

MICROFILM DIVIDER

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



ROLL NUMBER

DESCRIPTION

1301

2005 HOUSE APPROPRIATIONS

HB 1301

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1301

House Government Performance Division

☐ Conference Committee

Hearing Date January 18, 2005

Tape Number	Side A	Side B	Meter #
1	X		1-End
		X	1-1604

Committee Clerk Signature 

Minutes: **Chair Carlson** opened the hearing on HB 1301, relating to budget reports of the legislative assembly.

Jim Smith, Legislative Council: Basically what this bill does, would add another requirement to the provisions in 54-44.106, that deal with OMB's reporting requirements regarding budget detail, and it would add a report on authorizations for debt of state agencies.

Chair Carlson: How would there be a consistent format on this?

Jim: On lines 9, 10, and 11 it lays out the components that would be included in that, and I would suspect it would be in a consistent format.

Chair Carlson: Is it already required in there, that you would have the type of bond that's already supplied to us?

Jim: The way it works now, is it was all different authorizations for bonds. There's those issued through the State Water Commission, the State Building Authority. There really authorized by code, but there not provided in any form to the Legislator, unless requested.

Rep. Glassheim: So this means any bonding proposed, what are evidence of indebtedness? Is it only new bonds proposed in the Governor's budget?

Jim: That's correct, the way it's worded, it talks about authorization for issuing debt, included in the executive budget.

Rep. Monson: I guess I was thinking that this was going to include all previous bonds as well. We have the debt obviously there, and we have to make payments each year.

Jim: There's another bill that deals with financing and leasing, which I think is intended to deal with those other types of debt.

Rep. Skarphol: We want it in two separate categories. We want the current proposed bonding, and then the existing bonding, so we can look at both simultaneously.

Jim: We can do amendments to accomplish that.

Rep. Glassheim: Wouldn't that already show bonds outstanding?

Jim: As your indicating, that just deals with the interest payments. What we're looking at here, is the debt as well, so I think you'd want both of them.

Gordy Smith, State Auditor's Office. (SEE WRITTEN TESTIMONY)

Rep. Skarphol: What's minor indebtedness that we might not be interested in?

Gordy: If evidence of indebtedness was defined to be bonded debt, then probably my other suggestions wouldn't apply.

Chair Carlson: Isn't the intention here to deal with just getting the total picture of every bond we have out there, and who pays it back?

Gordy: I don't know that it's in code, I think it's just from an accountants standpoint, and the bill certainly could state what you're looking for, as far as evidence of indebtedness to just be bonding.

Rep. Glassheim: Can you think of, besides lease copiers, are there other things that are evidences of indebtedness?

Gordy: One example, when Human services had some new software, associated with one of the programs they had installed, it was rather expensive. They got a financing arrangement with the provider of the software, and what it basically called for were payments for like three bienniums in the future. What troubled us was the nature it was provided.

Rep. Monson: One of the things that kind of concerns me to, is the pecking order on how these debts get paid back. Do you read this as covering that, so we will get that pecking order?

Gordy: I think that the phrase, source of funds for repayment, would be pretty clear.

Rep. Monson: HB 1304 is related to this, is there a pretty fine line between what's a bond, and what's another form of indebtedness?

Gordy: I think it's a pretty clear line between bonded debt, and non-bonded debt.

Chair Carlson: The key source of this information is to either pay for the product, or finance the product. We need to be looking at this information, and say should we be

bonding for this, can we pay it back, or should we be paying cash out of the general fund for it?

Gordy: I certainly think that the legislature should at least be able to look at an analysis that's done by whatever entity is either issuing the debt, or encoring the debt, to see that a buy verses a bond.

Sheila Peterson, OMB: Refer to the Capital Assets Tab, in the Executive Budget Book.

Rep. Skarphol: This is the proposed in the executive budget?

Sheila: Yes, it is.

Rep. Carlson: This is all still dealing with buildings?

Sheila: Yes.

Chair Swedjan: The 400,000 in this case, is it in the budget, and it's intended to be paid back in full during 05/07?

Sheila: No, the bond would normally be a 20 year bond. It would be spent in 05/07, to build the building.

Chair Swedjan: There would be a payback schedule for the 800,00 in bonding, which would be paid in future biennium?

Sheila: Let's assume both sides are going to be bonded. The Research Center would have some type of a bonding schedule. Normally it's a 20 year bond. Regardless, there are no payments at all from either party in 05/07.

Rep. Glassheim: So the 440,000 is not appropriated, at all, that's the share over 20 years the biennium will pick up, is that correct?

Sheila: It is actually appropriation authority, for them to spend the million 3 when they build the building, they do have to have the authority.

Rep. Skarphol: Can you tell me the source of that 5 million dollars?

Sheila: It's under the special fund column, but it doesn't say where they are.

Rep. Monson: The dyke in Grand Forks, is an example of a revenue bond. Do we have other examples of those kind of renovations that don't fall under Capital Construction all the time?

Sheila: None that are coming to mind right now.

Rep. Skarphol: The Department of Transportation has 537 million dollars in bonds. What's that?

Sheila: There are statutory authority for the Department of Transportation to borrow funds, they are borrowing money to complete the four lane of Highway 2.

Chair Carlson: How much general funds money goes out for every kind of a bond. What's that number?

Sheila: That's on page 71 in the OMB book.

Chair Carlson: Jim, in most cases when we have a bonding bill, is everything in there, or will we find bonding bills throughout all the agency bills?

Jim: They can be all different kinds of locations.

Karlene Fine, Industrial Commission. (SEE WRITTEN TESTIMONY)

Chair Carlson: Could you run appropriation bonds by me again?

Karlene: The bonds are issued, that the bond holder understands that the entity issuing the bonds will come to the Legislator, and seek an appropriation.

Chair Carlson: Does the rate get higher on those, because of lack of security?

Karlene: Appropriation bonds trade higher, they are more costly than a general obligation bond.

Chair Carlson: Which ones fall within our limit?

Karlene: The Building Authority are the only ones that fall within that limit.

Rep. Skarphol: Is there anybody that currently has authorization for appropriation bond repayment?

Karlene: That provision in law has been there since the Flood Control Act, or the Bonding Act was established. That provision was in the original bill, that is not new legislation.

Rep. Monson: Is that provision sun setting now that the Water Commission is coming back to us to renew that?

Karlene: My understanding, they were amending another portion of that statute, That's why it is showing up now.

Rep. Skarphol: If you laid that on a freshman legislators desk, is it in a form that's readable?

Karlene: We certainly want to try to do that.

Rep. Glassheim: When you sell bonds, isn't there something in those documents that tells the total bonded indebtedness of the state?

Karlene: It's called an Official Statement, within the statement, there is a section that talks about the indebtedness.

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House Government Performance Division

Bill/Resolution Number Hb1301

Hearing Date January 18, 2005

Rep. Glassheim: Would that have almost everything that is an obligation of the state, or only selected obligations?

Karlene: It would have the information on the bonded debt.

Rep. Monson: On your list, I don't see anything with DOT bonding, have they ever bonded before?

Karlene: They have not bonded before, but they can do some short term borrowing from the Bank of North Dakota.

Rep. Skarphol: Looking at the summary sheet, political subdivisions bonding, Are we the ultimate source if they run out of money?

Karlene: No.

Hearing Closed.

*Govt Performance
1301*

General Discussion

- ☐ Committee on Committees
- ☐ Rules Committee
- ☐ Confirmation Hearings
- ☐ Delayed Bills Committee
- ☒ House Appropriations
- ☐ Senate Appropriations
- ☐ Other

Date January 27, 2005

Tape Number

1

Side A

B Side

X

Meter #

900-2000

Committee Clerk Signature

Stephen Thomas

Minutes: **Chair Carlson** opened general discussion hearing on HB 1301, relating to budget reports to the legislative assembly.

Chair Carlson: Do you track every bond like this through the system?

Sheila, OMB: We talked about putting together more through a report.

Rep. Skarphol: One thing we never talked about was pecking order of repayment.

Sheila: That was in the original draft.

Rep. Monson: Do you think this will work for you?

Sheila: I think we can do some samples.

Rep. Monson: I move.

General Discussion

Page 2

House Government Performance

January 27, 2005

1301

Rep. Skarphol: I second.

Chair Carlson: HB 1301 is do pass, as amended.

Closed General Discussion Hearing.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1301
Required Bonding Information

House Appropriations Full Committee

☐ Conference Committee

Hearing Date February 1, 2005

Tape Number	Side A	Side B	Meter #
2		X	#46.8 - end
3	X		#0 - #3.8

Committee Clerk Signature *Chris Alexander*

Minutes:

Rep. Ken Svedjan, Chairman opened the hearing on HB1301.

Rep. Al Carlson moved to amend 0101 to HB1301

Rep. David Monson seconded.

Rep. Al Carlson explained that this concerns the bonding authority for continuing appropriations and the amendment changed the language of "evidence of indebtedness" to the word "bonding" so it would be less confusing. It also deals with outstanding bonds because we are concerned with the amount we have outstanding in bonds that the state is responsible for and we inserted language that said it was one of the responsibilities of the state to repay the bonds.
(meter Tape #2, side B, #46.8)

Rep. Ken Svedjan, Chairman summarized that this is another bill that gives some consistency in reporting, in this case on bonding, and also the responsibility of the state regarding the

repayment of the bond. Chairman Svedjan called for a voice vote to adopt amendment 0101 to HB1301. Motion carried.

Rep. Al Carlson explained that the language of the bill relates to adding a requirements to the list of required information that we receive through the budgeting reports. This is so we can gather information regarding bonding histories and repayment responsibilities for the state.

Rep. Jeff Delzer asked if the repayment schedules for the whole term of the bond would show up in these reports. (meter Tape #3, side A, #0.6)

Rep. Al Carlson answered that the repayment schedules that they saw showed the entire repayment of the bond to its completion even though they are funded on a 2 year basis.

Rep. Jeff Delzer commented that the discussion should show that it is the legislative intent of this bill that these reports will show the entire repayment schedule through the whole term of the bond.

Rep. Ken Svedjan, Chairman asked if this report will focus on all types of bonds.

Rep. Al Carlson answered that this is correct.

Rep. Al Carlson moved a Do Pass As Amended on HB1301.

Rep. Bob Skarphol seconded.

Rep. Ken Svedjan, Chairman called for a roll call vote on the Do Pass As Amended motion for HB1301. Motion carried with a vote of 20 yeas, 0 neas and 2 absent. Rep Carlson will carry the bill to the house floor.

Rep. Ken Svedjan, Chairman closed the discussion on HB1301.

50541.0101
Title.

Prepared by the Legislative Council staff for
House Appropriations - Government
Performance
January 24, 2005

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1301

Page 1, line 8, after "on" insert "outstanding bonds and on" and replace "evidences of indebtedness" with "bonds"

Page 1, line 11, after "terms" insert ", the responsibility of the state to repay the bonds"

Renumber accordingly

Date: Jan 27, 2005
Roll Call Vote #:

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1301

House

Government Performance

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 50541.0101

Action Taken DO Pass, AS Amended

Motion Made By

Rep Skarphol
monson

Seconded By

Rep Monson
Skarphol

Representatives	Yes	No	Representatives	Yes	No
Chairman Carlson	X		Rep. Glassheim	X	
Vice Chairman Skarphol	X				
Rep. Monson	X				

Total (Yes)

4

No

0

Absent

0

Floor Assignment

Chair Carlson

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

Date: **February 1, 2005**
Roll Call Vote #: **1**

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB1301

House Appropriations - Full Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number **50541.0101**

Action Taken **DO PASS AS AMENDED**

Motion Made By **Rep. Carlson** Seconded By **Rep. Skarphol**

Representatives	Yes	No	Representatives	Yes	No
Rep. Ken Svedjan, Chairman	X		Rep. Bob Skarphol	X	
Rep. Mike Timm, Vice Chairman	X		Rep. David Monson	X	
Rep. Bob Martinson	X		Rep. Eliot Glassheim	X	
Rep. Tom Brusegaard	X		Rep. Jeff Delzer	X	
Rep. Earl Rennerfeldt	AB		Rep. Chet Pollert	X	
Rep. Francis J. Wald	X		Rep. Larry Bellew	X	
Rep. Ole Aarsvold	X		Rep. Alon C. Wieland	X	
Rep. Pam Gulleeson	X		Rep. James Kerzman	AB	
Rep. Ron Carlisle	X		Rep. Ralph Metcalf	X	
Rep. Keith Kempenich	X				
Rep. Blair Thoreson	X				
Rep. Joe Kroeber	X				
Rep. Clark Williams	X				
Rep. Al Carlson	X				

Total Yes **21** No **0**

Absent **2**

Floor Assignment **Rep. Carlson**

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

GP - Do Pass As Amended - Carlson

REPORT OF STANDING COMMITTEE

HB 1301: Appropriations Committee (Rep. Svedjan, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends **DO PASS** (21 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1301 was placed on the Sixth order on the calendar.

Page 1, line 8, after "on" insert "outstanding bonds and on" and replace "evidences of indebtedness" with "bonds"

Page 1, line 11, after "terms" insert ", the responsibility of the state to repay the bonds"

Renumber accordingly

2005 SENATE APPROPRIATIONS

HB 1301

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1301

Senate Appropriations Committee

☐ Conference Committee

Hearing Date 02/23/05

Tape Number

2

Side A

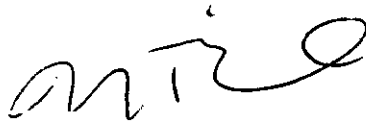
x

Side B

Meter #

1634-3270

Committee Clerk Signature



Minutes: **Chairman Holmberg** opened meeting on HB 1301.

Representative Monson, District 10 appeared to provide an overview and background. He is also in support.

Sen. Andrist (1892) Is this more detailed information, in this bill.

Rep. Monson: Not sure if its more detailed, it will be more comprehensive, all in 1 place.

Sen. Andrist (2004) Industrial commission would just get GO Bonds, would this help to get more detailed info on GO Bonds?

Sen. Mathern: (2198) I am concerned, we do get a report from executive branch. What does the word detailed mean in line 8. Where does it say for example revenue bonds.

Rep. Monson: LC should have written it right.

Chairman Holmberg was the original bill changed a whole lot?

Rep Monson: Not really, no.

Reo Skarphol, District 2 appeared in support, stating that they envisioned a separate summary on bonding. He also will offer an amendment to include what the anticipated effect on bonding will be.

Sen. Christmann: (2835) Do we have any idea how much trouble will it be to prepare what they are asking for?

Sheila Peterson, OMB: Karlene Fine has copies of this report, see appendix I.

Sen. Christmann (3085) (asking Rep Skaphol) Is this what you are looking for?

Rep Skarphol: We want to make them available at the beginning of the session. It would be much more convenient and understandable if they were.

Chairman Holmberg closed hearing on HB 1301

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1301

Senate Appropriations Committee

☐ Conference Committee

Hearing Date April 14, 2005

Tape Number

1

Side A

a

Side B

Meter #

- 802

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on HB 1301. He mentioned that Senator Krauter pointed out the Caphor Report has this information in it. It is one of those that is there but some people don't know where to find the Caphor Report.

Senator Christmann moved a DO PASS on HB 1301, Senator Fischer seconded, a roll call vote was taken resulting in 9 yes and 5 no. The motion carried and Senator Holmberg will carry the bill.

Senator Robinson indicated when we had a discussion on this series of bills, the thought entered my mind that this information is available. One of the problems we have is overloading too much information so we need to be careful, we will add more books to our load. The problem we have now is too much information and just about anything we ask for from the Legislative Council, we get.

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Senate Appropriations Committee

Bill/Resolution Number 1301

Hearing Date April 14, 2005

Senator Mathern just wanted to remind us of the word detailed in line 8 indicates it could be a one page or a hundred pages.

Chairman Holmberg closed the hearing on HB 1301.

Date 4/14/05
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 1301

Senate SENATE APPROPRIATIONS

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken

Motion Made By

Do Pass
Christman Seconded By Fischer

Senators	Yes	No	Senators	Yes	No
CHAIRMAN HOLMBERG	/		SENATOR KRAUTER		/
VICE CHAIRMAN BOWMAN	/		SENATOR LINDAAS		/
VICE CHAIRMAN GRINDBERG			SENATOR MATHERN		/
SENATOR ANDRIST	/		SENATOR ROBINSON		/
SENATOR CHRISTMANN	/		SEN. TALLACKSON		/
SENATOR FISCHER	/				
SENATOR KILZER	/				
SENATOR KRINGSTAD	/				
SENATOR SCHOBINGER	/				
SENATOR THANE	/				

Total (Yes)

9

No

5

Absent

1

Floor Assignment

Holmberg

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

REPORT OF STANDING COMMITTEE (410)
April 14, 2005 11:14 a.m.

Module No: SR-69-8135
Carrier: Holmberg
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1301, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman)
recommends **DO PASS** (9 YEAS, 5 NAYS, 1 ABSENT AND NOT VOTING).
Engrossed HB 1301 was placed on the Fourteenth order on the calendar.

2005 TESTIMONY

HB 1301

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 obligations 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.
- The State may not issue debt in excess of the limit set out in this section except for one of the following purposes:
 - A. Repelling invasion.
 - B. Suppressing insurrection.
 - C. Defending the State in time of war.
 - D. Providing for the public defense in case of threatened hostilities.

Currently, there are no outstanding General Obligation Bonds of the State.

Appropriation Bonds

Appropriation bonds do not carry a moral obligation as defined below 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.]

North Dakota Building Authority Lease Revenue Bonds

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.

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.

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 Industrial Commission issued student loan subordinate bonds during the 2003-2005 biennium. These bonds are subordinate to the outstanding student loan bonds but will have the same repayment source (student loan payments).
- 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 part of the Southwest Pipeline Project and for a small portion of the NAWs 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

01/14/05

Type of Bond	Security Source*	Source of Repayment	Various Limitations**	Amount Outstanding as of 6/30/03	Statutory Reference
Ind. Commission/ Agricultural Bonds North Dakota Building Authority	Revenue Bonds Lease Revenue/ Appropriation Bonds	Agricultural loans Deed/lease held on the facilities either constructed or rehabilitated	*** General Fund appropriation cannot exceed 10% of 1% of the sales use, motor vehicle tax ****	\$0 \$115,968,000 as of 6/30/04	4-36 54-17.2
State Fair Association	Revenue Bonds	Revenues and earnings	***	\$2,250,000	4-02.1
Housing Finance Agency	Mortgage Revenue Bonds	Revenues from Mortgages held on homes and multi-family facilities	***	\$598,832,000 as of 6/30/04	54-17
Industrial Commission/ Lignite Research Program	Revenue Bonds	Letter of Credit from Bank of North Dakota	No limitations except to the extent of funds available in the Lignite Research Fund for debt service payments	\$2,860,000 as of 6/30/04	54-17.5
Municipal Bond Bank	Moral Obligation Revenue Bonds	Political Subdivision bonds	Capital Financing Program has rating agency & IC limitation of \$75,000,000. SRF Program ***	\$153,245,000 as of 12/31/04	6-09.4
Natural Resource Bonds Governor & Treasurer -- Real Estate Bonds	General Obligation General Obligation	Taxing Authority of the State Real Estate mortgages & a commitment to levy a statewide mill levy	Together with all GO debt 5% of full and true value of all taxable property \$150,000,000/65% of the value of real estate mortgages	\$0 \$0	21-11-08 54-30
Industrial Commission/ Student Loan Program	Revenue Bonds Residual Bonds	Student Loans guaranteed by Guarantee Agency and Federal Government	*** The residual (subordinate) bonds are statutorily limited to \$23,000,000. The residual bonds are subordinate to all other student loan bonds—they are not issued on parity with other SLT bonds. Each project must be approved by the Legislature. No overall limitation	\$125,388,000 as of 6/30/04	54-17
University System	Revenue Bonds	Revenues from the fees	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 \$60,000,000.)	\$87,143,000	15-55
Water Commission	Revenue Bonds Appropriation Bonds	Parking Fees, Housing Fees, Student Fees 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 \$60,000,000.)	\$46,111,602 as of 6/30/04	61-24.3, 61-24.6, 61-02, 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 \$233,800,000 for calendar year 2004. The Student Loan Revenue Bonds and the Housing Finance Agency Revenue Bonds fall within the Private Activity Bond Volume Cap.

***The issuance of bonds is subject to adherence to bond document requirements and satisfactory program cash flows.

****North Dakota Building Authority Bonds issued for Energy Conservation Projects and ConnectND, by law, are not under the 10% of 1% sales tax limitation. Revised 1/14/05

SUMMARY OF INFORMATION PROVIDED RELATED TO BILLS UNDER CONSIDERATION

Bill No.	Issue	Document Attached
HB 1182	Continuing appropriations	Section 34 of 2003 SB 2015 59316 - Agency "off-budget" positions
HB 1301, 1304, and others	Bonding and borrowing	59487 - Existing and proposed bonds 59488 - State Water Commission bonds 59479 - Letter regarding statutory provisions on agency borrowing Documents regarding State Building Authority - Debt service (Karlene Fine)
	Privatization	2001 Legislative Council report - Budget Committee on Government Services - Privatization study
HB 1334	Employee compensation	59427 - Information regarding state employees
HCR 3005	Use of state-owned property	Legislative Council budget tour group report - Reference appendix

STATE OF NORTH DAKOTA - EXISTING AND PROPOSED BONDS

This memorandum provides information on existing state bonds, bond payment or debt service schedules, and a summary of projects to be funded by bonding included in the 2005-07 executive recommendation.

EXISTING BONDS

A schedule from the North Dakota Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2003, providing information on the state's long-term debt, including outstanding bonds and notes payable, is attached as Appendix A. "All revenue bonds" by definition in the CAFR is all bonds (revenue and state-supported) issued by state agencies and institutions.

The balance of all outstanding bonds, not including component units, as of June 30, 2003, was approximately \$1,032,980,000. Debt service requirements for the outstanding bonds is detailed on the top of page 71 of Appendix A.

A total of \$433 million of notes payable was also outstanding as of June 30, 2003, excluding component units. The June 30, 2004, North Dakota CAFR, anticipated to be available in February 2005, will provide updated information on outstanding long-term debt.

BUILDING AUTHORITY BONDS

A payment schedule for all outstanding state-supported or building authority debt (paid for with state appropriations) is attached as Appendix B. The outstanding June 30, 2003, principal balance of \$96.1 million is included in the bond total of \$1,032,980,000. The lease payment schedule for the \$25.56 million of new bonding recommended in the 2005-07 biennium executive budget "capitalizes" interest for three years, instead of two years which was done in previous bond issuances. Therefore, the first principal payment for the proposed 2005-07 biennium bonds would not be due until the second year of the 2007-09 biennium.

2005-07 EXECUTIVE BUDGET - PROPOSED BONDS

The 2005-07 executive budget recommendation provides authorization for issuance of \$65.3 million of revenue-supported bonds (paid from the applicable agency's or institution's program income). The following schedule provides a summary of bonds for projects included in the 2005-07 executive recommendation.

Bill No.	Agency or Institution	Project	Bonding Amount
State-supported bonds			
HB 1015	Office of Management and Budget	Fire suppression system	\$3,155,000
HB 1003	Office of Attorney General	Crime lab building addition and remodeling	3,632,691
SB 2003	North Dakota State University	Hazardous material handling and storage facility	3,500,000
SB 2003	State College of Science	Electrical distribution	736,000
SB 2003	Dickinson State University	Murphy Hall renovation addition (Phase II)	4,100,557
HB 1012	Department of Human Services	Cedar Grove roofing (Developmental Center)	135,000
HB 1012	Department of Human Services	Pool filtration and roof repairs - Collette Gym (Developmental Center)	105,000
HB 1012	Department of Human Services	Electrical transformer replacement (State Hospital)	40,000
HB 1012	Department of Human Services	Roof repairs (State Hospital)	65,000
HB 1012	Department of Human Services	Water tower repairs and painting (State Hospital)	110,000
SB 2012	Department of Corrections and Rehabilitation	ET building improvements (JRCC)	980,000
SB 2012	Department of Corrections and Rehabilitation	Programs building code improvements (JRCC)	584,000
SB 2012	Department of Corrections and Rehabilitation	Multipurpose room (MRCC)	2,022,510
SB 2020	Branch research centers	Agronomy laboratory and greenhouse (North Central)	440,000
SB 2020	NDSU Main Research Center	Research greenhouse complex (Main Station) ¹	4,500,000
HB 1019	State Historical Society	Chateau Interpretive Center planning ²	1,100,000
HB 1020	Parks and Recreation Department	Administrative office - Turtle River State Park	350,000
Total state-supported bonds			\$25,555,758

Bill No.	Agency or Institution	Project	Bonding Amount
Revenue-supported bonds			
SB 2003	Bismarck State College	Student apartments	\$1,800,000
SB 2003	University of North Dakota	Dining center renovation (Wilkerson and/or Squires)	1,500,000
SB 2003	University of North Dakota	Parking ramp structure	12,000,000
SB 2003	University of North Dakota	University housing replacement	16,000,000
SB 2003	North Dakota State University	Memorial Union renovation and addition	22,000,000
SB 2003	North Dakota State University	Wellness Center addition	12,000,000
Total revenue-supported bonds			\$65,300,000
Total all proposed 2005-07 bonds			\$90,855,758

¹Senate Bill No. 2023 provides \$4,500,000 of special funds from state bonding proceeds for the Main Research Center greenhouse complex; \$2,000,000 of federal funds and \$500,000 of special funds are to be used to repay the bonds.

²Senate Bill No. 2023 provides \$1,100,000 of special funds from state bonding proceeds for the Historical Society Chateau Interpretive Center; \$300,000 of special funds are to be used to repay the bonds.

State Water Commission Bonds

The proposed 2005-07 bond issuances (above) and the schedule of outstanding debt does not include \$60 million of bonds authorized by the 2003 Legislative Assembly for the State Water Commission. House Bill No. 1153 (2005) makes the statutory changes necessary for the State Water Commission to sell these bonds by July 1, 2005.

ENERGY SAVINGS PROJECTS

The 2005-07 schedule also does not include funding for energy savings projects for the Office of Management and Budget (\$1,800,000) and the University of North Dakota (\$2,331,554) which are paid on a contract basis

from realized future energy savings. North Dakota Century Code Section 48-05-11 provides that a government unit may enter into a guaranteed energy savings contract with a qualified provider if it finds that the amount it would spend on the energy conservation measures is not likely to exceed the amount to be saved in energy and operation costs over a period not exceeding 10 years from the date of installation. The contract must include a written guarantee of the qualified provider that the energy and operating cost-savings will meet or exceed the costs of the system. A qualified provider to whom the contract is awarded must give a sufficient bond to the governmental unit for the faithful performance of the contract.

ATTACH:2

STATE OF NORTH DAKOTA

The historical costs of assets acquired under capital leases, and included as capital assets on the government-wide statement of net assets at June 30, 2003, is as follows (expressed in thousands):

	Governmental Activities	Business- Type Activities
Infrastructure	\$ -	\$ 1,160
Buildings	-	8,790
Equipment	6,033	22,937
Less: Accumulated Depreciation	(786)	(10,618)
Total	\$ 5,247	\$ 22,269

I. LONG-TERM DEBT

Debt authorized is generally limited by the state constitution. The Constitution of North Dakota provides that the State may issue or guarantee the payment of bonds, provided that all bonds in excess of \$2 million are: (1) secured by first mortgage upon property and no further indebtedness may be incurred by the State unless evidenced by a bond issue; (2) authorized by law; (3) for a certain purpose; (4) provisioned to pay the interest semiannually; and (5) the principal is paid within 30 years. Additionally, the law authorizing the bond issue must specifically appropriate the provisions to the payment of the principal and interest of the bond.

BONDS AND NOTES PAYABLE

Bonds payable at June 30, 2003, consisted of bonds issued by the State and are accounted for by the respective state agencies in the government-wide financial statements that issued the bonds.

1. REVENUE BONDS

Current state statutes empower certain state agencies to issue bonds as part of their activities. This debt is not backed by the full faith and credit of the State of North Dakota. The principal and interest on such bonds shall be payable only from the applicable agency's program income.

Primary Government

Building Authority

The 2002 Series C Bonds have interest payable semiannually on February 15 and August 15 of each year. The 1998 Series A, B, and C Bonds, the 2000 Series A Bonds, the 2001 Series A Bonds, the 2002 Series A, B and D Bonds, and the 2003 Series A and B Bonds have interest payable semiannually on June 1 and December 1 of each year. The bonds of each series are subject to optional and/or extraordinary optional redemption prior to maturity upon the occurrence of certain events. The bonds are independently secured by

the funds, certain mortgaged property, and all rights, titles, and interests of the Building Authority as lessor, including all basic rent payments, investment earnings on the funds and any other income derived by the Building Authority with respect to the lease.

All the bond agreements require the establishment and maintenance of reserve funds to be used for debt service payments if amounts in the bond funds are insufficient to make payments. Reserve funds are also required for any positive arbitrage due to the federal government.

On March 5, 2003, the Building Authority issued \$15,145,000 Lease Revenue Refunding Bonds, 2003 Series A, with an average interest rate of 5.25 percent. The proceeds of the issue were used for a current refunding of 1993 Series A. The current refunding was undertaken to reduce total debt service payments over the next seven years by \$1,119,000 and resulted in an economic gain of \$1,001,000. At June 30, 2003, none of the 1993 Series A Bonds were outstanding.

On July 11, 2002, the Building Authority issued \$10,665,000 Lease Revenue Refunding Bonds, 2002 Series C, with an average interest rate of 3.92 percent. The proceeds of the issue were used for a current refunding of 1993 Series B. The current refunding was undertaken to reduce total debt service payments over the next twelve years by \$904,000 and resulted in an economic gain of \$801,000. At June 30, 2003, none of the 1993 Series B Bonds were outstanding.

Lignite Research

The Industrial Commission is authorized by NDCC 54-17.5 (the "Act") to provide funds and financial assistance to qualified persons for projects related to the clean use of lignite in order to insure economic growth, maintain and enhance development of North Dakota lignite and general welfare in North Dakota. The Industrial Commission is authorized and has established a program to issue and sell North Dakota Lignite Research Bonds to provide funds for the purpose stated in the Act. As of June 30, 2003, there were \$16 million of authorized and \$8,825,000 issued through the Lignite Research Fund. The Commission's intention is not to issue any bonds in the future.

The 1995 Series A Bonds have interest payable on May 15 and November 15 of each year. The bonds maturing on November 15, 2005, are subject to mandatory redemption equal to 100% of par plus accrued interest at various amounts in 2004 and 2005. The bonds are also subject to extraordinary redemption upon the occurrence of certain events. Proceeds of the bonds are being used to provide a grant for funding of construction of an anhydrous ammonia plant.

Notes To The Financial Statements

Water Commission

The Water Commission is authorized by Senate Bill No. 2188 to issue bonds to finance various flood control and pipeline projects throughout the state of North Dakota. Authorized and unissued bonds totaled \$77,518,201 at June 30, 2003. Water development projects that will benefit from the financing are as follows:

Grand Forks	\$ 29,000,000
Devils Lake	20,000,000
Statewide Water Development Projects	20,000,000
Wahpeton	3,500,000
Grafton	4,800,000
Southwest Pipeline Project	218,201

Interest is payable semiannually on January 1 and July 1 of each year for the Series 1997 A and Series 2000 A Term Bonds, March 1 and September 1 of each year for the Series 1998 A Bonds, and February 1 and August 1 for the Series 2000 A Serial Bonds. Interest is payable annually on July 1 of each year for all other series bonds. The bonds of each series are subject to optional and/or extraordinary optional redemption prior to maturity at the option of the Water Commission or the occurrence of certain events. All redemption prices are at par plus accrued interest.

State Fair

Interest on the 2001 Series Bonds is payable semiannually on June 1 and December 1 of each year. The bonds maturing on December 1, 2011, are not subject to optional redemption prior to maturity, except under extraordinary circumstances.

The State Fair issued \$2,250,000 of refunding revenue bonds during the fiscal year. The refunding was undertaken to reduce total future debt service payments. The transaction resulted in an economic gain of \$90,107 and a reduction of \$117,738 in future debt service payments.

Student Loan Trust

The Series C Bonds are zero coupon bonds with interest accruing monthly and the face value payable at maturity. These bonds were issued to refund a portion of the 1979 Series A and 1984 Series A Bonds and to provide funds for the acquisition of student loans from the Bank of North Dakota.

The proceeds of the 1996 Series A and B Bonds were used to refund the July 1, 1996, principal maturity of the 1988 Series A and B, 1989 Series B, and 1992 Series A Bonds. Interest is payable semiannually on January 1 and July 1 of each year. The 1996 Series A and B Bonds are variable rate bonds initially issued as auction rate certificates. The rate of interest will be determined each

35-day period. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the First Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds Second General Bond Resolution. Under certain conditions, the Industrial Commission may call for early redemption of the 1996 Series A and B Bonds at 100% of the principal amount plus accrued interest to date of redemption.

The proceeds of the 1996 Series D Bonds were used to finance the acquisition of supplemental loans. These bonds are subject to redemption prior to maturity at the option of the Industrial Commission on July 1, 2006, at 100% of the principal amount plus accrued interest to date of redemption.

Interest is payable semiannually on January 1 and July 1 of each year for the 1997 Series A and B Bonds.

The proceeds of the Series 1997 Bonds were used to refund the current maturities of the 1988 Series A and B, 1989 Series B and 1992 Series A Bonds on July 1, 1997, and to current refund and redeem the remainder of the 1988 Series A Bonds at a redemption price of 103% on August 1, 1997.

The 1997 Series A and B Bonds are variable rate bonds initially issued as auction rate certificates. The rate of interest will be determined each 35-day period. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the Second Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds Second General Bond Resolution. Under certain conditions, the Industrial Commission may call for an early redemption of the 1997 Series A and B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption. The 1997 Series B Bonds are subject to mandatory redemption prior to maturity at a redemption price equal to 100% of the principal amount of \$11,600,000, plus accrued interest, on January 1, 2006. At June 30, 2003, none of the 1997 Series A Bonds are outstanding.

Interest on the 1998 Series B Bonds is payable semiannually on June 1 and December 1 of each year. The proceeds of the Series 1998 Bonds were used to refund the current maturities of the 1988 Series B Bonds and the 1989 Series B Bonds on July 1, 1998, and to call \$32,670,000 of the 1989 Series A and B Bonds at a redemption price of 103% on August 1, 1998. The 1998 Series B Bonds are variable rate bonds initially issued as auction rate certificates. The rate of interest will be determined each 35-day period. The maximum rate of interest is 12% per annum. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the Second Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds Second General Bond Resolution. Under certain conditions, the Industrial Commission may call for early

STATE OF NORTH DAKOTA

redemption of the 1998 Series B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

The 2000 Series A Bonds are variable rate bonds initially issued as auction rate certificates. Interest is payable semiannually on June 1 and December 1 of each year. The maximum rate of interest is 12% per annum. The proceeds of the Series 2000 Bonds were used to provide funds for the acquisition of student loans from the Bank of North Dakota. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the Second Supplemental Resolution. The 2000 Series B Bonds are fixed rate bonds. Under certain conditions, the Industrial Commission may call for early redemption of the 2000 Series A and B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

Housing Finance

Housing Finance Bonds were issued to provide financing to purchase mortgage loans to finance multifamily

Revenue Bonds outstanding (expressed in thousands):

Fund Type/Fund	Maturities	Interest Rates	Balance 6/30/03
Primary Government			
Governmental:			
Building Authority	2004-2023	2.00 - 5.60	\$ 97,117
Lignite Research	2004-2006	5.00 - 5.75	3,755
Water Commission	2004-2042	2.50 - 6.00	45,923
Proprietary:			
State Fair	2004-2011	5.20 - 6.00	2,125
Student Loan Trust	2004-2036	0.99 - 7.25	126,058
Housing Finance:			
Multi-Family	2004-2024	4.90 - 6.85	10,292
Single-Family	2004-2035	1.65 - 7.00	660,567
University System:			
VCSU—Valley City	2004-2011	4.30 - 7.25	495
Williston State College	2004-2019	3.00 - 4.75	1,476
Lake Region State College	2004-2013	5.90	605
UND—Grand Forks	2004-2021	3.00 - 5.00	26,065
NDSU—Fargo	2004-2032	1.70 - 5.60	48,153
NDSCS—Wahpeton	2004-2016	4.00 - 5.50	2,717
MiSU—Minot	2004-2013	3.00 - 4.75	4,936
MiSU—Bottineau	2004-2012	4.30 - 6.90	211
MaSU—Mayville	2004-2009	3.00 - 4.80	618
DSU—Dickinson	2004-2019	4.30 - 5.90	1,277
BSC—Bismarck	2004-2009	4.00 - 7.40	590
Total Revenue Bonds Payable—			
Primary Government			\$ 1,032,980

Component Units

Proprietary:			
Municipal Bond Bank	2004-2028	2.70 - 10.00	\$ 138,903

housing projects. The bonds are the direct obligation of the Housing Finance Agency and are secured by the mortgage loans purchased under the applicable resolutions; the revenues, prepayments, insurance and foreclosure proceeds received related to the mortgage loans; and certain funds and accounts established pursuant to the applicable bond resolution. The term bonds of all bond series have mandatory sinking fund requirements starting in 1998.

Component Units

Municipal Bond Bank

The bonds of the Municipal Bond Bank were issued to provide financing to purchase municipal securities in order to provide local political subdivisions with funds to finance local projects. The bonds are direct obligations of the Municipal Bond Bank and are secured by municipal securities purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions.

Notes To The Financial Statements

Debt service requirements to maturity on revenue bond issues for the fiscal years ending June 30 are summarized below (expressed in thousands):

Primary Government:

Governmental Activities

Fiscal Year	Principal	Interest
2004	\$ 7,746	\$ 6,933
2005	7,958	6,431
2006	10,070	6,209
2007	8,457	5,773
2008	9,658	5,364
2009-2013	39,881	20,350
2014-2018	33,269	11,629
2019-2023	22,924	4,121
2024-2028	3,226	1,187
2029-2033	1,291	626
2034-2038	1,642	316
2039-2043	564	39
Bond Premium	1,051	(1,051)
Deferred Amount		
On Refunding	(942)	942
Total	\$ 146,795	\$ 68,869

Business-type Activities

Fiscal Year	Principal	Interest
2004	\$ 16,832	\$ 40,222
2005	18,681	40,136
2006	63,558	39,352
2007	20,586	38,064
2008	20,986	37,184
2009-2013	115,250	170,203
2014-2018	119,040	139,490
2019-2023	127,606	106,936
2024-2028	196,270	63,611
2029-2033	110,715	18,600
2034-2038	77,569	2,203
Less Bond Discount	(316)	316
Deferred Amount		
On Refinancing	(191)	191
Accrued Interest At		
Maturity On Zero		
Coupon Bonds	(401)	401
Total	\$ 886,185	\$ 696,909

Component Units

Fiscal Year	Principal	Interest
2004	\$ 7,380	\$ 7,361
2005	7,815	6,972
2006	8,130	6,526
2007	8,390	6,070
2008	8,695	5,593
2009-2013	44,650	20,955
2014-2018	39,615	9,752
2019-2023	14,245	1,818
2024-2028	340	61
2029-2033	70	2
Less Bond Discount	(427)	427
Total	\$ 138,903	\$ 65,537

2. NOTES PAYABLE

The following is a schedule of notes payable outstanding at June 30, 2003 (expressed in thousands):

Fund Type/Fund	Maturities	Interest Rates	Balance 6/30/03
Primary Government			
Governmental:			
Job Service North Dakota	2006	7.90-9.00	\$ 989
Information Technology Department	2004	4.18-6.64	4,682
Proprietary:			
Bank of North Dakota	2004-2022	3.00-7.35	421,065
University Systems	2004-2013	4.87-8.00	6,618
Component Units			
Municipal Bond Bank (1)	2019	2.84	7,502
UND Aerospace Foundation	2004-2009	3.50-6.00	4,319

STATE OF NORTH DAKOTA

(1) The Municipal Bond Bank note payable is to the Bank of North Dakota, part of the primary government.

				Business-type Activities		
Debt service requirements to maturity for notes payable for the fiscal years ending June 30 are summarized below (expressed in thousands):				Fiscal Year	Principal	Interest
Primary Government:				2004	\$ 60,939	\$ 22,204
				2005	16,775	21,621
				2006	65,212	20,742
				2007	24,865	18,433
				2008	16,310	18,074
Governmental Activities				2009-2013	142,111	72,620
				2014-2018	41,871	37,712
				2019-2023	59,600	6,692
Total				Total	\$ 427,683	\$ 218,006

				Component Units		
				Fiscal Year	Principal	Interest
2004				2004	\$ 940	\$ 389
2005				2005	493	340
2006				2006	512	320
2007				2007	748	300
2008				2008	1,856	260
2009-2013				2009-2013	983	920
2014-2018				2014-2018	4,697	566
2019-2023				2019-2023	1,592	46
Total				Total	\$ 11,821	\$ 3,144

Changes in General Long-Term Liabilities

Changes in Long-Term Liabilities for the year ended June 30, 2003, are summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Notes Payable	\$ 507	\$ 6,279	\$ (1,115)	\$ 5,671	\$ 5,020
Bonds Payable	140,161	56,812	(50,178)	146,795	7,746
Capital Leases Payable	1,461	1,776	(997)	2,240	1,085
Intergovernmental Payable	591	35	(9)	617	21
Compensated Absences	27,306	19,676	(18,600)	28,382	1,306
Claims/Judgments Payable	5,246	3,273	(2,656)	5,863	2,214
Total Long-Term Liabilities	\$ 175,272	\$ 87,851	\$ (73,555)	\$ 189,568	\$ 17,392
Business-Type Activities:					
Notes Payable	\$ 403,860	\$ 50,763	\$ (26,940)	\$ 427,683	\$ 60,939
Bonds Payable	965,243	138,209	(217,267)	886,185	16,632
Capital Leases Payable	30,342	16,333	(14,877)	31,798	5,325
Intergovernmental Payable	22,388	13,936	(23,714)	12,610	2,009
Compensated Absences	17,152	2,750	(1,023)	18,879	976
Claims/Judgments Payable	506,075	226,306	(153,064)	579,317	81,630
Total Long-Term Liabilities	\$ 1,945,060	\$ 448,297	\$ (436,885)	\$ 1,956,472	\$ 167,711

Notes To The Financial Statements

Component Units:

Notes Payable	\$	11,369	\$	2,802	\$	(2,350)	\$	11,821	\$	940
Bonds Payable		144,230		1,700		(7,027)		138,903		7,380
Intergovernmental Payable		1,239		227		(61)		1,405		826
Total Long-Term Liabilities	\$	156,838	\$	4,729	\$	(9,438)	\$	152,129	\$	9,146

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, \$1,193,310 of internal service fund compensated absences and \$4,329,018 of claims and judgments are included in the above amounts. Other governmental activities compensated absences generally have been liquidated by the General Fund (52%), the Highway Fund (17%), the Federal Fund (21%), and other various funds. Other governmental activities claims and judgments are generally liquidated by the Insurance Regulatory Trust Fund (78%), Highway Fund (21%), and the Petroleum Release Compensation Fund (1%).

3. DEFEASED DEBT

Primary Government

Building Authority

On July 18, 2002, the Building Authority issued \$16,425,000 Lease Revenue Refunding Bonds, 2002 Series D. The proceeds of the issue were used for an advance refunding of 1995 Series A. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$999,000. This amount is netted against the new debt and amortized over the life of the refunded debt, which is the same as the life of the new debt issued. The current refunding was undertaken to reduce total debt service payments over the next fifteen years by \$561,000 and resulted in an economic gain of \$478,000. As of June 30, 2003, \$14,550,000 of bonds outstanding is considered defeased and the liability for those bonds is not reflected on the State's financial statements.

Housing Finance

Previous to July 1, 1999, Housing Finance defeased certain general obligation bonds by placing bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State's financial statements. At June 30, 2003, \$7,890,000 of bonds outstanding are considered defeased.

University System

Mayville State University

On July 1, 1998, Mayville State University issued \$695,000 of Student Center Refunding Revenue Bonds (Series 1998) with an average interest rate of 4.40%. These bonds were used to advance refund \$640,000 of outstanding 1989 Student Center Revenue Bonds (with an average interest rate of 7.40%). The net proceeds of \$666,673 (after payment of \$28,327 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government Securities. Those securities are deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1989 Student Center Revenue Bonds. As a result, the 1989 bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets. The principal amount outstanding as of June 30, 2003, of the original bonds refunded by the advance refunding of 1998 totaled \$460,000.

Minot State University

On June 2, 1992, Minot State University placed the proceeds of the \$2,620,000 Student Housing Revenue Refunding Bonds of 1992 in an irrevocable trust with an escrow agent to provide for future debt service payments of the existing revenue bonds. The purpose of the 1992 Bonds was to refund in advance of maturity the 1966 Student Union Construction and Refunding Bonds and the 1985 Student Housing Revenue Bonds. As a result, the trust account assets and the liabilities for the defeased bonds are not included in the State's financial statements.

The principal amount outstanding as of June 30, 2003, of the original bonds refunded (considered defeased) by the advance refunding total \$150,000.

University of North Dakota

On January 1, 1998, the University of North Dakota issued \$22.6 million of Housing and Auxiliary Facilities Improvement and Refunding Revenue Bonds (Series 1998 A) with an average interest rate of 4.70%. These bonds were used to advance refund \$20.4 million of outstanding 1988 Series A and B Housing and Auxiliary Facilities Refunding Revenue Bonds (with an average interest rate of 7.50%) and to provide \$450,000 for parking lot construction at the Rural Technology Center. The net proceeds of \$21.6 million (after payment of \$387,000 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S.

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Government Securities. These securities are deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1988 Series A and B Bonds. As a result, the 1988 Series A and B Bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets. The principal amount outstanding as of June 30, 2003, of the original bonds refunded by the advanced refunding of 1998 totaled \$15,995,000.

Housing and Auxiliary Facilities Revenue Bonds Series I and Series J, which were included in the advance refunding of 1984 as described above, were originally issued in 1975 for the purpose of advance refunding certain outstanding bonds of the university. The principal amount outstanding as of June 30, 2003, of the original bonds refunded by the advance refunding of 1975 totaled \$685,000.

All of the refunded bonds are considered "defeased" and have debt service needs covered by U.S. Government securities which are held in a special trust administered by the Bank of North Dakota. As such, neither the assets of the trust nor the related bonds payable are included in the accompanying statement of net assets.

Certificates of Participation totaling \$20,450,000 were originally issued by UND in 1990 to: (1) reimburse the University for certain expenses incurred for capital improvements; (2) refinance the costs of certain equipment; and (3) finance the acquisition of certain equipment and real property, to fund a reserve, and to pay the costs of issuance. Subsequent to this issuance, the Legislative Assembly, in House Bill 1003, directed the University to retire those certificates originally issued for the acquisition of certain equipment and real property and to fund a reserve. Therefore, in December 1991, \$6,025,000 in certificates were defeased. The principal amount outstanding as of June 30, 2003, of the defeased certificates totals \$2,585,000.

North Dakota State University

The North Dakota State University, pursuant to resolutions adopted by the Board of Higher Education on November 7, 1985, issued \$4,833,813 of Housing and Auxiliary Facilities Revenue Refunding Bonds (Series 1985) on December 30, 1985. The purpose of issuing Series 1985 bonds was to refund in advance of maturity the outstanding advanced refunded bonds, which consisted of all bonds outstanding as of December 30, 1985, totaling \$7,675,000. The Series 1985 Bonds do not pay the holder interest but were sold at a discount so that principal payments will yield a return to maturity from 8.20% to 9.70%. All of the refunded bonds are considered "defeased" in accordance with Financial Accounting Standards Board Statement No. 76. As such, neither the assets of the trust nor the related bonds payable are included in the accompanying statement of net assets. The principal amount outstanding as of June 30, 2003, of the original bonds refunded by the advance refunding total \$1,150,000.

The University, pursuant to resolutions adopted by the Board of Higher Education on February 15, 1996, issued \$1,175,000 of Housing and Auxiliary Facilities Revenue Bonds (Series 1996 A) on March 13, 1996. The purpose of issuing the Series 1996 A Bonds was to advance refund a portion (\$980,000) of the Series 1988 Housing and Auxiliary Facilities Revenue Bonds. The portion of the Series 1988 Bonds advance refunded represents the bonds maturing April 1, 2004 through 2008. The proceeds of the Series 1996 A issue were irrevocably deposited in an escrow account to provide for all debt service payments after the April 1, 2003, crossover date. The Series 1988 Bonds are callable at the option of the Board on or after April 1, 2006. The portion of the Series 1988 Bonds that are advance refunded are considered "defeased" in accordance with Financial Accounting Standards Board Statement No. 76. As such, neither the assets of the escrow account nor the related bonds payable (i.e., the advance refunded portion of the Series 1988 Bonds) are included in the accompanying statement of net assets. As of June 30, 2003, the principal amount outstanding of the advance refunded portion of the Series 1988 Bonds is \$980,000. As of June 30, 2003, the portion of the Series 1988 Bonds that were not advance refunded by the Series 1996 A Bonds have been paid in full.

On January 7, 2003, the University issued \$5,990,000 of Housing and Auxiliary Facilities Revenue Refunding Bonds (Series 2003). The purpose of issuing these bonds was to advance refund a portion of the Series 1992 Housing and Auxiliary Facilities Revenue Refunding Bonds. Principal installments on the new bonds range from \$600,000 to \$750,000 through April 1, 2012, and interest rates on the bonds range from 1.7% to 3.95%. The portion of the Series 1992 Bonds advanced refunded includes the bonds maturing from 2004 through 2012. The University advance refunded the bonds to reduce its total debt service payments over the next nine years by approximately \$1.67 million and to obtain an economic gain (difference of the present values of the debt service payments on the old and new debt) to \$1.3 million. The proceeds of the Series 2003 bond issue were irrevocably deposited in an escrow account to provide for all future debt service payments. In accordance with Financial Accounting Standards Board Statement No. 76, the portions of the Series 1992 bonds that are advance refunded are considered defeased. As such, neither the assets of the escrow account nor the related bonds payable are included in the State's financial statements. As of June 30, 2003, the principal amount outstanding of the advance refunded portion of the Series 1992 bonds is \$5,990,000.

North Dakota State College of Science

On June 20, 2001, North Dakota State College of Science issued \$2,785,000 of Housing and Auxiliary Facilities Improvement and Refunding Revenue Bonds (Series 2001) with an average interest rate of 4.92%.

These bonds were used to (1) refund, defease and discharge outstanding North Dakota State School of Science Married Student Housing Revenue Bonds 1970 at 7.0% and 7.25%, Dormitory Revenue Bonds of 1970 at 7.25% and Dormitory Revenue Bonds of 1972 at 6.3%. Funds were deposited in a trust account with an escrow agent to provide for all future debt service payments for the above bonds; (2) finance the cost of the construction of the parking lot and related improvements at the College; and (3) to pay certain costs associated with the issuance of the Series 2001 bonds.

As a result of this issue, trust account assets and liabilities for the defeased bonds are not included in the State's financial statements. The project costs for the parking lot and related improvements were set at \$1,000,000. The principal amount outstanding as of June 30, 2003, of the original bonds refunded is \$1,485,000.

Component Units

Municipal Bond Bank Bonds

On August 20, 2001, the Bond Bank issued \$23,675,000 of revenue bonds with an average interest rate of 4.48 percent. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. As of December 31, 2002, \$13,010,000 of bonds outstanding is considered defeased, and the liability has been removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by \$1,029,000. This amount is being netted against the new debt and amortized over the life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next fifteen years by \$1,709,000 and resulted in an economic gain of \$714,000.

J. ARBITRAGE REBATE PAYABLE

Arbitrage as it applies to government financing refers to the ability of state governments to obtain funds at a tax-exempt rate of interest and to then invest those funds in investments which earn a higher yield, resulting in a profit to the issuer.

The arbitrage rebate rules require that any earnings from the investment of the tax-exempt bond proceeds which exceed the yield on the bonds be remitted to the federal government.

The State has an arbitrage rebate payable to the federal government of approximately \$7,999,021 at June 30, 2003. These amounts are reported in the Government-wide and Proprietary Fund Type financial statements as an intergovernmental payable.

NOTE 4 - DEFICIT FUND EQUITY

RETIREMENT AND INVESTMENT OFFICE (RIO)

At June 30, 2003, RIO had a deficit of \$24,594. It is expected that charges for services during fiscal year 2004 will reduce the deficit.

COMPREHENSIVE HEALTH ASSOCIATION OF NORTH DAKOTA (CHAND)

At December 31, 2002, CHAND had a deficit of \$315,922. Additional member assessments are expected to cover the deficit.

NOTE 5 - RETIREMENT SYSTEMS

A. DESCRIPTION OF PLANS

The State of North Dakota administers four major retirement systems: North Dakota Public Employees' Retirement System, North Dakota Highway Patrolmen's Retirement System, Retirement Plan for the Employees of Job Service North Dakota and the Teachers' Fund for Retirement. The State also administers the North Dakota Defined Contribution Retirement Plan, which was established January 1, 2000. These retirement systems have implemented Governmental Accounting Standards Boards Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and Statement No. 27, Accounting for Pensions by State and Local Governmental Employers. Certain state employees may also participate in a privately administered retirement system: Teachers' Insurance Annuity Association. The following is a brief description of each plan. More detailed information can be found in the plan agreements and the related legislation.

NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

The North Dakota Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan covering substantially all employees of the State of North Dakota, its agencies, and various participating political subdivisions (Main System). It also covers Supreme and district court judges and the National Guard Security Officers and Firefighters. It is not subject to the provisions of the Employee Retirement Security Act of 1974. PERS issues a publicly available financial report that may be obtained by writing to North Dakota Public Employees Retirement System, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501.

At June 30, 2003, the number of participating local political subdivisions in PERS was:

CAPITAL CONSTRUCTION SCHEDULE OF LEASE PAYMENTS AND OUTSTANDING PRINCIPAL BALANCES

Project	Bond Issue (Payoff Year)	Cost of Project	Amount Financed	2001-03 Actual Payments	Lease Payments		Outstanding Principal Balance June 30, 2003	Outstanding Principal Balance June 30, 2005	Outstanding Principal Balance June 30, 2007
					2003-05 Estimated Payments	2005-07 Estimated Payments			
1985 Legislative Assembly approved: Developmental Center renovations (\$3,900,000) State Penitentiary Phase II construction (\$7,500,000) State Hospital renovations (\$3,400,000)	1998 Series B North Dakota Building Authority refunding revenue bonds (4.5% to 5% - 13-year bonds) Used to refinance 1991 Series A and 1992 Series A - The 1991 Series A issue was used to refund the 1986 Series A (2011)	\$17,275,000	\$11,340,000	\$3,072,055	\$2,960,800	\$2,813,637	\$9,090,000	\$6,880,000	\$4,595,000
1991 Legislative Assembly approved: Department of Human Services - Southeast Human Service Center (\$2,475,000)									
1989 Legislative Assembly approved: North Dakota State University computer center (\$5,375,000) University of North Dakota United Hospital north unit (\$1,720,000) State College of Science agricultural mechanics building (\$2,916,000) University of North Dakota Abbott Hall addition (\$3,300,000)	2003 Series A North Dakota Building Authority refunding revenue bonds (2.35% to 4.07% - 7-year bonds) - Used to refund 1993 Series A refunding revenue bonds which were used to refinance 1990 Series A, B, and C (2010)	28,808,000	15,145,000	6,061,336	5,479,013	5,475,306	15,145,000	11,305,000	6,865,000

Project	Bond Issue (Payoff Year)	Cost of Project	Amount Financed	2001-03 Actual Payments	Lease Payments 2003-05 Estimated Payments	2005-07 Estimated Payments	Outstanding Principal Balance June 30, 2003	Outstanding Principal Balance June 30, 2005	Outstanding Principal Balance June 30, 2007
Minot State University library (\$7,728,000)									
State Board of Higher Education selected handicapped access projects (\$1,600,000)									
State Penitentiary Phase III construction (\$5,000,000)									
Veterans Home construction and remodeling (\$1,169,000)									
1993 Legislative Assembly approved:									
North Dakota University System - Various capital construction projects, including handicapped accessibility projects and special assessments (\$8,423,061)	2002 Series C lease revenue refunding bonds used to refund 1993 Series B North Dakota Building Authority revenue bonds (3% to 4.3% - 12-year bonds)	13,333,061 ²	10,665,000	2,267,902	2,067,370	2,008,418	10,665,000	9,350,000	7,995,000
Minot State University - Memorial Library renovation (\$2,550,000)									
Job Service North Dakota - Grand Forks office building (\$1,735,000)									
Adjutant General - Grand Forks Armory (\$375,000)									
Youth Correctional Center - Building demolition and asbestos removal (\$250,000)									
1995 Legislative Assembly approved:									
Bismarck State College Science and Mathematics Center (\$8,060,000)	2002 Series D lease revenue refunding bonds used to refund 1995 Series A North Dakota Building Authority revenue bonds (3% to 4.5% - 15-year bonds)	15,326,769 ³	16,425,000	1,637,347	2,738,140	2,620,095	15,480,000	13,890,000	12,215,000
University of North Dakota Abbott Hall renovations (\$2,371,769)									
North Dakota State University emission									

Project

control renovations on
power plant (\$2,145,000)
Dickinson State University
Klinefelter Hall
renovations (\$2,750,000)

1997 Legislative Assembly

approved:

State College of Science -
Bute Gym remodeling
(\$1,700,000)
Minot State University -
Moore Hall renovation
(\$4,000,000)
Department of Corrections
and Rehabilitation -
Youth Correctional
Center gymnasium
renovation (\$1,400,000)

1997 Legislative Assembly

approved:

University of North Dakota -
Renovation and
addition to the Ed
James Wing of the
medical school building
(\$3,000,000)

1999 Legislative Assembly

approved:

North Dakota State
University - Animal
facility (\$2,207,500)
Youth Correctional Center -
Pine Cottage
(\$1,475,000)

1999 Legislative Assembly

approved:

Williston State College -
Health and Wellness
Center (\$3,000,000)

**Bond Issue
(Payoff Year)**

1998 Series A
North Dakota
Building Authority
revenue bonds
(4.4% to 5.125% -
20-year bonds)
(2018)

1998 Series C
North Dakota
Building Authority
revenue bonds
(3.2% to 4.35% -
10-year bonds)
(2008)

2000 Series A
North Dakota
Building Authority
revenue bonds
(5.5% - 20-year
bonds) (2020)

2001 Series A
North Dakota
Building Authority
revenue bonds
(4% to 5.125% -
20-year bonds)
(2021)

**Cost of
Project**

7,100,000 ⁴

3,000,000 ⁵

3,682,500 ⁶

10,850,000 ⁷

**Amount
Financed**

8,360,000

3,400,000

4,430,000

13,165,000

**2001-03
Actual
Payments**

1,266,176

703,659

526,745

452,476

**Lease Payments
2003-05
Estimated
Payments**

1,320,063

780,460

735,704

1,546,756

**2005-07
Estimated
Payments**

1,314,929

779,071

701,870

2,071,753

**Outstanding
Principal
Balance
June 30, 2003**

7,255,000

2,300,000

4,145,000

12,950,000

**Outstanding
Principal
Balance
June 30, 2005**

6,625,000

1,685,000

3,835,000

12,505,000

**Outstanding
Principal
Balance
June 30, 2007**

5,930,000

1,020,000

3,485,000

11,565,000

Project	Bond Issue (Payoff Year)	Cost of Project	Amount Financed	2001-03 Actual Payments	Lease Payments 2003-05 Estimated Payments	2005-07 Estimated Payments	Outstanding Principal Balance June 30, 2003	Outstanding Principal Balance June 30, 2005	Outstanding Principal Balance June 30, 2007
2001 Legislative Assembly approved: Minot State University - Old Main renovation (\$7,850,000)									
2001 Legislative Assembly approved: State Department of Health - Laboratory addition (\$2,700,000) Job Service North Dakota Bismarck service delivery office (\$2,302,000)	2002 Series A North Dakota Building Authority revenue bonds (4% to 5.125% - 20-year bonds) (2022)	5,002,000 ⁸	6,035,000		697,938	990,338	6,035,000	5,920,000	5,480,000
2003 Legislative Assembly approved: State Department of Health Morgue and storage annex (\$960,000) Department of Corrections and Rehabilitation Food service/laundry renovations - Phase II (JRCC) (\$2,662,890) Dickinson State University Murphy Hall - Phase I addition (\$5,882,047) Mayville State University Steamline replacement - Phase II (\$1,355,000) Valley City State University Graichen Gymnasium elevator and emergency exits (\$785,300)	2003 Series B North Dakota Building Authority revenue bonds (4.09% 20-year bonds) (2023)	11,645,237 ⁹	13,080,000 ¹⁰			1,900,005	13,080,000	13,080,000	12,070,000
2005-07 executive budget recommended bonding (see previous schedule on major capital construction projects)	(4.53% 20-year bonds)	25,555,758	32,265,000						
¹¹ Total		\$141,578,325	\$134,310,000	\$15,987,696	\$18,326,244	\$20,675,422	\$96,145,000	\$85,075,000	\$71,220,000
Breakdown of payments: General fund Agency contributions Total				\$13,910,272 ¹² 2,077,424 \$15,987,696	\$15,848,226 ¹² 2,478,018 \$18,326,244	\$18,021,705 ¹² 2,653,717 \$20,675,422			

¹ House Bill No. 1037 (1999) included a section stating that it was the intent of the Legislative Assembly that up to a total of \$4.4 million from non-general fund sources be used to assist in the retirement of the debt incurred to finance the construction projects. The non-general fund sources will be the college development foundation at the University of North Dakota, North Dakota State University, and State College of Science and an additional student fee at Minot State University. A listing of the \$4.4 million by each institution is as follows:

Institution	Type of Facility	Contributions Made Through the 2003-05	
		Total Contributions	Remaining Contributions
North Dakota State University	Computer technology transfer center	\$1,343,000	\$110,750
North Dakota State College of Science	Agricultural mechanics technology facility	300,000	62,500
University of North Dakota	Abbott Hall addition	825,000	56,250
Minot State University	Library facility	1,932,000	395,500
Total		\$4,400,000	\$625,000

In addition to the \$5,375,000 appropriated from bond proceeds for the North Dakota State University computer center, House Bill No. 1037 also appropriated \$5,375,000 from federal or other funds. The total amount appropriated for the project was \$10,750,000.

House Bill No. 1669 (1989) appropriated up to \$6.2 million for State Penitentiary Phase III construction from loan notes less the insurance proceeds received in the Penitentiary's fire loss of \$1.2 million.

Senate Bill No. 2096 (1989) authorized the issuance of bonds in the amount of \$1,169,000 to match federal funds available to construct, modify, or alter the facilities at the Veterans Home. Bond payments are to be made from the Veterans Home improvement fund.

² House Bill No. 1020 (1993) included a section stating that up to a total of \$1,990,000 from non-general fund sources is to be used to assist in the retirement of the debt incurred to finance the construction projects. A listing of the \$1,990,000 by each institution is as follows:

Institution/Agency	Type of Facility	Contributions Made Through the 2003-05	
		Total Contributions	Remaining Contributions
Minot State University	Library renovation	\$255,000	\$0
Job Service North Dakota	Grand Forks office building	1,735,000	\$0
Total		\$1,990,000	\$0

In addition to the \$2,550,000 appropriated from bond proceeds for the Minot State University Memorial Library renovation, House Bill No. 1020 also appropriated \$4,800,000 from federal or other funds. The total amount appropriated for the library renovation was \$7,350,000.

Job Service North Dakota makes the entire bond payment, principal and interest, on the \$1,735,000 for the Grand Forks office building.

³ Senate Bill No. 2030 (1995) included a section stating that up to a total of \$2,206,769 from non-general fund sources is to be used to assist in the retirement of the debt incurred to finance the construction projects. A listing of the \$2,206,769 by each institution is as follows:

Institution	Type of Facility	Contributions Made Through the 2003-05	
		Total Contributions	Remaining Contributions
Bismarck State College	Science and Mathematics Center	\$1,060,000	\$0
University of North Dakota	Abbott Hall renovation	871,769	0
Dickinson State University	Klinefeller Hall renovation	275,000	0
Total		\$2,206,769	\$0

In addition to the \$2,371,769 appropriated from bond proceeds for the University of North Dakota Abbott Hall renovation, Senate Bill No. 2030 also appropriated \$1,771,769 from federal or other funds. The total amount appropriated for the renovation of Abbott Hall was \$4,143,538.

⁴ Senate Bill No. 2003 (1997) included a section stating that up to a total of \$300,000 from non-general fund sources is to be used to assist in the retirement of the debt incurred to finance the renovation of Bute Gym. The bill also authorized an animal research facility at North Dakota State University and a renovation to the Ed James Wing of the medical school building at the University of North Dakota. The North Dakota State University project was delayed until the 1999 legislative session. The University of North Dakota project was handled through a separate bond issue (see 1998 Series C bond issue).

Institution	Type of Facility	Contributions		
		Total Contributions	Made Through the 2003-05 Biennium	Remaining Contributions
State College of Science	Bute Gym renovation	\$300,000	\$300,000	\$0

⁵ In addition to the \$3 million appropriated from bond proceeds for the University of North Dakota renovation to the Ed James Wing of the medical school building, Senate Bill No. 2003 also appropriated any available funds received from federal, public, or private sources.

⁶ House Bill No. 1022 (1999) authorized an animal research facility at North Dakota State University, renovation of Pine Cottage at the Youth Correctional Center, and a health and wellness center addition at Williston State College. The Williston State College project is to be handled through a separate bond issue (see 2001 Series A bond issue).

In addition to the \$2,207,500 appropriated from bond proceeds for the North Dakota State University animal research facility, House Bill No. 1022 also appropriated \$2,207,500 of federal or other funds. The total amount appropriated for the animal research facility was \$4,415,000.

In addition to the \$1,475,500 appropriated from bond proceeds for the Youth Correctional Center Pine Cottage project, House Bill No. 1022 also appropriated \$500,000 of federal or other funds. The total amount appropriated for the Pine Cottage project was \$1,975,000.

⁷ House Bill No. 1022 (1999) included a section stating that up to a total of \$3 million from non-general fund sources is to be used to assist in the retirement of the debt incurred to finance the Health and Wellness Center addition at Williston State College. Of the \$3 million, \$1.5 million is to be provided for the project before construction may begin, and the remaining \$1.5 million is to be paid in 10 annual payments of \$150,000. Because \$1.5 million was available prior to construction, the State Building Authority only bonded for \$3 million of the \$4.5 million project. Williston State College will have paid \$600,000 by the end of the 2003-05 biennium, with \$900,000 remaining.

Senate Bill No. 2023 (2001) included a section stating that \$2,299,000 must be available from non-general fund sources to assist in the retirement of the debt incurred to finance the renovation of Old Main. Minot State University's local responsibility is to be paid in 10 annual payments with each of the first two annual payments being \$315,000 and each of the remaining eight annual payments being \$208,625.

⁸ Senate Bill No. 2023 (2001) included a section stating that \$2,302,000 (Job Service North Dakota) and \$1,755,000 (State Department of Health) must be available from non-general fund sources to assist in the retirement of the debt incurred to finance the two projects.

The State Department of Health received authority from the Emergency Commission to receive and expend federal funds in the amount of \$823,878 in the capital improvements line item for the laboratory addition. The request was needed to cover the increase in the per square footage costs of \$338,817 and for the 1,700 square feet of additional space at \$485,061.

⁹ House Bill No. 1023 (2003) appropriated \$4,237,755 of special funds for the issuance of bonds for projects at the State Department of Health and the Department of Corrections and Rehabilitation. Of that amount, \$614,865 for the State Department of Health was paid by using bioterrorism program dollars rather than by bonding.

House Bill No. 1003 (2003) appropriated \$8,022,347 of special funds for the issuance of bonds for three University System projects by the State Building Authority. In addition, \$830,000 of capital bond payments from the 2001-03 biennium was used for bond issuance buydown. Dickinson State University will also provide \$250,000 during the 2005-07 biennium to assist in the retirement of the bonds, which is included in the agency contribution total for the 2005-07 biennium.

¹⁰ The 2005-07 biennium payment on this bond issue is \$1,900,005. This bond issuance included funding for the 2003-05 biennium state facility energy improvement program capital project that was recommended to be funded with bond proceeds for the Department of Corrections and Rehabilitation in the amount of \$105,326. Bonds sold to finance the project under this program do not factor in the general fund lease payment limitation and will be repaid with resulting energy cost-savings.

This bond issuance does not include the \$20 million of bonding for the Information Technology Department for ConnectND. These bonds will be repaid from charges collected by the Information Technology Department from higher education and other state agencies for the ConnectND Project. In September 2003, the Industrial Commission issued 2003 Series C bonds, totaling \$20 million, at an interest rate of 3.86 percent, for a period of 10 years with annual debt service of approximately \$2.7 million.

This bond issuance does not include the bonding of \$2 million authorized in Senate Bill No. 2416 (2003) for two State Historical Society projects (Chateau de Mores and Fort Abercrombie interpretive centers), which are to be paid from federal, local, or donated funds collected by the State Historical Society. The State Historical Society does not anticipate issuing bonds for these projects because the agency does not have adequate funding for the debt services.

¹¹ The estimated 2007-09 biennium payment on this proposed bond issue, based on an estimated interest rate of 4.53 percent, is approximately \$1.3 million. The source of the \$1.3 million is not known at this time because the 2005-07 biennium executive budget recommendation has identified \$2.8 million from non-general fund sources to be used for bond payments. However, a schedule for the receipt of those dollars is not available at this time.

¹² North Dakota Century Code Section 54-17.2-23 provided that 10 percent of the equivalent of a 1 percent sales, use, and motor vehicle excise tax be deposited in the capital construction fund for lease payments associated with capital construction projects. The 1993 Legislative Assembly repealed the provisions of the capital construction fund and increased the maximum that lease payments can total for a biennium from 10 percent to 12.5 percent of the equivalent of a 1 percent sales, use, and motor vehicle excise tax. The 1995 Legislative Assembly decreased the maximum that lease payments can total for a biennium from 12.5 percent of the equivalent of a 1 percent sales, use, and motor vehicle excise tax to 11 percent of the equivalent of a 1 percent sales, use, and motor vehicle excise tax. The 1997 Legislative Assembly decreased the maximum that lease payments can total for a biennium from 11 percent of a 1 percent sales, use, and motor vehicle excise tax to 10 percent of the equivalent of a 1 percent sales, use, and motor vehicle excise tax. The 2001 Legislative Assembly clarified the statute to provide that the computation for the authorized general fund lease payments for a biennium must be based on the projected sales, use, and motor vehicle excise tax collections presented to the Legislative Assembly at the close of the most recently adjourned regular legislative session.

SALES TAX LIMITATION - BOND PAYMENTS

The following table shows the projected general fund portion of the bond payments for the 2005-07 through the 2013-15 bienniums and what the 10 percent of the equivalent of a 1 percent sales, use, and motor vehicle excise tax is projected to generate (using the December 2004 revenue forecast with a 4 percent growth in sales tax revenues for future bienniums and no prepayments of non-general fund amounts):

	Total Payments	Other Funds**	General Fund	10 Percent of Equivalent of 1 Percent	Estimated Excess General Fund Resources Available for Bond Payments
Biennium					
2005-07	\$20,675,422	\$2,653,717	\$18,021,705	\$19,482,600	\$1,460,895
2007-09	\$22,426,405 *	\$2,410,598	\$20,015,807	\$20,261,904	\$246,097
2009-11	\$19,947,513 *	\$1,831,652	\$18,115,861	\$21,072,380	\$2,956,519
2011-13	\$18,056,497 *	\$1,528,138	\$16,528,359	\$21,915,275	\$5,386,916
2013-15	\$16,765,277 *	\$956,213	\$15,809,064	\$22,791,886	\$6,982,822

* The future biennium bond payments reflect estimated payments related to the bonding recommended in the 2005-07 biennium executive budget but do not reflect any other future bond issues that may be authorized by future Legislative Assemblies. The bond payment schedule for the \$25.56 million of bonding included in the 2005-07 biennium executive budget capitalizes interest for three years, instead of two years which was done in previous bond issuances. Therefore, the first principal payment for the proposed 2005-07 biennium bonding would not be due until the second year of the 2007-09 biennium. The 1998 Series C bond issuance will be paid off during the 2007-09 biennium, and the 1998 Series B and 2003 Series A bond issuances will be paid off during the 2009-11 biennium.

** The \$2,800,000 identified in the 2005-07 biennium executive budget recommendation from non-general fund sources has not been included with other funds in the schedule above, because a schedule for the receipt of those dollars is not available at this time.



North Dakota Legislative Council

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Analyst & Auditor

JOHN WALSTAD
Code Revisor

January 11, 2005

Honorable Ken Svedjan
State Representative
House Chamber
State Capitol
Bismarck, ND 58505

Dear Representative Svedjan:

This is in response to your request for information regarding statutory authority that may allow a state agency to borrow funds. A review of North Dakota Century Code provisions indicates that there are several specific statutory provisions authorizing the borrowing of money. In addition, there are likely other instances where borrowing authority may be implied. Below is a summary of those statutory provisions we have found that specifically authorize a state agency to borrow funds:

- 6-09-02 Authorizes the Bank of North Dakota to do anything that a bank may lawfully do. This authority has been interpreted by the North Dakota Supreme Court to include the authority to borrow money.
- 6-09-15.1 Authorizes the State Treasurer and the director of the Office of Management and Budget to issue evidences of indebtedness on the state general fund when the balance in the state general fund is insufficient to meet legislative appropriations.
- 6-09.6-01.1 Authorizes the developmentally disabled facility loan fund program No. 2, which is administered by the Bank of North Dakota, to borrow an amount not to exceed \$5 million from the common schools trust fund to finance the program.
- 6-09.6-01.2 Authorizes the developmentally disabled facility loan fund program No. 3 to borrow an amount not to exceed \$4,951,145 from the common schools trust fund to finance the program.
- 15-55-05.1 Authorizes the State Board of Higher Education to provide for interim financing pending completion of revenue-producing projects at state institutions of higher education and issue and sell special interim warrants for those purposes.
- 24-02-44 Authorizes the Department of Transportation, subject to approval of the Emergency Commission, to borrow funds from the Bank of North Dakota to match federal emergency relief funds.
- 37-17.1-23 Authorizes the Division of Emergency Management, when approved by the Emergency Commission, to borrow from the Bank of North Dakota to match federal funds under the Robert T. Stafford Disaster Emergency Assistance Act.
- 52-04-21.1 Authorizes Job Service North Dakota to borrow funds from the Bank of North Dakota and receive Title XII advances from the federal Unemployment Trust Fund to meet payment of unemployment compensation benefits.

- 54-16-13 Authorizes any board, agency, commission, or officer of the state, subject to the approval of the Emergency Commission, to borrow funds from the Bank of North Dakota for the purpose of responding to a disaster.
- 54-17-07.4 Authorizes the Industrial Commission to issue revenue bonds or evidences of indebtedness to fund housing finance programs.
- 54-17.2-02 Authorizes the Industrial Commission to issue evidences of indebtedness to fund projects under the State Building Authority.
- 54-18-13 Authorizes the Mill and Elevator Association to sell bonds.
- 54-27-23 Authorizes the Office of Management and Budget, upon approval of the Emergency Commission, to issue certificates in anticipation of revenue, notes, or bonds, to special funds on deposit in the state treasury to be used for cashflow financing.
- 54-30-01 Authorizes the issuance of real estate series bonds by the Industrial Commission.
- 54-30-27 Authorizes the State Treasurer to borrow sufficient funds by the issuance of certificates of indebtedness to make payments of principal and interest due on real estate series bonds.
- 54-59-05 Authorizes the Information Technology Department to finance the purchase of equipment or software.
- 61-02-46 Authorizes the State Water Commission to issue state water development and revenue bonds to pay the cost of water projects.
- 61-02-68.1 Authorizes the State Water Commission to borrow money and issue interim financing notes for construction funding for water projects.
- 61-24-18 Authorizes the highway authorities of the state to enter agreements with political subdivisions or the federal government with respect to the financing of public ways in connection with the construction and development of the Garrison Diversion Unit of the Missouri River Basin Project.
- 61-28.1-12 Authorizes the State Department of Health to buy or refinance debt obligations to finance a project eligible for assistance from the drinking water treatment revolving loan fund.

Although there may be other state statutes authorizing borrowing by state entities, this summary is representative of clear, specific grants of authority to borrow funds by state agencies. Other statutory provisions, if any, may have less specific or implicit authorizations.

We hope this information is of assistance. Please feel free to contact this office if you would like additional information regarding this subject or if you have any questions.

Sincerely,

John Bjornson
Counsel

JB/AAV
Encs.



INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Agriculture Commissioner

Testimony on Senate Bill 2023
By Karlene Fine
Executive Director & Secretary
Industrial Commission of North Dakota
January 12, 2005 – Senate Appropriations Committee

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. The Industrial Commission by statute is also the North Dakota Building Authority. I, along with Pam Sharp, Director of the Office of Management and Budget, serve as the Authorized Officers for the Authority. I am appearing today to provide information on how the Building Authority works and on the statutory limitation for General Fund debt service expenditures.

The North Dakota Building Authority was established by the 1985 Legislative Assembly to provide the Legislature with another option as it considers how to pay the costs of projects declared by the Legislature to be in the public interest. This is how it works:

- (1) The Legislature determines whether a project is in the public interest of the State and passes legislation authorizing the specific projects and authorizing the Building Authority to issue evidences of indebtedness (generally these are tax exempt lease revenue bonds payable from biennial appropriations).
- (2) The Building Authority, working with the appropriate agencies, issues its bonds to acquire funds for the authorized projects.
- (3) As part of the financing, the agency and the North Dakota Building Authority enter into a lease agreement. The lease agreements are renewed every two years with rental funds provided from a legislative appropriation in each biennium. The lease payments made by the agency to the Building Authority are then used to make the debt service payments on the outstanding bonds.

The Legislature has established a "ceiling" of General Fund dollars the State can expend for Building Authority debt service. That "ceiling" is 10% of \$.01 of the sales use and motor vehicle taxes. Attached to my testimony is a debt service schedule for all the current outstanding Building Authority bond issues along with the proposed debt service schedule for those projects proposed in Section 1 of Senate Bill No. 2023. This schedule is different from the schedule I provided you last week as it includes the

projected debt service on the projects contained in this bill. This chart does not include in the "other sources" column the \$2,800,000 of funds that would be available for debt service repayment found in Section 2 of Senate Bill 2023.

The financing structure that is proposed in the column 2005 Estimate is a little different from the other columns. In order to meet the needs of the State for capital projects financing and to take advantage of the current bond rates, we developed a financing plan which would allow the State to pay less during the 2007-09 and then maintain increased level debt service for the life of the bond issue. Thus we remain under the "ceiling," meet the needs of the State and take advantage of low bond rates.

In the 2009-11 biennium we are going to see an increase in debt service availability under the "ceiling" because two of the bond issues will reach their maturity. What is projected on this chart is bonding for up to \$25,555,758 of projects. This chart then reflects that approximately \$250,000 remains available in the 07-09 biennium and then there is still nearly \$3 million available in the 09-11 biennium for future bonding and that amount continues to grow.

In regards to the Energy Conservation Projects, they are, by law, not included under the "ceiling" since those debt service expenditures will be coming from energy savings dollars.

Thank you for the opportunity to present testimony on SB 2023.

NORTH DAKOTA BUILDING AUTHORITY DEBT SERVICE

Biennium	Energy Conservation	ConnectND	ConnectND	ConnectND	State	State Portion	State Portion	State Portion
		71%	29%	66%	34%	Other Funds	General Fund	
		NDUS	State	Other Funds	General Fund			
2003-05	1,367,125	0	0	0	0	0	0	0
2005-07	1,214,828	5,402,163	3,835,535	1,566,627	1,033,974	532,653	532,653	532,653
2007-09	1,369,154	5,407,075	3,839,023	1,568,052	1,034,914	533,138	533,138	533,138
2009-11	1,377,831	5,405,938	3,838,216	1,567,722	1,034,696	533,025	533,025	533,025
2011-13	438,487	5,406,666	3,838,733	1,567,933	1,034,836	533,097	533,097	533,097
2013-15	8,982	2,686,144	1,907,162	778,982	514,128	264,854	264,854	264,854
Totals	\$5,776,407	\$24,307,986	\$17,258,669	\$7,049,316	\$4,652,548	\$2,396,767	\$2,396,767	\$2,396,767

Revised 01/05/05

baAugustforecast.xls

NORTH DAKOTA BUILDING AUTHORITY DEBT SERVICE

Biennium	1998B 1991-1986	1998B- 1992	2003A 1993A	2002C 1993B	2002D 1995A	1998A	1998C	2000A	2001A	2002A	2003B	2005Est.	Totals	Other Source	Total Gen. Fund	10% of \$.01 Sales Tax*	Available Debt Ser
2003-05	2,359,165	601,635	5,479,013	2,067,370	2,738,140	1,320,063	780,460	735,704	1,546,756	697,938	0	0	18,326,244	2,478,018	15,848,226	17,358,880	1,510,654
2005-07	2,241,906	571,731	5,475,306	2,008,418	2,620,095	1,314,929	779,071	701,870	2,071,753	990,338	1,900,005	0	20,675,422	2,653,717	18,021,705	19,482,600	1,460,895
2007-09	2,019,972	56,431	5,970,019	2,395,499	2,888,382	1,312,000	743,035	703,954	2,075,721	991,176	1,995,356	1,274,860	22,426,405	2,410,598	20,015,807	20,261,904	246,097
2009-11	1,895,834	0	0	2,394,120	2,991,128	1,320,411	0	741,791	2,115,115	1,001,446	2,064,451	5,423,217	19,947,513	1,831,652	18,115,861	21,072,380	2,956,519
2011-13	0	0	0	2,380,520	2,996,490	1,322,403	0	744,148	2,118,015	1,000,429	2,067,145	5,427,347	18,056,497	1,528,138	16,528,359	21,915,275	5,386,916
2013-15	0	0	0	1,077,650	2,993,925	1,322,634	0	745,659	2,132,153	998,959	2,062,918	5,431,732	16,765,277	956,213	15,809,064	22,791,886	6,982,822
2015-17	0	0	0	0	0	0	0	749,763	2,155,288	994,148	2,066,525	5,431,812	14,188,698	826,298	13,362,400	23,703,562	10,341,162
2017-19	0	0	0	0	0	0	0	757,782	2,167,538	1,000,049	2,065,750	5,428,439	12,080,145	832,046	11,248,099	24,651,704	13,403,605
2019-21	0	0	0	0	0	0	0	0	1,910,281	1,005,320	2,063,925	5,423,632	10,407,865	835,628	9,572,337	25,637,772	16,065,435
2021-23	0	0	0	0	0	0	0	0	853,160	457,109	1,034,300	2,654,417	7,768,201	380,462	7,387,739	26,663,283	19,275,544
2023-25	0	0	0	0	0	0	0	0	0	0	0	0	2,654,417	0	2,654,417	27,729,815	25,075,398
Totals	8,516,877	1,229,797	16,924,338	12,323,577	18,702,083	9,886,973	2,302,566	5,880,671	19,145,780	9,136,912	17,320,375	41,926,835	163,296,784	14,732,770	148,564,014		
Revised 12/16/04	4.67%	4.67%	3.86%	4.01%	4.17%	5.11%	4.24%	5.51%	5.02%	5.02%	4.11%	4.53%					

*The March 7, 2003 forecast used for the 2003-2005 biennium and the November, 2004 forecast used for the subsequent biennia with a 4% increase each biennia.

Exhibit A

05EST

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TESTIMONY BEFORE THE HOUSE
APPROPRIATIONS COMMITTEE-GOVERNMENT PERFORMANCE DIVISION
January 18, 2005

House Bill No. 1301

Testimony - Presented by Gordy Smith
Audit Manager

Chairman Carlson, members of the committee, my name is Gordy Smith. I am an audit manager with the State Auditor's Office. I am here to testify on House Bill No. 1301.

The State Auditor's Office is neutral on this piece of legislation. However, we feel that this type of information can be very useful to decision makers. It would make it easier to analyze the state's indebtedness since the information would already be gathered and located in one place.

The committee may want to consider including a definition of "evidences of indebtedness" to help ensure consistency in reporting by the state agencies and institutions. In addition, it would seem a monetary threshold should also be established to guarantee the information reported does not include data relating to minor or insignificant indebtedness the Legislature, Governor, and other decision makers may not want. If this reporting requirement ends up generating a lot of information on insignificant debt, it will defeat the purpose of the legislation.

The committee may also want to consider exempting certain types of indebtedness due to the nature of the asset. For example, many agencies lease copiers and it's unlikely the Legislature, Governor, and other decision makers would want to have to sort through the information related to all of the state's leased copiers to find the important indebtedness they are concerned about.

Mr. Chairman, that would conclude my testimony, I would be happy to answer any questions you may have.

STATE WATER COMMISSION BOND ISSUANCES AND PROJECT AUTHORITY

BOND ISSUANCES

This memorandum provides a summary of bond issuances by the State Water Commission. A total of \$46,111,602 was owed as of June 30, 2004. The bonds issued for the Southwest Pipeline Project were made on behalf of and paid for by the Southwest Water Authority from user fees. The bond issuance for the Northwest Area Water Supply Project is being repaid by the cities of Rugby and Minot.

On September 1, 2004, the city of Minot placed sufficient funding in an escrow account to make the remaining payments on their share of the issuance. The Series 2000 A issuance for Grand Forks and the Southwest Pipeline Project is being repaid with proceeds from the tobacco settlement trust fund.

The information from the State Water Commission audit report relating to the bond, including the bond payment schedule is attached as Appendix A.

Issuance	Original Principal Amount	Amount Outstanding on June 30, 2004	Page Reference in Appendix A
Southwest Pipeline Project			
Series 1997 A	\$6,830,000	\$6,215,000	1 and 2
Series 1997 B	3,400,000	3,264,960	2 and 3
Series 1999 A	1,000,000	978,000	5
Series 2000 A - SRF	1,500,000	1,350,000	7
Series 2000 B	400,000	392,500	7 and 8
Series 2001 A	500,000	495,100	8 and 9
Series 2002 A	1,864,000	1,864,000	9 and 10
Series 2003 A ¹	1,540,000	1,282,042	10 and 11
Total Southwest Pipeline Project	\$17,034,000	\$15,841,602	
Northwest Area Water Supply Project			
Series 1998 A ²	1,220,000	1,110,000	3 and 4
Grand Forks and Southwest Pipeline Projects			
Series 2000 A	32,095,000	29,160,000	6
Total all bond issuances	\$50,349,000	\$46,111,602	12

¹The remaining authorized amount of \$257,958 was issued on September 7, 2004.

²The remaining payments were defeased by the city of Minot on September 1, 2004.

PENDING BOND ISSUE

The 2003 Legislative Assembly approved Senate Bill No. 2022 which authorized the State Water Commission to issue up to \$60 million of bonds for funding of state water-related projects. House Bill No. 1153 (2005) makes the statutory changes necessary for the State Water Commission to sell by July 1, 2005, the \$60 million of bonds authorized by the 2003 Legislative Assembly. The bond proceeds will be used to replenish the water development trust and resources trust funds for expenditures during the 2003-05 biennium in order to make available money in these funds for the 2005-07 biennium water projects. The State Water Commission has not requested authority to issue any additional bonds during the 2005-07 biennium.

AUTHORITY FOR WATER PROJECTS

North Dakota Century Code Section 61-02-04 provides for the State Water Commission to consist of the Governor, Agriculture Commissioner, and seven other members to be appointed by the Governor who

shall take into account reasonable geographic considerations in making such appointments. The seven appointive members of the commission must be appointed for a term of six years each with their terms of office so arranged that two terms and not more than three terms expire on the first day of July of each odd-numbered year. Each appointive member must be a qualified elector of the state and is subject to removal by judicial procedure. In case of vacancy, the vacancy must be filled by appointment by the Governor for the remainder of the unexpired term.

North Dakota Century Code Section 61-02-14 provides for the powers and duties of the nine-member State Water Commission. These duties were established pursuant to House Bill No. 125 (1937) which created the State Water Commission. The duties of the State Water Commission are to investigate, plan, regulate, undertake, construct, establish, maintain, control, operate, and supervise all works, dams, and projects, public and private, which in its judgment may be necessary or advisable.

ATTACH:1

**NORTH DAKOTA WATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004**

Note: Long-term Debt

Series 1997 A

Principal Due: *Serial Bonds*: \$1,870,000 due July 1, 1998-2011

***Term Bonds*: \$1,370,000 due July 1, 2017
\$3,590,000 due July 1, 2027**

Interest is payable semi-annually on January 1 and July 1 of each year. The bonds are subject to an optional redemption clause and a sinking fund redemption clause.

The optional redemption clause states that the bonds are subject to redemption at the option of the Water Commission, as a whole on any date or in part on any interest payment date on or after July 1, 2007 from any amounts available to the Water Commission for that purpose at a redemption price or par, plus accrued interest.

1997 Series A Bonds maturing on July 1, 2017 (the A2017 Term Bond@) are subject to mandatory redemption at par plus accrued interest on July 1 in the years and amounts as follows:

<u>Due July 1</u>	<u>Principal Amount</u>
2012	\$200,000
2013	\$210,000
2014	\$220,000
2015	\$235,000
2016	\$245,000
2017	\$260,000

The 1997 Series A Bonds maturing on July 1, 2027 (the >2027 Term Bond=) are subject to mandatory redemption at par plus accrued interest on July 1 in the years and amounts as follows:

<u>Due July 1</u>	<u>Principal Amount</u>
2018	\$275,000
2019	\$290,000
2020	\$310,000
2021	\$325,000
2022	\$345,000
2023	\$365,000
2024	\$385,000
2025	\$410,000
2026	\$430,000
2027	\$455,000

**NORTH DAKOTA WATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004**

A summary of the maturity date, interest rate and balance as of June 30, 2004 follows: on the outstanding \$1,255,000 Serial Bonds the interest rate ranges from 5.00% to 5.50%; on the outstanding \$1,370,000 Term Bonds the interest rate is 5.70%; on the outstanding \$3,590,000 Term Bonds the interest rate is 5.75%.

Year Ended June 30	Principal	Interest	Total
2005	\$ 130,000	\$ 347,905	\$ 477,905
2006	\$ 135,000	\$ 341,114	\$ 476,114
2007	\$ 145,000	\$ 333,831	\$ 478,831
2008	\$ 150,000	\$ 326,050	\$ 476,050
2009	\$ 160,000	\$ 317,835	\$ 477,835
2010-2014	\$ 945,000	\$1,444,190	\$ 2,389,190
2015-2019	\$1,235,000	\$1,137,364	\$ 2,372,364
2020-2024	\$1,635,000	\$ 728,669	\$ 2,363,669
2025-2028	\$1,680,000	\$ 199,813	\$ 1,879,813
	\$6,215,000	\$5,176,770	\$11,391,770

Series 1997 B - USDA

Principal Due: *Serial Bonds:* \$ 1,000 due July 1, 2037
\$ 3,399,000 due July 1, 2037

Interest is payable annually on each July 1 after the date of issuance. Principal installments commence July 1, 2000. The bonds are subject to an optional redemption clause.

The optional redemption clause states the bonds shall be subject to redemption and prepayment prior to maturity at the option of the Commission, without limitation, on any day if all of the Outstanding 1997 Series B Bonds are to be redeemed and on any Interest Payment Date if less than all of the Outstanding 1997 Series B Bonds are to be redeemed, upon such notice as is require in Article 3 of General Resolution. The 1997 Series B Bonds may be called at the option of the Commission prior to the stated maturities thereof, in whole or in part at the principal amount thereof, plus accrued interest to the date of redemption pursuant to 7 C.F.R. '1942.19(h)7.

NORTH DAKOTA WATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

A summary of the maturity date, interest rate and balance as of June 30, 2004 follows: on the outstanding \$3,264,960 Serial Bonds the interest rate is 5.00%.

Year Ended June 30	Principal	Interest	Total
2005	\$ 39,010	\$ 163,248	\$ 202,258
2006	\$ 40,010	\$ 161,298	\$ 201,308
2007	\$ 42,010	\$ 159,297	\$ 201,307
2008	\$ 45,010	\$ 157,197	\$ 202,207
2009	\$ 46,010	\$ 154,946	\$ 200,956
2010-2014	\$ 270,090	\$ 737,520	\$ 1,007,610
2015-2019	\$ 344,100	\$ 662,945	\$ 1,007,045
2020-2024	\$ 440,140	\$ 567,717	\$ 1,007,857
2025-2029	\$ 560,170	\$ 446,280	\$ 1,006,450
2030-2034	\$ 718,210	\$ 291,283	\$ 1,009,493
2035-2038	\$ 720,200	\$ 92,775	\$ 812,975
	\$3,264,960	\$3,594,504	\$ 6,859,464

Series 1998 A

Principal Due: *Serial Bonds:* \$765,000 due September 1, 2000 - 2018

Term Bonds: \$455,000 due September 1, 2024

Interest is payable semi-annually on March 1 and September 1 of each year. The bonds are subject to an optional redemption clause and a sinking fund redemption clause.

The optional redemption clause states that the bonds are subject to redemption at the option of the Water Commission, as a whole on any date or in part on any interest payment date on or after September 1, 2008 from any amounts available to the Water Commission for that purpose at a redemption price of par, plus accrued interest.

**NORTH DAKOTA WATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004**

The 1998 Series A Bonds maturing on September 1, 2024 (the >2024 Term Bond=) are subject to mandatory redemption at a par plus accrued interest on September 1 in the years and amounts as follows:

Due September 1	Principal Amount
2019	\$65,000
2020	\$70,000
2021	\$75,000
2022	\$80,000
2023	\$80,000
2024(maturity)	\$85,000

A summary of the maturity date, interest rate and balance as of June 30, 2004 follows: on the outstanding \$655,000 Serial Bonds the interest rate ranges from 4.60% to 5.75%; on the outstanding \$455,000 Term Bonds the interest rate is 5.875%.

Year Ended June 30	Principal	Interest	Total
2005	\$ 30,000	\$ 61,129	\$ 91,129
2006	\$ 30,000	\$ 59,704	\$ 89,704
2007	\$ 35,000	\$ 58,126	\$ 93,126
2008	\$ 35,000	\$ 56,394	\$ 91,394
2009	\$ 35,000	\$ 54,626	\$ 89,626
2010-2014	\$ 215,000	\$ 241,204	\$ 456,204
2015-2019	\$ 275,000	\$ 174,508	\$ 449,508
2020-2024	\$ 370,000	\$ 81,663	\$ 451,663
2025	\$ 85,000	\$ 2,497	\$ 87,497
	\$1,110,000	\$ 789,849	\$1,899,849

**NORTH DAKOTA WATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004**

Series 1999 A - USDA

Principal Due: Term Bond \$1,000,000 due July 1, 2039

Interest is payable annually on each July 1 after the date of issuance. Principal installments commence July 1, 2002. The bonds are subject to an optional redemption clause.

The optional redemption clause states the bond shall be subject to redemption and prepayment prior to maturity at the option of the Commission, without limitation, on any day if all of the outstanding principal of the 1999 Series A Bond is to be redeemed and on any interest payment date if less than all of the outstanding principal of the 1999 Series A Bond is to be redeemed, upon such notice as is required in Article 3 of the General Resolution, at par plus accrued interest to the date of redemption.

A summary of the maturity date, interest rate and balance as of June 30, 2004 follows: on the outstanding \$978,000 Term Bonds the interest rate is 4.375%.

Year Ended June 30	Principal	Interest	Total
2005	\$ 11,500	\$ 42,788	\$ 54,288
2006	\$ 12,000	\$ 42,284	\$ 54,284
2007	\$ 13,000	\$ 41,759	\$ 54,759
2008	\$ 13,000	\$ 41,191	\$ 54,191
2009	\$ 14,000	\$ 40,622	\$ 54,622
2010-2014	\$ 79,000	\$ 193,419	\$ 272,419
2015-2019	\$ 97,500	\$ 174,584	\$ 272,084
2020-2024	\$ 121,000	\$ 151,266	\$ 272,266
2025-2029	\$ 149,500	\$ 122,434	\$ 271,934
2030-2034	\$ 185,500	\$ 86,734	\$ 272,234
2035-2039	\$ 230,000	\$ 42,438	\$ 272,438
2040	\$ 52,000	\$ 2,275	\$ 54,275
	\$ 978,000	\$ 981,794	\$ 1,959,794

**NORTH DAKOTA WATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004**

Series 2000 A

Principal Due: *Serial Bonds:* \$32,095,000 due August 1, 2001-2020

Interest is initially payable on August 1, 2000 and semi-annually thereafter on February 1 and August 1 of each year. Principal installments commence August 1, 2001. The bonds are subject to an optional redemption clause.

The optional redemption clause states the 2000 Series A Bonds maturing August 1, 2011 and thereafter are subject to redemption and prepayment prior to maturity at the option of the Commission, in whole or in part and if in part in integral multiples of \$5,000 on any day so long as the 2000 Series A Bonds are book entry bonds in accordance with Section 2.4 hereof and if not so held, on any day if all of the Outstanding 2000 Series A Bonds are to be redeemed and on any Interest Payment Date if less than all of the Outstanding 2000 Series A Bonds are to be redeemed, on or after August 1, 2010, upon such notice as is required in Article 3 of the General Bond Resolution, at a redemption price of par plus accrued interest to the date of redemption. The 2000 Series A bonds subject to redemption in whole or in part prior to maturity at the option of the Commission shall be redeemed by the Trustee in such order of maturities as directed by the Commission.

A summary of the maturity date, interest rate and balance as of June 30, 2004 follows: on the outstanding \$29,160,000 Serial Bonds the interest rate ranges from 5.00% to 6.00%.

Year Ended June 30	Principal	Interest	Total
2005	\$ 1,080,000	\$ 1,633,574	\$ 2,713,574
2006	\$ 1,130,000	\$ 1,578,324	\$ 2,708,324
2007	\$ 1,190,000	\$ 1,518,836	\$ 2,708,836
2008	\$ 1,250,000	\$ 1,454,786	\$ 2,704,786
2009	\$ 1,315,000	\$ 1,385,811	\$ 2,700,811
2010-2014	\$ 7,780,000	\$ 5,690,656	\$13,470,656
2015-2019	\$10,375,000	\$ 3,016,588	\$13,391,588
2020-2021	\$ 5,040,000	\$ 293,825	\$ 5,333,825
	\$29,160,000	\$16,572,401	\$45,732,401

**NORTH DAKOTA WATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004**

Series 2000 A - SRF

Principal Due: *Term Bond* \$1,500,000 due July 1, 2021

Interest is payable semi-annually on January 1 and July 1 of each year after the date of issuance. Principal installments commence July 1, 2002. The bonds are subject to an optional redemption clause.

The optional redemption clause states the bond shall be subject to redemption and prepayment prior to maturity on any interest date with the consent of the Bond Bank at a price equal to the principal amount thereof plus accrued interest upon such notice as is required in Article 3 of the General Resolution.

A summary of the maturity date, interest rate and balance as of June 30, 2004 follows: on the outstanding \$1,350,000 Term Bonds the interest rate is 2.50%.

Year Ended June 30	Principal	Interest	Total
2005	\$ 75,000	\$ 32,813	\$ 107,813
2006	\$ 75,000	\$ 30,938	\$ 105,938
2007	\$ 75,000	\$ 29,063	\$ 104,063
2008	\$ 75,000	\$ 27,188	\$ 102,188
2009	\$ 75,000	\$ 25,313	\$ 100,313
2010-2014	\$ 375,000	\$ 98,438	\$ 473,438
2015-2019	\$ 375,000	\$ 51,563	\$ 426,563
2020-2022	\$ 225,000	\$ 8,438	\$ 233,438
	\$1,350,000	\$ 303,750	\$1,653,750

Series 2000 B - USDA

Principal Due: *Term Bond* \$400,000 due July 1, 2039

Interest is payable annually on each July 1 after the date of issuance. Principal installments commence July 1, 2002. The bonds are subject to an optional redemption clause.

NORTH DAKOTA WATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

The optional redemption clause states the bond shall be subject to redemption and prepayment prior to maturity at the option of the Commission, without limitation, on any day if all of the outstanding principal of the 2000 Series B Bond is to be redeemed and on any interest payment date if less than all of the outstanding principal of the 2000 Series B Bond is to be redeemed, upon such notice as is required in Article 3 of the General Resolution, at par plus accrued interest to the date of redemption.

A summary of the maturity date, interest rate and balance as of June 30, 2004 follows: on the outstanding \$392,500 Term Bonds the interest rate is 5.125%.

Year Ended June 30	Principal	Interest	Total
2005	\$ 4,000	\$ 20,116	\$ 24,116
2006	\$ 4,200	\$ 19,911	\$ 24,111
2007	\$ 4,400	\$ 19,695	\$ 24,095
2008	\$ 4,600	\$ 19,470	\$ 24,070
2009	\$ 4,900	\$ 19,234	\$ 24,134
2010-2014	\$ 28,600	\$ 92,133	\$ 120,733
2015-2019	\$ 36,500	\$ 84,034	\$ 120,534
2020-2024	\$ 46,800	\$ 73,667	\$ 120,467
2025-2029	\$ 60,000	\$ 60,383	\$ 120,383
2030-2034	\$ 76,900	\$ 43,378	\$ 120,278
2035-2039	\$ 98,600	\$ 21,556	\$ 120,156
2040-2041	\$ 23,000	\$ 1,179	\$ 24,179
	\$ 392,500	\$ 474,756	\$ 867,256

Series 2001A - USDA

Principal Due: *Term Bond* \$500,000 due July 1, 2040

Interest is payable annually on each July 1 after the date of issuance. Principal installments commence July 1, 2003. The bonds are subject to an optional redemption clause.

NORTH DAKOTA WATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

The optional redemption clause states the bond shall be subject to redemption and prepayment prior to maturity at the option of the Commission, without limitation, on any day if all of the outstanding principal of the 2001 Series A Bond is to be redeemed and on any interest payment date if less than all of the outstanding principal of the 2001 Series A Bond is to be redeemed, upon such notice as is required in Article 3 of the General Resolution, at par plus accrued interest to the date of redemption.

A summary of the maturity date, interest rate and balance as of June 30, 2004 follows: on the outstanding \$495,100 Term Bonds the interest rate is 4.75%.

Year Ended June 30	Principal	Interest	Total
2005	\$ 5,100	\$ 23,517	\$ 28,617
2006	\$ 5,400	\$ 23,275	\$ 28,675
2007	\$ 5,600	\$ 23,019	\$ 28,619
2008	\$ 5,900	\$ 22,753	\$ 28,653
2009	\$ 6,200	\$ 22,473	\$ 28,673
2010-2014	\$ 35,700	\$ 107,655	\$ 143,355
2015-2019	\$ 45,100	\$ 98,331	\$ 143,431
2020-2024	\$ 56,700	\$ 86,567	\$ 143,267
2025-2029	\$ 71,600	\$ 71,757	\$ 143,357
2030-2034	\$ 90,300	\$ 53,060	\$ 143,360
2035-2039	\$ 113,800	\$ 29,472	\$ 143,272
2040-2041	\$ 53,700	\$ 3,861	\$ 57,561
	\$ 495,100	\$ 565,740	\$1,060,840

Series 2002A - USDA

Principal Due: *Term Bond* \$1,864,000 due July 1, 2041

Interest is payable annually on each July 1 after the date of issuance. Principal installments commence July 1, 2004. The bonds are subject to an optional redemption clause.

NORTH DAKOTA WATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

The optional redemption clause states the bond shall be subject to redemption and prepayment prior to maturity at the option of the Commission, without limitation, on any day if all of the outstanding principal of the 2002 Series A Bond is to be redeemed and on any interest payment date if less than all of the outstanding principal of the 2002 Series A Bond is to be redeemed, upon such notice as is required in Article 3 of the General Resolution, at par plus accrued interest to the date of redemption.

A summary of the maturity date, interest rate and balance as of June 30, 2004 follows: on the outstanding \$1,864,000 Term Bonds the interest rate is 4.75%.

Year Ended June 30	Principal	Interest	Total
2005	\$ 18,000	\$ 86,084	\$ 104,084
2006	\$ 19,100	\$ 89,376	\$ 108,476
2007	\$ 20,000	\$ 88,450	\$ 108,450
2008	\$ 21,100	\$ 87,480	\$ 108,580
2009	\$ 22,000	\$ 86,460	\$ 108,460
2010-2014	\$ 126,100	\$ 415,295	\$ 541,395
2015-2019	\$ 158,700	\$ 381,685	\$ 540,385
2020-2024	\$ 201,200	\$ 339,216	\$ 540,416
2025-2029	\$ 253,700	\$ 285,653	\$ 539,353
2030-2034	\$ 320,039	\$ 217,992	\$ 538,031
2035-2039	\$ 403,000	\$ 132,776	\$ 535,776
2040-2042	\$ 301,061	\$ 29,719	\$ 330,780
	\$1,864,000	\$2,240,183	\$4,104,183

Series 2003A - USDA

Principal Due: Term Bond \$1,282,042 due July 1, 2043

Interest is payable annually on each July 1 after the date of issuance. Principal installments commence July 1, 2006. The bonds are subject to an optional redemption clause.

NORTH DAKOTA WATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

The optional redemption clause states the bond shall be subject to redemption and prepayment prior to maturity at the option of the Commission, without limitation, on any day if all of the outstanding principal of the 2003 Series A Bond is to be redeemed and on any interest payment date if less than all of the outstanding principal of the 2003 Series A Bond is to be redeemed, upon such notice as is required in Article 3 of the General Resolution, at par plus accrued interest to the date of redemption.

A summary of the maturity date, interest rate and balance as of June 30, 2004 follows: on the outstanding \$1,282,042 Term Bonds the interest rate is 4.50%.

Year Ended June 30	Principal	Interest	Total
2005	\$ 0	\$ 363	\$ 363
2006	\$ 0	\$ 55,273	\$ 55,273
2007	\$ 13,600	\$ 57,693	\$ 71,293
2008	\$ 13,600	\$ 57,082	\$ 70,682
2009	\$ 14,600	\$ 56,469	\$ 71,069
2010-2014	\$ 83,500	\$ 271,860	\$ 355,360
2015-2019	\$ 104,500	\$ 251,251	\$ 355,751
2020-2024	\$ 129,300	\$ 225,656	\$ 354,956
2025-2029	\$ 161,000	\$ 193,855	\$ 354,855
2030-2034	\$ 200,700	\$ 154,184	\$ 354,884
2035-2039	\$ 251,000	\$ 104,710	\$ 355,710
2040-2044	\$ 310,242	\$ 42,942	\$ 353,184
	\$1,282,042	\$1,471,335	\$2,753,377

Summary of All Bond Series

A summary of the maturity date and balance as of June 30, 2004 follows:

**NORTH DAKOTA WATER COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004**

Year Ended June 30	Principal	Interest	Total
2005	\$ 1,392,610	\$ 2,411,535	\$ 3,804,145
2006	\$ 1,450,710	\$ 2,401,495	\$ 3,852,205
2007	\$ 1,543,610	\$ 2,329,769	\$ 3,873,379
2008	\$ 1,613,210	\$ 2,249,589	\$ 3,862,799
2009	\$ 1,692,710	\$ 2,163,788	\$ 3,856,498
2010-2014	\$ 9,937,990	\$ 9,292,368	\$19,230,358
2015-2019	\$13,046,400	\$ 6,032,852	\$19,079,252
2020-2024	\$ 8,265,140	\$ 2,556,682	\$10,821,822
2025-2029	\$ 3,020,970	\$ 1,382,671	\$ 4,403,641
2030-2034	\$ 1,591,649	\$ 846,631	\$ 2,438,280
2035-2039	\$ 1,816,600	\$ 423,727	\$ 2,240,327
2040-2044	\$ 740,003	\$ 79,976	\$ 819,979
	\$46,111,602	\$32,171,081	\$78,282,683

Note 2: Authorized Unissued Debt

The ND State Water Commission has moral obligation bonds authorized and unissued at June 30, 2004 totaling \$60,257,958. The purpose of the bonds is to provide funding for the Southwest Pipeline (SWPP) and Statewide Water Development Projects (WDP.)

<u>Issue</u>	<u>Amount</u>
2003 A (SWPP)	257,958
Not Determined (WDP)	60,000,000

The unissued \$257,958 of the 2003 A Series was issued September 7, 2004.

NORTH DAKOTA STATE AGENCY "OFF-BUDGET" POSITIONS FOR THE 2003-05 BIENNIUM

Each biennium, as part of agency budget requests, each agency requests a specific number of full-time equivalent (FTE) positions and funding for the positions. The Governor recommends the number of FTE positions and related funding for each agency to the Legislative Assembly. The Legislative Assembly appropriates funding for each agency's FTE positions in the agency's appropriations bill for each biennium. The legislatively authorized FTE positions associated with the funding appropriated are not referenced in the appropriations bill but are identified in supporting legislative budget documents. During each biennium the Office of Management and Budget (OMB) monitors the number of employees included in agency payroll reports to the legislatively authorized FTE positions for each agency.

Select state agencies are not included in the appropriations process; therefore, those agencies do not have legislative limits on the number of employees that may be hired. These agencies include the agriculture commodity groups and the State Fair Association. Higher education institutions receive a block grant appropriation of their general fund dollars and identify FTE positions related to the general fund appropriation. The institutions receive other funds such as tuition income, federal funds, and local funds, which are used to hire employees, but these funds are not specifically appropriated nor are the employees included as legislatively authorized FTE positions. These types of employees are considered "off-budget."

An "off-budget" position is defined for this memorandum as an employee that is either not filling a legislatively approved FTE position or one for which the funding for the position was not included in the agency's appropriations bill approved by the Legislative Assembly. Agencies hire these positions pursuant to other authority granted to the agency either in statute or the Session Laws. The schedule below lists, for agencies included in the appropriations process, employees considered "off-budget."

Agency/"Off-Budget" Position	Explanation	Biennial Salary and Fringe Benefit Total
125 - Attorney General Administrative assistant II "Do not call" assistant attorney general	These two positions are "off-budget" because funding for the positions was not included in the agency's 2003-05 biennium appropriation. The positions were included in the legislatively authorized FTEs for the 2003-05 biennium; however, OMB has informed the Attorney General not to include the positions as FTEs in the 2005-07 biennium budget request. The positions are involved in the administration of North Dakota Century Code (NDCC) Chapter 51-28, the "do not call" statutes. Funding for the positions is spent pursuant to a continuing appropriation from the Attorney General's refund fund. The positions receive the same benefits as other state employees.	\$83,403 89,926
Lottery director Lottery security officer Lottery account/budget specialist III Lottery customer service representative Lottery administrative staff officer Lottery marketing specialist	These positions are "off-budget" because funding for the positions was not included in the agency's 2003-05 biennium appropriation. The positions were included in the legislatively authorized FTEs for the 2003-05 biennium; however, OMB has informed the Attorney General not to include the positions as FTEs in the 2005-07 biennium budget request. The positions are involved in the administration of NDCC Chapter 53-12, the North Dakota Lottery. Funding for the positions is spent pursuant to a continuing appropriation from the lottery operating fund. The positions receive the same benefits as other state employees.	162,853 105,284 99,821 101,955 71,074 120,660

Agency "Off-Budget" Position
215 - North Dakota University System office
 Articulation and transfer coordinator

Explanation

The position is "off-budget" because the position is not included in the agency's legislatively authorized FTE count. The position is funded from the agency's board initiative funds and is authorized pursuant to Section 10 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

Articulation and transfer secretary

30,459

244 - Forest Service

Community forestry specialist (#3611)

88,176

The position is "off-budget" because the position is not included in the agency's legislatively authorized FTE count. The position is funded from the agency's consolidated forestry assistance federal block grant and is authorized pursuant to a continuing appropriation contained in Sections 7 and 34 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

Forest stewardship specialist (#3756)

60,801

This position is three-fourths "off-budget" and one-fourth "on-budget" because the position is funded 75 percent from the agency's consolidated forestry assistance federal block grant, 16.8 percent from the general fund, and 8.2 percent from special funds generated from nursery tree sales. The funding from the consolidated forestry assistance federal block grant is authorized pursuant to a continuing appropriation contained in Sections 7 and 34 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

Riparian forester (#4745)

77,023

The position is "off-budget" because the position is not included in the agency's legislatively authorized FTE count. The position is funded with funds received from the agency's agreement with the Red River Riparian Council and is authorized pursuant to a continuing appropriation contained in Sections 7 and 34 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

Community forestry specialist (#4905)

88,534

The position is "off-budget" because the position is not included in the agency's legislatively authorized FTE count. The position is funded from the agency's consolidated forestry assistance federal block grant and is authorized pursuant to a continuing appropriation contained in Sections 7 and 34 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

Community forestry assistant (#4899)

62,420

The position is "off-budget" because the position is not included in the agency's legislatively authorized FTE count. The position is funded from the agency's consolidated forestry assistance federal block grant and is authorized pursuant to a continuing appropriation contained in Sections 7 and 34 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

Biennial
Salary and
Fringe
Benefit Total

109,486

Agency "Off-Budget" Position
Federal excess personal property technician (#3589)

Explanation

The position is "off-budget" because the position is not included in the agency's legislatively authorized FTE count. The position is funded from the agency's consolidated forestry assistance federal block grant and is authorized pursuant to a continuing appropriation contained in Sections 7 and 34 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

**Biennial
 Salary and
 Fringe
 Benefit Total**
 80,956

Forestry technician (#3591)

The position is "off-budget" because the position is not included in the agency's legislatively authorized FTE count. The position is funded from the agency's consolidated forestry assistance federal block grant and is authorized pursuant to a continuing appropriation contained in Sections 7 and 34 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

79,463

Fire management coordinator (#3585)

This position is 28 percent "off-budget" and 72 percent "on-budget" because the position is funded 48.4 percent from the general fund, 23.6 percent from special funds generated from nursery tree sales, and 28 percent from the agency's consolidated forestry assistance federal block grant. The funding from the consolidated forestry assistance block grant is authorized pursuant to a continuing appropriation contained in Sections 7 and 34 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

28,724

Fire management specialist (#5175)

The position is "off-budget" because the position is not included in the agency's legislatively authorized FTE count. The position is funded from the agency's consolidated forestry assistance federal block grant and is authorized pursuant to a continuing appropriation contained in Sections 7 and 34 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

83,800

Forest stewardship specialist (#5176)

The position is "off-budget" because the position is not included in the agency's legislatively authorized FTE count. The position is funded from the agency's consolidated forestry assistance federal block grant and is authorized pursuant to a continuing appropriation contained in Sections 7 and 34 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

86,052

Forest health specialist (#5177)

The position is "off-budget" because the position is not included in the agency's legislatively authorized FTE count. The position is funded from the agency's consolidated forestry assistance federal block grant and is authorized pursuant to a continuing appropriation contained in Sections 7 and 34 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

92,047

Fire planning and prevention specialist (#5578)

The position is "off-budget" because the position is not included in the agency's legislatively authorized FTE count. The position is funded from the agency's rural development forestry and community grant program and is authorized pursuant to a continuing appropriation contained in Sections 7 and 34 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

80,442

Agency/"Off-Budget" Position
Community planning specialist (#5559)

Explanation

The position is "off-budget" because the position is not included in the agency's legislatively authorized FTE count. The position is funded from the agency's rural development forestry and community grant program and is authorized pursuant to a continuing appropriation contained in Sections 7 and 34 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

Biennial
Salary and
Fringe
Benefit Total
78,951

Administrative secretary (#5609)

The position is "off-budget" because the position is not included in the agency's legislatively authorized FTE count. The position is funded from the agency's consolidated forestry assistance federal block grant and is authorized pursuant to a continuing appropriation contained in Sections 7 and 34 of House Bill No. 1003 (2003). The position receives health and retirement benefits.

59,667

321 - Department of Veterans Affairs
Account technician I

One-half of this position is "off-budget" because it is funded from the veterans' postwar trust fund and is not included in the agency's legislatively authorized FTE count. The investment earnings of the veterans' postwar trust fund is appropriated on a continuing basis to the Administrative Committee on Veterans Affairs, pursuant to NDCC Section 37-14-14. One-half of the position is funded from the veterans' aid fund. Half of the position relating to the veterans' aid fund is "on-budget" and the half relating to the veterans' postwar trust fund is "off-budget." This position receives full benefits.

51,857

Office assistant II

One-half of this position is "off-budget" because it is funded on a continuing basis from the veterans' postwar trust fund and is not included in the agency's legislatively authorized FTE count. Three-fourths of the funding for this position is from the veterans' postwar trust fund and one-fourth of the position is funded from the general fund. One-half of the position is "on-budget" and one-half is "off-budget." This position receives full benefits.

31,990

701 - State Historical Society
Store manager

This position is "off-budget" because the position is not included in the agency's legislatively authorized FTE count. The position is authorized pursuant to a continuing appropriation contained in NDCC Section 55-02-04 which also authorizes the museum store funds to be used in the normal course of business to support the operation from which the funds are derived. Benefits are provided since this is a full-time position and the only full-time position for the store.

73,200

\$2,179,024

NOTE: This report does not include University System campuses since the University System receives a "block grant" general fund appropriation, the agriculture commodity groups, or the State Fair Association because the agencies are not included in the appropriations process.

December 2004

INFORMATION REGARDING STATE EMPLOYEES

This memorandum contains the following information regarding state employees:

- History of the number of employees.
- Statutory eligibility for health insurance and retirement benefits.
- State employee retirement history and potential future eligible state employee retirees.
- Other fringe benefits such as holidays, annual leave, sick leave, and family leave.
- Travel reimbursement.
- Status of health insurance costs.
- Cost of salary increases for a biennium.

HISTORY OF THE NUMBER OF EMPLOYEES

The following table summarizes full-time equivalent (FTE) positions for the 1987-89 through 2003-05 bienniums:

Authorized FTE Positions ¹				State Government Employees ²			
Biennium	Education	Other	Total	Calendar Year	Education	Other	Total
1987-89	4,205.26	7,769.72	11,974.98	1988	12,300	6,900	19,200
				1989	12,500	7,200	19,700
1989-91	4,272.38	7,834.64	12,107.02	1990	12,600	7,100	19,700
				1991	12,800	7,350	20,150
1991-93	4,293.71	7,865.79	12,159.50	1992	12,950	7,550	20,500
				1993	13,050	7,650	20,700
1993-95	4,235.35	7,914.63	12,149.98	1994	11,950	8,700	20,650
				1995	11,550	8,800	20,350
1995-97	3,562.51	7,728.02	11,290.53	1996	11,450	8,850	20,300
				1997	11,300	8,950	20,250
1997-99	3,609.84	7,931.16	11,541.00	1998	11,250	9,050	20,300
				1999	11,050	9,200	20,250
1999-2001	3,376.83	8,160.09	11,536.92	2000	11,400	9,150	20,550
				2001	11,350	9,450	20,800
2001-03	3,341.65	8,319.52	11,661.17	2002	11,700	9,450	21,150
				2003	12,100	9,650	21,750
2003-05	2,646.48 ³	8,145.25	10,791.73	2004	N/A	N/A	N/A
2005-07 (executive budget recommendation)	2,441.31	8,175.85	10,617.16				

¹Authorized FTE positions - The number of positions shown is the number authorized by legislative appropriations. Positions not reflected include higher education employees of auxiliary operations or research programs funded through grants, which are not subject to legislative appropriation. The positions shown for education include the Department of Public Instruction and the University System.

²State government employees - The number of employees is the annual average of employees based on information collected monthly by Job Service North Dakota. The numbers shown include employees of higher education auxiliary operations and research programs funded through grants, which are not subject to legislative appropriation. The number is not on an FTE basis.

³The FTE count for higher education was reduced by 688.17 FTE positions to reflect institutional reductions and to report only the number of FTE positions funded from the general fund.

STATUTORY ELIGIBILITY FOR HEALTH INSURANCE

North Dakota Century Code (NDCC) Chapter 54-52.1 provides that group medical insurance and group life insurance is available to employees who meet the eligibility requirements of being a permanent employee of the state. A permanent employee is one whose services are not limited in duration, who is filling an approved and regularly funded position in a governmental unit, and who is employed at least 17.5 hours per week at least five months each year or for those first employed after August 1, 2003, is employed at least 20 hours per week and at least 20 weeks each year of employment.

STATUTORY ELIGIBILITY FOR RETIREMENT

North Dakota Century Code Chapter 54-52 provides that employees who are 18 years old or older, whose services are not limited in duration and who are filling an approved and regularly funded position in an eligible governmental unit, and are employed at least 20 hours per week and at least 20 weeks each year of employment are eligible to participate in the defined benefit retirement plan administered by the Public Employees Retirement System Board. Chapter 54-52.6 allows certain employees to participate in a defined contribution retirement plan.

House Bill No. 1257 (1999) provided that a state employee, except an employee of the judicial branch or an employee of the State Board of Higher Education and state institutions under the jurisdiction of the board, who is eligible for retirement and is in a position not classified by Human Resource Management Services of the Office of Management and Budget may elect to participate in the defined contribution retirement plan. As of December 2004, there are 9,868 state employees enrolled in the defined benefit retirement plan, and 243 employees in the defined contribution retirement plan.

STATE EMPLOYEE RETIREMENTS - HISTORIC

The following table shows the number of state agency employees and higher education employees that have retired and that were eligible for retirement in the years from 1997 through 2003, based on "normal" and "Rule of 85" "defined benefit" retirement, and employees under the 401(a) defined contribution plan who were age 65 or older or whose age plus years of service equaled 85 or more, as provided by the Public Employees Retirement System:

	1997	1998	1999	2000	2001	2002	2003	Seven-Year Average
Retired	109	131	117	134	100	115	158	123
Eligible	227	291	325	408	473	633	780	448

POTENTIAL FUTURE ELIGIBLE STATE EMPLOYEE RETIREES

The following table shows the potential number of state employees eligible for retirement benefits under the state's "defined benefit" provisions, and the "401(a) defined contribution" plan, as provided by the Public Employees Retirement System. The amounts in the December 2004 column are the number of employees eligible for "normal" and "Rule of 85" retirement under the state's "defined benefit" provisions as of December 31, 2004, and the number of employees under the "401(a) defined contribution" plan who are age 65 or older or those whose age plus years of service equal 85 or above, as of December 31, 2004. The amounts in the December 2005 through December 2014 columns are the incremental number of eligible "normal" and "Rule of 85" retirees for each agency, including employees with either defined benefit or defined contribution plans, based on an additional year of service and age.

	December 2004	December 2005	December 2006	December 2007	December 2008	December 2009	December 2010	December 2011	December 2012	December 2013	December 2014	Total
State agencies (including higher education institutions)	812	277	255	286	332	352	369	345	400	411	382	4,221

OTHER FRINGE BENEFITS

Holidays

The following is a list of statutory holidays cited in NDCC Sections 1-03-01 through 1-03-02.1, attached as Appendix A, on which North Dakota state offices are closed:

- Every Sunday.
- January 1 - New Year's Day.
- The third Monday of January - Martin Luther King, Jr., Day.
- The third Monday of February - Recognition of the birthday of George Washington.
- The Friday preceding Easter Sunday - Good Friday.
- The last Monday of May - Memorial Day.
- July 4 - Independence Day.
- The first Monday of September - Labor Day.

- November 11 - Veterans Day.
- The fourth Thursday of November - Thanksgiving Day.
- December 25 - Christmas Day.
- Every day appointed by the President of the United States or by the Governor of this state for a public holiday.

If a holiday falls on Saturday or Sunday, the preceding Friday or following Monday, respectively, is considered the holiday. Also, state offices close at noon on December 24, but this is an office closure, not a holiday. The noon closure applies only on December 24 and is not moved to the preceding Friday or following Monday.

Annual Leave and Sick Leave

According to NDCC Section 54-06-14, annual leave and sick leave must be provided for all permanent employees of the state who are not employed under a written contract of hire.

According to North Dakota Administrative Code Chapter 4-07-12, all state and local government agencies, departments, institutions, and boards and commissions that employ individuals in positions classified by Human Resource Management Services are recommended to use the following annual leave schedule:

Years of Service	Hours Per Month	Hours Per Year
0-3	8	96
4-7	10	120
8-12	12	144
13-18	14	168
Over 18	16	192

According to North Dakota Administrative Code Chapter 4-07-13, all state and local government agencies, departments, institutions, and boards and commissions that employ individuals in positions classified by Human Resource Management Services are recommended to use the sick leave accumulation rate of eight hours per month.

Employees who are eligible for annual and sick leave begin to accrue leave from the day of hire. The accrual of annual leave is limited in that no more than 240 hours of annual leave may be carried forward from one year to the next, according to the cutoff date established by the agency. Any hours in excess of 240 will be lost. All accrued, unused sick leave may be carried over from one year to the next, and NDCC Section 54-06-14 provides for a lump sum payment equal to one-tenth of the pay attributed to an employee's unused sick leave accrued to an employee with at least 10 continuous years of state employment.

Family Leave - Family Sick Leave

North Dakota Century Code Chapter 54-52.4 provides family leave which is an unpaid leave of absence available to an employee for the birth, adoption, or foster placement of a child; or for the serious health condition of a parent, child, spouse, or employee to all state employees who have been employed by the employer for at least 12 months, and who has worked at least 1,250 hours for the employer over the previous 12 months.

North Dakota Century Code Chapter 54-52.4 also provides that an employer who offers compensated leave to its employees for illnesses or other medical or health reasons should allow an employee to use that leave as family sick leave when there is an illness or medical need in the employee's family. Employees are limited to using 40 hours of sick leave for this purpose in any 12-month period.

TRAVEL REIMBURSEMENT

North Dakota Century Code Section 44-08-04, attached as Appendix B, provides for meals and lodging reimbursement for state officials and employees. Section 54-06-09, attached as Appendix C, provides for mileage and travel expense of state officers and employees.

Meals and Lodging

Under NDCC Section 44-08-04, state officials and employees may claim reimbursement for meals and lodging while conducting work away from their normal working and living city of residence for all or any part of a day. Reimbursements are provided for each quarter of a day as follows:

Quarter	Allowance	In State	Out of State
6:00 a.m. - 12:00 noon	Meal ¹	\$4	20% of GSA ² daily rate
12:00 noon - 6:00 p.m.	Meal	\$6	30% of GSA ² daily rate
6:00 p.m. - 12:00 midnight	Meal	\$10	50% of GSA ² daily rate
12:00 midnight - 6:00 a.m.	Lodging	Actual - Up to \$45 plus any additional state or local taxes for a single room	Actual (single room)

¹An employee or officer may not be reimbursed for the first quarter meal allowance if travel begins after 7:00 a.m.

²General Services Administration (GSA) - The GSA daily rate is specific to each city in the United States and ranges from \$31 to \$51 per day.

The Office of Management and Budget also provides a policy for agencies to follow in reimbursement for meals and lodging, attached as Appendix D. The policy is based on NDCC Section 44-08-04.

Mileage

North Dakota Century Code Section 54-06-09, attached as Appendix C, provides that unless an exemption is provided, a state employee or officer, when required to travel by motor vehicle or truck in the performance of an official duty, use a state-owned vehicle whenever possible. When a personal motor vehicle is used, the section provides for a mileage reimbursement of 31 cents per mile actually and necessarily traveled in the performance of the official duty.

STATUS OF HEALTH INSURANCE COSTS

The executive budget recommendation anticipates health insurance costs to increase by \$14.3 million for the 2005-07 biennium, of which approximately 40 percent or \$5.8 million is from the general fund. The executive budget recommendation budgeted health insurance costs at \$559 per month per employee, which is a 14.4 percent increase over the 2003-05 biennium.

COST OF SALARY INCREASES FOR A BIENNIUM

The estimated cost of a 1 percent state employee salary increase per year, including fringe benefits, is \$3.4 million, of which \$1.7 million is from the general fund. The executive budget recommendation includes a 4 percent salary increase for state employees for the first year of the 2005-07 biennium and a 3 percent salary increase for the second year, for an estimated cost of approximately \$37.95 million, of which \$18.1 million is from the general fund. These estimates exclude higher education employees.

A schedule of annual state employee salary increases and inflation rates is attached as Appendix E.

ATTACH:5

CHAPTER 1-03 HOLIDAYS

1-03-01. Holidays. Holidays are as follows:

1. Every Sunday.
2. The first day of January, which is New Year's Day.
3. The third Monday of January, which is Martin Luther King Day, in recognition of the life, legacy, and dream of Martin Luther King, Jr.
4. The third Monday in February, in recognition of the birthday of George Washington.
5. The Friday next preceding Easter Sunday and commonly known as Good Friday.
6. The last Monday in May, which is Memorial Day.
7. The fourth day of July, which is the anniversary of the Declaration of Independence.
8. The first Monday in September, which is Labor Day.
9. The eleventh day of November, which is Veterans' Day.
10. The fourth Thursday in November, which is Thanksgiving Day.
11. The twenty-fifth day of December, which is Christmas Day.
12. Every day appointed by the President of the United States or by the governor of this state for a public holiday.

Nothing in this section may be construed to prevent the holding of legislative sessions or the taking of final action on any legislative matter upon any of such holidays other than Sunday. Any action heretofore taken upon any legislative matter upon any such holiday is valid and legal for all purposes.

1-03-01.1. Closing of state offices - Christmas Eve. State offices must be closed at twelve noon on December twenty-fourth, Christmas Eve day, unless it is a weekend or holiday pursuant to section 1-03-02.1.

1-03-02. When day following holiday shall be a holiday. If the first day of January, the fourth day of July, the eleventh day of November, or the twenty-fifth day of December falls upon a Sunday, the Monday following shall be the holiday.

1-03-02.1. When holiday falls on a Saturday. If any of the holidays enumerated in section 1-03-02 fall on a Saturday, the Friday immediately before shall be the holiday.

44-08-04. Expense account - Amount allowed - Verification.

1. Except as provided in section 44-08-04.1, each elective or appointive officer, employee, representative, or agent of this state, or of any of its subdivisions, agencies, bureaus, boards, or commissions, may make claim for meals and lodging while engaged in the discharge of a public duty away from the claimant's normal working and living residence for all or any part of any quarter of a day. Claims may also be made for meals that are included as part of a registration fee for a conference, seminar, or other meeting and for meals attended at the request of and on behalf of the state or any of its subdivisions, agencies, bureaus, boards, or commissions; however, if a meal is included in a registration fee, the applicable quarter allowance cannot be claimed for that meal. Claims for meals specifically included in a registration fee for a conference, seminar, or other meeting must be allowed even if the city at which the conference, seminar, or meeting is held or the meal is provided is the claimant's normal working and living residence. Reimbursement is allowed only for overnight travel or other travel, away from the normal place of employment, for four hours or more. Verification of expenses by receipt is required only for lodging expenses.
2. Expenses for travel within the state must be reimbursed at the following rates for each quarter of any twenty-four-hour period:
 - a. First quarter is from six a.m. to twelve noon and the sum must be four dollars. First quarter reimbursement may not be made if travel began after seven a.m.
 - b. Second quarter is from twelve noon to six p.m. and the sum must be six dollars.
 - c. Third quarter is from six p.m. to twelve midnight and the sum must be ten dollars.
 - d. Fourth quarter is from twelve midnight to six a.m. and the sum must be the actual lodging expenses not to exceed forty-five dollars plus any additional applicable state or local taxes. A political subdivision may reimburse an elective or appointive officer, employee, representative, or agent for actual lodging expenses.
3. The allowance for out-of-state meals, within the continental United States, is equal to the per diem meals rate in the city for which a claim is made on that day as established by rule for federal employees by the United States general services administration and must be allocated twenty percent to the first quarter, thirty percent to the second quarter, and fifty percent to the third quarter.
4. The allowance for meals in Canada, Alaska, and Hawaii may not exceed one and one-half times the current continental United States standard rate for federal employees established by the United States general services administration.
5. The allowance for meals outside the continental United States, Canada, Alaska, and Hawaii may not exceed two times the current continental United States standard rate for federal employees established by the United States general services administration.
6. The allowance for lodging outside the state must be the actual lodging expense.

7. A department, institution, or agency of this state may set a rate for travel expenses outside the state less than those set forth in this section. Verification of any other type of expense not prescribed by this section must be as prescribed by the office of the budget except no receipt may be required for taxi or cab fares of ten dollars or less. The office of management and budget shall disapprove any claim it determines to be in error or unlawful or not within the limits of legislative appropriations.

54-06-09. Mileage and travel expense of state officers and employees.

1. State officials, whether elective or appointive, and their deputies, assistants, and clerks, or other state employees, entitled by law to be reimbursed for mileage or travel expense, must be allowed and paid for mileage and travel expense the following amounts:
 - a. The sum of thirty-one cents per mile [1.61 kilometers] for each mile [1.61 kilometers] actually and necessarily traveled in the performance of official duty when the travel is by motor vehicle or twenty-seven cents per mile [1.61 kilometers] if the travel is by truck, the use of which is required by the employing entity. The sum of seventy cents per mile [1.61 kilometers] for each mile [1.61 kilometers] actually and necessarily traveled in the performance of official duty when the travel is by private airplane. Mileage by private aircraft must be computed by actual air mileage when only one state employee or official is traveling; if two or more state employees or officials are traveling by private aircraft, the actual mileage must be based on the road mileage between the geographical points. Reimbursement for private airplane travel must be calculated as follows:
 - (1) If reimbursement is for one properly authorized and reimbursable passenger, reimbursement must be paid on a per mile basis as provided in this subsection.
 - (2) If reimbursement is claimed for a chartered private aircraft, reimbursement may not exceed the cost of regular coach fare on a commercial flight, if one is scheduled between the point of departure, point of destination, and return, for each properly authorized and reimbursable passenger on the charter flight; or, where there is no such regularly scheduled commercial flight, the actual cost of the charter.
 - b. Except as provided in subdivision a, when travel is by rail or certificated air taxi commercial operator or other common carrier, including regularly scheduled flights by airlines, the amount actually and necessarily expended therefor in the performance of official duties.
2. No reimbursement may be paid for leased private aircraft, except for leased or rented private aircraft from a recognized fixed base aviation operator who is in the business of leasing and renting private aircraft and is located on an airport open for public use.
3. If only one person engages in such travel in a motor vehicle exceeding at any geographical point three hundred miles [482.80 kilometers] beyond the borders of this state, reimbursement is limited to eighteen cents per mile [1.61 kilometers] for Page No. 4 miles driven in excess of six hundred miles [965.60 kilometers] of round trip out-of-state travel.
4. An official, deputy, assistant, clerk, or other employee, when required to travel by motor vehicle or truck in the performance of official duty, shall use a state-owned vehicle whenever possible unless exempted under section 24-02-03.3. However, an agency, institution, department, board, bureau, or commission may allow use of an official's, deputy's, or employee's personal motor vehicle in circumstances authorized by the official, deputy, or the employee's supervisor. If personal motor vehicle use is authorized under this subsection, the agency may also allow mileage reimbursement at a rate less than that otherwise provided in this section. When official travel is by motor vehicle or airplane owned by the state or by any department or political subdivision of the state, no allowance may be

made or paid for such mileage, except that governmental entities may share expenses when officials or employees of those entities travel in the same motor vehicle or aircraft.

5. Notwithstanding the other provisions of this section, state employees permanently located outside the state or on assignments outside the state for an indefinite period of time, exceeding at least thirty consecutive days, must be allowed and paid thirty-one cents per mile [1.61 kilometers] for each mile [1.61 kilometers] actually and necessarily traveled in the performance of official duty when such travel is by motor vehicle, and the three-hundred-mile [482.80-kilometer] restriction imposed by subsection 3 does not apply.
6. Before any allowance for any such mileage or travel expenses may be made, the official, deputy, assistant, clerk, or other employee shall file with the employee's department, institution, board, commission, or agency an itemized statement showing the mileage traveled, the hour of departure and return, the days when and how traveled, the purpose thereof, and such other information and documentation as may be prescribed by rule of the employee's department, institution, board, commission, or agency. The statement must be submitted to the employee's department, institution, board, commission, or agency for approval and must be paid only when approved by the employee's department, institution, board, commission, or agency.

Office of Management and Budget

Travel

August 1, 2003

Policy 505 - Reimbursement for Meals and Lodging

NDCC Chapter 44-08-04 provides for reimbursement of employee expenses for meals and lodging while an employee is away from their normal working and living residence.

If meals are included as part of a registration fee for a conference, seminar, or other meeting, the employee should be reimbursed for the entire registration fee, if paid by the employee. However, the employee cannot claim reimbursement for the applicable meal allowance for that quarter. An employee should be reimbursed for meals paid by the employee while attending a meeting at the request of, or on behalf of, the state or any of its subdivisions, agencies, bureaus, boards, or commissions.

Chapter 44-08-04 provides that reimbursement is allowed only for overnight travel and other travel while away from the normal place of employment for four hours or more. Employees will not be reimbursed for the first quarter if travel began after 7:00 a.m. In order to claim expenses for the second and third quarters, the employee must have been in travel status one hour before the start of the quarter being claimed, and travel status must extend at least one hour into the quarter being claimed. The expense allowance for each quarter of any 24-hour period is as follows:

Meal Allowance	<u>In-State</u>	<u>Out-of-State</u>
1. First quarter, 6 a.m. to 12 noon	\$4.00	20% of GSA daily rate
2. Second quarter, 12 noon to 6 p.m.	\$6.00	30% of GSA daily rate
3. Third quarter, 6 p.m. to 12 midnight	\$10.00	50% of GSA daily rate
4. Fourth quarter, 12 midnight to 6 a.m.		

In-State Lodging:

Maximum of \$45.00 plus any additional applicable state and local taxes on lodging. If the room is more than \$45.00, the individual may only be reimbursed for the additional taxes based on \$45.00, and the additional taxes must be pro-rated. For example; if the room is \$50.00 and taxes are \$5.00, the individual will be reimbursed \$45.00 plus $(45 / 50 \times 5) = \$4.50$.

Out-of-State Lodging:

Actual lodging expense.

(continued)

Office of Management and Budget

Travel

August 1, 2003

Policy 505 (continued)

Those persons engaged in travel outside of the continental United States shall be reimbursed for meals as follows:

- The allowance for meals in Canada, Alaska, and Hawaii may not exceed one and one-half times the current continental United States standard rate for federal employees established by the United States general services administration.
- The allowance for meals outside the continental United States, Canada, Alaska, and Hawaii may not exceed two times the current continental United States standard rate for federal employees established by the United States General Services Administration.
- The standard rate for the continental United States is \$31 effective October 1, 2003.

Verification of claims via receipt is not required for the first three quarters but is required for lodging (see Policy 513 also). Receipts are also required for each taxi fare in excess of \$10 and for other miscellaneous expenses in excess of \$10. Parking fees may be claimed only with a receipt from a hotel/motel or airport.

The head of any department, institution, or agency may set a rate for out-of-state travel which is less than that set forth by statute.

NOTE: Before any allowance for such mileage or travel expenses will be made, the official, deputy, assistant, clerk, or other employee will file with the agency, an itemized statement showing mileage traveled, the purpose thereof, and such other information and documentation as may be prescribed by the IRS, or an agency. Statements such as "to attend a meeting" etc., should not be accepted as sufficient documentation for purpose of travel.

If an employee is not claiming reimbursement for lodging, please indicate such on the Travel Expense Voucher. A fillable and printable Adobe (.pdf) Travel Expense Voucher can be found at: <http://www.state.nd.us/eforms/Doc/sfn52785.pdf>

If an employee is claiming reimbursement for meals for travel when no overnight stay is involved, the meal reimbursement is taxable. When completing the Travel Expense Voucher, taxable meals must be noted accordingly. The employee will receive the full meal reimbursement and the taxes will be withheld through the payroll system during the next payroll cycle.

See Out-of-State Meal Allowance Rates at <http://www.state.nd.us/fiscal>

ANALYSIS OF STATE EMPLOYEE SALARY INCREASES

Year	Salary Increase Provided or Proposed	Annual Inflation*
1973	5%	6.2%
1974	4%	11.0%
1975	5% (in addition to an 11.9% salary adjustment)	9.1%
1976	5%	5.7%
1977	5%	6.5%
1978	5%	7.6%
1979	6.5%	11.3%
1980	6.5%	13.5%
1981	9% (in addition to a 10% salary adjustment)	10.3%
1982	8% (reduced by Governor's budget allotments)	6.2%
1983	2% contribution to retirement	3.2%
1984	2% contribution to retirement	4.3%
1985	9.5% higher education faculty and senior administrative staff, 5.5% for all other state employees	3.5%
1986	4% with a minimum of \$50 per month; the Governor deferred this increase for agencies under his control to January 1, 1987	1.9%
1987	0%	3.7%
1988	0%	4.1%
1989	11.4% higher education faculty at UND and NDSU; 9.5% higher education faculty at other four-year universities; 7.3% higher education faculty at two-year colleges; 9.1% faculty at the medical school; administrative, professional, and classified employees at the institutions of higher education received increases averaging between 8.7% and 9.7%; 7.1% for all other state employees	4.8%
1990	7% higher education faculty at four-year universities, 5% higher education faculty at two-year colleges, 0% all other state employees	5.4%
1991	4% with a minimum of \$50 per month	4.2%

Salary Increase Provision or Proposed

Annual Inflation*

Year	Salary Increase Provision or Proposed	Annual Inflation*
1992	\$40 per month	3.0%
1993	\$60 per month	3.0%
1994	3% (to the extent available from agency savings)	2.6%
1995	2%	2.8%
1996	3% (includes 1% for salary inequity correction and merit increases)	2.9%
1997	3% (includes 1.5% for salary inequity correction and merit increases)	2.3%
1998	3% (includes 1.5% for salary inequity correction and merit increases; in addition, the University System received a \$3.2 million pool of funds for the 1997-99 biennium to address salary compression, market, and equity problems)	1.5%
1999	2% with a minimum of \$35 per month - Increases over \$35 are to be based on merit and equity	2.2%
2000	2% with a minimum of \$35 per month - Increases over \$35 are to be based on merit and equity. An additional 1% may be provided to the extent the increase can be paid with existing agency resources.	3.4%
2001\1	3% with a minimum of \$35 per month - Increases over \$35 are to be based on merit and equity	2.8%
2002\1	2% with a minimum of \$35 per month - Increases over \$35 are to be based on merit and equity	1.6%
2003	Up to 1% effective on January 1, 2004, for the executive and judicial branches to the extent that the increase can be provided from pooled savings realized from the eliminated full-time equivalent (FTE) positions and from accumulated savings from other vacant FTE positions. At least 70% of the funding for the increase provided must be from pooled savings of the eliminated FTE positions. No specific funding was provided to higher education institutions for salary increases, with the intent that any salary increases provided be from existing appropriation authority. The judicial branch eliminated four vacant FTE positions and provided a 1% salary increase to its employees effective January 1, 2004. The executive branch did not receive a salary increase.	2.3%
2004	Up to 1% effective on January 1, 2005, for the executive and judicial branches to the extent that the increase can be provided from pooled savings realized from the eliminated FTE positions and from accumulated savings from other vacant FTE positions. At least 70% of the funding for the increase provided must be from pooled savings of the eliminated FTE positions. No specific funding was provided to higher education institutions for salary increases, with the intent that any salary increases provided be from existing appropriation authority. It is anticipated that neither the executive branch nor the judicial branch will provide a January 1, 2005, salary increase.	2.7% (projected)

Year	Salary Increase Provided or Proposed	Annual Inflation*
2005/2	4% recommended	2.1% (projected)
2006/2	3% recommended - An additional 1% may be provided to the extent the increase can be paid with existing agency resources.	2.0% (projected)

* Percentage change, consumer price index annual rate, Economy.com

\1 In addition, the 2001 Legislative Assembly provided:

\$5 million, \$2.7 million of which is from the general fund, for market equity compensation adjustments for classified employees as approved by the Central Personnel Division.

\$4,628,824 from the general fund for equity and special needs for entities under the control of the State Board of Higher Education. A portion of this amount may be used for salary increases to address equity issues.

\$178,233, \$142,697 of which is from the general fund, for salary equity adjustments for elected and appointed officials.

\2 In addition, the 2005 executive budget recommends:

\$5 million, \$2.5 million of which is from the general fund and \$2.5 million of special funds for market equity salary adjustments based on market data for all classified employees. Those employees furthest from market will receive the largest increase. Employees at or above the midpoint of their salary range will not receive adjustments.

\$1 million to the Department of Corrections and Rehabilitation to provide market equity salary increases for correctional officers.

2001 Legislative Council Report

An employee is entitled to receive a one-time payment of 20 percent of any annual savings realized up to a maximum of \$2,000 for the first 12 months of implementation. Since the inception of the program in 1995, a total of \$7,808 has been paid as incentives to state employees. The estimated annual savings as a result of implementing the cost-reduction measures is \$142,000.

Recommendations

The committee recommends House Bill No. 1035 to establish a state employee telecommuting incentive program. The bill allows a state agency head to submit a proposal to the Suggestion Incentive Committee, established under NDCC Section 54-06-24 to locate a current state employee or a new employee away from a central office setting. If approved by the Suggestion Incentive Committee and implemented by the state agency, the state agency head will prepare a report after a 12-month period, comparing the actual costs relating to the telecommuting program for the period to the estimated cost if the program would not have been implemented. Based on the cost-savings report approved by the Suggestion Incentive Committee, the state agency head will be entitled to receive 10 percent of any savings identified in the report up to a maximum of \$2,000, the state employee located away from a central office setting will be entitled to receive 20 percent of any savings up to a maximum of \$2,000, and the state agency may utilize 20 percent of the savings for one-time technology or equipment purchases or capital improvements.

The committee recommends Senate Bill No. 2026 to require information technology plans prepared by state agencies to address the feasibility of telecommuting by selected employees, including positions that are suitable for telecommuting, travel and space needs, and information technology needs for supporting telecommuting.

The committee recommends Senate Bill No. 2027 to provide for a motor vehicle branch office pilot project. The bill provides that the Department of Transportation establish a pilot project office at three sites within three counties to administer motor vehicle registration programs similar to other branch offices of the department by July 1, 2001. The pilot project branch offices are in addition to other branch offices and will be operated by the treasurer in the county where the pilot project office is located. The pilot project is effective through June 30, 2005. The bill provides for the Legislative Council to consider monitoring and evaluating the efficiency and effectiveness of the project during the 2001-02 interim.

PRIVATIZATION STUDY

Section 2 of Senate Bill No. 2411 directed the Legislative Council to study privatizing and contracting for services provided by state agencies.

Privatization - Definition and Methods

Although there are many definitions of privatization, generally privatization is the involvement of the private sector in providing services or facilities usually provided by the public sector. The committee reviewed a report on privatization in the states. The committee learned the major privatization methods include:

1. Contracting with the private sector to provide services.
2. Operating public facilities by the private sector.
3. Selling certain government assets to the private sector.

Other methods of privatization include grants and subsidies, leases, public and private partnerships, and vouchers.

The committee learned agencies most involved in privatization are transportation, administration and general services, corrections, higher education, and social services-related agencies. Agencies less involved in privatization are education, labor, public safety, and treasury-related agencies.

Privatization Activities

The committee reviewed privatization activities of state agencies for the 1999-2001 biennium. The committee learned for the 1999-2001 biennium, state agencies estimate contracting for \$1.4 billion of privatized services, \$218 million of which is from the general fund. The \$1.4 billion is 29 percent of the total statewide appropriations for the 1999-2001 biennium of \$4.8 billion. Major privatization contracts include:

Agency/Service	General Fund	Total Funds
Retirement and Investment Office		
Investment management services		\$23,200,000
Public Employees Retirement System		
Health insurance plan		\$160,800,000
State Department of Health		
Women, infants, and children food costs		\$18,226,930
Department of Human Services		
Aging community-based services	\$9,479,212	\$21,495,103
Child care services	\$3,675,262	\$16,579,896
Child welfare services	\$16,898,424	\$72,180,303
Foster care eligibility determination	\$542,921	\$10,740,449
Medicaid services (excluding nursing homes services)	\$70,474,142	\$261,920,967
Nursing home services	\$75,067,679	\$252,358,444
Vocational rehabilitation services	\$2,705,326	\$10,280,731
Department of Transportation		
Construction activities		\$365,000,000
Roadway surface repair		\$15,250,000

Potential Services to Privatize

The committee reviewed information provided by state agencies regarding potential services agencies could privatize. The committee learned many program services provided by state agencies could be privatized; however, the costs of the services, if privatized, are

estimated by the agencies to be more than if the services are provided by state employees.

The committee reviewed proposed statutory changes identified by agencies which would enable them to privatize or more easily privatize services. The Tax Department identified NDCC Sections 57-01-13, 57-38-34, and 57-01-03 which, if changed, would allow the department to contract for tax collections from North Dakota residents, allow tax forms to be mailed to an address other than the Tax Commissioner in Bismarck, and allow general authority to contract for performing its statutory duties. The Office of Administrative Hearings identified Sections 54-57-01 and 54-57-02 which, if changed, would allow the director to hire contract administrative law judges on more than an as-needed basis. The North Dakota University System identified Section 15-10-17(15), which could be expanded to identify specific services for the University System to privatize.

Privatization Policies

The committee reviewed state policies regarding privatization and the state's liability for acts of its agents. Regarding privatization policies, the committee learned that NDCC Chapter 54-44.4 provides for state purchasing practices. The chapter provides policies that executive branch agencies must follow when purchasing materials, furniture, fixtures, printing, insurance, and other commodities. The chapter, however, specifically excludes professional services and services for the maintenance and servicing of equipment. While the Legislative Assembly has not provided general policies or guidelines for agencies to comply with when contracting for services, the following statutory provisions have been enacted by the Legislative Assembly which provide specific guidance relating to the purchase of certain services:

1. North Dakota Century Code Section 54-59-05(4) requires each executive branch agency to submit to the Information Technology Department a written request for the lease, purchase, or other contractual acquisition of information technology.
2. North Dakota Century Code Section 44-08-01 requires a state entity authorized to accept bids to give preference to resident North Dakota bidders when accepting bids for the provision of professional services, including research and consulting services.
3. North Dakota Century Code Section 46-02-09 provides that, except for certain printing projects of the legislative branch, reports prepared and submitted to the Governor and the Secretary of State, and agency biennial reports, all other printing projects exceeding \$750, not done by Central Services, must be let by competitive bidding or by solicitation of at least two quotes.

4. North Dakota Century Code Section 54-44.4-07 encourages agencies to specify the use of soybean-based ink when purchasing newsprint printing services.
5. North Dakota Century Code Section 54-46.1-01 allows the state records administrator and the Office of Management and Budget to contract for microfilming services if it is determined that the services can be provided more efficiently and economically through a contract with a private company.

The committee learned some larger agencies, including the Department of Transportation and the Department of Human Services, have instituted internal policies that these agencies use when contracting for services.

Regarding the state's liability for actions of contractors, the committee learned the liability of the state depends on whether the private company hired by the state to perform a service is an agent, servant, employee, or independent contractor. The state would generally not be liable if the company is considered by the court to be an independent contractor. Although there are various tests that would be used by a court to determine the state's employment relationship with the private company in a particular situation, the common thread running through the tests appears to be whether an employer has the right to control the means and manner of an employee's work performance.

Contracts for Services - Performance Audit

The committee received a performance audit by the State Auditor's office relating to contracts for services. The committee learned although the audit identified over 2,200 contracts for services with payments exceeding \$272 million in fiscal years 1997, 1998, and 1999, the state has very few regulations, rules, or guidelines for agencies to follow when contracting for services. The audit contained the following recommendations:

1. The Office of Management and Budget develop policies relating to the procurement of services and ensure proper training for state agency employees.
2. The State Board of Higher Education develop policies relating to the procurement of services and ensure proper training for its employees.
3. The Office of Management and Budget introduce the necessary legislation to the 2001 Legislative Assembly to allow the office to:
 - a. Establish policies on the procurement of services that are required to be followed by all state agencies.
 - b. When beneficial for the state, establish term or master contracts for services to be utilized by all state entities, including colleges and universities.

4. The Office of Management and Budget and the Attorney General's office establish one manual for contract drafting and review, and the Attorney General's office ensure that all assistant attorneys general are provided training to ensure consistent interpretation and practices throughout government.
5. The Office of Management and Budget, with the assistance of the Attorney General's office, establish an on-line contract system accessible by all the state agencies which would allow template contracts to be utilized as well as template or boilerplate language for contracts.
6. The Office of Management and Budget develop policies relating to contract monitoring and management and ensure proper training is provided for state agency employees.
7. The State Board of Higher Education develop policies relating to contract monitoring and management and ensure proper training is provided for its employees.
8. If authorized by the Legislative Assembly, the Office of Management and Budget and the North Dakota University System determine if joint and cooperative purchase of service agreements would be beneficial for the state, and if beneficial, that the Office of Management and Budget and the University System make joint or cooperative purchases of services.

The committee learned the Office of Management and Budget intends to prepare a bill for introduction to the 2001 Legislative Assembly that will expand statutory provisions that authorized it to establish purchasing policies to also include services. The bill will provide the Office of Management and Budget broad authority that will allow the office to develop rules providing flexibility for agencies when contracting for services. These rules will guide the process a state agency will utilize when contracting with a provider for services. The rules will not address an agency's decision of whether or not to contract for a particular service. As a result of the additional responsibilities that will be placed on the Office of Management and Budget, the committee learned additional staff and related funding may be necessary to provide for these additional services.

The committee learned the North Dakota University System intends to address the recommendations included in the audit report by considering:

1. Establishing dollar levels for bidding purposes when contracting for services.
2. Expanding the authority of the campuses to decide whether or not to contract for a particular service.
3. Allowing campuses to negotiate terms of contracts totaling less than \$100,000 and requiring a request for proposal for contracts for services of \$100,000 or more.
4. Allowing campuses to enter into contracts that extend beyond one year but requiring a review and evaluation of the contracts every three years.
5. Requiring all payments for services are made in conformance with written contracts.
6. Working with the Office of Management and Budget on joint purchase options.

Suggestions for Improving Privatization Activities

The committee heard testimony from representatives of the Department of Corrections and Rehabilitation, the Department of Transportation, and the Department of Human Services regarding suggestions for criteria or guidelines to be used when contracting for services. Suggestions made include:

1. Guidelines utilized for the procurement of goods may also be applicable for contracting for services.
2. A request for proposal for services should be required for services over a certain dollar amount.
3. Contracts should be very specific relating to the services to be provided and to any standards that must be met.
4. Background checks and proof of licensure should be required for entities being considered for contracted services.
5. Agency flexibility is necessary because of the variety of contracts entered into by the state.
6. Agencies should be allowed to continue to contract without rebidding if the private contractor is meeting quality standards.
7. Program monitoring or auditing of major contracts is necessary to assure that the service is being provided according to contract.
8. A state agency should not be required to accept the low bid in all instances.
9. Guidelines should be available for seeking and evaluating bids and for reviewing potential contracts for services prior to the development of the contracts.

The committee heard other testimony from representatives of public employee associations and nonprofit and other organizations regarding the study and suggestions for improving North Dakota's privatization activities. Major items included in the testimony were that the state should:

1. Require oversight of private contractors.
2. Develop consistent standards for evaluating proposals to privatize a service.
3. Require an accurate comparison between the public and private costs of providing a service.
4. Limit contracting to those services that cannot meet cost or quality benchmarks of state employees.

5. Utilize technology that would enable organizations to request funding on-line to reduce payment delays.
6. Develop a method to provide for consistent rules interpretations by state agencies.
7. Eliminate redundant form requirements by allowing organizations to complete forms only once which may be shared by all state agencies.
8. Allow an administrative allowance of at least 10 percent of the total contract to pay for indirect costs associated with providing services of the private organization.

Conclusion

The committee does not make any recommendation regarding its privatization study.

INDUSTRIAL COMMISSION STUDY

Senate Concurrent Resolution No. 4030 directed the Legislative Council to study:

1. The management responsibilities of the Industrial Commission.
2. The mission and location of each entity within and under the direction of the Industrial Commission.
3. The membership of the Industrial Commission.
4. The voting structure of the Industrial Commission.

Industrial Commission Entities, Missions, and Locations

The table below identifies the entities of the Industrial Commission and each entity's mission, related North Dakota Century Code reference, and location.

Entity	Mission	NDCC Citation	Location
Bank of North Dakota	To encourage and promote agriculture, commerce, and industry in North Dakota	Section 6-09-01	Bismarck
Mill and Elevator	To encourage and promote agriculture, commerce, and industry in North Dakota	Section 54-18-02	Grand Forks
Municipal Bond Bank	To foster and promote the provision of adequate capital markets and facilities for borrowing money by political subdivisions and for financing of their respective public improvements and to encourage political subdivisions to continue their independent undertakings of public improvements in the financing thereof by making funds available at reduced interest costs	Section 6-09.4-02	Bismarck
Housing Finance Agency	To make North Dakota's housing more affordable by providing financing, management, information, and other appropriate assistance	Chapter 54-17	Bismarck and Fargo
Oil and Gas Division	Effectively accomplish the statutory responsibility for the regulation of drilling, geophysical exploration, development, and production of oil and gas in a manner that will be most beneficial to the producer, royalty owner, and the citizens of the state	Section 38-08-04	Bismarck, Minot, Williston, and Dickinson
Geological Survey	To investigate and report the geology of North Dakota emphasizing the state's energy resources based on applied research leading to economic benefits for quality of life improvements for residents of the state; to provide public service, and to collect, create, and disseminate geologic and map-related information; and to administer regulatory programs and act in an advisory capacity to other state and federal agencies	Chapter 54-17.4	Bismarck and Grand Forks
North Dakota Building Authority	To promote the general welfare of the citizens of this state by providing projects for use by the state in providing public services by altering, repairing, maintaining, or constructing buildings primarily for use by the state and making any improvements connected to those buildings or pertaining to those buildings and necessary to the use of those buildings in providing services to the public	Section 54-17.2-04	Bismarck
Lignite research, development, and marketing program	To provide for financing of research, development, and marketing of the state's lignite resources as well as to assist in the financing of studies that will allow for the preservation of the lignite industry	Section 57-61-01.5	Bismarck
Student loan trust	To acquire and hold in one or more trusts all unpaid United States government guaranteed or reinsured student loans and North Dakota guaranteed student loans, belonging to the state of North Dakota or to any of its agencies	Section 54-17-24	Bismarck

Management Responsibilities

North Dakota Century Code Chapter 54-17 provides statutory references relating to the Industrial Commission. Major provisions relating to the commission's management responsibilities authorize the

Industrial Commission to determine the location of all utilities, industries, enterprises, and business projects established, owned, undertaken, administered, or operated by the state and to make the rules, regulations, orders, and bylaws for the management and operation,

NORTH DAKOTA LEGISLATIVE COUNCIL



**2003-04
BUDGET SECTION**

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**TOUR GROUP REPORTS
TO THE
59TH LEGISLATIVE ASSEMBLY**
(Including Land and Building Utilization Information)