

1999 HOUSE APPROPRIATIONS

HB 1008

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1008

House Appropriations Committee
Government Operations Division

Conference Committee

Hearing Date January 20, 1999

Tape Number	Side A	Side B	Meter #
1	x		0-59.7
1		x	0-4.7
Committee Clerk Signature <i>Roxanne Kohl</i>			

Minutes:

A BILL FOR AN ACT TO PROVIDE AN APPROPRIATION FOR DEFRAYING THE EXPENSES OF THE DEPARTMENT OF BANKING AND FINANCIAL INSTITUTIONS.

Summary of Hearing:

Gary Prezler, Commissioner, Department of Banking and Financial Institutions

(7.5) Rep. Carlisle: How many problem banks do we have in North Dakota?

(7.7) Gary Prezler: Currently, six out of the ninety-six banks.

(8.1) Rep. Tollefson: Regarding the turnover of your bank examiners, is it because you cannot be competitive or offer them enough money?

(8.5) Gary Prezler: The biggest reason people leave is not money, but generally the travel requirements. They travel 50% of their time.

(32.8) Rep. Poolman: What is the relationship between bank assets increasing in North Dakota, but the number of banks is declining?

(33.2) Gary Prezler: In some cases, the number of banks are going down because of mergers within banks. In some cases, there are mergers between state charters. If the merger goes from a state charter bank into a national bank than we will lose those assets.

Page 2
Government Operations Division
Bill/Resolution Number 1008
Hearing Date January 20, 1999

(56.6) Joel Gilbertson, Executive Vice President of Independent Community Banks of North Dakota

(57.3) Discussion and comments on agricultural situation and effect on banks.

Side B

Jim Schlosser, North Dakota Bankers

(3.0) Galen De Bey, President of North Dakota Credit Union League

Closed hearing on HB 1008.

There was no opposition to the bill.

General Discussion

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

Date January 27, 1999			
Tape Number	Side A	B Side	Meter #
1	x		0-11.4
Committee Clerk Signature		<i>Roxanne Kohl</i>	

Minutes:

Chairman Byerly opened the discussion on House Bill 1008.

1A: 2.0 Discussion on amendment to remove salary and equity increase.

1A: 5.6 Motion by Rep. Poolman on amendment. Rep. Carlisle 2nd the motion. On a voice call vote the motion carried. Legislative Council amendment # 98008.0101

1A: 8.1 A Do Pass motion was made by Rep. Poolman. Rep. Tollefson 2nd the motion. The motion was carried by a roll call vote.

6 voting Yes

0 voting No

0 voting Absent

Representative Poolman will carry the bill to the Appropriations Committee.


1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1008

House Appropriations Committee

Conference Committee

Hearing Date 2/1/99

Tape Number	Side A	Side B	Meter #
2	x		3.2
Committee Clerk Signature 			

Minutes:

SUMMARY OF THE BILL: A BILL for an Act to provide an appropriation for defraying the expenses of the department of banking and financial institutions.

Chairman Dalrymple called the hearing on HB 1008 into order in the Roughrider Room. All members were present: Chairman Dalrymple, Representatives Aarsvold, Bernstein, Boehm, Byerly, Carlson, Carlisle, Delzer, Gulleston, Hoffner, Huether, Kerzman, Lloyd, Monson, Nichols, Poolman, Svedjan, Timm, Tollefson, and Wentz.

(5.4) Rep. Byerly introduced the budget for HB 1008 and noted that the bill would have to be further amended.

(5.9) Rep. Poolman testified to the amendments made on HB 1008.

(19.3) Rep. Poolman motioned a Do Pass, on the amendment .0102 for HB 1008.

(19.6) Rep. Carlson seconded the motion.

The amendment was adopted, by a vote of 15 yes, 4 no, and 1 absent and not voting.

(23.7) Rep. Poolman moved for a Do Pass on HB 1008 as amended.

(23.8) Rep. Huether seconded the motion.

House Bill 1008 was passed as amended with a vote of 17 yes, 2 no, and 1 absent and not voting.

General Discussion

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

Date February 3, 1999			
Tape Number	Side A	B Side	Meter #
1	x		0-13.9
Committee Clerk Signature		<i>Roxanne Kone</i>	

Minutes:

Chairman Dalrymple opened the discussion on House Bill 1008.

1A: .7 Rep. Wentz made a motion to reconsider House Bill 1008. Rep. Poolman 2nd the motion. The motion was carried by a voice vote.

1A: 1.1 Rep. Byerly made a motion to remove amendment 98008.0101. Rep. Carlson 2nd the motion. The motion was carried by a voice vote.

1A: 1.4 Chairman Dalrymple informed committee the amendment: salary level includes 2% increase in first year and second year. Head of agency receives an equity pay adjustment beginning January 1, 2001, approximately \$900.00. Asked committee to consider line 12, equipment line, to provide an emergency clause for \$30,000.

1A: 3.4 Rep. Byerly moved to modify 98008.0103 to include an emergency \$30,000 provision on the equipment line and be adopted. Rep. Monson 2nd the motion.

On a Roll Call Vote the amendment carried.

12 voting Yes

7 voting No

General Discussion

Page 2

Appropriations

February 3, 1999

1 voting Absent

1A: 9.6 Rep. Byerly moved for a DO PASS on House Bill 1008. Rep. Lloyd 2nd the motion.

The bill passed on a Roll Call Vote.

14 voting Yes

5 voting No

1 voting Absent

Rep. Poolman will carry the bill to the floor.

January 27, 1999

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1008

Page 1, line 10, replace "2,348,853" with "2,344,650"

Page 1, line 14, replace "2,954,909" with "2,950,706"

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

DEPARTMENT NO. 413 - DEPARTMENT OF BANKING AND FINANCIAL INSTITUTIONS

HOUSE - This amendment makes the following changes:

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$2,348,853	(\$4,203)	\$2,344,650
Operating expenses	529,272	0	529,272
Equipment	56,784	0	56,784
Contingency	<u>20,000</u>	<u>0</u>	<u>20,000</u>
Total all funds	\$2,954,909	(\$4,203)	\$2,950,706
Less special funds	<u>2,954,909</u>	<u>(4,203)</u>	<u>2,950,706</u>
General fund	\$0	\$0	\$0
FTE	22.00	0.00	22.00

Detail of House changes to the executive budget include:

	SALARY EQUITY INCREASE FOR COMMISSIONER	TOTAL HOUSE CHANGES
Salaries and wages	(\$4,203)	(\$4,203)
Operating expenses		
Equipment		
Contingency		
Total all funds	(\$4,203)	(\$4,203)
Less special funds	<u>(4,203)</u>	<u>(4,203)</u>
General fund	\$0	\$0
FTE		0.00

House changes narrative:

This amendment removes a proposed salary equity increase for the commissioner of banking and financial institutions.

Date: 1-27-99
Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1008

House _____ APPROPRIATIONS _____ Committee

Subcommittee on Government Operations

or

Conference Committee

Legislative Council Amendment Number 98008. 0101

Action Taken DO PASS

Motion Made By Rep. Poolman Seconded By Rep. Tollefson

Representatives	Yes	No	Representatives	Yes	No
Rex R. Byerly	X				
Ron Carlisle	X				
Ben Tollefson	X				
Robert Huether	X				
Pam Gulleon	X				
Jim Poolman	X				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Rep. Poolman

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

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1008

Page 1, line 10, replace "2,348,853" with "2,319,288"

Page 1, line 14, replace "2,954,909" with "2,925,344"

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

DEPARTMENT 413 - DEPARTMENT OF BANKING AND FINANCIAL INSTITUTIONS

HOUSE - This amendment makes the following changes:

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$2,348,853	(\$29,565)	\$2,319,288
Operating expenses	529,272		529,272
Equipment	56,784		56,784
Contingency	<u>20,000</u>		<u>20,000</u>
Total all funds	\$2,954,909	(\$29,565)	\$2,925,344
Less special funds	<u>2,954,909</u>	<u>(29,565)</u>	<u>2,925,344</u>
General fund	\$0	\$0	\$0
FTE	22.00	0.00	22.00

Detail of House changes to the executive budget include:

	REMOVE SALARY EQUITY INCREASE FOR COMMISSIONER	REDUCE COMPENSATION PACKAGE TO 2/2	INCREASE HEALTH INSURANCE COST	TOTAL HOUSE CHANGES
Salaries and wages	(\$4,203)	(\$31,349)	\$5,987	(\$29,565)
Operating expenses				
Equipment				
Contingency				
Total all funds	(\$4,203)	(\$31,349)	\$5,987	(\$29,565)
Less special funds	<u>(4,203)</u>	<u>(31,349)</u>	<u>5,987</u>	<u>(29,565)</u>
General fund	\$0	\$0	\$0	\$0
FTE				0.00

House changes narrative:

This amendment makes the following changes:

Removes a salary equity increase for the commissioner of the Department of Banking and Financial Institutions.

Reduces salary increases to 2 percent in July 1999 and 2 percent in July 2000.

Increases salaries and wages to reflect increased costs for health insurance.

Date: 2/1/99
 Roll Call Vote #: 1

**1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO.**

House **APPROPRIATION** Committee

Subcommittee on 1008
 or
 Conference Committee

Legislative Council Amendment Number 98008.0102

Action Taken Do PASS

Motion Made By Poolman Seconded By Carlson

Representatives	Yes	No	Representatives	Yes	No
Rep. Ole Aarsvold		✓	Rep. Ronald Nichols	✓	
Rep. LeRoy G. Bernstein	✓		Rep. Jim Poolman	✓	
Rep. James Boehm	✓		Rep. Ken Svedjan	✓	
Rep. Rex R. Byerly	✓		Rep. Mike Timm	✓	
Rep. Al Carlson	✓		Rep. Ben Tollefson	✓	
Rep. Ron Carlisle	✓		Rep. Janet Wentz	✓	
Rep. Al Carlson			Chairman Jack Dalrymple	✓	
Rep. Jeff Delzer	✓				
Rep. Pam Guleson					
Rep. Serenus Hoffner		✓			
Rep. Robert Huether		✓			
Rep. James Kerzman	⊗	✓			
Rep. Ed Lloyd	✓				
Rep. David Monson	✓				

Total (Yes) 15 No 4

Absent 1

Floor Assignment _____

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

Date: 2/11/99
 Roll Call Vote #: 1

**1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO.**

House **APPROPRIATION** Committee _____

Subcommittee on 1008
 or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Poolman Seconded By Huether

Representatives	Yes	No	Representatives	Yes	No
Rep. Ole Aarsvold	✓		Rep. Ronald Nichols	✓	
Rep. LeRoy G. Bernstein	✓		Rep. Jim Poolman	✓	
Rep. James Boehm	✓		Rep. Ken Svedjan		✓
Rep. Rex R. Byerly	✓		Rep. Mike Timm	✓	
Rep. Al Carlson	✓		Rep. Ben Tollefson	✓	
Rep. Ron Carlisle	✓		Rep. Janet Wentz	✓	
Rep. Al Carlson			Chairman Jack Dalrymple	✓	
Rep. Jeff Delzer	✓	✓			
Rep. Pam Gulleason	✓				
Rep. Serenus Hoffner	✓				
Rep. Robert Huether	✓				
Rep. James Kerzman	✓				
Rep. Ed Lloyd	✓				
Rep. David Monson	✓				

Total (Yes) ~~17~~ 17 No 2

Absent 1

Floor Assignment Poolman

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

VK
2/4/99
1082

HOUSE AMENDMENTS TO HOUSE BILL NO. 1008

APR 2-4-99

Page 1, line 2, after "institutions" insert "; and to declare an emergency"

Page 1, line 10, replace "2,348,853" with "2,320,326"

Page 1, line 12, replace "56,784" with "86,784"

Page 1, line 14, replace "2,954,909" with "2,956,382"

Page 1, after line 14, insert:

"SECTION 2. EMERGENCY. Of the amount appropriated for equipment in section 1 of this Act, \$30,000 is declared to be an emergency measure."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

DEPARTMENT 413 - DEPARTMENT OF BANKING AND FINANCIAL INSTITUTIONS

HOUSE - This amendment makes the following changes:

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$2,348,853	(\$28,527)	\$2,320,326
Operating expenses	529,272		529,272
Equipment	56,784	30,000	86,784
Contingency	<u>20,000</u>		<u>20,000</u>
Total all funds	\$2,954,909	\$1,473	\$2,956,382
Less special funds	<u>2,954,909</u>	<u>1,473</u>	<u>2,956,382</u>
General fund	\$0	\$0	\$0
FTE	22.00	0.00	22.00

Detail of House changes to the executive budget include:

	DELAY MARKET SALARY INCREASE TO JANUARY 1, 2001	REDUCE COMPENSATION PACKAGE TO 2/2	INCREASE HEALTH INSURANCE COST	INCREASE EQUIPMENT	TOTAL HOUSE CHANGES
Salaries and wages	(\$3,292)	(\$31,222)	\$5,987		(\$28,527)
Operating expenses				\$30,000	30,000
Equipment					
Contingency					
Total all funds	(\$3,292)	(\$31,222)	\$5,987	\$30,000	\$1,473
Less special funds	<u>(3,292)</u>	<u>(31,222)</u>	<u>5,987</u>	<u>30,000</u>	<u>1,473</u>
General fund	\$0	\$0	\$0	\$0	\$0

House changes narrative:

This amendment makes the following changes:

Delays until January 1, 2001, implementation of a market salary increase for the Commissioner of Banking and Financial Institutions. This adjustment will provide an increase of approximately \$151 per month for the last six months of the biennium.

Reduces salary increases to two percent in July 1999 and two percent in July 2000.

Increases salaries and wages to reflect increased health insurance costs.

Date: 2/3/99
 Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 1008

House APPROPRIATION Committee

Subcommittee on _____
 or
 Conference Committee

Legislative Council Amendment Number 98008. ~~0103~~ 0104

Action Taken ADOPT AMENDMENT 98008. 0103

Motion Made By BYERLY Seconded By BOEHM

Representatives	Yes	No	Representatives	Yes	No
Rep. Ole Aarsvold			Rep. Ronald Nichols	✓	
Rep. LeRoy G. Bernstein	✓		Rep. Jim Poolman		✓
Rep. James Boehm	✓		Rep. Ken Svedjan		✓
Rep. Rex R. Byerly	✓		Rep. Mike Timm	✓	
Rep. Al Carlson		✓	Rep. Ben Tollefson	✓	
Rep. Ron Carlisle	✓		Rep. Janet Wentz	✓	
Rep. Al Carlson			Chairman Jack Dalrymple	✓	
Rep. Jeff Delzer		✓			
Rep. Pam Gulleason		✓			
Rep. Serenus Hoffner		✓			
Rep. Robert Huether	✓				
Rep. James Kerzman		✓			
Rep. Ed Lloyd	✓				
Rep. David Monson	✓				

Total (Yes) 12 No 7

Absent 1

Floor Assignment _____

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

Date: 2/3/99
 Roll Call Vote #: 2

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 1008

House APPROPRIATION Committee

- Subcommittee on _____
 or
 Conference Committee

Legislative Council Amendment Number 98008. ~~01003~~ 0104

Action Taken DO PASS

Motion Made By BYERLY Seconded By LLOYD

Representatives	Yes	No	Representatives	Yes	No
Rep. Ole Aarsvold			Rep. Ronald Nichols	✓	
Rep. LeRoy G. Bernstein	✓		Rep. Jim Poolman	✓	
Rep. James Boehm	✓		Rep. Ken Svedjan		✓
Rep. Rex R. Byerly	✓		Rep. Mike Timm	✓	
Rep. Al Carlson		✓	Rep. Ben Tollefson	✓	
Rep. Ron Carlisle	✓		Rep. Janet Wentz	✓	
Rep. Al Carlson			Chairman Jack Dalrymple	✓	
Rep. Jeff Delzer		✓			
Rep. Pam Gulleason		✓			
Rep. Serenus Hoffner		✓			
Rep. Robert Huether	✓				
Rep. James Kerzman	✓				
Rep. Ed Lloyd	✓				
Rep. David Monson	✓				

Total (Yes) 14 No 5

Absent 1

Floor Assignment Rep. Poolman

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

General fund	(\$53,990)	\$10,264	(\$52,208)	(\$95,934)
FTE	0.00	0.00	(1.00)	(1.00)

REPORT OF STANDING COMMITTEE

HB 1005: Appropriations Committee (Rep. Dalrymple, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends **DO PASS** (18 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1005 was placed on the Sixth order on the calendar.

Page 1, line 10, replace "276,289" with "273,507"

Page 1, line 12, replace "2,800" with "2,300"

Page 1, line 13, replace "332,364" with "329,082"

Page 1, line 14, replace "16,300" with "19,575"

Page 1, line 15, replace "316,064" with "309,507"

Page 1, after line 15, insert:

"SECTION 2. LEGISLATIVE INTENT - DIRECTORY FEES. It is the intent of the fifty-sixth legislative assembly that the Indian affairs commission establish a fee to recover all or a portion of its costs related to printing and distributing its directory.

SECTION 3. LEGISLATIVE INTENT - INDIAN AFFAIRS COMMISSION FUND. It is the intent of the fifty-sixth legislative assembly that the office of management and budget change the name of fund 318 from the Indian affairs alcohol and drug abuse fund to the Indian affairs commission fund and that the fund then be used to account for special fund revenues and expenditures associated with the general operation of the commission."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

DEPARTMENT 316 - INDIAN AFFAIRS COMMISSION

HOUSE - This amendment makes the following changes:

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$276,289	(\$2,782)	\$273,507
Operating expenses	53,275		53,275
Equipment	<u>2,800</u>	<u>(500)</u>	<u>2,300</u>
Total all funds	\$332,364	(\$3,282)	\$329,082
Less special funds	<u>16,300</u>	<u>3,275</u>	<u>19,575</u>
General fund	\$316,064	(\$6,557)	\$309,507
FTE	3.00	0.00	3.00

Detail of House changes to the executive budget include:

	REDUCE COMPENSATION PACKAGE TO 2/2	ADJUST HEALTH INSURANCE COST	REDUCE EQUIPMENT FUNDING	CHANGE OPERATING EXPENSE FUNDING SOURCE	TOTAL HOUSE CHANGES
Salaries and wages	(\$3,637)	\$855			(\$2,782)
Operating expenses					
Equipment			<u>(\$500)</u>		<u>(500)</u>
Total all funds	(\$3,637)	\$855	(\$500)	\$0	(\$3,282)
Less special funds				<u>3,275</u>	<u>3,275</u>
General fund	(\$3,637)	\$855	(\$500)	(\$3,275)	(\$6,557)
FTE	0.00	0.00	0.00	0.00	0.00

House changes narrative:

This amendment reduces information technology equipment funding by \$500 and provides for a funding source change of \$3,275 in operating expenses. The funding source change increases other funds and decreases the general fund money provided for operating expenses.

The amendment also adds sections of legislative intent relating to the establishment of a fee to recover all or a portion of the directory costs and the renaming of the Indian Affairs Commission special fund.

REPORT OF STANDING COMMITTEE

HB 1006: Appropriations Committee (Rep. Dalrymple, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends **DO PASS** (18 YEAS, 1 NAY, 1 ABSENT AND NOT VOTING). HB 1006 was placed on the Sixth order on the calendar.

Page 1, line 10, replace "598,338" with "592,419"

Page 1, line 12, replace "71,500" with "61,500"

Page 1, line 15, replace "14,626,578" with "14,610,659"

Page 1, line 16, replace "14,076,578" with "14,060,659"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

DEPARTMENT 412 - AERONAUTICS COMMISSION

HOUSE - This amendment makes the following changes:

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$598,338	(\$5,919)	\$592,419
Operating expenses	1,091,740		1,091,740
Equipment	71,500	(10,000)	61,500
Capital improvements	110,000		110,000
Grants	<u>12,755,000</u>		<u>12,755,000</u>
Total all funds	\$14,626,578	(\$15,919)	\$14,610,659
Less special funds	<u>14,076,578</u>	<u>(15,919)</u>	<u>14,060,659</u>
General fund	\$550,000	\$0	\$550,000
FTE	6.00	0.00	6.00

Detail of House changes to the executive budget include:

	REDUCE COMPENSATION PACKAGE TO 2/2	ADJUST HEALTH INSURANCE COST	DECREASE EQUIPMENT FUNDING	TOTAL HOUSE CHANGES
Salaries and wages	(\$7,629)	\$1,710		(\$5,919)
Operating expenses				
Equipment			<u>(\$10,000)</u>	<u>(10,000)</u>
Capital improvements				
Grants				
Total all funds	(\$7,629)	\$1,710	(\$10,000)	(\$15,919)
Less special funds	<u>(7,629)</u>	<u>1,710</u>	<u>(10,000)</u>	<u>(15,919)</u>
General fund	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00

House changes narrative:

This amendment decreases equipment funding relating to reductions for upgrading existing computers and printers.

REPORT OF STANDING COMMITTEE

HB 1008: Appropriations Committee (Rep. Dalrymple, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends **DO PASS** (17 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING). HB 1008 was placed on the Sixth order on the calendar.

Page 1, line 2, after "institutions" insert "; and to declare an emergency"

Page 1, line 10, replace "2,348,853" with "2,320,326"

Page 1, line 12, replace "56,784" with "86,784"

Page 1, line 14, replace "2,954,909" with "2,956,382"

Page 1, after line 14, insert:

"SECTION 2. EMERGENCY. Of the amount appropriated for equipment in section 1 of this Act, \$30,000 is declared to be an emergency measure."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

DEPARTMENT 413 - DEPARTMENT OF BANKING AND FINANCIAL INSTITUTIONS

HOUSE - This amendment makes the following changes

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$2,348,853	(\$28,527)	\$2,320,326
Operating expenses	529,272		529,272
Equipment	56,784	30,000	86,784
Contingency	20,000		20,000
Total all funds	\$2,954,909	\$1,473	\$2,956,382
Less special funds	2,954,909	1,473	2,956,382
General fund	\$0	\$0	\$0
FTE	22.00	0.00	22.00

Detail of House changes to the executive budget include

	DELAY MARKET SALARY INCREASE TO JANUARY 1, 2001	REDUCE COMPENSATION PACKAGE TO 2/2	INCREASE HEALTH INSURANCE COST	INCREASE EQUIPMENT	TOTAL HOUSE CHANGES
Salaries and wages	(\$3,292)	(\$31,222)	\$5,987		(\$28,527)
Operating expenses				\$30,000	30,000
Equipment					
Contingency					
Total all funds	(\$3,292)	(\$31,222)	\$5,987	\$30,000	\$1,473
Less special funds	3,292	31,222	5,987	30,000	1,473
General fund	\$0	\$0	\$0	\$0	\$0

House changes narrative:

This amendment makes the following changes:

Delays until January 1, 2001, implementation of a market salary increase for the Commissioner of Banking and Financial Institutions. This adjustment will provide an increase of approximately \$151 per month for the last six months of the biennium.

Reduces salary increases to two percent in July 1999 and two percent in July 2000.

Increases salaries and wages to reflect increased health insurance costs.

Increases equipment to allow the purchase of new information technology equipment for financial institution auditing.

REPORT OF STANDING COMMITTEE

HB 1010: Appropriations Committee (Rep. Dalrymple, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (17 YEAS, 0 NAYS, 3 ABSENT AND NOT VOTING). HB 1010 was placed on the Sixth order on the calendar.

Page 1, line 10, replace "383,367" with "373,579"

Page 1, line 11, replace "193,142" with "189,267"

Page 1, line 12, replace "18,000" with "14,000"

Page 1, line 13, replace "1,185,200" with "1,185,200"

Page 1, remove line 14

Page 1, line 15, replace "1,879,709" with "1,762,046"

Page 1, line 17, replace "897,909" with "780,246"

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

DEPARTMENT 709 - COUNCIL ON THE ARTS

HOUSE - This amendment makes the following changes:

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$383,367	(\$9,788)	\$373,579
Operating expenses	193,142	(3,875)	189,267
Equipment	18,000	(4,000)	14,000
Grants	1,185,200		1,185,200
Lewis and Clark bicentennial	100,000	(100,000)	
Total all funds	\$1,879,709	(\$117,663)	\$1,762,046
Less special funds	981,800		981,800
General fund	\$897,909	(\$117,663)	\$780,246
FTE	5.00	0.00	5.00

Detail of House changes to the executive budget include

	DELAY MARKET SALARY INCREASE TO JANUARY 1, 2001	REDUCE COMPENSATION PACKAGE TO 2/2	REDUCE OPERATING EXPENSES	REDUCE EQUIPMENT	REMOVE LEWIS AND CLARK FUNDING	INCREASE HEALTH INSURANCE COSTS
Salaries and wages	(\$6,239)	(\$4,974)	(\$3,875)			\$1,425
Operating expenses						
Equipment				(\$4,000)		
Grants						
Lewis and Clark bicentennial					(\$100,000)	
Total all funds	(\$6,239)	(\$4,974)	(\$3,875)	(\$4,000)	(\$100,000)	\$1,425
Less special funds						
General fund	(\$6,239)	(\$4,974)	(\$3,875)	(\$4,000)	(\$100,000)	\$1,425
FTE	0.00	0.00	0.00	0.00	0.00	0.00

	TOTAL HOUSE CHANGES
Salaries and wages	(\$9,788)
Operating expenses	(3,875)
Equipment	(4,000)
Grants	
Lewis and Clark bicentennial	(100,000)
Total all funds	(\$117,663)
Less special funds	
General fund	(\$117,663)
FTE	0.00

House changes narrative:

This amendment makes the following changes:

Delays until January 1, 2001, implementation of a market salary increase for the executive director. The adjustment will provide a salary increase of approximately \$285 per month for the last six months of the biennium.

Reduces salary increases to two percent in July 1999 and two percent in July 2000.

Reduces operating expenses and equipment to reduce funding for information technology improvements by a total of \$7,875, from \$20,875 to \$13,000.

Removes funding for the Lewis and Clark bicentennial event.

Increases salaries and wages to reflect increased health insurance costs.

REPORT OF STANDING COMMITTEE

HB 1013: Appropriations Committee (Rep. Dalrymple, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (18 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1013 was placed on the Sixth order on the calendar.

Page 1, line 10, replace "2,436,471" with "2,415,900"

Page 1, line 11, replace "5,004,267" with "5,000,000"

Page 1, line 12, replace "7,440,738" with "7,415,900"

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

1999 SENATE APPROPRIATIONS

HB 1008


1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. ENGROSSED HB 1008

Senate Appropriations Committee

Conference Committee

Hearing Date 2/26/99; 3/18/99

Tape Number	Side A	Side B	Meter #
1	x		1615-5490
3/18/99 2	480-624		
Committee Clerk Signature 			

Minutes:

SENATOR NETHING: Opened the hearing on engrossed HB 1008; a BILL for an Act to provide an appropriation for defraying the expenses of the department of banking and financial institutions; and to declare an emergency.

GARY PRESZLER: Commissioner, Department of Banking and Financial Institutions, to testify in support of the appropriation for the Department's budget. He indicated the House encouraged this bill to become an emergency to allow the immediate allocation of \$30,000 which would be used for GENESYS software to facilitate an automated examination report. He also stated the Commission had a voluntary reduction of 94% in their budget; however, the loss of 2 FTE examiners would jeopardize the agreement with the FCC. (testimony #1 attached) (tape 1615-4660)

SENATOR SOLBERG: You talked about losing 2 FTE's, yet you indicate you have 22, the Governor's recommended 22, and the House recommended 22. I don't understand your concern in losing 2 FTE's. Your IT plan was approved. I don't understand where you're coming from?

GARY PRESZLER: In order to meet the Governor's 95% budget guidelines, we indicated we would have to lose 2 FTE's. Those became the optional package. I'm asking that the optional package be restored. In the IT plan, the \$30,000 for the laptop computers were not included in the IT plan because we planned to purchase those before July 1. If the IT plan itself is not approved, we will purchase those computers through our equipment expenses, which may jeopardize the networking part of the IT plan. Initially, we had the system to run the FCC program, now they've increased the RAM to 128. (tape 5092)

SENATOR NETHING: What you're saying is that your budget is all right the way it was sent over from the House.

GARY PRESZLER: Yes.

SENATOR KRAUTER: From a historical perspective on the regulatory fund, we're taking \$200,000 out of that. Have we ever taken any money out of that fund?

GARY PRESZLER: No, there haven't been any previous transfers. The banking board sets the annual assessments so what they've done is to set the assessments to fund the expenses related to bank supervision so there is no money that will accumulate. The credit union the same. The consumer cost center, in the beginning years, the number of licensees we had and what they paid covered their expenses so there was no money accumulation until the last 2 years when we've had this large increase in the number of licenses. There is no way for me to adjust the \$200 fee which is by statute. I did propose HB 1137 that is in House IBL committee that will deal with this. \$200,000 deals with what has accumulated to date, HB 1137 will give the Commissioner the authority to lower fee in the future to allow setting the revenue in line with our actual expenses. (tape 5377)

COURTNEY KOEBELE: to testify on behalf of the Independent Community Banks of ND, and the ND Bankers Association. We request a do pass on HB 1008 (testimony attached #2) (tape 5453)

GAYLEN DE BEY: ND Credit Union League to testify in support of HB 1008.

SENATOR NETHING: Closed the hearing on engrossed HB 1008. (tape 5490)

=====
3/18/99 (tape 2, A, 480-624)

SENATOR NETHING: Reopened the hearing on Engrossed HB 1008, and called for the motion.

SENATOR ROBINSON: Moved do pass Engrossed HB 1008.

SENATOR LINDAAS: Seconded the motion.

ROLL CALL: 14 Yeas; 0 Nays; 0 Absent & Not Voting

MOTION CARRIED TO DO PASS ENGROSSED HB 1008.

CARRIER: SENATOR KRAUTER

SENATOR NETHING: Closed the hearing on Engrossed HB 1008.

Date: 3-18-99
Roll Call Vote #: 1

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB1008

Senate APPROPRIATIONS Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken NO PASS

Motion Made By SENATOR ROBINSON Seconded By SENATOR LINDAAS

Senators	Yes	No	Senators	Yes	No
Senator Nething, Chairman	✓				
Senator Naaden, Vice Chairman	✓				
Senator Solberg	✓				
Senator Lindaas	✓				
Senator Tallackson	✓				
Senator Tomac	✓				
Senator Robinson	✓				
Senator Krauter	✓				
Senator St. Aubyn	✓				
Senator Grindberg	✓				
Senator Holmberg	✓				
Senator Kringstad	✓				
Senator Bowman	✓				
Senator Andrist	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment SENATOR KRAUTER

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

REPORT OF STANDING COMMITTEE (410)
March 18, 1999 3:17 p.m.

Module No: SR-49-5132
Carrier: Krauter
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1008, as engrossed: Appropriations Committee (Sen. Nething, Chairman) recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1008 was placed on the Fourteenth order on the calendar.

1999 TESTIMONY

HB 1008

TESTIMONY FOR HOUSE BILL NO. 1008

Testimony of Gary D. Preszler, Commissioner, Department of Banking and Financial Institutions

Chairman Byerly, members of the Government Operations Division, I am Gary Preszler, Commissioner of the Department of Banking and Financial Institutions. I am here to testify in support of the appropriation of \$2,954,909 for the Department's 1999-01 budget.

The Department's requested appropriation of \$2,636,023 complied with the Governor's 95% budget guidelines for all state agencies and contained an additional \$208,329 optional package request. The optional package which was restored in the Governor's Executive Budget recommendation included two FTE positions (\$149,966), funding to implement the Information Technology Plan (\$53,916), and to cover OMB Central Services Cost Allocation Plan (\$4,447). Therefore, the Department's request and optional package maintains the current 22 FTE positions.

The Department is a special fund, fully self-supporting agency. The Department's budget consists of three cost centers: (1) banks, (2) credit unions, and (3) consumer licensees. Banks and credit unions pay annual assessments that cover all direct examination costs and allocated overhead costs for each cost center

respectively. Additionally, consumer licensees pay investigation and annual license fees for the processing and supervisory responsibilities related to consumer license activity. The State Banking Board and State Credit Union Board have not raised the assessment formula since the regulatory fund was created in 1989, and in most years a reduction in the assessment rate is granted.

DEPARTMENT OVERSIGHT

The Department of Banking and Financial Institutions supervises state-chartered banks, building and loan associations (currently there are no state-chartered savings and loan associations), credit unions, and trust companies; and licenses consumer finance companies, collection agencies, money brokers, sellers of checks, and agents for deposit.

STATE-CHARTERED BANKS

North Dakota presently has 96 state-chartered banks, which compares with 104 when I testified before this Committee two years ago. The reduction in the number of banks we supervise is due to mergers and consolidations and the four Bremer Financial Corporation affiliated banks that converted from a state to a national charter during the first quarter of 1997. Three state-chartered banks merged with other state-chartered banks and although the number of banks decreased, the assets that we supervise remained in the state system. Additionally, in October 1998, Norwest acquired The First State Bank of Casselton and

Litchville State Bank, and merged the two state-chartered banks into their national bank affiliate.

Despite a reduction in the number of banks we supervise, upon factoring out the four Bremer affiliate charter conversions, assets held by state-chartered banks continue to grow. The added growth means the same number of examiners must do more. Refer to the attached "Average Bank Assets per Examiner" chart. As of September 30, 1998, total assets held by state banks is \$4.8 billion, which does not include the Bank of North Dakota. The Department does not have any supervisory authority over the Bank of North Dakota, but must examine the bank once every 24 months.

Loan growth also continues to increase. As of September 30, 1998, the amount of loans held by state-chartered banks was \$3.1 billion, which compares to \$3.0 billion two years ago.

All North Dakota state-chartered banks, with the exception of the Bank of North Dakota, must maintain FDIC insurance. The Department has entered into a Cooperative Examination Agreement with the Federal Deposit Insurance Corporation. In essence the Agreement divides responsibilities for safety and soundness examinations and coordinates examination schedules. Under the Agreement, the Department must examine one-half of the state-chartered banks in our target goal of 15 months from the previous examination. The FDIC examines

the other 50% in the same period and the bank schedules are exchanged for the succeeding 15-month time period. Additionally, banks that have been designated "problem banks" are examined at least once every 12 months either under a joint examination or on an alternating schedule.

The Department's ability to maintain an examination schedule has been taxed by recent examiner turnover. Eight of our 14 bank examiners have less than two years experience.

STATE-CHARTERED CREDIT UNIONS

The number of state-chartered credit unions has decreased by one from two years ago to 45 credit unions under our supervision. Credit unions also continue to show growth and the 45 credit unions' total assets have increased from \$656 million on September 30, 1996, to \$773 million on September 30, 1998.

The Department has primary responsibility for the examination of state-chartered credit unions. For a small number of credit unions joint examinations are conducted with the National Credit Union Administration, the insurer of member deposits. The Department takes the lead as examiner-in-charge for all joint examinations.

All North Dakota credit unions, except North Dakota Central Credit Union, must maintain deposit insurance by the National Credit Union Administration.

The Department maintains an examination frequency of approximately 18 months between examinations for sound, well-run credit unions. Also, credit unions that have been designated a “problem” or are under an informal or formal enforcement action will be examined at least 12 months from the previous examination with either a full safety and soundness examination or a visitation report completed.

STATE TRUST COMPANIES

There are presently four state-chartered trust companies. These trust companies operate under Chapter 6-05 and are not affiliated with a bank and are not insured by the Federal Deposit Insurance Corporation. The Department solely conducts safety and soundness examinations of the four trust companies. The Department’s policy is to conduct a safety and soundness examination at least once every 24 months. The four trust companies include: Frontier Trust Company, the largest having fiduciary assets exceeding \$3 billion; Heartland Trust Company; Northern Capital Trust Co.; and Trust Center of America.

Since the four trust companies’ fiduciary activities are not protected by FDIC insurance, the Department continues to give strong significance to trust company supervision and examiner training to ensure examiners possess the skills necessary to fully evaluate the trust companies’ condition. The Department also has several prefiled bills before this Legislative Assembly requiring officer and

employee fidelity bonds, and receivership authority and procedures to assist in resolving a failed trust company if that is ever necessary.

CONSUMER LICENSES

The Department's responsibilities related to licensing consumer finance companies, money brokers, and collection agencies also continues to increase as the number of licenses issued has increased substantially in the previous two years. Total licenses issued to these entities have increased to 427 licenses, compared to a total of 254 licensed two years previously, representing a 68% increase. As of January 1999, the Department has 221 money broker licenses, 170 collection agency licenses, and 36 consumer finance companies licenses. The increase in money broker licenses is due in part to the recent strong housing market and a favorable interest rate environment for home loan refinancing. A number of the money broker licenses are issued to out-of-state mortgage brokers.

Y2K EXAMINATIONS

As the financial industry prepares for the century date change, the Department is also devoting significant time and resources to ensuring those financial institutions follow a five-phase plan to ensure computer systems will operate and customers will not be inconvenienced.

Department examiners have received ample Y2K training conducted by the FDIC and NCUA.

The Department assisted the Federal Deposit Insurance Corporation in conducting phase 1 examinations that were completed in approximately October 1997 for all state-chartered banks. Additionally, the Federal Deposit Insurance Corporation is primarily now conducting phase 2 examinations for state-chartered banks. The Department is reviewing all Y2K reports and will assist the FDIC in meeting its schedules or in addressing corrective plans for those institutions that are identified with non-satisfactory ratings.

For state-chartered credit unions, the Department is solely conducting all on-site examinations. All in-house computer systems are being examined either under phase 1 or phase 2 examinations, and the North Dakota Credit Union League's Pro Data computer servicer has been examined for phase 1 and phase 2 compliance.

Additionally, the Department has examined the four North Dakota state-chartered trust companies and is monitoring the progress for the institutions' Y2K efforts.

Although no one can accurately predict what problems will be encountered by the Y2K computer bug due to a number of uncertainties regarding bank customers and other vendors or suppliers' preparedness or lack of preparedness, North Dakota financial institutions should be fully prepared for the century date change and I expect very little disruption, if any, to customers.

DEPARTMENT ACCREDITATION

In September 1998, the Department received the re-accreditation report prepared by a three-person on-site review team for the Conference of State Bank Supervisors Performance Standards Committee. The Performance Standards Committee established a number of stringent standards that Departments must meet to be accredited. Presently, 43 states are accredited. The Department was initially accredited in December 1992. The process involves the Department completing a self-evaluation questionnaire covering six areas before accreditation is granted. A minimum score must be met on each of the six parts. The on-site review team reviews the Department's ratings given on the self-evaluation questionnaire and will adjust ratings based upon interviews and review of Department documentation, policies, and actual work products. The review team consists of retired state and federal regulatory officials. The review team also makes recommendations for agency improvement.

The review team only had five recommendations:

1. *The review team recommends the Department review federal agency consumer compliance examination reports and follow-up exceptions and/or violations noted in those reports.* The Department believes at a minimum it is appropriate to have examiners knowledgeable in consumer protection laws to address obvious areas of concern that

arise during safety and soundness examinations. Federal consumer compliance reports have always been reviewed by administrative staff, but will also now be available to field staff.

2. *The review team recommends that the Department seek explicit statutory inspection and enforcement authority over bank holding companies.* The Department proposed House Bill No. 1162 granting discretionary examination authority in addition to present ability to review records. House Bill No. 1162 failed to pass after opposition from the trade association.
3. *The review team recommends the Department continue with its established Information Technology Plan to upgrade and standardize its computer hardware and software.* Refer to discussion under Information Technology Plan heading.
4. *The review team recommends the Department work to decrease its average examination report turnaround time to the accreditation program goal of 30 calendar days or less.* The Department presently has an average examination report turnaround to the bank of 42 days.
5. *The review team recommends that the Department supplement the training examination manuals it uses with state specific issues,*

policies, and procedures. The Department agrees and will take steps to enhance the specific policies and procedures.

INFORMATION TECHNOLOGY PLAN

The Department's Information Technology Plan consists of two projects: (1) purchase/conversion to a network system, and (2) automate Department records, board actions and minutes. Both project plans are related.

The Department is in the process of implementing the first project. This project involves purchasing and establishing an office network system, and providing field offices with access to the Department network through laptop computers. The Department plans for examiner report automation continues to be driven by the Federal Deposit Insurance Corporation (GENESYS) program, a fully automated examination report. The FDIC will provide the software program free-of-charge to the examiners. The network system will provide field examiners and Department staff the ability to access financial reports, the bank and credit union abstracts, and various other Department records in an easier and more efficient manner.

The second project to automate Department records consists of creating a database of all Department records, specifically financial institution call report data and consumer license information which will be accessible on the network by all staff including remote access by field examiners.

To commence implementation of our Information Technology Plan, the Department has prepared an Emergency Commission request transfer of \$30,000 from the salary and benefit line to the equipment line. These monies will be used to purchase laptop computers for field examiners with sufficient capacity to run the GENESYS software program.

PRIOR BUDGET REQUEST

For the present biennium, the Department's 1997-99 budget request contained a reduction of two FTE positions. The positions were given up due to the declining number of banks and improved economic conditions resulting in fewer problem banks, and due to plans for efficiencies to be achieved from further examination report automation. Although in preparing for the 1997-99 budget the Department did not have to meet any budget reductions as required of general fund agencies, the Department voluntarily requested a 94% budget.

OPTIONAL PACKAGE

In order to meet the Governor's requested 95% guidelines for the 1999-01 biennium, the Department's only option was to eliminate two additional FTE positions, and the Department did not have the ability to fund the Information Technology Plan or the OMB Central Services cost allocation. The optional package was restored by the Governor in the executive budget recommendation.

I am requesting that the House Government Operations Division keep the Department's optional package intact. The state of the agricultural economy is affecting loan quality and problems are beginning to appear. The Department simply cannot afford to give up another two examiners beyond the two that were already eliminated in 1997.

ECONOMIC CONDITIONS

The poor agriculture conditions are a concern. Safety and soundness examinations being conducted of banks and credit unions are starting to show increased adverse classifications of credits and in some cases resulting in the rating of the institution being downgraded. Although actual losses experienced by lenders on agricultural loans are only starting to appear, losses are being experienced by financial institutions on loans to commercial businesses that are heavily dependent on agriculture.

The overall financial condition of the financial institutions remains sound and capital levels are being maintained. However, if the poor agricultural conditions persist, a lagging effect on the financial institutions will strain reserves and equity protection.

CONCLUSION

Overall, North Dakota financial institutions continue to remain well run and operating in a safe condition, but there are signs the agricultural sector depressed

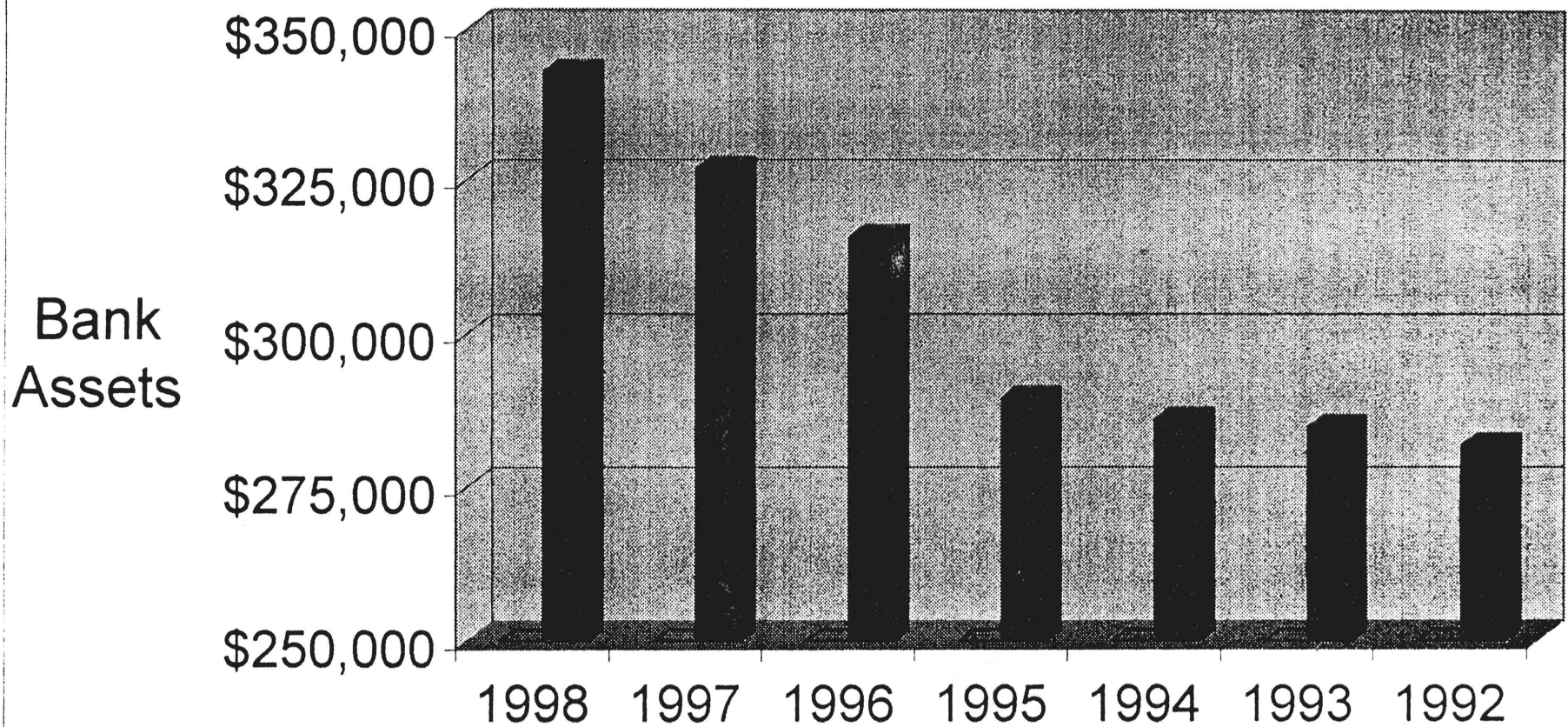
conditions could compromise financial soundness. Because of these conditions, it is vitally important for the Department to maintain a high level of experienced examiners to address problems early on.

I urge your favorable considerations for the Department's requested budget appropriation.

I would be happy to answer any questions.

Thank you.

Average Bank Assets per Examiner



LEGISLATIVE COUNCIL
ANALYSIS OF LEGISLATIVE CHANGES
AS OF FEBRUARY 18, 1999

BILL #/DEPARTMENT	LINE	EXECUTIVE BUDGET	HOUSE VERSION	HOUSE DIFF TO EXEC BUDGET	SENATE VERSION	SENATE DIFF TO EXEC BUDGET	DIFF BETWEEN HOUSE & SENATE
HB1008	SALARIES AND WAGE	2,348,853	2,320,326	28,527-	0	0+	0+
BANKING AND FINANCIAL INST.	OPERATING EXPENSE	529,272	529,272	0+	0	0+	0+
	EQUIPMENT	56,784	86,784	30,000+	0	0+	0+
	CONTINGENCY	20,000	20,000	0+	0	0+	0+
	TOTAL	2,954,909	2,956,382	1,473+	0	0+	0+
413	SPECIAL FUNDS	2,954,909	2,956,382	1,473+	0	0+	0+
	GENERAL FUND	0	0	0+	0	0+	0+
BILL TOTAL	TOTAL	2,954,909	2,956,382	1,473+	0	0+	0+
HB1008	SPECIAL FUNDS	2,954,909	2,956,382	1,473+	0	0+	0+
	GENERAL FUND	0	0	0+	0	0+	0+

STATEMENT OF PURPOSE OF AMENDMENT:

DEPARTMENT 413 - DEPARTMENT OF BANKING AND FINANCIAL INSTITUTIONS

HOUSE - This amendment makes the following changes:

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$2,348,853	(\$28,527)	\$2,320,326
Operating expenses	529,272		529,272
Equipment	56,784	30,000	86,784
Contingency	20,000		20,000
Total all funds	\$2,954,909	\$1,473	\$2,956,382
Less special funds	2,954,909	1,473	2,956,382
General fund	\$0	\$0	\$0
FTE	22.00	0.00	22.00

Detail of House changes to the executive budget include:

	DELAY MARKET SALARY INCREASE TO JANUARY 1, 2001	REDUCE COMPENSATION PACKAGE TO 2/2	INCREASE HEALTH INSURANCE COST	INCREASE EQUIPMENT	TOTAL HOUSE CHANGES
Salaries and wages	(\$3,292)	(\$31,222)	\$5,987		(\$28,527)
Operating expenses				\$30,000	30,000
Equipment					
Contingency					
Total all funds	(\$3,292)	(\$31,222)	\$5,987	\$30,000	\$1,473
Less special funds	(3,292)	(31,222)	5,987	30,000	1,473
General fund	\$0	\$0	\$0	\$0	\$0

House changes narrative:

This amendment makes the following changes:

Delays until January 1, 2001, implementation of a market salary increase for the Commissioner of Banking and Financial Institutions. This adjustment will provide an increase of approximately \$151 per month for the last six months of the biennium.

LEGISLATIVE COUNCIL
ANALYSIS OF LEGISLATIVE CHANGES
AS OF FEBRUARY 18, 1999

FEBRUARY 19, 1999

Reduces salary increases to two percent in July 1999 and two percent in July 2000.

Increases salaries and wages to reflect increased health insurance costs.

Increases equipment to allow the purchase of new information technology equipment for financial institution auditing.

Department 413 - Department of Banking and Financial Institutions
 House Bill No. 1008

	FTE Positions	General Fund	Other Funds	Total
1999-2001 Executive Budget	22.00	\$0	\$2,954,909	\$2,954,909
1997-99 Legislative Appropriations	22.00	0	2,768,023	2,768,023
Increase (Decrease)	0.00	\$0	\$186,886	\$186,886

Major Items Affecting Department of Banking and Financial Institutions 1999-2001 Budget

	General Fund	Other Funds	Total
1. Provides funding for an equity salary increase for the commissioner position based on a survey conducted by the Central Personnel Division (The House reduced this amount by \$3,292.)		\$4,203	\$4,203
2. Increases operating expenses (\$18,626) and equipment (\$35,290) to establish a network computer system for the agency, pursuant to its information technology plan (The House also increased equipment by \$30,000 to allow the purchase of new information technology equipment for financial institution auditing.)		53,916	53,916
3. Increases operating expenses for additional rent		23,881	23,881

Major Legislation Affecting the Department of Banking and Financial Institutions

No major legislation other than House Bill No. 1008 has been introduced affecting the budget of the Department of Banking and Financial Institutions.

February 26, 1999

HB 1008
2/26/99
Courtney Koebeler (2)

SENATE APPROPRIATIONS COMMITTEE
HB 1008

CHAIRMAN NETHING AND COMMITTEE MEMBERS:

My name is Courtney Koebeler. I'm appearing today on behalf of The Independent Community Banks of North Dakota.

We SUPPORT the appropriations contained in **HB 1008** and respectfully request your **DO PASS**. If you have any questions, I'll be happy to answer them.
THANK YOU FOR YOUR TIME AND CONSIDERATION.

TESTIMONY FOR HOUSE BILL NO. 1008
SENATE APPROPRIATIONS COMMITTEE

Testimony of Gary D. Preszler, Commissioner, Department of Banking and Financial Institutions

Chairman Nething, members of the Senate Appropriations Committee, I am Gary Preszler, Commissioner of the Department of Banking and Financial Institutions. I am here to testify in support of the appropriation of \$2,956,382 for the Department's 1999-01 budget.

The Department's requested appropriation of \$2,636,023 complied with the Governor's 95% budget guidelines for all state agencies and contained an additional \$208,329 optional package request. The optional package, which was restored in the Governor's Executive Budget recommendation and approved by the House, included two FTE positions (\$149,966), funding to implement the Information Technology Plan (\$53,916), and funding to cover OMB Central Services Cost Allocation Plan (\$4,447). Therefore, the Department's request and optional package maintains the current 22 FTE positions.

The Department is a special fund, fully self-supporting agency. The Department's budget consists of three cost centers: (1) banks, (2) credit unions, and (3) consumer licensees. Banks and credit unions pay annual assessments that cover all direct examination costs and allocated overhead costs for each cost center

respectively. Additionally, consumer licensees pay investigation and annual license fees for the processing and supervisory responsibilities related to consumer license activity. The State Banking Board and State Credit Union Board have not raised the assessment formula since the regulatory fund was created in 1989, and in most years a reduction in the assessment rate is granted.

DEPARTMENT SUPERVISORY RESPONSIBILITY

The Department of Banking and Financial Institutions supervises state-chartered banks, building and loan associations (currently there are no state-chartered savings and loan associations), credit unions, and trust companies; and licenses consumer finance companies, collection agencies, money brokers, sellers of checks, and agents for deposit.

STATE-CHARTERED BANKS

North Dakota presently has 96 state-chartered banks, which compares with 104 when I testified before this Committee two years ago. The reduction in the number of banks we supervise is due to mergers and consolidations and the four Bremer Financial Corporation affiliated banks that converted from a state to a national charter during the first quarter of 1997. Three state-chartered banks merged with other state-chartered banks and although the number of banks decreased, the assets that we supervise remained in the state system. Additionally, in October 1998, Norwest acquired The First State Bank of Casselton and

Litchville State Bank, and merged the two state-chartered banks into their national bank affiliate.

Despite a reduction in the number of banks we supervise, upon factoring out the four Bremer affiliate charter conversions, assets held by state-chartered banks continue to grow. The added growth means the same number of examiners must do more. Refer to the attached "Average Bank Assets per Examiner" chart. As of September 30, 1998, total assets held by state banks is \$4.8 billion, which does not include the Bank of North Dakota. The Department does not have any supervisory authority over the Bank of North Dakota, but must examine the bank once every 24 months.

Loan growth also continues to increase. As of September 30, 1998, the amount of loans held by state-chartered banks was \$3.1 billion, which compares to \$3.0 billion two years ago.

All North Dakota state-chartered banks, with the exception of the Bank of North Dakota, must maintain FDIC insurance. The Department has entered into a Cooperative Examination Agreement with the Federal Deposit Insurance Corporation. In essence the Agreement divides responsibilities for safety and soundness examinations and coordinates examination schedules. Under the Agreement, the Department must examine one-half of the state-chartered banks in our target goal of 15 months from the previous examination. The FDIC examines

the other 50% in the same period and the bank schedules are exchanged for the succeeding 15-month time period. Additionally, banks that have been designated "problem banks" are examined at least once every 12 months either under a joint examination or on an alternating schedule.

The Department's ability to maintain an examination schedule has been taxed by recent examiner turnover. Eight of our 14 current bank examiners have less than two years experience.

STATE-CHARTERED CREDIT UNIONS

The number of state-chartered credit unions has decreased by one from two years ago to 45 credit unions under our supervision. Credit unions also continue to show growth and the 45 credit unions' total assets have increased from \$656 million on September 30, 1996, to \$773 million on September 30, 1998.

The Department has primary responsibility for the examination of state-chartered credit unions. For a small number of credit unions joint examinations are conducted with the National Credit Union Administration, the insurer of member deposits. The Department takes the lead as examiner-in-charge for all joint examinations.

All North Dakota credit unions, except North Dakota Central Credit Union, must maintain deposit insurance by the National Credit Union Administration.

The Department maintains an examination frequency of approximately 18 months between examinations for sound, well-run credit unions. Also, credit unions that have been designated a "problem" or under an informal or formal enforcement action will be examined at least 12 months from the previous examination with either a full safety and soundness examination or a visitation report completed.

STATE TRUST COMPANIES

There are presently four state-chartered trust companies. These trust companies operate under Chapter 6-05 and are not affiliated with a bank and are not insured by the Federal Deposit Insurance Corporation. The Department solely conducts safety and soundness examinations of the four trust companies. The Department's policy is to conduct a safety and soundness examination at least once every 24 months. The four trust companies include: Frontier Trust Company, the largest having fiduciary assets exceeding \$4 billion; Heartland Trust Company; Northern Capital Trust Co.; and Trust Center of America.

Since the four trust companies' fiduciary activities are not protected by FDIC insurance, the Department continues to give strong significance to trust company supervision and examiner training to ensure examiners possess the skills necessary to fully evaluate the trust companies' activities and condition.

CONSUMER LICENSES

The Department's responsibilities related to licensing consumer finance companies, money brokers, and collection agencies also continues to increase as the number of licenses issued has increased substantially in the previous two years. Total licenses issued to these entities have increased to 427 licenses, compared to a total of 254 licensed two years previously, representing a 68% increase. As of January 1999, the Department has 221 money broker licenses, 170 collection agency licenses, and 36 consumer finance company licenses. The increase in money broker licenses is due in part to the recent strong housing market and a favorable interest rate environment for home loan refinancing. A number of the money broker licenses are issued to out-of-state mortgage brokers. The Department Business Manager estimates accumulated license fee revenue is \$200,000 over and above estimated expenses through June 30, 1999.

Y2K EXAMINATIONS

As the financial industry prepares for the century date change, the Department is also devoting significant time and resources to ensuring those financial institutions follow a five-phase plan to ensure computer systems will operate and customers will not be inconvenienced.

Department examiners have received ample Y2K training conducted by the FDIC and NCUA.

The Department assisted the Federal Deposit Insurance Corporation in conducting Phase I examinations that were completed in approximately October 1997 for all state-chartered banks. Additionally, the Federal Deposit Insurance Corporation is primarily now conducting Phase II examinations for state-chartered banks. The Department is reviewing all Y2K reports and will assist the FDIC in meeting its schedules or in addressing corrective plans for those institutions that are identified with non-satisfactory ratings. Phase III, the final examination phase, commences on April 1, 1999, and focuses on identified "unsatisfactory" or "needs to improve" vendors or institutions.

For state-chartered credit unions, the Department is solely conducting all on-site Y2K examinations. All in-house computer systems are being examined either under Phase I or Phase II examinations, and the North Dakota Credit Union League's Pro Data computer servicer has been examined for Phase I and Phase II compliance.

Additionally, the Department has examined the four North Dakota state-chartered trust companies and is monitoring the progress for the institutions' Y2K efforts.

Although no one can accurately predict what problems will be encountered by the Y2K computer bug due to a number of uncertainties regarding bank customers and other vendors or suppliers' preparedness or lack of preparedness,

North Dakota financial institutions should be fully prepared for the century date change and I expect very little disruption, if any, to customers.

DEPARTMENT ACCREDITATION

In September 1998, the Department received the re-accreditation report prepared by a three-person on-site review team for the Conference of State Bank Supervisors Performance Standards Committee. The Performance Standards Committee established a number of stringent standards that Departments must meet to be accredited. Presently, 43 states are accredited. The Department was initially accredited in December 1992. The process involves the Department completing a self-evaluation questionnaire covering six areas before accreditation is granted. A minimum score must be met on each of the six parts. The on-site review team reviews the Department's ratings given on the self-evaluation questionnaire and will adjust ratings based upon interviews and review of Department documentation, policies, and actual work products. The review team consists of retired state and federal regulatory officials. The review team also makes recommendations for agency improvement.

The review team only had five recommendations:

1. *The review team recommends the Department review federal agency consumer compliance examination reports and follow-up exceptions and/or violations noted in those reports. The Department believes at a*

minimum it is appropriate to have examiners knowledgeable in consumer protection laws to address obvious areas of concern that arise during safety and soundness examinations. Federal consumer compliance reports have always been reviewed by administrative staff, but will also now be available to field staff.

2. *The review team recommends that the Department seek explicit statutory inspection and enforcement authority over bank holding companies.* The Department proposed House Bill No. 1162 granting discretionary examination authority in addition to present ability to review records. House Bill No. 1162 failed to pass after opposition from the trade associations.
3. *The review team recommends the Department continue with its established Information Technology Plan to upgrade and standardize its computer hardware and software.* Refer to discussion under Information Technology Plan heading.
4. *The review team recommends the Department work to decrease its average examination report turnaround time to the accreditation program goal of 30 calendar days or less.* The Department presently has an average examination report turnaround to the bank of 42 days.

5. *The review team recommends that the Department supplement the training examination manuals it uses with state specific issues, policies, and procedures. The Department agrees and will take steps to enhance the specific policies and procedures.*

INFORMATION TECHNOLOGY PLAN

The Department's Information Technology Plan consists of two projects: (1) purchase/conversion to a network system, and (2) automate Department records, board actions and minutes. Both project plans are related.

The Department is in the process of implementing the first project. This project involves purchasing and establishing an office network system, and providing field offices with access to the Department network through laptop computers. The Department plans for examiner report automation continues to be driven by the Federal Deposit Insurance Corporation (GENESYS) program, a fully automated examination report. The FDIC will provide the software program free-of-charge to the examiners. The network system will provide field examiners and Department staff the ability to access financial reports, the bank and credit union abstracts, and various other Department records in an easier and more efficient manner.

The second project to automate Department records consists of creating a database of all Department records, specifically financial institution call report data

and consumer license information which will be accessible on the network by all staff including remote access by field examiners.

1997-1999 BUDGET REQUEST

For the present biennium, the Department's 1997-99 budget request contained a reduction of two FTE positions. The positions were given up due to the declining number of banks and improved economic conditions resulting in fewer problem banks, and due to plans for efficiencies to be achieved from further examination report automation. Although in preparing for the 1997-99 budget the Department did not have to meet any budget reductions as required of general fund agencies, the Department voluntarily requested a 94% budget.

OPTIONAL PACKAGE

In order to meet the Governor's requested 95% guideline for the 1999-01 biennium, the Department's only option was to eliminate two additional FTE positions, and the Department did not have the ability to fund the Information Technology Plan or the OMB Central Services cost allocation. The optional package was restored by the Governor in the executive budget recommendation.

I am requesting that the Senate Appropriations Committee keep the Department's optional package intact. The state of the agricultural economy is affecting loan quality and problems are beginning to appear. The Department

simply cannot afford to give up another two examiners beyond the two that were already eliminated in 1997.

ECONOMIC CONDITIONS

The poor agriculture conditions are a concern. Safety and soundness examinations being conducted of banks and credit unions are starting to show increased adverse classifications of credits and in some cases resulting in the rating of the institution being downgraded. Although actual losses experienced by lenders on agricultural loans are only starting to appear, losses are being experienced by financial institutions on loans to commercial businesses that are heavily dependent on agriculture.

The overall financial condition of the financial institutions remains sound and capital levels are being maintained. However, if the poor agricultural conditions persist, a lagging effect on the financial institutions will strain reserves and equity protection.

HOUSE AMENDMENT

On February 2, 1999, the Department made an Emergency Commission request to transfer \$30,000 from the salary and benefits line item to the equipment line so that we may now utilize the FDIC Genesys program. The Emergency Commission's response was that since the Legislature is currently in session, the request should be presented to the Appropriations Committees.

The FDIC Genesys program has been in a development stage for some time, with an initial expected release date the fall of 1997. That date has been delayed several times, and the program has now just recently been released to the states and training has commenced. In mid-January the Department sent two examiners to Washington, DC, at an expense of approximately \$1,400 to receive training so that they may train remaining Department staff. Although the FDIC release date had changed several times, at the time the IT plan was developed we fully expected to convert to the Genesys report format before the IT plan effective date, July 1, 1999, and therefore the \$30,000 was not included in the plan. In fact if the IT plan is not approved, it is still our intention to proceed with the Genesys program. The IT plan does, however, include integration of the field computers into the network system as part of the first project.

AMENDMENT TO ENGROSSED BILL

It is our understanding that OMB will propose an amendment to Engrossed House Bill No. 1008 which transfers \$200,000 from the Department's regulatory fund, specifically from revenue that has accumulated from the annual license fees for money brokers, collection agency, and consumer finance companies, and transfers the money to the state's General Fund after July 1, 1999. I do not object to the OMB proposed amendment and the \$200,000 General Fund transfer.

CONCLUSION

Overall, North Dakota financial institutions continue to remain well run and operate in a safe and sound condition, but there are signs the agricultural sector depressed conditions could compromise financial soundness. Because of these conditions, it is vitally important for the Department to maintain a high level of experienced examiners to address problems early on.

I urge your favorable considerations for the Department's requested budget appropriation.

I would be happy to answer any questions.

Thank you.