee Agency;
- 4) Payment of any rebate liability to the federal government or, when permitted, providing borrower benefits to students; and
- 5) Administration of the Student Loan Trust.

As noted above the Trust funds can be used to provide financial assistance to the Guarantee Agency. Over the past six years the Trust has transferred \$5.8 million to the Guarantee Agency. This has allowed the Guarantee Agency to:

- Provide its guarantee on student loans to our student loan borrowers at a lower cost—the Guarantee Agency has eliminated a 1% guarantee fee previously charged to all borrowers;
- Upgrade its information technology system to streamline its operations, make the system more efficient and thus less costly, and to make the program more user friendly to the university system and other higher education institutions and ultimately to the borrowers;
- Fund six full-time positions for the Higher Education Computer Network (HECN) within the University System. These positions relate to programming system changes and training for HECN schools on system updates;
- Provide operating funds for the Guarantee Agency. Since the mid-90's the federal government has been withdrawing funds from guarantee agencies across the United States;
- Provide the required reserve funds (10%) needed for DEAL loans (those loans without federal coinsurance)

In order for the Guarantee Agency to offer its services at a lower cost to the student loan borrower, the Trust will be asked to transfer additional funding to the Guarantee Agency. Additional funding is also needed to meet the reserve requirements for additional DEAL program loans.

Can funds be withdrawn from the Student Loan Trust?

As noted above the General Bond Resolutions have limitations on how funds can be used. The Industrial Commission has just recently amended the First General Bond Resolution to allow transfer for the \$9 million of earnings that were appropriated by the Legislature during the 2001 Legislative Session for the General Fund. All the outstanding bonds are insured by Ambac and any amendments to the General Bond Resolutions must be agreed to by Ambac. The Trust is currently seeking approval from Ambac of the amendment to the First General Resolution and requesting their approval of the \$9 million transfer. The Trustee for the bonds must also certify that sufficient reserves remain to meet debt service payments, rebate payments and all program costs.

Deanna G. Ball
Operator's Signature

10/30/03
Date

Another option is to defease bonds outstanding under the First General Bond Resolution. Once all the bonds of any General Bond Resolution have matured, been redeemed or all the non-callable bonds defeased and the entire rebate liability due to the federal government paid, the remaining assets held under any General Bond Resolution would be transferred to the Industrial Commission. At that point the status of the student loan program would need to be evaluated and the legal status of any unencumbered assets determined. (For your information, to defease a bond issue, the Commission deposits sufficient funds in an Escrow Account to fully pay the principal and interest on the outstanding bonds and all other outstanding costs.) However, it is important to note that at the current time the Trust receives a yield of 9.5% on student loans held within the 1979 Resolution. The earnings from these 9.5% loans are partially used to pay a servicing fee to the Bank of North Dakota. The portion received by the Bank is reflected in the Bank's overall earnings.

What has the Student Loan Trust income been and what is the forecasted fund balance?

The Student Loan Trust has averaged net income over the past six years of \$3,983,940 before transfers to the Guarantee Agency or the General Fund. Governor Hoeven's 2003-2005 Executive Budget utilizes \$26,258,969 from the Student Loan Trust--\$9,000,000 of the Student Loan Trust's projected income during the 2003-2005 biennium and \$17,258,969 from funds held in the Student Loan Trust. This transfer from the funds held in the Student Loan Trust 1979 General Bond Resolution (which may require the sale of 9.5% loans) and a proposed transfer to the Guarantee Agency to support its operations and continue the DEAL loan program will reduce the First General Bond Resolution fund balance to \$25,960,013 on July 1, 2005. The Trust is currently considering options, including the drafting of legislation, which will enable the Trust to provide the funding proposed in the Executive Budget without the sale of the 9.5% loans and to maximize the Trust's future earnings.

Will students be able to obtain a student loan from the Bank of North Dakota if funds are transferred from the Student Loan Trust?

Yes, the Bank of North Dakota will continue to offer FFELP student loans. Currently the Student Loan Trust is a liquidity provider for the Bank and provides an alternative for the Bank should the Bank determine a need to reduce its student loan portfolio.

Dated December 31, 2002

If there are additional questions regarding the Student Loan Trust, please contact Karlene Fine, Executive Director and Secretary for the Industrial Commission, or Ed Sather, Senior Vice President of the Bank of North Dakota.

SCE HB 1015

Testimony on Senate Bill No. 2232
Karlene Fine, Executive Director and Secretary to the
Industrial Commission/Authorized Officer for the Student Loan Trust
and
Ed Sather, Senior Vice President - Treasury Services
for the Bank of North Dakota
January 27, 2003
Senate Appropriations Committee

Good morning, Mr. Chairman and members of the Senate Appropriations Committee. Thank you for the opportunity to appear in support of Senate Bill 2232.

This past week we had an opportunity when you held the hearing on Senate Bill 2015 to discuss the Student Loan Trust. We handed out to you at that time what we refer to as the Student Loan Trust White Paper. In that document we provided information on the Student Loan Trust. We won't go over that information again. We do note that in the Governor's proposed Executive Budget there are transfers of just over \$26 million from the Trust for the 2003-2005 biennium.

As mentioned last week, within the Student Loan Trust there are two separate resolutions—the 1979 Resolution and the 1996 Resolution. Because of certain federal regulations, the Trust is able to achieve a 9.5% yield on approximately \$42 million of student loans currently held in the 1979 Resolution as long as those loans continue to be held within the 1979 Resolution. Since we anticipate that any transfers out of the Student Loan Trust would need to come from the 1979 Resolution and we wanted to explore alternatives to liquidating those 9.5% earning loans, we went to our financing team and discussed a mechanism that would allow the Trust to obtain the cash needed for the transfers and retain the 9.5% earning loans. This would allow the Trust to provide the funding needed by the State and still maximize the interest earnings on the Trust.

The structure that is currently being discussed is the issuance of what is called a residual bond. The Trust would issue this residual bond for the amount of cash needed for the transfers in the 2003-2005 biennium and the bond would be sold to and held by the Bank of North Dakota. The source of repayment for

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Deanna Ball
Operator's Signature

10/30/03
Date

this bond is the principal and income from the Student Loan Trust. In order to facilitate this financing, bond counsel indicated that two changes needed to be made to the Student Loan Trust statute NDCC 54-17-25. Those two changes are reflected in Senate Bill 2232.

Currently state law allows the Trust to issue bonds under the following conditions:

- To diminish the investment of state funds in United States government guaranteed or reinsured or North Dakota guaranteed student loans;
- That it will be difficult to divest the state of appreciable amounts of such loans by piecemeal offering to the investing and saving public;
- That business conditions are favorable to a state-sponsored program to consolidate state-held student loans; and to enlarge private participation in such loans.

What we are proposing with the issuance of a residual bond does not exactly fit within these criteria, so we are seeking an amendment to allow for the issuance of bonds by the Trust in those instances "the public will otherwise benefit", such as with the issuance of a residual bond.

The second change is on line 18 of the bill when we delete the reference to "paramount." The issuance of a residual bond would not be a paramount charge on the resources of the Trust in that a residual bond is issued with the understanding that it is the last bond paid when everything else had been paid—thus the name residual bond.

Could the Trust make the transfers as proposed without this legislation? Yes, the Trust certainly could do that with the consent of the bond insurer. The Trust would sell a portion of its loan portfolio held within the 1979 Resolution to the Bank of North Dakota. The Trust would then have the cash to make the transfers. However, the loans that had a yield of 9.5% would then have a yield of approximately 2%—a loss in yield of 7.5% on a \$21 million loan portfolio (\$1,600,000 annually). What is proposed in Senate Bill 2232 would give the Trust the ability to maximize the State's earning potential on student loans held within the Trust.

January 2003

STUDENT LOAN TRUST FUND

This memorandum summarizes information relating to the student loan trust fund, including fund history, fund composition and uses, and financial status of the fund.

FUND HISTORY

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. As a result, the student loan trust fund was created, which enabled the state to sell tax-exempt bonds and use the proceeds for purchasing student loans made or acquired by the Bank of North Dakota.

The student loan trust fund is not in the business of making loans to students or servicing loans which it acquires. The Bank of North Dakota continues to service those loans which the student loan trust fund holds.

COMPOSITION AND USES

The student loan trust is comprised of funds held under two general bond resolutions. The first general bond resolution referred to as the 1979 bond resolution includes funds from bonds issued in 1979, 1988, 1989, and 1992. The second general bond resolution referred to as the 1996 bond resolution includes funds from bonds issued in 1996, 1997, 1998, and 2000. All issuances with bonds outstanding are insured by Ambac Insurance Corporation.

Under both of the bond resolutions, assets may only be used for:

- Purchase of student loans.
- Payment of debt service to bondholders.
- Providing financial assistance to the North Dakota Student Loan Guarantee Agency.
- Payment of any rebate liability to the federal government.
- Administration of the student loan trust fund.

Although the primary use of funds has been the purchase of student loans, funds from the student loan trust have also been used for support of the North Dakota Student Loan Guarantee Agency. Since 1997 funding of \$5.8 million has been transferred from the student loan trust fund to the North Dakota Student Loan Guarantee Agency. The funding has allowed the guarantee agency to eliminate the 1 percent guarantee fee for all student loan borrowers, upgrade its information technology system, provide funding to the North Dakota University System to assist with Higher Education Computer Network programming changes relating to financial aid and meet the reserve requirements for the Dakota education alternative loan program.

The Dakota education alternative loan program provides loans to students who were in need of funds for education in addition to the amount available under the federal family education loan program.

After all bonds in a general bond resolution have matured, been redeemed or defeased, and all expenses paid, any remaining assets held under the general bond resolution would be transferred to the Industrial Commission for use at its discretion. In order to use assets held under the general bond resolution for a purpose other than those stated in the general bond resolution, the administrator of the student loan trust fund must receive permission from the bond insurer, and the trustee of the bond (Bank of North Dakota) would have to certify that sufficient reserves remain for bond payments and other related program costs.

FINANCIAL STATUS

The following provides information regarding the financial position of the student loan trust fund as of September 30, 2002 (unaudited):

	First General Bond Resolution (1979) ¹	Second General Bond Resolution (1996) ²	Total
Cash and investments	\$23,040,963	\$37,196,836	\$60,237,799
Other assets	42,298,454	105,508,589	147,807,043
Total assets	\$65,339,417	\$142,705,425	\$208,044,842
Bonds outstanding	\$3,887,115	\$121,864,416	\$125,751,531
Other liabilities	9,001,340 ³	3,210,600	12,211,940
Fund balance	52,450,962	17,630,409	70,081,371
Total liabilities and fund balance	\$65,339,417	\$142,705,425	\$208,044,842

¹ All outstanding bonds will be matured by 2005.

² Bond maturates extend to 2035.

³ Of the \$9,001,340, \$9 million represents a 2001-03 biennium transfer to the state general fund pursuant to Section 13 of 2001 House Bill No. 1015.

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Operator's Signature

10/30/03
Date

The fund balance that has accumulated in the first general bond resolution is primarily attributable to the fact that bonds sold in the 1970s and 1980s were issued under favorable federal tax provisions. One of the provisions is that student loans held by the student loan trust fund will receive a minimum yield of 9.5 percent. The student loan borrower pays the prevailing rate on a student loan and the federal government will provide a special allowance payment to the student loan trust that would result in a 9.5 percent yield on the loan. Therefore, the student loans in the first general bond resolution are important to the student loan trust fund as the 9.5 percent yield can only be achieved as long as there are bonds outstanding that were sold prior to October 1, 1993, or proceeds of the bonds are utilized for the purchase of student loans.

The student loan trust fund balance may also accumulate due to investment income earned on bond reserve funds and the difference between the amount of interest received in student loan repayment and the amount of interest paid to bondholders. However, the Internal Revenue Service has implemented federal tax law changes affecting the trust fund's second general bond resolution, that reduces the amount of earnings allowed to accumulate and requires any excess earnings to be remitted to the federal government or the individuals whose loans the trust holds.

The following is a summary of student loan trust fund earnings for fiscal years 1997-2002:

Fiscal Year	First General Bond Resolution (1979)	Second General Bond Resolution (1988)	Total
1997	\$2,390,720	\$230,100	\$2,620,820
1998	3,065,164	1,761,343	4,826,507
1999	2,603,424	1,706,886	4,310,310
2000	2,804,164	1,722,767	4,526,931
2001	3,127,530	1,073,597	4,201,127
2002	1,108,000	2,300,000	3,408,000
Total	\$15,119,002 ¹	\$8,784,693	\$23,903,695

¹ Of the \$15,119,002 earnings, \$5.8 million has been distributed to the North Dakota Guarantee Agency and \$9,000,000 will be transferred to the state general fund pursuant to Section 13 of 2001 House Bill No. 1015.

2003-05 BIENNIAL EXECUTIVE BUDGET RECOMMENDATION

The 2003-05 biennial executive budget recommendation provides a \$9 million transfer from the student loan trust earnings to the state general fund, the same level of funding transferred from the trust fund to the general fund for the 2001-03 biennial. The executive budget recommendation also provides the North Dakota University System office a special funds appropriation of \$17,258,969 from the equity of the student loan trust fund for student grant programs (\$8,258,969), competitive research (\$4,000,000), and system initiatives (\$5,000,000).

The staff of the Industrial Commission anticipates that the special funds appropriation of \$17,258,969 from the equity of the student loan trust fund will be funded from the first general bond resolution, and the commission is exploring options to provide the funding without the sale of student loans held by the first general bond resolution of the student loan trust fund.

February 2003

ANALYSIS OF USES OF FUNDING FROM THE STUDENT LOAN TRUST FUND AS OF CROSSOVER

This memorandum summarizes the uses of funding from the student loan trust fund for the 2003-05 biennium, reflecting legislative action as of crossover. A Legislative Council memorandum regarding the student loan trust fund history, composition and uses, and financial status and a student loan trust fund white paper completed by the Industrial Commission are attached for further information.

	2003-05 Executive Budget	2003-05 Legislative Budget as of Crossover	Increase (Decrease)
Transfers to the general fund from the student loan trust fund			
Senate Bill No. 2015 - Section 12 (Office of Management and Budget appropriations bill)	\$9,000,000	\$9,000,000	\$0
House Bill No. 1003 - Section 17 (Higher education appropriations bill)		13,258,969 ¹	13,258,969
House Bill No. 1019 - Section 7 (Department of Commerce appropriations bill)		1,000,000 ²	1,000,000
House Bill No. 1022 - Section 6 (Information Technology Department appropriations bill)		3,000,000 ³	3,000,000
Total transfers to the general fund from the student loan trust fund	\$9,000,000	\$26,258,969	\$17,258,969
Appropriations from the student loan trust fund			
House Bill No. 1003 - Student grant programs	\$8,258,969		(\$8,258,969)
House Bill No. 1003 - System initiatives (centers for excellence)	5,000,000		(5,000,000)
House Bill No. 1003 - Competitive research	4,000,000		(4,000,000)
Total appropriations from the student loan trust fund	\$17,258,969	\$0	(\$17,258,969)
Total appropriations and transfers from the student loan trust fund	\$26,258,969	\$26,258,969	\$0
¹ The transfer to the general fund from the student loan trust fund included in House Bill No. 1003 relates to funding included in the bill from the general fund for student grant programs (\$8,258,969), competitive research (\$5,000,000), and centers for excellence (\$2,000,000).			
² The transfer to the general fund from the student loan trust fund included in House Bill No. 1019 relates to funding included in the bill from the general fund for grants for direct support of internships for students entering growth industries that have critical shortages of available employees.			
³ The transfer to the general fund from the student loan trust fund included in House Bill No. 1022 relates to funding included in the bill from the general fund for the state's share of costs associated with implementation of the enterprise resource planning system initiative.			

ATTACH:2

Information on The North Dakota Student Loan Trust

Background

In 1971 the Legislature authorized the Industrial Commission to "acquire and hold in one or more trusts [1] all unpaid United States government guaranteed or reinsured student loans and [2] North Dakota guaranteed student loans, belonging to the state of North Dakota or to any of its agencies . . ." (NDCC 54-17-24. See also NDCC 54-17-25). The creation of the North Dakota Student Loan Trust enabled the State of North Dakota to obtain low cost funds (through the sale of tax-exempt bonds) and use those funds for purchasing student loans originated or acquired by the Bank of North Dakota. Since 1971 the Industrial Commission has issued over \$900,000,000 in student loan bonds. The Student Loan Trust had just over \$125,852,000 in bonds outstanding as of December 31, 2002.

Structure of the Trust

The Student Loan Trust is composed of funds held under two General Bond Resolutions. These General Bond Resolutions determine the use and flow of funds within the Student Loan Trust.

The following chart shows the consolidated assets and liabilities held under the Student Loan Trust as of December 31, 2002 (unaudited):

	<u>Total</u>
Assets	209,731,820
Bonds Outstanding	125,852,166
Other Liabilities	13,017,862
Fund Balance	70,861,792

As noted above the Trust is composed of two General Bond Resolutions. The First General Bond Resolution (1979) includes funds from the 1979, 1988, 1989 and 1992 student loan bond issues. The following is a chart showing the assets and liabilities held under the First General Bond Resolution as of December 31, 2002 (unaudited):

	<u>1979</u>	<u>1988</u>	<u>1989</u>	<u>1992</u>	<u>Total</u>
Assets	3,625,152	27,734,270	24,200,991	10,518,269	66,078,682
Bonds Outstanding	0	0	3,956,205 ²	0	3,956,205
Other Liabilities	33,369	9,227,639 ¹	26,306	90,154	9,377,468
Fund Balance	3,591,783	18,506,631	20,218,480	10,428,115	52,745,009

¹ The 57th Legislative Assembly directed the Student Loan Trust to make a transfer of \$9,000,000 to the North Dakota General Fund during the 2001-2003 biennium with certain conditions. This transfer was made in January, 2003.

² Non-callable; final maturity in 2005.

The non-callable 1989 bond issue is insured by Ambac Assurance Corporation (Ambac). The assets of the First General Bond Resolution include \$38,232,829 of student loans.

The Second General Bond Resolution (1996) includes funds from the 1996, 1997, 1998 and 2000 Student Loan Bond Issues. The following chart shows the assets and liabilities held under the Second General Bond Resolution as of December 31, 2002 (unaudited):

	1996	1997	1998	2000	Total
Assets	21,094,550	21,897,737	35,009,839	65,651,012	143,653,138
Bonds Outstanding	13,550,000 ¹	15,400,000 ²	29,945,961 ³	63,000,000 ⁴	121,895,961
Other Liabilities	272,973	273,002	1,095,598	1,998,821	3,640,394
Fund Balance	7,271,577	6,224,735	3,968,280	652,191	18,116,783

¹ Bond maturities extend to 2006, 2014

² Bond maturities extend to 2027

³ Bond maturities extend to 2006

⁴ Bond maturities extend to 2025, 2035

All bond issues under the Second General Bond Resolution are insured by Ambac. The assets of the Second General Bond Resolution include \$98,701,456 of student loans.

How did the Trust accumulate its fund balances?

Bonds sold in the 1970's and 1980's were issued under favorable Federal tax legislation. From those early bond issues the Trust was able to accumulate earnings that were not subject to arbitrage rebate to the federal treasury. One of the provisions of tax-exempt bonds sold prior to October 1, 1993 is that student loans held by the Student Loan Trust will receive a minimum yield of 9.5%. The student loan borrower pays the prevailing rate on a student loan and the federal government will provide a Special Allowance Payment to the Trust that would result in a 9.5% yield on the loan. These loans are very valuable assets of the Trust and this 9.5% yield can only be achieved as long as there are pre-1993 bonds outstanding or proceeds of the pre-1993 bond issues are utilized to recycle student loans.

Another source of earnings for the Trust results from the fact that when bonds are issued, a debt service reserve fund is established. That debt service reserve fund (a source of repayment to the bondholders) is also invested. Some of the investment earnings on the debt service reserve fund are retained within the Trust.

How can the funds within the Trust be utilized?

Under both the First and Second General Bond Resolutions funds derived from the bond issues can be used for the following general purposes:

- 1) Purchase of student loans: Federal Family Education Loan Program Loans (FFELP) and Dakota Education Alternative Loans (DEAL), a supplemental state guaranteed program. The FFELP loans carry federal coinsurance, while the DEAL loans are guaranteed by the North Dakota Guaranteed Student Loan Program (Guarantee Agency) without federal coinsurance;
- 2) Payment of debt service to the bondholders;
- 3) Providing financial assistance to the Guarantee Agency;
- 4) Payment of any rebate liability to the federal government or, when permitted, providing borrower benefits to students; and
- 5) Administration of the Student Loan Trust.

As noted above the Trust funds can be used to provide financial assistance to the Guarantee Agency. Over the past six years the Trust has transferred \$5.8 million to the Guarantee Agency. This has allowed the Guarantee Agency to:

- Provide its guarantee on student loans to our student loan borrowers at a lower cost—the Guarantee Agency has eliminated a 1% guarantee fee previously charged to all borrowers;
- Upgrade its information technology system to streamline its operations, make the system more efficient and thus less costly, and to make the program more user friendly to the university system and other higher education institutions and ultimately to the borrowers;
- Fund six full-time positions for the Higher Education Computer Network (HECN) within the University System. These positions relate to programming system changes and training for HECN schools on system updates;
- Provide operating funds for the Guarantee Agency. Since the mid-90's the federal government has been withdrawing funds from guarantee agencies across the United States;
- Provide the required reserve funds (10%) needed for DEAL loans (those loans without federal coinsurance)

In order for the Guarantee Agency to offer its services at a lower cost to the student loan borrower, the Trust will be asked to transfer additional funding to the Guarantee Agency. Additional funding is also needed to meet the reserve requirements for additional DEAL program loans.

Can funds be withdrawn from the Student Loan Trust?

As noted above the General Bond Resolutions have limitations on how funds can be used. The Industrial Commission has just recently amended the First General Bond Resolution to allow transfer for the \$9 million of earnings that were appropriated by the Legislature during the 2001 Legislative Session for the General Fund. All the outstanding bonds are insured by Ambac and any amendments to the General Bond Resolutions must be agreed to by Ambac. The Trust has received approval from Ambac of an amendment to the First General Resolution and Ambac has approved the \$9 million transfer. The Trustee for the bonds must also certify that sufficient reserves remain to meet debt service payments, rebate payments and all program costs.

Another option is to defease bonds outstanding under the First General Bond Resolution. Once all the bonds of any General Bond Resolution have matured, been redeemed or all the non-callable bonds defeased and the entire rebate liability due to the federal government paid, the remaining assets held under any General Bond Resolution would be transferred to the Industrial Commission. At that point the status of the student loan program would need to be evaluated and the legal status of any unencumbered assets determined. (For your information, to defease a bond issue, the Commission deposits sufficient funds in an Escrow Account to fully pay the principal and interest on the outstanding bonds and all other outstanding costs.) However, it is important to note that at the current time the Trust receives a yield of 9.5% on student loans held within the 1979 Resolution. If the 1979 Resolution is defeased, the Trust would no longer be able to receive the 9.5% yield on loans held in the 1979 Resolution. The earnings from these 9.5% loans are partially used to pay a servicing fee to the Bank of North Dakota. The portion received by the Bank is reflected in the Bank's overall earnings.

What has the Student Loan Trust Income been and what is the forecasted fund balance?

The Student Loan Trust has averaged net income over the past six years of \$3,983,940 before transfers to the Guarantee Agency or the General Fund. Governor Hoeven's 2003-2005 Executive Budget utilizes \$26,258,969 from the Student Loan Trust--\$9,000,000 of the Student Loan Trust's current and prior income during the 2003-2005 biennium and \$17,258,969 from funds held in the Student Loan Trust. This transfer from the funds held in the Student Loan Trust 1979 General Bond Resolution (which may require the sale of 9.5% loans) and a proposed transfer to the Guarantee Agency to support its operations and continue the DEAL loan program will reduce the First General Bond Resolution fund balance to \$26,690,000 on June 30, 2005. The Trust is currently considering options, including the passage of legislation (SB 2232), which will enable the Trust to provide the funding proposed in the Executive Budget without the sale of the 9.5% loans and to maximize the Trust's future earnings.

Will students be able to obtain a student loan from the Bank of North Dakota if funds are transferred from the Student Loan Trust?

Yes, the Bank of North Dakota will continue to offer FFELP student loans. Currently the Student Loan Trust is a liquidity provider for the Bank and provides an alternative for the Bank should the Bank determine a need to reduce its student loan portfolio.

Dated February 24, 2003.

If there are additional questions regarding the Student Loan Trust, please contact Karlene Fine, Executive Director and Secretary for the Industrial Commission (328-3722), or Ed Sather, Senior Vice President of the Bank of North Dakota (328-5604).

Deanna Ball
Operator's signature

10/30/03
Date

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Operator's Signature Edward Sather Date 10/30/03

Ed Sather.

North Dakota Student Loan Trust
1979 Resolution
Projected Balance Sheet

	9-30-02	6-30-03	6-30-04	6-30-05
Cash/Investments	23,339,000.00	15,893,000.00	5,902,000.00	3,670,000.00
Student Loans	42,000,000.00	42,000,000.00	42,000,000.00	42,000,000.00
Total Assets	<u>65,339,000.00</u>	<u>57,893,000.00</u>	<u>47,902,000.00</u>	<u>45,670,000.00</u>
Bonds Payable	4,500,000.00	4,500,000.00	3,500,000.00	2,500,000.00
General Fund Payable	9,000,000.00			
Residual Bond Payable			10,710,000.00	16,480,000.00
Total Liabilities	<u>13,500,000.00</u>	<u>4,500,000.00</u>	<u>14,210,000.00</u>	<u>18,980,000.00</u>
Fund Balance	<u>51,839,000.00</u>	<u>53,393,000.00</u>	<u>33,692,000.00</u>	<u>26,690,000.00</u>

Transaction Report

01-01-03	Transfer to General Fund	(9,000,000.00)		
06-30-03	Net Income	1,554,000.00		
07-01-03	Transfer to Guarantee Agency		(4,500,000.00)	
	Transfer to University System		(17,259,000.00)	
	Issue Residual Bond		10,500,000.00	
	Bond Maturity		(1,000,000.00)	
06-30-04	Net Income		2,268,000.00	
07-01-04	Bond Maturity			(1,000,000.00)
01-01-05	Transfer to General Fund			(9,000,000.00)
	Issue Residual Bond			5,500,000.00
06-30-05	Net Income			2,268,000.00

scenario
* based on current rates

Prepared by Edward Sather, BND, & Karlene Fine, IC

**House Appropriations Committee
Government Operations Division
Testimony of Tim Porter
North Dakota Municipal Bond Bank**

For the record, my name is Tim Porter and I am the Executive Director of the Municipal Bond Bank. I am providing this testimony in support of the Industrial Commission's requested appropriation for the Municipal Bond Bank for the 2003-2005 biennium in the amount of \$569,078. The requested biennial appropriation is \$101,560 less than the current biennial appropriation. Adjustments have been made within several line items to reduce the budget from the 2001-2003 level and to more accurately reflect projected expenditures. Most of these adjustments are the result of efficiencies created when the Municipal Bond Bank co-located with the Bank of North Dakota in August of 2001.

The Municipal Bond Bank is a state agency that operates under the supervision and authority of the Industrial Commission. It is a self-supporting state agency and receives no money from the General Fund. The staff of the Municipal Bond Bank currently consists of 1.75 full-time state employees. The Executive Director is considered .75 Municipal Bond Bank employee and .25 Bank of North Dakota employee. The Municipal Bond Bank also employs a full-time Business Manager. The Municipal Bond Bank has 1 vacant full-time position for a loan officer included in its budget for the 2003-2005 biennium. I ask that you consider allowing this vacant position for the 2003-2005 biennium while we assess the demand for our services under existing programs as well as a new program to finance irrigation infrastructure.

The written testimony below describes the Municipal Bond Bank and its financing programs. Also, a copy of the 2002 Annual Report for the Municipal Bond Bank has been included in the binder for your review. This Report describes in more detail the Municipal Bond Bank's programs and provides a complete history of all the Bond Bank's loans and bond issues.

Mission

To develop rural and urban North Dakota by providing political subdivisions and other qualifying organizations access to flexible and competitive financing options for their local qualifying projects.

The Municipal Bond Bank was established to make low-cost loans to North Dakota political subdivisions at favorable interest rates. Loans are made to political subdivisions by the Municipal Bond Bank through the purchase of municipal securities issued by the political subdivisions in accordance with state and federal law. Loans are primarily made with the proceeds of bonds issued by the Municipal Bond Bank under the programs described below. In certain instances, a direct loan may be made to a political subdivision from the Municipal Bond Bank's operating fund or from the federal grants or loan repayments held under the State Revolving Fund Program.

The municipal securities issued by a political subdivision to the Municipal Bond Bank may be either tax-exempt or taxable obligations. A political subdivision must retain bond counsel to assist in the preparation and adoption of its bond resolution and other necessary documents. The Municipal Bond Bank may purchase municipal securities only if the Attorney General issues an opinion that states the municipal securities are properly eligible for purchase under the North Dakota Century Code (N.D.C.C.) chapter 6-09.4, the Municipal Bond Bank Act.

Required Debt Service Reserve

Subsection 1 of §6-09.4-10 of the N.D.C.C. requires the Municipal Bond Bank to establish a debt service reserve in an aggregate amount equal to at least the largest amount of money required in the current or any succeeding calendar year for the payment of the principal of and interest on its outstanding bonds.

Subsection 4 of §6-09.4-10 of the N.D.C.C. of the N.D.C.C. provides as follows:

"In order to assure the maintenance of the required debt service reserve, there shall be appropriated by the Legislative Assembly and paid to the Bond Bank for deposit in the reserve fund, such sum, if any, as shall be certified by the Industrial Commission as necessary to restore the reserve fund to an amount equal to the required debt service reserve."

In the written opinion of the Attorney General, this provision does not constitute a legally enforceable obligation of the State. In the written opinion of the Municipal Bond Bank's bond counsel, there is no applicable provision of state law which would prohibit a future Legislative Assembly from appropriating any sum which is certified by the Industrial Commission as necessary to restore the reserve fund in an amount sufficient to meet the required debt service reserve amount. The legislative obligation imposed by the Legislative Assembly in subsection 4 of §6-09.4-10 is referred to as a moral obligation because the obligation to provide an appropriation for the Municipal Bond Bank's reserve fund is not backed by the full faith and credit of the State. All bonds issued by the Municipal Bond Bank under any of its programs are moral obligation bonds. Under any of the Municipal Bond Bank programs, there has never been the need to request an appropriation to cover a shortfall in a reserve fund.

Advisory Committee

The Industrial Commission, by policy, has established a Municipal Bond Bank Advisory Committee. The Committee is made up of three members appointed by the Commission. The Committee reviews each loan application for the purpose of making a recommendation concerning the loan to the Industrial Commission, which must give its approval before a loan may be made under each Program. However, if the loan is for \$50,000 or less, the Committee may authorize the approval of the loan, then submit a report describing the loan and the action taken to the Commission at its next meeting.

At the present time, the Municipal Bond Bank has three loan programs: the Capital Financing Program, the State Revolving Fund Program, and the School Construction Financing Loan Program.

Capital Financing Program

The Capital Financing Program, established in 1990, makes loans to political subdivisions for any purpose for which political subdivisions are authorized to issue municipal securities, subject to certain statutory requirements. One such requirement is that the Municipal Bond Bank may not purchase municipal securities issued under N.D.C.C. chapter 40-57 (Municipal Industrial Development Act (MIDA) Bonds).

Through December 31, 2002, the Municipal Bond Bank has made \$80,778,016 of loans to political subdivisions under the Capital Financing Program. The outstanding amount of Capital Financing Program bonds is \$28,370,000. Recognizing the strength of the State's moral obligation pledge, Standard and Poor's (S&P) has assigned a rating of "A-" to the Capital Financing Program Bonds.

State Revolving Fund Program

Under the State Revolving Fund (SRF) Program, federal capitalization grants are received by the State through the Health Department from the Environmental Protection Agency (EPA), and are deposited and held under the Program's Master Trust Indenture for the purpose of making below-market interest rate loans to political subdivisions for qualified projects and for other authorized purposes. The projects are subject to the approval by the State Health Department under appropriate state law and the Federal Clean Water Act and the Federal Safe Drinking Water Act. The federal capitalization grants are available to states on the basis of an 80-20 federal-state match. The 20% state match is provided by a portion of the SRF Program bonds issued by the Municipal Bond Bank. The federal capitalization grants must be held by the state in a revolving loan fund and are available only for purposes authorized under the Federal Clean Water Act and the Federal Safe Drinking Water Act.

The SRF Program consists of a Clean Water SRF Program and a Drinking Water SRF Program. Federal capitalization grants for the Clean Water SRF Program were first appropriated to the State in 1989. Since that time, \$95,790,000 of federal capitalization grants under the Clean Water SRF Program have been appropriated and awarded to the State through federal fiscal year 2002. Through December 31, 2002, 133 loans totaling \$145,072,074 have been approved under the Clean Water SRF Program. The Health Department's Clean Water Intended Use Plan for 2003 includes approximately \$70,000,000 of potential projects.

Federal capitalization grants for the Drinking Water SRF Program were first appropriated to the State in 1997. Since that time, \$50,742,500 of federal capitalization grants under the Drinking Water SRF Program have been appropriated and awarded to the State through federal fiscal year 2002. Through December 31, 2002, 37 loans totaling \$62,461,797 have been approved under the Drinking Water SRF Program. The Health Department's Drinking Water Intended Use Plan for 2003 includes approximately \$212,954,000 of potential projects.

A project must be on the appropriate Intended Use Plan to be able to apply for a loan under the SRF Program. The current interest rate on loans under the SRF Program is 2.5% with a 0.5% annual administrative fee on the outstanding balance. Bonds issued by the Municipal Bond Bank under the SRF program are rated "Aaa" by Moody's Investors Service, Inc. (Moody's), which is Moody's highest possible rating.

State School Construction Financing Program

The Municipal Bond Bank's State School Construction Financing Program provides loans to North Dakota school districts. This program has been assigned an "A+" rating by S&P, which allows the school districts, which generally do not have a credit rating, to borrow at lower interest rates. Bonds issued under this Program will be moral obligation bonds of the State and will also be supported by the state school aid intercept provision adopted by the Legislature in 1999. The state aid intercept provision is found in §6-09.4-23 of the N.D.C.C. A school district will be required to authorize the withholding of state school aid payments which are due and payable to the district under N.D.C.C. chapter 15-40.1 in order to participate in the Program. If a school district defaults on its loans under this Program, the Department of Public Instruction is notified by the Municipal Bond Bank to withhold aid payments to the defaulting school district until such time that principal and interest have been paid or satisfactory arrangements have been made to make the payment.

Annual Report

The Municipal Bond Bank submits its Annual Report to the Legislative Council each year. The Annual Report provides a complete list of all loans made and bonds issued by the Municipal Bond Bank since its inception in 1975.

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Deanna Hall
Operator's Signature

10/30/03
Date

Exhibit #6

**Senate Appropriations Committee
Testimony of Tim Porter
North Dakota Municipal Bond Bank**

For the record, my name is Tim Porter and I am the Executive Director of the Municipal Bond Bank. I am providing this testimony in support of the Industrial Commission's requested appropriation for the Municipal Bond Bank for the 2003-2005 biennium in the amount of \$569,078. The requested biennial appropriation is \$101,560 less than the current biennial appropriation. Adjustments have been made within several line items to reduce the budget from the 2001-2003 level and to more accurately reflect projected expenditures. Most of these adjustments are the result of efficiencies created when the Municipal Bond Bank co-located with the Bank of North Dakota in August of 2001.

The Municipal Bond Bank is a state agency that operates under the supervision and authority of the Industrial Commission. It is a self-supporting state agency and receives no money from the General Fund. The staff of the Municipal Bond Bank currently consists of 1.75 full-time state employees (FTE's). The Executive Director is considered .75 Municipal Bond Bank employee and .25 Bank of North Dakota employee. The Municipal Bond Bank also employs a full-time Business Manager.

In addition to administering all of its current programs, the Municipal Bond Bank is working with the North Dakota Irrigation Caucus to develop a bonding program for irrigation districts. The first bond issue under this program could be as early as the summer of 2003. At this point, we are uncertain how the development of an irrigation program and new drinking water regulations will affect the Municipal Bond Bank's staffing needs. During the 2001-2003 biennium, the Municipal Bond Bank's budget included salaries for 4 FTE's. The current budget for the 2003-2005 biennium includes salaries for 2.75 FTE's. The vacant FTE within the current budget is for a loan officer position which would help analyze the loan applications and financial statements of potential borrowers under all of the Municipal Bond Bank's programs. Therefore, I ask that you consider allowing this vacant position for the 2003-2005 biennium while we assess the demand for our services under existing programs as well as the new program to finance irrigation infrastructure.

The written testimony below describes the Municipal Bond Bank and its financing programs. In addition to the written testimony, each agency director was asked by Senate Majority Leader Bob Stenehjem and House Majority Leader Rick Berg to respond to several questions. My response to each of these questions is included with this testimony. Also, a copy of the 2002 Annual Report for the Municipal Bond Bank has been included in the binder for your review. This Report describes in more detail the Municipal Bond Bank's programs and provides a complete history of all the Bond Bank's loans and bond issues.

Mission

To develop rural and urban North Dakota by providing political subdivisions and other qualifying organizations access to flexible and competitive financing options for their local qualifying projects.

The Municipal Bond Bank was established to make low-cost loans to North Dakota political subdivisions at favorable interest rates. Loans are made to political subdivisions by the Municipal Bond Bank through the purchase of municipal securities issued by the political subdivisions in accordance with state and federal law. Loans are primarily made with the proceeds of bonds issued by the Municipal Bond Bank under the programs described below. In certain instances, a direct loan may be made to a political subdivision from the Municipal Bond Bank's operating fund or from the federal grants or loan repayments held under the State Revolving Fund Program.

The municipal securities issued by a political subdivision to the Municipal Bond Bank may be either tax-exempt or taxable obligations. A political subdivision must retain bond counsel to assist in the preparation and adoption of its bond resolution and other necessary documents. The Municipal Bond Bank may purchase municipal securities only if the Attorney General issues an opinion that states the municipal securities are properly eligible for purchase under the North Dakota Century Code (N.D.C.C.) chapter 6-09.4, the Municipal Bond Bank Act.

Required Debt Service Reserve

Subsection 1 of §6-09.4-10 of the N.D.C.C. requires the Municipal Bond Bank to establish a debt service reserve in an aggregate amount equal to at least the largest amount of money required in the current or any succeeding calendar year for the payment of the principal of and interest on its outstanding bonds.

Subsection 4 of §6-09.4-10 of the N.D.C.C. of the N.D.C.C. provides as follows:

"In order to assure the maintenance of the required debt service reserve, there shall be appropriated by the Legislative Assembly and paid to the Bond Bank for deposit in the reserve fund, such sum, if any, as shall be certified by the Industrial Commission as necessary to restore the reserve fund to an amount equal to the required debt service reserve."

In the written opinion of the Attorney General, this provision does not constitute a legally enforceable obligation of the State. In the written opinion of the Municipal Bond Bank's bond counsel, there is no applicable provision of state law which would prohibit a future Legislative Assembly from appropriating any sum which is certified by the Industrial Commission as necessary to restore the reserve fund in an amount sufficient to meet the required debt service reserve amount. The legislative obligation imposed by the Legislative Assembly in subsection 4 of §6-09.4-10 is referred to as a moral obligation because the obligation to provide an appropriation for the Municipal Bond Bank's reserve fund is not backed by the full faith and credit of the State. All bonds issued by the Municipal Bond Bank under any of its programs are moral obligation bonds. Under any of the Municipal Bond Bank programs, there has never been the need to request an appropriation to cover a shortfall in a reserve fund.

Advisory Committee

The Industrial Commission, by policy, has established a Municipal Bond Bank Advisory Committee. The Committee is made up of three members appointed by the Commission. The Committee reviews each loan application for the purpose of making a recommendation concerning the loan to the Industrial Commission, which must give its approval before a loan may be made under each Program. However, if the loan is for \$50,000 or less, the Committee may authorize the approval of

the loan, then submit a report describing the loan and the action taken to the Commission at its next meeting.

At the present time, the Municipal Bond Bank has three loan programs: the Capital Financing Program, the State Revolving Fund Program, and the School Construction Financing Loan Program.

Capital Financing Program

The Capital Financing Program, established in 1990, makes loans to political subdivisions for any purpose for which political subdivisions are authorized to issue municipal securities, subject to certain statutory requirements. One such requirement is that the Municipal Bond Bank may not purchase municipal securities issued under N.D.C.C. chapter 40-57 (Municipal Industrial Development Act (MIDA) Bonds).

Through December 31, 2002, the Municipal Bond Bank has made \$80,778,016 of loans to political subdivisions under the Capital Financing Program. The outstanding amount of Capital Financing Program bonds is \$28,370,000. Recognizing the strength of the State's moral obligation pledge, Standard and Poor's (S&P) has assigned a rating of "A-" to the Capital Financing Program Bonds.

State Revolving Fund Program

Under the State Revolving Fund (SRF) Program, federal capitalization grants are received by the State through the Health Department from the Environmental Protection Agency (EPA), and are deposited and held under the Program's Master Trust Indenture for the purpose of making below-market interest rate loans to political subdivisions for qualified projects and for other authorized purposes. The projects are subject to the approval by the State Health Department under appropriate state law and the Federal Clean Water Act and the Federal Safe Drinking Water Act. The federal capitalization grants are available to states on the basis of an 80-20 federal-state match. The 20% state match is provided by a portion of the SRF Program bonds issued by the Municipal Bond Bank. The federal capitalization grants must be held by the state in a revolving loan fund and are available only for purposes authorized under the Federal Clean Water Act and the Federal Safe Drinking Water Act.

The SRF Program consists of a Clean Water SRF Program and a Drinking Water SRF Program. Federal capitalization grants for the Clean Water SRF Program were first appropriated to the State in 1989. Since that time, \$95,790,000 of federal capitalization grants under the Clean Water SRF Program have been appropriated and awarded to the State through federal fiscal year 2002. Through December 31, 2002, 133 loans totaling \$145,072,074 have been approved under the Clean Water SRF Program. The Health Department's Clean Water Intended Use Plan for 2003 includes approximately \$70,000,000 of potential projects.

Federal capitalization grants for the Drinking Water SRF Program were first appropriated to the State in 1997. Since that time, \$50,742,500 of federal capitalization grants under the Drinking Water SRF Program have been appropriated and awarded to the State through federal fiscal year 2002. Through December 31, 2002, 37 loans totaling \$62,461,797 have been approved under the Drinking Water SRF Program. The Health Department's Drinking Water Intended Use Plan for 2003 includes approximately \$212,954,000 of potential projects.

A project must be on the appropriate Intended Use Plan to be able to apply for a loan under the SRF Program. The current interest rate on loans under the SRF Program is 2.5% with a 0.5% annual administrative fee on the outstanding balance. Bonds issued by the Municipal Bond Bank under the SRF program are rated "Aaa" by Moody's Investors Service, Inc. (Moody's), which is Moody's highest possible rating.

State School Construction Financing Program

The Municipal Bond Bank's State School Construction Financing Program provides loans to North Dakota school districts. This program has been assigned an "A+" rating by S&P, which allows the school districts, which generally do not have a credit rating, to borrow at lower interest rates. Bonds issued under this Program will be moral obligation bonds of the State and will also be supported by the state school aid intercept provision adopted by the Legislature in 1999. The state aid intercept provision is found in §6-09.4-23 of the N.D.C.C. A school district will be required to authorize the withholding of state school aid payments which are due and payable to the district under N.D.C.C. chapter 15-40.1 in order to participate in the Program. If a school district defaults on its loans under this Program, the Department of Public Instruction is notified by the Municipal Bond Bank to withhold aid payments to the defaulting school district until such time that principal and interest have been paid or satisfactory arrangements have been made to make the payment.

Annual Report

The Municipal Bond Bank submits its Annual Report to the Legislative Council each year. The Annual Report provides a complete list of all loans made and bonds issued by the Municipal Bond Bank since its inception in 1975.

North Dakota Municipal Bond Bank
Tim Porter, Executive Director
Response to Senator Bob Stenehjem and Representative Rick Berg
Senate and House Majority Leaders

What is the main purpose of the ND Municipal Bond Bank?

The Municipal Bond Bank was established to make low-cost loans to North Dakota political subdivisions at favorable interest rates. Loans are made to political subdivisions by the Municipal Bond Bank through the purchase of municipal securities issued by the political subdivisions in accordance with state and federal law. Loans are primarily made with the proceeds of bonds issued by the Municipal Bond Bank under several programs. In certain instances, a direct loan may be made to a political subdivision from the Municipal Bond Bank's operating fund or from the federal grants or loan repayments held under the State Revolving Fund Program.

The municipal securities issued by a political subdivision to the Municipal Bond Bank may be either tax-exempt or taxable obligations. A political subdivision must retain bond counsel to assist in the preparation and adoption of its bond resolution and other necessary documents. The Municipal Bond Bank may purchase municipal securities only if the Attorney General issues an opinion that states the municipal securities are properly eligible for purchase under the North Dakota Century Code (N.D.C.C.) chapter 6-09.4, the Municipal Bond Bank Act.

The Municipal Bond Bank's purpose is best defined within its mission, which is:

To develop rural and urban North Dakota by providing political subdivisions and other qualifying organizations access to flexible and competitive financing options for their local qualifying projects.

How does the ND Municipal Bond Bank measure the achievement of its purpose?

By monitoring the progress and success of its programs, the Municipal Bond Bank can determine the financial savings political subdivisions and other qualifying organizations recognize as a result of lower financing costs. Since most of the proceeds of the Municipal Bond Bank's programs are invested directly into the infrastructure of political subdivisions, the measurement of financial savings is often overshadowed by the intangible benefits to the community. For example, in the State Revolving Fund (SRF), money is available for political subdivisions and other qualifying organizations to make necessary improvements to their water systems. Since this program provides low-interest rate loans which are currently at 3%, financial savings can be specifically measured by comparing this below-market rate to the current market rates. However, the real benefit to the community is access to quality drinking water or a properly designed sewer system.

What can the legislature do, financially and otherwise, to help the Municipal Bond Bank achieve its purpose?

The Municipal Bond Bank is a state agency that operates under the supervision and authority of the Industrial Commission. It is a self-supporting state agency and receives no money from the General Fund. The staff of the Municipal Bond Bank currently consists of 1.75 full-time state employees. The Executive Director is considered .75 Municipal Bond Bank employee and .25 Bank of North Dakota employee. The Municipal Bond Bank also employs a full-time Business Manager. The Municipal Bond Bank has 1 vacant full-time position for a loan officer included in its budget for the 2003-2005 biennium. I ask that you consider allowing this vacant position for the 2003-2005 biennium while we assess the demand for our services under existing programs as well as a new program to finance irrigation infrastructure.

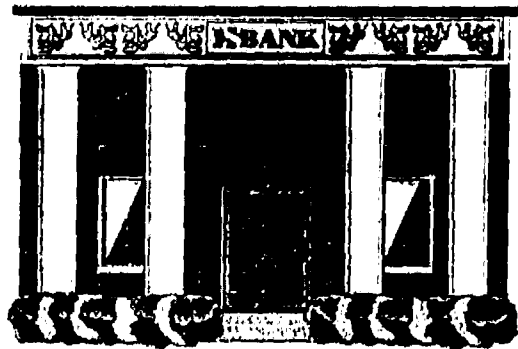
At the present time, the Municipal Bond Bank has three loan programs: the Capital Financing Program, the State Revolving Fund Program, and the School Construction Financing Loan Program. Through December 31, 2002, the Municipal Bond Bank has made \$80,778,016 of loans to political subdivisions under the Capital Financing Program. Through December 31, 2002, 133 loans totaling \$145,072,074 have been approved under the Clean Water SRF Program and 37 loans totaling \$62,461,797 have been approved under the Drinking Water SRF Program. So far, no loans have been made under the School Construction Financing Loan Program. These programs rely on the support of the legislature to back the moral obligation of the State regarding these bond issues. The strength of the State's moral obligation has resulted in favorable treatment from national bond rating agencies, which ultimately results in lower interest rates on our bond issues.

How can the Municipal Bond Bank report (measure) its results so the public can easily understand its purpose and evaluate its effectiveness?

By focusing on the Municipal Bond Bank's mission and reporting general results of its programs, the public would more easily understand how the Municipal Bond Bank provides an additional finance option for political subdivisions to consider when they need to finance infrastructure improvements.

CONTACT MUNICIPAL BOND BANK FOR COPY

NORTH DAKOTA MUNICIPAL BOND BANK



2002 Annual Report

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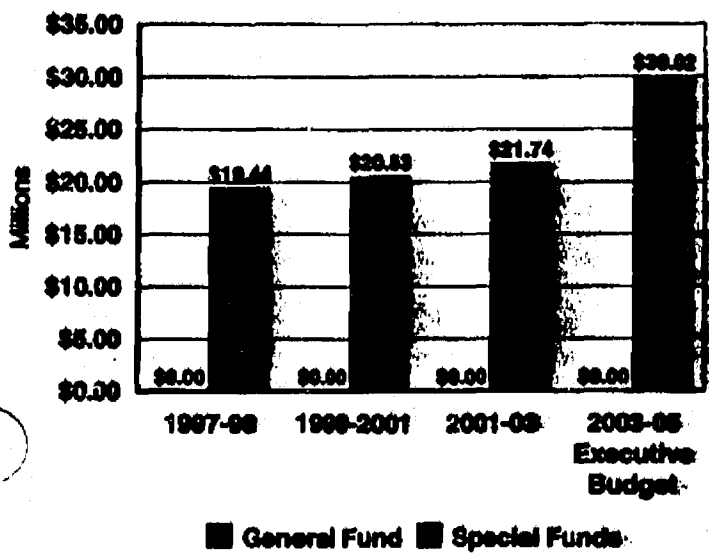
Deanna Ball
Operator's Signature

10/30/03
Date

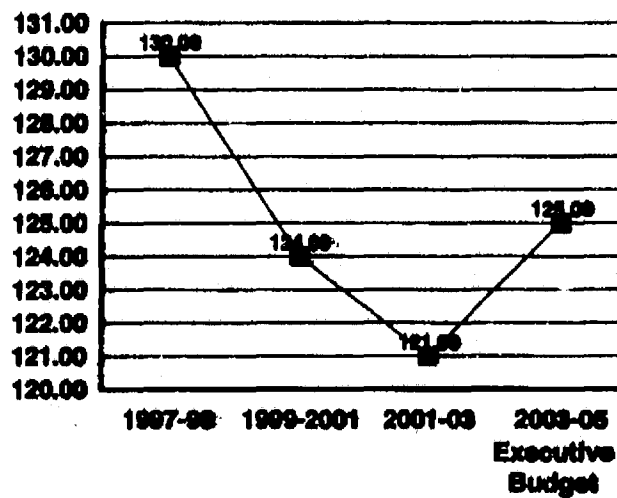
Department 475 - Mill and Elevator Association
House Bill No. 1015

	FTE Positions	General Fund	Other Funds	Total
2003-05 Executive Budget	125.00	\$0	\$30,018,282	\$30,018,282
2001-03 Legislative Appropriations	121.00	0	21,741,294	21,741,294
Increase (Decrease)	4.00	\$0	\$8,276,988	\$8,276,988

Agency Funding



FTE Positions



Executive Budget Highlights

	General Fund	Other Funds	Total
1. Adds 4 new FTE positions requested by the agency		\$386,650	\$386,650
2. Increases operating expenses line item for ongoing costs of operations		\$5,460,950	\$5,460,950
3. Increases salaries and wages to account for wages and benefits for 121 employees		\$2,564,308	\$2,564,308

Major Related Legislation

House Bill No. 1015 - Section 9 of this bill provides that the Industrial Commission transfer \$5 million from the Mill and Elevator Association to the general fund as requested by the director of the Office of Management and Budget.

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Dennis G. Ball
Operator's Signature

10/30/03
Date



**Legislative Committee Hearing
January 10, 2003
House Bill No. 1015 Budget No. 475
North Dakota Mill & Elevator Association**

Mr. Chairman and Representatives:

My name is Vance Taylor. I am President and General Manager of the North Dakota Mill and Elevator. With me today is Ed Barchenger, our Controller and Finance Manager.

With the completion of our renovation and expansion project last year, the North Dakota Mill is now the 2nd largest flour mill and the 11th largest milling company in the United States with sales of over \$100 million per year.

The complex includes 5 milling units with the capacity to produce 2.7 million lbs. of finished product per day, a terminal elevator with total available storage of over 4,000,000 bu. of grain and a packaging center and warehouse capable of producing, storing and shipping large quantities of various sized bags of milled products. We process up to 62,000 bu. of top quality North Dakota spring and durum wheat per day, adding value to over 18,000,000 bu. per year. All facilities are located in Grand Forks.

The mill operates 24 hours per day, 5 to 7 days per week. Total current staffing is 121 full time employees.

We are primarily a spring wheat mill shipping 90% spring wheat products vs. 10% durum products. 65% of all products are shipped in bulk trucks or railcars vs. 35% shipped in bags or totes. Organic spring wheat and durum products now make up 1.5 % of total shipments.

Strategic Plan 2003

The North Dakota Mill and Elevator has developed the following strategic objectives for fiscal year 2003:

- Promote and support ND agriculture, commerce and industry
- Increase the earnings potential of the North Dakota Mill
- Focus on our customers
- Develop and grow the skills of our state mill employees
- Improve technology
- Expand internal and external communications

P.O. Box 13078 / Grand Forks, ND 58208-3078
Telephone: (701) 795-7000 / Fax: (701) 795-7272

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Dennis G. Ball
Operator's Signature

10/30/03
Date

Mill Renovation and Expansion Project

Our Renovation and Expansion Project was completed during fiscal year 2002. The project was completed within the approved budget of \$19.5 million. This project provided for various upgrades in the terminal elevator, replaced obsolete grain cleaning systems, allowed for increased tempering of wheat to 24 hours, upgraded the A & B units, reflowed the K & D units and added a pelleting system for processing mill by-products.

Benefits of the project include: the milling of an additional 3,450,000 bu. of North Dakota wheat, increased visibility for North Dakota agricultural products via the sale of 1,500,000 additional cwt. of flour, improved mill efficiencies, reduced operating costs per cwt. and decreased freight costs due to higher density of pelletized by-products. All of this allows the North Dakota Mill to continue to compete effectively and provide greater returns to the State.

Markets and Competition

Our bulk and large package shipping area is diverse but more concentrated in the Ohio River Valley and on the East Coast. We also export product to the Caribbean and Japan.

Our customers include bakery flour distributors, retail distributors, large bakeries and pasta companies. Sales are made by our in-house sales staff and food brokers.

We compete with large milling companies such as Horizon Milling, ADM, ConAgra, General Mills and others. The outstanding quality of our products, verified by our new ISO 9001 – 2000 certification, allows us to be very competitive against these companies. ISO 9001 was developed by the International Organization of Standards and is accepted by more than 91 countries. These standards require us to document our current operational processes and to continually improve on these processes of producing and delivering products to our customers.

Margins are under pressure. U. S. annual per capita consumption of flour decreased by 5 pounds in calendar year 2001. Over the last 2 years, 16 flour mills with a total daily capacity of 13,900,000 pounds have closed in the United States. Some of the flour mills that have closed include mills located in Buffalo, NY; Huron, OH; Springfield, IL; Seattle, WA; and Jacksonville, FL.

Our intent is to continue to maximize production volume, increase the percentage of bagged products, continue to aggressively market family flour and retail mixes, grow our organic flour business and investigate new markets, new products and extensions of current product lines.

We will continue to leverage our greatest strength – our employees, whose efforts have given us an excellent reputation for quality and service in the market place.

State Mill Testimony
January 10, 2003
Page 3

Budget Request

All operating funds are generated from profits. Short or long-term needs are met by borrowing from the Bank of North Dakota. No funds or financial assistance is received from the State.

The budget request is for \$30,018,282. This is an increase of \$4,776,988 over the revised current biennium budget. The increase represents increases in both wages and benefits and other operating expenses.

Wages and benefits increased \$2,516,038 over the revised budget. Wages and salaries increased \$946,447. This includes the addition of four FTE's and the annual increases for employees. Temporary worker's pay, overtime pay, shift differential pay and benefits increased \$1,569,591. The mill is in the final year of a five-year contract with the Local Union No. 135 of the American Federation of Grain Millers International. This contract expires June 30, 2003. Contract negotiations will begin this spring on a new contract. The Union represents approximately 65% of the employees at the mill.

Operating expenses, excluding wages and benefits, increased \$2,260,950 over the revised current budget. Increased interest expense accounts for more than 25% of this increase in operating expense. Insurance expense was increased at a 10% annual rate over the revised budget and utilities expense was increased at an 8% annual rate over the revised budget. The other general operating expenses were increased at a 4% annual rate.

The transfer of funds to the General Fund has been budgeted for \$5 million for the biennium. This is a \$1 million decrease from the prior biennium.

Thank you for your time and consideration of our budget request. I will be happy to answer any questions.

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Deanna G. Hall
Operator's Signature

10/30/03
Date

Exhibit A

NORTH DAKOTA MILL BUDGET REQUEST DETAIL

	Original Budget 01-03	Revised Budget 01-03	Proposed Budget 03-05	Incr. Over Revised Budget
<u>Wages & Benefits</u>				
Salaries	9,013,466	9,013,466	9,959,913	946,447
Temporary, Overtime, Shift Differential	1,906,236	2,206,236	3,391,510	1,185,274
Benefits	2,968,116	2,968,116	3,352,433	384,317
Total	<u>13,887,818</u>	<u>14,187,818</u>	<u>16,703,856</u>	<u>2,516,038</u>
FTE	121	121	125	4
<u>Operating Expense</u>				
IT - Telephone	164,000	164,000	175,000	11,000
Travel	313,464	313,464	328,849	15,385
IT-Software/Supplies	79,500	79,500	90,000	10,500
Utilities	2,015,531	2,615,531	3,052,362	436,831
Postage	60,874	60,874	70,109	9,235
IT-Contractual Services	46,500	46,500	60,000	13,500
Lease/Rentals-Land (track rent)	12,577	12,577	16,000	3,423
Dues & Professional Development	113,145	113,145	140,149	27,004
Operating Fees & Services	788,418	1,288,418	1,882,759	594,341
Repairs	2,422,058	3,122,058	3,480,809	358,751
Professional Services	103,818	103,818	171,181	67,363
Insurance	520,954	1,620,954	2,162,641	541,687
Office Supplies	67,898	67,898	63,705	(4,193)
Professional Supplies & Mat'l	202,484	267,484	292,156	24,672
Misc.	594,255	829,255	974,706	145,451
IT-Equip under \$5,000	48,000	48,000	54,000	6,000
Total	<u>7,553,476</u>	<u>10,753,476</u>	<u>13,014,426</u>	<u>2,260,950</u>
Total Wages, Benefits & Op Exp.	<u>21,441,294</u>	<u>24,941,294</u>	<u>29,718,282</u>	<u>4,776,988</u>
Agriculture Promotion	50,000	50,000	50,000	-
Emergency Fund	250,000	250,000	250,000	-
TOTAL BUDGET	<u>21,741,294</u>	<u>25,241,294</u>	<u>30,018,282</u>	<u>4,776,988</u>

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Operator's Signature

Date

10/30/03

Exhibit B

STATEMENT OF NET ASSETS
June 30, 2002

ASSETS

Current assets:

Cash and Cash Equivalents	\$ 512,729
Receivables (Net)	12,944,156
Inventories	9,895,616
Prepaid Expense	364,386
Total current assets	<u>\$ 23,716,887</u>

Noncurrent assets:

Patronage Capital Credits	\$ 62,093
Other Assets	13,150
Capital Assets (See Note 6)	31,596,343
Total noncurrent assets	<u>\$ 31,671,586</u>
Total assets	<u>\$ 55,388,473</u>

LIABILITIES

Current liabilities:

Accounts Payable and other liabilities	\$ 2,630,733
Notes Payable	3,352,512
Total current liabilities	<u>\$ 5,983,245</u>

Noncurrent liabilities:

Notes Payable	\$ 2,139,245
Compensated Absences	563,529
Total noncurrent liabilities	<u>\$ 2,702,774</u>
Total liabilities	<u>\$ 8,686,019</u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 26,110,571
Unrestricted	20,591,883
Total net assets	<u>\$ 46,702,454</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

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Operator's Signature

Date

10/30/03

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS**
For the Fiscal Year Ended June 30, 2002

OPERATING REVENUES

Net sales	\$ 80,960,600
Total operating revenues	<u>\$ 80,960,600</u>

OPERATING EXPENSES

Material Cost	\$ 66,040,472
Manufacturing	10,228,614
Selling Expense	917,317
General and Administrative Expense	1,069,142
Total operating expenses	<u>\$ 78,255,545</u>
Operating Income	<u>\$ 2,705,055</u>

NONOPERATING REVENUES (EXPENSES)

Interest Income	\$ 13,979
Interest Expense	(311,855)
Miscellaneous Income	65,479
Loss on Sale of Capital Assets	(255,729)
Other Expense	(292,334)
Total nonoperating revenues (expenses)	<u>\$ (780,460)</u>
Income before transfers	<u>\$ 1,924,595</u>
Transfer to Industrial Commission	<u>\$ (27,902)</u>
Change in net assets	<u>\$ 1,896,693</u>
Total net assets - beginning	44,805,761
Total net assets - ending	<u>\$ 46,702,454</u>

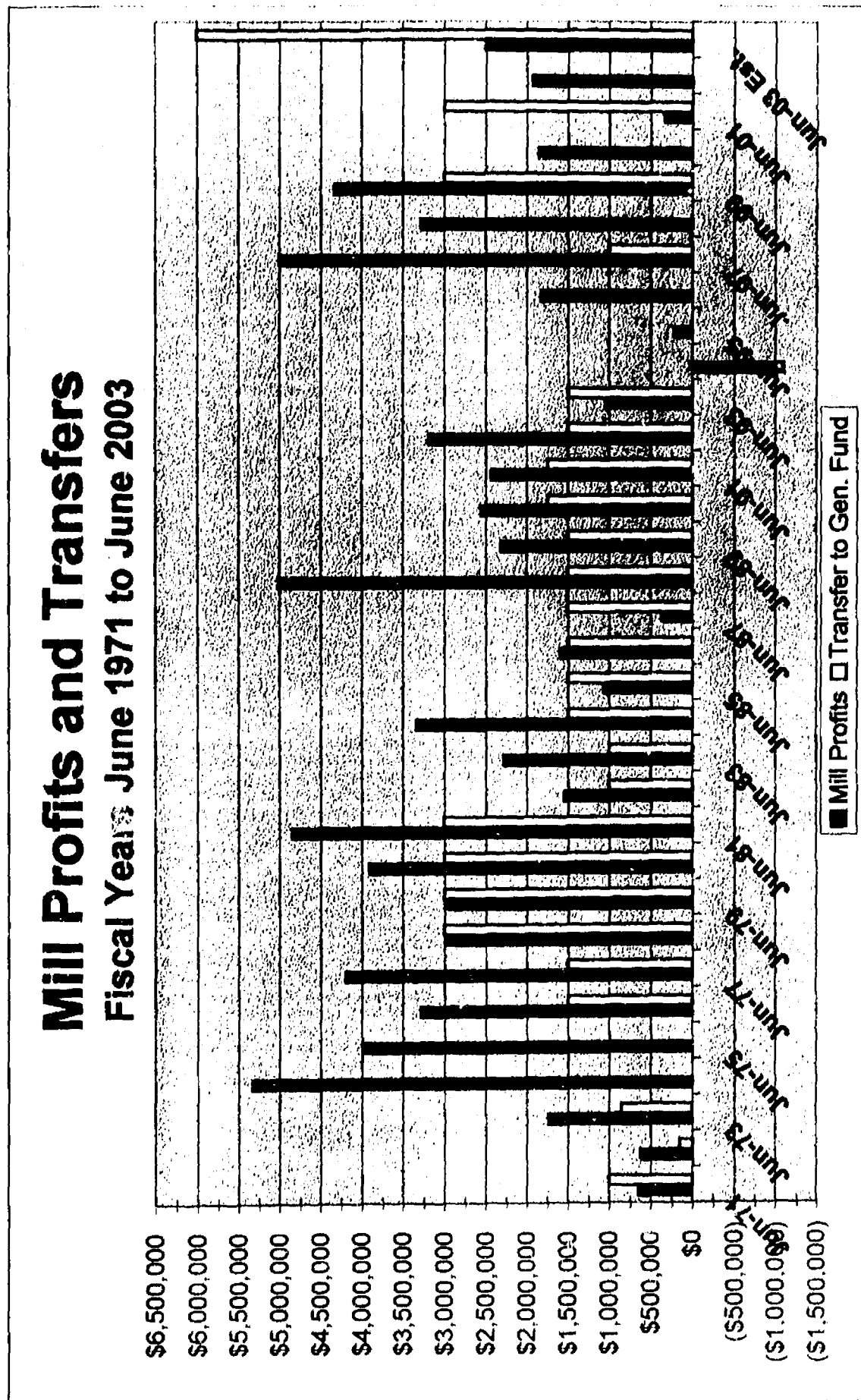
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Deanna G. Ballantyne
Operator's Signature

10/30/03
Date

Exhibit D



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Deanna G. Ball
Operator's Signature

10/30/03
Date



TO: Representative Rori Carlisle, Chairman
Government Operations Division
House Appropriations Committee

FROM: Vance Taylor, President & General Manager

DATE: January 14, 2003

RE: LEGISLATIVE COMMITTEE HEARING - JAN. 10, 2003
HOUSE BILL NO. 1015 BUDGET NO. 475

NORTH DAKOTA MILL & ELEVATOR ASSOCIATION PROFITS & TRANSFERS

The State Mill is estimating profits of \$2,500,000 for fiscal year 2003. This would result in profits of \$4,424,595 for the biennium. Before June 30, 2003 the Mill will transfer \$6,000,000 to the General Fund. Since profits are less than the transfer, the net asset position at the Mill will decline approximately \$1,575,405 in the current biennium with the \$6,000,000 transfer.

We are currently projecting profits of \$5,000,000 for the 2003-2005 biennium. The budget calls for a \$5,000,000 transfer to the General Fund in 03-05 biennium. Since profits equal the amount of the transfer to the general fund, the net asset position at the mill is expected to remain unchanged.

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Dennis G. Galt
Operator's Signature

10/30/03
Date

2002 STRATEGIC PLAN RESULTS

Strategic Thrust 1

Promote and Support North Dakota Agriculture, Commerce and Industry

- Successfully re-introduced pancake mixes
- Developing several new organic flour and mix products
- Attended 2 International Trade Shows
 - Bio-Fach in Nuremberg, Germany
 - Food Ex in Tokyo, Japan
- Developed new Japan export business
- Dakota Pride Cooperative
 - Hired employee to market IP Projects
 - Forming a new joint venture which will own rights to seed varieties

Strategic Thrust 2

Increase the Earnings Potential of the North Dakota Mill

- Base customer sales margins increased by 5%
- Production, shipments and sales – achieved record highs
- Cost/cwt. and cwts./manhour – achieved record lows
- Bulk flour systems and wheat handling projects completed
- Maximizing by-product values with new pellet mill

Strategic Thrust 3

Focus on Our Customers

- Several new industrial spring wheat customers added
- Retail shipments increased by 18%
- Organic shipments increased by 108%
- Will complete ISO 9001 – 2000 Certification by the end of the year

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Deanna Hall
Operator's Signature

10/30/03
Date

Strategic Thrust 4

Develop and Grow our State Mill Employees

- Completed performance reviews with all employees with an emphasis on career objectives
- Continued computer skills training

Strategic Thrust 5

Improve Technology

- Completed upgrade of North Dakota Mill web site
- Initiated electronic data interchange with several vendors
- Developing long term technology plan for the plant

Strategic Thrust 6

Expand Internal and External Communications

- Holding quarterly meetings to discuss financials, etc.
- Holding monthly departmental meetings
- Completed new employee evaluation forms
- Completed employee and customer surveys

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Deanna Gallardo
Operator's Signature

10/30/03
Date

NORTH DAKOTA MILL & ELEVATOR ASSOCIATION PROPERTY INSURANCE

Insurance coverage for the State Mill begins with the Fire and Tornado Fund who are the primary insurers of the Mill. However, the Fire and Tornado Fund has determined that the size of the risk at the Mill is too high and relies completely on reinsurance for the Mill. Currently we work with them to find reinsurance carriers for the property insurance needs at the Mill.

There are very few insurance companies interested in insuring grain elevators or flour mills due to the inherent dangers of the industry. Last summer the Mill was able to find three groups that had an interest in insuring the State Mill. Upon learning that they would be providing reinsurance and not be the primary insurance carrier, two of the groups declined to bid on the coverage. In discussion with them, they informed us that they would be interested if they were the primary carrier and not a reinsurance carrier. They indicated that agreements they had with their reinsurance carriers required them to be the primary carrier and since the Fire and Tornado Fund is the primary insurance carrier, they could not carry our insurance.

Today, as noted above, the Fire and Tornado Fund is our primary insurer. They have passed through to reinsurance carriers 100% of the insurance risk. The reinsurance companies are Lloyds of London and ACE Insurance Company. The Mill is insured to the maximum probable loss of \$40,000,000. Lloyds of London has a \$10,000,000 reinsurance limit and ACE Insurance Company has a \$30,000,000 reinsurance limit. The deductible is \$500,000.

The events of September 11, 2001 had a significant impact on the Mill's insurance costs. The renewal date for insurance at the Mill is October 1. We were negotiating with the reinsurance carrier at the time of the terrorists attack. The insurance cost before September 11 was \$262,055 and we had property coverage of \$141,747,188 with a \$100,000 deductible for all losses except flood, which had a \$500,000 deductible. Following the attack, insurance companies stopped writing insurance coverage in order to assess the damage done and the associated costs. It was in the last few days of September that we were able to find reinsurance coverage. The cost of this coverage increased to \$809,540 and the property coverage was decreased to the maximum probable loss of \$40,000,000. The deductible was increased to \$500,000. This was a 309% increase in cost for much less coverage.

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Deanna G. Hall
Operator's Signature

10/30/03
Date

NORTH DAKOTA MILL & ELEVATOR
10 YEAR PROPERTY CLAIMS HISTORY
 As of 1/13/03

[REDACTED]

Loss Date	Description	Reserve	Paid
1/5/1993	Fire	0	0

[REDACTED]

No Claims Submitted

[REDACTED]

Loss Date	Description	Reserve	Paid
9/21/1995	Off Premises Power Outage	0	0

[REDACTED]

Loss Date	Description	Reserve	Paid
6/20/1996	Boiler & Machinery Loss	0	0

[REDACTED]

Loss Date	Description	Reserve	Paid
4/20/1997	Flood	0	\$257,837.52
4/20/1997	Flood	0	\$352,315.33
			<u>\$610,152.85</u>

[REDACTED]

Loss Date	Description	Reserve	Paid
4/19/1998	Flood	0	0

[REDACTED]

Loss Date	Description	Reserve	Paid
7/5/1999	Power Failure	0	0

[REDACTED]

No Claims Submitted

[REDACTED]

Loss Date	Description	Reserve	Paid
8/8/2001	Wind	0	\$55,783.13

[REDACTED]

No Claims Submitted

TOTALS FOR PROPERTY CLAIMS	0	\$665,935.98
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Deanna Ball
 Operator's Signature

10/30/03
 Date



January 21, 2003

The Senate and House of Representatives
Rep. Rick Berg, House Majority Leader
Senator Bob Stenehjem, Senate Majority Leader
State of North Dakota
600 East Boulevard
Bismarck, ND 58505-0360

RE: Your January 8, 2003 Request for Information

Dear Senators & Representatives:

Question 1: What is the main purpose of your agency?

The main purpose of the North Dakota Mill and Elevator is best stated by our Mission Statement:

The mission of the North Dakota Mill is to promote and provide support to North Dakota agriculture, commerce and industry. Provide superior quality, consistency and service to our customers. Grow the business and provide a profit to our owners - the citizens of North Dakota. Conduct our business with the highest integrity so that our employees, customers, suppliers and owners are proud to be associated with the North Dakota Mill.

P.O. Box 13078 / Grand Forks, ND 58208-3078
Telephone: (701) 795-7000 / Fax: (701) 795-7272

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Deanna Galt
Operator's Signature

10/30/03
Date

To pursue our mission we have developed the following strategic objectives for fiscal year 2003:

- Promote and support ND agriculture, commerce and industry
- Increase the earnings potential of the North Dakota Mill
- Focus on our customers
- Develop and grow the skills of our State Mill employees
- Improve technology
- Expand internal and external communications

Question 2: How do you measure the achievement of your purpose?

The North Dakota Mill and Elevator's financial results are reported periodically throughout the year. These results provide a good measurement of Mill business activities and profits. Our positive impact to the local economy results from wheat purchases (18,000,000 bu. per year), payroll (\$6,500,000 per year), and other operating expenses (\$7,500,000 per year).

Question 3: What can the legislature do, financially and otherwise, to help you achieve your purpose?

The Mill has enjoyed strong support from the Legislature since it's inception in 1922. We look forward to a continued team effort in the years to come.

Question 4: How can you report (measure) your results so the public can easily understand your purpose and evaluate your effectiveness?

The North Dakota Mill's financial results are reported on a quarterly basis to the public.

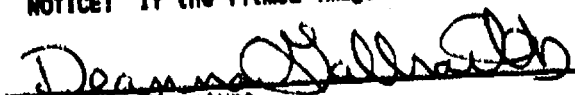
If there are any questions on the above please give me a call.

Sincerely,



Vance Taylor
President & General Manager

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Operator's Signature

10/30/03
Date

39628

Prepared by the North Dakota Legislative Council
staff for the House Appropriations Government
Operations Division

February 2003

MILL AND ELEVATOR - DEBT INFORMATION

The Mill and Elevator's total debt on June 30, 2003, is estimated to be \$13,600,000, consisting of a \$2,139,000 five-year term loan and an \$11,461,000 operating line of credit. Both of these debts are with the Bank of North Dakota. The term loan will be paid in full in 2008 and has an interest rate of 5.62 percent. There is no prepayment penalty on this loan. The operating line of credit is available for up to \$17 million and has a variable interest rate which changes quarterly. The current rate is 2.08 percent. There is also no prepayment penalty for the operating line of credit.

For the 2003-05 biennium, after making payments on its term loan, the Mill and Elevator projects \$5 million of net income. The Mill and Elevator estimates the June 30, 2005, balance on the term loan to be \$937,000 and the balance on its line of credit to be \$10.4 million. The estimated line of credit balance may fluctuate due to a number of factors, including the price of grain, volume of grain needed to meet orders, gross margins on product sales, transportation costs, interest rates, etc.

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Deanna G. Hall
Operator's Signature

10/30/03
Date



**Senate Appropriations Committee Hearing
March 7, 2003
Engrossed House Bill No. 1015 Budget No. 475
North Dakota Mill & Elevator Association**

Mr. Chairman and Senators:

My name is Vance Taylor. I am President and General Manager of the North Dakota Mill and Elevator. With me today is Ed Barchenger, our Controller and Finance Manager.

With the completion of our renovation and expansion project last year, the North Dakota Mill is now the 2nd largest flour mill and the 11th largest milling company in the United States with annual sales of over \$100 million.

The complex includes 5 milling units with the capacity to produce 2.7 million lbs. of finished product per day, a terminal elevator with total available storage of over 4,000,000 bushels of grain and a packaging center and warehouse capable of producing, storing and shipping large quantities of various sized bags of milled products. We process up to 62,000 bushels of top quality North Dakota spring and durum wheat per day, adding value to over 18,000,000 bushels per year. All facilities are located in Grand Forks.

The Mill operates 24 hours per day, 5 to 7 days per week. Total current staffing is 121 full time employees.

We are primarily a spring wheat mill shipping 90% spring wheat products vs. 10% durum products. 65% of all products are shipped in bulk trucks or railcars vs. 35% shipped in bags or totes. Organic spring wheat and durum products now make up 1.5 % of total shipments.

Strategic Plan 2003

The North Dakota Mill and Elevator has developed the following strategic objectives for fiscal year 2003:

- Promote and support ND agriculture, commerce and industry
- Increase the earnings potential of the North Dakota Mill
- Focus on our customers
- Develop and grow the skills of our State Mill employees
- Improve technology
- Expand internal and external communications

P.O. Box 13078 / Grand Forks, ND 58208-3078
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Dennis G. Ball
Operator's Signature

10/30/03
Date

Mill Renovation and Expansion Project

Our Renovation and Expansion Project was completed during fiscal year 2002. The project was completed within the approved budget of \$19.5 million. This project provided for various upgrades in the terminal elevator, replaced obsolete grain cleaning systems, allowed for increased tempering of wheat to 24 hours, upgraded the A & B units, reflowed the K & D units and added a pelleting system for processing mill by-products.

Benefits of the project include: the milling of an additional 3,450,000 bushels of North Dakota wheat, increased visibility for North Dakota agricultural products via the sale of 1,500,000 additional cwt. of flour, improved mill efficiencies, reduced operating costs per cwt. and decreased freight costs due to higher density of pelletized by-products. All of this allows the North Dakota Mill to continue to compete effectively and provide returns to the State.

Markets and Competition

Our bulk and large package shipping area is diverse but more concentrated in the Ohio River Valley and on the East Coast. We also export product to the Caribbean and Japan.

Our customers include bakery flour distributors, retail distributors, large bakeries and pasta companies. Sales are made by our in-house sales staff and food brokers.

We compete with large milling companies such as Horizon Milling, ADM, ConAgra, General Mills and others. The outstanding quality of our products, verified by our new ISO 9001 - 2000 certification, allows us to be very competitive against these companies. ISO 9001 was developed by the International Organization of Standards and is accepted by more than 91 countries. These standards require us to document our current operational processes and to continually improve on these processes of producing and delivering products to our customers.

Margins are under pressure. U. S. annual per capita consumption of flour decreased by 5 pounds in calendar year 2001. Over the last 2 years, 16 flour mills with a total daily capacity of 13,900,000 pounds have closed in the United States. Some of the flour mills that have closed include mills located in Buffalo, NY; Huron, OH; Springfield, IL; Seattle, WA; and Jacksonville, FL.

Our intent is to continue to maximize production volume, increase the percentage of bagged products, continue to aggressively market family flour and retail mixes, grow our organic flour business and investigate new markets, new products and extensions of current product lines.

We will continue to leverage our greatest strength - our employees, whose efforts have given us an excellent reputation for quality and service in the market place.

Budget Request

All operating funds are generated from profits. Short or long-term needs are met by borrowing from the Bank of North Dakota. No funds or financial assistance is received from the State.

The budget request is for \$30,018,282. This is an increase of \$4,776,988 over the revised current biennium budget. The increase represents increases in both wages and benefits and other operating expenses.

Wages and benefits increased \$2,516,038 over the revised budget. This includes the addition of four FTE's to staff a possible additional packing shift, temporary worker's pay, overtime pay, shift differential pay and benefits. The Mill is in the final year of a five-year contract with the Local Union No. 135 of the American Federation of Grain Millers International. This contract expires June 30, 2003. Contract negotiations will begin this spring on a new contract. The Union represents approximately 65% of the employees at the Mill.

Operating expenses, excluding wages and benefits, increased \$2,260,950 over the revised current budget. The Mill's increased interest expense accounts for more than 25% of the overall increase in operating expense. Insurance expense was increased at a 10% annual rate over the revised budget and utilities expense was increased at an 8% annual rate over the revised budget. The other general operating expenses were increased at a 4% annual rate.

The transfer of funds to the General Fund has been budgeted for \$5 million for the biennium. This is a \$1 million decrease from the prior biennium. The House further amended this to limit the transfer to the amount of the Mill's estimated profits for the biennium as projected by the Industrial Commission.

Thank you for your time and consideration of our budget request. I will be happy to answer any questions.

State Bonding

General Obligation Bonds

General obligation bonds are secured by the full faith and credit and the general taxing power of the state.

Article X, Section 13 of the North Dakota Constitution provides for the issuance of general obligation bonds of the State as follows:

- The State may not incur general obligation debt unless evidenced by a bond issue authorized by law for clearly defined purposes.
- Every law authorizing a general obligation bond issue must:
 - Provide for a levying of an annual tax, or make some other provision, sufficient to pay the interest semiannually and the principal within 30 years from the date of issuance.
 - Specifically appropriate the proceeds of the tax levy, or such other provision, to the repayment of the principal of and interest on the bonds.
- The appropriation referred to above may not be repealed, or the tax or other provision discontinued, until both the principal of and interest on the bonds have been paid.
- General obligation bonds in excess of \$2,000,000 must be secured by a first mortgage upon either of the following:
 - A. A first mortgage on real estate for no more than 65% of the value of the real estate.
 - B. A first mortgage on real or personal property of State-owned utilities, enterprises or industries for no more than the value of the utilities, enterprises or industries. The State may not issue or guarantee bonds secured by property of State-owned utilities, enterprises or industries in excess of \$10,000,000.

Currently, there are no outstanding General Obligation Bonds of the State.

Moral Obligation Bonds

A moral obligation pledge will generally require that the state agency issuing the bonds must notify the Governor or other executive branch office by a certain date in the fiscal year that a bond reserve fund deficiency exists or is expected to occur. The Governor or other executive officer is then required to submit in the executive budget a request for an appropriation that will be sufficient to restore or cover the reserve fund deficiency. The State Legislature then has the discretion whether to provide the requested appropriation.

For example, bonds issued by the Municipal Bond Bank are (unless otherwise specified) moral obligation bonds. Subsection 1 of NDCC §6-09.4-10

requires the Bond Bank to establish and maintain a reserve fund equal to the maximum annual debt service on all outstanding Bond Bank bonds. Subsection 4 of NDCC §6-09.4-10 provides that the legislative assembly may appropriate and pay to the Bond Bank for deposit in its reserve fund such sum as is certified to the Legislature by the Industrial Commission as necessary to restore the reserve fund to an amount equal to the required debt service reserve.

Appropriation Bonds

Appropriation bonds do not carry a moral obligation as defined above nor are they general obligations of the state; they are payable solely from biennial appropriations of a specific source or from pooled revenues from various sources. For example, the Water Commission was given authority to issue bonds for water development projects with the primary source of payment being appropriations from the Water Development Trust Fund. N.D.C.C. §61-02.1-04 [The Water Development Trust Fund has as its source of funding the monies received from the Tobacco Settlement Trust Fund. If there are insufficient funds available in the Water Development Trust Fund from tobacco settlement payments, then funds are to be drawn from a) the Resources Trust Fund, b) other available current revenues, c) other revenues of the Water Commission and d) biennial earnings of the Bank of North Dakota.]

The North Dakota Building Authority issues lease revenue bonds which are a form of appropriation bonds. The Authority looks to the leases (which provide for a lease rental payment every six months) entered into between the Authority and the State Agency to repay the outstanding bonds. The leases are structured for successive two-year terms. In the case of the Building Authority the majority of the lease payment from the State Agency comes from the General Fund that is appropriated each biennium by the Legislature, (although some lease payments originate from federal or other funds available to a State Agency). These bonds are sold with the understanding that the lease rentals are repayable (primarily) from biennial appropriations and that the Legislature is not required to appropriate funds for the lease rentals in future biennia.

Revenue Bonds

Revenue bonds are not general obligations of the State; they are payable solely from revenues from a specific source or from pooled revenues from various sources. There are different sources for repaying revenue bonds. State issued revenue bonds are as follows:

Mortgage Revenue Bonds

The North Dakota Housing Finance Agency issues mortgage revenue bonds. The proceeds from these bonds are used to buy home loans from lenders and the repayment of these loans provides funds for the primary

debt service on the bonds. HFA bonds are not debt of the State, but are full faith and credit obligations of the HFA (to the extent of available funds).

Other Revenue Bonds

- There are several other types of revenue bonds issued by the state. First, the Industrial Commission issues student loan revenue bonds (which are similar to mortgage revenue bonds). The proceeds from the student loan revenue bonds are used to purchase student loans primarily from the Bank of North Dakota. The payments made by students on the loans (the revenues) are then utilized to repay the bonds.
- The University System has issued several different types of revenue bonds. Parking lots are often financed by revenue bonds with the parking fees (revenues) used to repay the debt. The same applies for student housing, student unions and technology bonds.
- The Water Commission has issued revenue bonds for the Southwest Pipeline Project and for a small portion of the NAWIS Project. The main source of repayment is water user fees.

Payment Sources

Each type of issue reflects a different source of repayment should there be a default. The only bonds that require that a tax be levied to pay for debt service are the general obligation bonds. The State has no general obligation bonds outstanding at this time.

All the other bonds must clearly state in the legal documents and official statements that the bonds are not a general obligation of the State of North Dakota and the bondholder can only rely on the revenue or other sources that are pledged. Typically an official statement for the bond issue will include a paragraph that states something similar to the following:

"The Bonds do not constitute debt of the State or any agency or political subdivision thereof, neither the faith or credit nor the taxing powers of the State or political subdivision thereof are pledged to the payment of the principal or interest on the bonds."

Bonding Authority

Attached is a chart which shows what entities have authority to issue bonds, the security and repayment sources for each type of bonds, any limitations, amounts outstanding and the statutory reference.

Karlene Fine
328-3722

01/27/03

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Operator's Signature *[Signature]* Date 10/30/03

Issuer	Type of Bond	Security Source*	Source of Repayment	Various Limitation**	Amount Outstanding as of 6/30/02	Statutory Reference
Ind. Commission/ Agricultural Bonds	Revenue Bonds	Agricultural loans	Loan Repayments	***	\$0	4-36
North Dakota Building Authority	Lease Revenue/ Appropriation Bonds	Deed/lease held on the facilities either constructed or rehabilitated	Biennial appropriations (including General Fund and Local Match Funds)	General Fund appropriation cannot exceed 10% of 1% of the sales use, motor vehicle tax ****	\$92,275,000 as of 12/31/02	54-17.2
Housing Finance Agency	Mortgage Revenue Bonds	Revenues from Mortgages held on homes and multi-family facilities	Mortgage loan repayments and reserve/ investment income	***	\$711,640,000	54-17
Industrial Commission/ Lignite Research Program	Revenue Bonds	Letter of Credit from Bank of North Dakota	Biennial appropriations from the Lignite Research Fund	No limitations except to the extent of funds available in the Lignite Research Fund for debt service payments	\$3,755,000 as of 12/31/02	54-17.5
Municipal Bond Bank	Moral Obligation Revenue Bonds	Political Subdivision bonds	Loan repayments from political subdivisions	Capital Financing Program has rating agency & IC limitation of \$75,000,000. SRF Program ***	\$143,240,000	6-09.4
Natural Resource Bonds	General Obligation	Taxing Authority of the State	Loan repayments	Together with all GO debt 5% of full and true value of all taxable property	\$0	21-11-08
Governor & Treasurer - Real Estate Bonds	General Obligation	Real Estate mortgages & a commitment to levy a statewide mill levy	Payments from Real Estate Loans and Statewide Mill levy	\$150,000,000/65% of the value of real estate mortgages	\$0	54-30
Industrial Commission/ Student Loan Program	Revenue Bonds	Student Loans guaranteed by Guarantee Agency and Federal Government	Student Loan payments	***	\$190,504,800	54-17
University System	Revenue Bonds	Revenues from the fees	Parking Fees, Housing Fees, Student Fees	Each project must be approved by the Legislature. No overall limitation	\$62,301,000	15-55
Water Commission	Revenue Bonds Appropriation Bonds	Revenues and earnings	Collection of User Fees; Water Development Trust Fund appropriation	Statutory limitation of an aggregate of \$2 million unless Legislature authorizes a higher amount for a specific project (SW pipeline has a limitation of \$25,000,000; Northwest Area Water Supply project does not have such a limitation. Water development bonds limited to \$77,300,000.)	\$45,629,980	61-24.3, 61-24.6, 61-02.1

*Security Sources also include reserve funds and other invested funds and accounts that are provided for in each bond issue. Generally these reserve funds represent up to one year's debt service or 10% of the bond issue. Balances in the reserve funds are generally used to make the final debt service payment.

**The Federal Government has established an overall volume cap for Private Activity Bonds that is \$228,580,000 for calendar year 2003. The Student Loan Revenue Bonds and the Housing Finance Agency Revenue Bonds fall within the Private Activity Bond Volume Cap.

***The issuance of additional bonds is subject to adherence to bond document requirements and satisfactory program cash flows.

****North Dakota Building Authority Bonds issued for Energy Conservation Projects, by law, are not under the 10% of 1% sales tax limitation.

Revised 1/28/03

Bonding Bills Introduced 2003 Legislative Session

Bill	Purpose	Issuer	Amount of Bonding Authority	Source of Repayment	Related Legislation	Other
HB 1003	Higher Education appropriation bill. Includes authority for issuance of revenue bonds for various projects.	Board of Higher Education	LRSC - \$375,000 NDSU - \$11,000,000 Amendments proposed for: BSC - \$1,785,000 Mayville - \$3,000,000 UND hanger \$2,000,000 UND Wellness \$8,000,000 UND Athletic - \$13,000,000	Various revenues -- primarily student fees	None	
HB 1022	ITD appropriation bill. Authorizing bonding to fund ConnectND	North Dakota Building Authority	\$20,000,000	ITD charges in subsequent biennia. 60% to be paid by Higher Education and 40% by state agencies—either state or federal funds	HB 1162 as it relates to more efficient financing through NDBA (see page 2)	Is outside the 10% of 1% of sales tax revenues statutory limitation
HB 1023	Capital Construction bill. Authorizes bonding for 3 projects	North Dakota Building Authority	Corrections -- \$2,662,890 Dept. of Health -- \$614,865 Dept. of Health -- \$960,000	General Fund appropriations in subsequent biennia	None	Is within the 10% of 1% of sales tax revenues statutory limitation
HB 1023	Capital Construction bill. Energy Conservation projects	North Dakota Building Authority	UND -- \$1,951,214 NDSU -- \$1,077,977 Corrections -- \$105,326	Energy savings	HB 1162 as it relates to more efficient financing through NDBA (see page 2)	Is outside the 10% of 1% of sales tax revenues statutory limitation
HB 1369	Establishment of a Farmers Equity Fund	North Dakota Industrial Commission	No dollar amount	Project Revenues	None	Amendments have been offered to remove bonding
HB 2021	Parks & Recreation Appropriation Bill. Authorizes bonding for projects totaling \$1,477,500	North Dakota Building Authority	15 projects totaling \$1,477,500	Park Revenues	None	Amendments have been offered to remove bonding
SB 2022	Water Commission appropriation bill. Bonding authorized for water projects	Water Commission	\$60,000,000	Resources and Water Development Trust Funds	SB 2193 (see page 1) SB 2258 (see page 1)	
SB 2193	Devils Lake Outlet Bonding bill	Water Commission	\$20,000,000	Resources and Water Development Trust Funds	SB 2022 (see Page 1)	
SB 2258	Creation of Lake Agassiz Water Authority and authorizes Water Commission to bond for financing costs to deliver water to eastern ND	Water Commission	No dollar amount stated but included in the dollar amount in SB 2022	Resources and Water Development Trust Funds	SB 2022 (see Page 1)	

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Operator's Signature

[Handwritten Signature]

10/30/03
Date

Bills Introduced 2003 Legislative Session that Modify Bond Statutes or Transfer Bond Funds

Legislation	Purpose	Related Legislation
HB 1003	Higher Education appropriation bill. Includes transfer of \$17,258,969 from the Student Loan Trust for three programs: \$5,000,000 for establishment of Centers for Excellence; \$4,000,000 for EPSCoR; \$8,258,969 for student grant programs.	SB 2232 (see Page 2)
HB 1162	To allow the Industrial Commission, acting as the North Dakota Building Authority, the flexibility to consider various financing options the Authority could utilize in obtaining cash from the capital markets for projects approved by the Legislature and updates statutory language.	HB 1022 (see Page 1) HB 1023 as it relates to energy conservation projects (see Page 1)
SB 2015	Office of Management and Budget appropriation bill. Includes a transfer of \$9,000,000 from the Student Loan Trust	SB 2232 (see page 2)
SB 2232	Authorizes the Industrial Commission the flexibility as the Student Loan Trust to issue bonds for "the public's benefit". This bill was introduced to allow the Student Loan Trust to maximize its earnings potential by the issuance of residual bonds. (Enables the Trust to retain within its assets the 9.5% earning student loans and still provide the \$26,258,969 transfers as proposed in the Governor's Executive Budget)	HB 1003 (see Page 2) SB 2015 (see Page 2)

Status of Bonding Bills for State Entities - 2003 Legislative Session (As of Crossover)

Bill	Purpose	Issuer	Amount of Bonding Authority	Source of Repayment	Related Legislation	Other
HB 1003	Higher Education appropriation bill. Includes authority for issuance of revenue bonds for various projects.	Board of Higher Education	LRSC - \$375,000 NDSU - \$11,000,000 BSC - \$1,785,000 Mayville - \$3,000,000 UND hanger \$2,000,000 UND Wellness \$8,000,000 UND Athletic - \$13,000,000 VCSU - \$3,300,000	Various revenues - primarily student fees	None	
	Includes authority for issuance of lease revenue bonds for 3 projects	ND Building Authority	DSU - Murphy Hall - \$5,882,047 VCSU - Elevator & Exits - \$785,300 Mayville - Steamlines - \$1,355,000	Beginning in the 05-07 biennium General Fund appropriations and a portion from an escrow account (\$1,310,000 to come from GF dollars in 2003-2005 HE budget). Also local match dollars from DSU (\$250,000).	None	With the additional funds deposited in an escrow account NDBA will be within the 10% of 1% of sales tax revenues statutory limitation
HB 1022	ITD appropriation bill. Authorizing bonding to fund ConnectND	ND Building Authority	\$16,400,000	North Dakota University System revenues	None	Amendments to be offered to have Board of Higher Ed be the issuer since the University System is the sole provider of the repayment revenues
HB 1023	Capital Construction bill. Authorizes bonding for 3 projects	North Dakota Building Authority	Corrections - \$2,662,890 Dept. of Health - \$614,865* Dept. of Health - \$960,000	General Fund appropriations in subsequent biennia *This amount is to be reduced by funding that may be received for bioterrorism programs.	None	Is included under the 10% of 1% of sales tax revenues statutory limitation
	Energy Conservation projects	North Dakota Building Authority	UND - \$1,951,214 NDSU - \$1,077,977 Correct. - \$105,326	Energy savings	None	Is not included in the 10% of 1% of sales tax revenues statutory limitation, since no additional state general fund appropriation is required for debt service payments
SB 2022	Water Commission appropriation bill. Bonding authorized for water projects	Water Commission	\$49,523,771	Water Development Trust Fund	SB 2193 (see page 1)	
SB 2193	Devils Lake Outlet Bonding bill	Water Commission	\$20,000,000	Water Development Trust Fund	SB 2022 (see Page 1)	

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Operator's Signature: *Deanna J. Johnson*

Date: 10/30/03

SB 2258	Creation of Lake Agassiz Water Authority and authorizes Water Commission to bond for financing costs to deliver water to eastern ND	Water Commission	No dollar amount stated.	User Fees	None	
SB 2416	Authorizes bonding for 3 Historical Society projects: Heritage Center \$6,000,000 Fort Abercrombie \$1,000,000 Chateau de Mores \$1,000,000	ND Building Authority	\$5,000,000	Revenues and donations	None	Is not included in the 10% of 1% of sales tax revenues statutory limitation as no general fund appropriations are to be used for debt service payments

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Operator's Signature Deanna Schmitt Date 10/30/03

Bills 2003 Legislative Session that Modify State Entry Bond Statutes or Transfer Student Loan Trust Bond Funds (As of Crossover)

Legislation	Purpose	Related Legislation
HB 1003	Higher Education appropriation bill. Includes transfer of \$13,258,969 to the General Fund from the Student Loan Trust.	SB 2232 (see Page 3)
HB 1019	Department of Commerce appropriation. Includes \$1,000,000 transfer from the Student Loan Trust to the General Fund	SB 2232 (see Page 3)
HB 1022	Information Technology Department appropriation. Includes \$3,000,000 transfer from the Student Loan Trust to the General Fund	SB 2232 (see Page 3)
SB 2015	Office of Management and Budget appropriation bill. Includes a transfer of \$9,000,000 to the General Fund from the Student Loan Trust	SB 2232 (see Page 3)
SB 2232	Authorizes the Industrial Commission the flexibility as the Student Loan Trust to issue bonds for "the public's benefit". This bill was introduced to allow the Student Loan Trust to maximize its earnings potential by the issuance of residual bonds to be sold to the Bank of North Dakota. (Enables the Trust to retain within its assets the 9.5% earning student loans and still provide the \$26,258,969 transfers as proposed in the Governor's Executive Budget)	HB 1003, 1019, 1022 (see Page 3) SB 2015 (see Page 3)
SB 2335	Authorizes the Bank of North Dakota to invest in alternative and venture capital investments and early-stage capital funds up to \$5,000,000. Allows Bank to seek reimbursement from Student Loan Trust for any losses incurred by the Bank in these types of investments.	

Updated as of February 25, 2003

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Operator's Signature

Donna Schuchman

10/30/03
Date

NORTH DAKOTA BUILDING AUTHORITY DEBT SERVICE

	1998B	1998B-	2003A	2002C	2002D								Other	Total	10% of S.O.I	Available
Biennium	1991-1986	1992	1993A	1993B	1995A	1998A	1998C	2000A	2001A	2002A	2003B**	Totals	Source	Gen. Fund	Sales Tax*	Debt Ser
2003-05	2,371,725	589,075	5,479,013	2,067,370	2,875,763	1,320,083	780,460	735,704	1,546,756	697,938	0	18,463,667	2,478,018	15,985,849	17,533,280	1,547,431
2005-07	2,232,263	598,806	5,513,625	2,027,420	2,734,765	1,324,929	779,071	741,870	2,095,753	1,000,338	873,261	19,922,101	2,398,625	17,523,476	18,234,511	711,135
2007-09	2,078,972	0	6,003,338	2,414,501	2,851,384	1,322,000	743,035	743,954	2,099,721	1,001,176	878,079	20,136,160	2,391,645	17,744,515	18,963,995	1,219,481
2009-11	1,895,834	0	0	2,394,120	2,989,584	1,320,411	0	741,791	2,115,115	1,001,446	875,006	13,333,307	1,813,072	11,520,235	19,722,555	8,202,320
2011-13	0	0	0	2,380,520	2,996,390	1,322,403	0	744,148	2,118,015	1,000,429	875,006	11,436,911	1,509,533	9,927,378	20,511,458	10,584,080
2013-15	0	0	0	1,077,650	2,996,405	1,322,634	0	745,659	2,132,153	998,959	873,291	10,146,751	937,647	9,209,104	21,331,916	12,122,812
2015-17	0	0	0	0	2,970,488	1,317,319	0	749,763	2,155,288	994,148	874,384	9,061,390	807,699	8,253,691	22,185,193	13,931,502
2017-19	0	0	0	0	0	657,214	0	757,782	2,167,538	1,000,049	877,295	5,459,878	813,453	4,646,425	23,072,600	18,426,175
2019-21	0	0	0	0	0	0	0	0	1,910,281	1,005,320	875,839	3,791,440	817,053	2,974,387	23,995,504	21,021,117
2021-23	0	0	0	0	0	0	0	0	853,160	456,741	425,340	1,309,901	371,153	938,748	24,955,324	24,016,575
Totals	8,578,794	1,187,881	16,995,976	12,351,581	20,414,779	9,906,973	2,302,566	5,960,671	19,193,780	9,156,544	7,427,501	113,061,706	14,337,898	98,723,808		
	4.67%	4.67%	3.86%	4.01%	4.17%	5.11%	4.24%	5.51%	5.02%	5.02%	4.86%					

Revised 01/01/03

* Includes funding for the 3 projects (\$4,237,755) in the 2003-2005 Executive Budget for the State Health Department and Department of Corrections.

The December 2002 preliminary forecast used for the 2003-2005 biennium with a 4% increase each subsequent biennia.

1-01-03 DEC4CAST

Exhibit C

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Date

ba2001

North Dakota Building Authority Debt Service Energy Conservation Projects

Biennium	02A&B	2003C*	Totals
2003-05	1,367,125	0	1,367,125
2005-07	1,214,828	819,422	2,034,250
2007-09	1,369,154	824,795	2,193,949
2009-11	438,487	814,508	1,252,995
2011-13	8,982	809,679	818,661
2013-15	0	815,301	815,301
2015-17	0	431,724	431,724
Totals	4,398,576	4,515,429	8,914,005

Revised 01/09/03

*Includes funding for the 5 projects (\$3,134,517) in the 2003-2005 Executive Budget for the North Dakota University System and Department of Corrections.

Energy Conservation

Exhibit D

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ba2001.xls

NORTH DAKOTA BUILDING AUTHORITY DEBT SERVICE

Biennium	1998E 1991-1996	1998B- 1992	2003A 1993A 1990	2002C 1993B	2002D 1995A	1998A	1998C	2000A	2001A	2002A	2003B**	2003C***	Totals	Other Source	Total Gen. Fund	10% of \$01 Sales Tax	Available Debt Ser
2003-05	2,371,725	589,075	5,479,013	2,067,370	2,875,763	1,320,063	780,460	735,704	1,546,756	697,938	0	0	18,463,867	2,478,018	15,985,849	17,533,280	1,547,431
2005-07	2,232,263	598,806	5,513,625	2,027,420	2,734,765	1,324,929	779,071	741,870	2,095,753	1,000,336	873,261	1,580,844	21,482,945	3,248,625	18,234,320	18,234,611	291
2007-09	2,078,972	0	6,003,338	2,414,501	2,851,384	1,322,000	743,035	743,954	2,099,721	1,001,176	878,079	1,558,717	21,694,877	2,731,645	18,963,232	18,963,986	764
2009-11	1,895,834	0	0	2,394,120	2,989,584	1,320,411	0	741,791	2,115,115	1,001,446	875,008	1,555,383	14,888,690	1,813,072	13,075,618	19,722,555	6,646,937
2011-13	0	0	0	2,380,520	2,996,390	1,322,403	0	744,148	2,118,015	1,000,429	875,008	1,556,674	12,983,585	1,509,533	11,484,052	20,511,458	9,027,406
2013-15	0	0	0	1,077,650	2,996,405	1,322,634	0	745,659	2,132,153	998,959	873,291	1,559,147	11,705,898	937,647	10,768,251	21,331,916	10,563,665
2015-17	0	0	0	0	2,970,488	1,317,319	0	749,763	2,155,288	984,148	874,384	1,558,062	10,619,452	807,669	9,811,783	22,185,193	12,373,440
2017-19	0	0	0	0	0	657,214	0	757,782	2,167,538	1,000,049	877,295	1,561,572	7,021,450	813,453	6,207,997	23,072,600	16,864,603
2019-21	0	0	0	0	0	0	0	0	1,910,281	1,005,320	875,830	1,562,698	5,354,138	817,053	4,537,085	23,985,504	19,458,419
2021-23	0	0	0	0	0	0	0	0	853,180	458,741	425,340	739,651	1,309,901	371,153	938,748	24,955,324	24,016,576
Totals	8,578,794	1,187,881	16,995,976	12,361,581	20,414,779	9,906,973	2,302,566	5,980,671	19,193,780	9,156,544	7,427,501	13,212,748	125,534,803	15,527,896	110,006,905		
	4.67%	4.67%	3.86%	4.01%	4.17%	5.11%	4.24%	5.51%	5.02%	5.02%	4.86%	4.77%					

Revised 01/01/03

* **Includes funding for the 3 projects (\$4,237,755) in the 2003-2005 Executive Budget for the State Health Department and Department of Corrections.

***Includes funding for 3 Higher Education projects (\$8,022,347-DSU \$5,882,047; Mayville State \$1,355,000; VCSU \$785,300) and \$1,190,000 as other funds.

*The December 2002 preliminary forecast used for the 2003-2005 biennium with a 4% increase each subsequent biennia.

12-04-024castHE

Exhibit B

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10/30/03
Date

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new forecast 3/7/03

NORTH DAKOTA BUILDING AUTHORITY DEBT SERVICE

	1998B	1998B-	2003A	2002C	2002D	1998A	1998C	2000A	2001A	2002A	2003B**	2003C***	Totals	Other	Total	10% of \$.01	Available
Biennium	1991-1996	1992	1993A	1993B	1995A									Source	Gen. Fund	Sales Tax*	Debt Ser
2003-05	2,371,725	589,075	5,479,013	2,067,370	2,875,783	1,320,063	780,460	735,704	1,546,756	697,938	0	0	18,463,857	2,478,018	15,985,849	17,358,880	1,373,031
2005-07	2,232,263	598,806	5,513,625	2,027,420	2,734,765	1,324,929	779,071	741,870	2,095,753	1,000,338	873,261	1,560,844	21,482,945	2,430,225	18,052,720	18,053,235	515
2007-09	2,078,972	0	6,003,338	2,414,501	2,851,384	1,322,000	743,035	743,954	2,099,721	1,001,176	878,079	1,558,717	21,894,877	2,920,045	18,974,832	18,775,365	533
2009-11	1,895,834	0	0	2,394,120	2,983,584	1,320,411	0	741,791	2,115,115	1,001,446	875,008	1,555,383	14,888,690	1,813,072	13,075,618	19,526,379	6,450,761
2011-13	0	0	0	2,380,520	2,996,390	1,322,403	0	744,148	2,118,015	1,000,429	875,006	1,556,874	12,993,585	1,500,533	11,493,052	20,307,434	8,823,382
2013-15	0	0	0	1,077,650	2,996,405	1,322,634	0	745,659	2,132,153	998,959	873,291	1,558,147	11,705,898	937,647	10,768,251	21,119,732	10,351,481
2015-17	0	0	0	0	2,970,488	1,317,319	0	749,763	2,155,288	994,148	874,384	1,558,062	10,619,452	807,698	9,811,753	21,984,521	12,152,768
2017-19	0	0	0	0	0	657,214	0	757,782	2,167,538	1,000,049	877,295	1,561,572	7,021,450	813,453	6,207,997	22,843,102	16,635,105
2019-21	0	0	0	0	0	0	0	0	1,910,281	1,005,320	875,839	1,562,698	5,354,138	817,053	4,537,085	23,756,826	19,219,741
2021-23	0	0	0	0	0	0	0	0	853,160	456,741	425,340	739,651	1,309,901	371,153	938,748	24,707,089	23,768,351
Totals	8,578,794	1,187,881	16,995,976	12,361,581	20,414,779	9,906,973	2,302,566	5,960,671	19,193,780	9,156,544	7,427,501	13,212,748	125,534,803	15,897,896	109,636,905		
	4.67%	4.67%	3.86%	4.01%	4.17%	5.11%	4.24%	5.51%	5.02%	5.02%	4.66%	4.77%					

Revised 03/10/03

* Includes funding for the 3 projects (\$4,237,755) in the 2003-2005 Executive Budget for the State Health Department and Department of Corrections.

***Includes funding for 3 Higher Education projects (\$8,022,347-DSU \$5,882,047; Mayville State \$1,355,000; VCSU \$785,300) and \$1,560,000 as other funds.

The March 7, 2003 forecast used for the 2003-2005 biennium with a 4% increase each subsequent biennia.

03-07-034castHE

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10/30/03
Date



North Dakota Geological Survey

INDUSTRIAL COMMISSION

John Hoeven - Governor, Chairman

Wayne Stenehjem - Attorney General

Roger Johnson - Commissioner of Agriculture

John P. Bluemle, State Geologist

Ed Murphy - Presenter

TESTIMONY BEFORE THE HOUSE APPROPRIATIONS COMMITTEE GOVERNMENT OPERATIONS DIVISION

January 10, 2003

Introduction

Mr. Chairman and members of the Appropriations Committee, my name is John Bluemle. I am state geologist and director of the North Dakota Geological Survey, a division of the Industrial Commission. I've been with the Geological Survey for 41 years, the past thirteen years as state geologist.

Our main office is at 1016 East Calgary Avenue in Bismarck (about a block west of Puklich Chevrolet, north on Highway 83). We also have a paleontology laboratory at the Heritage Center here in Bismarck and a core and sample library in Grand Forks on the UND campus.

Our mission is threefold:

- 1) to investigate and report the geology of North Dakota emphasizing the state's energy resources and stressing applied research leading to economic benefits or quality of life improvements for residents of the state;
- 2) to provide public service, and to collect, create, and disseminate geologic and map-related information; and
- 3) to administer regulatory programs for the ND Industrial Commission and act in an advisory capacity to other state, federal, and local agencies.

The green-colored sheet at the end of my testimony lists all of the Geological Survey's statutory duties.

Regulatory Responsibilities

The Geological Survey is not primarily a regulatory agency, but we have several specific regulatory duties which I have listed here:

- Oil well core and drill samples (+ other subsurface samples); Wilson M. Laird Core and Sample Library in Grand Forks
- Coal exploration - (holes drilled outside of mine permit boundaries)
- Geothermal resources - (nonresidential installations)
- Paleontological (fossil) resources - (oversee collecting of fossils on public lands)
- Subsurface minerals - (all mineral production other than oil and gas, sand and gravel, and coal)
- Class III injection wells (solution mining of subsurface minerals)
- Conflict resolution regarding subsurface mineral production.

An important regulatory-related function concerns oil-well core and samples and our core and sample library.

We evaluate the occurrence and economic value of mineral resources on State of North Dakota land for the Land Department. This involves mainly oil and gas and coal. We evaluate the geologic suitability and impact on fossil resources of construction projects such as landfills, transmission and pipeline corridors

Technical Investigations

Economic Minerals Geology. Most of the studies our geologists do are intended to either directly or indirectly lead to future economic benefits to the State. Some of our work increases our basic technical knowledge of the geology of North Dakota; some provides citizens with basic information about the State; some address environmental issues. Nearly all of our work has potential economic impact.

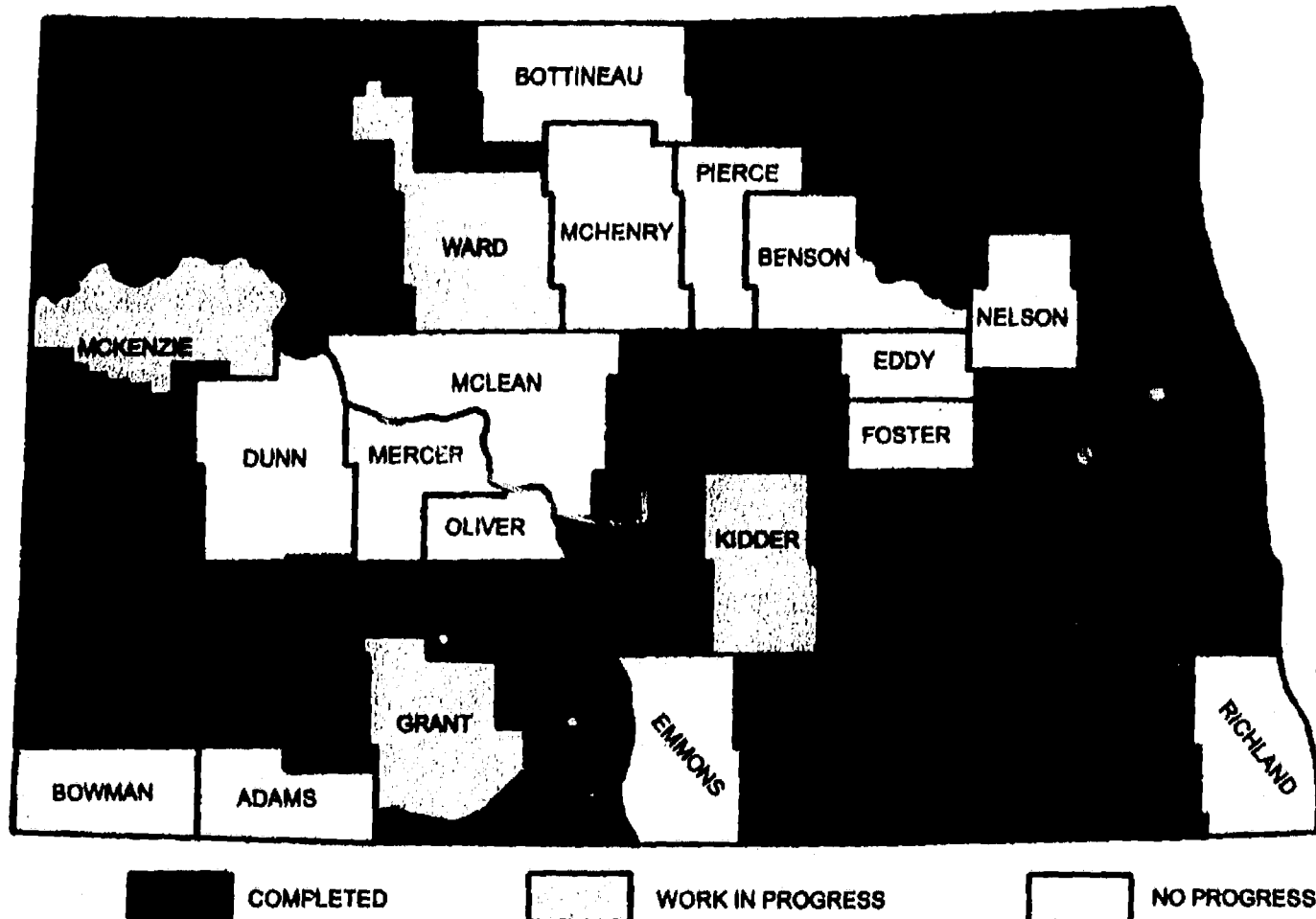
About a third of our total agency effort is directed at understanding the geology of the rocks that produce oil and gas. We also identify and evaluate other economic minerals, such as clay, lignite, salt, potash, sodium sulphate, leonardite, cement rock, and gravel. We identify, map, and evaluate areas prone to slumping and landsliding. We have recently responded to increased numbers of requests from companies seeking information about methane occurring in coal - coalbed methane.

Geochemical Mapping. We recently entered into an agreement with the U.S. Geological Survey to conduct a state-wide geochemical study of North Dakota. This is part of a nationwide effort to create a geochemical map of the United States to provide statistically valid, unbiased, background information about more than 20 elements, including arsenic, mercury, and selenium. We are collecting the samples from about 700 locations (samples collected on a ten-mile grid) across the State. The study will give us an enormous information base so we can accurately assess changes in the composition of sediments due to such things as agricultural practice, energy-plant emissions, and other factors.

Soils Compilation and Digitizing. Since 1997, we have employed four technical staff persons devoted exclusively to compiling and digitizing county soils maps for North Dakota (we began with five people, but lost one of the positions during the last legislative session). Until last year, the work involved manually compiling and scanning the soils maps, and digitizing the scanned product. We recently amended our technique, eliminating the drafting and scanning tasks and replacing them with a digital process. This task is now performed by a North Dakota company, Agri ImaGIS, with offices in Maddock and Fargo. We have completed about 70 percent of the State, and we expect to complete the work on time, in 2006, as we projected when the Legislature assigned the soils program to us in 1997.

Core and Sample Library. We collect and store all oil-well core and samples and make it available for study in our core and sample library. Most of the usage is by oil industry geologists and private consultants, as well as by our own geologists. We have a more complete collection of all the oil-well cores that have been cut in our state than does any other state. In fact, we have about 90 miles of core stored in our core library in Grand Forks, along with samples and cuttings representing about 100 million feet of drilling in North Dakota.

DIGITAL SOILS PROGRAM



Since 1997, the ND Geological Survey has employed four technical staff persons devoted exclusively to compiling and digitizing county soils maps for North Dakota (we began with five people, but we lost one of the positions during the last legislative session). Until last year, the work involved manually compiling the soils maps, scanning the maps, and digitizing the scanned product. We recently amended our technique by eliminating the drafting and scanning tasks and replacing them with a digital process. This task is now performed by a North Dakota company, Agri ImaGIS, with offices in Maddock and Fargo. High Plains Consortium of Bismarck is also compiling a few of the counties. These companies are paid through an EPA matching grant, the Geological Survey provides the match.

We have completed about 70% of the state, and we are on track to complete the work ahead of time, probably in 2006. Ahead of the 2007 end date projected when the Legislature assigned the soils program to us in 1997.

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Our core collection is probably the most important scientific "tool" the State offers for promoting oil and gas exploration and development in North Dakota. Virtually all of the exploration for oil and gas that takes place in the State benefits from core studies done at our core library. Much of the exploration simply would not happen – nor would it be nearly as successful as it is – if the core wasn't available for study.

Annual Horizontal Drilling Conference. For the past ten years, we have worked closely with our counterparts in Saskatchewan, the Saskatchewan Energy and Mines, in organizing and running an annual Williston Basin Horizontal Well Conference. The workshops alternate between North Dakota and Saskatchewan. The Eleventh Annual Conference will be held in Regina, April 27 - 29. The Conferences have encouraged and enhanced horizontal drilling in the State and they have resulted in greatly increased Canadian oil-industry investment in North Dakota.

Geologic Mapping. The North Dakota Geological Survey's most basic and important task is to map the geology of North Dakota. Geologic mapping helps us to determine where our mineral resources are located, what they are worth, how they might be developed and how best to reclaim the land. Geologic mapping also helps us identify geologic hazards so we can deal with them effectively. And mapping is how we learn about North Dakota's geology, where the fossils are found, how and why our climate changes and has changed in the past, and any number of other earth-science issues.

Geologic mapping is so important to our nation's well-being that, in 1992, Congress passed a National Mapping Program. Congress has increased funding substantially for this program every year since. The money is provided exclusively to state geological surveys and most of the state surveys are utilizing the funding to the fullest. The money pays much of the cost of geologic mapping by those state geological surveys that are able to match the federal funding, generally in-kind.

We've been able to apply for only a portion of National Mapping Program funding that is available to us because we don't have sufficient staff to do the work (or to provide the match). Since the program was initiated, we have received \$232,000 for geologic mapping in North Dakota, compared to an average of over \$600,000 for other states. I hope that we will eventually be able to add sufficient mapping geologists to our staff to utilize the funding that is available to us and enable us to accomplish more of the detailed geologic mapping that needs to be done in North Dakota.

Over the current biennium we have been mapping in both the northeastern (Cavaller and Pembina counties) and western parts (Billings, McKenzie, Mercer, Morton, and Stark counties) of North Dakota. Our mapping in Billings and McKenzie counties has been mainly in landslide-prone, badlands topography adjacent to the North and South Units of the Theodore Roosevelt National Park. Mapping in Mercer, Morton, and Stark counties was conducted in response to the desire of the Hebron Brick Company to find a new source of brick clay. Based upon our fieldwork, we generated a map of the clay deposits in the area. We were able to show that much more clay occurs in the area than the brick company had been aware. We also conducted a tour of the area pointing out those clay deposits that appear to have the best potential for brick manufacture.

Lignite Resources. We completed and published the results of several coal projects during the current biennium. They included a 1:1,000,000 scale map of the strippable lignite reserves of western North Dakota along with 1:125,000-scale maps of the counties. The maps were well received due to the renewed interest in lignite generated by the Vision 21 program. We also published a thickness and contour map of the Harmon bed, the thickest lignite in the State. The map has generated considerable interest in the coalbed-methane potential in western North Dakota and has spurred mineral companies to lease in several counties and it led directly to about half of the dozen coalbed methane wells being drilled.

Public Outreach/Tourism

Last year we responded to about 5,000 requests for information about North Dakota geology. In addition, we have an extensive and heavily used Internet Home Page that provides a variety of geologic data and general information about North Dakota geology. In 2002, we more than 135,000 hits per month on our web sites.

Our geologists give a lot of public presentations. We produce a variety of educational materials, including guidebooks, maps, and other non-technical publications and exhibits. We work with the universities and colleges in North Dakota providing various kinds of earth-science information.

We have expanded our program of fossil digs in the State, allowing us to educate the public about North Dakota's geologic history and enabling more tourists and other individuals the opportunity to "dig" for fossils. These digs, so far in northeastern and southwestern North Dakota, have brought tourists to North Dakota, giving them a chance to experience our high quality of life.

Two of our geologists recently wrote a book on the geology along the Missouri River route followed by Lewis and Clark. The book will be released in May, 2003 by Mountain Press Publishing Company as part of their Roadside Geology series.

We operate the North Dakota Earth Science Information Center – ESIC for short – providing a variety of topographic and natural resource maps and other kinds of earth-science information to the public. Through our ESIC office, we act as a clearing house for the sale of air photos, topographic maps, and other kinds of maps. We sold about 6,000 maps last year – we tend to be especially busy during hunting season when people stop in our office to get topographic maps of their hunting areas.

We also operate North Dakota's global positioning system (GPS) base station at Bismarck State College. We recently converted the base station to a free, public-access facility. Use of the base station allows anyone using GPS equipment to be much more precise in their work.

North Dakota Geological Survey Budget Considerations

The North Dakota Geological Survey currently operates with a total FTE staff of 21.65 geologists and technicians. Our budget for the 2001 - 2003 biennium is \$2,685,209, which is the amount left after deducting \$21,327, the 1.05 percent General Fund Allotment. I've tabulated these numbers at the end of my testimony (page 8)

We made cuts in several areas to comply with Governor Hoeven's 95% budget guideline, while still attempting to meet projected increased costs.

Staffing

In order to comply with the 95-percent budget stipulations, we had to eliminate two general-fund FTE positions from our staff. However, we were able to save one of the positions -- a soils compiler -- by switching it to federal funding. Even so, we will be losing one FTE geologist position.

We decreased our total outlay for salaries and benefits for next biennium to \$2,103,054 from the \$2,152,635 we will spend this biennium, a decrease of \$49,581. At the same time, we decreased our reliance on general funding from \$2,071,389 to \$1,949,247, a decrease of \$122,142. We did this by increasing our reliance on federal funding from \$78,446 this biennium, to \$155,027 next biennium (most of this was dedicated to our soils compilation and digitization program).

Operating

If you look at our operating budget figures, you will see that, of the 24 categories listed, we project increases in six of the categories, decreases in eleven categories, and no changes in seven categories.

Information Technology Fees. Our IT/Data Processing costs are not changing much and most of the increases we project in spending here are the result of increased needs on our part rather than increased costs being imposed by ITD. For example, we project an increase of \$5,270 in data processing costs, mainly a result of our need for increased data ports for interns and temporary help, along with new network equipment access.

Our telephone costs (phone hookups, long distance fees, etc.) will increase slightly -- from \$23,200 to \$24,424.

The North Dakota Geological Survey is a computer-intensive agency, with a large geographic information system capacity and a need for sophisticated map-making ability. We project an increase from \$25,000 to \$30,500 -- a \$5,500 or 22-percent increase in spending for computer software and supplies.

Postal Costs. Postal costs have increased recently and are expected to rise further in the near future. Even so, we've projected a cut in postal costs of 8 percent in our 2003 - 2005 budget because we expect to provide more data and reports on the Internet, rather than

mailing them out.

Travel. Increased motor pool costs will make it necessary for us to cut back on our field operations. We intend to cut our spending in this area by about \$3,000, from \$80,850 to \$77,850. Part of this cut relates to the fact that we will have one less FTE so our total travel costs will be somewhat lower. Cutting our field operations is a difficult decision because geologic field work forms the basis for our mission – much of the rest of what we do depends on acquisition of basic field data.

Building Rental Charges. Rental costs for our office space will increase from \$12.00/square foot to \$12.60/square foot and the rental cost of our warehouse space will increase by 10 percent (we are currently paying \$3.90 for that space). In total, we project that our costs for office and warehouse space will increase from \$182,796 for the current biennium to \$197,500 for next biennium.

Our total projected operating budget for next biennium is only \$570,903, so this means that the \$197,500 figure I just mentioned represents about 35% of our operating budget that will be devoted to rent (compared to about 33% during the current biennium). During the 1999 - 2001 biennium, the percentage of our operating budget that we paid in rent was 25%. This percentage has been generally increasing each biennium, leaving us less and less money each biennium to pay for "productive" costs, such as field expenses, printing/publication costs, mapping, analytical work, etc.

Insurance. Certain insurance rates have recently taken a considerable jump since September of 2001. In order to minimize the impact on our budget, we increased the deductibles on some of our insured items. Our risk-management fees will increase (from \$3,543 to \$5,908). We project our total insurance bill next biennium to increase by about 11 percent, from \$10,810 to \$12,000.

Office and Other Equipment Under \$5000. We project a small increase in the cost of office equipment (some chairs, etc.) – we haven't spent anything on office equipment during the current biennium. Our spending for other equipment (mainly miscellaneous field equipment) will drop from \$5,000 during the current biennium to \$1,300 next biennium.

IT Equipment Under \$5000. We expect to decrease our spending for IT equipment slightly, from \$35,000 during the current biennium to \$33,500 next biennium. This amount will include several replacement computers, battery back-ups, and printers. We will also be purchasing a [relatively expensive] new drafting computer.

Capital Assets/IT Equipment and Other Equipment. This new category for next biennium amounts to \$22,500 and will include a large plotter and wide-format color scanner. We also have to replace our obsolete (and nearly worn-out) photocopier.

Summary

Under Governor Hoeven's Executive Budget recommendation for 2003 - 2005, our General Fund dollars will decrease slightly (2%) but our overall budget allowance would increase very slightly, from \$2,685,209 to \$2,696,457 due to the addition of federal funds. The breakdown is as follows:

Current (2001 - 2003) Biennium:

Salaries:	\$2,125,061	(79%)
Operating:	520,148	(19%)
Equipment:	40,000	(02%)

General Fund:	\$2,598,463	(96.3%)
Federal Funds:	78,446	(03%)
Special Funds:	8,300	(00.3%)

Upcoming (2003 - 2005) Biennium:

Salaries:	\$2,103,054	(78%)
Operating:	570,903	(21%)
Capital Assets:	22,500	(01%)

General Funds:	\$2,541,430	(94%)
Federal Funds:	155,027	(06%)

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Deanna Ball
Operator's Signature

10/30/03
Date

STATUTORY DUTIES OF THE NORTH DAKOTA GEOLOGICAL SURVEY

John P. Bluemle, State Geologist

Complete listing of the statutes governing the North Dakota Geological Survey and the state geologist. I've included a very brief description for each statute. Listed numerically by Chapter.

NDCC 15-05-07 Leasing Coal, Oil, Gas, and Other Rights (Determine where coal exists)
The state geologist helps the board of university and school lands determine the quantity and description of lands containing coal.

NDCC 15-05-16 Leasing Coal, Oil, Gas, and Other Rights (Reports)
The state geologist or state department of health, if requested by the board of university and school lands, must evaluate land that may contain minerals.

NDCC 23-20.2-03 Disposal of Nuclear and Other Waste Material
The state geologist oversees operations relating to the disposal of radioactive waste.

NDCC 23-25-02(2) Air Pollution Control
The state geologist serves on the air pollution control advisory council.

NDCC 23-29-07.6 and 07.7 Solid Waste Management
The state geologist develops preconstruction site reviews for solid waste disposal facilities and the state geologist reviews existing municipal waste landfills [the latter work has been completed]

NDCC 23-33-10 Groundwater Protection; Wellhead Protection Program
The state geologist assists in the Health Department's wellhead protection program.

NDCC 38-08-04(1-k) Control of Gas and Oil Resources (Core and Samples)
The state geologist requires filing of cores and samples with the NDGS. The NDGS maintains a Core and Sample Library (also 54-17.4-04).

NDCC 38-08-04.2 Control of Gas and Oil Resources
The industrial commission may designate the state geologist as the chief enforcement officer.

NDCC 38-12 Regulation, Development, and Production of Subsurface Minerals
This chapter covers minerals not included in the oil and gas and coal regulatory programs.

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10/30/03
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NDCC 38-12.1 Exploration Data

Drilling for coal exploration or evaluation is regulated under this chapter.

NDCC 38-14.1-03 (12) Surface Mining and Reclamation Operations

The state geologist assists in promulgating regulations for the protection of water resources affected by surface coal mining operation.

NDCC 38-15 Resolution of Conflicts in Subsurface Mineral Production (also see NDCC 38-12).

The state geologist acts as supervisor charged with enforcing industrial commission orders ... If there is a conflict between the Oil and Gas Conservation Act and production of other natural resources.

NDCC 38-19 Geothermal Resource Development Regulation

The state geologist issues permits for the installation of geothermal (ground source) commercial heating and cooling systems. A permit is not required for private residential systems.

NDAC 43-02-02.1 Underground Injection Control Program (Class III Injection Wells) (authority under NDCC 38-12-02).

The state geologist supervises enforcement of regulations and orders of the commission applicable to the underground injection control program for Class III disposal wells. The state geologist oversees wells that inject fluids for the extraction of minerals or energy.

NDCC 54-17.3 Paleontological Resource Protection

Paleontological resources, on land owned by the State of North Dakota and its political subdivisions, are protected and managed under this chapter.

NDCC 54-17.4 Geological Survey

This is the new enabling legislation, passed in 1989, at the time the Geological Survey was moved from Grand Forks to Bismarck. It supercedes the original enabling legislation, which dates to 1895.

NDCC 61-28-03 Control, Prevention, and Abatement of Pollution of Surface Waters

The state geologist serves on the state water pollution control board.

D:\My documents\Miscellaneous\Official NDGS\Statutory duties.wpd Linda's computer

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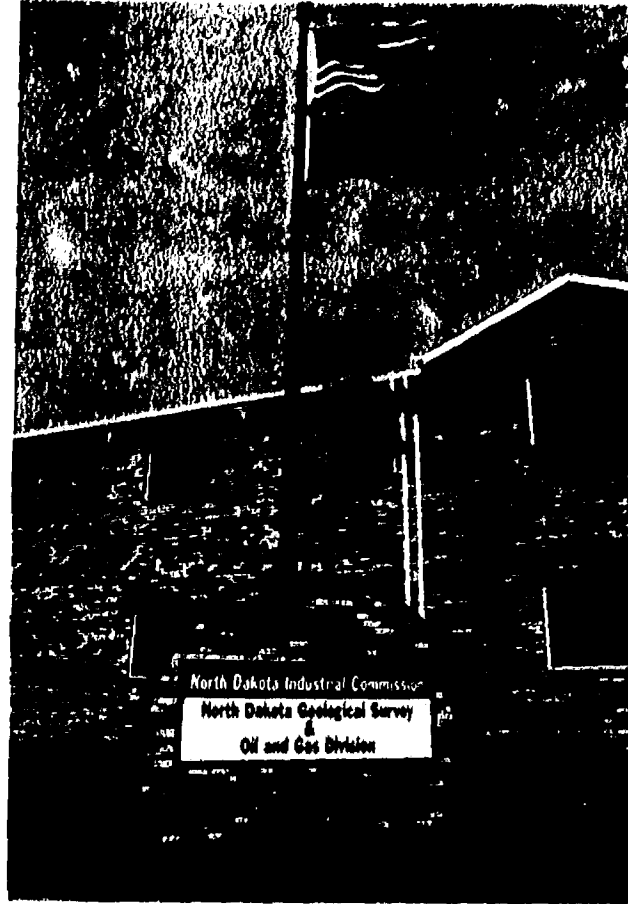
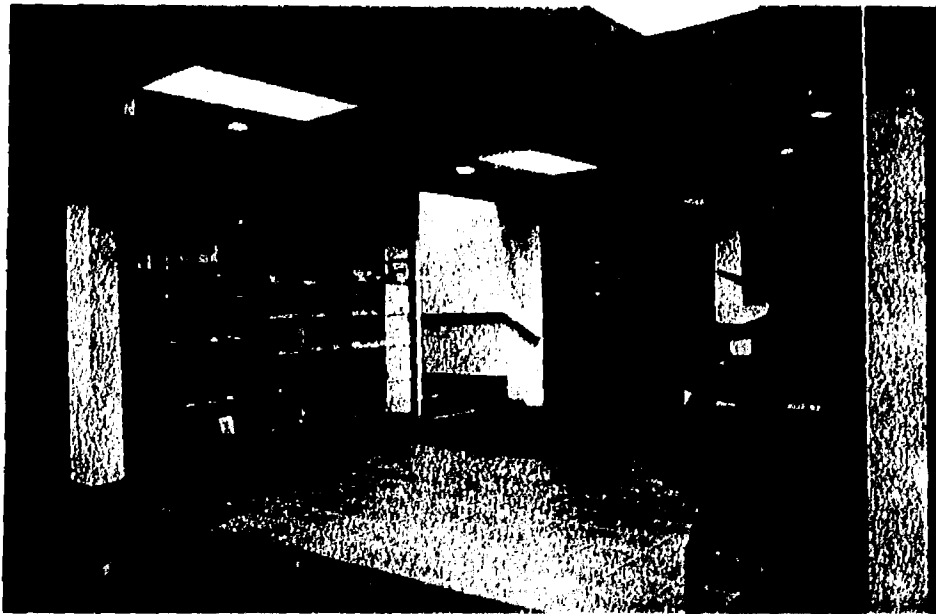
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NORTH DAKOTA GEOLOGICAL SURVEY

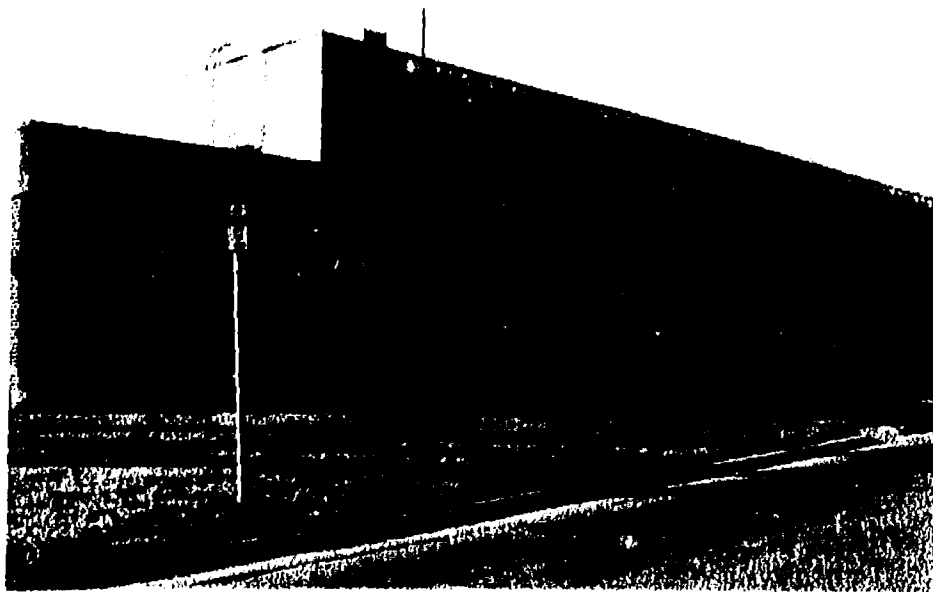
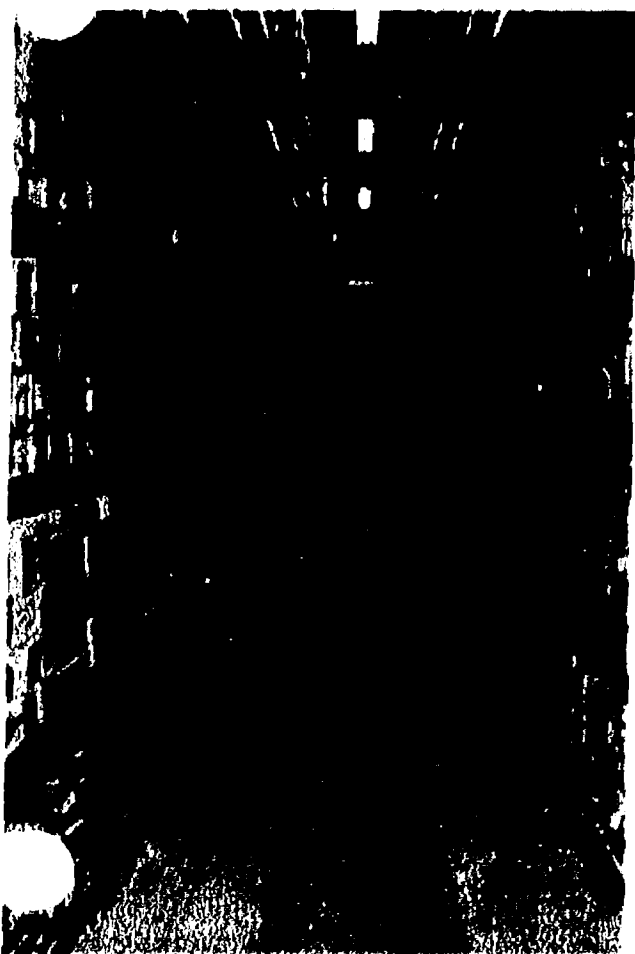
Main Office
1016 East Calgary Avenue
Bismarck, ND

Displays of North Dakota rocks, minerals, oil core, and fossils, including a triceratops (dinosaur) skull are on display in the lobby area of the building we share with the Oil & Gas Division.



Core Library
University of North Dakota
Grand Forks, ND

We have a more complete collection of core than any other state housed in our Core Library in Grand Forks. The 90 miles of core, along with samples and cuttings, represent about 100 million feet of drilling for oil and gas in North Dakota.



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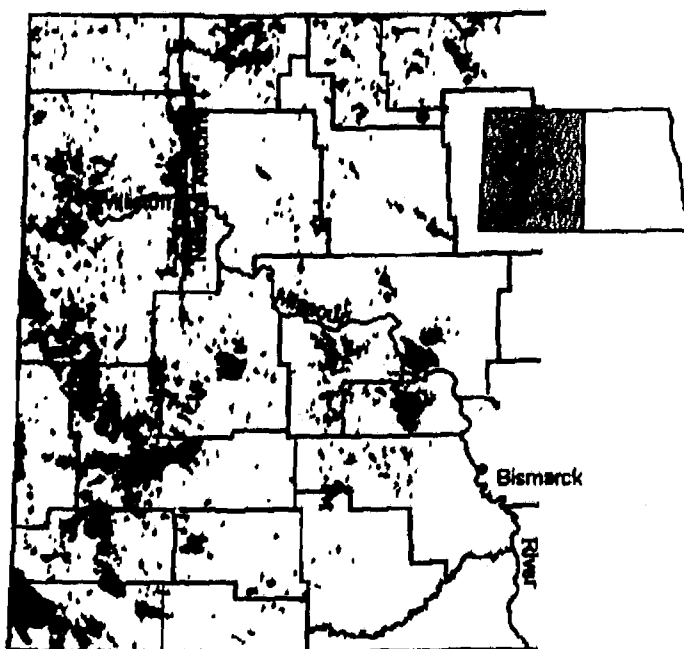
MINERAL ASSESSMENT



In 2001, the Survey revised the strippable coal reserves of North Dakota. In 2002, the Survey published a map identifying the most promising coalbed methane areas in western ND.



In 2002, the Survey began an assessment of the CO₂ sequestration potential of deep rocks in the Williston Basin.



Oil Fields
 Economic Coal Deposits
 Mined Areas
 Nesson Anticline



In the 1990s, the Survey drilled on frozen playa lakes in northwestern North Dakota to investigate the sodium sulfate deposits.

North Dakota Geological Survey



The bright white claystone is the main source of clay for the Hebron Brick Company. In 2002, the Survey mapped the geology of the Hebron area in detail to assist the company in finding additional clay sources.

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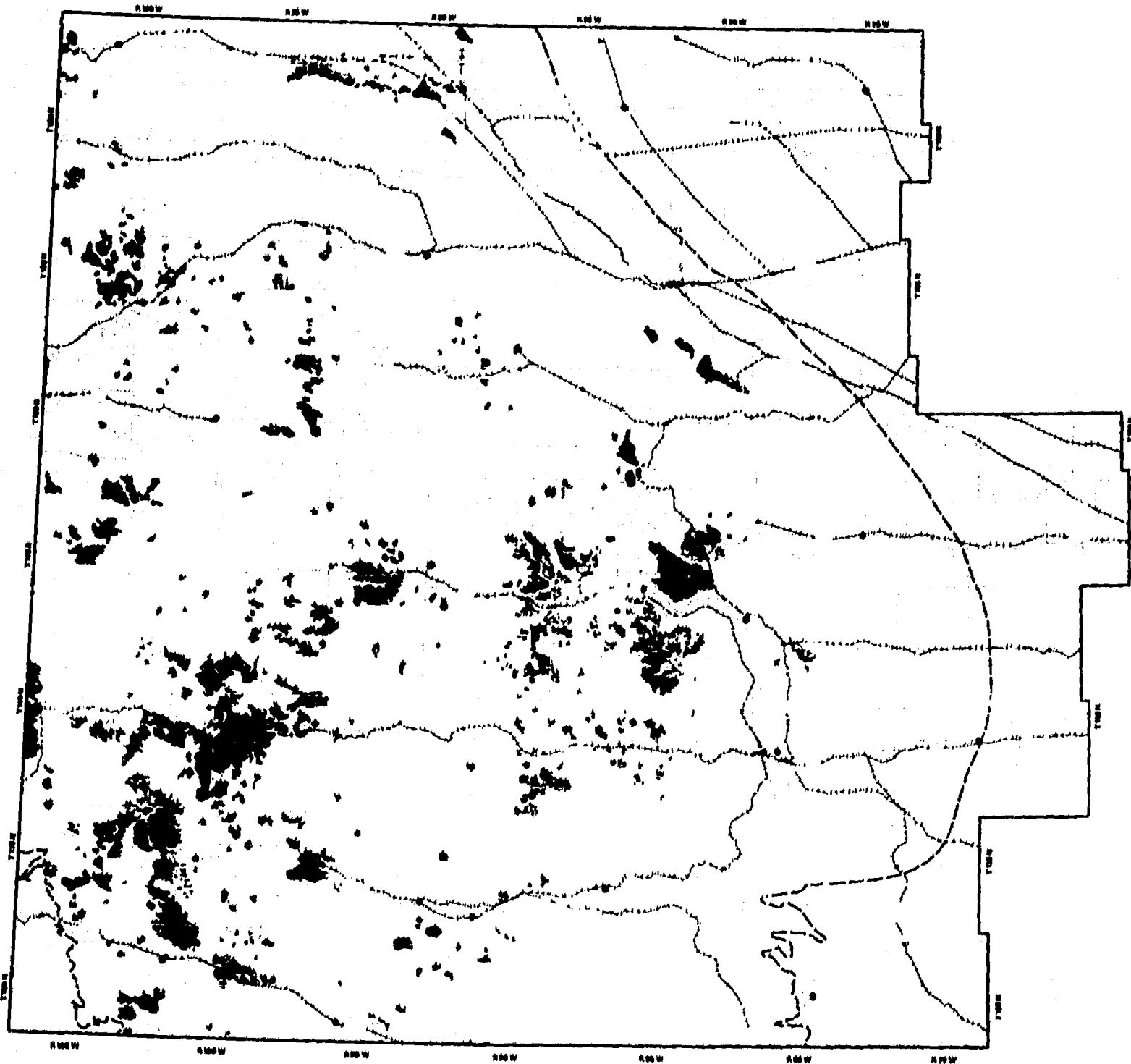
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THE STRIPPABLE LIGNITE DEPOSITS OF NORTH DAKOTA

North Dakota Geological Survey

Miscellaneous Map 34

2001



Strippable coal deposits are brown

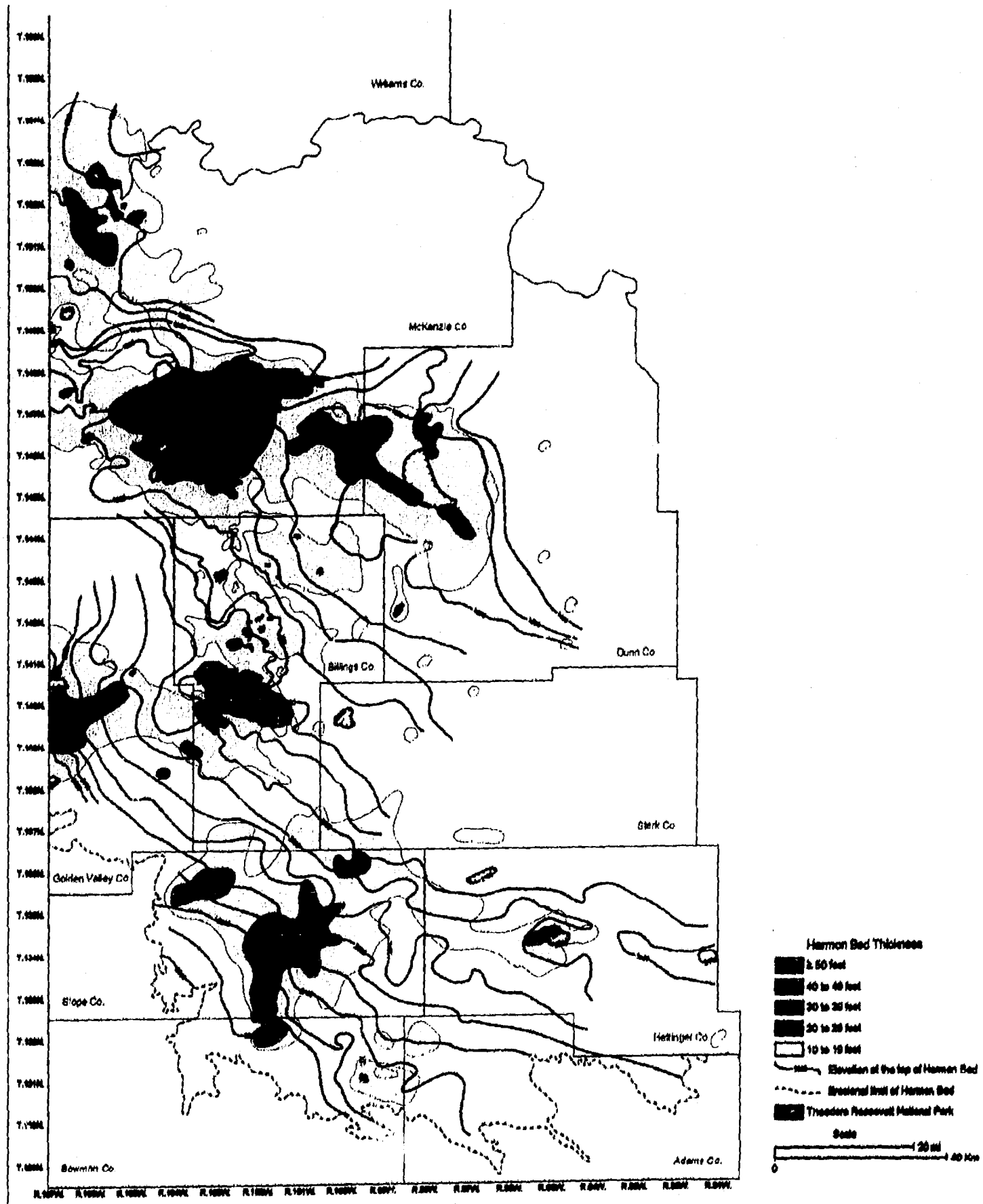
Major mined areas are green

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THE HARMON COAL IN WESTERN NORTH DAKOTA
 North Dakota Geological Survey
 Miscellaneous Map 35
 2002



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Dennis G. Ball
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GEOLOGIC MAPPING OF URBAN AREAS

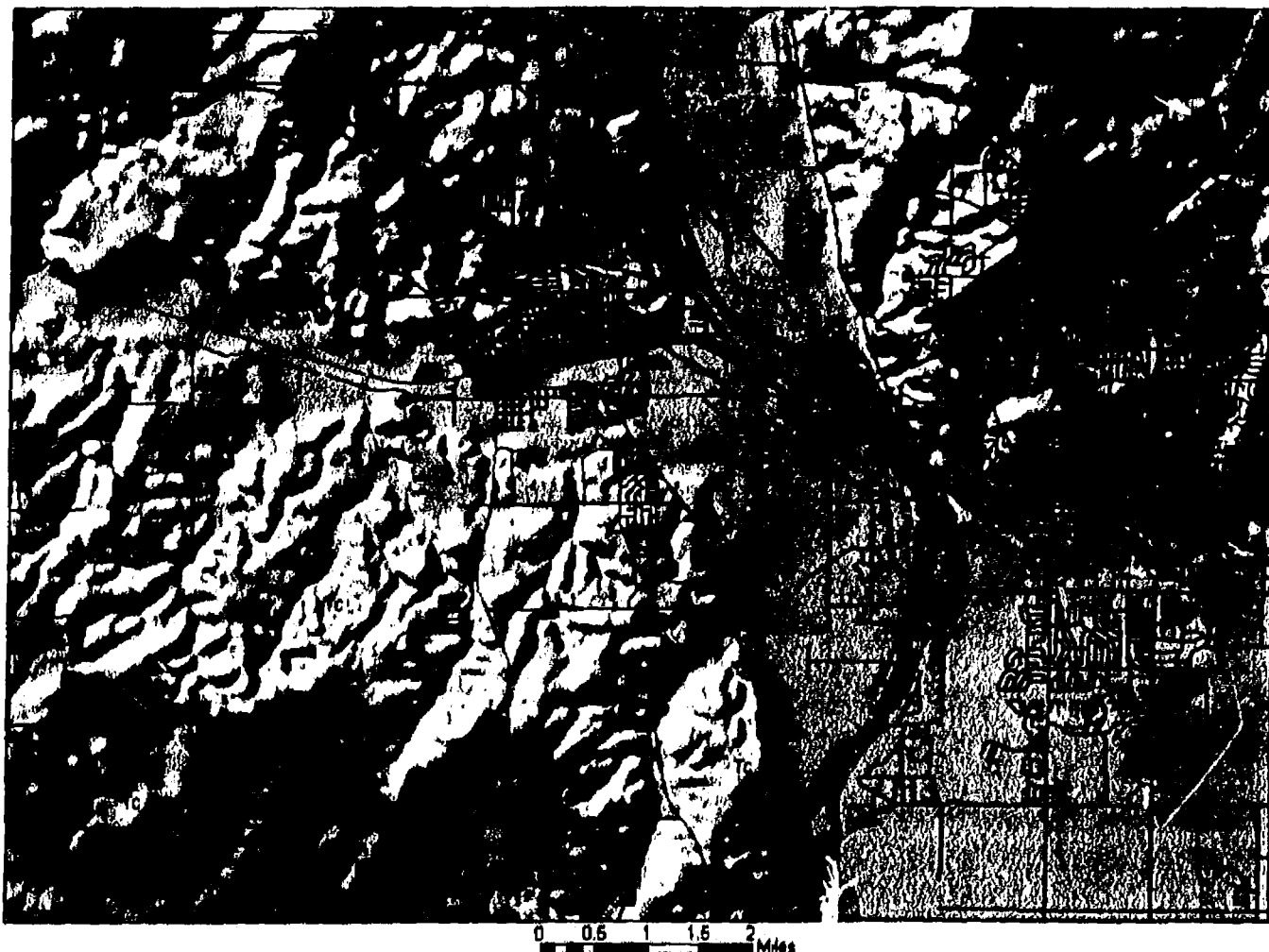


Geologic mapping of urban areas is a primary focus of our mapping program. Urban mapping poses unique problems because few rocks and sediments are exposed and access can be difficult.



Urban sprawl over sand and gravel deposits is a nationwide problem. Housing developments on or adjacent to these deposits prevent development of the resource.

Geologic Map of Bismarck and Mandan



North Dakota Geological Survey

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MAPPING GEOLOGIC HAZARDS

Landslides



This recent landslide damaged ND Highway 22 along the southern edge of the Little Missouri River Valley.



ND Geological Survey map showing landslide occurrences (in purple) along the Little Missouri River Valley in and around the North Unit of the Theodore Roosevelt National Park. It is difficult, if not impossible, to cross the valley in this area without encountering a landslide. US Highway 85 is shown in red.

North Dakota Geological Survey

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Dennis M. Gellera

Date

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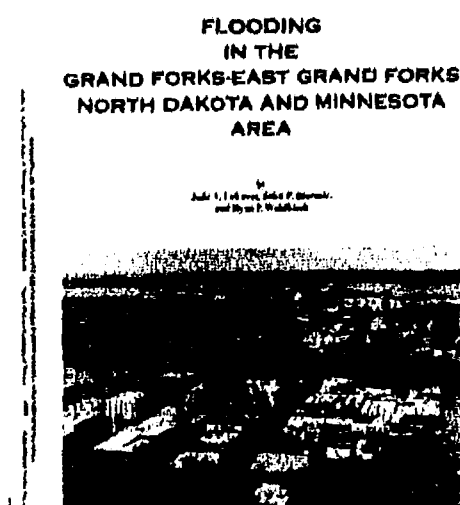
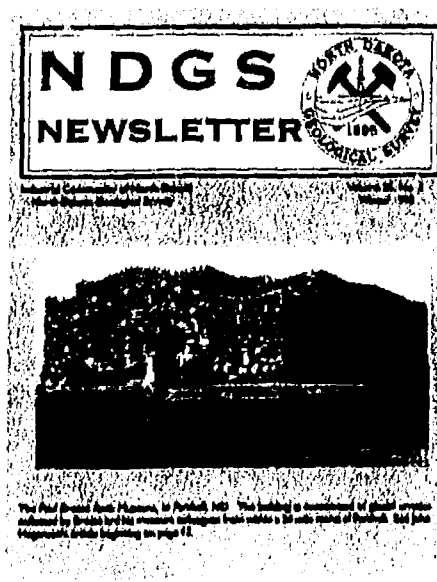
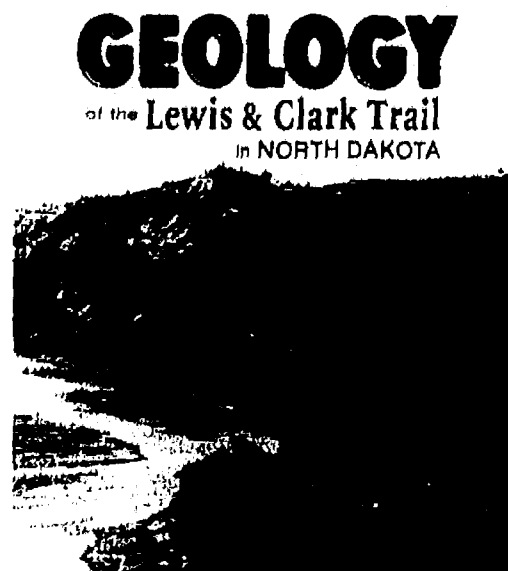
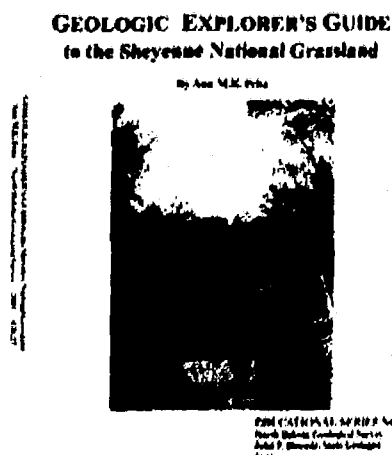
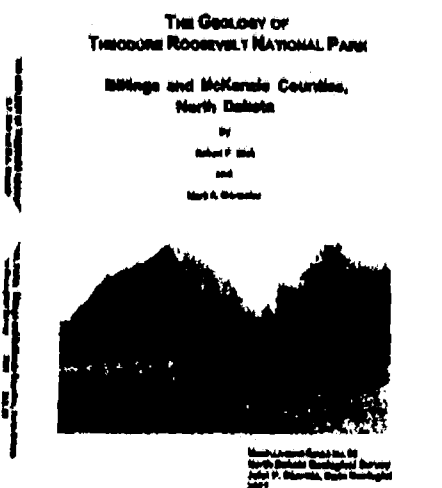
PUBLIC OUTREACH & TOURISM



Public Fossil Dig at Pembina Gorge near Walhalla
August, 2002



Public Fossil Dig at Little Missouri Badlands near Marmarth
July, 2002



North Dakota Geological Survey

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Date



North Dakota Geological Survey

John P. Bluemle, State Geologist

INDUSTRIAL COMMISSION
John Hoeven - Governor, Chairman
Wayne Stenehjem - Attorney General
Roger Johnson - Commissioner of Agriculture

M E M O R A N D U M

To: Representative Rick Berg; Senator Bob Stenehjem
Members of the House Appropriations Committee
From: John Bluemle *John P. Bluemle*
Date: January 14, 2003
Subject: Effective allocation of state funds

Your request for this information did not reach me in time to provide for our initial appropriations hearing last Friday. Even so, I will attempt to provide a response here. I've also included some supplemental and supporting materials for your consideration. You asked me to respond to four questions.

1) **"What is the main purpose of your agency?"** A logical response to this question is to state our agency mission, which is threefold:

- 1) To investigate and report the geology of North Dakota emphasizing the state's energy resources and stressing applied research leading to economic benefits or quality of life improvements for residents of the state;
- 2) To provide public service, and to collect, create, and disseminate geologic and map-related information; and
- 3) To administer regulatory programs for the ND Industrial Commission and act in an advisory capacity to other state, federal, and local agencies.

It should be added that, even though the North Dakota Geological Survey is not primarily a regulatory agency, we do have several specific regulatory duties which I have listed here:

- Coal exploration - (holes drilled outside of mine permit boundaries)
- Geothermal resources - (nonresidential installations)
- Paleontological (fossil) resources - (oversee collecting of fossils on public lands)
- Subsurface minerals - (all mineral production other than oil and gas, sand and gravel, and coal)
- Class III injection wells (solution mining of subsurface minerals)
- Oil well core and other subsurface drill samples at our Core and Sample Library in Grand Forks
- Conflict resolution regarding subsurface mineral production.

Most of our regulatory responsibilities are fulfilled in a routine and timely manner. We issue permits and inspect the installation of coal-exploration test holes and geothermal energy extraction systems; we collect oil well core and make it available for inspection by industry, consultants, our own geologists, and others.

600 East Boulevard Avenue ♦ Bismarck, North Dakota 58505-0840 ♦ Phone (701) 328-8000 ♦ Fax (701) 328-8010

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Effective regulation can assist in the wise development of a resource. It helps to protect citizens' correlative rights, and it can help to prolong the life of a resource (too-rapid or haphazard development of a resource can be extremely wasteful). Regulatory tools (tax breaks, etc.) can be applied to help encourage such things as geothermal, coal, or oil and gas exploration and production and this can be useful. Even so, regulation does not generate new resources; it is the scientific information that our geologists learn and provide that contributes to the discovery and development of new mineral resources.

2) **"How do you measure the achievement of your purpose?"** This is done in several ways. We monitor the number of public inquiries we receive for information (and we evaluate our ability to respond accurately and quickly to those inquiries); we track the number of new, in-house publications we release and the number of publications staff members publish in national and international journals (I think one measure of our effectiveness is the fact that our reports are routinely accepted for publication in refereed journals); we keep track of the number of presentations, both general and technical, that our staff members make each year; and we monitor usage of our core and sample library in Grand Forks. We keep accurate records of inquiries and contacts made at the North Dakota Geological Survey. We also track the number of "hits" on our web site (these are increasing nearly exponentially).

A more difficult part of measuring our performance is determining such things as how many new oil wells were drilled, how many new sand and gravel pits were opened, etc., based upon information provided in geological reports we wrote. These kinds of things are difficult to measure precisely, but nonetheless we know that the work we do results in large amounts of new leasing, drilling, and mining in the state.

A 2000 study by the Illinois and Kentucky state geological surveys found that the benefits of geologic mapping range from 25 to 39 times the cost of producing a digital geologic map and files. We have been producing an average of 10 -15 new digital geologic maps per year at an average total cost of \$85,000. The USGS covers half of this cost in a cooperative program known as STATEMAP; our contribution is the actual mapping work. Based on the findings of the Illinois/Kentucky study, the annual economic benefits of our mapping program are between \$2,125,000 (\$85,000 X 25) and \$3,315,000 (\$85,000 X 39). These benefits should accelerate as more of the state is compiled in digital data sets and more agencies and industries use digital technologies to perform their analyses.

3) **"What can the legislature do, financially and otherwise, to help you achieve your purpose?"**

The Legislators can provide clarification on issues that concern them and on how we can best respond to their needs and wishes. Legislators also need to tell us their constituents' concerns.

If I can possibly do so, I want to somehow convince the members of the House and Senate Appropriations Committees, and along with them, all the other legislators, that the work we do in our small agency is extremely valuable, both in terms of what we add to North Dakota's economy and in the ways in which we add to the quality of life for North Dakotans. Doing this clearly and in a concise manner for a relatively technical discipline like geology, can be a frustrating exercise.

A short-term answer to question 3 is that, during the current session of the legislature, if at all possible, the Legislature needs to insure that our agency remains at full current strength and with sufficient funding to operate effectively. The series of less-than-100% budgets over the past decade or so have resulted in the loss of professional staff and the near-decimation of our

operating budget, to the point that an increasing proportion has to be devoted to non-productive aspects (rent, insurance, postage, etc.) to the detriment of productive activities (field studies, etc.).

We are currently slated to lose one position – a petroleum geologist. With four petroleum geologists on our staff, losing this position will cut our productivity by 25% in this area. Given our history of petroleum geologic studies that result in tens and hundreds of millions of dollars in revenue and lease sales, it is counterproductive to eliminate professional NDGS personnel.

In a longer-term, I think it would be a good idea for the legislature to evaluate the impact that these repeated "belt-tightening" exercises have on small agencies, such as ours, compared to larger agencies, which I suspect have more flexibility to respond to the imposed cuts. I don't know this to be a fact, but I wonder whether it might be the case.

4) "How can you report (measure) your results so the public can easily understand you, purpose and evaluate your effectiveness?"

"Results," I presume, means communicating the findings and conclusions of the geologic studies we do. Some of our studies are necessarily technical and therefore result in technical reports. Even though the results of all of our studies are public information, and available to anyone, some of the more difficult reports are of more interest to professional geologists, engineers, and other people in industrial positions. Our reports are routinely used by industry in their work – for example, virtually all oil companies operating in North Dakota use our reports on the oil- and gas-bearing formations when determining where to explore for new resources or when designing enhanced-recovery projects. Geotechnical firms use our maps and reports when working on projects for municipalities and private industry.

Our twice-a-year *NDGS Newsletter* helps to keep the public informed about our activities. Besides articles of general interest, we report on meetings attended, papers presented, new publications, and events of interest. Our newsletter reaches a segment of the public that tends to be interested in geology, and we publish it in both hard-copy and on our web site for greater access.

As supplementary and supporting information, I am enclosing:

- 1) A copy of an article I wrote for the most-recent issue of our agency newsletter (vol. 29, no. 2 of the *NDGS Newsletter*), issued in December. The article describes our current activities and addresses essentially the kinds of questions you asked in your letter; and
- 2) A copy of a memo to me from Dr. Mark Gonzalez, geologist with the North Dakota Geological Survey, addressing in more detail some of the issues raised.

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Deanna Ball
Operator's Signature

10/30/03
Date

GPS

NDGS geologist Tom Heck chairs North Dakota's Global Positioning System (GPS) Steering Committee. In conjunction with Trimble Navigation, we recently converted the NDGS Community Base Station to a public-access site. We established the base station in 1993.

Geochemical Baseline Study

Lorraine Manz is collecting samples for a National Baseline Study of minerals near the ground surface. Her study, being done in cooperation with the United States Geological Survey, involves collecting about 700 samples statewide over the course of this fall and next summer. The samples will be analyzed to determine the composition of about 20 trace elements. The results of Lorraine's study will be incorporated in a national database from which detailed maps of the surface distribution of these elements across the entire United States will be constructed. These maps will ultimately be made available to interested agencies or individuals. Information of this kind is valuable because it helps us to evaluate the nation's energy and mineral resources and to understand better the relation between human health and the geologic environment. And, as the title of the study suggests, it also provides a base line of minerals in the soil against which future changes can be measured.

Additional Technical Projects

Our geologists are involved in a variety of other projects, and I'll comment only briefly on some of them. They include: 1) Mark Gonzalez's study of sedimentation of stock ponds on federal land of the Little Missouri National Grassland to determine the annual sediment yield in grassland and badlands environments. Mark's work will provide the first quantified data on sediment yield during historic times in the area; 2) Paul Diehl's study of the Red River B Cedar Hills Field in western Bowman County to characterize and understand production patterns and mechanisms in this giant oil field (estimated ultimate recovery > 155 million barrels of oil); 3) Julie LeFever's work on the Bakken and Lodgepole formations, collecting and compiling information into a large database to generate a series of isopach maps; 4) Randy Burke's investigation of the processes and impacts of salt dissolution on Williston Basin geology; 5) Ed Murphy and other's analysis and information about natural hazards to the State's Division of Emergency Management; our contributions relate primarily to flood and landslide matters; 6) and Mark's involvement with the Department of Public Instruction to establish new state science standards for grades K-12.

Earth Science Information Center

The NDGS maintains a complete collection of USGS topographic and land-management maps for sale to the

general public. We oversee the state's Digital Data Clearinghouse, which contains DEM, DRG, DLG, DOQQ files and other information on the web for access by other state and federal agencies and the general public.

Outreach

Our basic mission is to serve, inform, and educate North Dakotans about the important role of geology in everyday life. Our geologists lead tours and make presentations for visitors to the North Dakota Heritage Center, where the NDGS's fossil collection is housed. We give guest lectures at area colleges and universities, make presentations at youth summer camps, visit classrooms and make presentations with visual aids and hands-on displays, make presentations to civic groups, serve as science advisors and judges for science fairs, and provide teachers with visual aids, hand samples of rocks, fossils, minerals, topographic maps, and publications for their classrooms. John Hoganson and Ed Murphy have recently prepared a geology guide along the Missouri River corridor in North Dakota, tracing the route followed by Lewis & Clark. Their book will be released in May 2003 by Mountain Press Publishing Company as part of their Roadside Geology series.

In addition to the specific research and applied projects I've described, our geologists respond daily to specific requests for geologic information. These range from requests for information about mineral deposits to letters from school children wondering about the kinds of rocks found in North Dakota. Several of our geologists also have ongoing and periodic regulatory tasks as well, maintaining our core and sample collections in Grand Forks, issuing permits for geothermal, coal-exploration, subsurface mineral investigations, etc.

Conclusion

At times it may seem that our geologists ply their craft in esoteric fashion. But every project is undertaken within the spirit of our mission statement. We are the principal source of geologic information in the state and we investigate the geology of North Dakota on behalf of its people and industries, chief among them agriculture, energy production from fossil fuels, and tourism. From farmers who need to know the properties of soils to best manage their lands, to tourists who gaze in curiosity into the mesmerizing landscape of the Little Missouri Badlands, we study the state from the surface to its depths to improve continually our knowledge of geology and how it affects our daily lives and commerce.

Our technical studies provide a huge return, both in revenue to the state in increased oil and gas production and in technical and quality-of-life knowledge about our state, which also enhances our tourism industry. The North Dakota Geological Survey definitely delivers.

North Dakota Geological Survey, Appendix A

North Dakota Geological Survey

Appendix A: Detailed Discussion of Revenue Generation and Intangible Cost Savings

Geologic Information: Cornerstone to Mineral Management, Economic Development, Land-use Decisions, and Environmental Stewardship

The activities of the NDGS have provided tremendous benefits to the state of North Dakota in three major areas: fossil-fuel resources, characterization of near-surface materials, and identification of areas prone to natural hazards. The most demonstrable financial benefits of NDGS studies come in the areas of subsurface geology (particularly with respect to oil and gas), coal geology, and the STATEMAP program. The tangible return from these areas is outlined below. Additional, intangible benefits arise from the activities of NDGS, which are not revenue generating or are designed to save money by preventing environmental contamination and avoiding natural hazards that can cause tens to hundreds of millions of dollars to remediate.

Oil and gas tax revenues (2000-2001 biennium)	\$131.4 million
Coal tax revenues (past biennium)	\$ 78.5 million
Estimated CO ₂ revenues (new revenue in next biennium)	\$ 3 million
<u>Estimated economic benefit STATEMAP program</u>	<u>\$ 5 million</u>
Total tangible revenues (approximate, per biennium)	\$220 million

Oil and gas tax revenues

North Dakota has recently advanced from the ninth to the eighth leading state in the production of oil. Nevertheless, the volume of oil recovered in North Dakota is a fraction of what is recovered in the five largest oil-producing states (Alaska, Texas, California, Louisiana, Oklahoma). Consequently, the oil industry has barely maintained its presence in North Dakota. The oil activities that occur in North Dakota are principally in response to the research findings of the NDGS. The NDGS has been the principal catalyst in promoting development of the oil and gas resources in the Williston Basin over the past 50 years, during which the State of North Dakota has received more than \$1.9 billion in oil-tax revenues and another \$500 million from oil and gas leases, bonuses, royalties, and rentals on State land. In the past biennium (2000-2001), the State received \$129.9 million dollars in oil-production and extraction-tax revenue. In the same biennium, the State received \$1.5 million from annual lease bonus revenue on State land (the relatively low amount raised in recent lease sales reflects weakness in the current oil market).

The NDGS has been the primary research group to characterize the geologic framework and economic potential of fossil fuels in the Williston Basin of North Dakota. In addition, the NDGS has organized and sponsored an annual Horizontal Well Workshop and Symposium for the past ten years. Our Workshop provides a forum where industry representatives, research scientists, and government officials share research findings and technological developments that have spurred millions of dollars of drilling activity in the Williston Basin each year.

The sale of oil leases and the subsequent development of producing oil wells are directly and demonstrably related to the research performed by geologists at the NDGS. For example, in 1979, Tom Heck recognized the oil potential of the Lodgepole Formation. Then in 1993-1994, Drs. Randolph Burke and Paul Diehl studied the subsurface structural geology, stratigraphy, and petrography of the Lodgepole Formation near Dickinson. As a result of their research, oil companies in 1995 bought an estimated \$200 million of leases on federal, private, and state land, of which \$12.7 million was in state lease bonuses

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North Dakota Geological Survey, Appendix A

(Heck, 2002; Burke and Diehl, 1995). Many of the wells drilled on these leases are still producing today and are likely to produce for 10 or 20 more years. Production on these well will yield dividends to the state for years to come in the form of oil production and extraction taxes.

Similar research by NDGS geologists has led to past discoveries of economically valuable oil fields. For example, Sid Anderson was the principal NDGS geologist to characterize the structure and oil potential of the Billings Nose; Bill McClellan was the principal NDGS geologist to identify the economic potential of the Red River B Zone in Bowman County. Following his research and presentation on the Red River B Zone at the Fourth Annual Horizontal Well Workshop, sponsored and organized by the NDGS, oil production in Bowman County increased from about 100,000 barrels a month (one of the lower productions of oil-producing counties in North Dakota) to about 500,000 barrels a month (top oil-producing county in North Dakota). Ongoing work by Diehl is leading to additional development of the Bakken Formation and Cedar Creek B Anticline along with efficient and economical unitization of the Cedar Creek Anticline in Bowman County.

Oil production and extraction taxes (source: Clayburgh, 2001; Heck, 2002; Gonzalez, 2002):

2000:	\$59.1 million
2001:	\$70.8 million
Annual Lease Bonus Revenue	
2000:	\$1.0 million
2001:	\$0.5 million

Coal Tax Revenues

Since its inception, the NDGS has been charged with studying the coal resources of the State. In the Survey's first biennial report (Babcock, 1901), lignite deposits and coal mines are referenced more frequently than all other geologic resources, hazards, or topics. The NDGS periodically conducted and updated a statewide quantification and mapping of coal resources (Leonard et al., 1925; Landis, 1973; Murphy, 2001). These coal investigations were instrumental in attracting and developing the coal-fired electricity-generating industry of North Dakota. More recently, Ed Murphy, geologist with the NDGS, completed a revised study, quantification, and mapping of coal resources in the state (Murphy, 2001). Murphy's work is the foundation of those companies participating in the Vision 21 program of the Lignite Council, which seeks to build and operate one or more new coal-fired power plants in North Dakota in the near future.

Unlike oil tax revenues, which oscillate dramatically from one year to the next in response to global events that affect oil prices, coal tax revenue and coal (i.e., lignite) production in North Dakota has been relatively constant over the past couple of decades. The coal industry generates revenues for the State in two direct forms: the coal conversion tax revenue and the coal-severance tax. In the 2000-2001 biennium, the State received \$78.5 million dollars in coal conversion tax and coal severance tax revenues.

Coal tax revenues (source: Clayburgh, 2001)

Coal conversion tax revenue	
2000:	\$15.4 million
2001:	\$16.4 million
Coal severance tax	
2000:	\$23.6 million
2001:	\$23.1 million

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North Dakota Geological Survey, Appendix A

Current Research and Potential Future Revenues: CO₂ Sequestration, Enhanced Oil Recovery, and Coal-bed Methane

Geologists of the NDGS have been involved in an international study of CO₂ sequestration (i.e., storage) in geologic formations of the Williston Basin. In a pilot program, Basin Electric's Dakota Gasification plant is contracted to provide 95 million standard cubic feet of CO₂ per day for injecting into the Weyburn Field. The sale of this gas is anticipated to gross approximately \$30 million per year for the next several years. Injection of CO₂ into maturing oil fields promises multiple benefits for North Dakota's economy and the State's tax revenues. First, North Dakota coal industry will receive additional income from the sale of CO₂. Second, the oil industry will benefit from increased production from aging oil fields where production is enhanced and longevity increased by the injection of CO₂. Third, the state of North Dakota profits from this development as increased oil production boosts tax revenue for the state, and sale of CO₂ by the coal industry increases sales taxes for the state by an estimated \$3 million in the next biennium. This revenue stream should increase rapidly in the next decade as NDGS geologists complete studies of other aging oil fields and the enhanced technology is adapted in these areas. It is highly probable that the studies of the NDGS will create a new industry in the state from injection of CO₂ to enhance oil recovery in aging oil fields. The taxes generated from the sale of CO₂ alone may easily climb by an order of magnitude to \$10-20 million per year. Furthermore, the additional taxes associated with the purchase of materials, construction of the necessary pipelines, and the income taxes paid by new employees in this field are not factored into this conservative calculation of new tax revenues.

The exploration and production of coal-bed methane in nearby states with similar geologic strata (Wyoming and Montana) signals possible new opportunities for resource development in North Dakota. The NDGS has recently begun studies to characterize the production potential of coal-bed methane in North Dakota. This resource has not been quantified or mapped adequately in our State.

The recent work in CO₂ sequestration, enhanced oil recovery, and coal-bed methane illustrate the need to keep the NDGS fully staffed and well funded so that it can respond promptly, adequately, and strategically to the evolution of new technologies and new mineral resource explorations. The NDGS has been a catalyst for the development of extremely valuable mineral resources in the State for more than a century. As North Dakota's traditional agricultural-based economy becomes diversified, the energy sector, fueled chiefly by fossil fuels, will play an increasingly important role in North Dakota's economy. The NDGS has been the primary research group to locate and study the fossil-fuel bearing strata.

Construction of Digital Geologic Data Sets

In the 1960s and 1970s, the NDGS, in cooperation with the SWC and USGS, conducted a statewide geologic mapping program for each county. The geology was mapped at a scale of 1:125,000 (approximately 1 inch equals 2 miles). This program was extremely valuable to the state because it identified and characterized the groundwater resources of the state, located and quantified mineral resources in the surface (e.g., sand, gravel, concrete, clay for bricks) and subsurface (coal), and characterized surface materials for the benefit of construction and road building purposes. Publications from this mapping program are now largely out of print, hampering researchers, engineers, and government agencies in acquiring fundamental knowledge of the state's geology and hydrology.

Beginning in 1995, the NDGS, in cooperation with the USGS, has conducted a new mapping program. In this program, the geology of the state is being mapped at a much more detailed scale (1:24,000; 1 inch equals 2000 feet or 3/8 mile). In addition, the geology, geohydrology, and subsurface minerals are being mapped and digitized to create digital data files, which can be displayed, manipulated, and analyzed using geographic information systems (GIS). These data sets permit highly sophisticated, complex, and rapid

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North Dakota Geological Survey, Appendix A

analysis. The data are being used by other state agencies, federal agencies, academia, government entities, and industry, particularly the consulting industry.

A commissioned study (Bhagwat and Ipe, 2000) by the Illinois and Kentucky state geological surveys found that the benefits of mapping range from 25 to 39 times the cost of producing a digital geologic map and files. The NDGS has been producing an average of 10-15 new digital geologic maps per year at an average total cost of \$85,000. Half the cost is borne by the USGS in a cooperative program known as STATEMAP. The annual economic benefits of our mapping program are estimated between \$2,125,000 (\$85,000 X 25) to \$3,315,000 (\$85,000 X 39). The benefits of our mapping should accelerate as more of the state is compiled in digital data sets and more agencies and industries use digital technologies to perform their analyses.

Currently, the state is receiving only one-third of the money it could from the federal government for STATEMAP. The program is scheduled to run through 2010 with no guarantees of being reauthorized by the federal government. It is in the State's best financial interests to restore the funds requested by the NDGS to acquire modern GPS equipment and software so that the geologic mappers can increase their output while the federal government is covering half the cost of the program. After 2010, the state may have to bear 100% of the cost of completing this vital and economically valuable program. [Note: existing GPS equipment is obsolete and uses a DOS operating system, which is no longer available on our department's computer systems. New GPS equipment runs an estimated \$15,000 per set per mapper—we would need two systems to share among the three mappers in the STATEMAP program. The new GPS equipment would allow the existing staff to map 50% or more maps with the same salary and make better use of federal matching dollars in the years remaining in the STATEMAP program.]

Intangible and Non-quantified Benefits and Activities

Among the greatest contributions the NDGS makes to the state is the intangible and largely non-quantified savings we provide through our environmental-assessment and site-characterization programs. For example, in the 1990s, each county and major municipality in the state was required to locate and construct state-approved landfills. The NDGS performed the site characterizations to ensure that these landfills were properly located and would safeguard groundwater resources, many of which are used as the primary source of drinking water across North Dakota. The prevention of one underground contamination problem can save local municipalities and governments tens if not hundreds of millions of dollars to remediate! Our work has prevented local governments from possible bankruptcies and kept them from becoming economic burdens to the State.

Currently, NDGS geologists are conducting a statewide assessment of landslide and unstable ground hazards. North Dakota has more unstable ground (as a percentage of land area) than any other state in the union except Alaska! Unstable ground costs the State millions of dollars each year in damage to infrastructure. Unstable ground is also a great burden and expense to private property. This program is not revenue generating, but will lead to enormous savings by identifying those materials and those localities that are most susceptible to landsliding, swelling, heaving, and other forms of instability.

As demonstrated above, the NDGS is involved in some of the largest revenue-generating industries in the State. Nevertheless, the NDGS has a mission to provide information on all aspects of geology to all interested parties. Consequently, the NDGS is fully committed to educational outreach programs, which do not generate revenue, but are invaluable in providing requested information to all who seek it. In an average month, the staff of the NDGS field 350 phone calls, e-mail messages, faxes, and personal visits from other government officials, state and federal scientists, academic researchers, school children, and interested lay citizens concerning the geology of our state. The NDGS routinely interacts with the Office of Emergency Management, Department of Public Instruction, Department of Health, State Water

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10/30/03
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North Dakota Geological Survey, Appendix A

Commission, State Historical Society, Department of Information Technology, Department of Agriculture, and Land Department.

NDGS geologists lead field trips, make class presentations to school children and college students, draft language for the state science standards, develop web-based curricula, develop traveling curricula in earth sciences, write publications for scientific peer-review and for lay citizen audiences, and provide information for industry on a per request basis. In the absence of our agency, the general public, industries, and government agencies would either not acquire the necessary information, or would have to expend money and resources to reconstruct information which is readily provided by the well trained scientific staff at the NDGS. [Note: NDGS has nine professional geologists—all have Masters Degrees and six have Ph.Ds.]

NDGS geologists oversee several regulatory programs including permitting of coal, geothermal, class III injection wells, and fossil collection on state land. As regulatory programs, they are key to protecting the environment and valuable natural resources (i.e., fossils), though these are not revenue generating activities.

The NDGS is charged with collection, curation, display, and study of all non-human fossil remains unearthed in the State. Fossils have intrinsic value for the information they provide about the geologic history of North Dakota. Paleontological information is vital to reconstructing the paleogeography and paleoclimatology of our State. This information is not entirely academic, as such information is used in the prospecting and study of oil-producing strata in the Williston Basin. Fossil displays have become particularly popular attractions in museums. Dr. Hoganson's work with summer tourist digs has spurred economic development in communities such as Walhalla, Bowman, and Marmarth. This program is one of the things slated for scaling back or elimination in the face of proposed budget cuts. We believe that the money spent to maintain the paleontological program is more than recouped by the economic benefits realized in communities that host summer digs and the museums that have paleontological displays that attract tourists and keep them in the State for extra days.

Summary

The State Legislature is faced with a daunting task of cutting expenses. Nevertheless, cuts to a highly productive, revenue-generating agency, such as the NDGS, will be counterproductive as they will decrease our ability to generate the revenues that fuel North Dakota's economy and fill the State's coffers. After a decade of nearly continuous budget cuts, the NDGS has been trimmed to a point where important programs that sustain and contribute to the economic development of the state are being adversely affected. Staff geologists with the NDGS are operating with archaic and inefficient field tools and technologies, operating with insufficient support, and operating at understaffed capacity. Retention of existing staff is vital, and expansion of staff would permit additional discoveries of giant oil fields as our staff systematically studies and characterizes the subsurface of the Williston Basin. The NDGS with a biennial budget of \$2.5 million is responsible for the tangible generation of more than \$220 million in tax revenue, lease sales, and economic development in the past biennium. Additional, non-tangible benefits arise from our activities that are not revenue generating, but are designed to save money by preventing environmental contamination and avoiding damage from natural hazards that can cause tens to hundreds of millions of dollars to remediate. The NDGS is one of, if not the, most cost-effective and greatest revenue-producing agencies in the State. An expanded staff would bring in additional revenue through an expanded mineral program. Upgrades to modern GPS equipment would permit the NDGS to radically increase its compilation of digital geologic maps and data sets, which are of immeasurable value to many state and federal agencies, municipalities, and county governments. The State of North Dakota can ill afford to diminish further the revenue-generating capacity of the NDGS.

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North Dakota Geological Survey, Appendix A

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John P. Bluemle, State Geologist

North Dakota Geological Survey

INDUSTRIAL COMMISSION

John Hoeven - Governor, Chairman
Wayne Stenehjem - Attorney General
Roger Johnson - Commissioner of Agriculture

TESTIMONY BEFORE THE SENATE APPROPRIATIONS COMMITTEE

March 11, 2003

Introduction

Mr. Chairman and members of the Appropriations Committee, my name is John Bluemle. I am state geologist and director of the North Dakota Geological Survey, a division of the Industrial Commission. I've been with the Geological Survey for 41 years, the past thirteen years as state geologist.

Our main office is at 1016 East Calgary Avenue in Bismarck (about a block west of Puklich Chevrolet, north on Highway 83). We also have a paleontology laboratory at the Heritage Center here in Bismarck and a core and sample library in Grand Forks on the UND campus.

I intend to read the part of my testimony that relates specifically to our budget. The remainder of the testimony I've written is intended to provide background about the function and activities of the North Dakota Geological Survey and I don't expect to read that now (unless you want me to).

I also need to respond to the letter from Legislative leadership, dated January 8 requesting our responses to four questions. We received this letter too late to discuss during our testimony before the House Appropriations Committee, although I did respond with a memo to the Legislative leadership and to the members of the House Appropriations Committee. I've summarized the content of that memo, on pages 2 and 3 of this testimony. Do you want me to read this material for you, or shall I skip ahead to the part of my testimony on pages 4 through 8 dealing with budget considerations?

Page 1

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**Response to Letter of January 8
From Senator Stenehjem and Representative Berg**

1) **"What is the main purpose of your agency?"** A logical response to this question is to state our agency mission, which is threefold:

- 1) To investigate and report the geology of North Dakota emphasizing the state's energy resources and stressing applied research leading to economic benefits or quality of life improvements for residents of the state;
- 2) To provide public service, and to collect, create, and disseminate geologic and map-related information; and
- 3) To administer regulatory programs for the ND Industrial Commission and act in an advisory capacity to other state, federal, and local agencies.

Most of the studies our geologists do are intended to either directly or indirectly lead to future economic benefits to the State. Some of our work increases our basic technical knowledge of the geology of North Dakota; some provides citizens with basic information about the State; some address environmental issues. Much of our work has potential economic impact.

The Geological Survey's most basic task is to map the geology of North Dakota. Geologic mapping helps us to determine where our *mineral resources* are located, what they are worth, how they might be developed, and how best to reclaim the land. Geologic mapping also helps us identify *geologic hazards* so we can deal with them effectively. Mapping helps us learn about North Dakota's geology, where *fossil dinosaurs* are found, how and why our *climate changes* and has changed in the past, and any number of other earth-science issues.

2) **"How do you measure the achievement of your purpose?"** This is done in several ways. We monitor the number of public inquiries we receive for information (and we evaluate our ability to respond accurately and quickly to those inquiries); we track the number of new, in-house publications we release and the number of publications staff members publish in national and international journals; we keep track of the number of presentations, both general and technical, that our staff members make each year; and we monitor usage of our core and sample library in Grand Forks.

Last year we responded to about 5,000 requests for information about North Dakota geology. We have an extensive and heavily used Internet Home Page that provides a variety of geologic data and general information about North Dakota geology. We track the number of "hits" on our web site – last year there were more than 135,000 hits per month.

We try to track how many new oil wells were drilled, how many new sand and gravel pits were opened, etc. because of information we provided in our geologic reports. These kinds of things can be difficult to measure precisely, but we have shown that the work we do results in large amounts of new mineral leasing, drilling, and mining in the State.

Using these kinds of techniques, we have shown that the North Dakota Geological Survey generates many more times the amount of revenue for the State than the State spends in funding the agency.

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10/30/03
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3) "What can the legislature do, financially and otherwise, to help you achieve your purpose?"

Legislators can provide clarification on issues that concern them and they should let us know how we can best respond to their needs and wishes. Legislators should also tell us their constituents' concerns.

During the current session of the legislature, if at all possible, the Legislature should try to insure that our agency remains at full current strength and with sufficient funding to operate effectively. Given the value to the State of our geologic studies that result in tens to hundreds of millions of dollars in revenue and lease sales, it is counterproductive for us to eliminate professional NDGS personnel (as budget constraints will require of us next biennium).

4) "How can you report (measure) your results so the public can easily understand your purpose and evaluate your effectiveness?"

We communicate the findings and conclusions of our geologic studies in North Dakota through various means. Some of our studies are necessarily technical and therefore result in technical reports. Even though the results of all of our studies are public information, and available to anyone, some of the more difficult reports are of more interest to professional geologists, engineers, and other people in industrial positions.

Our reports are routinely used by industry in their work – for example, virtually all oil companies operating in North Dakota use our reports on the oil- and gas-bearing formations when determining where to explore for new resources or when designing enhanced-recovery projects. Geotechnical firms, consultants, state and federal agencies, municipalities, and others routinely use our maps and reports.

Publications in our Educational Series provide general information on the State's geology to the public. We have about 500 reports currently available that our geologists wrote. Our twice-a-year *NDGS Newsletter* helps to keep the public informed about our activities. Besides articles of general interest, we report on meetings attended, papers presented, new publications, and events of interest. Our newsletter reaches a segment of the public that tends to be interested in geology, and we publish it in both hard-copy and on our web site for greater access.

North Dakota Geological Survey Budget Considerations

The North Dakota Geological Survey currently operates with a total FTE staff of 21.65 geologists and technicians. Our budget for the 2001 - 2003 biennium is \$2,685,209, which is the amount left after deducting \$21,327, the 1.05 percent General Fund Allotment.

Under Governor Hoeven's Executive Budget recommendation for 2003 - 2005, our General Fund dollars will decrease, but our overall budget allowance would increase very slightly, from \$2,685,209 to \$2,696,457 due to the addition of federal funds. The breakdown is as follows:

Current (2001 - 2003) Biennium:

Salaries:	\$2,125,061	(79%)	General Fund:	\$2,598,463	(96.7%)
Operating:	520,148	(19%)	Federal Funds:	78,446	(03%)
Equipment:	40,000	(02%)	Special Funds:	8,300	(00.3%)
TOTAL	\$2,685,209			\$2,685,290	

Upcoming (2003 - 2005) Biennium:

Salaries:	\$2,103,054	(78%)	General Funds:	\$2,541,430	(94%)
Operating:	570,903	(21%)	Federal Funds:	155,027	(06%)
Capital Assets:	22,500	(01%)	Special Funds:	-0-	(0%)
TOTAL	\$2,696,457			\$2,696,457	

We made cuts in several areas to comply with Governor Hoeven's 95% budget guideline, while still attempting to meet projected increased costs.

Staffing

In order to comply with the Governor's 95-percent budget stipulations, we eliminated two general-funded FTE positions from our staff. However, we were able to save one of the positions - a soils compiler - by switching it to federal funding. Even so, as matters currently stand, we will be losing one FTE geologist position.

Current (2001 - 2003) Biennium

General-Funded FTEs	General-Fund Salaries
21.65	\$2,071,389

Upcoming (2003 - 2005) Biennium

General-Funded FTEs	General-Fund Salaries	Change
19.65	\$1,949,247	(\$122,142)

As you can see, we decreased our total outlay for salaries and benefits for next biennium. We also decreased our reliance on general funding by nearly doubling our federal funding. Most of the increased federal funding will be dedicated to our soils compilation and digitization program.

Operating

We use approximately 80 percent of our operating budget to cover our fixed costs – rent, telephone, utilities, insurance, etc. – which leaves us with very little money over which we have any direct control.

If you examine our overall operating budget figures, you will see that, of the 24 categories listed, we project increases in six of the them, decreases in eleven, and no changes in seven categories.

Information Technology Fees:	Current	Requested	Increase/(Decrease)
Data Processing:	25,000	30,270	5,270
Telephone :	23,200	24,424	1,224
Software/supplies:	25,000	30,500	5,500
Contracted Services:	19,500	18,500	(1,000)

Most of the increases we project in IT spending are the result of increased needs on our part rather than due to increased costs being imposed by ITD. For example, we project an increase of \$5,270 in data processing costs, mainly a result of our need for increased data ports for our soils program, interns and temporary help, along with new network equipment access.

Our telephone costs (phone hookups, long distance fees, etc.) will increase slightly – by just over \$1,200.

The North Dakota Geological Survey is a computer-intensive agency, with a large geographic information system capacity and a need for sophisticated map-making ability. We project a 22-percent increase in spending for computer software and supplies.

	Current	Requested	Increase/(Decrease)
Travel:	80,850	77,850	(3,000)

Increased motor pool costs will make it necessary for us to cut back on our field operations. We intend to cut our spending in this area by about \$3,000. Part of this cut relates to the fact that we will have one less FTE, so our total travel costs will be slightly lower. Cutting our field operations is a difficult decision because our regulatory programs require that we do field inspections and our geologic programs form the basis for our mission – much of what we do depends on the acquisition of basic field data.

With the possibility of rapidly increasing fuel costs, I think it's likely that motor pool costs will increase substantially during at least part of the upcoming biennium. In that case, we will have to curtail our field operations even further.

	Current	Requested	Increase/(Decrease)
Postal Costs:	10,500	9,000	(1,500)

Postal costs have increased recently and will likely rise further in the near future. Even so, we've projected a cut in postal costs of \$1,500, or eight percent in our 2003 - 2005 budget

because we expect to provide increasing amounts of data and reports on the Internet, rather than mailing them out.

	<i>Current</i>	<i>Requested</i>	<i>Increase/(Decrease)</i>
Building Rental Charges:	182,796	197,500	14,704

Rental costs for our office space will increase by 5 percent, from \$12.00/square foot to \$12.60/square foot. Our rented warehouse space will increase by 10 percent (we are currently paying \$3.90 for that space). We project that the total costs for our office and warehouse space will increase by \$14,704 for next biennium.

Our total projected operating budget for next biennium is \$570,903; therefore, the \$197,500 figure we project for rent for next biennium represents about 35% of our total operating budget. This compares to the 33% we are paying for rent during the current biennium).

During the 1999 - 2001 biennium, the percentage of our operating budget devoted to rent was 25%. In 1991, when I presented the North Dakota Geological Survey's budget for the 1991 - 1993 biennium, which was the first agency budget I prepared as state geologist, our total operating budget was \$400,412 and we paid \$66,959 in rent for the biennium. In other words, rent amounted to just under 17% of our total operating budget.

The amount of money we pay in rent has tripled in the past 12 years, while our operating budget has been nearly steady - and I haven't even mentioned inflation. This drastic erosion of our operating budget has made it increasingly difficult for us to do our job productively.

I'll go on to the other items in our operating budget.

	<i>Current</i>	<i>Requested</i>	<i>Increase/(Decrease)</i>
Insurance:	10,810	12,000	1,190

Certain insurance rates have recently taken a considerable jump since September of 2001. In order to minimize the impact on our budget, we increased the deductibles on some of our insured items. Our risk-management fees will increase. We project that our total insurance bill next biennium to increase by about \$1,190, or 11 percent.

	<i>Current</i>	<i>Requested</i>	<i>Increase/(Decrease)</i>
Printing:	40,200	36,200	(4,000)

The money we spend for printing is used primarily for publishing the results of our geologic studies. We expect to be making increasing amounts of information available on the Internet, and this will help us to decrease our printing costs somewhat. However, even though all of our industry-related clients probably have internet access (and a high order of computer literacy), many private citizens do not. For this reason we expect to continue providing paper-copy publications for the foreseeable future.

We expect two factors - a gradual switch to Internet technology and decreased agency output due to staff cuts - to outweigh anticipated generally increased costs for printing. Consequently, we have projected a decrease of \$4,000 next biennium in our overall printing costs.

And finally, I've listed the remaining items in our operating budget for which we project little or no change for next biennium.

Other Operating Expenses – (Either no change for next biennium or a small decrease)

	<i>Current</i>	<i>Requested</i>	<i>Increase/(Decrease)</i>
Utilities:	6,500	6,500	0
Lease/Rent Equipment:	1,000	500	(500)
Dues & Prof. Development:	6,000	6,000	0
Operating Fees & Services:	13,650	13,400	(250)
Repairs:	13,550	13,550	0
Prof. Services:	9,350	9,100	(250)
Office Supplies:	2,542	2,500	(42)
Prof. Supplies:	22,500	22,500	0
Food & Clothing:	0	0	0
Medical, dental, optical:	6,000	6,000	0
Bldg, Grnds, Vehicle mtce:	6,700	6,700	0

Equipment

	<i>Current</i>	<i>Requested</i>	<i>Increase/(Decrease)</i>
Office and Other Equipment Under \$5000:	5,000	1,309	(3,691)

We project a very small increase in the cost of office equipment (replacing worn-out chairs, etc.) – we haven't spent anything on office equipment during the current biennium. However, our spending for other equipment (mainly miscellaneous field equipment) will drop a sufficient amount to compensate for that small increase. The net result will be a decrease of about \$3,700.

	<i>Current</i>	<i>Requested</i>	<i>Increase/(Decrease)</i>
IT Equipment Under \$5000:	35,000	33,500	(1,500)

We expect to decrease our spending for IT equipment slightly, by \$1,500 next biennium. The amount we will be spending will include several replacement computers, battery back-ups, and printers.

**Capital Assets/IT Equipment
and Other Equipment:**

Current

Requested
22,500

Increase/(Decrease)
22,500

OMB introduced this new category for next biennium. For the NDGS, it amounts to \$22,500 and it will include a large plotter and wide-format color scanner. We also have to replace our obsolete (and nearly worn-out) photocopier.

Summary of Budget Considerations

I'd like to point out that the North Dakota Geological Survey is a net revenue producer for the State of North Dakota. Our studies result in oil and gas discoveries that result in large amounts of revenue to the State. Since I became state geologist in 1990, I've seen oil companies make discoveries, specifically based on information we provided them, that have resulted in millions of dollars in revenue to the State.

Considering only one of our major activities – identification of new prospects for oil and gas exploration – it should be pointed out that, over the past ten years, the North Dakota Geological Survey was directly responsible for:

- Identifying the potential for most of the oil-producing structures on the Billings Nose (one of our geologists named the Billings Nose, and pointed it out to industry);
- Identifying (and pointing out, in 1993) the potential of the Red River B Zone in Bowman County;
- Identifying (in 1979) and later publicizing the potential from the Lodgepole Formation in the Dickinson area.

Use of our Core and Sample Library collection routinely leads to discoveries of oil and gas. Even in times of low oil prices, companies use the resources in our core library in Grand Forks to explore for additional pay zones within existing fields. This information is also used to apply new technologies to enhance current oil recoveries.

Similar North Dakota Geological Survey contributions can be documented for the identification and development of other economic minerals in the State.

The geologic maps and reports we provide are used by industry to locate favorable areas for various mineral mines, including sand and gravel, coal, clay, volcanic ash, and other mineral commodities. A few years ago, the Kentucky and Illinois state geological surveys showed that geologic map products return between 7 and 55 times their initial cost to the taxpayer. What other Government program can make that statement?

When utilized by geotechnical consulting firms, municipalities, land developers, and others, our geologic maps can save money by preventing buildings, roads, transmission lines and pipelines from being located in areas of geologic hazards such as landslide-prone areas.

Certainly, it is safe to say that, as a result of Geological Survey contributions, the State of North Dakota realizes revenue each biennium that exceeds by many times the cost of funding the agency. We generate many times the amount of money that is provided to us to do our job.

ADDITIONAL INFORMATION

Background Information About the North Dakota Geological Survey

The green-colored sheet at the end of my testimony lists all of the Geological Survey's statutory duties.

Regulatory Responsibilities

The Geological Survey is not primarily a regulatory agency, but we have several specific regulatory duties which I have listed here:

- Oil well core and drill samples (+ other subsurface samples); Wilson M. Laird Core and Sample Library in Grand Forks
- Coal exploration - (holes drilled outside of mine permit boundaries)
- Geothermal resources - (nonresidential installations)
- Paleontological (fossil) resources - (oversee collecting of fossils on public lands)
- Subsurface minerals - (all mineral production other than oil and gas, sand and gravel, and coal)
- Class III injection wells (solution mining of subsurface minerals)
- Conflict resolution regarding subsurface mineral production.

We evaluate the occurrence and economic value of mineral resources on State of North Dakota land for the Land Department. This involves mainly oil and gas and coal. We evaluate the geologic suitability and impact on fossil resources of construction projects such as landfills, transmission and pipeline corridors

Technical Investigations

Economic Minerals Geology. Nearly all of our studies are intended to either directly or indirectly lead to future economic benefits to the State. Some of our activities increase our basic technical knowledge of the geology of North Dakota; some provide citizens with basic information about the State; some address environmental issues. Most of our work has potential economic impact.

About a third of our total agency effort is directed at understanding the geology of the rocks that produce oil and gas. We also identify and evaluate other economic minerals, such as clay, lignite, salt, potash, sodium sulphate, leonardite, cement rock, volcanic ash, and gravel. We identify, map, and evaluate areas prone to slumping and landsliding. We have recently responded to increased numbers of requests from companies seeking information about methane occurring in coal - coalbed methane.

Geochemical Mapping. We recently entered into an agreement with the U.S. Geological Survey to conduct a state-wide geochemical study of North Dakota. This is part of a nationwide effort to create a geochemical map of the United States to provide statistically valid, unbiased, background information about more than 20 elements, including arsenic, mercury, and selenium. We are collecting the samples from about 700 locations (samples collected on a ten-mile grid) across the State. The study will give us an enormous information base so we can accurately assess changes in the composition of sediments due to such things as agricultural practice, energy-plant emissions, and other factors.

Soils Compilation and Digitizing. Since 1997, we have employed four technical staff persons devoted exclusively to compiling and digitizing county soils maps for North Dakota (we began with five people, but lost one of the positions during the last legislative session). Until last year, the work involved manually compiling and scanning the soils maps, and digitizing the scanned product. We recently amended our technique, eliminating the drafting and scanning tasks and replacing them with a digital process. This task is now performed by a North Dakota company, Agri ImaGIS, with offices in Maddock and Fargo. We have completed about 70 percent of the State, and we expect to complete the work on time, in 2006, as we projected when the Legislature assigned the soils program to us in 1997.

Core and Sample Library. We collect and store all oil-well core and samples and make it available for study in our core and sample library. Most of the usage is by oil industry geologists and private consultants, as well as by our own geologists. We have a more complete collection of all the oil-well cores that have been cut in our State than does any other state. In fact, we have about 90 miles of core stored in our core library in Grand Forks, along with samples and cuttings representing about 100 million feet of drilling in North Dakota.

Our core collection is probably the most important scientific "tool" the State offers for promoting oil and gas exploration and development in North Dakota. Virtually all of the exploration for oil and gas that takes place in the State benefits from core studies done at our core library. Much of the exploration simply would not happen – nor would it be nearly as successful as it is – if the core wasn't available for study.

Annual Horizontal Drilling Conference. For the past ten years, we have worked closely with our counterparts in Saskatchewan, the Saskatchewan Energy and Mines, in organizing and running an annual Williston Basin Horizontal Well Conference. The workshops alternate between North Dakota and Saskatchewan. The Eleventh Annual Conference will be held in Regina, April 27 - 29. The Conferences have encouraged and enhanced horizontal drilling in the State and they have resulted in greatly increased Canadian oil-industry investment in North Dakota.

Geologic Mapping. The North Dakota Geological Survey's most basic and important task is to map the geology of North Dakota. Geologic mapping helps us to determine where our mineral resources are located, what they are worth, how they might be developed and how best to reclaim the land. Geologic mapping also helps us identify geologic hazards so we can deal with them effectively. And mapping is how we learn about North Dakota's geology, where the fossils are found, how and why our climate changes and has changed in the past, and any number of other earth-science issues.

Geologic mapping is so important to our nation's well-being that, in 1992, Congress passed a National Mapping Program. Congress has increased funding substantially for this program every year since. The money is provided exclusively to state geological surveys and most of the state surveys are utilizing the funding to the fullest. The money pays much of the cost of geologic mapping by those state geological surveys that are able to match the federal funding, generally in-kind.

We've been able to apply for only a portion of the National Mapping Program funding that is available to us because we don't have sufficient staff to do the work (or to provide the match). Since the program was initiated, we have received \$261,000 for geologic mapping in North Dakota, compared to an average of over \$600,000 for other states. I hope that we will eventually be able to add sufficient mapping geologists to our staff to utilize the funding that is available to us and enable us to accomplish more of the detailed geologic mapping that needs to be done in North Dakota.

Over the current biennium we have been mapping in both the northeastern corner (Cavaller and Pembina counties) and western part (Billings, McKenzie, Mercer, Morton, and Stark counties) of North Dakota. Our mapping in Billings and McKenzie counties has been mainly in landslide-prone, badlands topography adjacent to the North and South Units of the Theodore Roosevelt National Park. Mapping in Mercer, Morton, and Stark counties was conducted in response to the desire of the Hebron Brick Company to find a new source of brick clay. Based upon our fieldwork, we generated a map of the clay deposits in the area. We were able to show that much more clay occurs in the area than the brick company had been aware. We also conducted a tour of the area pointing out those clay deposits that appear to have the best potential for brick manufacture.

Lignite Resources. We completed and published the results of several coal projects during the current biennium. They included a 1:1,000,000 scale map of the strippable lignite reserves of western North Dakota along with 1:125,000-scale maps of the counties. The maps were well received due to the renewed interest in lignite generated by the Vision 21 program. We also published a thickness and contour map of the Harmon bed, the thickest lignite in the State. The map has generated considerable interest in the coalbed-methane potential in western North Dakota and has spurred mineral companies to lease in several counties and it led directly to about half of the dozen coalbed methane wells being drilled.

Public Outreach/Tourism

Last year we responded to about 5,000 requests for information about North Dakota geology. In addition, we have an extensive and heavily used Internet Home Page that provides a variety of geologic data and general information about North Dakota geology. In 2002, we had more than 135,000 hits per month on our web site.

Our geologists give a lot of public presentations. We produce a variety of educational materials, including guidebooks, maps, and other non-technical publications and exhibits. We work with the universities and colleges in North Dakota providing various kinds of earth-science information.

We have expanded our program of fossil digs in the State, allowing us to educate the public about North Dakota's geologic history and enabling more tourists and other individuals the opportunity to "dig" for fossils. These digs, so far in northeastern and southwestern North Dakota, have brought tourists to North Dakota, giving them a chance to experience our high quality of life.

Two of our geologists recently wrote a book on the geology along the Missouri River route followed by Lewis and Clark. The book will be released in June, 2003 by Mountain Press Publishing Company.

We operate the North Dakota Earth Science Information Center – ESIC for short – providing a variety of topographic and natural resource maps and other kinds of earth-science information to the public. Through our ESIC office, we act as a clearing house for the sale of air photos, topographic maps, and other kinds of maps. We sold about 6,000 maps last year – we tend to be especially busy during hunting season when people stop in our office to get topographic maps of their hunting areas.

We also operate North Dakota's global positioning system (GPS) base station at Bismarck State College. We recently converted the base station to a free, public-access facility. Use of the base station allows anyone using GPS equipment to be much more precise in their work.

Page 12

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Deanna Hall
Operator's Signature

10/30/03
Date



John P. Bluemle, State Geologist

North Dakota Geological Survey

INDUSTRIAL COMMISSION

John Hoeven - Governor, Chairman
Wayne Stenehjem - Attorney General
Roger Johnson - Commissioner of Agriculture

OVERVIEW OF THE NORTH DAKOTA GEOLOGICAL SURVEY

John P. Bluemle

Testimony Prepared for the Senate Appropriations Committee
March 31, 2003

Introduction

The North Dakota Geological Survey has three main responsibilities:

- 1) We investigate and report the geology of North Dakota. We emphasize the state's energy resources, but we also stress topics leading to economic benefits or quality-of-life improvements for residents of the state;
- 2) We provide public service by collecting and disseminating geologic and map-related information; and
- 3) We administer regulatory programs for the North Dakota Industrial Commission and we act in an advisory capacity to other state, federal, and local agencies.

Geologic Investigations

The North Dakota Geological Survey was formed 108 years ago. Since that time, we have stressed various economic problems at different times. Many (but not all) of our activities have related to natural-resource issues.

Most of our earliest efforts at understanding the geology of economic minerals, in the late 19th and early 20th centuries, were concentrated on the state's lignite resources. Our work eventually led to the development of an important lignite mining industry in the state.

Similarly, before oil was discovered in North Dakota, we devoted considerable early effort toward understanding the geology of potential oil and gas resources. Oil was discovered in 1951 and, since then, our petroleum geologists have continued to research the oil-and-gas bearing formations, leading to discoveries in new areas, at new depths, or using new technologies.

Our overall activities are broad and they are varied. I'll summarize some of them.

Page 1

600 East Boulevard Avenue ♦ Bismarck, North Dakota 58505-0840 ♦ Phone (701) 328-8000 ♦ Fax (701) 328-8010

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10/30/03
Date

Geologic Mapping. Our most basic task is to map the geology of North Dakota. Geologic mapping is how we learn about North Dakota's geology. Mapping is how we determine where our mineral resources are located, what they are worth, how they might be developed, how best to reclaim the land. Mapping helps us identify geologic hazards so we can deal with them effectively.

Paleontology. We are involved in a variety of studies relating to North Dakota's fossil resources. We maintain the State Fossil Collection at the North Dakota Heritage Center, and we prepare specimens for display – they include the mastodon, the mosasaur, and dinosaur specimens we have prepared for display in the Heritage Center. We work with museums across North Dakota, providing displays of North Dakota fossil specimens. We have conducted fossil "digs" in the northeastern and southwestern parts of the State, and these have attracted participants from as far away as Europe.

Soils Compilation and Digitizing. The Legislature assigned this responsibility to us in 1997. We initially employed five technical staff persons, devoted exclusively to compiling and digitizing county soils maps for North Dakota; one of these was taken away in 2001.

Annual Horizontal Drilling Conference. For the past eleven years, we have worked with our counterparts in Saskatchewan, the Saskatchewan Industry and Resources, organizing and running an annual Williston Basin Horizontal Well Conference, which attracts between 300 and 800 oil-industry people each year. The conference alternates between North Dakota and Saskatchewan – the next one will be in Regina in April (among the 20 or so talks at this conference, I will be giving one on the possibility of finding commercial quantities of shallow natural gas in glaciated areas in eastern North Dakota).

Other Recent and Ongoing Studies.

Here are some studies our geologists have recently been involved in:

- We are studying the sedimentation of stock ponds in the Little Missouri National Grassland to determine rates of erosion in badlands and grasslands environments.
- We did geologic studies of the Devils Lake area, for the Water Commission and other state agencies, determining how often the lake has overflowed, how often it has dried up – how it has behaved in the past, and how it might be expected to behave in the future, under natural conditions. Our results were used as legal justification for removing six inches of sediment from an outlet so that water could more freely flow from the lake.
- We provided a detailed geologic analysis of the flooding problem in the Red River

Valley, especially the Grand Forks area. This study was selected for an annual award as the best environmental study by any state geological survey.

- We are currently working with the U.S. Geological Survey, the North Dakota Health Department, the U.S. Natural Resources Conservation Service, NDSU, and other agencies, in conducting a state-wide, baseline geochemical study of North Dakota.
- We are studying the Red River B Cedar Hills Field in Bowman County to understand production patterns and mechanisms in this giant oil field.
- At the request of the Department of Economic Development and Finance, we recently provided a geologic derivative map showing the location and extent of a potentially economic mineral deposit in south-central North Dakota.
- We are analyzing the natural hazards, especially landslide problems, in North Dakota and providing the results of our studies to the Division of Emergency Management, the Department of Transportation, local governmental entities, etc.
- We are part of an international group evaluating the potential of sequestering (permanently storing) carbon dioxide in oil fields, while at the same time increasing the amount of oil produced from the field (Weyburn CO₂ Sequestration Project).
- We recently evaluated the integrity of all of the landfills operating in North Dakota.
- At the request of the Hebron Brick Plant, we were able to identify a new clay deposit so they could continue their operations without interruption.

In order for us to accomplish such a great variety of kinds of studies, we employ a staff of geologists, all of whom have either MS or PhD degrees, and are expert in a wide range of geologic disciplines.

Public Outreach Service

Our second major responsibility relates to public service.

Requests for Information. Last year we responded to about 5,000 requests for information about North Dakota geology. In addition, our Internet Home Page provides a variety of geologic data and general information about North Dakota geology. In 2002, we had more than 135,000 hits per month on our web site.

Educational Materials. We produce a variety of educational materials – guidebooks, maps, and non-technical publications and exhibits. We work with the universities and colleges in North Dakota, and with the schools, providing various kinds of earth-science information. Our geologists give a lot of public presentations at schools, service clubs, and as field trips.

Two of our geologists recently wrote a book on the geology along the Missouri River route followed by Lewis and Clark when they were in North Dakota. It will be released in June, 2003 and I expect it to be popular with nature-oriented tourists following the Lewis & Clark trail.

Earth Science Information Center. We operate the North Dakota Earth Science Information Center – ESIC for short – providing a great variety of topographic and natural resource maps and other kinds of earth-science information to the public. We act as the state's clearing house for the sale of air photos, topographic maps, and other kinds of maps. We sold about 6,000 maps last year – we tend to be especially busy during hunting season when people stop in our office to get topographic maps of their hunting areas.

GPS Base Station. We operate North Dakota's global positioning system (GPS) base station at Bismarck State College. We recently converted the base station to a free, public-access facility. Use of the base station allows anyone using GPS equipment to be much more precise in their work.

This list is incomplete, but the point is that our activities are broad. Our geologists work on a great variety of topics that benefit North Dakota in a variety of ways – from economic, to environmental, to general-interest topics.

I'll close by listing our regulatory responsibilities:

Regulatory Responsibilities

Formal Regulatory Duties.

- Oil well core and drill samples (+ other subsurface samples); Wilson M. Laird Core and Sample Library in Grand Forks
- Coal exploration – (holes drilled outside of mine permit boundaries)
- Geothermal resources – (nonresidential installations)
- Paleontological (fossil) resources – (oversee collecting of fossils on public lands)
- Subsurface minerals – (all mineral production other than oil and gas, sand and gravel, and coal)

- Class III injection wells (solution mining of subsurface minerals)
- Conflict resolution regarding subsurface mineral production

Additionally, the State Geologist provides geologic advice to a number of boards, councils, and committees such as:

Air Pollution Control Council
 Water Pollution Control Council
 Lignite Research Council
 Non-Point Source Pollution Council
 Pesticide Task Force
 Emergency Preparedness Subcommittee.

Summary

Our mission is broad, and our activities are highly varied. The studies our geologists do result in either immediate or in future benefits to the State. Some of our work increases our basic technical knowledge of the geology of North Dakota; some provides citizens with basic information about the State; some addresses environmental issues.

The work we do is vitally important for the future of North Dakota. Much of our work has potential economic impact – sometimes substantial. Our geologists' work resulted directly in the recent Lodgepole oil play at Dickinson, and in the current Red River B play in Bowman County. All three of the Vision 21 Lignite projects selected their proposed lignite mine sites based upon geologic information from our agency. On the other hand, the results of our work sometimes takes many years to see fruition. For example, work by early North Dakota Geological Survey geologists resulted in the eventual formation of a lignite industry in the state, and of a clay (brick) industry.

Deanna G. Ballantyne
 Operator's Signature

10/30/03
 Date

NORTH DAKOTA GEOLOGICAL SURVEY ACTIVITIES

CONTENTS

General Activities Page 1

- A. Geologic Mapping
- B. Mineral Resource Studies
 - 1. Sand and gravel
 - 2. Volcanic ash
 - 3. Uranium
 - 4. Leonardite
 - 5. Potash
 - 6. Sulfur
 - 7. Glauber Salt
 - 8. Peat
 - 9. Cement Rock
 - 10. Others as they arise
- C. Coal Studies
- D. Sedimentation Studies
- E. Geochemical Mapping
- F. Paleontology
- G. Devils Lake Studies
- H. Flooding Studies
- I. Climate Change and Variability Studies
- J. Landslides
- K. Landfills
- L. Soils Compilation and Digitizing

Oil and Gas Studies Currently Underway Page 2

- A. Annual Horizontal Drilling Conference
- B. Red River B
- C. "Show" Map
- D. North Dakota Land Department
- E. Deep Gas Study
- F. Bakken Play
- G. CO₂ Injection

Some of the Geological Survey's Ongoing Duties Page 3

- A. Earth Science Information Center (ESIC)
- B. GPS Base Station
- C. Educational Materials
- D. State Science Standards
- E. Requests for Information

Regulatory Responsibilities of the State Geologist Page 3

Committees, Councils and Boards on which the State Geologist serves Page 3

Summary Page 4

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NORTH DAKOTA GEOLOGICAL SURVEY ACTIVITIES

The Activities of the Geological Survey are broad and highly varied. I've provided a brief summary - JPB

Geologists

John Bluemle, PhD
Mark Gonzalez, PhD
Julie LeFever, MS

Randolph Burke, PhD
Tom Heck MS
Lorraine Manz PhD

Paul Diehl, PhD
John Hoganson, PhD
Ed Murphy, MS

General Activities

Geologic Mapping. Our most basic task is to map the geology of North Dakota. Geologic mapping is how we learn about North Dakota's geology. Mapping is how we determine where our mineral resources are located, what they are worth, how they might be developed, how best to reclaim the land. We are now producing high-tech digital maps and geologic databases.
[Mark Gonzalez, Lorraine Manz, Ed Murphy]

Mineral Resources. Our geologists map, evaluate, and promote such things as sand and gravel, volcanic ash, uranium, salt, leonardite, potash, sulfur, glauber salt, peat, cement rock and other current and potential resources. For example, at the request of the Hebron Brick Plant, we were recently able to identify a new clay deposit so they could continue their operations without interruption. Last month we provided detailed geologic information to a client interested in developing North Dakota's volcanic ash resource.
[Ed Murphy, Mark Gonzalez, Lorraine Manz, John Bluemle, Tom Heck]

Coal Studies We produced 22 Mineral Resource Maps in 2001 and 2002. *These maps are the single most important data used by industries involved in Lignite Vision 21 Project.* The program is aimed at opening new coal mines and coal-fired plants in North Dakota. [Ed Murphy]

Sedimentation Studies. We are studying the sedimentation of stock ponds in the Little Missouri Grassland to determine rates of erosion in badlands and grasslands environments. [Mark Gonzalez]

Geochemical Mapping. We are doing a state-wide geochemical study of North Dakota. This will provide detailed, baseline information about the natural geochemistry. [Lorraine Manz]

Paleontology. We are involved in studies relating to North Dakota's fossil resources. We maintain the State Fossil Collection at the North Dakota Heritage Center, and we prepare specimens for display for museums across the state. [John Hoganson]

Devils Lake Geology. Our recent and ongoing studies of the Devils Lake area have determined how often the lake has overflowed, how often it has dried up - how it has behaved in the past, and how it might be expected to behave in the future, under natural conditions. Our results were used as legal justification by the State Water Commission for removing six inches of sediment from an outlet so that water could more freely flow from the lake. [Ed Murphy, John Bluemle]

Flooding. We provided a detailed geologic analysis of the flooding problem in the Red River Valley, especially the Grand Forks area. This study was selected for an annual award as the best environmental study by any state geological survey. [Julie LeFever, John Bluemle]

Climate Change and Variability. We are evaluating the severity, duration, frequency of drought and wet cycles. This provides essential understanding of how to manage the Missouri River, Lake Sakakawea, Devils Lake, and other water bodies in the state. [John Bluemle, Ed Murphy, Mark Gonzalez]

Landslides. North Dakota has more landslide-prone land than any other state except Alaska We are analyzing natural hazards such as landslide problems, in North Dakota and providing the results of our studies to the Division of Emergency Management, the Department of Transportation, local governmental entities, etc. [Ed Murphy]

Landfills. We have evaluated the geologic integrity of all of North Dakota's landfills. [Ed Murphy]

Soils Compilation and Digitizing. The Legislature assigned soils responsibility to us in 1997. We initially employed five technical staff persons, devoted exclusively to compiling and digitizing county soils maps for North Dakota; one of these was taken away in 2001. [Supervised by Ed Murphy]

Oil and Gas Studies Currently Underway

[Because there has been recent Legislative concern about projects involving our petroleum geologists, I have briefly described several important studies and activities by these people]

Annual Horizontal Drilling Conference. For the past eleven years, we have worked with our counterparts in Saskatchewan, organizing, hosting and running an annual Conference, which attracts between 300 and 800 oil-industry people each year. Next one is late April, 2003. [Paul Diehl, John Bluemle]

Red River B. We are studying the Red River B Cedar Hills Field in Bowman County to understand production patterns and mechanisms in this giant oil field to make it possible to get more oil out of the field, over a longer period of time. [Paul Diehl]

"Show" Map. This map will show which wells drilled in the recent past showed indications of oil but for which there was no follow-up. We did something similar many years ago, and it resulted in a large number of new discoveries. [Tom Heck]

North Dakota Land Dept. At the request of the State Land Department, we are currently evaluating a proposed unit for TR Field in Billings County. [Tom Heck, Paul Diehl, Julie LeFever, Randolph Burke]

Deep Gas study. We are working on a deep-gas study to determine the exploration potential in the central part of the Williston Basin (Canadian border, south to the Dickinson area).

Bakken Play. We are studying how the current, successful Montana-Bakken play may be extended into North Dakota. [Julie LeFever]

CO₂ injection. We are studying secondary recovery techniques using carbon dioxide injection (secondary recovery is a way to get more oil out of the ground). Our studies have already provided a new source of income for Dakota Gasification Plant and other coal-fired power plants in North Dakota. [Randolph Burke, Paul Diehl, Tom Heck, Julie LeFever]

Some of the Ongoing Duties of the North Dakota Geological Survey

Earth Science Information Center (ESIC). We operate the North Dakota Earth Science Information Center, providing a great variety of topographic and natural resource maps and other kinds of earth-science information to the public. We sold about 6,000 maps last year. [Lorraine Manz]

GPS Base Station. We operate North Dakota's global positioning system (GPS) base station at Bismarck State College. Use of this free, public-access facility allows anyone using GPS equipment to be much more precise in their work (precision farming, surveying, etc.). [Tom Heck]

Educational Materials. We produce a variety of educational materials – guidebooks, maps, and non-technical publications and exhibits. We work with the schools, providing various kinds of earth-science information. Our geologists give 40 to 50 public presentations each year at schools, service clubs, and as field trips. [Lorraine Manz, John Hoganson, Ed Murphy, Tom Heck]

State Science Standards. Our staff has a major role in writing the state science standards for the Department of Public Instruction. [Mark Gonzalez]

Requests for Information. Last year we responded to about 5,000 requests for information about North Dakota geology (letters, e-mail, phone, and personal visits). Our Internet Home Page provides a great variety of geologic data and general information about North Dakota geology. This year we are averaging more than 155,000 hits per month on our web site. [Staff]

Regulatory Responsibilities of the State Geologist

- Oil well core and drill samples (+ other subsurface samples); Wilson M. Laird Core and Sample Library in Grand Forks [Julie LeFever, Tom Heck]
- Coal exploration – (holes drilled outside of mine permit boundaries) [Ed Murphy]
- Geothermal resources – (nonresidential installations) [Mark Gonzalez]
- Paleontological (fossil) resources – (oversee collecting of fossils on public lands) [John Hoganson]
- Subsurface minerals – (all mineral production other than oil and gas, sand and gravel, and coal) [Ed Murphy]
- Class III injection wells (solution mining of subsurface minerals) [Ed Murphy]
- Conflict resolution regarding subsurface mineral production. [John Bluemel]

State Geologist's Committees, Councils, and Boards

Permanent

Air Pollution Control Council
Water Pollution Control Council
Lignite Research Council
Non-Point Source Pollution Council
Pesticide Task Force
Emergency Preparedness Subcommittee.

Others, ad hoc, from time to time

(All of these councils, committees, etc. require extensive geologic expertise (PhD or MS at a minimum))

Summary

Every state, and also Puerto Rico and Guam, has a state geologist and a geological survey – Massachusetts is in the process of reestablishing its geological survey.

The size and role of the state geological surveys reflect the needs of the individual states, and the tasks that have been assigned to the surveys. No two state surveys are quite alike.

The mission of the North Dakota Geological Survey is broad, and our activities are highly varied. The studies our geologists do result in either immediate or in future benefits to the State. Some of our work increases our basic technical knowledge of the geology of North Dakota; some provides citizens with basic information about the State; some addresses environmental issues. All of it is valuable.

STATEMAP, a major national geologic mapping effort funded with federal money, is available only to bona fide state geological surveys. The North Dakota Geological Survey has taken advantage of this program since its inception in the early 1990s.

The work we do is vitally important for the future of North Dakota. Much of our work has potential economic impact. Our geologists' work resulted directly in the recent Lodgepole oil play at Dickinson, and in the current Red River B play in Bowman County – without the work of our geologists neither of these would have happened. All three of the Vision 21 Lignite projects selected their proposed lignite mine sites based upon geologic information from our agency. The results of our work sometimes take years to see fruition. Work by early North Dakota Geological Survey geologists resulted in the eventual formation of

- a lignite industry
- a clay (brick) industry
- a petroleum industry.

In an unaudited estimate of our agency's work, the Survey generates a 50- to 100-fold increase in economic activity and benefits for every dollar it spends in its operating budget. Few, if any other, agencies can match this success and degree of contribution to the State of North Dakota.

C:\My Documents\Survey Accomplishments.415.wpd

Page 4

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Deanna Ballra
Operator's Signature

10/30/03
Date

House Bill 1015
House Appropriations Committee
Testimony By
Lynn D. Helms
Director
Oil & Gas Division
North Dakota Industrial Commission



Mr. Chairman and members of the committee, my name is Lynn Helms and I am the Director of the Oil & Gas Division of the North Dakota Industrial Commission.

SERVICES PROVIDED

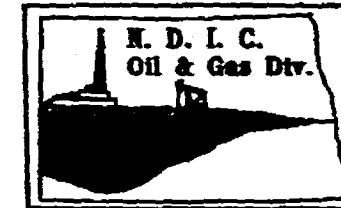
The Oil & Gas Division is the agency that provides the technical expertise needed for creating and enforcing statutes, rules, regulations, and orders of the Industrial Commission pertaining to geophysical exploration, drilling, development, production of oil and gas, and disposal of oil field brine and other oil field wastes.

To accomplish this, the Oil & Gas Division maintains a staff of technical people trained in engineering, geology, field enforcement, and data acquisition, compilation, and analysis.

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Operator's Signature *Lynn D. Helms*

10/30/03
Date



The Oil & Gas Division maintains an office in Bismarck with a current staff consisting of myself, the Assistant Director, 1 Field & Reclamation Supervisor, 1 Horizontal Drilling & Underground Injection Control Manager, 1 Geophysical Program Supervisor, 1 Underground Injection Control Supervisor, 1 Horizontal Drilling Supervisor, 1 Geologist, 1 Petroleum Engineer, and 2 Data Processing Coordinators. This group provides technical support for the Industrial Commission, and other state agencies, along with the acquisition and analysis of geological, production, and reservoir data required for decision making with respect to drilling, well spacing, unitization, protection of correlative rights, and underground injection control. The Bismarck office staff also includes 12 clerical and support persons who compile, store, and access geophysical exploration, production, and well information data for dissemination to other governmental agencies (State Auditor's Office, State Tax Department, State Health Department, State Land Department, OMB, and counties), industry, royalty owners, and the public.

The Oil and Gas Division has field offices in Minot, Williston, and Dickinson. These offices provide each field inspector with a laptop computer for access to our database, phone facilities, well and log files, and office space for preparing paper work and meeting with individuals from industry or the public. The field inspection staff consists of 15 full time positions.

Thirteen field inspectors oversee the operation of approximately 5,000 producing, brine injection, shut-in, and temporary abandoned wells. They are also responsible for monitoring drilling operations on approximately 150 new wells per year; proper plugging, abandonment, and reclamation of approximately 100 wells and well sites per year; and inspection of approximately 3,000 producing facilities each month.

Special technical oversight is provided for underground injection of oil field brines and other fluid wastes under a program delegated to the Oil & Gas Division from the EPA. Approximately 55-60% of production in the state is from Enhanced Oil Recovery (EOR) projects involving underground injection. In addition North Dakota oil and gas wells produce over 95 million barrels of brine per year that must be re-injected in a manner that will protect North Dakota's fresh water resources.

One full time field inspector position is assigned to supervise and witness meter proving on over 270 oil and 1,500 gas meters.

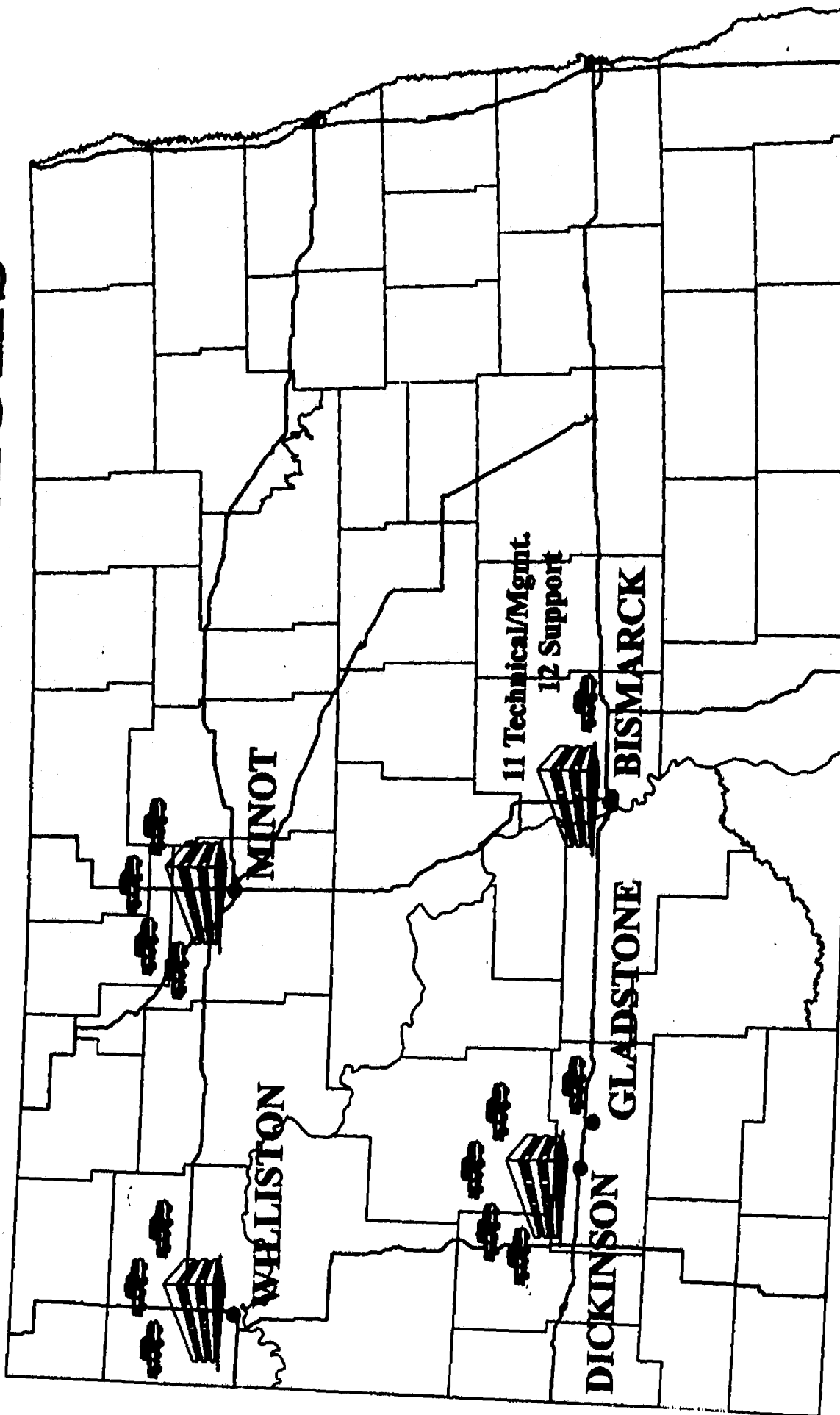
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10/30/03
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Oil and Gas Division Service Locations



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Deanna Ball

10/30/03

Date



Regulation of geophysical exploration by the Oil & Gas Division began July 1, 1997. One full time field inspector and one program coordinator in the Bismarck office oversee seismic programs involving over 200 square miles and 15,000 drill holes each year.

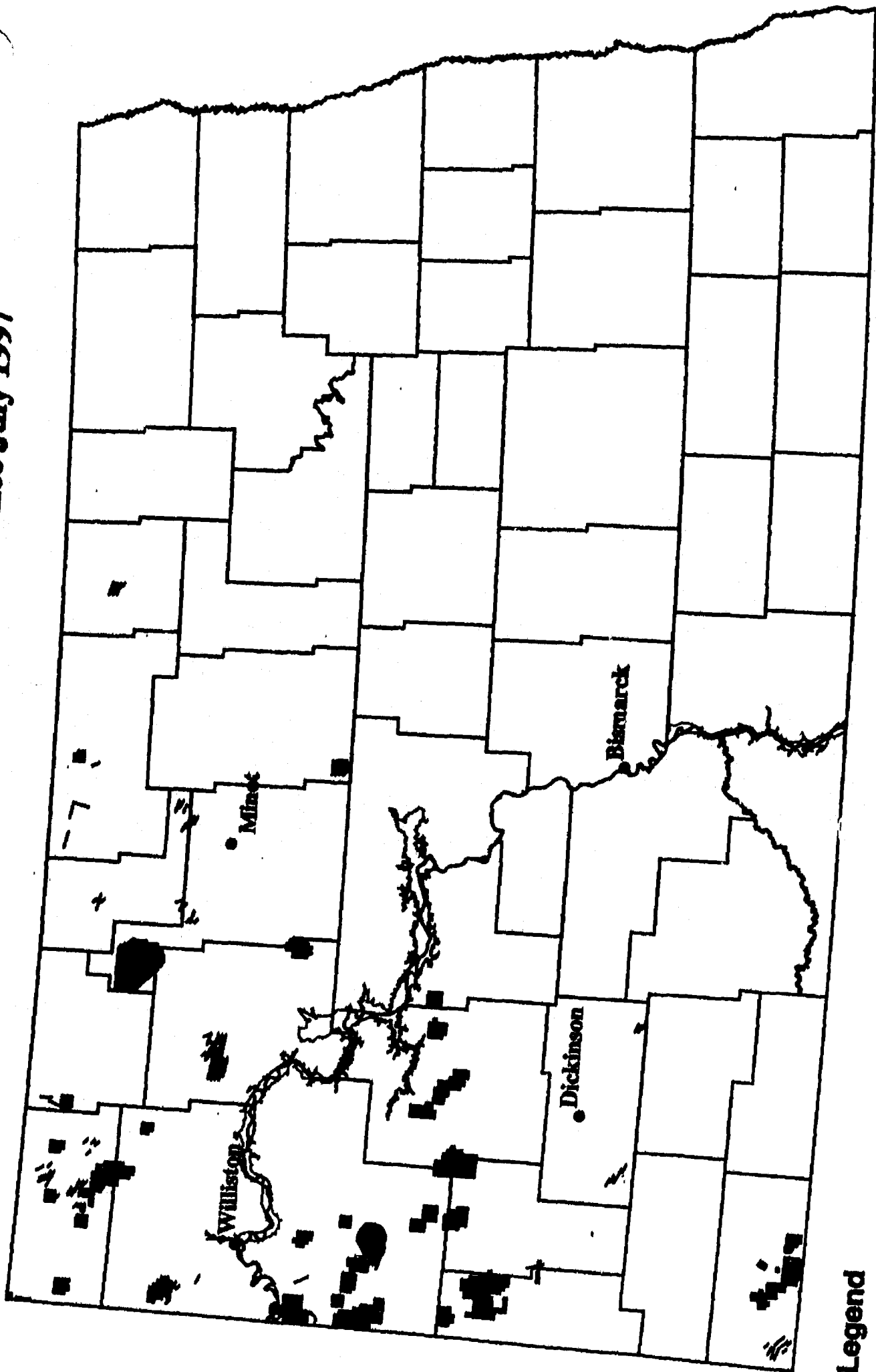
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[Handwritten Signature]

10/30/03
Date

Seismic Programs Permitted Since July 1997



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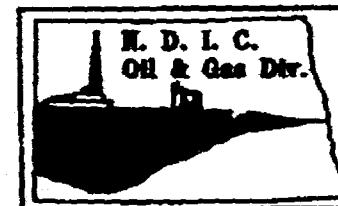
Legend

- seismic 2d
- 3d seismic

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10/30/03
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AGENCY STATISTICAL DATA

The Oil and Gas Division utilizes a series of performance measures to evaluate and improve our programs. The measures were developed through an Interstate Oil and Gas Compact Commission project that involved a consultant, the oil and gas Directors from Alaska and Indiana, as well as myself. These measures are presented in the following 7 charts.

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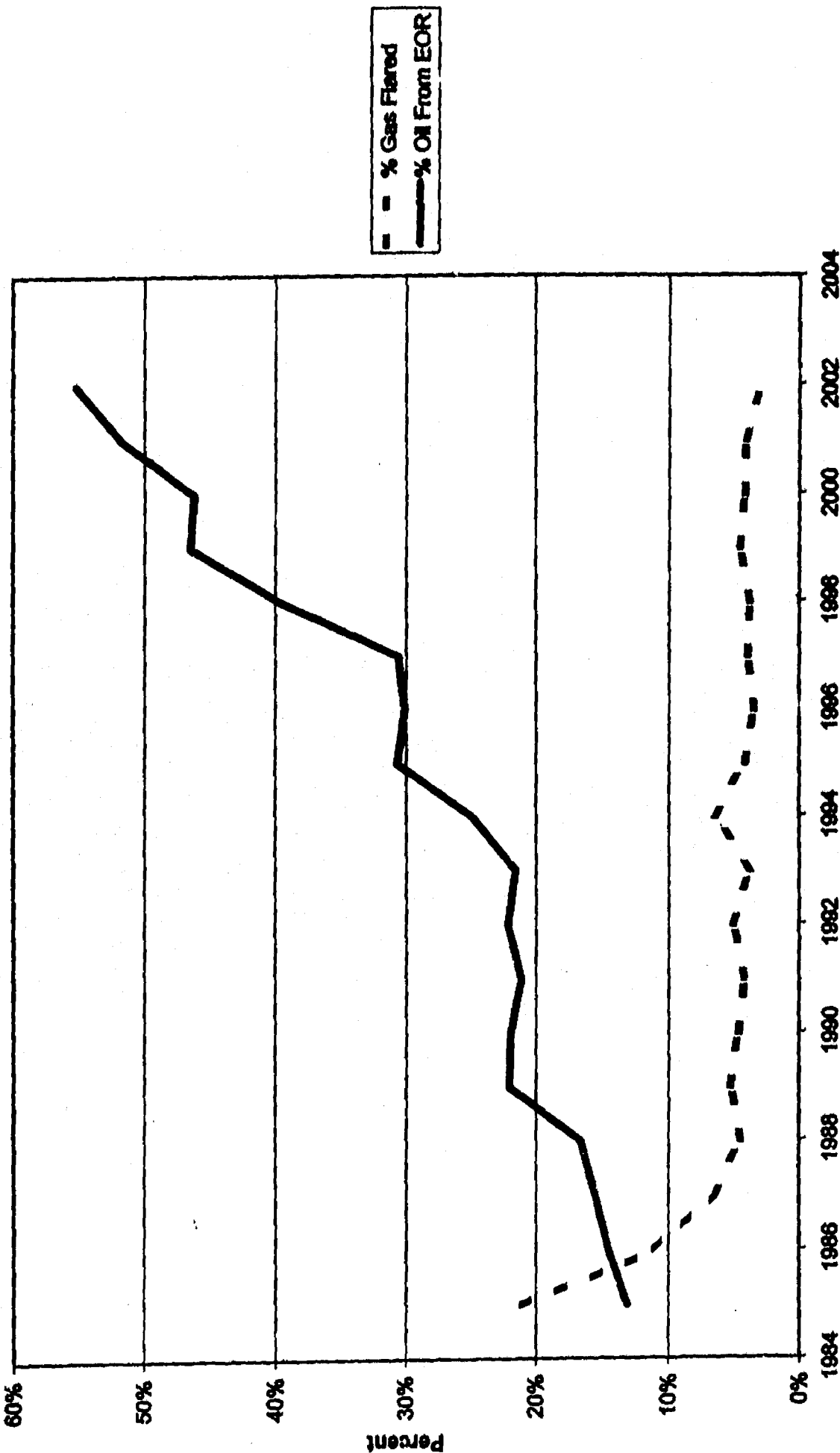
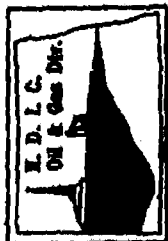
Operator's Signature

Deanna J. [Signature]

10/30/03
Date

Conservation

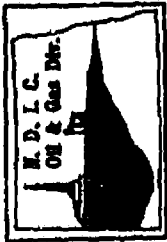
The Oil and Gas Division prevents waste and protects correlative rights. Two methods are Enhanced Oil Recovery (EOR) and gas flaring restrictions.



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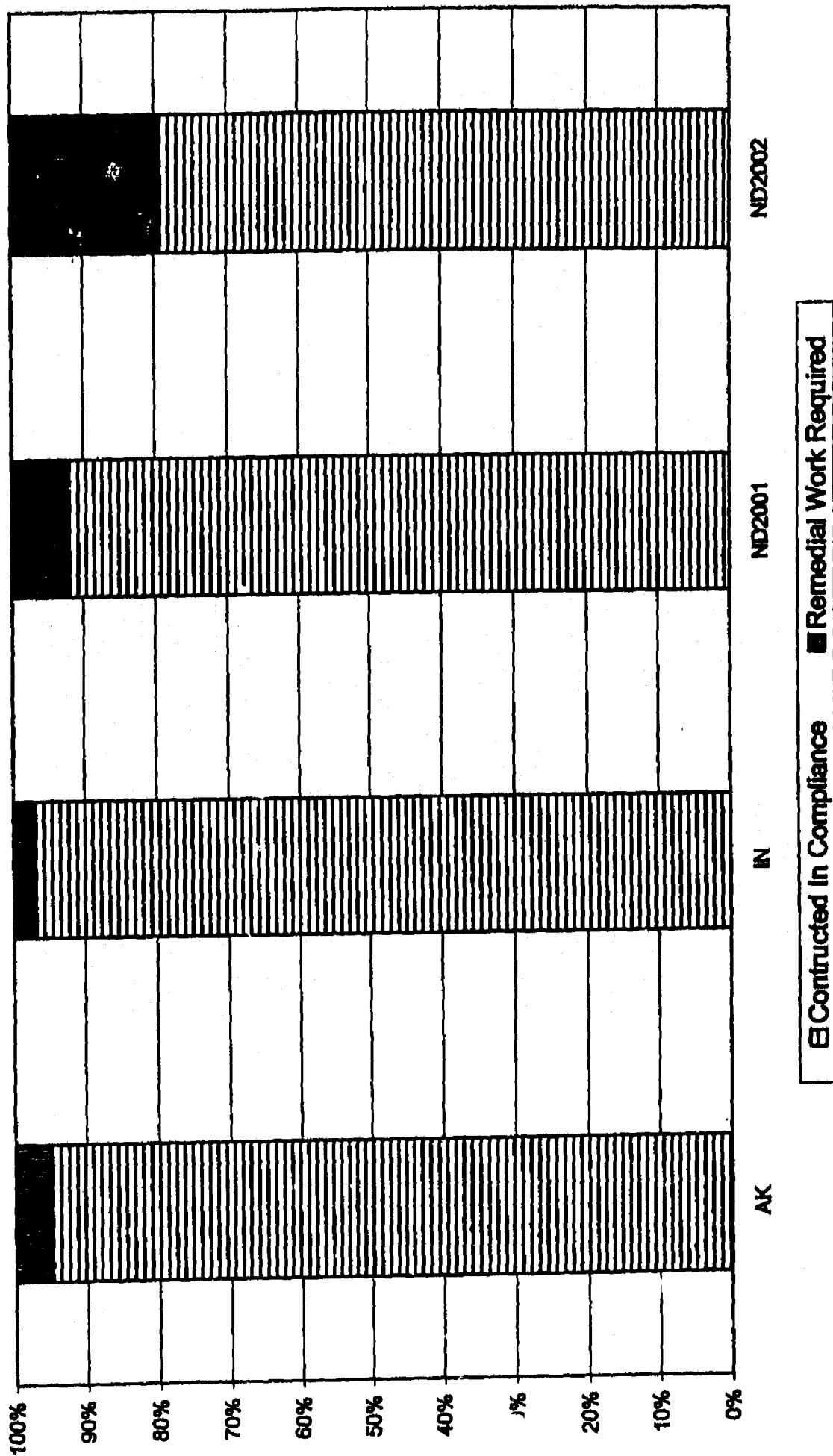
Operator's Signature *Deanna G. Ball*

Date 10/30/03



Well Construction

The Oil and Gas Division has well construction rules to protect underground drinking water.
Without this program 10-20% of new North Dakota wells could be leaking.



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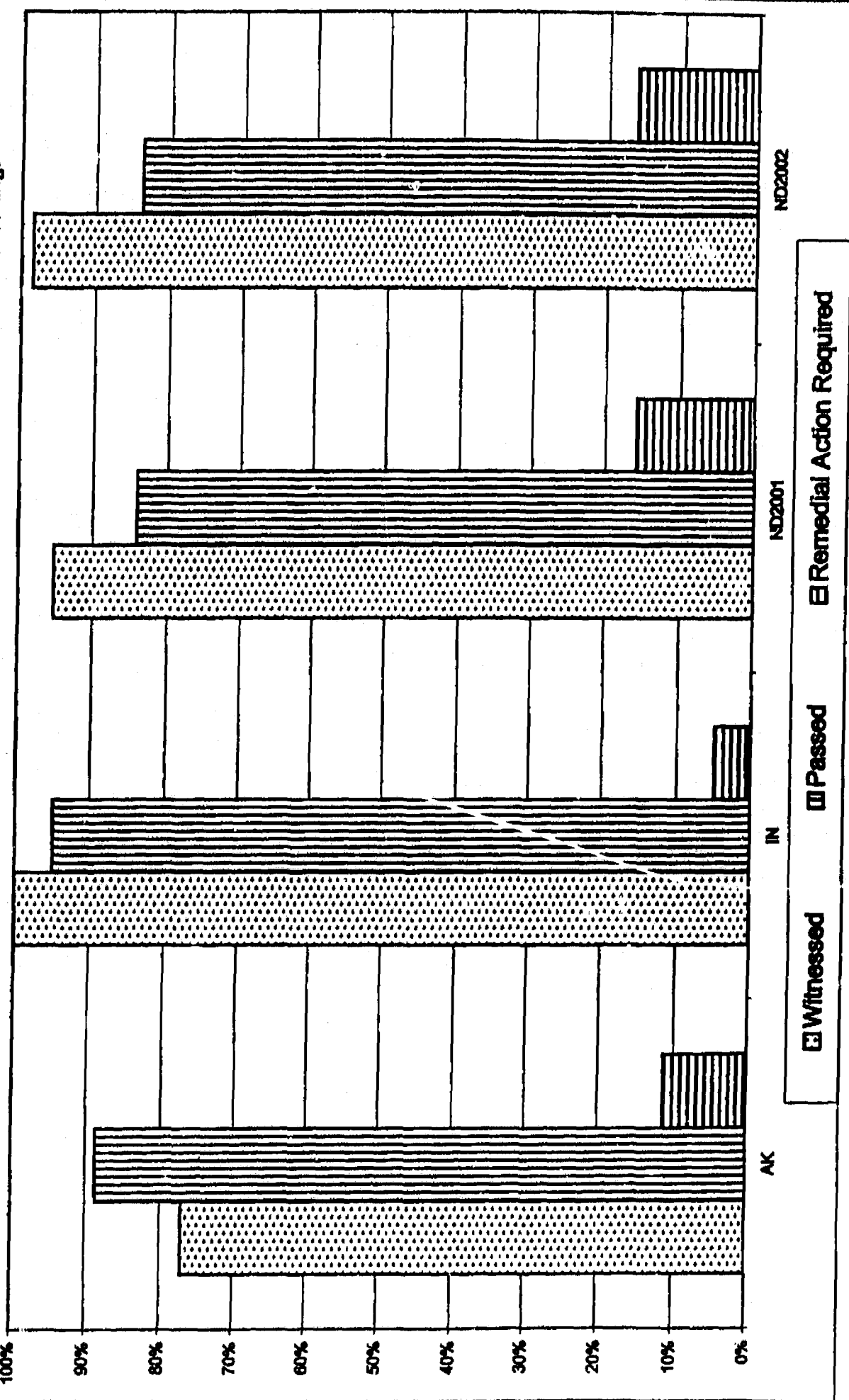
Deanna Ball

10/30/03

Date

Mechanical Integrity Tests

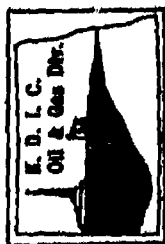
The Oil and Gas Division witnesses a very high percentage of tests.
Without this program 15% of North Dakota injection and temporary abandoned wells could be leaking.



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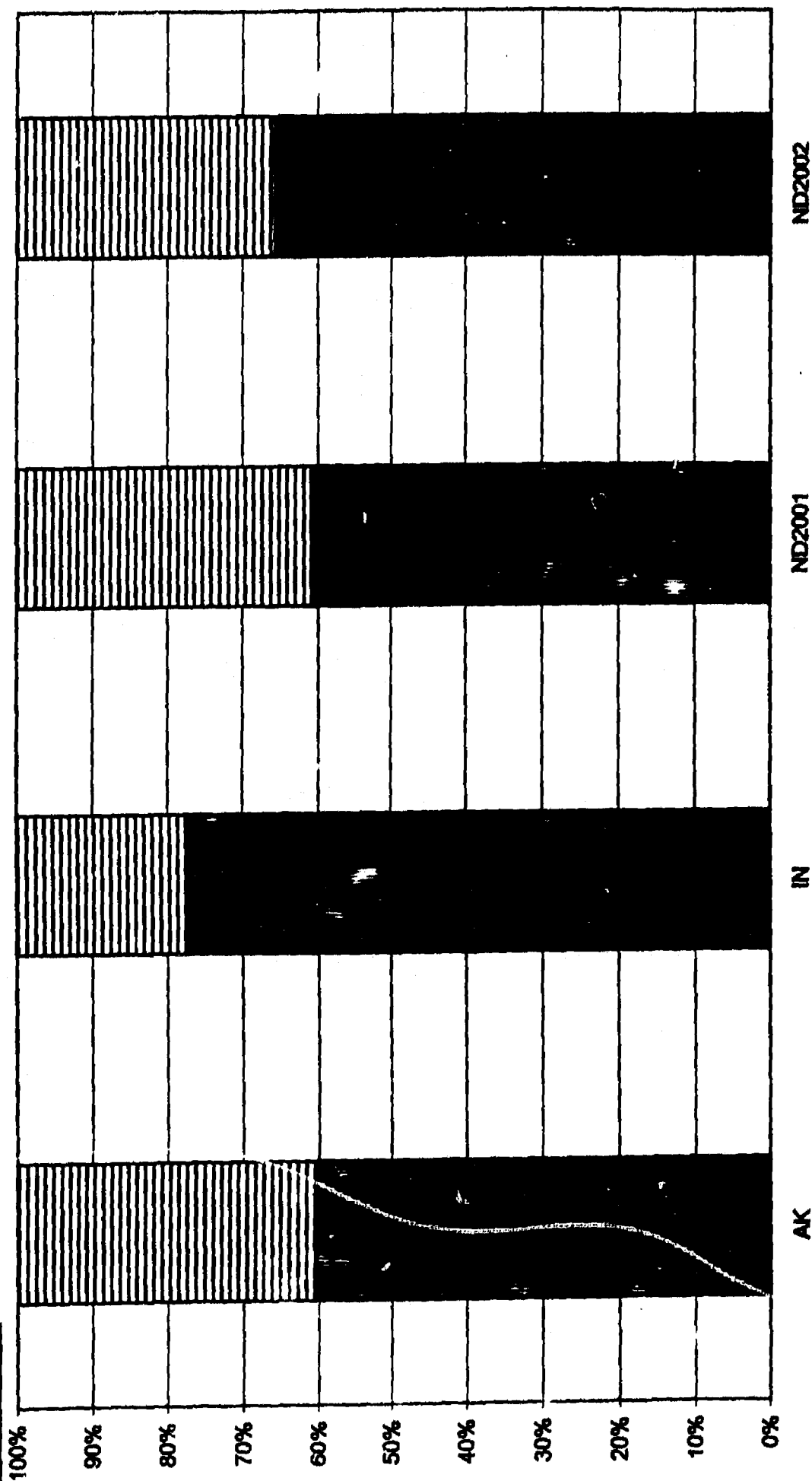
Deanna G. Hallmark
Operator's Signature

10/30/03
Date



Surface Spills

The Oil and Gas Division regulates spill containment through diking and site construction rules.



■ contained ▨ not contained

10

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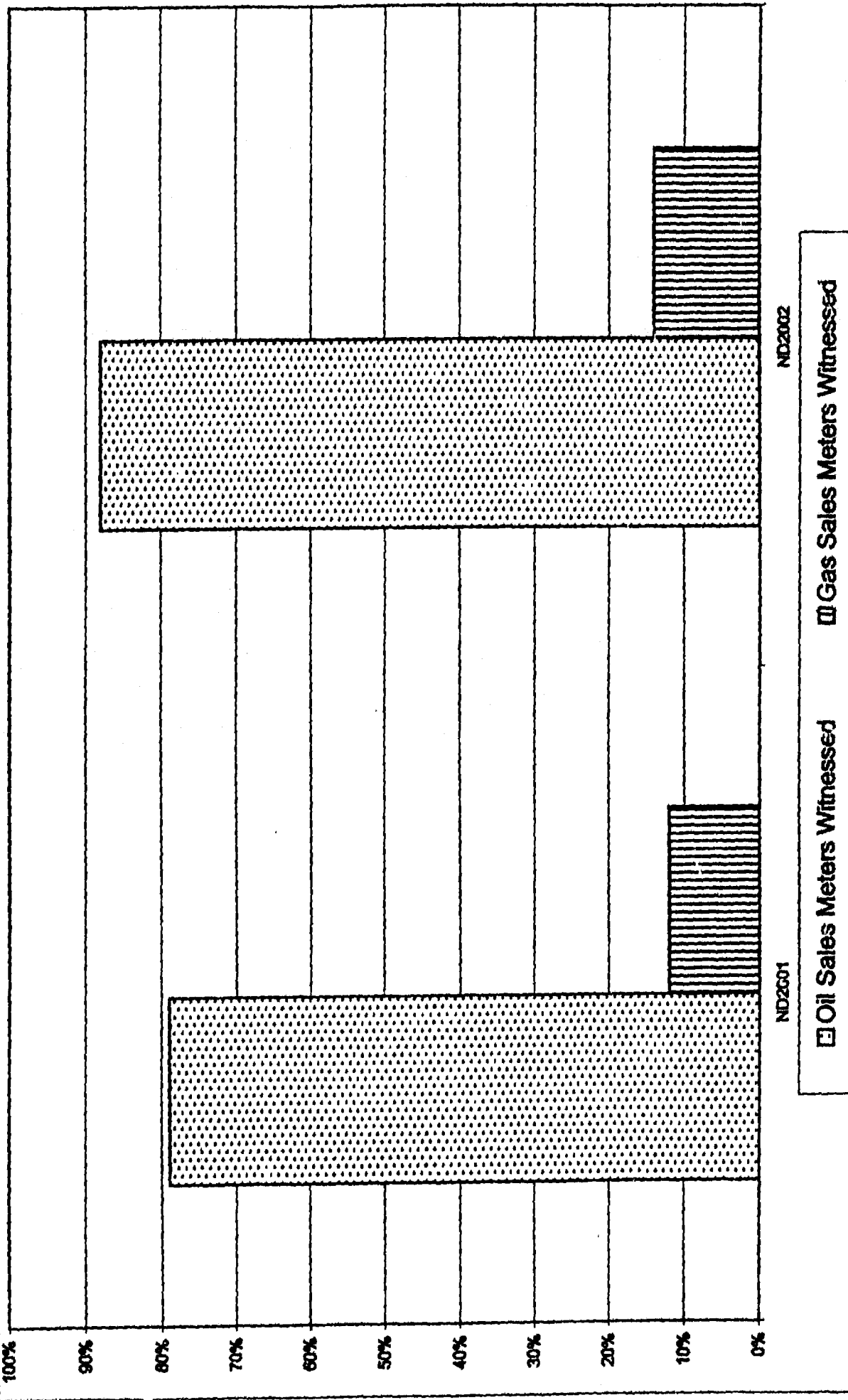
Dennis G. Hill

10/30/03

Date

Sales Meter Tests

The Oil and Gas Division regulates oil and gas meter accuracy and royalty owner information.
We witness a high and increasing percentage of sales meter tests.



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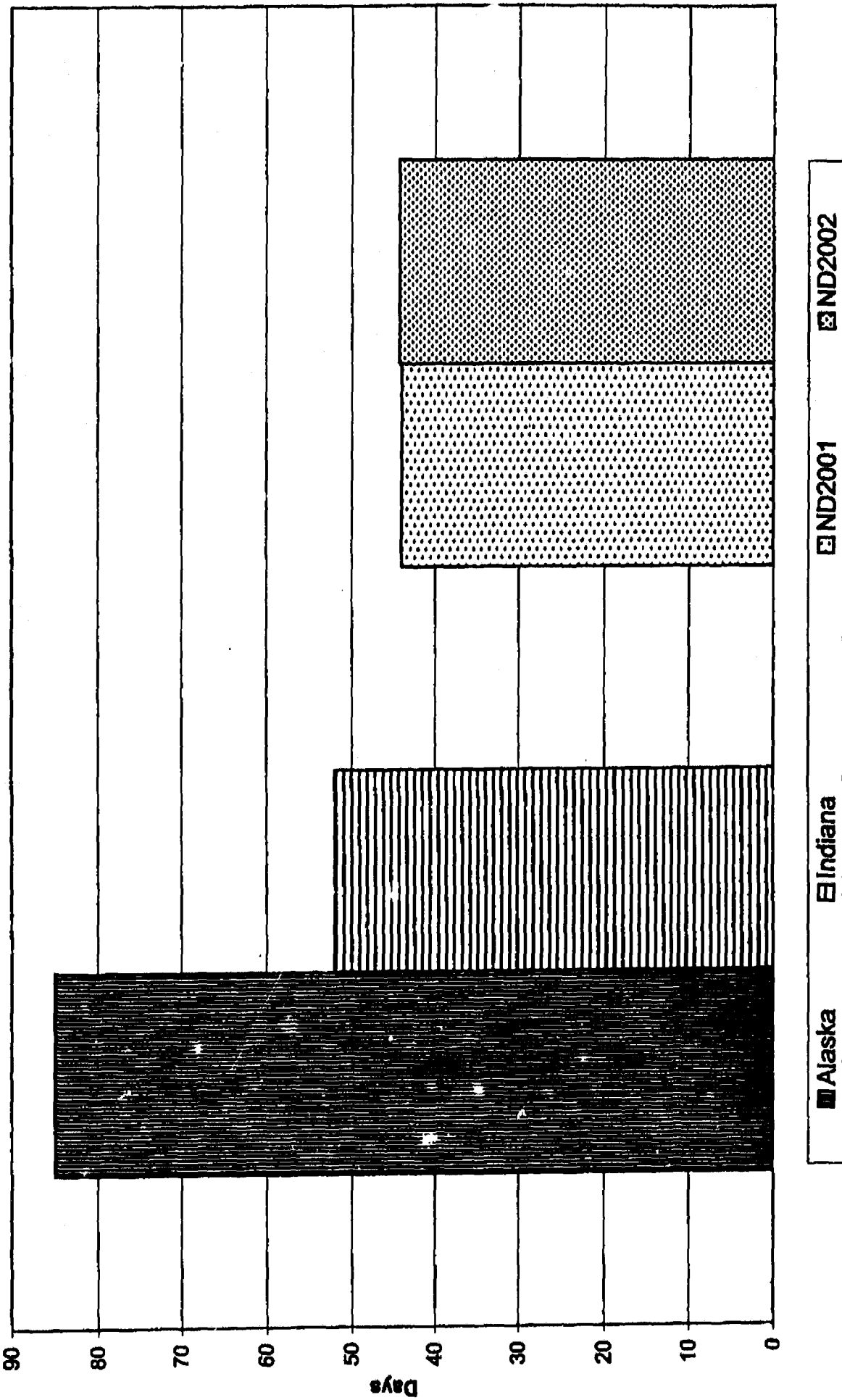
Deanna Hall
Operator's Signature

10/30/03
Date



UIC Permit Approval Time

North Dakota is ahead of other states and with our new policy could cut our UIC Permit Time in half.

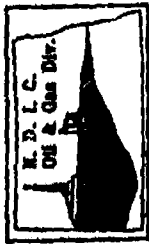


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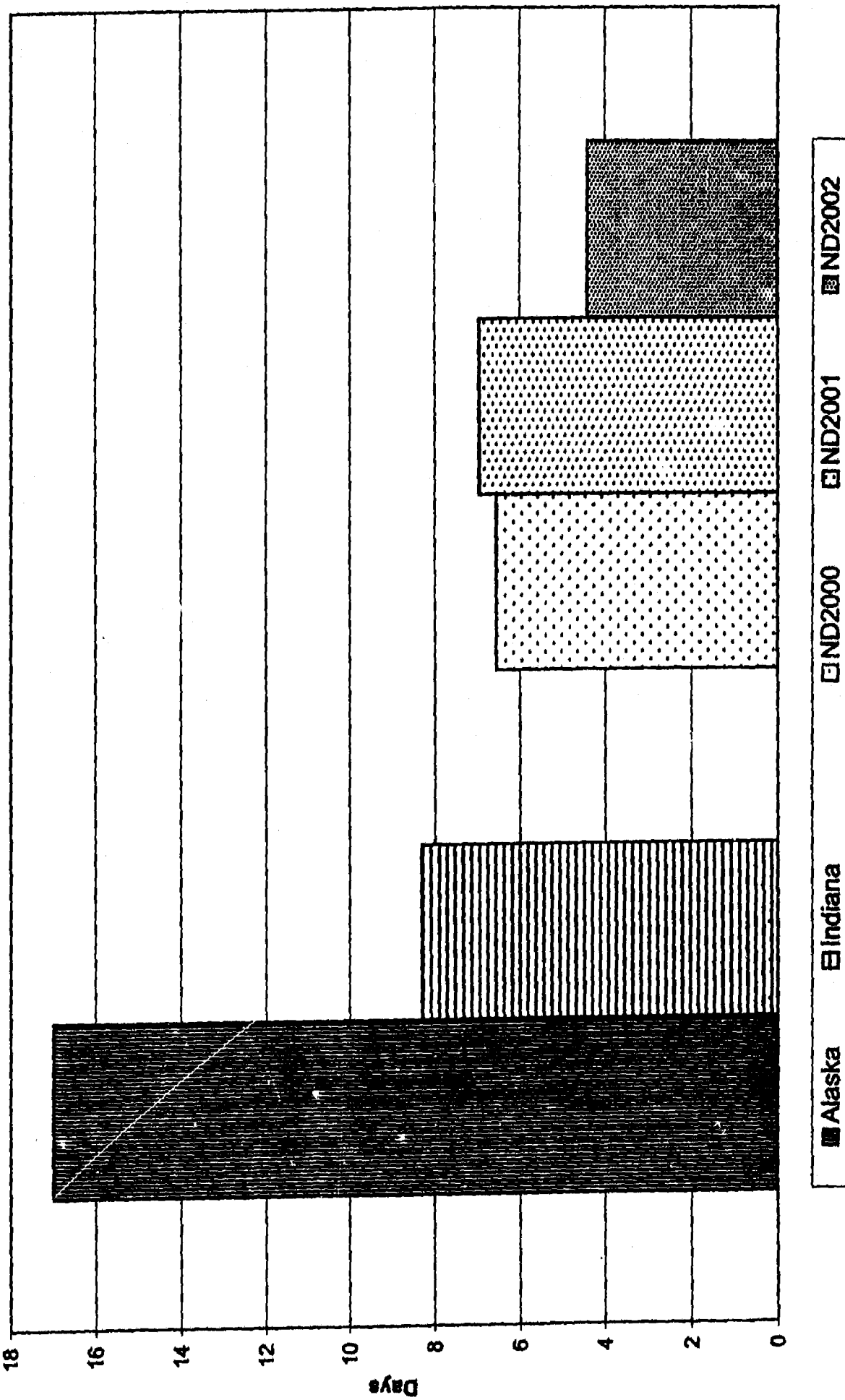
Deanna Hall
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10/30/03
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Drill Permit Approval Time

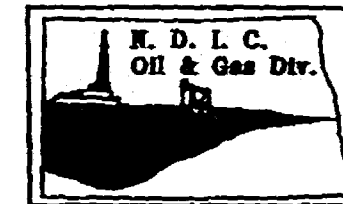
North Dakota is ahead of other states and continues to improve.



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10/30/03
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2003-2005 BIENNIUM

In the past year we have experienced both low oil and gas prices due to 9/11 and very high prices due to strikes in Venezuela and the threat of war with Iraq.

Fortunately the majority of North Dakota's production comes from EOR projects and horizontal wells. Both yield long term, stable production. Oil production is expected to average 85,000 barrels per day and oil price is expected to be relatively stable at approximately \$21 per barrel for North Dakota sweet crude through the 2003-2005 biennium.

The workload of the Oil and Gas Division continues to increase as idle wells are returned to production or plugged and reclaimed, drilling rig count remains at 10-15, and more unitization/EOR proposals of increasing complexity are being filed.

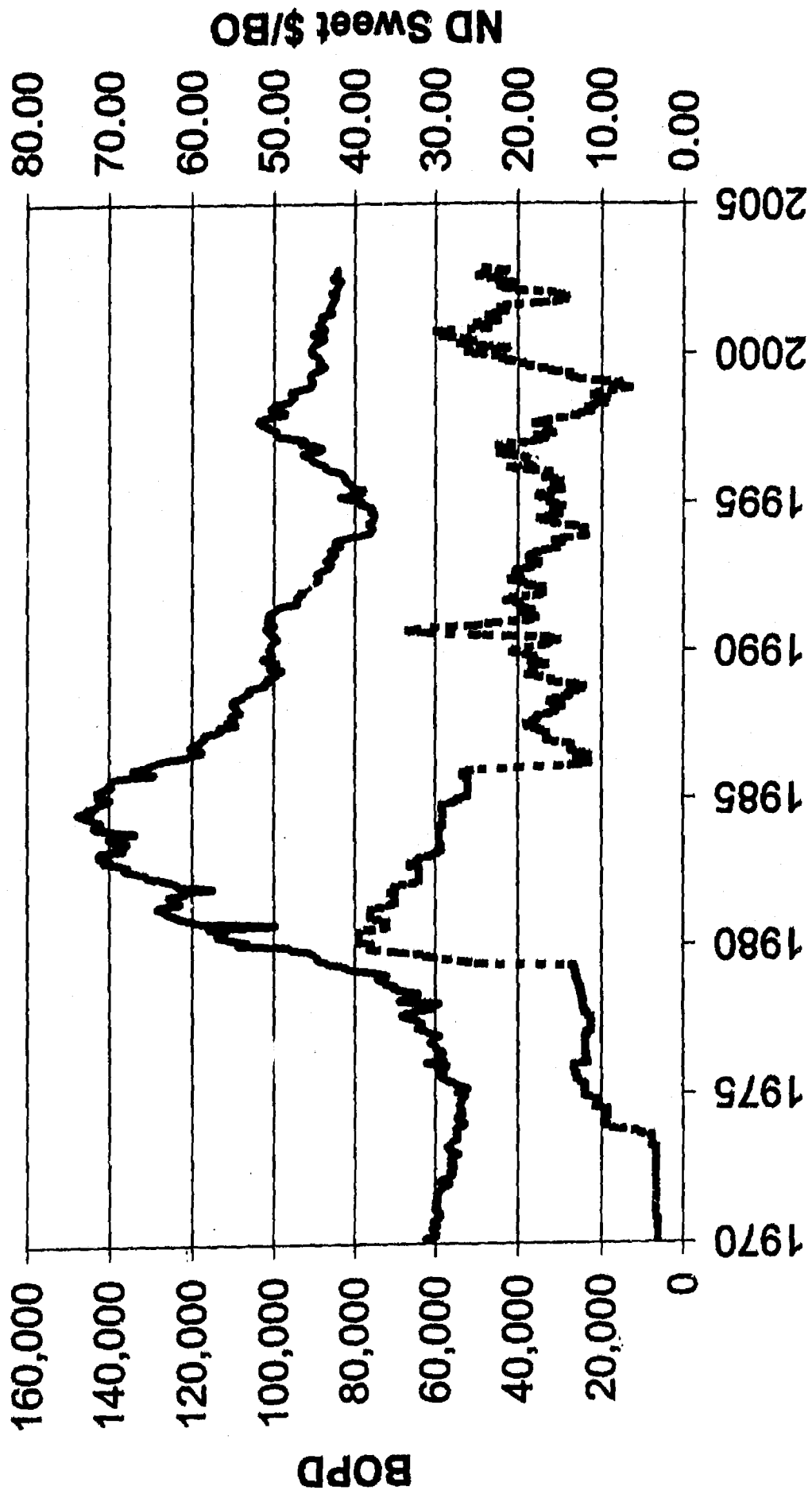
Future critical issues are the need for competitive salaries and professional development for experienced personnel, computerization of information for electronic storage and dissemination, implementation of information technology initiatives, and lack of growth in federal funding for mandated programs.

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Operator's Signature *Dennis J. Schmitt* 10/30/03
Date



North Dakota Daily Oil Produced and Price



— BOPD - - \$/BO

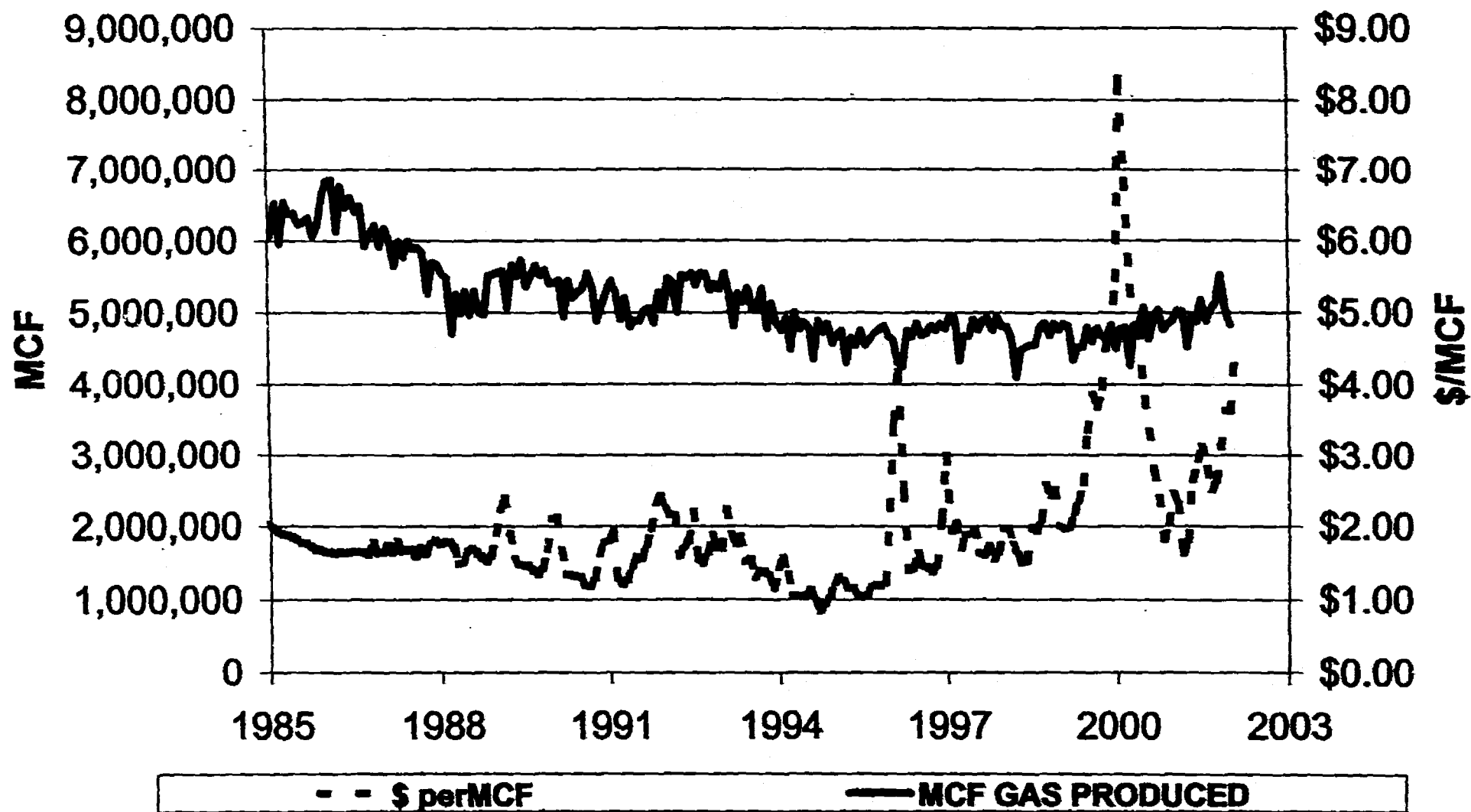
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North Dakota Monthly Gas Produced and Price

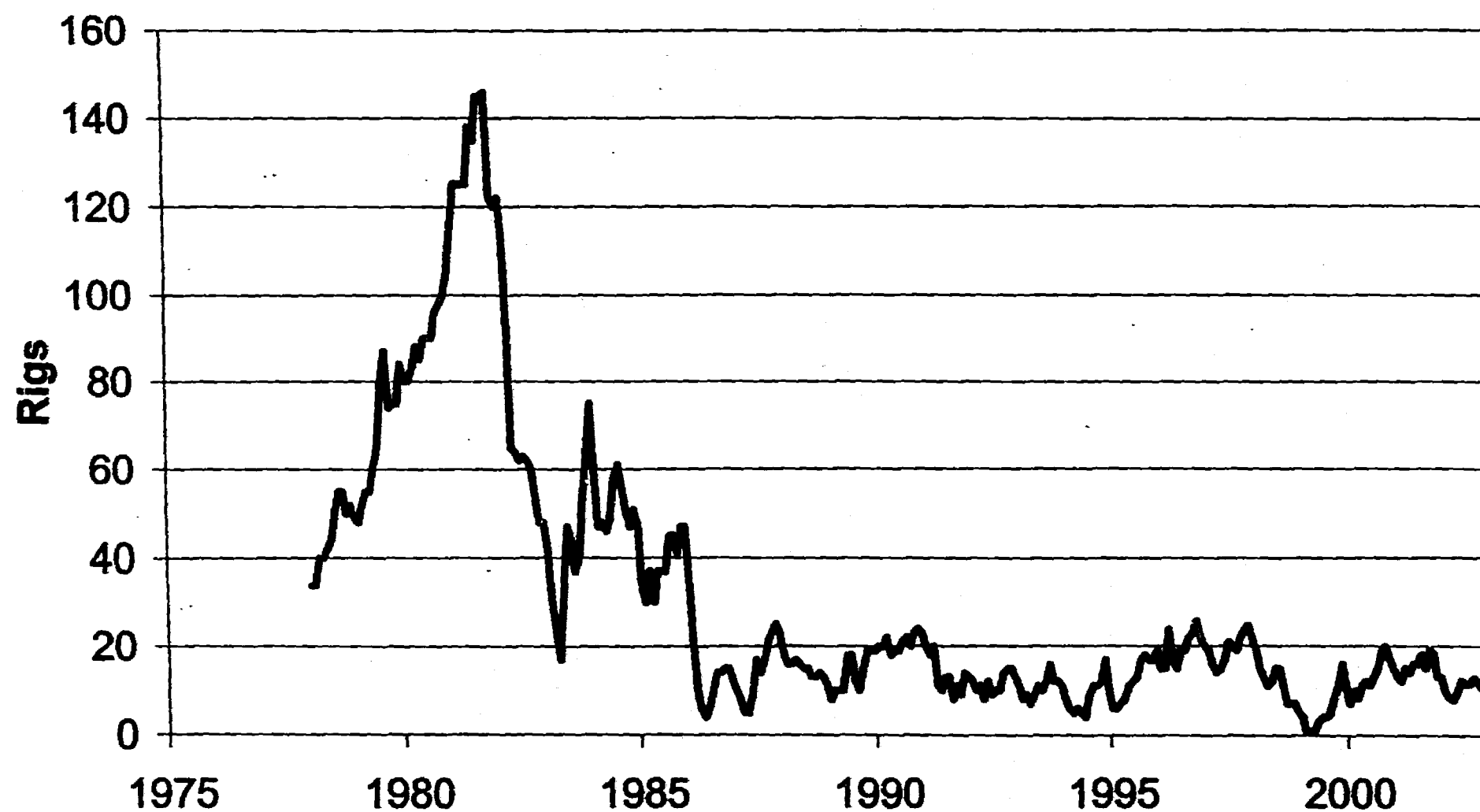


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Operator's Signature Deanna Schmitt Date 10/30/03

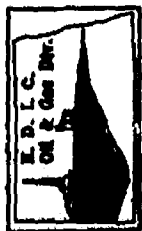


North Dakota Average Monthly Rig Count

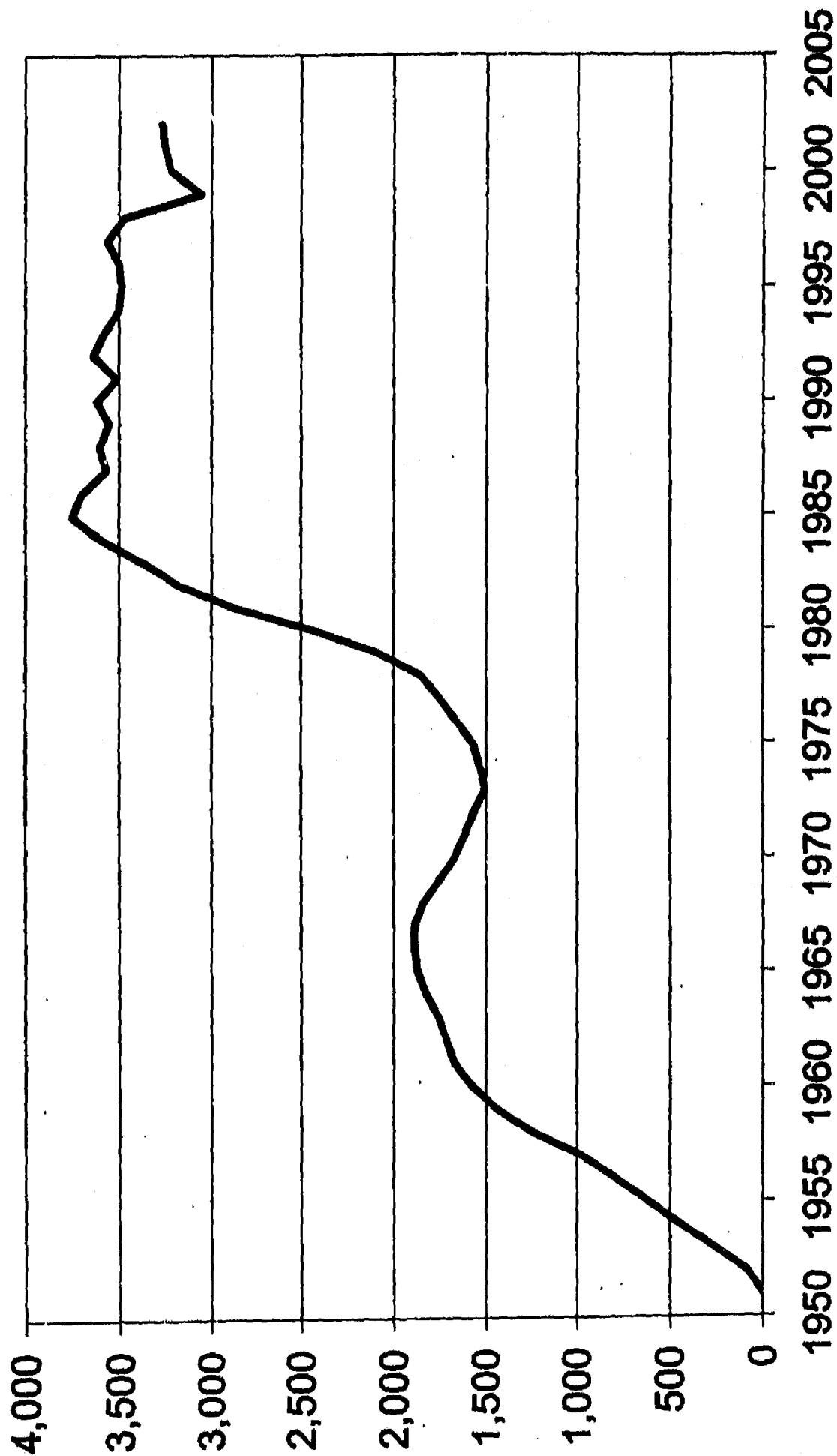


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Operator's Signature *Deanna J. [Signature]* Date 10/30/03



North Dakota Wells Producing Each Year

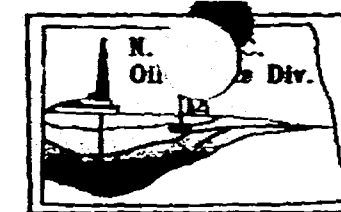


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EXPLANATION OF PROGRAM COSTS

The Oil & Gas Division budget breakdown is 77% Salaries & Wages, 22% Operating Expenses, and 1% Capital Equipment.

78% of our Operating Expense budget is DOT mileage rates, ITD data and phone rates, and office space rent. Only approximately 6% can be considered discretionary. Even a 5% budget cut is difficult for a small agency.

Salaries and Wages are the projection of present salaries minus 2.38 FTE positions that had to be eliminated under the 95% OMB budget guidelines.

The 0.38 FTE reduction was made possible by our investments in technology that allowed 2 support staff employees to complete 100% of their workload while working 6-1/2 hour days.

The other 2 employee's monthly workload of 50 work-over & re-completion reports, 15 extraction tax exemption applications, 5 commingling applications, 3,000 production reports, and 6 central tank battery audits will have to be added to the duties of other employees. This raises real concerns about delays in processing industry applications and less effective production auditing that could impact the Oil and Gas Division's excellent performance record. For example, North Dakota did not experience the 1990's oil theft and reporting problems that occurred in WY, KS, and OK even though that same oil purchaser/transporter operated here.

Operating Expenses for our agency have been decreased pursuant to OMB guidelines.

Mandated increases in Travel (motor pool mileage rates), Insurance, and Office Rent are offset by decreases in IT Data Processing and Telephone rates along with significant belt tightening in Professional Services, Office Equipment, and Other Equipment Under \$5000.

Operating Equipment is decreased significantly.

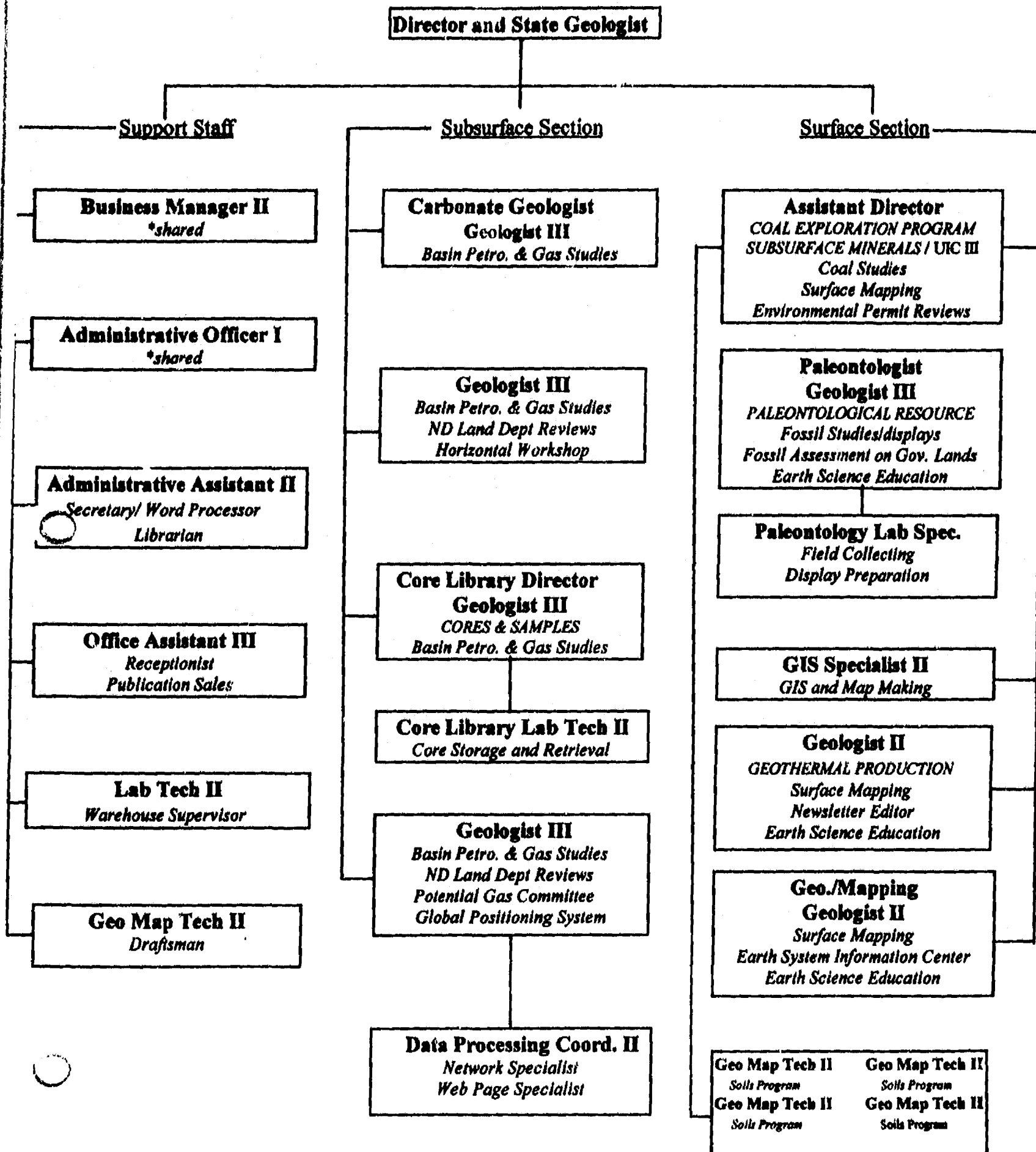
Capital Equipment is increased.

IT Equipment Over \$5,000 is increased to replace an 8 year old web server and 4 year old high speed document scanner that are critical to completing our electronic filing, storage, and transfer initiatives. Equipment Over \$5,000 is increased to replace a 6-year-old ATV for the Geophysical Field Inspector.

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**NORTH DAKOTA GEOLOGICAL SURVEY
INDUSTRIAL COMMISSION
NORTH DAKOTA GEOLOGICAL SURVEY**



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10/30/03
Date

GEOLOGY
GEOLOGY ANALYST
Bruce Juenker

Encourage and promote the development, production, and utilization of oil and gas

- Pick and publishes a consistent set of formation tops for industry to use in mapping.
- Maintain systems to store and distribute electronic well logs for industry prospect evaluation.
- Provide geology education for elementary and secondary teacher seminar and field trip(s).

Protect the correlative rights of all owners

- Evaluate accuracy of geology used in enhanced oil recovery units and well spacing.

Protect the general public

- Check all new well construction to determine if formations that could endanger underground drinking water sources are properly sealed off.

GEOPHYSICAL
GEOPHYSICAL SUPERVISOR
Dave Hviriden
|
GEOPH. FIELD INSPECTOR
Tom Torstenson

Protect the correlative rights of all owners

- Permit all geophysical surveys to ensure rules protecting land and mineral owners are followed.

Protect the general public

- Inspect all geophysical surveys to ensure shot holes are located, drilled, and plugged so as to not endanger drinking water resources.
- Inspect past geophysical surveys to ensure proper and complete reclamation.

**UIC / HORIZONTAL
DRILLING**

MANAGER
Mark Bohrer

UIC SUPERVISOR
Dave McCusker

PERMITTING / DRILLING
Kelly Triplett

Encourage and promote the development, production, and utilization of oil and gas

- Provide drilling and production statistics in public presentations and on web site.
- Recommend policies, rules, and regulations that promote industry investment in North Dakota.

Prevent waste and maximize economic recovery

- Permit all wells used for enhanced oil recovery and for saltwater disposal.

Protect the correlative rights of all owners

- Permit all horizontal drilling wells per rules and policies to protect adjacent mineral owners.

Protect the general public

- Permit all injection well activities under the US Safe Drinking Water program delegated by EPA.

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Deanna Ball
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10/30/03
Date

PETROLEUM ENGINEERING

Jim Legerski

Prevent waste and maximize economic recovery

Evaluate accuracy of engineering estimates used in enhanced oil recovery units.

Protect the correlative rights of all owners

Permit well re-completions into new formations and well work-over projects to ensure rules and policies that protect adjacent mineral owners are followed.

Permit and participate in audits of all oil production commingling operations according to rules and policies that protect mineral owners.

Protect the general public

Certify all tax exemption applications to make certain Century and Administrative Code requirements have been met.

ASSISTANT DIRECTOR

Bruce Hicks

ENGINEERING TECHNICIAN

Rich Baker

DATA PROCESSING

DATA PROCESSING SUPERVISOR

Jim Lindholm

DATA PROCESSING COORDINATOR

Kyle Joersz

Encourage and promote the development, production, and utilization of oil and gas

Recommend policies, rules, and regulations that promote industry investment in North Dakota.

Maintain computer hardware and software programs that collect store and distribute drilling, production, and well information to federal agencies, other state agencies, and the public as well as on our web site.

Prepare custom hardcopy and Internet GIS maps of drilling, production, and well information.

Prevent waste, maximize economic recovery, and protect correlative and public rights.

Evaluates accuracy and proper filing of enhanced oil recovery unit and other hearing exhibits.

Schedule hearings, write orders, and permit all vertical wells.

Maintain well site drawings, facility drawings, and computer systems for engineering drafting.

ADMINISTRATIVE

BUSINESS MANAGER

Karen Gutenkunst

ADMINISTRATIVE OFFICER

Beverly Zwing

Help general public realize the greatest possible good from our vital natural resources

Manage personnel records and payroll, assist in budget preparation, and high \$ purchasing.

Maintain personnel leave records, perform low \$ purchasing, and internal mail delivery.

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Operator's Signature

Date

	SUPPORT
	SUPPORT STAFF SUPERVISOR Dave Hvinden
	OIL & GAS PRODUCTION AUDITOR Shella O'Shaughnessy
	OIL & GAS PRODUCTION AUDITOR Annette Materi
	LEGAL ASSISTANT Marge Rixen
	FILE CLERK Evie Roberson
	FIELD SECRETARY Karl Lorentzen
	OFFICE ASSISTANT Kelly Weber
	DATABASE DESIGN ANALYST Pete Borggreve
	INFORMATION PROCESS COORDINATOR Tracy Hellman
	PERMIT SECRETARY Donna Bauer

Encourage and promote the development, production, and utilization of oil and gas

- Maintain file system and provide copies of information requested by industry.
- Prepare and distribute drilling rig lists.
- Maintain computer program to collect and store drilling, production, and well information.
- Prepare hearing dockets, legal advertisements, commission orders, and case files.
- Prepare and distribute daily activity reports used by state agencies, industry, and the public.

Protect the rights of landowners and royalty owners

- Input oil and gas production, transporter and purchaser data, and use programs to audit accuracy.
- Input operator bond and organization data to ensure proper bonding of wells.
- Maintain field inspection records and correspondence.

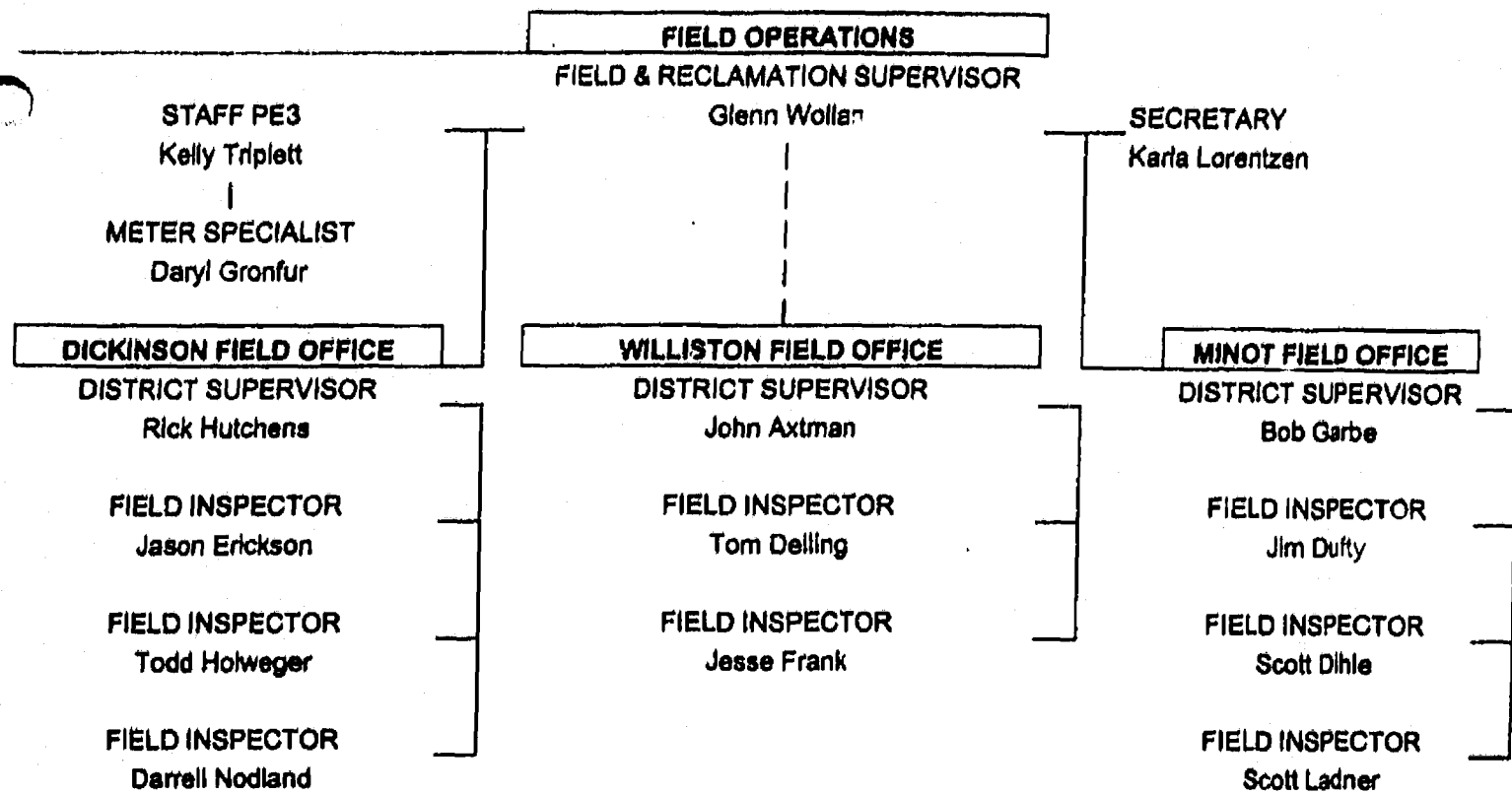
Help producers and general public realize the greatest possible good from resources

- Scan well and case files into computer programs that store and distribute information to federal agencies, other state agencies, and the public as well as on our web site.
- Maintain friendly and professional telephone and lobby customer services.

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Donna Hellman
Operator's Signature

10/30/03
Date



Prevent waste

Inspect approximately 300 wells each every month to identify potential down-hole problems.

Protect correlative rights

Inspect approximately 1 drilling rig per inspector at least weekly to ensure spacing and drilling rules are complied with.

Protect landowners, royalty owners, and the general public

Witness every plugging and abandonment to ensure protection of drinking water resources.

Permit temporary abandonment and witness mechanical integrity tests to prevent down hole leaks and drinking water contamination.

Inspect approximately 300 wells and 200 facilities per inspector each month to identify potential down hole problems, leaks, or spills.

Inspect drilling rigs to ensure well construction and safety rules are complied with.

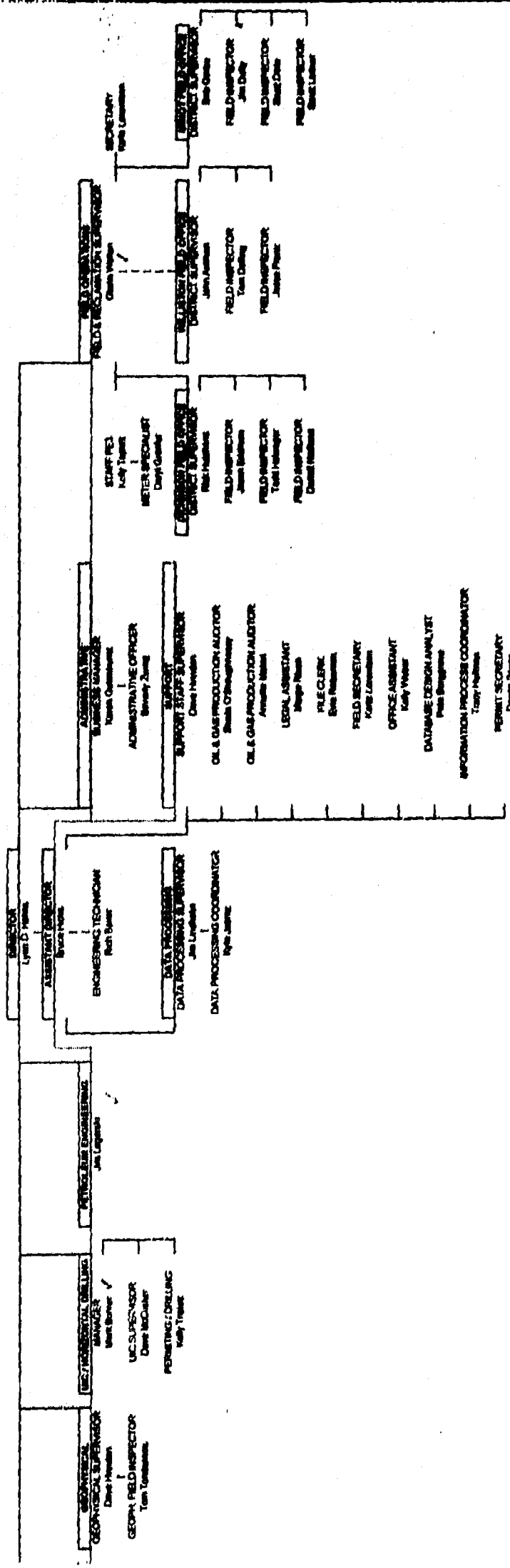
Witness 250 oil and 300 gas meter tests each year to ensure rules and policies for accurate measurement are followed.

Participate in audits of oil production and commingling operations to ensure rules and policies for well testing are followed.

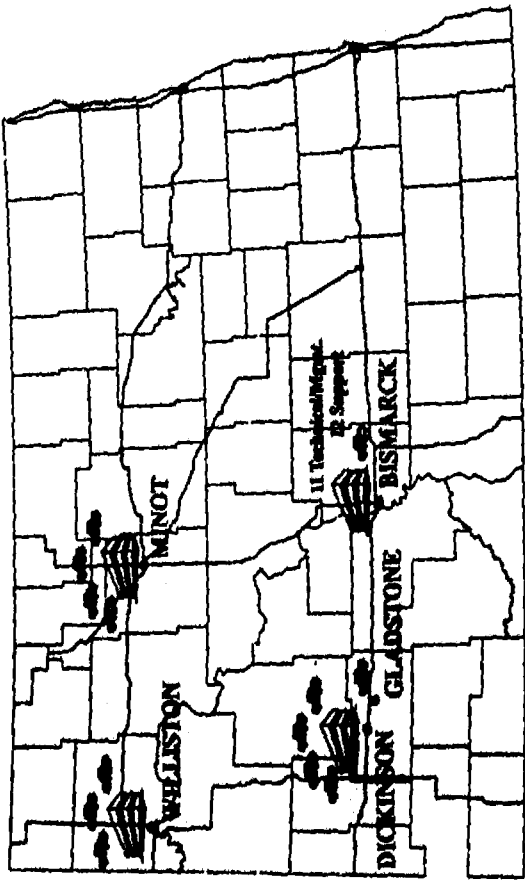
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Deanna G. Ball
Operator's Signature

10/30/03
Date



Oil and Gas Division Service Locations



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Deanna Ballantyne
Operator's Signature

10/30/03
Date

NORTH DAKOTA INDUSTRIAL COMMISSION

OIL AND GAS DIVISION

Lynn D. Helms
Director

<http://explorer.ndic.state.nd.us>

Bruce E. Hicks
Assistant Director

January 14, 2003

Senator Bob Stenehjem
Senate Majority Leader

Dear Senator Stenehjem,

I applaud your efforts to focus the budget process on purpose and performance. Unfortunately, I received your letter after I had already presented the Oil and Gas Division budget to the House Appropriations Committee Government Operations Division, but the following excerpts from my testimony will demonstrate that we are a performance driven agency as well as answer the questions you have posed:

- 1) The Oil & Gas Division is the agency that provides the technical expertise needed for creating and enforcing statutes, rules, regulations, and orders of the Industrial Commission pertaining to geophysical exploration, drilling, development, production of oil and gas, and disposal of oil field brine and other oil field wastes.
- 2) The Oil and Gas Division utilizes a series of performance measures to evaluate and improve our programs. The measures were developed through an Interstate Oil and Gas Compact Commission project that involved a consultant, the oil and gas Directors from Alaska and Indiana, as well as myself.
- 3) Future critical issues for the Oil and Gas division are the need for competitive salaries, professional development for experienced personnel, computerization of information for electronic storage and dissemination, and lack of growth in federal funding for mandated programs.
- 4) The performance measures used by the Oil and Gas Division to evaluate and improve our programs are presented in an easily understood graphical format (see the back of this document) and will be published on our redesigned website set to debut in July 2003.

Sincerely,


Lynn D. Helms

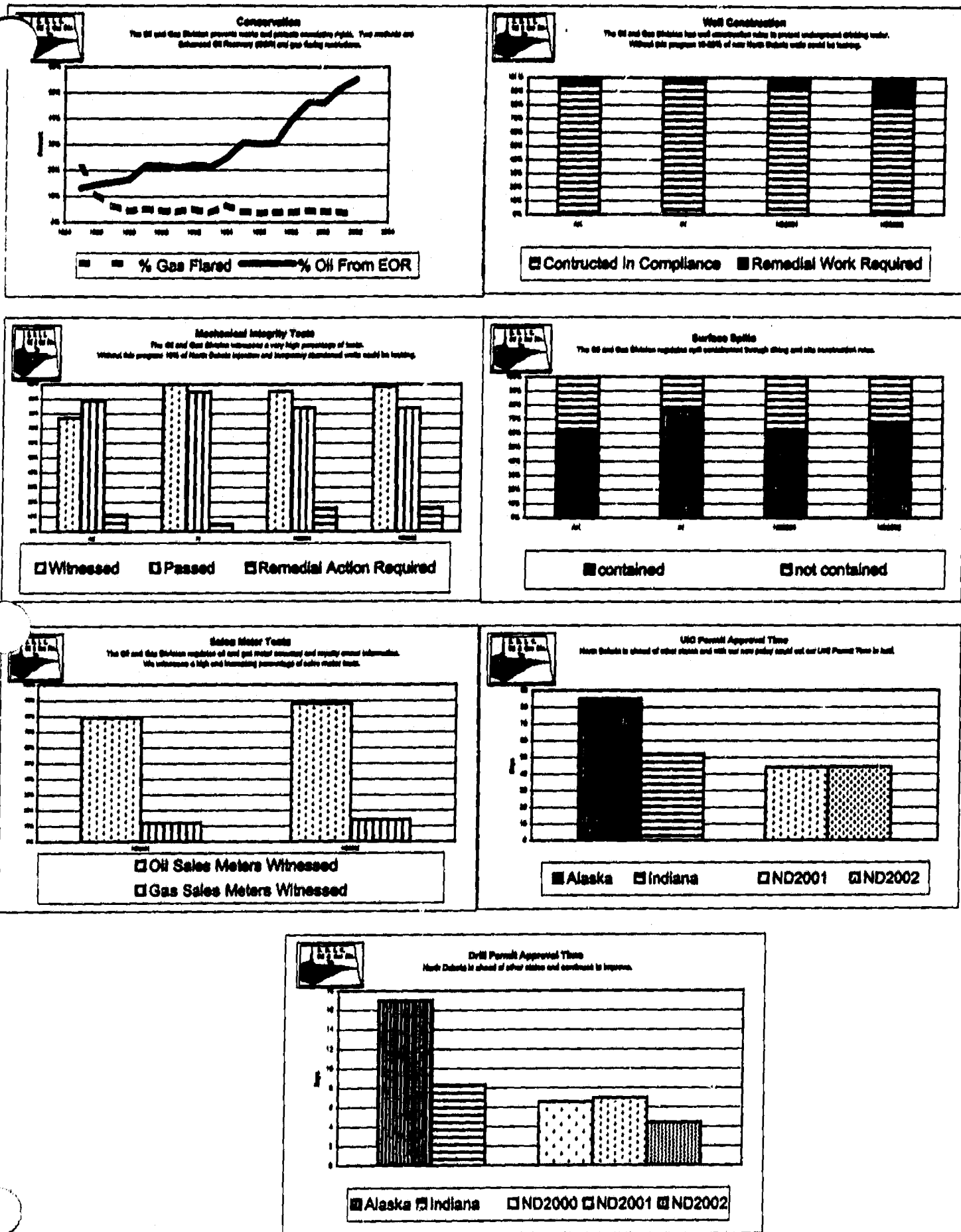
600 E. Boulevard Ave. Dept 405, Bismarck, North Dakota 58505-0840 Phone(701)328-8020 Fax(701)328-8022

1 of 1

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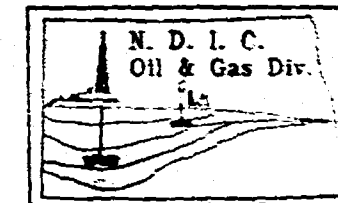
Deanna G. Ballou
Operator's Signature

10/30/03
Date

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Operator's Signature Lynn D. Helms Date 10/30/03

**Engrossed House Bill 1015
Senate Appropriations Committee
Testimony By
Lynn D. Helms
Director
Oil & Gas Division
North Dakota Industrial Commission**



Mr. Chairman and members of the committee, my name is Lynn Helms and I am the Director of the Oil & Gas Division of the North Dakota Industrial Commission.

SERVICES PROVIDED

The Oil & Gas Division is the agency that provides the technical expertise needed for creating and enforcing statutes, rules, regulations, and orders of the Industrial Commission pertaining to geophysical exploration, drilling, development, production of oil and gas, and disposal of oil field brine and other oil field wastes.

To accomplish this, the Oil & Gas Division maintains a staff of technical people trained in engineering, geology, field enforcement, and data acquisition, compilation, and analysis.

*With the exception
of the following
pages the
testimony was
same to Senate
as to House*



EXPLANATION OF PROGRAM COSTS

The Oil & Gas Division budget breakdown is 77% Salaries & Wages, 22% Operating Expenses, and 1% Capital Equipment.

78% of our Operating Expense budget is DOT mileage rates, ITD data and phone rates, and office space rent. Even a 5% budget cut forces an efficiently run small agency to RIF existing employees.

Salaries and Wages are the projection of present salaries minus 2.38 FTE positions that had to be eliminated under the 95% OMB budget guidelines.

The 0.38 FTE reduction was made possible by our investments in technology that allowed 2 support staff employees to complete 100% of their workload while working 6-1/2 hour days.

The other 2 employee's monthly workload of 50 work-over & re-completion reports, 15 extraction tax exemption applications, 5 commingling applications, 3,000 production reports, and 6 central tank battery audits will have to be added to the duties of other employees. This raises real concerns about delays in processing industry applications and less effective production auditing that could impact the Oil and Gas Division's excellent performance record. For example, North Dakota did not experience the 1990's oil theft and reporting problems that occurred in WY, KS, and OK even though that same oil purchaser/transporter operated here.

We do not currently have any vacant positions and have not filled any positions in the last 90 days.

Operating Expenses for our agency have been decreased pursuant to OMB guidelines.

Mandated increases in Travel (motor pool mileage rates), Insurance, and Office Rent are offset by decreases in IT Data Processing and Telephone rates along with significant belt tightening in Professional Services, Office Equipment, and Other Equipment Under \$5000.

Operating Equipment is decreased significantly.

Capital Equipment is increased.

IT Equipment Over \$5,000 is increased to replace an 8 year old web server and 4 year old high speed document scanner that are critical to completing our electronic filing, storage, and transfer initiatives. Equipment Over \$5,000 is increased to replace a 6-year-old ATV for the Geophysical Field Inspector.

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Donna J. Smith

10/30/03

Date

North Dakota's Oil and Gas Conservation Law

North Dakota's oil and gas conservation law has undergone several transformations over the years. The North Dakota Oil and Gas Conservation Law was amended several times by succeeding legislative assemblies. The 1941 act was preceded by earlier acts in 1911, 1929, and 1937. Since 1941, the act has been amended several times, most notably in 1951, 1953, and 1981.

The act of 1911 was designed to protect adjacent landowners and the public from the escape of natural gas from open or improperly abandoned gas wells. A penalty for violation of the statute was provided, but no regulatory authority was specifically charged with enforcement duties.

The 1929 act was the first statute that required the permitting of wells and the filing of basic data. The State Geologist was named as the regulatory authority and a penalty was provided for violation of the statute. Because of lack of funds, the State Geologist was not able to enforce the law and it was repealed in 1937.

The 1937 act provided for the conservation of oil and gas, and it provided that the State Geologist was to prescribe rules and regulations. Such rules and regulations were to be the same as those adopted by the Bureau of Mines or the Secretary of the Interior, pursuant to an act of Congress approved on February 24, 1920.

In 1941, the Legislature passed the first comprehensive oil and gas conservation law, ten years before oil was discovered in North Dakota. At the time the 1941 act was enacted, the only commercial production in the state consisted of a minor gas field in the Eagle Pool on the Cedar Creek Anticline in Bowman County. The 1941 law was based on the then Model Act that had been drawn up by the Legal Committee of the Interstate Oil Compact Commission. The act placed the supervision and control over crude petroleum oil and natural gas with the Industrial Commission. It made the Industrial Commission the regulatory authority and designated the State Geologist as supervisor, advisor and enforcer of the regulations promulgated by the Commission. Later, in 1953, the State Geologist assisted the Legislative Research Committee in drafting a more modern oil and gas statute.

In 1953, the Legislature revised the oil and gas conservation law to conform to a more recent version of the Model Act of the IOCC (Laws of North Dakota, 1953). The Legislature adopted all but the special provision for statutory unitization. The first spacing order under the new rules provided for 160-acre spacing in the Sanish Pool, McKenzie County (Order 4, January 19, 1954).

In 1981, the 47th Legislature Session removed jurisdiction over oil and gas regulation from the Geological Survey and assigned it to a new Oil and Gas Division of the Industrial Commission. House Bill 1536 amended Chapter 38-08 of the North Dakota Century Code relating to powers of the North Dakota Industrial Commission and the State Geologist.

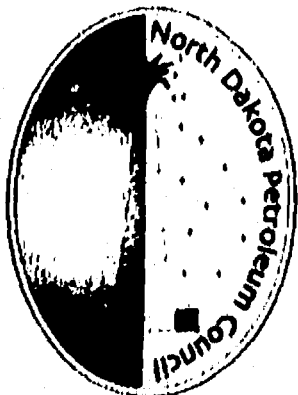
Since 1911, North Dakota has had the necessary statutory regulatory control in place for the level of oil and gas exploration and development being conducted at any given time. The role of the State Geologist in the regulation of oil and gas exploration and development has been significant since 1929. The Industrial Commission has been responsible for the conservation of oil and gas in North Dakota since 1941 - over 60 years.

Taken from "The First 100 Years - The History of the North Dakota Geological Survey 1895 - 1995" by John P. Blumle. NDGS Miscellaneous Series 81.

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10/30/03
Date



ND OIL & GAS ASSOCIATION

PO Box 2441

Bismarck, ND 58502-2441

701-223-6380 / 701-222-0006 (fax)

April 15, 2003

To: HB-1015 Conference Committee Members:

Re: HB-1015 – Industrial Commission Budget

The North Dakota Oil and Gas Association represents nearly 100 oil and gas companies in all aspects of the oil and gas industry in North Dakota. Our industry has traditionally benefited from a wide variety of resources available from the Office of State Geologists and the Oil and Gas Division.

We have reviewed the Senate amendments to HB-1015 and would like to provide input from the industry on the proposed amendment. We recognize the possible existence of organizational inefficiencies and the concerns about the allocation of personnel resources in the Office of State Geologist. To address these issues we have the following recommendations for you to consider for HB-1015:

- We believe that a separate office of State Geologist, with a reasonable budget and reasonable staffing level, should be maintained at this time.
- Because of budget constraints, we do not oppose reasonable and responsible personnel reductions in the Office of State Geologist and, if necessary, in the Oil and Gas Division.
- We support an interim study to look at the organizational structure and allocation of resources within both agencies with a goal of minimizing duplications and maximizing efficiencies. We urge you to consider including a representative from the oil and gas industry and the coal industry on any interim committee studying this issue.

Thank you for your consideration. We will be happy to assist in any manner on this issue.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jeff Herman".

Jeff Herman

President, North Dakota Oil and Gas Association

mr

c: Senate Majority Leader Bob Stenehjem
House Majority Leader Rick Berg
North Dakota Industrial Commission

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Typical North Dakota Well

gas production taxes	\$6,015	\$2,917	\$1,985	\$1,504	\$995	\$842	\$682	\$541	\$511	\$481	\$16,482
oil production taxes	\$73,000	\$35,405	\$24,090	\$18,250	\$12,045	\$10,220	\$8,395	\$6,570	\$6,205	\$5,840	\$200,020
total production taxes	\$79,015	\$38,322	\$26,075	\$19,754	\$13,038	\$11,062	\$9,087	\$7,111	\$6,716	\$6,321	\$216,502
extraction taxes	\$0	\$12,392	\$18,863	\$12,775	\$8,432	\$7,154	\$5,877	\$4,599	\$4,344	\$4,088	\$76,522
sales taxes	\$33,220	\$720	\$720	\$720	\$720	\$720	\$720	\$720	\$720	\$720	\$39,700
royalties	\$65,043	\$31,546	\$21,464	\$16,261	\$10,732	\$9,106	\$7,480	\$5,854	\$5,529	\$5,203	\$178,218
operating expense	\$72,000	\$72,000	\$72,000	\$72,000	\$72,000	\$72,000	\$72,000	\$72,000	\$72,000	\$72,000	\$720,000
salaries	\$393,214	\$46,707	\$46,707	\$46,707	\$46,707	\$46,707	\$46,707	\$46,707	\$46,707	\$46,707	\$813,576
ND economy	\$642,492	\$201,687	\$183,829	\$168,216	\$151,628	\$146,749	\$141,870	\$136,991	\$136,015	\$135,040	\$2,044,517
Net Profit	\$963,508	\$577,223	\$346,151	\$233,284	\$113,362	\$78,091	\$42,820	\$7,549	\$495	-\$21,580	
Cumulative Net Profit	\$963,508	\$1,540,731	\$1,886,882	\$2,120,166	\$2,233,528	\$2,311,619	\$2,354,439	\$2,361,988	\$2,362,482	\$2,340,323	
oil & gas value	\$1,806,000	\$778,910	\$529,980	\$401,500	\$264,990	\$224,840	\$184,690	\$144,540	\$136,510	\$128,480	\$4,400,440
BOPD	200	97	66	50	33	28	23	18	17	16	
BO	73000	35405	24090	18250	12045	10220	8395	6570	6205	5840	200020
Year	1	2	3	4	5	6	7	8	9	10	Total

\$500,000 Vertical Dry Hole
 \$800,000 Vertical Producing Well or Horizontal Dry Hole
 \$1,300,000 Horizontal Producing Well

1.0 Company Rep.	0.4 Constr & Recl	0.2 pumper
1.0 Tool Pusher	0.4 Surveyors	0.1 company professionals
1.0 Wellsite Geologist	0.2 Crane services	0.0 workover crews
1.5 Directional Drillers	1.3 Rig hauling	0.0 roustabouts
4.0 Drillers	0.2 Other trucking	0.3 water disposal
4.0 Derrick Hands	0.6 Well logging	0.4 oil transportation
12.0 Floor Hands	0.2 DST services	0.0 supply sales
0.3 Mud Engineers	1.4 Completion Rig	0.1 gas processing
0.2 Bit Sales	0.6 Perforating	0.0 regulatory
0.3 Water haulers	0.8 Stimulation	
0.3 Fuel Haulers	0.3 regulatory	
0.5 Mud Haulers	0.1 Biology & Botany	1.1 Total Producing Jobs
0.4 Casing Crew	0.1 Archeology	
1.3 Cementing	5.0 Equip Mfg	
	7.7 Roustabouts	
Total Drilling and Completion Jobs	46.9	

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Operator's Signature

[Signature]

10/30/03
Date

Identical testimony submitted to Senate

Page 1 of 12
January 10, 2003
John Dwyer, Chairman
Lignite Research Council

HB 1015 Lignite R & D Program Funding

I. Lignite Industry Update

A. Current Lignite Industry In North Dakota

- 31 million tons of lignite coal
 - Serves 2 million people with electricity
 - Serves 225,000 homes with SNG (Synthetic Natural Gas)
 - Produces 1,300 tons per day of agricultural fertilizer
- 19,550 people employed / each direct job means 5 indirect jobs

B. Annual Economic Contribution to North Dakota

- \$1.5 billion in business volume / each dollar spent multiplies into three dollars for our economy
- \$520 million in personal income
- \$68+ million in state tax revenues

II. What is the future for North Dakota's lignite industry? Depends on...

A. Having competitive product (coal-based electricity)

- Lignite competes against all forms of generation in Mid-Continent Area Power Pool-MAPP
 - Montana & Wyoming subbituminous coal based power
 - Canadian hydro-power
- Lignite needs to be competitive because power is exchanged on a cost-saving basis; Power is sold on 1/2 mill KWH margin (45 cents per ton for lignite)
- Lowest cost energy has greatest demand / Potential for growth

B. Future Environmental issues impacting our competitiveness / growth potential

- Mercury
 - Proposed EPA approach of "one size fits all" disadvantages lignite - need cost-effective mercury control technologies
- Implementation of Regional Haze Rules will require additional NOx/SO₂ control technology on older facilities
- Visibility (FLAG) major issue for new plants
- Potential CO₂ controls - CO₂ capture technology will become more important

C. Other regional factors impacting our competitiveness / growth potential

- Transmission constraints
- Emission fees / Externalities / Mandated Renewables
 - Neighboring states (Legislative & Regulatory Policies)

D. The Bottom Line

- The future of North Dakota's lignite industry depends on our ability to use lignite....
 - More cleanly
 - More efficiently
 - More economically
- Means that we need to continue to invest in our research, development and marketing program

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III. What is legislative policy on which our lignite research, development and marketing program is based?

Three principles:

- Help solve problems for our *existing* facilities so we can maintain jobs, economic activity and tax revenue (Research Projects)
- Assist with developing *new* lignite-fired power plants that will create additional jobs, tax revenue and business volume (Demonstration Projects, i.e. Lignite Vision 21 Program)
- Help provide favorable marketing strategies for increased use of coal based electricity (Marketing Projects)

IV. So what is money used for in primary areas of Research, Development, and Marketing?

A. Marketing Activities – What are the benefits?

- Marketing program includes four advertising flights annually (concentrated in primary market areas in ND & MN)
 - Research shows over 70% in ND favor coal-based electricity
 - Research shows over 60% believe new plant will have positive or no effect on environment
- Development and implementation of successful marketing plan helps preserve and enhance lignite markets
 - Messages include abundance, affordability, reliability, environmental and economic benefits

B. Research Projects for existing facilities (See pages 8 & 9) – What are the benefits? -

- Byproduct diversification at Great Plains Synfuels Plant increases plant revenues for Dakota Gasification Company (DGC)
 - Example is cresylic acid (pharmaceuticals, food flavoring, perfumes)
- Reclamation projects result in cost-effective practices while achieving environmental goals (NDSU)
- Combustion / Environmental Projects help provide solutions that increase efficiencies, reduce emissions, and increase use of combustion byproducts (EERC)
 - Examples are coal drying/feedlot use of fly ash/mercury control technology development

C. Development (Demonstration Projects) -- What are the benefits?

- Investment in \$129 million anhydrous ammonia facility results in byproduct diversification that preserves existing production, jobs & tax revenue of Great Plains (6.5 million tons of coal/4,000 jobs/\$17.5 million in tax revenue)
- Gypsum Plant – Utilize waste product (scrubber sludge) to produce 100,000 tons of by-product gypsum, which is used for wallboard and soil amendment. Also reduces disposal costs and acreage needed for waste areas

D. Lignite Vision 21 Program (LV21) – Primary purpose is to assist with developing new projects with cost-effective clean coal technologies to meet demands for additional energy in our region

- **What is in it for State? Why is LV21 important? One 500 megawatt power plant means:**
 - 1,300 jobs;
 - \$140 million more business volume; and
 - \$6 million more annual tax revenue for North Dakota
 - 3 million more tons of coal
- **What is North Dakota's commitment to LV21?**
 - Unqualified support from Legislature and Industrial Commission (Governor, Attorney General & Ag Commissioner)
 - Agency support shortens lead times / reduces risk
 - \$10 million in *matching* funds for development phase for each project upon Industrial Commission approval
 - Tax incentives of over \$26 million if project built
 - Corporate Income Tax Credit
 - Sales and Use Tax Exemptions
 - Coal Conversion Tax Exemption for first five years

E. What is status of Lignite Vision 21 Program? (See pages 10 & 11)

- Two LV21P applicants under contract with NDIC
 - MDU/Westmoreland Power, Inc. – Bowman County and Great Northern Power Development – Stark County
 - Completed most preliminary feasibility studies
 - Environmental, generation, water quality & availability, coal ash, power plant foundation, mine plan, transmission, drilling, lignite sampling & testing, and coal quality studies
 - Engineering and permitting
 - Site-specific engineering, transmission in progress; Air quality modeling/PSD permit preparation ongoing; Socio-economic impact studies being done
 - Goal to submit PSD permit application in 1st or 2nd quarter of '03
 - Great River Energy
 - Reevaluated need for intermediate/mid-range and peaking power versus base load power supplied by LV21P project
 - May look at ND baseload unit in future
 - Primary challenges are environmental and transmission
 - Good progress on Environmental issues
 - Transmission major impediment – Estimated costs of \$200M to \$550 M to resolve transmission constraints

F. What is ahead? – (See Timeline – page 12)

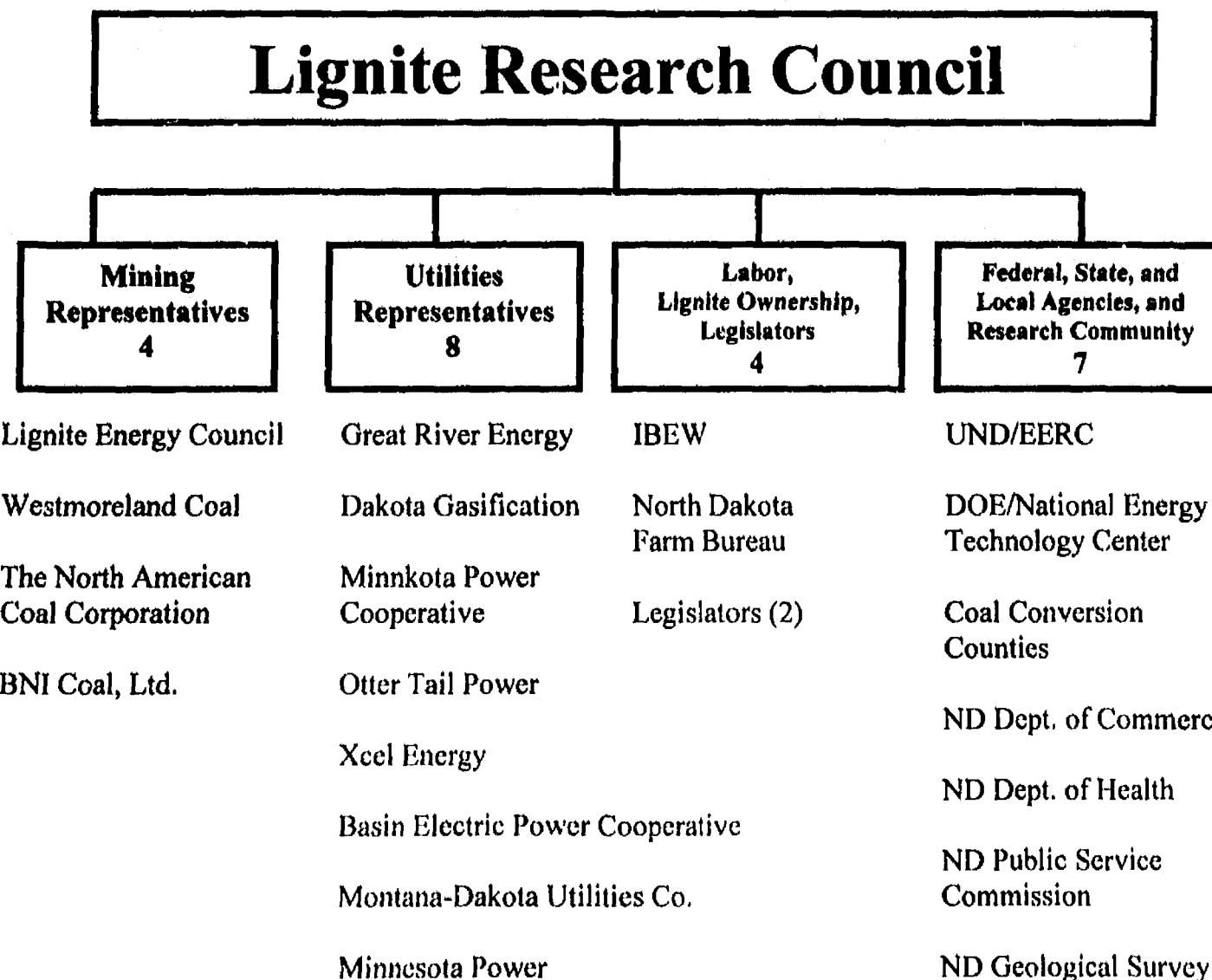
- 2003-2005 – Engineering & Permitting Phase / Go – No Go Decision
- 2005-2008 – Construction
- 2008 – Commercial Operation

V. How is North Dakota's R&D Program administered?

A. Partnership between the private and public sectors

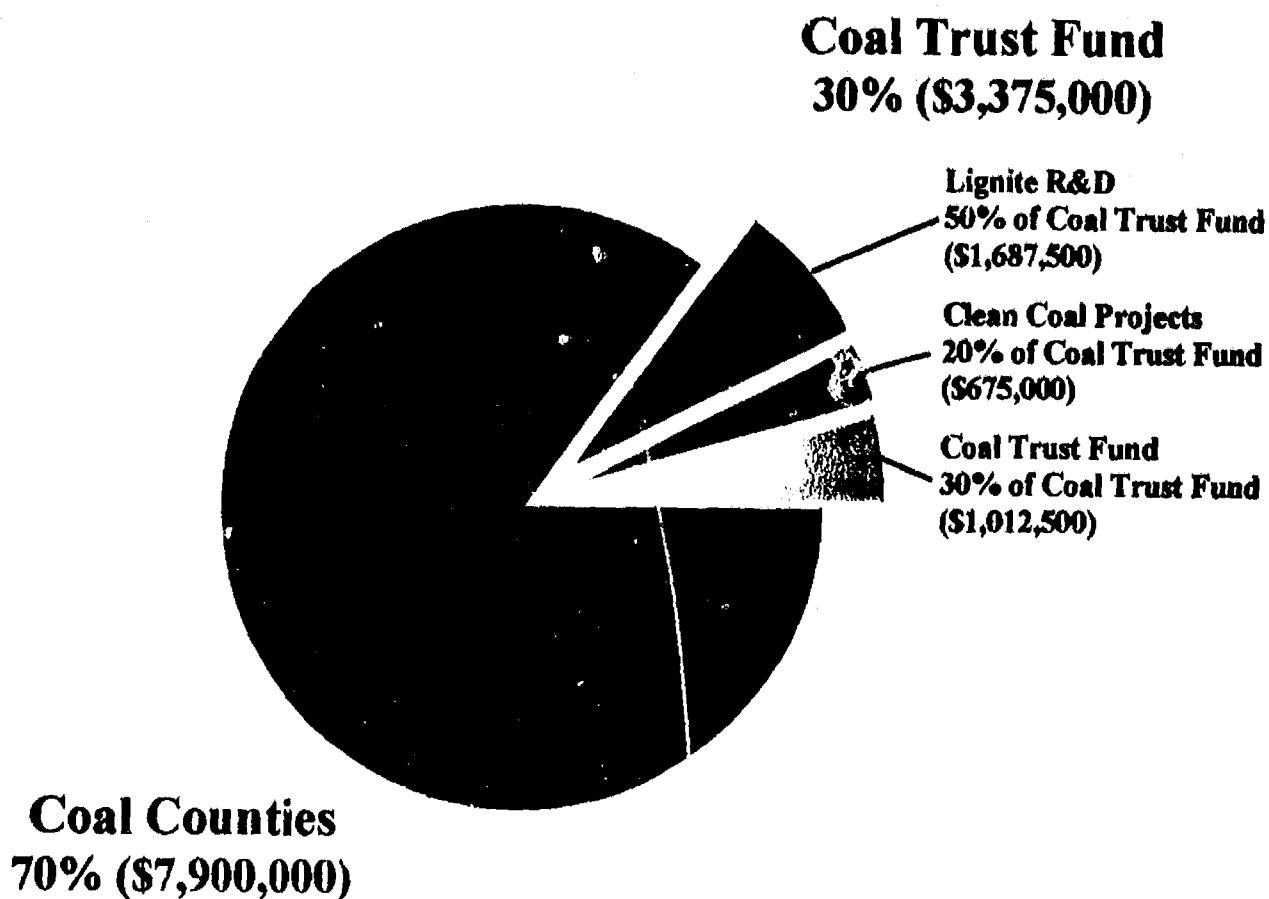
B. Roles of Industrial Commission & Lignite Research Council

- Industrial Commission
 - Administers research, development, and marketing program
 - Approves or disapproves research and development projects and activities
 - Accepts and distributes funds and enters into contracts
- Lignite Research Council is an advisory group to the Industrial Commission
 - Provides advice on policy and guidelines
 - Provides recommendations on project funding
 - Members are representatives from both the private and public sectors



VI. What are Funding Sources of R&D Program?

**Summary of Lignite R&D Funding
ND Coal Severance Tax
Annual Revenue and Distribution**
(Assumes 30 million tons of annual production)
Severance Tax of 37.5 cents*



Summary of Annual Revenue

Lignite R&D (50% of Coal Trust Fund)	\$1,687,500
Clean Coal Projects (20% of Coal Trust Fund)	675,000
2 Cents per ton R&D tax	600,000
Total Annual R&D Revenue	<u>\$2,962,500</u>
	<u>x 2</u>
Total Estimated Biennium Revenue	<u>\$5,925,000</u>

* Does not include 2 cent R&D tax of which 100% is allocated to R&D

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VII. How was \$16.45 million R&D appropriation allocated in present biennium (2001 to 2003)?

<u>2001 to 2003 Biennium</u>		<u>Amount (\$)</u>
Appropriated		\$16,450,000
Expended (Estimated)		
Research Activities	(\$1,478,105)	
Demonstration	(\$3,872,895)	
Marketing	(\$1,300,000)	
Administration	(\$300,000)	
Subtotal		<u>(\$6,951,000)</u>
Balance (Appropriated less expended Funds)		\$9,499,000
Additional Production and returned project commitments (estimated)		<u>\$606,000</u>
Subtotal		\$10,105,000
Committed Funds not yet expended (Lignite Vision 21 Projects)		<u>(\$9,600,000)</u>
Carryover		<u>\$505,000</u>

VIII. What is proposed for 2003 - 2005 Biennium for lignite R&D program?

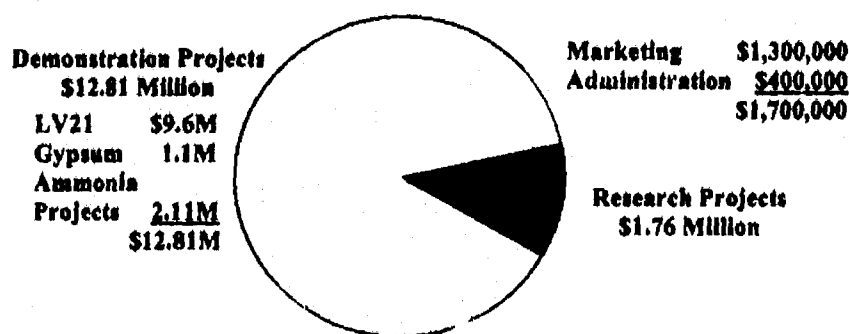
A. Governor's Industrial Commission budget of \$16.27 million consists of:

Committed Funds not yet expended (Lignite Vision 21 Projects)	\$9,600,000
Carry over Funds	\$505,000
New Trust Fund Revenue (50% + 20%)	\$4,725,000
New Two Cent per ton R&D Tax Revenue	\$1,200,000
Interest	<u>\$240,000</u>
Total	<u>\$16,270,000</u>

IX. What is proposed for 2003 - 2005 Biennium for lignite R&D program? (Cont.)

A. How will \$16,270,000 be allocated in 2003 to 2005 biennium?

**2003-2005 Lignite R&D
Proposed Appropriation**



Total Amount = \$16,270,000

X. Summary of Research, Development & Marketing Components

- **Research** - Each dollar in state funds has generated another five dollars in total research funds to solve critical challenges facing the industry, which enhances the environmental performance and efficiency in lignite power plants, results in cost-effective reclamation and leads to development of new products and markets;
- **Marketing** - Developed regional lignite marketing plan, presently being implemented; Coordination of Lignite Vision 21 Program; Identified new markets for byproducts;
- **Development (Demonstration)** - Resulted in coal demonstration projects which have (anhydrous ammonia) or will provide new markets for by-products (gypsum project); Implemented *Lignite Vision 21 Program* to develop new clean coal generation projects;
- **Bottom Line** - State's Lignite R & D Program has resulted in an *effective partnership* to *preserve* and *enhance* jobs, economic growth, and tax revenue for the benefit of industry, and our state.

Additional information is also available on the R&D Program Web site:

<http://www.state.nd.us/ndic/lrc-infoP.htm>

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Prepared by Harvey Ness
Director, Lignite Research and Development Program

Summary of Existing Research Projects January 10, 2003

FY00-XXXIV-96 "Demonstration of Lignite Ash for Feedlot Surfaces": Program Funding: \$159,360; Total Project Costs: \$531,360. Objective: To demonstrate the benefit of North Dakota lignite coal combustion byproducts on feedlot surfaces.

FY00-XXXVI-100 "Evaluation of Potential SCR Catalyst Blinding During Coal Combustion": Program Funding: \$200,000; Total Project Costs: \$733,333. Objectives: To determine the potential of low-rank coal ash to cause blinding or masking of selective catalytic reduction (SCR) catalysis and to determine the degree of elemental mercury conversion across the catalysis.

FY00-XXXVI-101 "Lignite Fuel Enhancement Incremental Moisture Reduction Project Phase I": Program Funding: \$161,000; Total Project Costs: \$322,666. Objectives: To use waste heat to assist in incremental moisture reduction of lignite and to improve the efficiency of the power plant operation.

FY00-XXXVII-102 "Reclaimed Grassland Management for Increased Plant Diversity": Program Funding: \$32,250; Total Project Costs: \$111,720. Objective: To evaluate livestock grazing and haying strategies as a means for improving plant diversity and seasonality on reclaimed native grasslands.

FY00-XXXVII-103 "Mercury Control Options Evaluation at Coal Creek Station, Underwood, North Dakota & Stanton Station, Stanton, North Dakota": Program Funding \$95,000; Total Project Costs \$190,000. Objective: To evaluate options for minimizing or controlling mercury air emissions from Great River Energy's Stanton and Coal Creek Stations.

FY01-XXXVII-105 "Pilot Scale Study of Mercury Oxidation Catalysts at Coal Creek Station": Program Funding \$50,000; Total Project Costs \$1,180,000. Objective: To evaluate the effectiveness of catalyst materials to oxidize elemental mercury content in the flue gas from coal-fired power plants. A goal is to convert elemental mercury to ionic mercury permitting mercury removal in conventional flue gas desulfurization systems.

FY02-XLII-108 "Low Temperature NO_x Reduction Using High Sodium Lignite": Program Funding \$160,000; Total Project Costs \$1,020,000. Objective: To evaluate the use of High-sodium lignite-derived chars to reduce NO_x emissions from Cycle Fired Boilers. A secondary objective is to promote the oxidation of elemental mercury to ionic mercury. The NO_x reduction and mercury oxidation processes are to be demonstrated in a circulating fluid-bed reactor.

FY02-XLIV-110 "Biomass Impacts on SCR Performance": Program Funding \$120,000; Total Project Costs \$400,000. Objective: To determine fundamental mechanisms of NO_x reduction and potential blinding of selective catalytic reduction catalysts using biomass and lignite.

FY02-XLIV-111 "Center for Air Toxic Metals Affiliates Program Continuation of Membership": Program Funding \$75,000; Total Project Costs \$3,750,000. Objective: To further the understanding of the behavior of potential toxic metals in coal-fired utilities, other fossil fuel systems, waste-to-energy systems and waste incinerators. A specific objective of the CATM program is the study of the fate and control of mercury emissions from coal-fired systems. This project is a continuation of Project 62 and 89.

FY02-XLIV-112 "Mercury Control Options Evaluation, Phase II Stanton Station": Program Funding \$80,000; Total Project Costs \$220,000. Objective: To evaluate mercury control options at Stanton Station. Specific objectives are to evaluate the effectiveness of the chemical additives to convert elemental mercury to ionic mercury and to evaluate the effectiveness of the MerCap technology based on the use of gold plates inserted in the combustion gas stream to absorb mercury.

FY02-XLV-113 "Anaerobic Treatment of Dakota Gasification Company Stripped Gas Liquor": Program Funding: \$130,000; Total Project Cost: \$380,000. Objective: To develop a more efficient method to remove organics from stripped gas liquor effluent. Specific objectives are to develop an anaerobic biological process to degrade organic impurities to reduce heat exchanger fouling thereby reducing cooling tower odors and drift.

FY02-XLV-114 "Mercury Control Technologies for Electric Utilities Burning Lignite Coals" Program Funding: \$150,000; Total Phase 1 Project Costs \$833,000. Objective: To develop cost-effective elemental mercury control technologies for utilities burning lignite coals. Specific Objectives: To develop an understanding of mercury interactions with flue gas constituents; Identify candidate chemical agents and sorbents and conduct laboratory screening tests; Conduct pilot scale tests to identify candidate sorbents for future field tests at a lignite-fired plant.

FY02-XLVI-115 "Implementation of Regional Lignite Energy Marketing Plan." Program Funding: \$975,000; Total yearly Project Costs: \$1,950,000. Objective: Improve overall public regional image of coal and promote the use of coal as a low-cost, efficient and environmentally compatible energy source to ensure the continued utilization and growth of coal-based electrical energy.

FY03-XLVII-116 "Long-Term Mercury Monitoring at North Dakota Power Plants." Program Funding: \$129,000; Total Project Costs: \$446,667. Objective: Conduct long-term monitoring of mercury emissions at the Milton R. Young Unit 2 and R. M. Heskett Unit 2 plants to determine emission levels and variations due to coal and operations, and to quantify levels of oxidized versus elemental mercury.

FY03-XLVIII - 117 "Mercury and Air Toxic Element Impacts of Coal Combustion By-Product Disposal and Utilization."

Program Funding: \$37,500. Total Project Costs: \$1,600,000. Objective: Evaluate potential impacts of mercury and other air toxic elements on the management of coal combustion by-products (long-term storage and utilization products).



INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Commissioner of Agriculture

News Release

December 31, 2002

For Immediate Release

North Dakota Industrial Commission receives Lignite Vision 21 status report

Members of the North Dakota Industrial Commission (NDIC) received status reports today from John Dwyer, president of the Lignite Energy Council, regarding Lignite Vision 21 (LV 21) studies being conducted by three applicants that have expressed interest in building a low-emissions, lignite-based electric generating station in North Dakota.

Dwyer told the commission that most of the preliminary feasibility studies – including environmental, generation and transmission work – are now complete and two out of three original applicants have expressed interest in moving ahead to the engineering and permitting phase. The applicants continuing are: Great Northern Power Development, a limited partnership with coal reserves near Dickinson, North Dakota; and Montana-Dakota Utilities Co., and Westmoreland Power, Inc., who are interested in jointly developing a project at the former Gascoyne Mine site in southwestern North Dakota.

A third applicant, Great River Energy, has said that its immediate electric generation needs can best be met with intermediate/mid-range and peaking power near its load centers in Minnesota, rather than by adding baseload power.

North Dakota Gov. John Hoeven, who is chairman of the Industrial Commission, has made energy development one of six pillars for growth in the state. Hoeven said he is encouraged that two of the three projects are moving forward.

"I'm excited about the economic possibilities that could result if one or more new baseload power plants are sited in North Dakota," Hoeven said. "Developing our resources in an environmentally sound manner will not only add good paying jobs but also allow our state to help meet the nation's growing energy demands."

Ron Tipton, chief executive officer of Montana-Dakota Utilities, and Chris Seglem, Chairman of the Board, President & CEO of Westmoreland Coal Company, said that the studies completed to-date indicate a strong need for reliable, low cost power in the region.

"Our customers and others in the region are demanding more electricity," Tipton said. "MDU and Westmoreland think it's prudent to continue investigating all generation sources that can efficiently satisfy these needs."

Jerry Vaninetti, president of Great Northern Properties, echoed Tipton's comments saying that the studies completed to date are also encouraging.

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"Our studies show real potential for operating a competitive power plant that is nothing short of the finest coal-based generating station in the world," Vaninetti said. "We would be using advanced generation technologies that have been developed, tested and proven viable since the last coal-based plant in North Dakota went on line nearly 20 years ago."

In delivering the status report, Dwyer noted that much progress has been made relating to environmental challenges that had earlier looked to be impediments for the LV 21 Program.

Attorney General Wayne Stenehjem, and Industrial Commission member, said he believes the environmental challenges facing new coal-based plants can be met. "The energy industry in our state has proven itself to be a good steward of our land, water and skies," he said. "The proposed projects similarly would be among the cleanest in the nation."

Another hurdle involves adequate transmission capacity. Dwyer said that much of the electricity from any new generation source in the state will likely flow not only to North Dakotans but also to customers in neighboring states.

"We have identified several transmission routes that end the current bottleneck situation – especially between North Dakota and Minnesota," Dwyer said. "However, several transmission issues are in flux and building additional transmission facilities carries financial uncertainty. It's imperative these issues be resolved in a timely fashion by the Federal Energy Regulatory Commission and multi-state transmission planning entities."

Roger Johnson, Agriculture Commissioner and also an Industrial Commission member, noted that both wind energy interests and coal-based power plants will require additional transmission capacity if significant amounts of generating capacity in the state are to occur. "Resolving the transmission constraints is necessary and will require great cooperation of both wind energy proponents and LV 21 applicants to get it accomplished," he said.

Jim Van Epps, president and chief executive officer of Great River Energy, said his company began the feasibility studies because of North Dakota's excellent lignite reserves, quality workforce and favorable business climate.

"At this time, it appears that an intermediate or peaking generation source would better meet our needs," Van Epps said. "This, however, doesn't preclude us from looking at another lignite-based plant at some point in our future."

The Lignite Vision 21 Program is a partnership between state and industry and is designed to encourage construction of a baseload power plant in North Dakota that is available to produce power in the 2008-2010 timeframe. As proposed, the LV21 Program is designed to meet growing regional electrical needs and revitalize the lignite industry by producing 3 million tons of coal annually, creating 1,300 new jobs and generating an additional \$6 million annually in tax revenue.

The Lignite Research, Development & Marketing Program and the LV21 Program are overseen by the Industrial Commission of North Dakota, consisting of Governor John Hoeven as Chairman, Attorney General Wayne Stenehjem, and Agriculture Commissioner Roger Johnson.

-30-

Further Information: Lyndon Anderson, 258-7117 or Karlene Fine, 328-3722

Lignite Vision 21 Program

Project Development Timeline

	7/1/01	12/31/02	12/31/04	12/31/08
Pre - Feasibility	Feasibility	Engineering & Permitting	Construction & Startup	Commercial Operation
		Go / No Go		
(Phase I)	(Phase II)	(Phase III)	(Phase IV)	

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Lignite Energy Position - HB 1015

"Provide for Industrial Commission study of the proposed merger.

*Would support the elimination of a Geologist III position in the subsurface section proposed by the Governor and additional position(s), if appropriate, through retirements.

*If necessary, would support a reduction of \$150,000.

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Suggested amendments

Legislative Intent

Prior to November 1, 2004 the industrial commission shall present to the Budget Section a report on the proposed merger of the oil and gas division and the geological survey and present the appropriate statutory changes to be presented to the fifty-ninth legislative assembly to fully implement the merger. In developing the report, the industrial commission shall maintain the position of state geologist within the proposed merger and insure there are adequate personnel and dollar resources to carry out the responsibilities of the state geologist under chapter 54-17.4.

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