

**TESTIMONY TO THE
ECONOMIC IMPACT COMMITTEE**

May 24, 2016

INFRASTRUCTURE REVOLVING LOAN FUND

KELVIN HULLET – ECONOMIC DEVELOPMENT
AND GOVERNMENT PROGRAM MARKET MANAGER
BANK OF NORTH DAKOTA

Madam Chair and members of the Committee, I am Kelvin Hullet, the Economic Development and Government Program Market Manager for the Bank of North Dakota. Thank you for the opportunity to speak with you today about the BND, Infrastructure Revolving Loan Fund (BND IRLF) authorized by House Bill 1443 in the 2015 Legislative Session. This is a special fund from which BND provides loans to political subdivisions for critical infrastructure projects. These loans have a cap of \$15 million dollars; a maximum term of 30-years and the interest rate may not exceed two percent.

The Legislature authorized \$150m for this fund of which \$50m was appropriated from the strategic investment and improvements fund and \$100m is from the Bank's current earnings and undivided profits. Currently, The Bank has allocated \$50m to be utilized for communities under 2,000 and \$100m for communities over 2,000 in population. HB1443 designated that communities and counties which received "Surge" funding are ineligible to apply to the revolving loan fund until July 1 of 2017.

Through the first two funding rounds, BND applied a somewhat strict interpretation to the review of applications. As this is a new program, The Bank was unsure to what degree communities would respond. To enhance inter-governmental cooperation, BND asked the North Dakota Public Finance Agency and the Department of Transportation to assist in the review and scoring of the applications. The ND PFA also reviews the applications for compliance with health department guidelines and project timelines.

In the first round, BND approved the following projects.

• The City of Wahpeton for Water and Road Infrastructure	\$ 600,000
• The City of West Fargo for a Water and Road Projects	\$ 15,000,000
• The City of Grand Forks for Various Projects	\$ 15,000,000
• The City of Beach for a Road project	<u>\$ 3,888,888</u>
Total	\$ 34,400,000

Pending Project Applications from the second round include:

• The City of Hazen for Water and Road Projects	\$ 710,665
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• The City of Verona for Water and Road Projects	\$ 1,450,000
• The City of Milnor for Water and Road Projects	\$ 1,545,400
• The City of Colfax for Water and Road Projects	<u>\$ 1,265,000</u>
Total	\$ 4,900,000

Grand Total to Date \$ 39,300,000

As we look to the future, economic diversification; job creation and talent attraction and retention are pressing issues. Already, BND is cooperating with the Department of Commerce; the Housing Finance Agency; Public Finance Agency; League of Cities and Association of Counties to conduct a listening tour across North Dakota. Our goal is to gather input on current economic development programs; gain an understanding of the needs in communities and determine if existing programming should be modified or if new programs need to be created.

This background brings us to today’s discussion regarding the extension of natural gas to communities which are not currently served. At the April hearing of this committee, the Economic Development Association of North Dakota asked if there is there a role for BND to assist communities through the Infrastructure Revolving Loan Program. Specifically, this brings forward three policy questions.

1. Is The Bank authorized by HB1443 to define what “critical infrastructure” is for a community?
2. Does assisting a community in attaining additional services fit into the mission and vision of The Bank?
3. Does the loan policy implemented by BND as approved by the Industrial Commission provide any definition or direction on this issue?

Question One-Authorization

As drafted, the legislation enabled BND to establish the priorities for making loans to address critical infrastructure funding needs in growing communities. Specifically, the language states in Section 6-09-49:

The Bank shall establish priorities for making loans from the infrastructure revolving loan fund. Loan funds must be used to address the needs of the community by providing critical infrastructure funding. Except as expressly provided under this section, a political subdivision may not use infrastructure revolving loan funds for capital construction. In addition to eligible infrastructure needs established by the Bank, eligible infrastructure needs may include new water treatment plans; new wastewater treatment plants; new sewer lines and water lines; new storm water and transportation infrastructure, including curb and gutter construction.

While specific infrastructure needs are identified in the legislation, the language is drafted in such a way as to provide authorization to BND to expand the definition of critical infrastructure beyond the definitions listed in the legislation. From BND's perspective, critical infrastructure is that which plays an essential role in the community and enhances economic development opportunities. As defined under HB1443, the infrastructure must be "New" to the community and serve to enhance the growth of a community.

Question Two—Does it fit the Mission and Vision of the Bank?

The Mission of The Bank is: "To deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota".

The Vision Statement of BND is: "To be an agile partner that creates financial solutions for current and emerging economic needs".

As this effort is being led by local elected officials and economic developers from around the state to enhance economic development; create job opportunities and diversify the economy, our interpretation is utilization of the fund for natural gas expansion could fit into the definition of the mission and vision of The Bank.

Question Three—Loan Policy

The Bank of North Dakota adopted loan policy for the Infrastructure Revolving Loan Fund on June 30th of 2015. Attached to this testimony is a copy of the loan policy. Specifically, we would refer to the "Eligible Loan Proceeds" heading which lists four bullet points establishing eligible projects. These bullet points are:

- New water or wastewater treatment plants
- New sewer, storm sewer and water lines
- New transportation infrastructure including curb and gutter construction
- Other Infrastructure needs as established by the Bank

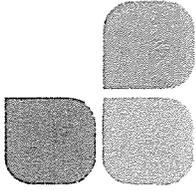
BND's loan policy is built from the legislation passed by the Legislature. Thus, loan policy allows the Bank to define infrastructure needs that are eligible to use the Infrastructure Revolving Loan Fund.

Closing Comments

In closing, we hope the analysis of the three policy questions raised in this discussion assist the committee in evaluating how to move forward on this issue. As we reviewed this concept internally and through informal conversations with the Governor's office, there is a willingness to evaluate the definition of critical infrastructure to include expansion of natural gas service.

Our next steps at the Bank are to consult with Legislative leadership; members of the Industrial Commission and the BND Advisory Board and Executive Committee.

In closing, Madam Chair, we thank you for the opportunity to testify today on this important issue. BND is North Dakota's unfair competitive advantage in economic development. We stand ready to assist our local subdivisions and our state in developing ways to diversify our economy. We look forward to more discussion on this important issue.



DEVELOPMENT
JAMESTOWN / STUTSMAN COUNTY

TO: Eric Hardmeyer, BND President & CEO
Kelvin Hullet, E.D. & Govt. Program Manager

FROM: Connie Ova, Jamestown/Stutsman Development Corporation

DATE: May 19, 2016

RE: Providing Natural Gas to Unserved or Underserved Communities

The Jamestown/Stutsman /Development Corporation would like to encourage the Bank of North Dakota (BND) to allow communities to access the Infrastructure Revolving Loan Fund for natural gas pipelines for industry.

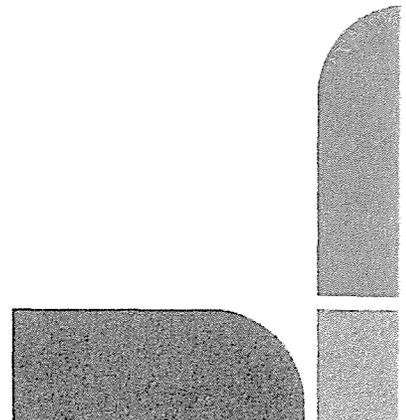
Communities with access to natural gas have an additional asset that enhances economic development opportunities. Natural gas is a resource typically required in order to attract any significant manufacturing opportunity and the availability of natural gas, and the expansion of natural gas infrastructure, play a key role in the continued growth and vitality of many businesses, communities and the state. Therefore, we believe natural gas infrastructure should be considered essential infrastructure for communities.

The challenge lies in financing the gap between the existing pipelines and the community. Because it can be very costly to provide to some communities, there needs to be a low-cost debt option available for communities like Jamestown. We have a short supply of natural gas and have struggled with finalizing deals with companies requiring a definitive supply. Our local companies suffer as well with the interruptible service because it forces them to rely on a backup source that is inevitably more expensive.

If you have any questions, please contact me at connie@growingjamestown.com or 701-252-6861.

Thank you for your consideration.

address: 120 2nd St Southeast - po box 293 Jamestown, nd 58402 phone: 701.252.6861 fax: 701.252.5907



HAZEN COMMUNITY DEVELOPMENT, INC.

P.O. Box 717
HAZEN, ND 58545-0717

PHONE - 701-748-6886
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May 20, 2016

Mr. Eric Hardmeyer
Bank of North Dakota
PO Box 5509
Bismarck, ND 58506-5509

Dear Mr. Hardmeyer:

On behalf of the Hazen Community Development (HCD) group I would like to encourage the Bank of North Dakota (BND) to allow communities to access the Infrastructure Revolving Loan Fund in order to extend pipelines to address insufficient natural gas for industry.

Natural gas, in my opinion, will soon become one of those essential community infrastructure needs, similar to what water and sewer is presently, because it is a resource that will be required in order to attract any significant manufacturing to one's local community. National site selectors have stated they won't consider a community for a manufacturing project if it does not have natural gas service. Therefore, the expansion of natural gas infrastructure, as we look to diversify our local and state economy, will play a key role in the continued growth and vitality of many businesses and communities throughout the state.

Even though my HCD group has done some preliminary exploration in this area, the challenge lies in financing the gap between the existing natural gas pipelines and our underserved community, especially when one considers the distance to connect from a preexisting line. Our preliminary analysis of such an endeavor would make it extremely expensive to provide the infrastructure for this to happen; and therefore, a low-cost debt option for our community would be necessary. Might the use of the Infrastructure Revolving Loan Fund be viewed as a resource to help make this happen?

If you have any questions or need additional information, please feel free to contact me at 701-748-6886 or hcd@westriv.com.

Respectfully Yours,



Buster Langowski, Ex. Director

Cc: Kelvin Hullet



May 20, 2016

Mr. Eric Hardmeyer
Bank of North Dakota
PO Box 5509
Bismarck, ND 58506-5509

Dear Mr. Hardmeyer:

On behalf of the Economic Development Association of North Dakota (EDND), I would like to encourage the Bank of North Dakota (BND) to allow communities to access the Infrastructure Revolving Loan Fund in order to extend pipelines to address insufficient natural gas for industry.

Natural gas is essential community infrastructure because it is a resource typically required in order to attract any significant manufacturing opportunity. National site selectors have reported they won't consider a community for a manufacturing project if it does not have natural gas service. Therefore, the expansion of natural gas infrastructure plays a key role in the continued growth and vitality of many businesses, communities and the state.

The challenge lies in financing the gap between the existing natural gas pipelines and unserved and underserved communities. The lack of natural gas is based on economics. Because it is expensive to provide, a low-cost debt option for these communities is necessary. The Infrastructure Revolving Loan Fund would provide this opportunity.

If you have any questions or need additional information, please feel free to contact EDND at 701-355-4458 or ednd@ednd.org. Thank you again for your time.

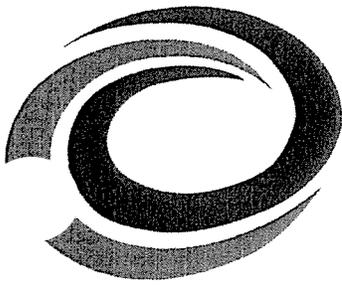
Sincerely,

A handwritten signature in black ink, appearing to read 'Connie Ova'. The signature is fluid and cursive.

Connie Ova
President

Sincerely,

cc: Kelvin Hullet



BOTTINEAU COUNTY ECONOMIC DEVELOPMENT CORP.

519 MAIN STREET -701-228-3922

BOTTINEAU, ND 58318

www.bottineauedc.com – edc2@utma.com

Bottineau EDC Directors: May 20, 2016

Chuck Neubauer
President

Mr. Eric Hardmeyer, BND President and CEO
Mr. Kelvin Hullet, E. D. & Govt. Program Manager
1200 Memorial Hwy
Bismarck, ND 58504

Andy Freeman
Vice-President

Doug Marsden
Vern Jacobson
Mike Foster
Jodi Atkinson
Jon Beyer
Julie Mears
Jerome Migler

RE: Providing Natural Gas to Unserved or Underserved Communities

The Bottineau County Economic Development Corporation would like to encourage the Bank of North Dakota (BND) to allow communities to access the Infrastructure Revolving Loan Fund for natural gas pipelines for industry.

Nicollette(Nicki)
Weissman
Executive Director

Communities with access to natural gas have an additional asset that enhances economic development opportunities. Natural gas is a resource typically required in order to attract any significant manufacturing opportunity and the availability of natural gas, and the expansion of natural gas infrastructure, play a key role in the continued growth and vitality of many businesses, communities and the state. Therefore, we believe natural gas infrastructure should be considered essential infrastructure for communities.

Glenore Gross
Accounting/Adm. Asst.

The challenge lies in financing the gap between the existing pipelines and the community. Because it can be very costly to provide to some communities, there needs to be a low-cost debt option available for counties as Bottineau county.

If you have any questions, please contact me at edc2@utma.com or 701-228-3922.

Thank you for your consideration.

Nicollette (Nicki) Weissman
Executive Director

Rugby JDA

"Entered for Growth; Open for Business"

JT Pelt
Executive Director

126 2nd Ave SW, Suite 1
Rugby, ND 58368
701-776-7655
JTPelt@RugbyJDA.com

Mr. Eric Hardmeyer
Bank of North Dakota
PO Box 5509
Bismarck, ND 58506-5509

Dear Mr. Hardmeyer:

Please take note on behalf of the JDA of Rugby North Dakota the 'Geographical Center of North America', I encourage the Bank of North Dakota (BND) to allow communities to access the Infrastructure Revolving Loan Fund in order to extend pipelines to address insufficient natural gas for industry.

Too many times in Government, as in business, we do what is expedient today without taking future trends into consideration, let's not do this with natural gas. The future is here and now, if it is not this year, then it will be the next year or in five to ten years, but it is coming. The cost of other energy sources will sky rocket and natural gas will be the logical economical choice of the time. Any community, city or state not set up then with natural gas will be playing catch-up and losing millions if not billions of dollars in business growth as well as retention. Let's not leave this burden to our children, let's think ahead.

Already one of the top three questions I am being asked by companies looking to expand to our small but aggressive town is 'do you have natural gas?' The answer sadly is 'no' and they move on. Just recently we lost a retailer looking to bring a 10,000 sf store-front establishment into the area and one of the main reasons they chose to pass was our lack of natural gas availability.

As you can see natural gas is essential to a community's infrastructure because it is a resource typically required in order to attract any significant business opportunity not to mention business retention, which our cities will need or they will surely dwindle and die. We need your help!

This is so important to Rugby we are not waiting to get the process started. Rugby has already commissioned a twenty-five thousand dollar feasibility study for natural gas, as our first step in being part of the future success of North Dakota. We will desperately need your assistance, as will other towns and cities across North Dakota to bring projects like ours to fruition.

Sincerely,

J T Pelt

J. T. Pelt, Executive Director

cc: Kelvin Hullet



TRAIL COUNTY



ECONOMIC DEVELOPMENT

promote. encourage. assist.

TO: Mr. Eric Hardmeyer, BND President & CEO
Mr. Kelvin Hullet, E.D & Govt. Program Manager

FROM: Melissa Beach, Traill County EDC

DATE: May 23, 2016

RE: Providing Natural Gas to Unserved or Underserved Communities

Traill County Economic Development Commission would like to encourage the Bank of North Dakota (BND) to allow communities to access the Infrastructure Revolving Loan Fund for natural gas pipelines for industry.

Communities with access to natural gas have an additional asset that enhances economic development opportunities. Natural gas is a resource typically required in order to attract any significant manufacturing opportunity and the availability of natural gas, and the expansion of natural gas infrastructure, play a key role in the continued growth and viability of many businesses, communities and the state. Therefore, we believe natural gas infrastructure should be considered essential infrastructure for communities.

The challenge lies in financing the gap between the existing pipelines and the community. Because it can be very costly to provide to some communities, there needs to be a low-cost debt option available for communities like Hillsboro, Buxton and Mayville. These communities are located in ideal manufacturing development areas with their access to Interstate 29, and a large pool of available workforce from surrounding Fargo and Grand Forks areas. The lack of natural gas infrastructure has given these communities several instances of companies going to other areas or other states after detailing the lack of natural gas was their one reason for not locating in these cities.

If you have any questions, please contact me at director@traillcountyedc.com or 701.636.4746.

Thank you for your consideration.

Melissa Beach,
Executive Director
Traill County Economic Development Commission

WWW.TRAILLCOUNTYEDC.COM

102 1st Street SW • PO Box 856 • Hillsboro, ND 58045

Phone: 701.636.4746 • Email: director@traillcountyedc.com

INFRASTRUCTURE REVOLVING LOAN FUND

The Bank administers the Infrastructure Revolving Loan Fund established by N.D.C.C. § 6-09-49 for the purpose of providing loans to political subdivisions for essential infrastructure projects. This fund is a revolving loan fund and is a continuing appropriation.

The Bank shall administer the \$150,000,000 Infrastructure Revolving Loan Fund which shall be funded by a transfer a maximum of \$100,000,000 from the Bank and \$50,000,000 from the Strategic Investment and Improvements Funds, or so much as may be necessary. Transfers shall occur between July 1, 2015 and June 30, 2017.

The Bank will have the authority to determine allocation of funds based upon the political subdivision's population base.

Qualifying Requirements for Borrower –

Loans may be made to North Dakota political subdivisions whose projects have been determined to be a priority for the state based upon a priority ranking methodology as established by the Bank.

Political subdivisions which receive funds distributed by the state treasurer or the Department of Transportation as approved by Senate Bill 2103 of the 64th Legislative Assembly will be ineligible to receive a loan under this Fund until July 1, 2017.

Eligible Loan Proceeds –

The priorities for this program shall include a focus on infrastructure needs in growing North Dakota communities. Proceeds may be used to finance the following eligible projects:

- New water or wastewater treatment plants
- New sewer, storm sewer and water lines
- New transportation infrastructure including curb and gutter construction
- Other infrastructure needs as established by the Bank

Ineligible use of proceeds includes:

- Building construction other than structures integral to treatment plants or other approved processes are not eligible under this program
- Refinancing of existing debt or other obligations will not be allowed

Loan Amount –

The cumulative loan amounts may not exceed \$15,000,000 per applicant.

Repayment Terms –

The promissory note shall require the following:

- The term of the construction and permanent financing period may not exceed 30 years.

Interest Rate –

The interest rate established for this program has been set at 2.00% with the fund receiving 1.50% and the Bank receiving a 0.50% service fee.

Collateral –

The Bank may take all steps necessary and appropriate to preserve security under this program.

Application Process –

All applications for loans under this program must be made to the Bank. The Bank will review and determine project priority ranking based on parameters established by the Bank. The Bank will be responsible for final due diligence and loan committee approval.

The Bank will require the following items from the applicant:

- Application
- Legal opinion and resolution of the governing board of the political subdivision confirming the project
- Preliminary engineering study, environmental impact analysis as necessary
- Analysis of the project including:
 - A listing of other sources of funding for the project intended to leverage the dollars requested of the Infrastructure Revolving Loan Fund.
 - A description of the nature of the proposed infrastructure project with some focus on the need for the project, the reasons it is in the public interest, and the overall economic impact to the state or regions within the state.
- The estimated cost of the project and the amount of the loan sought and other proposed sources of funding
- Financial statements for the subdivision, as well as projections to support the repayment capacity for the project
- Any other data or documentation as deemed necessary

Fees and Costs –

The Bank may charge an origination fee and charge the borrower for all fees associated with the project or other loan servicing expenses.

Adopted: June 30, 2015

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

HOUSE BILL NO. 1443
(Representatives Carlson, Belter, Delzer)
(Senators Cook, Schaible)

AN ACT to create and enact section 6-09-49 of the North Dakota Century Code, relating to creation of the infrastructure revolving loan fund; to provide a statement of legislative intent; to provide for transfers; and to provide a continuing appropriation.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. Section 6-09-49 of the North Dakota Century Code is created and enacted as follows:

6-09-49. Infrastructure revolving loan fund - Continuing appropriation.

1. The infrastructure revolving loan fund is a special fund in the state treasury from which the Bank of North Dakota shall provide loans to political subdivisions for essential infrastructure projects. The Bank shall administer the infrastructure revolving loan fund. The maximum term of a loan made under this section is thirty years. A loan made from the fund under this section must have an interest rate that does not exceed two percent per year.
2. The Bank shall establish priorities for making loans from the infrastructure revolving loan fund. Loan funds must be used to address the needs of the community by providing critical infrastructure funding. Except as expressly provided under this section, a political subdivision may not use infrastructure revolving loan funds for capital construction. In addition to eligible infrastructure needs established by the Bank, eligible infrastructure needs may include new water treatment plants; new wastewater treatment plants; new sewer lines and water lines; and new storm water and transportation infrastructure, including curb and gutter construction.
3. In processing political subdivision loan applications under this section, the Bank shall calculate the maximum loan amount for which a qualified applicant may qualify, not to exceed fifteen million dollars per loan. The Bank shall consider the applicant's ability to repay the loan when processing the application and shall issue loans only to applicants that provide reasonable assurance of sufficient future income to repay the loan. The Bank may adopt policies establishing priorities for issuance of loans, setting additional qualifications for applicants, and establishing timelines addressing when a participating political subdivision may be required to make loan draws and the consequences of not meeting these timelines, and setting other guidelines relating to the loan program under this section.
4. The Bank shall deposit in the infrastructure revolving loan fund all payments of interest and principal paid under loans made from the infrastructure revolving loan fund. The Bank may use a portion of the interest paid on the outstanding loans as a servicing fee to pay for administrative costs which may not exceed one-half of one percent of the amount of the interest payment. All moneys transferred to the fund, interest upon moneys in the fund, and payments to the fund of principal and interest are appropriated to the Bank on a continuing basis for administrative costs and for loan disbursement according to this section.
5. The Bank may adopt policies and establish guidelines to supplement and leverage the funds in the infrastructure revolving loan fund. Additionally, the Bank may adopt policies allowing participation by local financial institutions.

SECTION 2. LEGISLATIVE INTENT - ELIGIBLE BORROWERS UNDER INFRASTRUCTURE REVOLVING LOAN FUND. If a political subdivision receives funds distributed by the state treasurer under subsection 1 or 4 of section 1 or by the department of transportation under subsection 1 of section 2 of Senate Bill No. 2103, as approved by the sixty-fourth legislative assembly, it is the intent of

the sixty-fourth legislative assembly that political subdivision be ineligible to receive a loan under the infrastructure revolving loan fund until July 1, 2017.

SECTION 3. TRANSFER - BANK OF NORTH DAKOTA - INFRASTRUCTURE REVOLVING LOAN FUND. During the biennium beginning July 1, 2015, and ending June 30, 2017, the Bank of North Dakota shall transfer the sum of \$100,000,000, or so much of the sum as may be necessary, from the Bank's current earnings and undivided profits to the infrastructure revolving loan fund.

SECTION 4. TRANSFER - STRATEGIC INVESTMENT AND IMPROVEMENTS FUND - INFRASTRUCTURE REVOLVING LOAN FUND. During the biennium beginning July 1, 2015, and ending June 30, 2017, the office of management and budget shall transfer the sum of \$50,000,000 from the strategic investment and improvements fund to the infrastructure revolving loan fund. The office of management and budget shall transfer the funds provided under this section to the infrastructure revolving loan fund as requested by the Bank of North Dakota.



TO: Eric Hardmeyer, BND President & CEO
Kelvin Hullet, E.D. & Govt. Program Manager

FROM Jane P. Priebe, CEcD, Director, Wahpeton Economic Development

DATE: May 23, 2016

RE: Natural Gas Service to Unserved or Underserved Communities

The City of Wahpeton through its Economic Development Office requests the Bank of North Dakota (BND) consider creation of a debt financing tool similar to the Infrastructure Loan Fund currently in place. Underwriting for this new program would include natural gas pipeline infrastructure for new projects and for existing industries needing to convert to natural gas.

Industry attraction efforts are on-going in our communities across the state and natural gas, because of its abundance in the state and a clean energy source, is typically the fuel of choice. However, our large geography and small population challenges these projects to be cost effective due to the long distances to get natural gas to the user. Available low-cost debt financing may at times be able to assist in closing the gap on some of these expansions.

If you have any questions, please contact me at janep@wahpeton.com or 701-642-8559.

Thank you for your consideration.