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DESCRIPTION

1340

2007 HOUSE JUDICIARY

HB 1340

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1340

House Judiciary Committee

Check here for Conference Committee

Hearing Date: 1/24/07

Recorder Job Number: 1772

Committee Clerk Signature

W Penrose

Minutes:

Chairman DeKrey: We will open the hearing on HB 1340.

Rep. Larry Klemin: Introduced the bill, sponsor. This bill relates to public corporations. In this bill, ND would be embarking on a new type of corporation authorized under ND law specifically designed to attract large public corporations to ND. This is a very exciting concept. It is also complicated. The persons who will be here explaining the bill will include Bill Clark, from Pennsylvania and Al Jaeger, Secretary of State.

Chairman DeKrey: Thank you. Further testimony in support.

Al Jaeger, Secretary of State: (see attached testimony).

Chairman DeKrey: Thank you. Further testimony in support.

Rep. Rick Berg: I support this bill. This bill has tremendous potential that would encourage businesses to come to ND. The way it has been conveyed to me, it has a real opportunity to not only attract these businesses, but also tell the rest of the country and beyond the country, that ND believes in a business model that encourages shareholder involvement and support.

Chairman DeKrey: Thank you. Further testimony in support.

William Clark, Jr., President, ND Corporate Governance Council: (see attached testimony).

Rep. Dahl: Can a publicly traded company do these things anyway. Can't they put this in place within their own corporate structure to take on some of these initiatives.

William Clark: Yes, you're correct. Every one of these provisions, as a rule, could be put into a company's organic documents today. There are certain issues that would be difficult depending on the particular state in which a company is incorporated. I mentioned that DE amended their corporation law just this past year in order to prevent companies from moving toward a system of majority voting. The answer is, by and large, yes on a piecemeal basis. The problem is the way the system works at the moment, shareholders have the ability to submit proposals to their companies to make certain changes, but as a shareholder you only get one chance every year. If you wanted to embark on a program of putting everything that's in 10-35 in a company's charter, you could do it, but it would take you many years. You would have to go through a very lengthy process to get to this result. One of the things we're trying to do is create a new model. What we're trying to do is say, here is the best thinking on all of these issues and you can move in this direction by one act; instead of having to do these piecemeal simply by incorporating in ND and electing to be subject to this statute, you get all of this as a package. One of the things we would like to do is actually create a brand. One of the goals of this statute, is have everyone immediately recognize when they are told that a company is a ND corporation. That will immediately brand that company as a company that elected to take advantage of the full plan.

Rep. Dahl: I guess I'm a little skeptical as to why a publicly traded corporation would elect to re-incorporate in ND, wouldn't it be the board that decides to reincorporate. Some of these provisions may be perceived as giving shareholders the ability to meddle in matters that traditionally were handled by the board.

William Clark: You actually raise two issues. First, will this be disruptive and meddlesome. The argument that's always raised against giving shareholders more rights is, in fact, that it will be disruptive to the affairs of the corporation. I don't personally think that is a very compelling argument for the following reason. If you think about what the basic interest of the shareholder is, when you invest in a company, you want to make money and you want your investment to increase in value. To me, economically illogical to use rights that we are giving shareholders here to make trouble, if it is going to be disruptive and depress the value of your investment. What we have found when we talked to large pension funds and investors in Europe, that they behaved differently in Europe because they have these additional rights. There is a much more cooperative spirit that's to be found between management and the shareholders in Europe, because the shareholders understand that they have rights, management understands that the shareholders have rights that they can use, and you don't want to have a fight, you don't want to see those rights used, so you work things out and behave more cooperatively. I'm not particularly worried about bad effects simply because if the shareholders do that, they injure themselves. Yes, it is possible, but it is hard to tell. Secondly, who would move here. I think initially you will find two groups of companies moving here. The good guys and the bad guys. What do I mean. There are some companies already today that are very committed to the notion that they believe in good corporate governance and try to portray themselves as being shareholder friendly. For a company with that kind of culture and attitude, moving to ND is a great thing because it allows them to brand themselves. They now know that simply as a ND corporation, it feeds directly into their general approach and allows them to identify themselves in a quick way as being committed. There is going to be the other group as well. One of the things that will happen if this statute is passed is that shareholders and companies who are in trouble, may actually have fights trying to push their

company into ND. They recognize that they're losing money, they're in a bad investment, they're not being listened to, will actually try to push their management here. How many of each company will there be. We'll have to see who comes to our field of dreams. I'm sure that there will be some.

Rep. Kretschmar: If this becomes law in ND, could ND corporations that are here now opt in to these provisions.

William Clark: Only with great difficulty. They are not intended to be able. There are various kinds of ND corporations. The clearest case is a ND corporation that is already publicly traded, there are three of those today. They are completely grandfathered out of the bill. The bill says that to be subject to this new chapter, it only applies to companies that are incorporated after July 1, 2007 so that the three existing companies are already in existence. Existing ND corporations that are not publicly traded, but have already been incorporated, if they go public in the future, will also not have the ability directly to elect to be subject to this chapter, because they were incorporated before July 1, 2007. However, in the future, a company that is founded in November of this year, after July 1, if it decides to go public, will be able to opt in simply by amending its articles of incorporation. It will depend on the situation of the company.

Rep. Koppelman: If a new company starts and this bill passes, it can elect to be part of this statute or not.

William Clark: It would have a choice. When it incorporates October 1, it can incorporate just under the existing Business Corporation Act, chapter 19.1, it could also choose to include in its articles the statement that it's also subject to new chapter 10-35. If it did not include that statement, it is incorporated under the normal process as it's always been. As long as that provision is in its articles, it's subject to the new chapter. If at any time, it decides that it

doesn't like it, the shareholders and directors can approve and amend the articles to take that provision out, in which case it would go back to the existing Business Corporation Act, or it could reincorporate in another state. Either action could be taken by a simple majority vote of its shareholders.

Rep. Koppelman: So if a company from another state decides to take advantage of this and comes to ND, they would have to reincorporate here.

William Clark: Yes.

Rep. Koppelman: If an existing ND corporation decided to do this, it sounds like it would be more difficult for them for another company coming in from out of state coming in.

William Clark: Yes. Companies would move in by reincorporating here. That would be much easier, it's possible for them to do that. An existing company in ND, really can't. If they really wanted to, I suppose they could move out and move back in. That's an awful trouble to do that. I don't think that is going to happen.

Rep. Koppelman: You're saying that for out of state companies to take advantage of this, it would be to come to ND and reincorporate.

William Clark: Yes.

Rep. Koppelman: But an existing ND corporation wouldn't be that easy.

William Clark: Not intended for that to be possible.

Rep. Charging: Is this a tool for economic growth.

William Clark: We have not touched at all on the principal benefit to ND, which is built into the statute. Companies today pay a lot of money to be incorporated in DE. Half of the publicly traded companies in the US are incorporated in DE; have no physical presence in DE. DE collected in 2005, \$491 million dollars in these publicly traded companies that have no presence there but just want to be incorporated there. Chapter 10-35 proposes that

companies that are subject to this new chapter will pay the same type of fee that they pay to DE, we essentially copies the DE fee except that we set its rate at 1/2 of the DE statute, so a very large publicly traded company incorporated in DE, every year pays a franchise tax of \$160,000/yr just for the privilege of being incorporated in DE and not having any operations or any other contact with the state. We propose that the same corporation, if it were incorporated in ND would pay \$80,000/year. So you can imagine with just a little bit of success and the \$80,000 is the top end of the sliding scale, so it is very difficult to make these estimates, that there is a possibility of substantial revenue from incorporations in ND at a rate that is a bargain, 50% of what you would pay in DE. I believe there is actually a fiscal note that's been prepared that has some estimates. The revenue shown in that note is a guess, it will depend on how popular this thing will be as it takes off. The other direct impact on ND, that as companies begin to incorporate here, they are going to need ND lawyers when they do financing and transactions, they will need counsel. There will be other economic development as well.

Rep. Delmore: Will this create a disadvantage to ND companies if they want to take advantage of these changes and can't.

William Clark: No, I don't think so. There are only three public traded companies that are clearly being grandfathered out. New companies that are incorporated after July 1, will have this option. How many existing companies that are not publicly traded but may go public, will they. I don't think there are a large number.

Rep. Charging: Because we don't have a public franchise fee, what will that mean.

William Clark: If you look back on page 18, line 23, the fee that's imposed on public companies by this bill is purely a function of the number of shares of stock that they are authorized to issue. Simply by reading the records in the Secretary of State's office, you can

determine how many shares of stock a corporation is authorized to issue and then it's simply a mathematical formula; it's \$60 for every 10,000 share that are being issued up to a maximum of \$80,000. If you have a million authorized shares, you would pay less than a company with 100 million authorized shares. It would be a sliding scale, of every 10,000 shares, which is exactly the way DE does it.

Rep. Koppelman: You talked about the benefits to lawyers and litigation, etc. that might occur. I noticed that in one section of the bill it talks about, under a particular set of circumstances that the corporation would deal with the district court, specifically specifies Burleigh County. On page 23, lines 9-12, is there a reason for that, or could a corporation go elsewhere.

William Clark: This provision is part of the mechanics for making the franchise fee work. This is patterned after provisions in existing ND law which provides that if an existing ND corporation does not file its annual report timely and pay a fee that Clara Jenkins was telling them that needs to be changed that there are provisions for the Secretary of State to administratively dissolve the company and if the company then catches up and tries to correct the defects and doesn't think it's been treated properly, the existing ND law in the other statutes say that you go to Burleigh County, obviously because this is related directly to a governmental function and it located here. I'm sure that the Secretary of State's office would not like to see this procedure different than what is in the other statutes.

Rep. Koppelman: I noticed in the bill there are several references to poison pill. Can you touch on that.

William Clark: Poison pills were invented in the 1980's. At a time when there were a raft of hostile takeovers. It was the kind of thing we saw in the movie with Michael Douglas in Wall Street, trying to manipulate companies and taking over. Poison pills were invented as a way of

stopping those kinds of hostile takeovers. Effectively what happens with poison pills, a company issues securities to its shareholders which are not exercisable, shareholders have no immediate rights under the poison pill, but the poison pill provides that if there is a hostile, tender offer and the raider acquires typically more than 20-30% of the shares of the company, then all of a sudden the poison pill becomes operative and poisonous. The poison pill says that shareholders, other than the raider are entitled to acquire shares in the company at 1/2 of their market price, but the poison pills provides that the raider is not permitted to exercise its right to do the same thing. The point being is that if the shareholders buy additional shares in the company at 1/2 price and the raider can't buy those shares, then the raider gets deluded, they lose a lot of money and won't go forward. There has never been a situation since that time, in which a company lit a poison pill, where the raider allowed the poison pill to be operative. The raiders always stop short of triggering the poison pill. It's a way to effectively stop a raider from acquiring a large block in a company without the approval of the board of directors. What's happened in the past 15 years, under DE law, there have been a lot of lawsuits addressed to the question of how long can a board leave a poison pill in place and stop a raider and when do you reach a point where there's been an auction for the company, and the raider is willing to pay a price that's high enough that the shareholders ought to be allowed to sell their shares in the offer. There is actually now a whole body of law in DE that helps you decide when you get to appoint that a court will order a poison pill to be disabled. Some of the activist shareholders hate poison pills and would like to get rid of them completely. We have not done that. Chapter 10-35 actually permits poison pills because we have found that actually having a poison pill can be very valuable for a corporation because it stops a corporation from being taken over quickly on the cheap. It stops a raider from coming in, offering just a small premium, stampeding shareholders into selling their shares and it allows

the board to negotiate with a raider and stops him by buying shares. Poison pills can be good. They can also be used improperly to entrench management. So what you have to do is try to find a balance. So the provisions in the bill actually say you can have a poison pill for a year or two years, if shareholders approve it, we want to not have ND corporations subject to being taken over too easily.

Rep. Dahl: On page 13, subsection 3 talks about being reasonable, fair, and not favor or disadvantage the proponent of any action. Isn't that a little broad and ambiguous.

William Clark: The first comment to be made about section 19 is that we took this provision from the Model Business Corporation Act and it was added to the model act within the last five years or so. That's important because it relates directly to your question. What exactly do these various tests mean. We don't yet know. In fact, it will take a little bit of experience under the model act itself and some potential fights and lawsuits before we know exactly this means. But to a certain extent, this provision is intended to deal with interorum provision in the sense that it is intended to tell people that there is a line. We may not be exactly sure where the line is, but you don't want to cross it and in fact, you want to stay back from it. It is intended to tell the person who is conducting the meeting that they need to be thinking that they have to be fair and reasonable and if they aren't, they are going to be subject to challenge and the hope is that will kind of play it down the middle. If there is a fight, we will have to find out what the court tells us it needs. Since it is taken from the model act, there will be case law that builds up around the country that will help us understand.

Rep. Griffin: On page 3, section 10-35-03, it says that this chapter applies to every public corporation. Wouldn't this apply to public corporation, it must be defined somewhere else in the code, wouldn't it also apply to other chapters as well.

William Clark: I couldn't understand what you are asking.

Rep. Griffin: The current public corporations in our state, are they defined anywhere in code. It says that this chapter applies to every public corporation.

William Clark: The term public corporation, is not a defined term anywhere else in the ND Century Code. There are, in your existing business corporation act, provisions which refer to publicly traded corporations. If you look over on page 4 of the bill, the first line, you will see that this statute says "a public corporation" which is a defined animal in 10-35 also is a "publicly held corporation" as that term is used in chapter 10-19.1. So in your existing Business corporation act, there are probably less than a half of dozen provisions which talk about publicly held corporations. Public corporation is a brand new term which would only be in this statute. In other words, there isn't going to be slop over from this chapter to the other chapter. This is a term that's really here. If it were ever used in a new statute, you would get this content, but otherwise it doesn't exist at the moment.

Rep. Koppelman: You talked about the potential benefits to ND being a boon to the state treasury perhaps, which could trickle down to be a benefit to taxpayers. Secondly, the lawyers are going to be doing well, and hopefully there is an economic benefit that's going to trickle into our economy from that. Is there another economic benefit from the standpoint that you believe that companies that incorporate here, that some of them will actually locate here in ND and therefore create jobs, etc.

William Clark: I would hesitate to say that. I'm even reluctant to over promise on the fees and what's involved. Certainly it's possible that some companies will want to have some presence here, maybe even once they are subject to ND law, every two years have a lobbyist to come around. It's so speculative, I'd rather than not have you think that there are those benefits.

Rep. Koppelman: You talked about this opt-out. Is there more than one place in the bill where that's discussed.

William Clark: It is all in the provision we were just looking at, which is the definition of the term. The whole issue is, are you included in that or not.

Rep. Dahl: You testified that some of the confidence has been shaken in recent times. Are there any provisions in chapter that would really prevent a scandal. Does this address that issue.

William Clark: No, it's not really trying to do that. This bill is not trying to prevent scandals and people breaking the law. This bill is trying to focus directors and management on what their principal job is, to pay attention to the interests of shareholders. Ultimately, that's what is going on here. We're not trying to prevent scandals. We are, to a certain extent, trying to prevent abuse. We aren't trying to prevent things that are already illegal or to make new things illegal, we are trying to change the way people behave under the existing rules.

Rep. Onstad: Ten percent of shareholders can call a special meeting, is that typical.

William Clark: It is not the rule in DE. Shareholders in DE do not have the right to call a special meeting of shareholders. It is already the rule under your existing business corporation act. It is the law in certain other states. It is the law in PA, for example. The practice varies around the country.

Rep. Onstad: If a present corporation in ND is not publicly traded, if they choose to become publicly traded after July 1, they would have the option to adopt under 10-35.

William Clark: No, because they were incorporated before July 1. They'd have to reincorporate.

Rep. Koppelman: Could you tell us why there is one state that has looked at this, is this happening anywhere else.

William Clark: This law does not exist anywhere else. Various pieces of it exist in various places, but no one has assembled all of the pieces in one place. When I first started working on this project, we actually wanted to come to ND as our first choice, but I started working on the project in the fall of 2005 and at that point, your 2005 session was over and you weren't going to be around in 2006, and we were eager enough to get started on this that we actually went to our second choice, which was the state of Vermont. They had characteristics a lot like ND. Their legislation met every year. We actually drafted a bill that would have added these provisions to Vermont law, it was introduced, received a lot of support initially, particularly from the person who was the state treasurer in Vermont, who because of his position as fiduciary for all of the state pension funds, understood investment issues and was very sympathetic to issues of corporate governance. We made a big mistake in VT, however, in that we did not clearly enough grandfather the existing publicly traded companies that were incorporated in VT. We did not have a provision in VT that was as clear as what's on page 3 of the definition of public corporation. As a result, half a dozen publicly traded corporations in VT decided that they had to get very involved in the issue, decided that they didn't like the bill and didn't like the possibility that they had to be more responsive to their shareholders. The net results was that the vote did not come up vote because we didn't have time before crossover in the VT system to resolve those issues and to fix the grandfathering provision. Since we were unsuccessful in VT, the good news is that we were able to come back to our first choice, although we had to wait a year. We also learned a lesson about how to do it the right way. This does not exist anywhere else.

Rep. Koppelman: Are you still pursuing it in VT or is it a dead issue.

William Clark: That's a fascinating question. Believe it or not, last week I got a call from one of the lawyers I was working with in VT, who said to me that he's gotten calls from two

legislators in VT who've asked where's the bill. Is it coming back. Well, not in my efforts, because I'm off in a much friendlier, better place that was my first choice. I don't know what they are going to do.

Chairman DeKrey: Thank you. Further testimony in support.

William Guy: I would like to testify in support of this bill. I think this will be an excellent bill for ND. There is really no downside to it at all that I can see.

Chairman DeKrey: Thank you. Further testimony in support. Testimony neutral.

Rick Clayburgh, President and CEO of ND Bankers Association: We are taking a neutral position on the bill today. Our legislative committee meets tomorrow. We have forwarded the legislation to them and to some attorneys in the state. We have not had an opportunity to look at that and we'd ask if you could hold this hearing open for us to have our discussion. On a personal note, the Uniform Trust Code had a lot of opposition in the last session. We spent an interim looking at it, and came up with some good solutions.

Chairman DeKrey: Thank you. Further testimony neutral. Testimony in opposition. We will recess the hearing.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1340

House Judiciary Committee

Check here for Conference Committee

Hearing Date: 1/24/07

Recorder Job Number: 1845

Committee Clerk Signature

Naam Penrose

Minutes:

Chairman DeKrey: We will take up HB 1340. There was an amendment that we didn't discuss this morning.

William Clark: It was my pleasure to testify this morning. We had passed out an amendment which all of us forgot this morning, but we wanted to bring that to committee at this point. I'm happy to answer questions about it. Obviously, after the bill was prepared, we proofread it and noticed a variety of typos. We also were finishing our work on it and there were some things that we realized that we wanted to change and there is one section that we wanted to improve on the contents and we would like to get that thrown into the process if you can, so the bill is in its complete and final form, for your consideration. I am happy to take questions. The amendment itself is behind the document that's entitled, "Explanation of Proposed Amendment". The first two pages are discussion of the amendment. The substantive changes in the amendment are discussed in the memo at the front. That memo does not describe all of the typos and minor changes that are corrected. It only talks about the substantive changes. The single most substantive change is the addition of a new section, which is being added as section 17. It is adopting a provision that's been added to the Model Business Corporation Act and applies generally to corporations incorporated under that statute

and it is also the rule for companies who are traded on the New York Stock Exchange. What it says is that when a corporation is planning to issue 20% or more of its shares, it has to get approval of its shareholders first, before it does a major issuance of stock. The Stock Exchange requires it. The Model Business Corporation Act requires it. It is not in ND law at the moment; although I am told by Bill Guy that when he heard about the issue, he thinks it probably should be added to your General Business Corporation Act, but that is for another day, but we wanted to get it included in the Public Corporation provisions now.

Chairman DeKrey: Thank you for coming back and explaining that to us. We will close for now.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1340

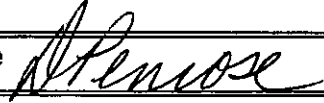
House Judiciary Committee

Check here for Conference Committee

Hearing Date: 1/30/07

Recorder Job Number: 2300

Committee Clerk Signature



Minutes:

Chairman DeKrey: We will take a look at HB 1340. What are the committee's wishes in regard to this bill. All the amendments have been rolled into one document.

Rep. Koppelman: I move the Secretary of State's amendments.

Rep. Wolf: Second.

Rep. Dahl: So every publicly traded corporation that incorporates after July 1, this chapter is going to apply. I don't see that as an option.

Chairman DeKrey: Where is that found.

William Clark: There was another amendment that addresses your question. It's on the first page of the amendment, third from the above, which is new to this amendment, page 3, line 16, we would insert a phrase so that the bill only applies to corporations meeting the definition of a publicly traded corporation, during such time as its articles state that it is governed by this chapter. That is the additional language that is being inserted to make it clear that it's only while the provision of the articles is in effect, that the corporation is subject to the chapter. I think that was the issue raised by Joel Gilbertson.

Rep. Koppelman: I think the other thing that would help, this is inserting publicly traded would be new language so it would be easily distinguished.

Chairman DeKrey: Further discussion on the amendments. We will take a voice vote.

Motion carried. We now have the bill before us as amended.

Rep. Delmore: I move a Do Pass as amended.

Rep. Koppelman: Second.

Rep. Dahl: While I do think this bill is optional, I do think that we are delusional if we think companies are going to come here. I remain very skeptical about this bill. I think it puts another tool in the belt of activist shareholders, or green mailers. A green mailer is someone who comes in and stirs up chaos and then lets the board of directors that they could be bought out.

Rep. Klemin: I think this is pretty straightforward. It's another option.

Rep. Charging: They might not move here, but may come on paper.

Chairman DeKrey: The clerk will call the vote.

11 YES 3 NO 0 ABSENT DO PASS AS AMEND

CARRIER: Rep. Kretschmar

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1340


House Judiciary Committee

Check here for Conference Committee

Hearing Date: 2/5/07

Recorder Job Number: 2836

Committee Clerk Signature



Minutes:

Chairman DeKrey: We need a motion to rerefer this bill.

Rep. Kretschmar: I so move.

Rep. Kingsbury: Second.

Chairman DeKrey: It has been moved and seconded to Rerefer HB 1340 to Appropriations.

Voice vote. Motion carried.

FISCAL NOTE
 Requested by Legislative Council
 02/06/2007

Amendment to: HB 1340

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

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$720,000	\$80,000	\$1,440,000	\$160,000
Expenditures	\$0	\$0	\$0	\$60,000	\$0	\$120,000
Appropriations	\$0	\$0	\$0	\$80,000	\$0	\$160,000

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

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

A new chapter in the Century Code is created for publicly traded corporations wishing to have this form of corporate governance structure. The provisions with a fiscal impact pertain to the filing of an annual report having a franchise fee connected with it.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Annually, according to 10-35-28 on pages 19, 20, and 21, a franchise fee is due each year that cannot be less than \$60 nor exceed \$80,000.

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

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

It is unknown at this time as to how many corporate charters will be issued under this chapter. Therefore, the estimated revenue is based on five corporations during the first biennium paying the maximum fee. The number of corporations was doubled for the next biennium.

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

Because it is unknown as to the number of corporate charters that might be issued under this new chapter, 10% of the franchise fee is allocated to the agency's general services operating fund to allow the agency to respond to the demand regardless how few or how many there might be. By law, any excess is deposited in the state's general fund at the end of the biennium.

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

The appropriation is to establish the spending authority for the agency based on the estimated revenue. If the revenue exceeds projections, the agency will seek the approval of the Emergency Commission and the Legislative Budget Section to increase the spending authority.

Name:	Al Jaeger	Agency:	Secretary of State
Phone Number:	328-2900	Date Prepared:	02/06/2007

