

**TESTIMONY OF LANCE D. GAEBE
STATE LAND COMMISSIONER
North Dakota State Land Department**

REQUEST FOR APPROVAL OF FTE AUTHORIZED IN SB 2013

**BUDGET SECTION
September 22, 2010**

Chairman Holmberg, and members of the Budget Section, I am Lance Gaebe, Secretary for the Board of University and School Lands and Commissioner for the State Land Department. I am here today asking for your approval for an FTE as required in Section 6 of SB 2013.

The Land Department is responsible for managing 700,000 surface and 2.5 million mineral acres for the benefit of North Dakota schools and educational and other public institutions trusts. The revenues generated by these assets are invested by the Department, and distributions are made to trust beneficiaries in accordance with Article IX of North Dakota's Constitution.

As you know, the Bakken and Three Forks energy activity has and will create significant growth for the trust funds and results in additional tasks for our Department.

- There are 147 rigs drilling today, and of these - 57 involve state owned minerals that our Department actively manages.
- The Department collected \$295 million of lease bonus money during fiscal year 2010, approximately the amount collected during the previous 39 years combined.
- When the 2009 Legislature reviewed our budget, the Land Department managed approximately \$874 million in trust fund financial assets. In the 18 months since then, it has grown by 71% to \$1.5 billion.
- The Department currently oversees 1,200 producing wells, up from approximately 500 just four years ago.
- The Department current processes 3,000 royalty records a month, which is double the amount from 2006.

The 2009 Legislature approved three additional FTEs for the Land Department. These positions were requested due to the increasing workload of managing the oil and gas mineral leasing and production activity of the Department. However one FTE was contingent upon this committee's approval, which is what I seek today.

We have been trying to "keep up," the effort has been with the assistance of other sections within the department lending their help. The Unclaimed Property Division, Surface

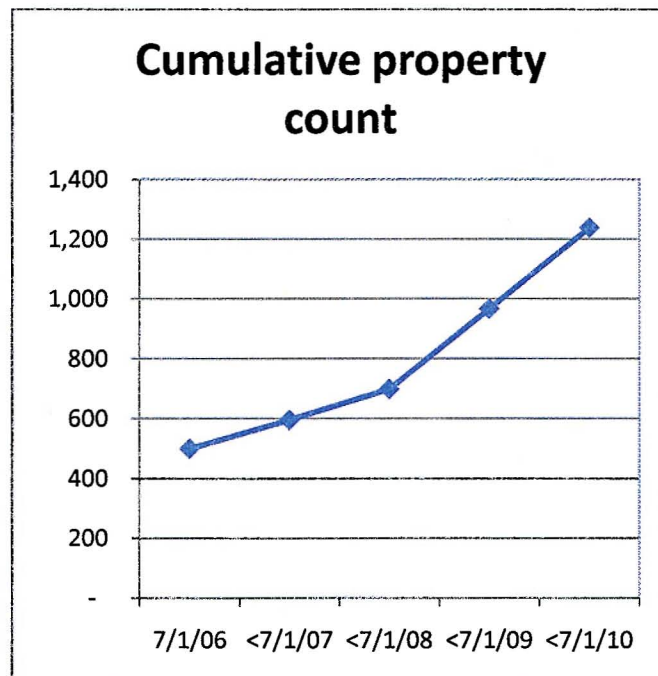
Management, the Investment section and all of the administrative support staff have worked to assist the Minerals section with the workload growth. The other programs have been impacted. As mineral work expands, we need to secure more help to specifically manage the income it generates.

We are currently advertising two openings. One is for a minerals title specialist who will work within the minerals division to help manage the increased workload of administering mineral leases, nominations, minerals under sovereign land and resolving title discrepancies. The second position is for an information technology / programming specialist who will focus on developing and maintaining the computer systems and databases needed to manage our mineral assets as efficiently and effectively as possible.

The position we seek to create with the FTE I hope you will approve today, is for a manager of revenue compliance.

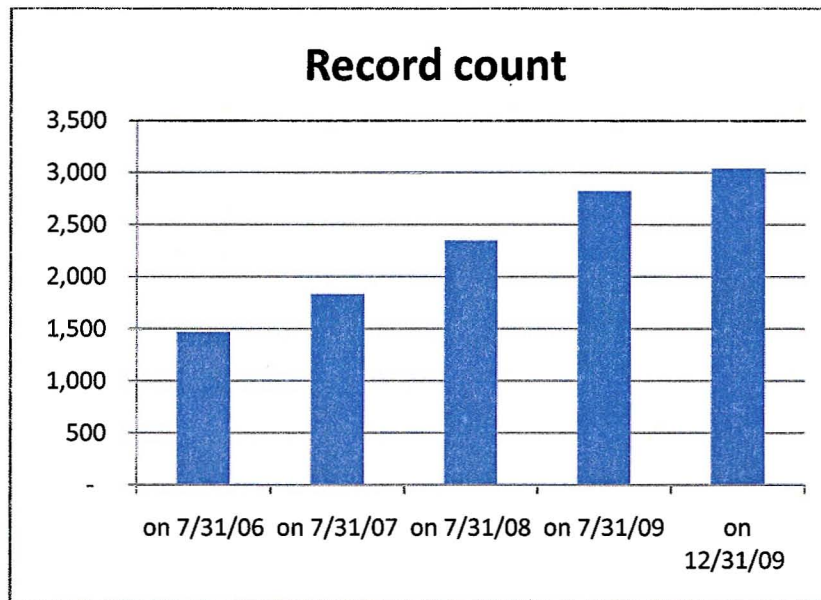
This person will be responsible for managing the thousands of lease payments we receive each month to ensure the timely and accurate payment of the royalty and other lease payments due under our oil and gas leases. This person will implement the external and internal accounting controls needed to manage the dramatic increase in revenues the Department is receiving. This position will also oversee compliance reviews of revenue payments submitted to the Department.

The trusts currently receive royalties from over 1200 producing wells, up from 500 just 4 years ago.



You can see that the property count has grown more over the same period and that is a predictor of activity to come – as wells begin to produce and pay royalties.

The number of royalty records processed by the Department in a given month has doubled since 2006. The growth in the number of royalty report records is an accurate reflection of the current level of activity within the accounting royalty accounting section.



I believe that the figures presented to you today clearly identify where we were, where we are and potentially where we could be headed as energy development in Western North Dakota continues to evolve. As fiduciary trust managers it is imperative that we have the resources in place to effectively and efficiently manage the increasing transactions and dollars. The workload will continue to grow as the energy industry expands.

I appreciate your consideration of authorizing this position, and I will be happy to respond to your questions.