

Testimony to the Legislative Budget Section

March 3, 2016

**Eric Hardmeyer, President & CEO
Bank of North Dakota**

Chairman Lee and members of the Committee, I am Eric Hardmeyer, President of the Bank of North Dakota. Thank you for the invitation to appear before you and provide the budget section with an update on the North Dakota Financial Center.

If you recall, HB 1014, Section 16 identified the North Dakota Financial Center will be constructed adjacent to the existing Bank building. It also identified the Bank will lease space to other state agencies at market rate and make payments in lieu of property taxes in a manner that parallels private ownership of the building.

In Section 26 of HB1014, the Bank was authorized to utilize up to \$17,000,000 to construct the Financial Center if the net income of BND exceeded \$125,000,000 in fiscal year 2015. The net income for BND in fiscal year 2015 was just under \$131,000,000 (attached).

The Financial Center will consolidate governmental services related to economic development in one location. Currently, the plan is for the Department of Commerce; the North Dakota Housing Finance Agency and the Department of Financial Institutions to occupy the new building. I want to note for you that the North Dakota Entrepreneur Center, including the SBA and the North Dakota Public Finance Agency are already located within our existing building. Our expectation is the co-location of services will enhance efficiency and collaboration among the various agencies.

In the current design, the Financial Center is approximately 44,000 square feet. This includes two floors of office space, a basement and a utility shed on the roof. As noted earlier, the overall cost of the building is \$17,000,000. We are currently working with the identified agencies to determine the most effective space plans for their operations.

In late 2015, BND appointed a building committee of employees from within the Bank. We also worked closely with the Office of Management and Budget to implement the state procurement process to select an architect and a construction manager. JLG was the architecture firm identified to lead the design process. JE Dunn was selected as the construction manager at risk.

BND chose the construction manager at risk (CMAR) delivery method over the competitive bid or design/build methods as the CMAR model best fits the project. Under the CMAR method, the construction manager is working "at risk" to deliver to a guaranteed maximum price which

works well since the Financial Center has a fixed budget authorization. The construction manager will work to continually manage the construction costs since they will be liable for any amount over the guaranteed maximum price. The CMAR delivery method also is best suited for projects such as the Financial Center that require program definition and are schedule sensitive.

The architecture fee is 6.5% of the construction costs. The construction manager fee is 3.625% of the construction costs. I want to point out these fees are based on hard construction costs which will be substantially lower than \$17,000,000.

Regarding the timeline, the Bank is working closely with JLG and JE Dunn to finalize the design (see attached concept). The preliminary site work is expected to start within the next 30-days, depending on weather. The bid packages are anticipated to be released this spring. Actual construction on the foundation and footings will begin early this summer with completion expected by the Fall of 2017. To date, BND has paid JLG \$120,000 for design work.

Mr. Chairman, thank you for the opportunity to update you on this important project. I will be glad to answer any questions from the Committee.

**Sixty-fourth Legislative Assembly of North Dakota
In Regular Session Commencing Tuesday, January 6, 2015**

HOUSE BILL NO. 1014
(Appropriations Committee)
(At the request of the Governor)

SECTION 16. A new section to chapter 6-09 of the North Dakota Century Code is created and enacted as follows:

North Dakota financial center - Lease rates - Payments in lieu of taxes.

The North Dakota financial center is a building that is owned by the Bank of North Dakota and is adjacent to the building in which the Bank of North Dakota is housed. The Bank of North Dakota shall lease the space in the North Dakota financial center to other state agencies based on market rate lease prices. The Bank of North Dakota shall make payments in lieu of property taxes in the manner and according to the conditions and procedures that would apply if the building were privately owned.

SECTION 26. CONTINGENT FUNDING - BANK OF NORTH DAKOTA - NORTH DAKOTA - FINANCIAL CENTER - EXEMPTION - LEGISLATIVE MANAGEMENT REPORT. The capital assets line item in subdivision 2 of section 1 of this Act includes \$17,000,000 from the assets of the Bank of North Dakota for the purpose of constructing a North Dakota financial center on a site adjacent to the existing building in which the Bank is located.

The Bank may spend the funding only if the Bank's net income, reported in accordance with financial accounting standards board accounting standards, for calendar year 2015 exceeds \$125,000,000. The funding appropriated for this purpose is not subject to section 54-44.1-11 and any unexpended funds are available during the biennium beginning July 1, 2017, and ending June 30, 2019.

The Bank of North Dakota shall report to the legislative management and to the appropriations committees of the sixty-fifth legislative assembly on the use of the funding provided for the North Dakota financial center, including the amounts spent to date and the amounts anticipated to be continued into the 2017-19 biennium, and on the progress of the project.

SECTION 27. CONTINGENT EFFECTIVE DATE. Section 16 of this Act is effective only if the Bank of North Dakota's net income, reported in accordance with financial accounting standards board accounting standards, for calendar year 2015 exceeds \$125,000,000.

BANK OF NORTH DAKOTA
BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Thousands)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and due from banks	\$ 318,354	\$ 362,985
Federal funds sold	77,905	42,105
	<u>396,259</u>	<u>405,090</u>
Cash and cash equivalents		
Securities	2,657,527	2,933,570
Loans	4,339,618	3,852,155
Less allowance for loan losses	(69,294)	(58,346)
	<u>4,270,324</u>	<u>3,793,809</u>
Interest receivable	44,635	41,843
Bank premises, equipment, and software, net	11,566	11,678
Rebuilders loan program receivable	21,369	25,472
Other assets	6,262	4,225
	<u>44,832</u>	<u>42,198</u>
Total assets	<u>\$ 7,407,942</u>	<u>\$ 7,215,687</u>
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	\$ 641,264	\$ 700,446
Interest bearing	5,160,878	5,030,165
	<u>5,802,142</u>	<u>5,730,611</u>
Federal funds purchased and repurchase agreements	119,500	178,455
Short and long-term debt	727,322	645,126
Other liabilities	9,485	9,361
	<u>946,307</u>	<u>832,942</u>
Total liabilities	<u>6,658,449</u>	<u>6,563,553</u>
Equity		
Capital	2,000	2,000
Capital surplus	72,000	72,000
Undivided profits	673,330	571,276
Accumulated other comprehensive income	2,163	6,858
	<u>749,493</u>	<u>652,134</u>
Total equity	<u>749,493</u>	<u>652,134</u>
Total liabilities and equity	<u>\$ 7,407,942</u>	<u>\$ 7,215,687</u>

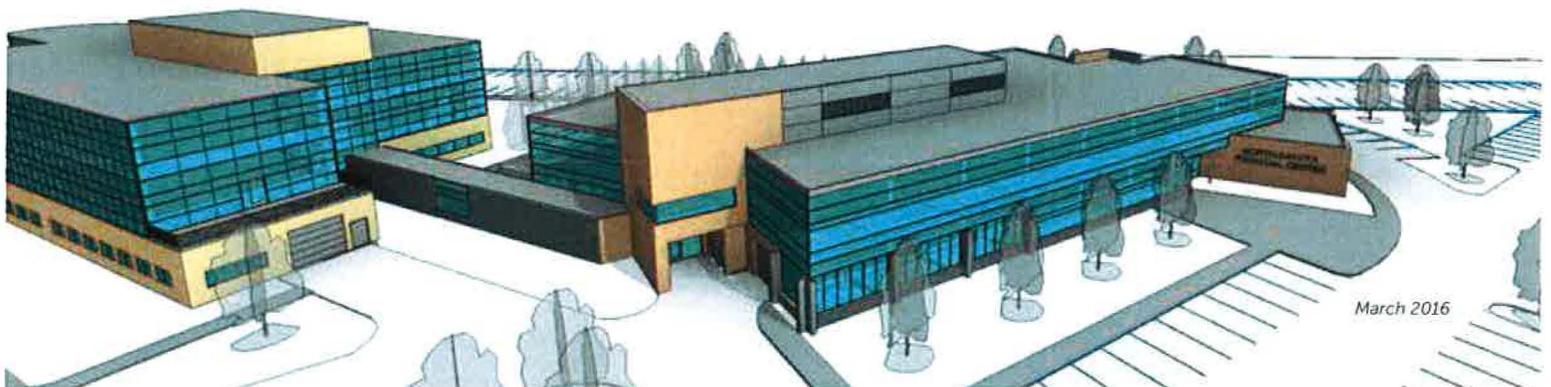
BANK OF NORTH DAKOTA
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Thousands)

	<u>2015</u>	<u>2014</u>
INTEREST INCOME		
Federal funds sold	\$ 380	\$ 214
Securities	38,026	32,678
Loans, including fees	<u>155,892</u>	<u>141,692</u>
Total interest income	<u>194,298</u>	<u>174,584</u>
INTEREST EXPENSE		
Deposits	12,814	13,210
Federal funds purchased and repurchase agreements	223	269
Short and long-term debt	<u>19,127</u>	<u>17,976</u>
Total interest expense	<u>32,164</u>	<u>31,455</u>
NET INTEREST INCOME	162,134	143,129
PROVISION FOR LOAN LOSSES	<u>12,500</u>	<u>8,000</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>149,634</u>	<u>135,129</u>
NONINTEREST INCOME		
Service fees and other	7,648	7,555
Net gain on available-for-sale securities	<u>40</u>	<u>432</u>
Total noninterest income	<u>7,688</u>	<u>7,987</u>
NONINTEREST EXPENSE		
Salaries and benefits	14,817	13,751
Data processing	4,838	4,636
Occupancy and equipment	726	795
Long-term debt prepayment fee	-	6,819
Other operating expenses	<u>6,287</u>	<u>6,156</u>
Total noninterest expenses	<u>26,668</u>	<u>32,157</u>
NET INCOME	<u>\$ 130,654</u>	<u>\$ 110,959</u>

Vision	Consolidate North Dakota's economic development services in one location and increase efficiencies between the agencies.
History	BND was authorized by HB1014 to construct the North Dakota Financial Center if Bank profits exceeded \$125 million for calendar year 2015.
Tenants	<ul style="list-style-type: none">• North Dakota Department of Commerce• North Dakota Housing Finance Agency• North Dakota Department of Financial Institutions
Funding	HB1014 allows BND to utilize up to \$17 million to build the facility. Tenants will pay rent at market rate.
Building	Approximately 44,000 square feet
Project Costs	<ul style="list-style-type: none">• Total expenses: \$17 million• Design expense: \$120,000 paid to date• Architectural fee: 6.5% of construction costs• Construction manager at risk (CMAR) fee: 3.25% of construction costs

Project Timeline

Completed	<ul style="list-style-type: none">• Architect selected: JLG Architects• Construction manager at risk selected: JE Dunn• Building design
Spring 2016	<ul style="list-style-type: none">• Complete space utilization plan• Land preparation
Summer 2016	Begin construction
Fall 2017	Construction complete





**North Dakota Financial Center
Bird's-eye View**

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