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ROLL NUMBER

DESCRIPTION

1441

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LoCosta Rickford
Operator's Signature

10/16/03
Date

2003 HOUSE FINANCE AND TAXATION

HB 1441

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La Costa Richard
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10/16/03
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1441

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date January 28, 2003

Tape Number	Side A	Side B	Meter #
1		X	10.1
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. WESLEY BELTER, CHAIRMAN Called the hearing to order.

REP. ANDY MARAGOS, MINOT Introduced the bill. Stating it was deja vu all over again.

Gave background of a bill he was introduced to in 1993, when he became a freshman legislator.

He compared the concept of that bill to this bill. He said the bill passed both houses, but was vetoed by the governor. He stated we do this all of the time when we buy insurance to cover our homes, etc. He gave several examples of options in the stock market and the money that could be made by placing "put" options on oil production.

REP. DAVID MONSON, DIST. 10. Sponsor of the bill, was unable to be at the hearing, but submitted written testimony. See attached testimony.

REP. FROELICH Knowing your history with gambling, have you run this past the governor?

REP. MARAGOS No, the governor has not asked. I have a different approach to governing and leadership. I have an idea and I promote it, and if somebody has a question, I will be happy

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House Finance and Taxation Committee

Bill/Resolution Number HB 1441

Hearing Date January 28, 2003

to answer it for him, if they don't have a question, I presume they understand what is happening.

REP. GROSZ What is the other side of the "put" option, who would be required to pay the \$18 for that \$12 dollar barrel of oil?

REP. MARAGOS In the market place, you have the exchanges that buy and sell derivatives. It is called a clearing house. Many people come in, and if they believe that the market is going up, they will make an investment based on that belief. If you believe the market is going down, by the same token, you make an investment. Gave examples of buying and selling options. It is a bid offering system.

REP. BELTER Asked how many options he bought in 1993.

REP. MARAGOS Stated he was not getting revenue from oil. For me to do that, it would be speculative. If I had income that I had to protect, like the state, I would have been in there like nobody's business, protecting my income. My job, as I see it, is to make this state be as smart as it can be. I believe this is a bill that moves in that direction. There are no guarantees in life. You could be the options and a barrel of oil could stay at twenty two. I always tell people, when you buy home insurance and you don't have a fire, that doesn't mean you want to chance it and don't have insurance.

REP. BELTER Take an instance, where crude is trading around thirty dollars, how many barrels of oil are you talking about to protect North Dakota's interest, if we were to protect it in the December futures right now, how many millions of dollars of margin would that take?

REP. MARAGOS Asked Ron Ness what the barrels of oil are pegged at right now, for budgetary purposes. **RON NESS** Answered, between eighteen and twenty.

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House Finance and Taxation Committee
Bill/Resolution Number HB 1441
Hearing Date January 28, 2003

He stated, if we enter into a conflict with Iraq, you could see fifty dollar a barrel oil. We have no need to go in and protect the up side. That would dump so much money into our coffers, that is the possibility. Everybody says, if we don't go to war with Iraq, there is a chance the market will go down. If we solved the problem in the middle east, and all of those fears were allayed, we would be in pretty good shape, but if Venezuela goes back on line, in fact, pumping like crazy to make up for all they lost in the disruption and all of the resources they have lost, now we have the potential of dropping down to fourteen or fifteen dollar barrels of oil. We would be well advised to hire a physicist, who would provide an equation or a formula that gets you as close to perfection as you can get inside the investment universe. The only place we want to protect is the level at which we budgeted, to make sure we are held harmless. This is just a tool, it is not mandatory.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 2-3-03, Tape #1, Side B, Meter #2.3

REP. CLARK Made a motion for a **DO PASS**

REP. KLEIN Second the motion. **MOTION CARRIED**

9 YES 4 NO 1 ABSENT

REP. NICHOLAS Was given the floor assignment.

LR

FISCAL NOTE
Requested by Legislative Council
01/21/2003

Bill/Resolution No.: HB 1441

1A. **State fiscal effect:** Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** Identify the fiscal effect on the appropriate political subdivision.

2001-2003 Biennium			2003-2005 Biennium			2005-2007 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

HB 1441 enables the State Investment Board, at the request of the OMB Director and upon approval by the Industrial Commission, to purchase oil put options. It is uncertain if the provisions of the bill would be utilized during the 2003-05 biennium, so the fiscal impact, if any, cannot be determined.

3. **State fiscal effect detail:** For information shown under state fiscal effect in 1A, please:

A. **Revenues:** Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.

B. **Expenditures:** Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.

C. **Appropriations:** Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

Name:	Kathryn Strombeck	Agency:	Tax Dept.
Phone Number:	328-3402	Date Prepared:	01/27/2003

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Krista Rickford
Operator's Signature

10/16/03
Date

Date: 2-3-03
Roll Call Vote #: 1

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1441

House FINANCE & TAXATION Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken

Do Pass

Motion Made By

Rep. Clark

Seconded By

Rep. Klein

Representatives	Yes	No	Representatives	Yes	No
BELTER, CHAIRMAN		<u>E</u>			
DROVDAL, VICE-CHAIR		<u>E</u>			
CLARK	<u>E</u>				
FROELICH	<u>E</u>				
GROSZ		<u>V</u>			
HEADLAND	<u>V</u>				
IVERSON	<u>K</u>				
KELSH	<u>K</u>				
KLEIN	<u>V</u>				
NICHOLAS	<u>E</u>				
SCHMIDT	<u>V</u>				
WEILER	<u>V</u>				
WIKENHEISER		<u>V</u>			
WINRICH	<u>V</u>				

Total (Yes) 9 No 4

Absent 1

Floor Assignment

Rep. Nicholas

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

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Operator's Signature

Jo Costa Richardson

Date

10/16/03

REPORT OF STANDING COMMITTEE (410)
February 3, 2003 4:10 p.m.

Module No: HR-20-1570
Carrier: Nicholas
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE
HB 1441: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO
PASS (9 YEAS, 4 NAYS, 1 ABSENT AND NOT VOTING). HB 1441 was placed on the
Eleventh order on the calendar.

(2) DESK, (3) COMM

Page No. 1

HR-20-1570

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To Costa Richard
Operator's Signature

10/16/03
Date

2003 SENATE FINANCE AND TAXATION

HB 1441

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Salvatore Riccardi
Operator's Signature

10/16/03
Date

2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1441

Senate Finance and Taxation Committee

☐ Conference Committee

Hearing Date March 4, 2003

Tape Number	Side A	Side B	Meter #
1	X		1300-2005
1		X	3990-end
2	X		1869-2458

Committee Clerk Signature

Minutes:

Vice Chairman Senator Wardner opened the hearing on HB1441. A quorum is present. This bill authorizes the state to purchase oil put options.

Representative David Monson (mtr #1343) - Introduced the bill and explained its intent. The bill works when oil revenues are on the rise. Current situation with the high oil prices, if this bill passes, the Director of OMB would be able to purchase oil put options. Explained what an oil put option is and how this would work for the state. Feels with this option, the state can not lose money.

Senator Wardner (mtr #1841) - Used an example to clarify his understanding of the bill.

Representative Monson (mtr #1870) - Would not want to sell in the example that Senator

Wardner gave. Would want to let the option expire and would be out the premium. Urges a Do Pass.

Senator Wardner (mtr #2005) - Recessed hearing on HB1441.

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Senate Finance and Taxation Committee

Bill/Resolution Number HB1441

Hearing Date March 4, 2003

Tape 1, Side B

Senator Urlacher (mtr #3990) - Reopened the hearing on HB1441 which relates to oil put options.

Representative Andy Maragos (mtr #4000) - Testified in support of HB1441. A previous bill with the same intent had been passed by the legislature but then vetoed by the Governor. Rep. Maragos believes in the merits of this bill and feels they are as solid today as they were ten years ago. Feels the state would be smart to manage its risk with its own assets and resources. If managed and used properly, the market could protect the state from loss. Bill would allow the Oil and Gas Commission to purchase put options that would protect the downside. It is a piece of enabling legislation, doesn't have to be used. Feels it is the most conservation investment one can make when protecting an underlying asset. Is not speculative, is protective.

Senator Urlacher (mtr #4425) - Would be in the hands of the Industrial Commission to make the determination when to buy or when not to.

Representative Maragos (mtr #4436) - Agreed, based on a recommendation from the Oil and Gas Commission. Gave an example of the market ten years ago when the bill was initially introduced and how this bill could work favorably for North Dakota. Much lengthy explanation on how this bill would work for the state.

Senator Syverson (mtr #5197) - What is the downside?

Representative Maragos (mtr #5218) - When you buy a put option, only the premium is at risk of loss.

Senator Seymour (mtr #5494) - Why hasn't this bill been brought forward earlier.

Representative Maragos (mtr #5517) - Personally decided not to bring forward a second time.

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Senate Finance and Taxation Committee

Bill/Resolution Number HB1441

Hearing Date March 4, 2003

Senator Tollefson (mtr #5672) - Questioned whether the Director of OMB would have the ability to make this type of investment decision now.

Representative Maragos (mtr #5734) - The Director of OMB has no authority to make this type of investment. If they have the authority, they haven't used it. Urges a do pass.

Senator Tollefson (mtr #6006) - Would like an answer to my question, regarding the ability of the Director of OMB to make this type of investment now.

Senator Urlacher (mtr #6054) - Given no further testimony or discussion, closed the hearing

Tape 2, Side A

Senator Urlacher opened the discussion on HB1441 which relates to oil put options.

Senator Tollefson (mtr #1892) - Regarding put options. Does OMB have the authority to use that as an investment?

Pam Sharp, Interim Director of OMB (mtr #1975) - Not sure if we have authority for that, would say we probably do not have the authority. All state investments go through the Bank of North Dakota.

Senator Tollefson (mtr #2047) - The bill states, upon approval of Industrial Commission.

Ms. Sharp (mtr #2056) - The bill gives the Industrial Commission the authority to tell us to invest in put options. Right now I would do a put option, would need to research.

Senator Tollefson (mtr #2115) - If you thought it was a good investment, and the Industrial Commission said OK, you could do it. The bill is encouraging it, not requiring it.

Ms. Sharp (mtr #2170) - As the bill read earlier, it would allow us to invest like that if we deemed it appropriate and with the approval of the Industrial Commission.

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Senate Finance and Taxation Committee

Bill/Resolution Number HB1441

Hearing Date March 4, 2003

Senator Tollefson (mtr #2198) - You could do that now?

Ms. Sharp (mtr #2225) - This bill gives that authority, don't have that authority without this bill.

Senator Nichols (mtr #2276) - Right now, you are allowed to invest with the Bank of North Dakota.

Senator Urlacher (mtr #2326) - Are you satisfied with the explanation? We have the bill before us to act on.

Senator Wardner moves a Do Pass. Second by Senator Nichols. Roll call vote 6 yea, 0 nay, 0 absent. Carrier is Senator Wardner.

Date: 10/4/03
Roll Call Vote #: 1

2003 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1441

Senate Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Sen. Wardner Seconded By Sen. Nichols

Senators	Yes	No	Senators	Yes	No
Senator Urlacher - Chairman	✓		Senator Nichols	✓	
Senator Wardner - Vice Chairman	✓		Senator Seymour	✓	
Senator Syverson	✓				
Senator Tollefson	✓				

Total (Yes) 6 No 0

Absent _____

Floor Assignment Sen. Wardner

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Yolanda Richardson
Operator's Signature

10/16/03
Date

REPORT OF STANDING COMMITTEE (410)
March 4, 2003 4:30 p.m.

Module No: SR-38-3911
Carrier: Wardner
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE
HB 1441: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends DO
PASS (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1441 was placed on the
Fourteenth order on the calendar.

(2) DESK, (3) COMM

Page No. 1

SR-38-3911

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Richard
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10/6/03
Date

2003 TESTIMONY

HB 1441

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La Costa Rickford
Operator's Signature

10/6/03
Date

TESTIMONY
HB 1441
Representative David Monson

Mr. Chairman and Members of the Committee. For the record, I am Representative David Monson from District 10 in northeastern North Dakota.

HB 1441 is no stranger to some of you who have been here ten years or more. Representative Maragos submitted this bill in 1993, I believe. We in the House and Senate thought it was a good idea then, and it passed both chambers, only to be vetoed by Governor Schafer. Our best guess as to why he did that is that it was a very new concept and, perhaps, misunderstood. Some people would say this bill is speculation or even gambling if you do not understand puts and calls. Options, however, are a well used tool by many people to set a floor for commodity prices and lock in a certain price. This bill is permissive language that lets the Office of Management and Budget, the Industrial Commission, and the State Investment Board purchase put options on oil. This would, in this time of short budgets and fluctuating oil prices, allow the state to set a floor on what we would receive from our oil tax revenues in the next biennium. Lines 8 through 11 assures that it cannot be used unless we are assured a break even or profitable situation.

This is just good fiscal management of anticipated oil revenues. In short, it is just good business.

I urge your favorable consideration of **HB 1441** and would welcome your questions which I will try to answer or defer to some of my cosponsors who are more knowledgeable than I on the use of options.