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OMB/RECORDS MANAGEMENT DIVISION

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DESCRIPTION

1014

2007 HOUSE APPROPRIATIONS

HB 1014

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1014

House Appropriations Committee
Government Operations Division

Check here for Conference Committee

Hearing Date: 01/09/07

Recorder Job Number: 788, 789, 827

Committee Clerk Signature *Anya Voegeli*

Minutes:

Chairman Carlson called the hearing to order and the committee clerk took roll call.

Eric Hardmeyer, President of the Bank of ND, presented the budget request for the Bank of ND. See testimony in the BND section of 1014.1.9.07A.

Chairman Carlson: Are these loans through the Housing Finance Agency?

Eric Hardmeyer: No, those are just loans we buy off of the secondary market.

Chairman Carlson: You buy them as an investment?

Eric Hardmeyer: Yes, we buy them as an asset and we buy them from North Dakota banks.

We otherwise sell them to Countrywide or Fleet or somewhere else in the secondary market.

Chairman Carlson: Have you done that for a number of years? I don't remember that being that big a number before.

Eric Hardmeyer: We have been doing this for probably a decade or so. In fact back in the 80's we did a lot of them. All of these loans are guaranteed.

Chairman Carlson: You don't do any of the conventional Fanny May type loans.

Eric Hardmeyer: We do some of those but we sell them to Fanny May.

Vice Chairman Carlisle: If the \$60million did not get transferred to the General Fund, would you use that as part of your banking operation, would you make money with that or what happens to it?

Eric Hardmeyer: The Bank of ND net income would grow. We anticipate the earnings would be about \$787,000 for the biennium.

Vice Chairman Carlisle: If I understand this right the \$60million is in the OMB budget in the Senate.

Eric Hardmeyer: That is correct. It is in Senate Bill 2015.

Representative Skarphol: If you didn't have to make that transfer, the \$60million would be added to the capital of the bank is that correct?

Eric Hardmeyer: That is correct.

Representative Skarphol: The increase of your loan portfolio on commercial the \$300+million in increased loans, can you give us a little idea of what that increase is due to?

Eric Hardmeyer: (referred to the bottom of Page 2) Could be a variety of things, certainly we've seen a lot of growth on the economic development side, the energy side of things, a number of ethanol plants, some well drilling activity, we have seen growth in the Fargo and Grand Forks markets where we have done, well its across the board, we have seen some energy impact in a positive way.

Representative Skarphol: So the energy impact is comprised mainly to the alternative energy or is it also instate oil industry development?

Eric Hardmeyer: It is both, there is activity both on the well drilling side, and we finance a number of well drilling rigs, some exploration by companies so it has been across the board.

Vice Chairman Carlisle: When the Mill & Elevator, their profits now go to the General Fund too, right? If we decide to do something with the mill we could do that in this budget that is a little different from your \$60million right?

Eric Hardmeyer: Their transfer is addressed in HB 1014 ours for some reason is addressed somewhere else.

Vice Chairman Carlisle: So there is two separate pots of money if you will OK.

Chairman Carlson: Please compare the Bank of North Dakota to any other bank.

Eric Hardmeyer: The Bank of ND is a "Banker's Bank". There really isn't anything to compare it to.

Chairman Carlson: So you just took basic banks that are the same volume size with assets and liabilities and said what is your rate and set yours to match. The \$60 million left in the bank would push that over 8% would it not?

Eric Hardmeyer: Yes that would make it considerably over 8%. In addition to the \$60million, in the next biennium we will earn around \$90million. All of that will go into the capital.

Chairman Carlson: Let's go back to the \$60million once more so I can understand how it can work for you. What percentage of that would be lent out?

Eric Hardmeyer: That would go into our cost of funds calculation and so I don't think it would make any more money available what it would do is lower our cost of money. The Bank of ND does not have a liquidity issue. If we needed to raise another \$750million we can do that through what is called alternative funding sources. We can borrow money but there is a cost to that. So if we retained this equity that comes at a zero percent price pay. It is free money that goes into the cost of funds calculation and drives down our cost of money.

Chairman Carlson: So the borrowers would be getting lower interest rates.

Representative Thoreson: What are the alternative funding sources you talked about?

Eric Hardmeyer: We have the authority to go out and buy deposits. Outside of the state of ND have about \$200million. We could go there or we could borrow money from the home loan bank with probably \$400-500million borrowing authority.

Representative Thoreson: Is that the same type of sources that any bank down the street could go to in the same situation?

Eric Hardmeyer: Yes it is.

Vice Chairman Carlisle: On that memo please add potential benefits one would be the money.

Representative Skarphol: Just so I fully understand what you just said here about the potential capital, you anticipate at the end of this next biennium that even if you transfer the \$60million to the General Fund you will build the capital by \$90million, is that what you were implying?

Eric Hardmeyer: No that is if we retain all of the earnings then we will make the \$90million. The difference of \$30million would go to capital, so the capital would be at about \$215million

Chairman Carlson: We have anticipated, I am not sure which biennium; maybe Jim recalls when we started drawing larger amounts to the bank. It was originally about \$10million and it has grown. In the last three biennium, has been at least \$50-60million have they not?

Jim Smith: We have a memo that summarizes the history of those transfers.

Eric Hardmeyer: It started in the early to mid 90's.

Representative Kempenich: It started out as a trigger.

Representative Skarphol: The cap at the bank has never been as high as what it currently is was it?

Eric Hardmeyer: At one point we were at \$170million in capital. When the state had a budget issue the bank contributed an addition of \$18million.

Chairman Carlson: By the way how is the new building coming?

Eric Hardmeyer: I figured that would come up. We have steel up in the air. We are on schedule for completion around December of 2007. We are starting to see some progress.

Representative Thoreson: I tour it every morning if you go to www.banknd.nd they have a webcam and view the progress.

Representative Skarphol: Did you have to shrink the square footage because of the inflationary costs?

Eric Hardmeyer: We did make an adjustment there but we ended up at about 61,300 square feet. We originally budgeted for 65,000. When we put the plan together it was 750 square feet bigger than that but as the costs came in we did cut that out.

Vice Chairman Carlisle: The mediation business you had, we followed it of course those of us living here, as stuff got torn down and cement got ground there was quite a question about getting it "building ready" you had quite a time with the developers.

Eric Hardmeyer: When we purchased the land, about 7.2 acres, it housed the old Holiday Inn. The way we purchased it was leveled. The Bank of ND was not responsible for the removal or any of the mediation that was left up to the previous owners. We negotiated a price of about \$1.8million which was \$6.00/square foot. Which included everything leveled and removed and that was done.

Vice Chairman Carlisle: Your building is on half the site right?

Eric Hardmeyer: Of the 7.2 acres we have used nearly 4.4 acres for the building. There is another 2.8 acres that will not be developed that could be sold or utilized for other purposes.

Vice Chairman Carlisle: Of the 2.8 acres is there a ballpark value on it?

Eric Hardmeyer: We have recently gone out and had that valued by a commercial real estate developer and he values that about \$9.00/square foot which totals about \$1million.

Chairman Carlson: Are you carrying that as an asset at the bank?

Eric Hardmeyer: We have not inflated that value into the costs no.

Chairman Carlson: Are there any changes in FTE's for the new building? Any new programs or are you considering expansion of any programs that you are considering over there that would need more people?

Eric Hardmeyer: There are always opportunities to look at where we could raise revenue and so there may be opportunities for us to use some of those vacant positions in revenue generating areas like lending. I think we are getting stretched pretty thin with the growth that we have had. We may need to use a few of those positions for additional lending officers.

Certainly we are going to talk about our Student Loan growth has been enormous. We always seem to be stretched there. I think there are opportunities to use some of those FTEs to make sure that we are at the appropriate levels of profitable work.

Chairman Carlson: Do you have the ability to transfer positions and move them around with in the budget? They are obviously classified to certain levels of pay. How do you handle that if that is the case and you are moving people around and you don't fill a secretarial position at \$23,000 and you need to hire a lender at \$35,000, how do you handle that?

Eric Hardmeyer: We work with the resource manager to get the position reclassified. We do have an assortment of positions that are vacant with different pay grades. We would use the pay grades most appropriately.

Chairman Carlson: Are you rolling up those dollars from the empty positions or what are you doing with that?

Eric Hardmeyer: Those are just the unspent salary dollars. They will increase profitability if they are not spent.

Chairman Carlson: You are not using it to enhance raises to other people.

Eric Hardmeyer: We have done some of that. We have had to make sure we are keeping on top of the market so we have had to use some of those dollars to provide raises that we thought was appropriate.

Chairman Carlson: And you have the authority to do that?

Eric Hardmeyer: We are staying within our salary line item so we are absolutely following the letter of the law and what is authorized.

Chairman Carlson: Here is where I struggle. I have always thought we should be funding salary dollars instead of salary people, because we tend to roll up dollars and salaries change.

We fund 178 FTEs and we only have 168 that have worked for a year. That means there are all costs related to ten that are floating someplace and if you are offering raises to those, we basically raised the bar internally for those 158 that are working and we have ten missing somewhere. In the end it ends up costing us more money. I am not against that, I just think we have no control as to what happens and maybe we should be funding dollars like you are saying and allow you work within that number of dollars than we are the number of people. We know what they are going to cost. We always fight over the vacant FTEs and what happens to them and why was it empty for a year, and what did you do with the money. I don't disagree that you need some flexibility to hire someone where the need is.

Eric Hardmeyer: If we don't use money, we are not a General Fund agency, what we don't spend on salary goes back into the earnings.

Chairman Carlson: If you were to give us a history of what happened to those salary dollars, my thought would be that most of them would have been used up amongst existing staff. Am I wrong with that or not?

Eric Hardmeyer: We will probably leave unexpended in the appropriation line item somewhere around \$300,000-\$500,000 in salaries.

Chairman Carlson: If that is the case I commend you because I can tell you that is not the way it is in most of the agencies.

Eric Hardmeyer: We are making sure that we are at least market competitive.

Chairman Carlson: Mr. Smith, is there statutory language that allow agencies to move salary funds to other salary individuals?

Jim Smith: They have that flexibility within that line item unless there is any language that precludes that.

Chairman Carlson: And there is none in this budget?

Jim Smith: Not in this one.

Chairman Carlson: Then you turn it back into the profits line?

Eric Hardmeyer: It is an expense that doesn't occur so it just increases profitability.

Representative Kempenich: Is there a range that they can get paid in?

Eric Hardmeyer: Yes that is correct.

Mr. Hardmeyer continued with his testimony.

Representative Skarphol: Does Bio PACE include like wind energy projects or is it strictly biodiesel or ethanol?

Eric Hardmeyer: There are a couple of components. There are biofuels plants which are now described as ethanol or biodiesel plants. The other part of that is to encourage diversification

and use of the byproducts of those plants. Also eligible for the biofuels would be cattle feeding operation and dairy operations that would utilize those byproducts.

Representative Skarphol: What are the criteria to receive these funds?

Eric Hardmeyer: The facility must be in the state and must be owned by at least ten percent ag producers or by at least fifty percent of residents in the state.

Chairman Carlson: The emergency clause only applies to the PACE Fund?

Eric Hardmeyer: Yes. It would make the PACE money available right away.

Chairman Carlson read the Executive Budget Highlights.

Chairman Carlson: Anything since you submitted your budget or any changes or anything you thought should have been included?

Eric Hardmeyer: Not that I can think of.

Representative Skarphol: I think there are provisions in law for the allowing of the carry forward on a construction project. Is there something unique because you have section six in there?

Eric Hardmeyer: Not that I know of.

Vance Taylor, President and General Manager of the North Dakota Mill and Elevator, presented the budget request for the North Dakota Mill and Elevator. See the State Mill section of 1014.1.9.07A.

Chairman Carlson: Refresh my memory, how have we paid for these projects (page 3)?

Vance Taylor: It all comes out of our equity line on our balance sheet.

Chairman Carlson: So you have had the cash to pay for these, there is no bonding or debt out here with this?

Vance Taylor: We do have a debt. It's an ongoing line of credit from the Bank of ND. Right now I think our total debt is right around \$6million.

Chairman Carlson: With the \$19.5million in 2002, the \$1.7million in 2005, the \$5.7million in 2006 that has all been paid for with cash from profits of the business?

Vance Taylor: Yes.

Chairman Carlson: You would always have a debt because you always have inventory coming and going? So you would always have a debt but what part of the debt is attributed to the expansion, the building or the projects?

Vance Taylor: For the last several years, since the expansion and innovation project, we have carried that. We have not always carried a debt.

Chairman Carlson: If you sold everything you had today, what would your debt be?

Vance Taylor: I think our total inventory right now would be worth more than the \$6million debt. I believe our total inventory is around \$12million.

Chairman Carlson: I am just trying to figure out if any of your debt is due to the expansion.

Ed Barchenger: For a lot of our expansion, because of the raise in shipments, we have used the operating line. All of the expansion is paid for out of our operating cash flow.

Representative Skarphol: If we decided not to take the transfer from the mill for this next biennium, I would assume after the first year of the biennium you should be roughly debt free.

Vance Taylor: If our profits continue as they have that would be true.

Representative Skarphol: In the second half of the biennium, what would you do with the extra \$5million?

Vance Taylor: I guess it would give us better ability to invest in the business and do additional capital projects.

Representative Skarphol: Do you have any type of project in mind at this time that would be the next on your list of priorities?

Vance Taylor: We have several projects that we are thinking about, possible warehouse addition and updating the equipment in the elevator.

Chairman Carlson requested a list of the projected projects.

Mr. Taylor continued with his testimony.

Representative Skarphol: I am intrigued by the fact that it appears based on your charts that the volume of organic flour is actually greater than the volume of family flour. Is that true?

Vance Taylor: That is true. Just this year the volume of organic flour has surpassed the family flour.

Chairman Carlson: How do you know it is organic wheat?

Vance Taylor: It is certified by the farmer and they are inspected by the organic agencies.

Mr. Taylor continued with his testimony.

Representative Skarphol: On your operating expenses you talk about increased traveling costs, are you anticipating another FTE to do some of this marketing?

Vance Taylor: We have our total FTEs increasing by four. One of the four is for a sales person and the other three are in production.

Representative Skarphol: If we decide not to ask for a transfer in the next biennium, and if we authorize you to use half of that ability to make yourself more competitive rather than have to reserve the \$5million for the General Fund. How much more competitive would that make you in the environment that you are having to compete in?

Vance Taylor: That I would have to think about and get back to you.

Beginning recorder job number 789

Karlene Fine, Executive Director and Secretary of the Industrial Commission, testified in support of House Bill 1014. See testimony in the Administration section of 1014.1.9.07A.

Representative Skarphol: Missouri River Correctional Center, can you enlighten me on what that is and how long they have left to pay the bond off?

Karlene Fine: That was a project we did two biennia ago. That was about a \$20,000 project and energy savings which better the life of the bond.

Chairman Carlson: Is it feasible to pay off any of the bonds that are out there?

Karlene Fine: No. There really are no advantages to paying them off.

Representative Kempenich: Are you increasing any FTEs?

Karlene Fine: Not in the Industrial Commission.

John Dwyer, Chairman of the Lignite Research Council, spoke in support of the bill. See testimony in the LRD section of 1014.1.09.07A.

Vice Chairman Carlisle: On page 4, the coal to liquids, is that one of the big systems in Washburn?

John Dwyer: That is correct.

Chairman Carlson: Transmission still lies at the heart of all of this?

John Dwyer: It lies at the heart of the electrical projects but we have other projects like the coal to liquids which isn't a transmission project. Two of the projects deal with transmission.

Mr. Dwyer discussed the current projects in place.

Chairman Carlson: Your budget is an increase of \$4.2million?

John Dwyer: That is correct.

Vice Chairman Carlisle: John, are you going to talk about the Transmission Authority?

John Dwyer: I will let Sandy Tabor handle that.

Sandy Tabor discussed the Transmission Authority.

Michael Anderson, Executive Director of the North Dakota Housing Finance Agency, spoke in support of House Bill 1014. See testimony in the HFA section of 1014.1.9.07A.

Representative Thoreson: It says since its inception, when was the FirstHome loan program started?

Michael Anderson: 1982.

Representative Kempenich: On these ratings, do you look at the state as a whole when looking at the rates.

Michael Anderson: The ratings are specific to the agency.

Chairman Carlson: This budget includes two new programs?

Michael Anderson: Yes. There are several programs that are all rolled up into a couple of increases in the line items.

Chairman Carlson: But they are not new programs.

Michael Anderson: We have created those programs as we speak.

Chairman Carlson: They were not funded last time when they were requested?

Michael Anderson: These are new programs since the last biennium budget.

Representative Kempenich: You have three open FTEs, what positions are they?

Michael Anderson: We are in the process of filling those positions right now. One of the positions is a Native American Coordinator position. Another position is in the Federal

Assistance Program. Two of them are in the rental division.

Chairman Carlson: What does the Industrial Commission do for their \$69,000?

Karlene Fine: We schedule all of the meetings, we also serve as a go to if a constituent has a question about the programs they contact us. It is kind of a coordination position.

Vice Chairman Carlisle: Is that a consistent figure?

Karlene Fine: It is just a percentage of the agency budget.

Vice Chairman Carlisle: How do you determine the percentage?

Karlene Fine: How it starts is it is based on the size of their budget and how much responsibility we have.

Chairman Carlson: Is there anybody in your staff that works on this besides you?

Karlene Fine: Just myself and then I have an Administrative Assistant.

Representative Skarphol: Mike, as you are probably well aware in the west, we have a real problem with adequate housing with all of these folks who want to get into work in the oil fields.

With the new programs that you have established, are they designed to try to help us in that regard? If so, in what way?

Michael Anderson: That is one of the main priorities. One of the initiatives that we have just created was a low interest loan program to help communities develop sites of construction.

That is target towards communities with populations of fewer than 20,000.

Discussion continued on this topic.

Lynn Helms, Director of the Department of Mineral Resources, spoke in support of House Bill 1014. See Dept. Min Res section of testimony 1014.1.9.07A.

Representative Skarphol: Is the lab in Grand Forks a flat roofed building?

Lynn Helms: Yes.

Representative Skarphol: Does the new roof design change that?

Lynn Helms: The new roof will have some slope.

Representative Kempenich: What is the proposed rate for the travel expenses?

Lynn Helms: We have it budgeted for \$.64 per mile.

Chairman Carlson: Tammy, how do you handle the equity pool in the Governor's Budget?

Tammy Dolan (OMB): The money will be allocated to all of the agencies that are eligible. They would be evaluated against all of the other agencies.

Chairman Carlson: Who makes that decision?

Tammy Dolan (OMB): It is my understanding that will come from Human Resources Management.

Representative Kempenich: Even with the 75% increase, how does that compare, is there benefits involved or is that just straight salary?

Lynn Helms: This is straight salary. What we found when we were out hiring this summer, we found that those people who are getting those large industry salaries are defiantly earning them.

Vice Chairman Carlisle: On the priority list you would want the engineering technician first before the paleontologist?

Lynn Helms: That is correct.

Vice Chairman Carlisle requested a synopsis on the additional FTEs.

Representative Skarphol: I would like to make a request to Legislative Council to take a look at what it would take to fund the Oil & Gas Division of the Mineral Resources out of the Oil Tax Revenue. What percentage? Right now it is substantially General Funded right if not all?

Chairman Carlson: There are two basic taxes on oil, am I correct on that?

Lynn Helms: Yes.

Mr. Helms continued with his testimony.

Representative Thoreson: What is the definition of shallow gas?

Lynn Helms: It is gas that is less than 5000 feet deep.

Representative Skarphol: Is there any reason that we don't charge to use the photos that you have put online?

Lynn Helms: We plan to do that. Another part of our request that is in House Natural Resources is to set up a continuing appropriation that is called a geologic creative preservation fund. We want to move this into a subscription service website.

Vice Chairman Carlisle: We need that bill number.

Tim Porter, Executive Director of the Public Finance Authority, spoke in support of House Bill 1014. See section Public Finance in testimony 1014.1.9.07A.

Vice Chairman Carlisle: How long has the FTE position been vacant?

Tim Porter: That position has been vacant since 2001.

Chairman Carlson: Can you highlight any new initiatives that you are doing or any changes to programming or staffing?

Tim Porter: There is one bill that we are looking at. In order for us to issue Clean Renewable Energy Bond (CREBS) it is a federal allocation for wind turbines, biodiesel type facilities. In 2007 there was \$800million allocated by the federal government for this type of program. We are putting in a bill sponsored by Senator Klein in order for us to have the authority to issue grants.

Vice Chairman Carlisle: Do you have a bill number on that?

Tim Porter: Not yet.

Representative Skarphol: Will these be federally guaranteed loans then?

Tim Porter: No, these would not be federally guaranteed loans. What the program provides is the investors in CREBS bonds get a tax credit. If you invested in the normal bonds you get

interest payments, the federal government provides the subsidy in the form of a tax credit. The borrower under that program gets a zero percent loan.

Representative Skarphol: Who qualifies?

Tim Porter: Qualified borrowers are investors in clean energy.

Representative Skarphol: So if Representative Carlson and I want to build a wind turbine, would we be eligible as individuals?

Tim Porter: No. The eligible entities are cooperatives and government agencies.

Representative Skarphol: Any political subdivision?

Tim Porter: Yes.

Representative Skarphol: As you probably heard earlier we talked about the need for housing in rural areas of the west. A lot of our infrastructure was constructed during the very first oil boom and it is getting to be a concern to some of us out there that we need to be updated. I am wondering about the programs that are available for the federal clean water and these types of things. Is there any type of anticipated problems with federal cuts in that regard to where we could conceivably run into some problems with the amount of money available for our communities to have to loan on?

Tim Porter: As far as any initiatives that you would have locally that would impact what you might be able to qualify for under the state revolving fund, I don't think any of those local initiatives would prohibit from funding loans. However, in the grants being in the federal budget it could eventually result in cuts to the Federal Capitalization grants that we get to fund those.

Chairman Carlson: Has anything changed in any of your programs like the State Revolving Fund Program or the State School Construction Financing Program?

Tim Porter: There are no major changes.

Representative Skarphol: How would CREBS benefit any of the political subdivisions? What would be the tax credit that a government entity would make use of?

Tim Porter: There are two pieces to it. There is the tax credit to the investor so when we issue the CREBS bonds, investors buy the bonds they are the ones that get the tax credit. What it provides to the political subs is a zero percent loan. Normally you would issue bonds in a bond market there would be an interest rate that they would have to pay.

Representative Skarphol: So if the city of Minot built a wind generator that was capable of serving the needs of a portion of their population or all of their population, they could conceivably only require whatever the cost to cover the payment and there would not be any interest.

Tim Porter: That is correct. They would get a zero percent loan.

Vice Chairman Carlisle: I have one more question for Mr. Helms. Why wouldn't the tourism department want to participate in funding the paleontology position if it bringing in economic development and tourism dollars?

Lynn Helms: We have never approached them about partially funding this person's salary. I am not opposed to it.

Karlene Fine went through the continuing appropriations section of the testimony.

Representative Kempenich: Who would hold the money for the Pipeline Authority?

Karlene Fine: It would be held by the Industrial Commission.

Chairman Carlson closed the hearing.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1014

House Appropriations Committee
Government Operations Division

Check here for Conference Committee

Hearing Date: 1/19/07

Recorder Job Number: 1469

Committee Clerk Signature

Kanya Voega

Minutes:

This meeting was located at the Bank of North Dakota. It was a sub-committee meeting regarding House Bill 1014.

Representative Thoreson opened the meeting. The subcommittee went through the executive highlights of the budget for the Bank of ND.

1. \$1,400,000- Increase funding for replacement of information technology equipment.

Kirby Martz, Chief Financial Officer for the Bank of ND, stated that this is for the replacement cycle of IT equipment which would include 16 servers (\$235,000), two AS400s (\$568,000)

Representative Thoreson: Are these all of these located at the bank or are they offsite somewhere?

Kirby Martz: I think they are up at the state and there are some in Mandan in the back up center.

Representative Kempenich: Are you going to replace them when you move into the new building?

Kirby Martz: They will be replaced at the end 2009. It is a four year replacement cycle.

Representative Kempenich: So you probably are not going to spend it until the end of the biennium?

Eric Hardmeyer: That is correct.

Kirby Martz: The next big item is the bond accounting safe keeping system. (\$300,000) The current system is a DOS based operating system.

Representative Thoreson: What happens if something goes wrong with it now is it able to be repaired, updated or serviced?

Ed Sather: We have talked to the developers, the reason they have not upgraded it is the amount of users they have that use their system is limited.

Vice Chairman Carlisle requested a break down of these expenditures in writing.

Representative Kempenich: You are working through IT correct?

Kirby Martz: We work very closely with IT.

Kirby Martz: Of the \$1.4million, that represents \$1.1million. The other items are: a wire transfer system (\$105,000), a Xerox laser printer (\$60,000).

2. Provides funding for equipment and landscaping at new facility. (See attached testimony 1014.1.19.07A)

Vice Chairman Carlisle: As far as number two, being in the business, there is a city ordinance now that any new building has to have an appropriate amount of trees or green space. This figure sounds like a lot but relative to the new building.

Eric Hardmeyer: That is not all landscaping equipment.

Kirby Martz: \$100,000 is all we have put for landscaping for the edge of the building.

Representative Thoreson: Where is the other \$400,000 going?

Kirby Martz: The other \$400,000 is for the building, audio/visual equipment and security.

Representative Thoreson: Do you have someone you are working with already like a landscape architect?

Eric Hardmeyer: Swenson-Hagen has done a large part of it.

Kirby Martz: Also included in the \$400,000 is the replacement of three copiers (\$45,000), two currency counters (\$14,000), folder inserter (\$40,000).

Eric Hardmeyer: That is not just because we are moving. The equipment is in its replacement cycle.

Chairman Carlson: How much of it is because of the new building and how much of it is replacement cycle?

Kirby Martz: I would say about \$250,000 is for the new building.

Chairman Carlson: Can you break that down for me?

Kirby Martz: Yes

3. Increases funding for Information Technology Department rate increases.

Representative Thoreson: What does that all include?

Kirby Martz: That went back to last biennium. What this is, we are spending \$135,000/month for ND ITD.

Chairman Carlson: Are you not turning over more duties to them?

Eric Hardmeyer: Yes. We have at least three or four developers down here from ITD. We have lowered our FTE count by two because of these developers.

Kirby Martz: Of the \$3.1 million that is in our budget, that is strictly for what we pay ITD. That went down when we took our guarantor system off of the mainframe. CPU time is probably our largest portion of that.

Representative Thoreson: How much CPU time are you using?

Kirby Martz: About \$70,000/month.

4. Increase funding for equipment less that \$5,000.

Eric Hardmeyer: This would be for the furniture for the new building (\$950,000). When we first put it together, this probably should have been a capital asset. But when we first started

working with OMB, we were looking at the individual cubicle being under \$5,000 so we included that line item as an expense rather than a capital asset.

Representative Kempenich: What are you going to do with the surplus from this building?

Eric Hardmeyer: If we can use some of the stuff we will.

Chairman Carlson: Did you sell us on a deal when we funded the bank knowing that you were not going to have enough money to buy the furniture? It seems odd to me now that it comes back. We have the bank done but we don't have any furniture.

Eric Hardmeyer: We didn't sell you on anything. The costs that we put in back in 2004, were our best guess. The building costs spiraled out of control. We expected that we were going to get it done. We have additional land that we picked up on the new property that is worth \$1million over and above what we need. This property is worth a net of at least \$2.2million.

Chairman Carlson: It appears to me that when you say increase funding for equipment less than \$5,000 and you do it by cubicle to keep it under \$5,000 and you get to \$1million. I don't think that was the intent when we did this equipment under \$5,000 line item. I am assuming this comes off your bottom line when you are done?

Eric Hardmeyer: It gets capitalized.

Representative Kempenich: We did talk about furniture. You are talking about increased cost. Did you roll some of that into the increased costs?

Eric Hardmeyer: We had it built into the budget including furniture last biennium.

Chairman Carlson: But that got eaten in initial costs.

Eric Hardmeyer: Yes. That got eaten up in construction costs.

Vice Chairman Carlisle: Please include that in your memo those questions will come up.

Vice Chairman Carlisle: Now regarding this building. How will that be sold?

Eric Hardmeyer: We would like to have the authority. Right now it is written that, the statute is really vague in terms of selling if we have the ability to sell the property. That is another thing we wanted to talk to you about. Changing statute to allow us to sell the property.

Vice Chairman Carlisle: By bids or by listing?

Eric Hardmeyer: We would choose to use a method that will bring us the greatest return. By selling it on the courthouse steps, may not be the best opportunity.

Representative Kempenich: That is kind of how you have to do it now isn't it?

Eric Hardmeyer: We have different opinions from the AG's office. I don't think we have to. Our preference would be to use a broker.

Vice Chairman Carlisle: Do you have some draft language to change the statute?

Eric Hardmeyer: It is a very simple change to our powers 609-15. It allows us to sell the property.

Chairman Carlson: If you get that language to us, we will get it to Legislative Council to draft the amendment.

Representative Kempenich: We did have some contingency you went through that too?

Eric Hardmeyer: There is \$265,000 left in contingency. If you look at the 2004 estimates we held back \$400,000. You can see, on the land as I said estimated \$1.5million and we spent \$1.933million. The good news is as you look further down on page three that extra land is worth about \$1million.

Chairman Carlson: Why did the price of the land change from the first estimate to the actual cost?

Eric Hardmeyer: We did not have a specific site at that time. It was an estimate.

Representative Williams: Professional Fees. Why did they get so far out of line?

Eric Hardmeyer: That is a function of building costs. The costs went up \$1.3million.

Representative Thoreson: On the extra land you have over there, has there been anyone talking to you about that yet?

Eric Hardmeyer: There have been several bites. One of the things we wanted to talk about with the legislature is, do you see a need for the land? There is about 2.8 acres of extra land. You could put a 40,000 square foot building on there with parking.

Representative Skarphol: The current facility you are building is three stories right?

Eric Hardmeyer: Correct.

Representative Skarphol: That is what the land is capable of holding, three stories?

Eric Hardmeyer: Yes.

5. Changes funding source and decreases level of funding for Ag PACE.

Bob Humman: I will reference you to this sheet (1014.1.19.07B). If you look at the AG PACE program in the middle of the sheet and go all of the way to the bottom. I have recapped on there that the 03-05 biennium we got a general fund appropriation of \$1,425,000. During the 05-07 biennium we got authority to transfer \$1,425,000 from the Beginning Farmers Revolving Fund. There was no General Fund appropriation that biennium. Now what is proposed for this biennium is we get \$1.4million appropriation for AG PACE.

6. Decreases level of funding for PACE from \$5.7million to \$4.5million.

7. Removes funding for Biodiesel PACE

Eric Hardmeyer: House Bill 1027 raises the PACE fund to \$8million from General Fund.

Bob Humman: The last sheet you have (1/19/07C) is regarding the Beginning Farmer Revolving Fund. It is very important that everybody understands what these numbers look like.

House Bill 1135 would authorize a transfer of up to \$1million from the Beginning Farmer

Revolving Fund to be used to provide interest buy downs to borrowers through the bank's

invest program for people that would invest in either feedlots or dairy operations. It passed the House IBL committee with a 9-5 vote.

Representative Kempenich: This House Bill is not a guarantee it is just an interest buy down?

Bob Humman: Yes, its dollars that would buy the interest rate down on those loans. Will \$1million dollars get used? In my opinion there will not be that much demand for that.

Mr. Humman referenced 1/19/07C.

Bob Humman: As you can see, we have ended the year we had \$10million as of June 30, 2006 in the Beginning Farmer Revolving Fund. What happens with the Beginning Farmer cash balance is that we buy the interest rate down on the Beginning Farmer Real Estate loans, and we also fund 50% of the Beginning Farmer Chattel Loans out of the cash balance. We are very cautious about making sure that we don't have a lot of other people coming in and taking money out of here so that we would have to stop with what the Beginning Farmer cash is really supposed to be used for. I would like to point out to you that down under the disbursements starting in June 30, 2006, there has been \$2,225,000 taken out of the Beginning Farmer cash balance for the AG PACE fund. \$1million through June 30, 2006 and \$1,225,000 through June 30, 2007.

Mr. Humman referenced the notes on testimony 1/19/07C.

Representative Kempenich: Should we be putting triggers on instead of doing what we are doing here? When you start looking at the way we are going about this, why don't we clean it up a little bit. Either take some money out of beginning loans and drop it down to where we think we need it and start some type of a trigger mechanism that you can come in front of the emergency commission and the budget section. It would kind of clean that up. We really have a fund within a fund within a fund.

Eric Hardmeyer: The promotion board's thought was to use \$1million out of this fund to support what is called the invest program which is a program open to all North Dakotans who want to invest in value added ag processing facilities. There is not a buy down to it. It is one below prime. The group got together a couple of months ago and discussed all of the things occurring around biofuels. They decided to start encouraging investment for non-producers into cattle feed facilities, dairy facilities. They also decided that this is not the correct rate to do this. One below prime was not low enough. Then came the idea for the buy down.

Representative Skarphol: Who is "they" when you talk about how "they" came up with this investment idea?

Eric Hardmeyer: That was an economic development discussion involving a number of economic development individuals.

Representative Skarphol: Bob, on these dollars, you know the \$2million dispersed to Ag PACE and the Ag Fuel Tax Refund, that all has taken place. Those dollars are gone or they are committed?

Bob Humman: They are gone. Everything through June 30th, 2007 has happened.

8. Provides funding for new Biofuels PACE

Vice Chairman Carlisle: If I understand right, there are potentially two different ways to get at this program.

Eric Hardmeyer: Here is the concern. They reduced the amount of money in PACE from \$5.7million to \$4.5million. We will spend \$8million in PACE for a variety of different purposes. Now all of a sudden we are back down to \$4.5million. That is a concern for us in the development community. The other issue that comes up, the opportunity of these biofuel facilities both ethanol plant and biodiesel the way it is structured, in PACE you will get \$250,000 then you go and get up to another \$500,000 in biofuels PACE. So conceivably you

would get \$750,000 on a project. Between the two, you have \$9.5million. If you do ten projects and you take \$750,000 per project you would have put a lot of eggs in that energy basket.

Representative Kempenich: I think we should tie the two together somehow. Maybe bring it to \$500,000 total.

Eric Hardmeyer: The \$800,000 that is not spent from this biennium will go back to the General Fund.

Representative Skarphol: Is this a grant or a loan.

Bob Humman: It is a grant but they cannot actually get the grant money until they make a loan payment.

The committee discussed the alternate sources other than corn for biofuels.

Chairman Carlson: Okay, is there enough money for the demand that is out there? Should those funds have safeguards in them so there is not uncontrollable double dipping? What is your recommendation?

Representative Skarphol: And do you feel that the revenue source is right for some of these things?

The Bank of North Dakota will get this information to the committee.

Eric Hardmeyer: One thing that came up in the hearing is the \$60million transfer back to earnings. We did a little sheet here. (See attached testimony 1014.1.19.07D).

Chairman Carlson: Your recommendation would be what if the money was left?

Eric Hardmeyer: If it is left, in terms of leveraging, it is getting in to a complex area. Funding adequacy is not an issue. Whether it is this money, the \$60million, we have access to all sorts of funding sources. We would be leveraging money. We are going to earn money on it or the State Treasurer will earn money on it. Either way there will be income recognized.

Chairman Carlson: If we allowed the money to stay in the bank. But we established a trigger on the money, like we have done in the past, if we needed it we can transfer it. It makes no sense if you have a surplus of \$400million to take another \$30million out of here and put it into surplus and say we have more surplus. It doesn't make any sense to me. I don't mind us having complete access to the money because it is our money. It is the people's money. I don't know what the language is. If I leave it with you instead of saying by law that December 31, 2006 you have to get rid of half of it and we put it in our bank over there.

Representative Glassheim: In the other way it shows up in our general fund surplus. What happens to it here, you would grow your capitalization?

Eric Hardmeyer: It grows the capital. Right now our capital at the end of the biennium will be \$185million. If we don't take the \$60million, next biennium we project to earn \$90million for the biennium. If we don't send the \$60million up to OMB and keep it all here, our capital will grow from \$185million to \$275million.

Representative Kroeber: How does that affect budgeting then?

Eric Hardmeyer: Less surplus in the General Fund.

Representative Kroeber: Interest goes to the General Fund?

Ed Sather: That is correct.

Chairman Carlson: So it does or does not do any good to leave the money here?

Eric Hardmeyer: Bottom line it does increase profits.

Representative Kroeber: When we looked at total carryover, like in the Governor's Budget, the Governor said this will be the total carryover and when we talk about the Budget Stabilization Fund, and the other funds, in which that amount of dollars would not be in that, it would be in yours. So would we have another additional fund now or would it be just like any additional dollars that you have in the bank that you don't use.

Ed Sather: I guess I would look at it this way, if the Governor's Budget has got a projected surplus of \$400million based upon the current appropriation. If you did not appropriate the \$60million to the Bank of ND and it would stay here. That surplus would be \$340million.

Representative Thoreson requested a summary of the executive budget highlights in writing for the committee.

Meeting was closed.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1014

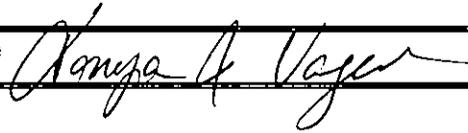
House Appropriations Committee
Government Operations Division

Check here for Conference Committee

Hearing Date: 1/30/07

Recorder Job Number: 2313

Committee Clerk Signature



Minutes:

Chairman Carlson opened the discussion on House Bill 1014.

Representative Thoreson reviewed some of the amendments that had been brought forward.

Amendment 78014.0103 regarding the sale of undeveloped property

A motion was made by Representative Thoreson, seconded by Vice Chairman Carlisle to adopt amendment 78014.0103 to House Bill 1014.

Discussion

Representative Glassheim: Why don't we want to hold it for other state office buildings?

Representative Thoreson: My belief is that the purpose for that land was for the new Bank of ND building. That has been started and the construction is going well. If at some point in the future the state needs to develop additional buildings or space we have ample ground on the capital grounds and I am certain that there are many other places in Bismarck that could be built on. At this point I guess if there is somebody that might be interested in buying it on the open market we should sell that land.

Chairman Carlson: Becky, is there anything in statute that says what you would do with the proceeds?

Becky Keller: No I don't believe there is because we don't have anything in statute right now that allows them to actually sell the property.

Eric Hardmeyer: I was hoping the proceeds for the sale would go back to the bank to increase our assets.

Chairman Carlson: Do we need to say that anywhere?

Eric Hardmeyer: The other amendment that we proposed to you was that you give us the authority to sell the existing bank property.

Chairman Carlson: I think we have another amendment coming. Tell me once again the estimated value of that piece of ground.

Eric Hardmeyer: There is about 2.8 acres we valued it at about \$9.00 per square foot so it would be close to \$1million.

Chairman Carlson: You are carrying it on your books as a \$1million asset today?

Eric Hardmeyer: No. It is on our books at the original purchase price of \$6.00 per square foot.

Chairman Carlson: I just want to know that there is a legal procedure in place that says what happens. The state does not sell much land.

Representative Kroeber: Is it this simple to just sell state property?

Eric Hardmeyer: There is code that allows the Bank of ND to acquire leases.

Chairman Carlson: Our amendment says sell.

Representative Kroeber: What is your opinion of this amendment?

Eric Hardmeyer: As we look at legislation that was passed last session was to look at putting footings in to double the size of the building but there was some thought process that compromised that perhaps we would increase the size of the building to take on additional state agencies that might want to move over there. Our thought was instead of going up we

would go out and that is why this land worked the way it did. It is really a legislative issue for us.

Representative Thoreson: When we were at the Bank I was in one of the offices they had some diagrams of the new bank building and the blue print. I was talking to somebody and they suggested about expanding outward that there would be enough area available without this 2.8 acres should the expansion become necessary. Is that correct?

Eric Hardmeyer: I don't believe that would be correct. The 2.8 acres it was residual. The area we are encompassing now would fulfill our parking needs so I don't know where you would put additional acreage outside of those 2.8 acres.

Representative Kempenich: I think we should wait until it is up and running and see what it looks like then decide what we are going to do with this.

Representative Kroeber: I think this is a little premature too. Number one it isn't that we need the money at this time. It seems to me that we would want to complete the project that we started. Then we can take a look and see what is going on.

Representative Kempenich: There is not a big rush to pay down the bill.

Representative Glassheim: If we passed a future amendment that allows them to sell then without this one they have the discretion to sell it but they are not instructed to sell it. They will make that business decision.

Vice Chairman Carlisle: On the other side of the coin if you don't do anything they have discretion, what happens if a state agency wants to build a building?

Chairman Carlson: I look at this from a different point of view. If I was a taxpayer in the city of Bismarck and the city of Bismarck is full of non-tax paying property and you are looking at a future plan, if you have ever looked at the future plan for the capital grounds, there is a call for an office building on the west side of the circle which basically would be across from where the

Heritage Center is. It has underground parking. There is long range plans and if the state of ND ever needs office space for their agencies there are plans to do that. There is a plan on land that is already tax exempt to expand office space. Now we are taking a piece of property that years ago paid taxes on it and we have taken it off of the tax roll. So no taxes on a chunk of ground that used to be taxable and now we are going to hold another piece of ground that we could sell to a 40,000 square foot office building that would generate a pretty good chunk of real estate tax for the city of Bismarck. Being a tax payer in Fargo, I can tell you that I don't want a lot more public holdings because it makes my taxes go up.

Representative Skarphol: I think you make an excellent point. So I am wondering if it would be more appropriate for us to require that the Band of ND make a payment in lieu of taxes on this property and then they have the option if we pass the amendment to sell it or not by the same token, the city is getting the money and it gives the bank an incentive to get rid of it. Now I realize we are setting a precedent but I don't think it is a bad precedent to set. The government should not own property without making a payment of some sort on property that is in surplus.

Chairman Carlson: I don't want to get too sidetracked. Representative Thoreson, give me your logic again, why do you think we should sell it?

Representative Thoreson: I guess I would have to go back to Mr. Hardmeyer. When building the bank, the footings were not put in for the additional story is that correct?

Eric Hardmeyer: That is correct.

Representative Thoreson: That was based on what decision because I was on many many conference committees during the last session where that was a sticking point and that was the agreement we came to.

Eric Hardmeyer: It was the Industrial Commission that gave the authority. Based on what our architect told us they felt that we have the property to go out, why go up. It is cheaper to go out than to go up. You don't have to put it additional floors and elevators. It was easier to build out.

Representative Williams: Do you have any thoughts in your mind of going out?

Eric Hardmeyer: The Bank of ND does not have any thoughts about expanding the building. It is going to serve our needs for now and for the future. The only reason we would go out is if there was a legislative purpose or direction to bring in other agencies.

Representative Williams: It seems to me that we are moving awful fast on this. We are in 2007 and the legislature is meeting. I was looking at the amendments. I have a suggestion for it to read "It is the intent of the 60th legislative assembly that the Bank of ND retain any undeveloped property owned by the Bank at the new bank building site through July 30, 2009. The reason why is very simple. We are going back and forth here. The bank is not up and functioning until January of '08 and in another legislative session we will meet in 2009. I know that goes against your tax bit but it gives us two years to see what could change.

Chairman Carlson: I have a suggestion for Representative Skarphol and Representative Thoreson. I like what each one of you added I would like you to take it to the full committee to sell the land and if that doesn't take place then you would add the tax on that land that sits empty.

Representative Kempenich: When you bought this you didn't pay anymore than you thought you were going to have to pay for land?

Eric Hardmeyer: Yes. Our estimates were \$1.5million we ended up paying \$1.9million.

Representative Thoreson: I would be willing to withdraw my motion if Vice Chairman Carlisle will withdraw his second.

Motion withdrawn

Representative Thoreson reviewed the green sheet and the discussion from the meeting at the Bank of ND. See minutes from that meeting.

Discussion regarding MedPACE from another bill occurred.

A motion was made by Vice Chairman Carlisle, seconded by Representative Williams to adopt the verbal amendment regarding the access of both BioPACE and PACE for the same project in the same biennium. Motion carried.

Amendment 78014.0105

A motion was made by Representative Thoreson, seconded by Vice Chairman Carlisle to adopt amendment 78014.0105 to House Bill 1014.

Becky Keller explained the amendment.

Representative Kempenich: Didn't we put this in last session?

Chairman Carlson: No.

Representative Thoreson: Mr. Hardmeyer said that this would give him the ability to list the property with a real estate agent rather than standing on the courthouse steps and sell it that way.

Motion carried.

The committee then discussed the green sheets for the Housing Finance Agency and the Industrial Commission.

Amendment 78014.0106

A motion was made by Representative Thoreson, seconded by Representative Williams to adopt amendment 78014.0106 to House Bill 1014.

Becky explained the amendment.

Page 7
House Appropriations Committee
Government Operations Division
Bill/Resolution No. 1014
Hearing Date: 1/30/07

Motion carried

The committee discussed the Mill & Elevator section of the bill.

Amendment 78014.0104

Becky Keller explained the amendment.

A motion was made by Representative Thoreson, seconded by Vice Chairman Carlisle to adopt amendment 78014.0104 to House Bill 1014. Motion carried.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1014

House Appropriations Committee
Government Operations Division

Check here for Conference Committee

Hearing Date: 2/12/07

Recorder Job Number: 3351

Committee Clerk Signature *Kenya G. Vaegle*

Minutes:

Chairman Carlson opened the discussion on House Bill 1014.

Eric Hardmeyer explained the PACE issues with 1027.

A motion was made by Representative Glassheim, seconded by Representative Skarphol to adopt the verbal amendment regarding the addition of \$3.5million for PACE. Motion carried by voice vote.

A motion was made by Representative Skarphol, seconded by Representative Glassheim to adopt the verbal amendment regarding giving the Bank of ND the discretion to move MedPACE money with Budget Section approval to other PACE projects. Motion carried by voice vote.

A motion was made by Vice Chairman Carlisle, seconded by Representative Thoreson to adopt amendment 78014.0107.

Jim Smith explained amendment 78014.0107.

Representative Thoreson reviewed the green sheet.

Motion carried.

A motion was made by Representative Thoreson, seconded by Vice Chairman Carlisle for a DO PASS AS AMENDED recommendation to the Full Committee. The committee vote was 8 Yeas, 0 Nays, 0 Absent and Not Voting. The bill will be carried by Representative Thoreson.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1014

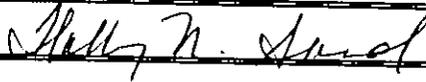
House Appropriations Committee

Check here for Conference Committee

Hearing Date: February 14, 2007

Recorder Job Number: 3478

Committee Clerk Signature



Minutes:

Chm. Svedjan called the House Appropriations Committee to order.

Rep. Thoreson distributed and reviewed amendment .0108 (Attachment A).

Rep. Thoreson motioned to adopt amendment .0108. **Rep. Carlson** seconded the motion.

Rep. Thoreson highlighted the changes of amendment .0108.

Chm. Svedjan: The effect of all this is that it adds \$3.5 million to the general fund.

Rep. Monson: Where does it say the mill and elevator is not transferring the money?

Rep. Thoreson: Page 7, lines 15 -19 of the bill.

Rep. Monson asked for clarification of when the transfer would occur.

Rep. Thoreson: The transfer for the 05-07 biennium has not yet occurred. That would still take place. This would preclude the transfer of the next biennium.

Rep. Monson: So you are giving them spending authority so they can spend the money that they don't transfer for capital improvements and so on?

Rep. Thoreson: That's correct. I have a list of the priority items the mill would use the funds for if you would like it.

Rep. Ekstrom: The BND has had a vacant FTE since '01. Was that discussed in Committee?

You have two that you are taking away from the bank. Is that one of those positions?

Rep. Thoreson: The positions at the bank deal with a transfer in technology. The bank is utilizing more of the ITD services, so that reflects that they did not use those positions.

Rep. Wald: Could you explain the \$3.5 million that is above the Governor's budget?

Rep. Carlisle: HB 1027 had \$8 million increase not in the Governor's budget. We took that down to \$3.5 million and put it on to PACE because it is a program that is working.

Rep. Carlson commented that the Bank of North Dakota administers two very successful programs – PACE and the Seed Capital Investment Tax Credit. If you're going to put money into a program, put it into a program that has an opportunity to return money and to help development in the state. That's why our Committee put the money in.

The motion to adopt amendment .0108 carried by voice vote and the amendment was adopted.

Rep. Thoreson motioned a Do Pass as Amended. Rep. Carlisle seconded the motion.

The motion carried by a roll call vote of 22 ayes, 0 nays and 2 absent and not voting.

Rep. Thoreson was designated to carry the bill.

FISCAL NOTE

Requested by Legislative Council

04/26/2007

Amendment to: Engrossed
 HB 1014

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			\$83,100,000			
Expenditures			\$200,000			
Appropriations			(\$418,606)	(\$482,499)		

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

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).*

Authorizes transfers to General Fund.

Authorizes transfer of unexpended & unobligated funds from BioDiesel PACE fund to BioFuels PACE Fund. Current balance of unobligated BioDiesel PACE fund is \$802,000.

Appropriation for state contingencies.

Appropriation reductions.

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.*

Section 13 - Transfer from the Land and Minerals Trust Fund is \$15,000,000. This amount was reflected in the Executive Budget.

Section 14 - Transfer from the Bank of North Dakota is \$60,000,000. This amount was reflected in the Executive Budget.

Section 15 - Transfer from the Student Loan Trust is \$3,100,000. This amount was reflected in the Executive Budget.

Section 16 - Transfer from the Mill and Elevator is \$5,000,000.

This amount was reflected in the Executive Budget.

Sections 22 and 24 of Engrossed HB 1014 are not projected to have a fiscal impact as this is a transfer between other funds. This was reflected in the Executive Budget.

Section 29 - \$200,000 Appropriation from the General Fund to OMB for state contingencies. This was not reflected in the Executive Budget.

Section 30 - \$901,105 reduction in agency appropriations because of the defeat of SB 2050.

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.*

Section 13 - Transfer from the Land and Minerals Trust Fund is \$15,000,000. This is the amount reflected in the Executive Budget.

Section 14 - Transfer from the Bank of North Dakota is \$60,000,000. This is the amount reflected in the Executive Budget.

Section 15 - Transfer from the Student Loan Trust is \$3,100,000. This is the amount reflected in the Executive Budget.

Section 16 - Transfer from the Mill and Elevator is \$5,000,000. This is the amount reflected in the Executive Budget.

Without Sections 22 and 24 of Engrossed HB 1014 the unexpended and unobligated BioDiesel PACE funds would be

returned to the General Fund at the end of the 2005-07 biennium. This was reflected in the Executive Budget. (Also see SB 2180)

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.*

Section 29 appropriates \$200,000 from the General Fund to the Office of Management and Budget for state contingencies. This was not included in the Executive Budget.

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.*

Section 30 - \$901,105 reduction in agency appropriations as a result of the defeat of SB 2050.

Name:	Karlene K. Fine	Agency:	Industrial Commission
Phone Number:	328-3722	Date Prepared:	04/26/2007

FISCAL NOTE

Requested by Legislative Council

02/16/2007

Amendment to: HB 1014

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						
Expenditures						
Appropriations						

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

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).*

Section 19 of engrossed HB 1014 authorizes the transfer of unexpended and unobligated funds from BioDiesel PACE fund to the proposed BioFuels PACE Fund. The current balance of the unexpended & unobligated BioDiesel PACE fund is \$802,000 which could be a lower amount if another project materializes.

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.*

Section 19 of HB 1014 is not projected to have a fiscal impact to the State of North Dakota. No impact noted above as this is a transfer between other funds.

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.*

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.*

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.*

Without Section 19 of HB 1014 the unexpended and unobligated BioDiesel PACE funds would be returned to the General Fund at the end of the 2005-07 biennium.

Name: Eric Hardmeyer	Agency: Bank of North Dakota
Phone Number: 328-5674	Date Prepared: 02/19/2007

FISCAL NOTE

Requested by Legislative Council

01/02/2007

Bill/Resolution No.: HB 1014

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						
Expenditures						
Appropriations						

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

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).*

Section 17 of HB 1014 authorizes the transfer of unexpended and unobligated funds from the BioDiesel PACE fund to the proposed BioFuels PACE Fund. The current balance of the unexpended & unobligated BioDiesel PACE fund is \$802,000 which could be a lower amount if another project materializes.

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.*

Section 17 of HB 1014 is not projected to have a fiscal impact to the State of North Dakota.

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.*

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.*

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.*

Without Section 17 of HB 1014 the unexpended and unobligated BioDiesel PACE funds would be returned to the General Fund at the end of this biennium.

Name:	Eric Hardmeyer	Agency:	Bank Of North Dakota
Phone Number:	328-5674	Date Prepared:	01/05/2007

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1014

Page 1, line 5, after the semicolon insert "to provide legislative intent;"

Page 8, after line 27, insert:

**"SECTION 15. LEGISLATIVE INTENT - SALE OF UNDEVELOPED
PROPERTY.** It is the intent of the sixtieth legislative assembly that the Bank of North
Dakota sell any undeveloped property owned by the Bank at the new Bank building
site."

Page 9, line 18, replace "15" with "16"

Page 9, line 19, replace "16" with "17"

Renumber accordingly

78014.0104
Title.

Prepared by the Legislative Council staff for
Representative Thoreson
January 24, 2007

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1014

Page 7, remove lines 15 through 19

Page 9, line 18, replace "15" with "14"

Page 9, line 19, replace "16" with "15"

Renumber accordingly

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1014

Page 1, line 3, after "reenact" insert "subsection 6 of section 6-09-15 and"

Page 1, line 4, after "the" insert "powers of the Bank of North Dakota and the"

Page 9, after line 6, insert:

"SECTION 17. AMENDMENT. Subsection 6 of section 6-09-15 of the North Dakota Century Code is amended and reenacted as follows:

6. Lease, assign, sell, exchange, transfer, convey, grant, pledge, or mortgage all real and personal property, title to which has been acquired in any manner."

Page 9, line 19, remove "and"

Page 9, line 21, after "fund" insert "; and section 17 of this Act"

Renumber accordingly

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1014

Page 3, line 11, replace "(225,000)" with "60,000"

Page 3, line 12, replace "8,089,126" with "8,374,126"

Page 3, line 13, replace "6,204,994" with "6,489,944"

Page 4, line 11, replace "5,084,132" with "5,369,132"

Page 4, line 12, replace "11,335,799" with "11,620,799"

Page 4, line 27, replace "29,475,016" with "29,475,016"

Page 4, after line 27, insert:

"Oil and gas division contingency 285,000"

Page 4, line 28, replace "58,870,922" with "59,155,922"

Page 4, line 29, replace "50,108,132" with "50,393,132"

Page 6, line 1, replace "166,565,430" with "166,850,430"

Page 6, line 2, replace "185,428,220" with "185,713,220"

Page 9, after line 6, insert:

"SECTION 17. CONTINGENT OIL AND GAS DIVISION FUNDING - EMERGENCY COMMISSION APPROVAL. The funds appropriated in the oil and gas division contingency line item in subdivision 1 of section 3 of this Act are from the land and minerals trust fund. If funds are required due to the average drilling rig count exceeding forty-five active rigs for each month in any consecutive three-month period, the oil and gas division may spend moneys from this line item upon emergency commission approval. The oil and gas division may hire up to two full-time equivalent positions with the contingency funds."

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1014 - Summary of House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Industrial Commission			
Total all funds	\$58,870,922	\$285,000	\$59,155,922
Less estimated income	50,108,132	<u>285,000</u>	50,393,132
General fund	\$8,762,790	\$0	\$8,762,790
Bank of North Dakota			
Total all funds	\$48,242,359	\$0	\$48,242,359
Less estimated income	38,142,359	_____	38,142,359
General fund	\$10,100,000	\$0	\$10,000,000

Housing Finance Agency			
Total all funds	\$41,534,102	\$0	\$41,534,102
Less estimated income	<u>41,534,102</u>		<u>41,534,102</u>
General fund	\$0	\$0	\$0
Mill and Elevator			
Total all funds	\$36,780,837		\$36,780,837
Less estimated income	<u>36,780,837</u>		<u>36,780,837</u>
General fund	\$0	\$0	\$0
Bill Total			
Total all funds	\$185,428,220	\$285,000	\$185,713,220
Less estimated income	<u>186,565,430</u>	<u>285,000</u>	<u>186,850,430</u>
General fund	\$18,862,790	\$0	\$18,862,790

House Bill No. 1014 - Industrial Commission - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$7,215,116		\$7,215,116
Operating expenses	2,255,690		2,255,690
Capital assets	264,500		264,500
Grants - Lignite research and development	19,410,600		19,410,600
Grants - Fossil evacuation and restoration	250,000		250,000
Grants - Bond payments	29,475,016		29,475,016
Oil and Gas Division contingency		\$285,000	285,000
Total all funds	\$58,870,922	\$285,000	\$59,155,922
Less estimated income	<u>50,108,132</u>	<u>285,000</u>	<u>50,393,132</u>
General fund	\$8,762,790	\$0	\$8,726,790
FTE	55.37	0.00	55.37

Dept. 405 - Industrial Commission - Detail of House Changes

	ADDS OIL AND GAS DIVISION CONTINGENCY ¹	TOTAL HOUSE CHANGES
Salaries and wages		
Operating expenses		
Capital assets		
Grants - Lignite research and development		
Grants - Fossil evacuation and restoration		
Grants - Bond payments		
Oil and Gas Division contingency	\$285,000	\$285,000
Total all funds	\$285,000	\$285,000
Less estimated income	<u>285,000</u>	<u>285,000</u>
General fund	\$0	\$0
FTE	0.00	0.00

¹ This amendment adds an oil and gas contingency of \$285,000 relating to increased oil rig activity.

Date: 2/14/07
 Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 1014

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number 78014, 0108

Action Taken Adopt amend. 0108

Motion Made By Thoreson Seconded By Carlson

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Representative Wald			Representative Aarsvold		
Representative Monson			Representative Gulleson		
Representative Hawken					
Representative Klein					
Representative Martinson					
Representative Carlson			Representative Glassheim		
Representative Carlisle			Representative Kroeber		
Representative Skarphol			Representative Williams		
Representative Thoreson					
Representative Pollert			Representative Ekstrom		
Representative Bellew			Representative Kerzman		
Representative Kreidt			Representative Metcalf		
Representative Nelson					
Representative Wleland					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Roll Vote - carries

Date: 2/14/07
 Roll Call Vote #: 2

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 1014

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number 78014-0108

Action Taken No Pass as amended by 0108

Motion Made By Thoreson Seconded By Carlisle

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich	✓				
Representative Wald	✓		Representative Aarsvold	✓	
Representative Monson	✓		Representative Gulleson	✓	
Representative Hawken	✓				
Representative Klein	✓				
Representative Martinson	✓				
Representative Carlson	✓		Representative Glasshelm	✓	
Representative Carlisle	✓		Representative Kroeber	✓	
Representative Skarphol	✓		Representative Williams	✓	
Representative Thoreson	✓				
Representative Pollert	✓		Representative Ekstrom		
Representative Bellew			Representative Kerzman	✓	
Representative Kreidt	✓		Representative Metcalf	✓	
Representative Nelson	✓				
Representative Wieland	✓				

Total (Yes) 22 No 0

Absent 2

Floor Assignment Thoreson

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

REPORT OF STANDING COMMITTEE

HB 1014: Appropriations Committee (Rep. Svedjan, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (22 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1014 was placed on the Sixth order on the calendar.

Page 1, line 3, after the second semicolon insert "to create and enact a new section to chapter 6-09.17 of the North Dakota Century Code, relating to partnership in assisting community expansion fund incentive limitations;" and after "reenact" insert "subsection 6 of section 6-09-15 and"

Page 1, line 4, after "the" insert "powers of the Bank of North Dakota and the"

Page 1, line 5, after the semicolon insert "to provide a contingent appropriation;"

Page 3, line 11, replace "(225,000)" with "60,000"

Page 3, line 12, replace "8,089,126" with "8,374,126"

Page 3, line 13, replace "6,204,994" with "6,489,994"

Page 3, line 23, replace "(\$1,200,000)" with "\$2,300,000"

Page 3, line 27, replace "1,775,000" with "5,275,000"

Page 3, line 29, replace "3,200,000" with "6,700,000"

Page 4, line 11, replace "5,084,132" with "8,869,132"

Page 4, line 12, replace "11,335,799" with "11,620,799"

Page 4, line 13, replace "16,419,931" with "20,489,931"

Page 4, line 27, replace "29,475,016" with "29,475,016"

Page 4, after line 27, insert:

"Oil and gas division contingency 285,000"

Page 4, line 28, replace "58,870,922" with "59,155,922"

Page 4, line 29, replace "50,108,132" with "50,393,132"

Page 5, line 9, replace "4,500,000" with "8,000,000"

Page 5, line 13, replace "11,050,000" with "14,550,000"

Page 5, line 15, replace "10,100,000" with "13,600,000"

Page 5, line 30, replace "18,862,790" with "22,362,790"

Page 6, line 1, replace "166,565,430" with "166,850,430"

Page 6, line 2, replace "185,428,220" with "189,213,220"

Page 6, after line 2, insert:

"SECTION 4. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO SIXTY-FIRST LEGISLATIVE ASSEMBLY. The total general fund appropriation line item in section 3 of this Act includes \$4,680,000 for the one-time funding items identified in this section. This amount is not a part of the agency's base budget to be used in preparing the 2009-11 executive budget. The industrial commission shall report to the appropriations committees of the sixty-first legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2007, and ending June 30, 2009.

Biofuels PACE	\$4,200,000
Fossil restoration fund	250,000
Core and sample library repairs	<u>230,000</u>
Total	\$4,680,000"

Page 7, remove lines 15 through 19

Page 9, after line 6, insert:

"SECTION 17. TRANSFER - BUDGET SECTION APPROVAL. Notwithstanding any other provision of law, the Bank of North Dakota may transfer any unobligated funds that have been appropriated by the legislative assembly for the medical partnership in assisting community expansion fund to the partnership in assisting community expansion fund, upon approval by the budget section.

SECTION 18. AMENDMENT. Subsection 6 of section 6-09-15 of the North Dakota Century Code is amended and reenacted as follows:

6. Lease, assign, sell, exchange, transfer, convey, grant, pledge, or mortgage all real and personal property, title to which has been acquired in any manner."

Page 9, after line 16, insert:

"SECTION 20. A new section to chapter 6-09.17 of the North Dakota Century Code is created and enacted as follows:

Partnership In assisting community expansion fund Incentive Ilmitatlon.
A biodiesel production facility or ethanol production facility that receives interest buydown from the biofuels partnership in assisting community expansion fund is not eligible to receive interest buydown from the partnership in assisting community expansion fund for the same project during the same biennium.

SECTION 21. CONTINGENT OIL AND GAS DIVISION FUNDING - EMERGENCY COMMISSION APPROVAL. The funds appropriated in the oil and gas division contingency line item in subdivision 1 of section 3 of this Act are from the land and minerals trust fund. If funds are required due to the average drilling rig count exceeding forty-five active rigs for each month in any consecutive three-month period, the oil and gas division may spend moneys from this line item upon emergency commission approval. The oil and gas division may hire up to two full-time equivalent positions with the contingency funds."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1014 - Summary of House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Industrial Commission			
Total all funds	\$58,870,922	\$285,000	\$59,155,922
Less estimated income	50,108,132	285,000	50,393,132
General fund	\$8,762,790	\$0	\$8,762,790
Bank of North Dakota			
Total all funds	\$48,242,359	\$3,500,000	\$51,742,359
Less estimated income	38,142,359		38,142,359
General fund	\$10,100,000	\$3,500,000	\$13,600,000
Housing Finance Agency			
Total all funds	\$41,534,102	\$0	\$41,534,102
Less estimated income	41,534,102		41,534,102
General fund	\$0	\$0	\$0
Mill and Elevator			
Total all funds	\$36,780,837	\$0	\$36,780,837
Less estimated income	36,780,837		36,780,837
General fund	\$0	\$0	\$0
Bill Total			
Total all funds	\$185,428,220	\$3,785,000	\$189,213,220
Less estimated income	166,585,430	285,000	166,850,430
General fund	\$18,862,790	\$3,500,000	\$22,362,790

House Bill No. 1014 - Industrial Commission - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$7,215,116		\$7,215,116
Operating expenses	2,255,690		2,255,690
Capital assets	264,500		264,500
Grants - Lignite research and development	19,410,600		19,410,600
Grants - Fossil excavation and restoration	250,000		250,000
Grants - Bond payments	29,475,016		29,475,016
Oil and Gas Division contingency		\$285,000	285,000
Total all funds	\$58,870,922	\$285,000	\$59,155,922
Less estimated income	50,108,132	285,000	50,393,132
General fund	\$8,762,790	\$0	\$8,762,790
FTE	55.37	0.00	55.37

Dept. 405 - Industrial Commission - Detail of House Changes

	ADDS OIL AND GAS DIVISION CONTINGENCY 1	TOTAL HOUSE CHANGES
Salaries and wages		
Operating expenses		
Capital assets		
Grants - Lignite research and development		
Grants - Fossil excavation and restoration		
Grants - Bond payments		
Oil and Gas Division contingency	\$285,000	\$285,000
Total all funds	\$285,000	\$285,000
Less estimated income	285,000	285,000
General fund	\$0	\$0
FTE	0.00	0.00

1 This amendment adds an Oil and Gas Division contingency of \$285,000 relating to increased oil rig activity and 2 related FTE positions.

House Bill No. 1014 - Bank of North Dakota - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$20,295,359		\$20,295,359
Operating expenses	13,297,000		13,297,000
Capital assets	1,900,000		1,900,000
Contingencies	1,700,000		1,700,000
PACE fund	4,500,000	\$3,500,000	8,000,000
Ag PACE fund	1,400,000		1,400,000
Beginning farmer revolving loan fund	950,000		950,000
Biofuels PACE fund	<u>4,200,000</u>		<u>4,200,000</u>
Total all funds	\$48,242,359	\$3,500,000	\$51,742,359
Less estimated income	<u>38,142,359</u>		<u>38,142,359</u>
General fund	\$10,100,000	\$3,500,000	\$13,600,000
FTE	176.50	0.00	176.50

Dept. 471 - Bank of North Dakota - Detail of House Changes

	ADDS FUNDING TO PACE 1	TOTAL HOUSE CHANGES
Salaries and wages		
Operating expenses		
Capital assets		
Contingencies		
PACE fund	\$3,500,000	\$3,500,000
Ag PACE fund		
Beginning farmer revolving loan fund		
Biofuels PACE fund		
Total all funds	\$3,500,000	\$3,500,000
Less estimated income		
General fund	\$3,500,000	\$3,500,000
FTE	0.00	0.00

1 This amendment adds \$3,500,000 to the partnership in assisting community expansion (PACE) fund.

This amendment adds a section to allow the Bank of North Dakota to make transfers from the medical PACE fund and the PACE fund, subject to Budget Section approval.

House Bill No. 1014 - Mill and Elevator - House Action

This amendment removes the transfer of \$5,000,000 from the North Dakota Mill and Elevator Association to the general fund resulting in a decrease of general fund revenues of \$5,000,000.

2007 SENATE APPROPRIATIONS

HB 1014

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1014

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 02-21-07

Recorder Job Number: 3585

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on HB 1014 at 9:00 am on February 21, 2007.

Karlene Fine, Executive Director of Industrial Commission distributed written testimony and testified in support of HB 1014 and discussed the Industrial Commission and what they do. She indicated her testimony would center on the administrative portion of the budget including subdivision one of sections one, two, and three of HB 1014. She discussed the appropriations portion for several sections.

Chairman Holmberg asked about the debt service portion relating to the bond issues. He also asked about the university portions and how much was covered by the students. The response was a very small portion.

Senator Tallackson commented regarding the Wellness Center and the dollar amount there. He was informed that the funding for that is from student as it was a revenue bond issue. That is not with the building authority at all.

Senator Bowman asked if we don't bond anything this session, what kind of shape would it put us in for the next session. Does it give us some advantages as far as unpredictable projects you find that come up and we don't have the money to do it or does it pay down our obligated debt. The response was referring to Exhibit A in testimony and explained this exhibit to the committee.

Eric Hardmeyer, President Bank of North Dakota (BND) gave written testimony (2) and oral testimony in support of bill. This bill contains 12 sections pertaining to the BND. He touched on some financial highlights of the bank, stating provided to the committee is the last 4 years of financial history plus the 2007 projection. Assets have grown significantly in 2006. We believe these assets have grown because the state has prospered financially. He explained the portfolio regarding loan values. He talked about the Capital level listed in testimony.

Senator Christmann asked why the Agriculture loans grow more slowly than others. He was told the competition is strong. Farm Credit plays a big part.

Senator Tallackson had question regarding the Beginning Farmer Loans.

Eric Hardmeyer continued testimony stating there 4 major line items.

1. Salaries and Wages increase represents the salary and insurance premium increase as proposed in the Governor's executive budget. Currently we have 165 positions filled and are actively recruiting for three positions, which we may be able to fill with the staff we have now. There may be a need to add additional staff in the loan department.
2. Operating Expenses including the one time funding for furniture and fixtures for the new bank building. Other increases include funds for outsourcing IT services and increased marketing expenditures.
3. Capital Assets include the appropriating for funds for the new Bank building. Also included are funds for check imaging, core systems, storage systems, replacement of bond accounting and safekeeping systems, audio-visual equipment and landscaping.
4. PACE Fund which began in 1991. in 2005, the PACE program was expanded to include a special limited provision called Flex PACE.

Senator Robinson had questions regarding the old building and the tower demolition. He was informed they are working with Legislative Council to possibly hire a brokerage firm to sell the

property, may sell as is or sell the low rise building separate or both buildings together. There is also property on the new site, we may need an amendment to allow the board to sell that property as well.

Senator Krauter commented that the operating expenses seem high and had questions concerning the marketing expenditures.

Eric Hardmeyer stated that we are a very competitive market in the student loan industry. We've been involved with that program since 1967, even prior to that. It is one of the things that the Legislature has continued to support us in. We continue to need to market our products with the others in the industry.. Also have the College-Save Program, the 529 Plan, there will be expenditures there as we roll out additional functions and ability with that program and the other thing we are also a banker's bank so we need to be out promoting the bank of North Dakota so we need to continue to be aggressive and provide a good service to our banks.

Senator Mathern in light of that marketing, I was helping my son figure out his loan applications and the BND rates were worse than any other place. Why don't we just reduce the rate instead of advertise. Most of these kids would go with the best deal.

Eric Hardmeyer The great bulk of our student loans are federally insured student loans. And we have the same rate as any other bank across the country. We have picked up the default fees, the origination fees, to be competitive with the market. In terms of the interest rates, the program you are talking about is the Dakota Education Program which is outside of the federally insured products. The BND has a product like that, Wells Fargo has one, Minnesota has one, I would argue a little bit on that point when we look at what the other loan businesses provide, you will see that in HB 1487, we have offered the only fixed rate product in the country and our product is fixed at our base rate. When we look at our student loan rate, our average

rate is 5 ½ % across the board. We are sensitive to the high rates in student loans. We can only offer a fixed rate. Now with HB 14887 we will be able to offer a variable and a fixed rate.

Senator Tallackson asked for a ball park figure what the property will sell for. He was told between two and three million dollars, and perhaps near one million for the excess property at the new site

Senator Holmberg had questions regarding the old site and the process they will take to sell it and if they have a scheduled date to move into the new property. He was informed that the selling of the old site would be based on whether it would be sold in two pieces. It also depends on whether we will demolish the tower or sell the tower and the existing south half of that lot, we may pick up another 4 or 500,000.00. So just depends on what kind of interest we have on that property. He was also informed that the contract for the completion of the property is January of 2008 but they feel they will be in by end of December, 2007.

Senator Christmann asked if the authorization to sell the property is in this appropriation bill or is it in some other bill somewhere. He stated he hoped there would be discussion regarding selling property adjacent to the new bank. I would want some justification why we would limit potential growth out there. He was informed that the authorization to sell the property is in this bill in section 18.

Senator Kilzer asked if there are any provisions that the tower has to be taken down as a couple of years ago that corner was considered one of the most dangerous intersections in the whole city.

Eric Hardmeyer stated no, but there is money in the budget to demolish the tower and comment was made concerning it is a dangerous intersection there on 7th and main because of this tower. He then talked about Economic Development and the PACE Fund. He commented about HB 1027 and money was moved from there to HB 1014.

Senator Christmann asked if the dollar amount he stated was he feels it should be. He was informed yes, that 8 million dollar is the right figure.

Senator Grindberg asked if it was because of rising interest rates that primarily see more demand and then question with the growing asset Capital base and we've always funded general funds into the PACE Program, can we have a discussion on the fact that with the strength that the bank we no longer need to put general fund money into this program. He also had questions regarding interest rates and had questions regarding the current appropriations for the PACE Program and if the student loan program is the largest profit for the bank.

Eric Hardmeyer shared that the nice thing about the PACE program is that the money can be moved around. It has supported itself. The PACE program was designed in 1991 so that we could determine how much of our money was going in to subsidize projects. He stated that if you argue reducing interest rates you could take it down across the board on every program we have. We prefer to use market driven loan rates and then subsidize them and then measure the return back to the state.

Senator Krauter asked about the budget projection for 07-09.

Eric Hardmeyer informed him that we do project earnings for the biennium about 90 million dollars. He also referred to SB 2015 at this time. He talked about the Beginning Farmer Revolving Loan Fund.

Senator Wardner asked what revenues come back in. He was told the principal and interest comes back in.

Discussion followed regarding the Ag PACE Fund and the BioFuel Fund.

Senator Grindberg stated there are 14 different definitions of PACE programs

Eric Hardmeyer went through the rest of the programs listed in the testimony starting with page 9 in testimony.

Senator Fischer had questions about the Medical PACE. He was told that MED PACE was put forward by Representative Porter that allows for rural hospitals in communities of 20,000 or less to access a bydown fund for a purchase of equipment or technology used to help sustain their operations.

Senator Grindberg asked about the Economic Development accountability on those loans or how you would because this would be a deviation from prime receptor investment. He was told it is a great question and needs to be asked of Representative Porter.

Chairman Holmberg stated a Subcommittee will be appointed and they are Senators Wardner, Fischer, who has been on it before and Senator Lindaas, who wasn't here today, I will ask him, so I don't know if I should put him back on or do one of you who sat through this want to work on this one. I can put him back on. He'll be back.

Senator Krebsbach had questions regarding restrictions on PACE and Biofuel PACE, the amount and the average PACE Loan now. She was informed that there are two components to PACE, one is the loan lump and the other is the buy out loan. He asked if she was referring to the buy out loan or regular loan, she said regular loan, and it would be several millions of dollars.

Senator Christmann asked what the buy out would be if you would borrow a million dollars do you pay ½ million to Biofuels. He was informed you can buy down the interest rate to actually 5 below the market rate.

Mike Anderson, Executive Director North Dakota Housing Finance Agency

(NDHFA) presented written testimony (3) and oral testimony in support of HB 1014. His testimony stated his agency operates solely on special funds. We have not had an

appropriations funds from the general fund since it's inception. He shared further testimony regarding housing programs. He reported they have 43 FTE's , and we are not requesting an

increase. Currently, we have four vacant FTE's all of which are in the process of being refilled. He stated funding of North Dakota Housing programs is derived primarily from revenue bonds, federal funds, or agency and bond indenture assets. North Dakota Housing's largest homeownership program is the FirstHome loan program. We also administer the Low Income Housing Tax Credit program. North Dakota Housing's largest appropriated funds activity involves the administration of federally funded U>S> Department of Housing and Urban Development (HUD) housing programs. Funding will also be available for the DCA and HARP programs and a program summary is provided in this testimony. We will continue to apply for federal funding during the upcoming biennium as it will provide critical flexibility to react to new housing challenges as we continue to work on the aforementioned housing priorities.

Senator Mathern asked if his Agency wanted any items changed in the bill. The answer was that they are ok with the bill the way it is. There is a separate bill regarding financial institutions that will be looked at also.

Lynn Helms, Director Department of Mineral Resources (DMR) provided written testimony (4) and oral testimony in support of HB 1010. He stated that the DMR through the Oil and Gas Division (OGD) is responsible for regulating all facets of petroleum production through enforcement of statutes, rules and regulations of the Industrial Commission with regard to permitting of wells, establishing well spacing for producing reservoirs, inspection of facilities, approving enhanced oil recovery operations, ensuring proper plugging and site reclamation of all wells, and conducting hearings on oil and gas matters in a manner that will be most beneficial to the producer, royalty owner and all citizens of the state. He provided information (charts) regarding Coal Exploration Program, North Dakota Geological Survey Inquiries, NDGS Public Fossil Digs, Geothermal Installations, North Dakota Geological Survey Website, and North Dakota Geological Survey Productivity. On page 7 in his testimony is the Explanation of

Program Costs, stating 79% is Salaries and Wages, 21% Operating Expenses, and 0% Capital Equipment. 75% of our Operating Expense budget is driven by other entity guidelines as DOT mileage rates, ITD charges, and office rent. He shared the needs concerning salaries and FTE's. which are listed in section 2 and section 3 on page 7 of testimony. The Optional Requests approved in Engrossed HB 1014 are prioritized on page 7 of his testimony. Sections 3 and 4 – Extraordinary repairs required on the core library roof and lights, Dust collection equipment for paleontology lab safety, funding a shallow gas investigation in eastern ND, Map printer/plotter for GSD, Map printer for the OGD and transfer General Fund to Fossil Excavation and Restoration Fund are all one-time expenses. He concluded his testimony talking about the high gas prices and the future of the oil industry.

Senator Bowman asked if the budget for repairs and maintenance will cover the roof repairs.

He was informed that it would.

Tim Porter, Executive Director Public Finance Authority (PFA) presented written testimony (5) and oral testimony in support of HB 1014. He stated the PFA is a state agency that operates under the authority of the Industrial commission. It receives no money from the general fund. The PFA administers the Capital Financing Program and the financial portion of the State Revolving Fund, and issues Industrial revenue Bonds. The PFA was established to make low-cost loans to ND political subdivisions at favorable interest rates At the present time the PFA has four loan programs: The Capital Financing Program, the Sate Revolving Fund Program, the School Construction Financing Loan Program, and the Industrial Development Bond Program. The PFA submits its Annual report to the Legislative Council each year. He is asking for one FTE as a loan officer.

Vance Taylor, President and General Manager of Mill and Elevator presented written testimony (6) and oral testimony in support of HB 1014. He stated they are primarily a Spring

Wheat Mill and have 127 FTE's. the mill normally operates 24 hours per day, 5 to 7 days per week. He stated they are the now the largest single site wheat flour mill and the 8th largest wheat milling company in the US with sales of over \$136 million per year. Our milling complex includes 6 milling units, a terminal elevator, and a packaging center and warehouse capable of producing, storing and shipping large quantities of various sized bags of milled products. Our bulk and large package shipping area is diverse but more concentrated in the Ohio River Valley and on the East Coast. We also export product to the Caribbean, Japan, Korea and Brazil. He then went over his budget requests as listed on page 6 of his testimony. Five items: wages and benefits, travel, utility expenses, repair expense, and miscellaneous supplies expense account for the amount of the increase in our requested appropriations.

Senator Krauter had questions regarding the limiting factor on organic growth at the mill. This is the third biennium that this issue has been addressed. He was informed it is limited somewhat by the available grains to purchase and it is also limited somewhat with just our overall production capacities. But one of the reasons we wanted to build our new C Mill which added capacity to give us the capability of getting more organic products and doing it more efficiently.

Chairman Holmberg asked if any changes in their security after that young person climbed up on the tower and jumped off. He was told they made some changes. They added cameras and made some physical changes to the elevators to prevent that from happening again.

Senator Robinson had questions regarding the budget increases. He was informed it had to do with insurance differences.

Senator Tallackson asked how they go about selling the extra production, do you take business from your competitor, and what the home products consist of, stating the pancake mix is probably the best in the world. He was told they look for new accounts, and some of our

current customers are getting bigger and demand more supply and we are looking for the people on the high end of baking that are looking for a high quality product, attend trade shows, and we work for new accounts. Our retail area is 2.5% of our total production and that includes all our 5 and 10 pound bags of the pancake mix and bread machine mixes. We distribute this product in an 11 state area.

Senator Krebsbach had questions regarding the purchase of property from BNSF. She was informed it was just over \$100,000.00.

Senator Mathern had questions regarding the changes made by the House regarding the funds. It was explained that they would use those extra funds to do some additional large products at the mill and will provide a list.

Senator Bowman asked if they work with Northern Crops Improvement and the Wheat Commission when you're marketing. He was informed they do.

John Dwyer, President of Lignite Energy Council but appearing as Chairman of Lignite Research Council provided written testimony (7) and oral testimony in support of HB 1014. He shared the future of the Lignite Industry and Research Projects, Demonstration Projects, the Lignite Vision 21 Program, stating that under that Program there are 4 participants under contract: He stated that Senators Freborg and Christmann serve on the Lignite Council.

1. MDU/Westmoreland Coal Co, Bowman County
2. Great Northern Power Development (GNPD) Stark County
3. Spiritwood Energy Park (Great River Energy)
4. Coal to Liquids, NACCO/GRE Headwaters/ Falkirk

His testimony also included matching dollars by the Industry information, Repayment formulas, discussion of HB 1093 and the Conversion Tax, Research Projects, Demonstration Projects and Marketing Projects.

Senator Holmberg asked John as he just came back from Minnesota, on our eastern horizon there are some clouds regarding Minnesota making some dramatic changes in their energy policy that can have an impact on North Dakota, would you say overall what you heard, saw, and experienced in the Capitol yesterday in Minnesota was friendly or unfriendly towards North Dakota Lignite Industry and what needs to be done by the Legislature and by the Industry to position our state so we can continue to move forward with our Lignite Industry.

John Dwyer stated that most of the proposals that I listened to were adverse. Every time you burn coal you get emissions, and so anytime you talk about an impact of \$10.00 a ton in our case you'd be talking about \$40 million impact. Most of the proposals were unfriendly. It talks about carbon controls that reach across the state's borders, the Legislation has provisions in it that talks about the impact on emissions in Minnesota but also associated emissions outside of ND, talks about purchase power contracts that are generated by coal. There is opportunity for Legislative provisions in the existing bills that are being heard, legal strategy, we may come to the Legislature with some requests for appropriation dollars in that regard. On the research side, it is most important that we do everything we can here. He talked about the mercury technology.

Senator Bowman had questions regarding the federal programs regarding extracting gas from coal, if the research applicable for the future of Lignite in ND and if Westmoreland is one of the companies in the running. He was told about the future Jet Program, and that they have met with Senator Dorgan and that Westmoreland is still in the running. Lignite plays a valid role in the energy industry.

Karlene Fine gave a brief wrapup. She stated if any of the Senators have questions their phone numbers are listed and we will be happy to meet with the Subcommittee anytime.

Chairman Holmberg closed the hearing on HB 1014.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1014

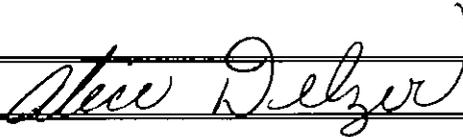
Senate Appropriations Committee

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Hearing Date: 03-06-07

Recorder Job Number: 4399

Committee Clerk Signature



Minutes:

Chairman Wardner opened the SubCommittee hearing at 7:30 am on March 6, 2007 regarding the Industrial Commission. Let the record show that Senators Krauter, Fischer, and Wardner are also present. He stated they would go through the Bank of North Dakota (BND) first; then the Housing Finance and then Office of Industrial Commission. We'll look at meeting tomorrow morning at 7:45 or at 7:30 am be sure we get oil and gas and lignite. He addressed Mr. Hardmeyer and stated the only thing the house added was the money \$3.5 million to PACE from what the executive budget was. What would you like us to be aware of.

Eric Hardmeyer, President BND There is one that in 1014 when it was approved on the House side there was an emergency provision put in for the sale of the building and somehow that was not carried over in the final draft of the engrossed bill. It was left out by mistake and I've been working with Becky Keller from Legislative Council regarding an amendment; we have some property that has some resale value so it behooves us move on that as quickly as we can. That is why we had the emergency clause put on in Section 18 which allows for immediate sale of real estate. Comments were made concerning the emergency clause and the fact that the amendment needs to put the emergency clause in section 18.

Senator Wardner made the comment on PACE, stating he has been told by the economic developers that this is the best program out there.

Eric Hardmeyer stated we have received somewhere around \$6 million, and we have been subject to the 95% budget, and it got reduced down to \$5.7 million, that's why that odd number is there. Demand has always been so great we have used all the amount. . Two years ago we changed PACE to allow a new provision called FLEXPACE. We put \$2 million aside and let the community set the standards for what they want to do. Examples are the Linton and Richardton hospitals, not adding jobs but retaining the jobs they have. The governor has \$4.2 million for Biofuels PACE. However we have \$8 million sitting over on House Bill 1027, so they are competing amounts so it is a very good tool and elected to put the \$8 million in 1027. There is about \$800,000.00 carry over from Biodiesel payments which go into the Biofuels.

Senator Krauter had questions regarding the MEDPACE, and if in the next biennium if some of these issues can be addressed in you FLEXPACE versus having to start this.

Eric Hardmeyer Yes, that is a true statement. FLEXPACE could be used for that if it is adequately funded. They did take MEDPACE from \$5 million down to \$2 million. That was not our bill, it was Representative Porter's bill and we've always been neutral on that bill. MEDPACE is in HB 1273 and their intent was rural hospitals with those cities with 20,000 or less qualify.

Senator Krauter asked if a community like Richardton would qualify. He was informed yes. He also wanted explanations regarding the bank Loan Programs, in particular the AG Disaster Loan Program and what criteria do you use to establish interest rates. He was informed the BND has flexibility along with the Industrial Commission to react and provide programs to fit specific needs without Legislative programs. This Ag Disaster Program came out of the 1997 floods and farm disasters. So we saw a need, we didn't have Legislative session at the time so we acted quickly to fulfill a need. They work with the Industrial Commission, Ag Commission and the Governor to establish interest rates. We are sensitive to the needs of the community.

Senator Krauter stated that some private lenders said we can't compete with this. He was informed that we don't try to replace the private lender, because these all participate, many times farmers need the ability to stretch out their payments, so we help in that way and we've worked with the Le Lender and tell them that they also need to restrict their rate so that the benefit flows back to the farmer. We have restricted what that Le bank can charge.

Senator Fischer asked how they do that. Is it by contract? Do you fill the gaps concerning the AG Loans that private banks can't do? He was informed the BND will come out with a program with the policy they can use. Yes, our bank does have an amount we can use as AG loans. Last year the BND provided over \$20 million in farm disaster loans.

Senator Krauter had questions regarding Capital Reserves of the bank and the whole situation of having that reserve there. He was informed the transfer dropped

Senator Fischer stated rather than depend on it let it grow. He also made comments regarding dividends to the state. Mr. Hardmeyer explained further concerning the bank transfers and capital reserves.

Senator Krauter commented about the Student Loan changes in HB 1091 and the bill going to Education instead of Finance and Tax. He was informed it will allow tax deduction for married couples.

Senator Wardner stated the only change concerning the BND's portion of the bill would be to put in the emergency clause in Section 18. He was informed that is correct. Discussion began on the Housing Finance Division and Senator Wardner stated that portion was not touched by the House.

Mike Anderson, Executive Director Housing Finance Agency confirmed the budget is intact. He talked about second mortgages and rehab loans, the Helping Hand Program, and other grant program. The subcommittee was informed it was all special funds. The statement

was made this portion of the bill is ready to go. Mr. Anderson stated they do have a little piece in HB 1027.

Karlene Fine, Executive Director and Secretary of Industrial Commission talked about lease and bond payments, no bonding schedules for upcoming biennium, and ConnectND.

Senator Krauter had questions concerning ConnectND and if there is any interest included in that and where it is in the budget. He stated he has a hard time reconciling that amount in that column. He was told it is in two places. It will show up in the ITD budget because we bill them. You will find that information in Exhibit B in her testimony. Further discussion followed regarding the budget.

Senator Fischer asked for a schedule on the loan repayment and how it works out. He was told yes.

Senator Wardner said some members of the committee met yesterday and discussed what they need to do to fix ConnectND. Ms. Fine stated that the students also pay for campus costs too as well as maintaining the system. So it is in addition to the debt they are paying.

Senator Fischer asked if everyone in her department eligible for the 4 and 4. He was told yes, there are only 2 in her department.

Senator Krauter asked for explanations regarding Schedule A, looking at that does this include new revenue forecast that was given to us. He was told yes. The Subcommittee needs to look at the 09-11 biennium because there is always a 2 year delay before we start making payment. We are in a good position right now.

Senator Wardner stated they will meet again on March 7, 2007 at 730 am (it was later changed to 7:15 am. He was informed that Van Taylor would be in town, and Tom Porter could be present along with the oil, gas and lignite people. The subcommittee hearing closed.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1014

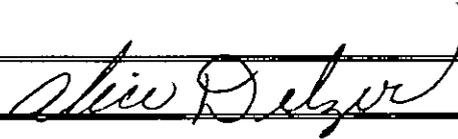
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 03-07-07

Recorder Job Number: 4504

Committee Clerk Signature



Minutes:

Chairman Wardner opened the Subcommittee hearing at 7:15 am regarding the Industrial Commission. He stated let it be on record that Senators Wardner and Krauter are present. He commented that Senator Fischer is on the way. The statement was made there was a modest increase by the House concerning the Mill and Elevator's budget. He commended Mr. Taylor on the good job he is doing at the mill.

Vance Taylor, President and General Manager Mill and Elevator stated he is here to answer any questions. He is ok with the bill the way it has been presented to this committee.

Senator Krauter had questions regarding the transfer, the revenues, the 6 items listed as projects and what kind of comfort level can you give the Legislature regarding not taking the transfers when you have the revenue. He also asked what Capital Projects they are working on now. He also had questions concerning Section E of the bill. He was told the # 1 priority is the upgrade. He was told it is a rough priority. They are tracking to have all projects done by the end of this fiscal year. The C Meal capacity and K Meal increase in packing capacity should be done by April 30th. The #1 project is elevator work. We are working on a project to speed up unloading wheat. There is terminal elevator upgrade work to be done.

Tammy Dolan, OMB stated the transfer is \$80,195.00.

Senator Wardner stated he was glad Vance stayed in town and thanked him for coming.

He moved the hearing to Lynn Helms, stating that there was a very minor increase put in by the House and they also put in for 2 FTE's.

Lynn Helms, Director Department of Mineral Resources gave information regarding the process they took last session by adding 2 Field Inspectors when the rig count was 30, now is 40 and need two more. Talked about the source of funding for these FTE's, stating the work level in Bismarck has increased, especially in regards to the BAKKEN RESOURCE STUDY. He commented that they don't have enough workers on the field regarding supervision, geologists, help with the permits. We need these people as they are kind of the police of the oil patch.

Senator Wardner commended them for their dedicated work.

Senator Krauter had questions regarding Lynn's testimony on page 7 regarding the optional request. What kind of advertising do you need to do? He was informed that public meeting notices need to be advertised and the cost of these have gone up considerably.

John Dwyer, Chairman, Lignite Research Council talked about Section 13 regarding non-matching money on line 10, needs an amendment.

Senator Wardner told him to work with Legislative Council to get the language he needs in the bill. He thanked him for all he does and commented that John knows what is going on.

Tim Porter, Executive Director Public Finance Authority was available for questions and stated they need one FTE, a loan officer.

Senator Wardner stated his department uses all special funds. There were only minor increases. He told Mr. Porter he runs an efficient office with the staff he has.

Senator Krauter asked about the 4 and 4 increase with the exemption of 2 minor adjustments.

He was informed that it was done and revealed on line 18 of testimony.

Senator Wardner closed the subcommittee hearing on HB 1014.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1014

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 03-13-07

Recorder Job Number: 4940

Committee Clerk Signature



Minutes:

Chairman Wardner opened the Subcommittee hearing at 9:15 am on March 13, 2007 on HB 1014 regarding the Industrial Commission. Senators Krauter, Fischer and Mathern were present. Others that were present are Tammy Dolan, OMB; Becky Keller, Legislative Council; Karlene Fine, Director, Industrial Commission; John Dwyer, Lignite Energy Council (LEC); and Sandi Tabor, LEC.

Chairman Wardner stated the one area they wanted to discuss this morning is the possible litigation with the state of Minnesota and asked John Dwyer to explain it more to the committee.

John Dwyer stated probably the biggest threat the lignite industry is facing is the introduction of carbon emissions, CO2 emissions. There is an international, federal and state of Minnesota debate going on. What Minnesota is suggesting to do is impose CO2 reductions, not only on their in-state emissions but also impose CO2 reductions on any electricity that's generated in North Dakota that comes into Minnesota. Minnesota has more than 50% of the lignite market. There are strong arguments that Minnesota is proposing to do is file an interstate commerce clause that will restrain the trade. We have met with Attorney General Wayne Stenehjem and reviewed the preliminary issue. I guess we would like to be prepared to move forward if it is necessary to protect the lignite resource. North Dakota gets hammered doubly on this: 1.

There is no CO2 captured technology that is cost effective to reduce CO2 emissions. So an increase of price will result in trying to capture that technology. 2. We are facing a loss of lignite industry. Minnesota is talking about a cut back of 15% by 2015, 30% by 2025, 45% by 2030, and 80% by 2050. If you impose those same type of controls on North Dakota the only way you would meet that is to reduce your production, There have been 3 hearings in the last 2 weeks in the Minnesota Legislature and one tomorrow and I feel it is our obligation to inform our legislature the rationality. There was a case back in the late 1990's that Heidi Heitkamp was involved in for the state of North Dakota process the challenge to that was successful. That's the issue and what we have outlined is a request for \$500,000 to cover extra witness fees if they will be necessary in a case such as this.

Senator Wardner stated that he thought we could take it out of the Lignite Research Fund but Sandi says that's obligated.

John Dwyer stated that on page 8 under LRD in the blue book is the Lignite Vision 21 Program is the program designed to develop new plants and new facilities. There is already commitments for these programs. There is legislation here to decrease that share from the Coal Conversion Tax, that will be heard before the committee on Wed, March 14, 2007 and that is HB 1093. But there really isn't money available unless you don't want to fund these projects. He referred to page 7 in his testimony concerning funding

Senator Krauter asked about the governor's budget and which projects will be cut. He was told that they'd like to see all the projects go forward and not cut.

Karlene Fine explained more about the different projects they have either in process now, near completion or in the planning stages. John stated there are also research projects found on pages 9 through 11. He stated that on page 9 there are three 3 legs to the pie chart They are Demonstration Projects, Marketing/Administration Projects, and Research Projects.

Senator Wardner asked if other funds than the general fund are available.

Senator Krauter asked for information regarding the items listed from page 11 through 14 that shows how much has been expended and how much is left. Karlene stated she can have that prepared. He requested further information regarding the different projects and referred to the very first one on page 11 regarding the Mercury Oxide in Research Projects. He also wanted to know how much is left to pay on any of these projects. He was informed by Karlene that she has that breakdown and will provide it to the subcommittee. She stated some of these projects already may be paid.

Senator Fischer stated that they are not always the same players, there is all sorts of different player. That was affirmative.

John Dwyer stated that each one of these projects is matched by private industry dollars.

Senator Krauter asked if the Research Projects are matching. He was informed by Karlene that all the ones listed on pages 11, 12 and 13 are matching. The only ones that are non-matching on page 14 is where they say non-matching. He also had questions on the timing of these projects in reflection to either years or the biennium.

Senator Wardner had questions regarding the matching projects, like if we take a look at the second one on the Biomass. The whole project is \$400,000, anything over the \$120,000 is money for industry match. That was confirmed. More discussion followed regarding the timing of completion of some of these projects and the money that has already been expended, which is explained in their testimony. He stated even with the litigation it's a contingency thing, you don't know when you're going to need it.

John Dwyer stated that is correct. He said as Chairman of the LEC he feels he is obligated to inform you that we have a major threat out there. This industry provides about 25, 000 jobs and \$80,000 million in taxes and other benefits. We have a state policy in statute that says it is

your responsibility to promote and protect the funding source, and I need to bring it to your attention. Some of our new projects have the potential to provide additional jobs.

Senator Wardner stated that some of them are studies on reduction of mercury and CO₂ themselves. He was informed that this going to be a major challenge because there is no technology today that exists that is cost effective that we can remove CO₂ emissions. We need to be prepared if we need to have litigation. Senator Wardner stated we need to be able to give you the tools to battle that if it comes to that. He stated he would get it out of the permanent oil trust fund. Whether we take it out of there or the general fund, it's a related thing and set it aside as a contingency. That would be my suggestion.

Senator Krauter asked how they came up with the dollar amount of \$500,000. He was informed by John that they brought in an expert on CO₂ and it costs us upwards of \$200,000 over a two week period. He is one of our primary witnesses. This money would be generated to the Attorney General's office to utilize. Sandi Tabor stated that this would be for expenses for witness fees and they will need some money to do the case.

Senator Wardner suggested the Department work with Legislative Council and draw up the amendments and asked the Department to come in to testify when the whole committee meets on this bill. Discussion followed concerning HB 1093 and the fiscal note on that. The percentage amount was discussed at length concerning HB 1093. But it was stated by Senator Wardner that we still need the language changed in HB 1014 and take the money impact from HB 1093. Legislative Council will prepare the proper amendments. The hearing was closed.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1014

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 03-23-07

Recorder Job Number: 5518

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on HB 1014.

Senator Wardner distributed amendments to HB 1014 indicating there are no real changes other than minor technical changes. The amendments are from the OMB bill that were held out and being put back in this bill. Also a section indicated the Bank of North Dakota is to keep their land in Bismarck so that it may be utilized by other state agencies. He described all of the changes by section.

Senator Wardner moved a do pass on the amendments, Senator Krauter seconded.

Discussion was held.

Senator Grindberg questioned the pace partnership indicating he has been working the bank and the development fund. He indicated that a \$7 million dollar amount was agreed on and he hoped to further amend the bill. The response was that Senator Wardner had no problem with that.

Senator Seymour questioned this amendment relating to the things out of the OMB bill. The response was yes; these were held out and never went over to the house side.

Chairman Holmberg indicated he has a list of the adjustments being put into other bills that have a relation to.

Senator Christmann asked if this is the time to decide whether to switch the \$1 million from PACE to the Commerce Department or will that be when we have that bill and this will be adjusted.

Senator Grindberg indicated if we pass this bill without changes, it will be \$1 million and we pass HB 1018 with \$1 million, we will be \$1 million above, way more in spending and we will have to go back and change it.

Senator Grindberg further discussed these changes.

Senator Christmann asked if Senator Grindberg could use his expertise as to who benefits more from pace changes. Senator Grindberg further discussed this in responding to the question.

Chairman Holmberg suggested we support that amendment as HB 1014 will not physically be out of committee before the commerce bill.

Senator Mathern indicated in terms of transfer section 13, is the \$15 million out of earnings of the land and minerals trust fund or is that part of the principal we have there. The response was It is the understanding this is earnings.

Senator Krauter read something and it is both.

An oral vote for the amendments was taken resulting in a do pass.

Senator Hacker presented amendments on rural housing .0205 indicating this is a program in rural housing development that was not passed through by the House.

Chairman Holmberg indicated this is a bill we passed and is it correct to say the bill ran into problems on the floor on house and you worked with housing to deal with those thus you came out with amendment 0205.

Senator Krauter indicated yes they had answered all of the concerns.

Senator Krauter indicated this is still \$1.9 mil fund for two programs in single family housing and multi family.

Chairman Holmberg asked how you addressed elderly wealthy using the funds. The response was this puts a cap of \$190,000. Most construction will be between \$130-\$150 thousand range.

Senator Tallackson this is the cap for this bill, right? The response was yes.

Senator Christmann moved adoption of the amendment, Senator Tallackson seconded. An oral vote was taken resulting in a do pass on amendment 0205.

Senator Wardner moved a do pass as amended, Senator Krauter seconded. A roll call vote was taken resulting in 14 yes, 0 no 0 absent. The motion passed. Senator Wardner will carry the bill.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1014

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 03-28-07

Recorder Job Number: 5585

Committee Clerk Signature

Minutes:

Chairman Holmberg opened the hearing on HB 1014 indicating this would be amended by the new amendments after the old ones are removed.

Senator Grindberg moved to reconsider HB 1014, Senator Bowman seconded. An oral vote was taken resulting in a do pass.

Senator Wardner moved to rescind the amendments previously placed on HB 1014, Senator Bowman seconded. An oral vote was taken resulting in a do pass.

Senator Wardner distributed amendments indicating it was inclusive of all the amendments that had previously been placed on HB 1014. The new amendment includes the transfer to the general fund the Funds from the Mill and Elevator.

Chairman Holmberg indicated that was in OMB and we took it out and we don't know what the House is putting in

Senator Wardner moved approval of the amendments 0207 be placed on HB 1014, Senator Krauter seconded. Discussion followed with questions about Section 19 regarding the sale of Bank of ND land. An oral vote was taken resulting in a do pass of .0207.

Senator Wardner moved a do pass on HB 1014 as amended, Senator Bowman seconded. A roll call vote was taken resulting in 14 yes, 0 no, 0 absent. The motion carried and Senator Wardner will carry the bill.

Chairman Holmberg closed the hearing on HB 1014.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1014

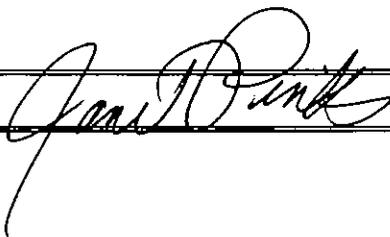
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 04-25-07

Recorder Job Number: 6324

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on HB 1014 indicating there are amendments that will be distributed which Senator Wardner will discuss.

Senator Grindberg moved to rescind action by which they previously acted, **Senator Wardner** seconded. **An oral vote was taken and the motion passed.**

Senator Wardner move amendment 0221, **Senator Fischer** seconded. **Discussion continued.**

Senator Wardner discussed the amendments as follows:

Sect 7 is payback funds to the Bank of ND from the permanent oil tax fund,

Sect 13 OMB can transfer funds from land and minerals to the general fund,

Sect 14 is the \$60 million transfer from the Bank of ND to the general fund by OMB,

Section 15 industrial commission shall transfer to the general fund \$3.1 million from the student loan trust fund,

Section 16 in the original OMB bill, the transfer of \$ 5 million from the ND mill and elevator

These others came on through other requests:

Sect 16 pg 8, line 10 litigation may be necessary for continued development of lignite resources. That is connected to HB 1093 which has a contingency fund

Sect 19 land the new Bank of ND is on cannot be sold. It is ok to sell the land they are currently on but not the new land.

Chairman Holmberg indicated this is part of the discussion because there was unease on the part of some that to sell meant both lands old and new this clarifies that.

Senator Mathern asked what if a proposal came forward for another state agency to use that land in the interim.

Senator Robinson indicated it was his interpretation for a state agency that needs to purchase property would need to get Legislative permission. If something happens in the next two years, they can come back during the next session to request permission to purchase property from the Bank.

Senator Wardner continued on sect 26 on the storage project. The PSC, the Industrial Commission, the Department of Mineral Resources or any other state entity that approves carbon encrustation or needs storage shall give priority to an operation domiciled in ND. Take care of the state before other areas.

Senator Krauter what is this about this, this is the first I have heard of this and I know projects using this.

Senator Wardner indicated it is possible as with all projects around the country they may sequester here and they will be given priority.

Considerable discussion took place on the term domicile. Legislative Council was called in to make a ruling or change the proper wording to be used in this bill.

Chairman Holmberg stated John Walstad is not avail for the interpretation of language but this will be looking into.

Senator Wardner continued:

Sect 28 provides 200,000 to the contingency fund in OMB,

Chairman Holmberg indicated \$500,000 has been in there for some time but the fund has been pretty level and toward the end of the biennium there was not a lot of money in there in case of an emergency. There was a sense to beef up this fund up by \$200,000 for the emergency commission. They have the authority and but it goes to the budget section for final approval for anything over \$50,000.

Senator Krauter this is good because the state meat inspection program is coming to emergency commission as soon as the biennium starts. I went and got the history because when Senator Bowman and I worked on that one we were concerned that historical beginning and ending balance of the previous two biennium of the emergency commission was used up. Is this a precedent that from now on? Will this be \$700,000 vs. \$500,000?

Chairman Holmberg indicated you hate to run out of money when things come before the emergency commission. A lot is used for witness fees, the Attorney General office, etc things we have to pay for.

Senator Robinson indicated he has been wondering where we ended up with hearing officers.

Senator Wardner stated we took them out and back to DOT and the house killed the bill. We had a hearing yesterday and it is back to DOT.

Senator Mathern question sect 28 and why was that not in the OMB bill?

Chairman Holmberg stated because this is where I was told to put it-- I had not seen HB 1522 and the council went through both bills. Nothing is duplicated and we don't want them to go back for further amendments.

Senator Wardner stated sect 29 is in because SB 2050 on retirement was killed in the House and if you look at pg 5 on HB 1014 it gives an explanation. It says a section was added that reduces appropriations that relate to SB 2050. SB 2050 would have increased the monthly contribution to the State Employees Health Benefit by .15 %. We had to make the adjustment.

Senator Krauter indicated on sect 29 his assumption is that .15 amount does not need to get reduced.

Becky indicated the amounts in SB 2050 were included in the executive budget amounts and that is why they need to be reduced.

Senator Wardner distributed an amendment that refers to where the origin of sale is for florists and this allows the tax to be at the other. It is technical and it just streamlines this issue. The florists like it.

Senator Wardner moved approval of the amendment, Senator Tallackson seconded.

Senator Christmann moved domicile be changed to locate, Senator Krauter seconded.

Senator Grindberg indicated that HB 1340 was passed on the publically traded corporate governance model and many companies are domiciled in Delaware but don't operate in Delaware. So this is a good change.

An oral vote was taken on the amendments. The motion carried.

Senator Tallackson asked about the provision for gap funding is that not in here.

Chairman Holmberg indicated he discussed this and the House killed it – look at the voting record and visit with people you know.

Senator Grind move DO PASS AS AMENDED, Senator Christmann seconded. A roll call vote was taken resulting in 14 yes and 0 no, 0 absent. The motion passed and Senator Wardner will carry the bill.

Chairman Holmberg closed the hearing on HB 1014.

March 22, 2007

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1014

Page 1, line 7, after the semicolon insert "to provide legislative intent; to provide an appropriation;"

Page 6, after line 27, insert:

"SECTION 7. APPROPRIATION - OFFICE OF MANAGEMENT AND BUDGET. There is appropriated out of any moneys in the permanent oil tax trust fund, not otherwise appropriated, the sum of \$5,300,000, or so much of the sum as may be necessary, to the office of management and budget for the purpose of repaying the Bank of North Dakota for loans and accrued interest relating to funds borrowed for centers of excellence, for the biennium beginning July 1, 2007, and ending June 30, 2009."

Page 7, after line 22, insert:

"SECTION 13. LANDS AND MINERALS TRUST FUND TRANSFER TO THE GENERAL FUND. During the biennium beginning July 1, 2007, and ending June 30, 2009, the director of the office of management and budget is authorized to transfer special funds from the lands and minerals trust fund to the general fund in the amount of \$15,000,000.

SECTION 14. BANK OF NORTH DAKOTA TRANSFERS TO STATE GENERAL FUND. During the biennium beginning July 1, 2007, and ending June 30, 2009, the industrial commission shall transfer to the state general fund \$60,000,000 from the current earnings and the accumulated undivided profits of the Bank of North Dakota. The moneys must be transferred in the amounts and at the times requested by the director of the office of management and budget. A transfer authorized may only be made to the extent the transfer does not reduce the Bank's capital structure below \$175,000,000.

SECTION 15. STUDENT LOAN TRUST FUND TRANSFER TO THE GENERAL FUND. The industrial commission shall transfer to the general fund in the state treasury the sum of \$3,100,000 of earnings from the North Dakota student loan trust fund. The moneys must be transferred in the amounts and at the times requested by the director of the office of management and budget during the biennium beginning July 1, 2007, and ending June 30, 2009, and upon certification by the student loan trust trustee that sufficient moneys remain available to pay all debt service on student loan trust bonds, all required rebate payments to the United States treasury, and all program operating expenses."

Page 8, line 10, replace "project" with "program" and after the semicolon insert "for litigation that may be necessary to protect and promote the continued development of lignite resources;"

Page 8, after line 15, insert:

3

"SECTION 18. LEGISLATIVE INTENT - BANK PROPERTY. It is the intent of the sixtieth legislative assembly that real estate property owned by the Bank of North Dakota at 1205-1215 west main street in Bismarck not be sold by the Bank of North Dakota during the 2007-09 biennium."

Page 10, line 20, after the semicolon insert "the appropriation in section 7 of this Act for the office of management and budget;" and replace "15" with "20"

Page 10, line 21, remove "and" and replace "16" with "21"

Page 10, line 23, after "fund" insert "; and section 23 of this Act"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1014 - Summary of Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Industrial Commission				
Total all funds	\$58,870,922	\$59,155,922	\$0	\$59,155,922
Less estimated income	50,108,132	50,393,132		50,393,132
General fund	\$8,762,790	\$8,762,790	\$0	\$8,762,790
Bank of North Dakota				
Total all funds	\$48,242,359	\$51,742,359	\$0	\$51,742,359
Less estimated income	38,142,359	38,142,359		38,142,359
General fund	\$10,100,000	\$13,600,000	\$0	\$13,600,000
Housing Finance Agency				
Total all funds	\$41,534,102	\$41,534,102	\$0	\$41,534,102
Less estimated income	41,534,102	41,534,102		41,534,102
General fund	\$0	\$0	\$0	\$0
Mill and Elevator				
Total all funds	\$36,780,837	\$36,780,837	\$0	\$36,780,837
Less estimated income	36,780,837	36,780,837		36,780,837
General fund	\$0	\$0	\$0	\$0
Bill Total				
Total all funds	\$185,428,220	\$189,213,220	\$0	\$189,213,220
Less estimated income	166,565,430	166,850,430		166,850,430
General fund	\$18,862,790	\$22,362,790	\$0	\$22,362,790

House Bill No. 1014 - Industrial Commission - Senate Action

A section is added to provide legislative intent that the property at the new Bank location not be sold by the Bank during the 2007-09 biennium.

A section is added to provide a transfer from the lands and minerals trust fund to the general fund.

A section is added to provide a transfer from the Bank of North Dakota to the general fund.

A section is added to provide a transfer from the student loan trust fund to the general fund.

A section is added to provide an appropriation to the Office of Management and Budget from the permanent oil tax trust fund to repay the centers of excellence loan and interest.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1014

Page 1, line 3, after "6-09.17" insert "and a new subsection to section 54-17-07.3"

Page 1, line 5, after "limitations" insert "and a housing finance agency program for residential housing in rural communities"

Page 1, line 8, after "appropriation" insert "; to provide an expiration date"

Page 4, after line 12, insert:

"Bridging the gap loan program 1,900,000"

Page 4, after line 13, insert:

"Total all funds \$9,524,088"

Page 4, line 14, replace "Total from" with "Less" and replace "\$7,624,088" with "7,624,088"

Page 4, after line 14, insert:

"Total general fund \$1,900,000"

Page 4, line 15, replace "8,869,132" with "10,769,132"

Page 4, line 17, replace "20,489,931" with "22,389,931"

Page 5, after line 31, insert:

"Bridging the gap loan program 1,900,000"

Page 6, after line 2, insert:

"Total all funds \$43,434,102"

Page 6, line 3, replace "Total" with "Less" and replace \$41,534,102" with "41,534,102"

Page 6, after line 3, insert:

"Total general fund \$1,900,000"

Page 6, line 4, replace "22,362,790" with "24,262,790"

Page 6, line 6, replace "189,213,220" with "191,113,220"

Page 10, after line 11, insert:

"SECTION 21. A new subsection to section 54-17-07.3 of the North Dakota Century Code is created and enacted as follows:

A program to assist in bridging the financing gap in new residential construction in cities with populations of fewer than twenty thousand if the cost of the new construction is at least one hundred ten percent of the appraised value of the new construction. The program shall provide financial assistance in the form of a mortgage loan that is subject to payment forgiveness, in whole or in part, for new construction of multifamily housing and single-family housing, excluding mobile homes and farmsteads.

- a. The industrial commission shall establish the eligibility criteria and application procedure for the program which at a minimum must:
- (1) Require a local match in the form of a grant from private or public funding or in-kind contributions which may not exceed forty-five percent of the gap between the cost of construction and the appraised value of the new construction;
 - (2) Provide that the local match may not include state funds;
 - (3) Require an application for assistance under this program to include evidence of community support for the new construction project; and
 - (4) Require that for assistance provided for single-family housing:
 - (a) The applicant's household income may not exceed the greater of one hundred forty percent of the statewide or county average, as determined by the industrial commission; and
 - (b) That the cost of the new construction may not exceed one hundred ninety thousand dollars.
- b. The maximum assistance provided under this program for single-family housing is the lesser of twenty thousand dollars or forty-five percent of the gap between the cost of the construction and the appraised value of the new construction.
- c. The maximum assistance provided under this program for multifamily housing is the lesser of fifty thousand dollars or forty-five percent of the gap between the cost of construction and the appraised value of the new construction.
- d. Unless otherwise provided through the appropriation process, no more than thirty percent of the funds appropriated for the biennium for assistance under this subsection may be for multifamily residences.
- e. Before August first of every even-numbered year, the housing finance agency shall report to the legislative council on the status of this program, including funds awarded, the state and local impact of the funds awarded, and program recommendations."

Page 10, after line 18, insert:

"SECTION 23. EXPIRATION DATE. Section 21 of this Act is effective through July 31, 2011, and after that date is ineffective."

Renumber accordingly

amend 0204 approved 0205

Date: Roll Call Vote #: both to be mild

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1614

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken DP as amend 2 amend

Motion Made By Wardner Seconded By Krauter

Senators	Yes	No	Senators	Yes	No
Senator Ray Holmberg, Chrm	✓		Senator Aaron Krauter	✓	
Senator Bill Bowman, V Chrm	✓		Senator Elroy N. Lindaas	✓	
Senator Tony Grindberg, V Chrm	✓		Senator Tim Mathem	✓	
Senator Randel Christmann	✓		Senator Larry J. Robinson	✓	
Senator Tom Fischer	✓		Senator Tom Seymour	✓	
Senator Ralph L. Kilzer	✓		Senator Harvey Tallackson	✓	
Senator Karen K. Krebsbach	✓				
Senator Rich Wardner	✓				

Total (Yes) 13 14 No 0

Absent 0

Floor Assignment Wardner

If the vote is on an amendment, briefly indicate intent:
Robinson wanted to vote yes.

Date:
Roll Call Vote #:

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1014

Senate Appropriations Committee

Check here for Conference Committee

3/26/07

Legislative Council Amendment Number _____

Action Taken DP as amend 0207

Motion Made By _____ Seconded By _____

Senators	Yes	No	Senators	Yes	No
Senator Ray Holmberg, Chrm	✓		Senator Aaron Krauter	✓	
Senator Bill Bowman, V Chrm	✓		Senator Elroy N. Lindaas	✓	
Senator Tony Grindberg, V Chrm	✓		Senator Tim Mathern	✓	
Senator Randel Christmann	✓		Senator Larry J. Robinson	✓	
Senator Tom Fischer	✓		Senator Tom Seymour	✓	
Senator Ralph L. Kilzer	✓		Senator Harvey Tallackson	✓	
Senator Karen K. Krebsbach	✓				
Senator Rich Wardner	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Wardner

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

Grindberg move reconsid bill 1014 pass
Bowman 2nd OK

Wardner mov.
Bowman 2nd Remove amend
pass

REPORT OF STANDING COMMITTEE

HB 1014, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1014 was placed on the Sixth order on the calendar.

Page 1, line 3, after "6-09.17" insert "and a new subsection to section 54-17-07.3"

Page 1, line 5, after "limitations" insert "and a housing finance agency program for residential housing in rural communities"

Page 1, line 7, after the semicolon insert "to provide legislative intent; to provide an appropriation;"

Page 1, line 8, after "appropriation" insert "; to provide an expiration date"

Page 3, line 27, replace "2,300,000" with "1,300,000"

Page 3, line 31, replace "5,275,000" with "4,275,000"

Page 4, line 2, replace "6,700,000" with "5,700,000"

Page 4, after line 12, insert:
"Bridging the gap loan program 1,900,000"

Page 4, after line 13, insert:
"Total all funds \$9,524,088"

Page 4, line 14, replace "Total from" with "Less" and replace "\$7,624,088" with "7,624,088"

Page 4, after line 14, insert:
"Total general fund - Adjustments/enhancements \$1,900,000"

Page 4, line 15, replace "8,869,132" with "9,769,132"

Page 4, line 17, replace "20,489,931" with "21,389,931"

Page 5, line 14, replace "8,000,000" with "7,000,000"

Page 5, line 18, replace "14,550,000" with "13,550,000"

Page 5, line 20, replace "13,600,000" with "12,600,000"

Page 5, after line 31, insert:
"Bridging the gap loan program 1,900,000"

Page 6, after line 2, insert:
"Total all funds \$43,434,102"

Page 6, line 3, replace "Total" with "Less" and replace "\$41,534,102" with "41,534,102"

Page 6, after line 3, insert:
"Total general fund \$1,900,000"

Page 6, line 4, replace "22,362,790" with "23,262,790"

Page 6, line 5, replace "166,850,430" with "172,150,430"

Page 6, line 6, replace "189,213,220" with "195,413,220"

Page 6, after line 27, insert:

"SECTION 7. APPROPRIATION - OFFICE OF MANAGEMENT AND BUDGET. There is appropriated out of any moneys in the permanent oil tax trust fund, not otherwise appropriated, the sum of \$5,300,000, or so much of the sum as may be necessary, to the office of management and budget for the purpose of repaying the Bank of North Dakota for loans and accrued interest relating to funds borrowed for centers of excellence, for the biennium beginning July 1, 2007, and ending June 30, 2009."

Page 7, after line 22, insert:

"SECTION 13. LANDS AND MINERALS TRUST FUND TRANSFER TO THE GENERAL FUND. During the biennium beginning July 1, 2007, and ending June 30, 2009, the director of the office of management and budget is authorized to transfer special funds from the lands and minerals trust fund to the general fund in the amount of \$15,000,000.

SECTION 14. BANK OF NORTH DAKOTA TRANSFERS TO STATE GENERAL FUND. During the biennium beginning July 1, 2007, and ending June 30, 2009, the industrial commission shall transfer to the state general fund \$60,000,000 from the current earnings and the accumulated undivided profits of the Bank of North Dakota. The moneys must be transferred in the amounts and at the times requested by the director of the office of management and budget. A transfer authorized may only be made to the extent the transfer does not reduce the Bank's capital structure below \$175,000,000.

SECTION 15. STUDENT LOAN TRUST FUND TRANSFER TO THE GENERAL FUND. The industrial commission shall transfer to the general fund in the state treasury the sum of \$3,100,000 of earnings from the North Dakota student loan trust fund. The moneys must be transferred in the amounts and at the times requested by the director of the office of management and budget during the biennium beginning July 1, 2007, and ending June 30, 2009, and upon certification by the student loan trust trustee that sufficient moneys remain available to pay all debt service on student loan trust bonds, all required rebate payments to the United States treasury, and all program operating expenses."

Page 8, line 10, replace "project" with "program" and after the semicolon insert "for litigation that may be necessary to protect and promote the continued development of lignite resources;"

Page 8, after line 15, insert:

"SECTION 18. LEGISLATIVE INTENT - BANK PROPERTY. It is the intent of the sixtieth legislative assembly that real estate property owned by the Bank of North Dakota at 1205-1215 west main street in Bismarck not be sold by the Bank of North Dakota during the 2007-09 biennium."

Page 10, after line 11, insert:

"SECTION 26. A new subsection to section 54-17-07.3 of the North Dakota Century Code is created and enacted as follows:

A program to assist in bridging the financing gap in new residential construction in cities with populations of fewer than twenty thousand if the cost of the new construction is at least one hundred ten percent of the appraised value of the new construction. The program shall provide financial assistance in the form of a mortgage loan that is subject to payment forgiveness, in whole or in part, for new construction of multifamily housing and single-family housing, excluding mobile homes and farmsteads.

- a. The industrial commission shall establish the eligibility criteria and application procedure for the program which at a minimum must:
- (1) Require a local match in the form of a grant from private or public funding or in-kind contributions which may not exceed forty-five percent of the gap between the cost of construction and the appraised value of the new construction;
 - (2) Provide that the local match may not include state funds;
 - (3) Require an application for assistance under this program to include evidence of community support for the new construction project; and
 - (4) Require that for assistance provided for single-family housing:
 - (a) The applicant's household income may not exceed the greater of one hundred forty percent of the statewide or county average, as determined by the industrial commission; and
 - (b) That the cost of the new construction may not exceed one hundred ninety thousand dollars.
- b. The maximum assistance provided under this program for single-family housing is the lesser of twenty thousand dollars or forty-five percent of the gap between the cost of the construction and the appraised value of the new construction.
- c. The maximum assistance provided under this program for multifamily housing is the lesser of fifty thousand dollars or forty-five percent of the gap between the cost of construction and the appraised value of the new construction.
- d. Unless otherwise provided through the appropriation process, no more than thirty percent of the funds appropriated for the biennium for assistance under this subsection may be for multifamily residences.
- e. Before August first of every even-numbered year, the housing finance agency shall report to the legislative council on the status of this program, including funds awarded, the state and local impact of the funds awarded, and program recommendations."

Page 10, after line 18, insert:

"SECTION 28. EXPIRATION DATE. Section 26 of this Act is effective through July 31, 2011, and after that date is ineffective."

Page 10, line 20, after the semicolon insert "the appropriation in section 7 of this Act for the office of management and budget;" and replace "15" with "20"

Page 10, line 21, remove "and" and replace "16" with "21"

Page 10, line 23, after "fund" insert "; and section 23 of this Act"

ReNUMBER accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1014 - Summary of Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Industrial Commission				
Total all funds	\$58,870,922	\$59,155,922	\$0	\$59,155,922
Less estimated income	50,108,132	50,393,132		50,393,132
General fund	\$8,762,790	\$8,762,790	\$0	\$8,762,790
Bank of North Dakota				
Total all funds	\$48,242,359	\$51,742,359	(\$1,000,000)	\$50,742,359
Less estimated income	38,142,359	38,142,359		38,142,359
General fund	\$10,100,000	\$13,600,000	(\$1,000,000)	\$12,600,000
Housing Finance Agency				
Total all funds	\$41,534,102	\$41,534,102	\$1,900,000	\$43,434,102
Less estimated income	41,534,102	41,534,102		41,534,102
General fund	\$0	\$0	\$1,900,000	\$1,900,000
Mill and Elevator				
Total all funds	\$36,780,837	\$36,780,837	\$0	\$36,780,837
Less estimated income	36,780,837	36,780,837		36,780,837
General fund	\$0	\$0	\$0	\$0
Bill Total				
Total all funds	\$185,428,220	\$189,213,220	\$900,000	\$190,113,220
Less estimated income	166,565,430	166,850,430		166,850,430
General fund	\$18,862,790	\$22,362,790	\$900,000	\$23,262,790

House Bill No. 1014 - Industrial Commission - Senate Action

This amendment declares Section 23 of this Act to be an emergency.

A section is added to provide a transfer from the lands and minerals trust fund to the general fund.

A section is added to provide a transfer from the Bank of North Dakota to the general fund.

A section is added to provide a transfer from the student loan trust fund to the general fund.

A section is added to provide an appropriation to the Office of Management and Budget from the permanent oil tax trust fund to repay the centers of excellence loan and interest.

House Bill No. 1014 - Bank of North Dakota - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$20,295,359	\$20,295,359		\$20,295,359
Operating expenses	13,297,000	13,297,000		13,297,000
Capital assets	1,900,000	1,900,000		1,900,000
Contingencies	1,700,000	1,700,000		1,700,000
PACE fund	4,500,000	8,000,000	(\$1,000,000)	7,000,000
Ag PACE fund	1,400,000	1,400,000		1,400,000
Beginning farmer	950,000	950,000		950,000

revolving loan fund				
Biofuels PACE fund	<u>4,200,000</u>	<u>4,200,000</u>		<u>4,200,000</u>
Total all funds	\$48,242,359	\$51,742,359	(\$1,000,000)	\$50,742,359
Less estimated income	<u>38,142,359</u>	<u>38,142,359</u>		<u>38,142,359</u>
General fund	\$10,100,000	\$13,600,000	(\$1,000,000)	\$12,600,000
FTE	176.50	176.50	0.00	176.50

Dept. 471 - Bank of North Dakota - Detail of Senate Changes

	REDUCES PACE FUNDING ¹	TOTAL SENATE CHANGES
Salaries and wages		
Operating expenses		
Capital assets		
Contingencies		
PACE fund	(\$1,000,000)	(\$1,000,000)
Ag PACE fund		
Beginning farmer revolving loan fund		
Biofuels PACE fund		
Total all funds	(\$1,000,000)	(\$1,000,000)
Less estimated income		
General fund	(\$1,000,000)	(\$1,000,000)
FTE	0.00	0.00

¹ This amendment reduces funding for the partnership in assisting community expansion (PACE) fund.

A section is added to provide legislative intent that the property at the new Bank location not be sold by the Bank during the 2007-09 biennium.

House Bill No. 1014 - Housing Finance Agency - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$4,701,524	\$4,701,524		\$4,701,524
Operating expenses	9,412,778	9,412,778		9,412,778
Grants	27,319,800	27,319,800		27,319,800
Housing Finance Agency contingencies	100,000	100,000		100,000
Bridging the gap loan program			<u>\$1,900,000</u>	<u>1,900,000</u>
Total all funds	\$41,534,102	\$41,534,102	\$1,900,000	\$43,434,102
Less estimated income	<u>41,534,102</u>	<u>41,534,102</u>		<u>41,534,102</u>
General fund	\$0	\$0	\$1,900,000	\$1,900,000
FTE	43.00	43.00	0.00	43.00

Dept. 473 - Housing Finance Agency - Detail of Senate Changes

	ADDS FUNDING FOR LOAN PROGRAM ¹	TOTAL SENATE CHANGES
Salaries and wages		
Operating expenses		
Grants		
Housing Finance Agency contingencies		
Bridging the gap loan program	<u>\$1,900,000</u>	<u>\$1,900,000</u>
Total all funds	\$1,900,000	\$1,900,000
Less estimated income		

General fund	\$1,900,000	\$1,900,000
FTE	0.00	0.00

¹ This amendment provides funding for a loan program to bridge the financing gap in new residential construction in rural communities.

A section is added creating a new section to the North Dakota Century Code that establishes a loan program to assist in bridging the financial gap in new residential construction in rural communities which expires on July 31, 2011.

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PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1014

In lieu of the amendments to Engrossed House Bill No. 1014, as printed on pages 995-999 of the Senate Journal, Engrossed House Bill No. 1014 is amended as follows:

Page 1, line 3, after "6-09.17" insert "and a new subsection to section 54-17-07.3"

Page 1, line 5, after "limitations" insert "and a housing finance agency program for residential housing in rural communities"

Page 1, line 7, after the semicolon insert "to provide legislative intent; to provide an appropriation;"

Page 1, line 8, after "appropriation" insert "; to provide an expiration date"

Page 3, line 27, replace "2,300,000" with "1,300,000"

Page 3, line 31, replace "5,275,000" with "4,275,000"

Page 4, line 2, replace "6,700,000" with "5,700,000"

Page 4, after line 12, insert:

"Bridging the gap loan program	1,900,000"
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Page 4, after line 13, insert:

"Total all funds	\$9,524,088"
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Page 4, line 14, replace "Total from" with "Less" and replace "\$7,624,088" with "7,624,088"

Page 4, after line 14, insert:

"Total general fund - Adjustments/enhancements	\$1,900,000"
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Page 4, line 15, replace "8,869,132" with "9,769,132"

Page 4, line 17, replace "20,489,931" with "21,389,931"

Page 5, line 14, replace "8,000,000" with "7,000,000"

Page 5, line 18, replace "14,550,000" with "13,550,000"

Page 5, line 20, replace "13,600,000" with "12,600,000"

Page 5, after line 31, insert:

"Bridging the gap loan program	1,900,000"
--------------------------------	------------

Page 6, after line 2, insert:

"Total all funds \$43,434,102"

Page 6, line 3, replace "Total" with "Less" and replace "\$41,534,102" with "41,534,102"

Page 6, after line 3, insert:

"Total general fund \$1,900,000"

Page 6, line 4, replace "22,362,790" with "23,262,790"

Page 6, line 5, replace "166,850,430" with "172,150,430"

Page 6, line 6, replace "189,213,220" with "195,413,220"

Page 6, after line 27, insert:

"SECTION 7. APPROPRIATION - OFFICE OF MANAGEMENT AND BUDGET. There is appropriated out of any moneys in the permanent oil tax trust fund, not otherwise appropriated, the sum of \$5,300,000, or so much of the sum as may be necessary, to the office of management and budget for the purpose of repaying the Bank of North Dakota for loans and accrued interest relating to funds borrowed during the 2005-07 biennium for centers of excellence, for the period beginning with the effective date of this Act and ending June 30, 2009."

Page 7, after line 22, insert:

"SECTION 13. LANDS AND MINERALS TRUST FUND TRANSFER TO THE GENERAL FUND. During the biennium beginning July 1, 2007, and ending June 30, 2009, the director of the office of management and budget may transfer special funds from the lands and minerals trust fund to the general fund in the amount of \$15,000,000.

SECTION 14. BANK OF NORTH DAKOTA TRANSFERS TO STATE GENERAL FUND. During the biennium beginning July 1, 2007, and ending June 30, 2009, the industrial commission shall transfer to the state general fund \$60,000,000 from the current earnings and the accumulated undivided profits of the Bank of North Dakota. The moneys must be transferred in the amounts and at the times requested by the director of the office of management and budget. A transfer authorized may be made only to the extent the transfer does not reduce the Bank's capital structure below \$175,000,000.

SECTION 15. STUDENT LOAN TRUST FUND TRANSFER TO THE GENERAL FUND. The industrial commission shall transfer to the general fund in the state treasury the sum of \$3,100,000 of earnings from the North Dakota student loan trust fund. The moneys must be transferred in the amounts and at the times requested by the director of the office of management and budget during the biennium beginning July 1, 2007, and ending June 30, 2009, and upon certification by the student loan trust trustee that sufficient moneys remain available to pay all debt service on student loan trust bonds, all required rebate payments to the United States treasury, and all program operating expenses.

SECTION 16. TRANSFER. The state industrial commission shall transfer to the general fund in the state treasury the sum of \$5,000,000 from the North Dakota mill and elevator association. The moneys must be transferred in amounts and at such

times as requested by the director of the office of management and budget during the biennium beginning July 1, 2007, and ending June 30, 2009."

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Page 8, line 10, replace "project" with "program" and after the semicolon insert "for litigation that may be necessary to protect and promote the continued development of lignite resources;"

Page 8, after line 15, insert:

"SECTION 19. LEGISLATIVE INTENT - BANK PROPERTY. It is the intent of the sixtieth legislative assembly that real estate property owned by the Bank of North Dakota at 1205-1215 west main street in Bismarck not be sold by the Bank of North Dakota during the 2007-09 biennium."

Page 10, after line 11, insert:

"SECTION 27. A new subsection to section 54-17-07.3 of the North Dakota Century Code is created and enacted as follows:

A program to assist in bridging the financing gap in new residential construction in cities with populations of fewer than twenty thousand if the cost of the new construction is at least one hundred ten percent of the appraised value of the new construction. The program must provide financial assistance in the form of a mortgage loan that is subject to payment forgiveness, in whole or in part, for new construction of multifamily housing and single-family housing, excluding mobile homes and farmsteads.

a. The industrial commission shall establish the eligibility criteria and application procedure for the program which at a minimum must:

(1) Require a local match in the form of a grant from private or public funding or in-kind contributions which may not exceed forty-five percent of the gap between the cost of construction and the appraised value of the new construction;

(2) Provide that the local match may not include state funds;

(3) Require an application for assistance under this program to include evidence of community support for the new construction project; and

(4) Require that for assistance provided for single-family housing:

(a) The applicant's household income may not exceed the greater of one hundred forty percent of the statewide or county average, as determined by the industrial commission; and

(b) That the cost of the new construction may not exceed one hundred ninety thousand dollars.

b. The maximum assistance provided under this program for single-family housing is the lesser of twenty thousand dollars or forty-five percent of the gap between the cost of the construction and the appraised value of the new construction.

- c. The maximum assistance provided under this program for multifamily housing is the lesser of fifty thousand dollars or forty-five percent of the gap between the cost of construction and the appraised value of the new construction.
- d. Unless otherwise provided through the appropriation process, no more than thirty percent of the funds appropriated for the biennium for assistance under this subsection may be for multifamily residences.
- e. Before August first of every even-numbered year, the housing finance agency shall report to the legislative council on the status of this program, including funds awarded, the state and local impact of the funds awarded, and program recommendations."

Page 10, after line 18, insert:

"SECTION 29. EXPIRATION DATE. Section 27 of this Act is effective through July 31, 2011, and after that date is ineffective."

Page 10, line 20, after the semicolon insert "the appropriation in section 7 of this Act for the office of management and budget;" and replace "15" with "21"

Page 10, line 21, remove "and" and replace "16" with "22"

Page 10, line 23, after "fund" insert "; and section 24 of this Act"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1014 - Summary of Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Office of Management and Budget				
Total all funds	\$0	\$0	\$5,300,000	\$5,300,000
Less estimated income			5,300,000	5,300,000
General fund	\$0	\$0	\$0	\$0
Industrial Commission				
Total all funds	\$58,870,922	\$59,155,922	\$0	\$59,155,922
Less estimated income	50,108,132	50,393,132		50,393,132
General fund	\$8,762,790	\$8,762,790	\$0	\$8,762,790
Bank of North Dakota				
Total all funds	\$48,242,359	\$51,742,359	(\$1,000,000)	\$50,742,359
Less estimated income	38,142,359	38,142,359		38,142,359
General fund	\$10,100,000	\$13,600,000	(\$1,000,000)	\$12,600,000
Housing Finance Agency				
Total all funds	\$41,534,102	\$41,534,102	\$1,900,000	\$43,434,102
Less estimated income	41,534,102	41,534,102		41,534,102
General fund	\$0	\$0	\$1,900,000	\$1,900,000
Mill and Elevator				
Total all funds	\$36,780,837	\$36,780,837	\$0	\$36,780,837
Less estimated income	36,780,837	36,780,837		36,780,837
General fund	\$0	\$0	\$0	\$0
Bill Total				
Total all funds	\$185,428,220	\$189,213,220	\$6,200,000	\$195,413,220
Less estimated income	166,565,430	166,850,430	5,300,000	172,150,430
General fund	\$18,862,790	\$22,362,790	\$900,000	\$23,262,790

House Bill No. 1014 - Office of Management and Budget - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Loan repayment			\$5,300,000	\$5,300,000
Total all funds	\$0	\$0	\$5,300,000	\$5,300,000
Less estimated income			5,300,000	5,300,000

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General fund	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00

Dept. 110 - Office of Management and Budget - Detail of Senate Changes

	PROVIDES FUNDING FOR CENTERS OF EXCELLENCE LOAN REPAYMENT	TOTAL SENATE CHANGES
Loan repayment	<u>\$5,300,000</u>	<u>\$5,300,000</u>
Total all funds	\$5,300,000	\$5,300,000
Less estimated income	<u>5,300,000</u>	<u>5,300,000</u>
General fund	\$0	\$0
FTE	0.00	0.00

House Bill No. 1014 - Industrial Commission - Senate Action

This amendment declares Section 24 of this Act to be an emergency.

A section is added to provide a transfer from the lands and minerals trust fund to the general fund.

A section is added to provide a transfer from the Bank of North Dakota to the general fund.

A section is added to provide a transfer from the student loan trust fund to the general fund.

A section is added to provide an appropriation to the Office of Management and Budget from the permanent oil tax trust fund to repay the centers of excellence loan and interest.

A section is added to provide a transfer from the Mill and Elevator Association to the general fund.

House Bill No. 1014 - Bank of North Dakota - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$20,295,359	\$20,295,359		\$20,295,359
Operating expenses	13,297,000	13,297,000		13,297,000
Capital assets	1,900,000	1,900,000		1,900,000
Contingencies	1,700,000	1,700,000		1,700,000
PACE fund	4,500,000	8,000,000	(\$1,000,000)	7,000,000
Ag PACE fund	1,400,000	1,400,000		1,400,000
Beginning farmer revolving loan fund	950,000	950,000		950,000
Biofuels PACE fund	<u>4,200,000</u>	<u>4,200,000</u>		<u>4,200,000</u>
Total all funds	\$48,242,359	\$51,742,359	(\$1,000,000)	\$50,742,359
Less estimated income	<u>38,142,359</u>	<u>38,142,359</u>		<u>38,142,359</u>
General fund	\$10,100,000	\$13,600,000	(\$1,000,000)	\$12,600,000
FTE	176.50	176.50	0.00	176.50

Dept. 471 - Bank of North Dakota - Detail of Senate Changes

	REDUCES PACE FUNDING 1	TOTAL SENATE CHANGES
Salaries and wages		
Operating expenses		
Capital assets		
Contingencies		
PACE fund	(\$1,000,000)	(\$1,000,000)
Ag PACE fund		
Beginning farmer revolving loan fund		
Biofuels PACE fund		
Total all funds	(\$1,000,000)	(\$1,000,000)
Less estimated income		

leaf 6

General fund	(\$1,000,000)	(\$1,000,000)
FTE	0.00	0.00

¹ This amendment reduces funding for the partnership in assisting community expansion (PACE) fund.

A section is added to provide legislative intent that the property at the new Bank location not be sold by the Bank during the 2007-09 biennium.

House Bill No. 1014 - Housing Finance Agency - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$4,701,524	\$4,701,524		\$4,701,524
Operating expenses	9,412,778	9,412,778		9,412,778
Grants	27,319,800	27,319,800		27,319,800
Housing Finance Agency contingencies	100,000	100,000		100,000
Bridging the gap loan program			\$1,900,000	1,900,000
Total all funds	\$41,534,102	\$41,534,102	\$1,900,000	\$43,434,102
Less estimated income	<u>41,534,102</u>	<u>41,534,102</u>		<u>41,534,102</u>
General fund	\$0	\$0	\$1,900,000	\$1,900,000
FTE	43.00	43.00	0.00	43.00

Dept. 473 - Housing Finance Agency - Detail of Senate Changes

	ADDS FUNDING FOR LOAN PROGRAM ¹	TOTAL SENATE CHANGES
Salaries and wages		
Operating expenses		
Grants		
Housing Finance Agency contingencies		
Bridging the gap loan program	\$1,900,000	\$1,900,000
Total all funds	\$1,900,000	\$1,900,000
Less estimated income		
General fund	\$1,900,000	\$1,900,000
FTE	0.00	0.00

¹ This amendment provides funding for a loan program to bridge the financing gap in new residential construction in rural communities.

A section is added creating a new section of North Dakota Century Code that establishes a loan program to assist in bridging the financial gap in new residential construction in rural communities which expires on July 31, 2011.

REPORT OF STANDING COMMITTEE

HB 1014, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1014 was placed on the Sixth order on the calendar.

In lieu of the amendments to Engrossed House Bill No. 1014, as printed on pages 995-999 of the Senate Journal, Engrossed House Bill No. 1014 is amended as follows:

Page 1, line 3, after "6-09.17" insert "and a new subsection to section 54-17-07.3"

Page 1, line 5, after "limitations" insert "and a housing finance agency program for residential housing in rural communities"

Page 1, line 7, after the semicolon insert "to provide legislative intent; to provide an appropriation;"

Page 1, line 8, after "appropriation" insert "; to provide an expiration date"

Page 3, line 27, replace "2,300,000" with "1,300,000"

Page 3, line 31, replace "5,275,000" with "4,275,000"

Page 4, line 2, replace "6,700,000" with "5,700,000"

Page 4, after line 12, insert:
"Bridging the gap loan program 1,900,000"

Page 4, after line 13, insert:
"Total all funds \$9,524,088"

Page 4, line 14, replace "Total from" with "Less" and replace "\$7,624,088" with "7,624,088"

Page 4, after line 14, insert:
"Total general fund - Adjustments/enhancements \$1,900,000"

Page 4, line 15, replace "8,869,132" with "9,769,132"

Page 4, line 17, replace "20,489,931" with "21,389,931"

Page 5, line 14, replace "8,000,000" with "7,000,000"

Page 5, line 18, replace "14,550,000" with "13,550,000"

Page 5, line 20, replace "13,600,000" with "12,600,000"

Page 5, after line 31, insert:
"Bridging the gap loan program 1,900,000"

Page 6, after line 2, insert:
"Total all funds \$43,434,102"

Page 6, line 3, replace "Total" with "Less" and replace "\$41,534,102" with "41,534,102"

Page 6, after line 3, insert:
"Total general fund \$1,900,000"

Page 6, line 4, replace "22,362,790" with "23,262,790"

Page 6, line 5, replace "166,850,430" with "172,150,430"

Page 6, line 6, replace "189,213,220" with "195,413,220"

Page 6, after line 27, insert:

"SECTION 7. APPROPRIATION - OFFICE OF MANAGEMENT AND BUDGET. There is appropriated out of any moneys in the permanent oil tax trust fund, not otherwise appropriated, the sum of \$5,300,000, or so much of the sum as may be necessary, to the office of management and budget for the purpose of repaying the Bank of North Dakota for loans and accrued interest relating to funds borrowed during the 2005-07 biennium for centers of excellence, for the period beginning with the effective date of this Act and ending June 30, 2009."

Page 7, after line 22, insert:

"SECTION 13. LANDS AND MINERALS TRUST FUND TRANSFER TO THE GENERAL FUND. During the biennium beginning July 1, 2007, and ending June 30, 2009, the director of the office of management and budget may transfer special funds from the lands and minerals trust fund to the general fund in the amount of \$15,000,000.

SECTION 14. BANK OF NORTH DAKOTA TRANSFERS TO STATE GENERAL FUND. During the biennium beginning July 1, 2007, and ending June 30, 2009, the industrial commission shall transfer to the state general fund \$60,000,000 from the current earnings and the accumulated undivided profits of the Bank of North Dakota. The moneys must be transferred in the amounts and at the times requested by the director of the office of management and budget. A transfer authorized may be made only to the extent the transfer does not reduce the Bank's capital structure below \$175,000,000.

SECTION 15. STUDENT LOAN TRUST FUND TRANSFER TO THE GENERAL FUND. The industrial commission shall transfer to the general fund in the state treasury the sum of \$3,100,000 of earnings from the North Dakota student loan trust fund. The moneys must be transferred in the amounts and at the times requested by the director of the office of management and budget during the biennium beginning July 1, 2007, and ending June 30, 2009, and upon certification by the student loan trust trustee that sufficient moneys remain available to pay all debt service on student loan trust bonds, all required rebate payments to the United States treasury, and all program operating expenses.

SECTION 16. TRANSFER. The state industrial commission shall transfer to the general fund in the state treasury the sum of \$5,000,000 from the North Dakota mill and elevator association. The moneys must be transferred in amounts and at such times as requested by the director of the office of management and budget during the biennium beginning July 1, 2007, and ending June 30, 2009."

Page 8, line 10, replace "project" with "program" and after the semicolon insert "for litigation that may be necessary to protect and promote the continued development of lignite resources;"

Page 8, after line 15, insert:

"SECTION 19. LEGISLATIVE INTENT - BANK PROPERTY. It is the intent of the sixtieth legislative assembly that real estate property owned by the Bank of North

Dakota at 1205-1215 west main street in Bismarck not be sold by the Bank of North Dakota during the 2007-09 biennium."

Page 10, after line 11, insert:

"SECTION 27. A new subsection to section 54-17-07.3 of the North Dakota Century Code is created and enacted as follows:

A program to assist in bridging the financing gap in new residential construction in cities with populations of fewer than twenty thousand if the cost of the new construction is at least one hundred ten percent of the appraised value of the new construction. The program must provide financial assistance in the form of a mortgage loan that is subject to payment forgiveness, in whole or in part, for new construction of multifamily housing and single-family housing, excluding mobile homes and farmsteads.

a. The industrial commission shall establish the eligibility criteria and application procedure for the program which at a minimum must:

(1) Require a local match in the form of a grant from private or public funding or in-kind contributions which may not exceed forty-five percent of the gap between the cost of construction and the appraised value of the new construction;

(2) Provide that the local match may not include state funds;

(3) Require an application for assistance under this program to include evidence of community support for the new construction project; and

(4) Require that for assistance provided for single-family housing:

(a) The applicant's household income may not exceed the greater of one hundred forty percent of the statewide or county average, as determined by the industrial commission; and

(b) That the cost of the new construction may not exceed one hundred ninety thousand dollars.

b. The maximum assistance provided under this program for single-family housing is the lesser of twenty thousand dollars or forty-five percent of the gap between the cost of the construction and the appraised value of the new construction.

c. The maximum assistance provided under this program for multifamily housing is the lesser of fifty thousand dollars or forty-five percent of the gap between the cost of construction and the appraised value of the new construction.

d. Unless otherwise provided through the appropriation process, no more than thirty percent of the funds appropriated for the biennium for assistance under this subsection may be for multifamily residences.

e. Before August first of every even-numbered year, the housing finance agency shall report to the legislative council on the status of this

program, including funds awarded, the state and local impact of the funds awarded, and program recommendations."

Page 10, after line 18, insert:

"SECTION 29. EXPIRATION DATE. Section 27 of this Act is effective through July 31, 2011, and after that date is ineffective."

Page 10, line 20, after the semicolon insert "the appropriation in section 7 of this Act for the office of management and budget;" and replace "15" with "21"

Page 10, line 21, remove "and" and replace "16" with "22"

Page 10, line 23, after "fund" insert "; and section 24 of this Act"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1014 - Summary of Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Office of Management and Budget				
Total all funds	\$0	\$0	\$5,300,000	\$5,300,000
Less estimated income			<u>5,300,000</u>	<u>5,300,000</u>
General fund	\$0	\$0	\$0	\$0
Industrial Commission				
Total all funds	\$58,870,922	\$59,155,922	\$0	\$59,155,922
Less estimated income	<u>50,108,132</u>	<u>50,393,132</u>		<u>50,393,132</u>
General fund	\$8,762,790	\$8,762,790	\$0	\$8,762,790
Bank of North Dakota				
Total all funds	\$48,242,359	\$51,742,359	(\$1,000,000)	\$50,742,359
Less estimated income	<u>38,142,359</u>	<u>38,142,359</u>		<u>38,142,359</u>
General fund	\$10,100,000	\$13,600,000	(\$1,000,000)	\$12,600,000
Housing Finance Agency				
Total all funds	\$41,534,102	\$41,534,102	\$1,900,000	\$43,434,102
Less estimated income	<u>41,534,102</u>	<u>41,534,102</u>		<u>41,534,102</u>
General fund	\$0	\$0	\$1,900,000	\$1,900,000
Mill and Elevator				
Total all funds	\$36,780,837	\$36,780,837	\$0	\$36,780,837
Less estimated income	<u>36,780,837</u>	<u>36,780,837</u>		<u>36,780,837</u>
General fund	\$0	\$0	\$0	\$0
Bill Total				
Total all funds	\$185,428,220	\$189,213,220	\$6,200,000	\$195,413,220
Less estimated income	<u>166,565,430</u>	<u>166,850,430</u>	<u>5,300,000</u>	<u>172,150,430</u>
General fund	\$18,862,790	\$22,362,790	\$900,000	\$23,262,790

House Bill No. 1014 - Office of Management and Budget - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Loan repayment			\$5,300,000	\$5,300,000
Total all funds	\$0	\$0	\$5,300,000	\$5,300,000
Less estimated income			<u>5,300,000</u>	<u>5,300,000</u>
General fund	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00

Dept. 110 - Office of Management and Budget - Detail of Senate Changes

	PROVIDES FUNDING FOR CENTERS OF EXCELLENCE LOAN REPAYMENT	TOTAL SENATE CHANGES
Loan repayment	<u>\$5,300,000</u>	<u>\$5,300,000</u>
Total all funds	\$5,300,000	\$5,300,000
Less estimated income	<u>5,300,000</u>	<u>5,300,000</u>
General fund	\$0	\$0
FTE	0.00	0.00

House Bill No. 1014 - Industrial Commission - Senate Action

This amendment declares Section 24 of this Act to be an emergency.

A section is added to provide a transfer from the lands and minerals trust fund to the general fund.

A section is added to provide a transfer from the Bank of North Dakota to the general fund.

A section is added to provide a transfer from the student loan trust fund to the general fund.

A section is added to provide an appropriation to the Office of Management and Budget from the permanent oil tax trust fund to repay the centers of excellence loan and interest.

A section is added to provide a transfer from the Mill and Elevator Association to the general fund.

House Bill No. 1014 - Bank of North Dakota - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$20,295,359	\$20,295,359		\$20,295,359
Operating expenses	13,297,000	13,297,000		13,297,000
Capital assets	1,900,000	1,900,000		1,900,000
Contingencies	1,700,000	1,700,000		1,700,000
PACE fund	4,500,000	8,000,000	(\$1,000,000)	7,000,000
Ag PACE fund	1,400,000	1,400,000		1,400,000
Beginning farmer revolving loan fund	950,000	950,000		950,000
Biofuels PACE fund	<u>4,200,000</u>	<u>4,200,000</u>		<u>4,200,000</u>
Total all funds	\$48,242,359	\$51,742,359	(\$1,000,000)	\$50,742,359
Less estimated income	<u>38,142,359</u>	<u>38,142,359</u>		<u>38,142,359</u>
General fund	\$10,100,000	\$13,600,000	(\$1,000,000)	\$12,600,000
FTE	176.50	176.50	0.00	176.50

Dept. 471 - Bank of North Dakota - Detail of Senate Changes

	REDUCES PACE FUNDING 1	TOTAL SENATE CHANGES
Salaries and wages		

Operating expenses		
Capital assets		
Contingencies		
PACE fund	(\$1,000,000)	(\$1,000,000)
Ag PACE fund		
Beginning farmer revolving loan fund		
Biofuels PACE fund		
Total all funds	(\$1,000,000)	(\$1,000,000)
Less estimated income		
General fund	(\$1,000,000)	(\$1,000,000)
FTE	0.00	0.00

¹ This amendment reduces funding for the partnership in assisting community expansion (PACE) fund.

A section is added to provide legislative intent that the property at the new Bank location not be sold by the Bank during the 2007-09 biennium.

House Bill No. 1014 - Housing Finance Agency - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$4,701,524	\$4,701,524		\$4,701,524
Operating expenses	9,412,778	9,412,778		9,412,778
Grants	27,319,800	27,319,800		27,319,800
Housing Finance Agency contingencies	100,000	100,000		100,000
Bridging the gap loan program			\$1,900,000	1,900,000
Total all funds	\$41,534,102	\$41,534,102	\$1,900,000	\$43,434,102
Less estimated income	41,534,102	41,534,102		41,534,102
General fund	\$0	\$0	\$1,900,000	\$1,900,000
FTE	43.00	43.00	0.00	43.00

Dept. 473 - Housing Finance Agency - Detail of Senate Changes

	ADDS FUNDING FOR LOAN PROGRAM ¹	TOTAL SENATE CHANGES
Salaries and wages		
Operating expenses		
Grants		
Housing Finance Agency contingencies		
Bridging the gap loan program	\$1,900,000	\$1,900,000
Total all funds	\$1,900,000	\$1,900,000
Less estimated income		
General fund	\$1,900,000	\$1,900,000
FTE	0.00	0.00

¹ This amendment provides funding for a loan program to bridge the financing gap in new residential construction in rural communities.

A section is added creating a new section of North Dakota Century Code that establishes a loan program to assist in bridging the financial gap in new residential construction in rural communities which expires on July 31, 2011.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1014

This amendment is for consideration for inclusion in a set of amendments under consideration regarding Engrossed House Bill No. 1014.

Page 1, line 7, after "fund" insert "to allow the acceptance and expenditure of certain moneys"

Page 10, after line 18, insert:

"SECTION 22. ACCEPTANCE AND EXPENDITURE OF CERTAIN MONEYS.
The sixtieth legislative assembly's action on House Bill No. 1004 does not preclude the university of North Dakota from receiving and spending federal and other funds pursuant to North Dakota Century Code sections 54-16-04.1 and 54-16-04.2."

Date: 4/25
Roll Call Vote #:

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1014

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken

D Pasanend

Motion Made By _____

Seconded By _____

Senators	Yes	No	Senators	Yes	No
Senator Ray Holmberg, Chrm	✓		Senator Aaron Krauter	✓	
Senator Bill Bowman, V Chrm	✓		Senator Elroy N. Lindaas	✓	
Senator Tony Grindberg, V Chrm	✓		Senator Tim Mathern	✓	
Senator Randel Christmann	✓		Senator Larry J. Robinson	✓	
Senator Tom Fischer	✓		Senator Tom Seymour	✓	
Senator Ralph L. Kilzer	✓		Senator Harvey Tallackson	✓	
Senator Karen K. Krebsbach	✓				
Senator Rich Wardner	✓				

Total (Yes) 14 No _____

Absent _____

Floor Assignment Wardner

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

REPORT OF STANDING COMMITTEE

HB 1014, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1014 was placed on the Sixth order on the calendar.

In lieu of the amendments to Engrossed House Bill No. 1014, as printed on pages 1087-1092 of the Senate Journal, Engrossed House Bill No. 1014 is amended as follows:

Page 1, line 3, after the second "to" insert "provide for prioritization of carbon sequestration and storage projects; to"

Page 1, line 5, replace the second "and" with a comma

Page 1, line 6, after "6-09.17-02" insert ", and subdivision d of subsection 2 of section 57-39.4-10"

Page 1, line 7, replace "and" with a comma and after "fund" insert ", and sourcing rules for sales and use tax purposes; to provide legislative intent; to provide an appropriation"

Page 1, line 8, after "appropriation" insert "; to provide an appropriation reduction"

Page 6, line 4, replace "22,362,790" with "22,144,184"

Page 6, line 5, replace "166,850,430" with "171,667,931"

Page 6, line 6, replace "189,213,220" with "193,812,115"

Page 6, after line 27, insert:

"SECTION 7. APPROPRIATION - OFFICE OF MANAGEMENT AND BUDGET. There is appropriated out of any moneys in the permanent oil tax trust fund, not otherwise appropriated, the sum of \$5,300,000, or so much of the sum as may be necessary, to the office of management and budget for the purpose of repaying the Bank of North Dakota for loans and accrued interest relating to funds borrowed during the 2005-07 biennium for centers of excellence, for the period beginning with the effective date of this Act and ending June 30, 2009."

Page 7, after line 22, insert:

"SECTION 13. LANDS AND MINERALS TRUST FUND TRANSFER TO THE GENERAL FUND. During the biennium beginning July 1, 2007, and ending June 30, 2009, the director of the office of management and budget may transfer special funds from the lands and minerals trust fund to the general fund in the amount of \$15,000,000.

SECTION 14. BANK OF NORTH DAKOTA TRANSFERS TO STATE GENERAL FUND. During the biennium beginning July 1, 2007, and ending June 30, 2009, the industrial commission shall transfer to the state general fund \$60,000,000 from the current earnings and the accumulated undivided profits of the Bank of North Dakota. The moneys must be transferred in the amounts and at the times requested by the director of the office of management and budget. A transfer authorized may be made only to the extent the transfer does not reduce the Bank's capital structure below \$175,000,000.

SECTION 15. STUDENT LOAN TRUST FUND TRANSFER TO THE GENERAL FUND. The industrial commission shall transfer to the general fund in the

state treasury the sum of \$3,100,000 of earnings from the North Dakota student loan trust fund. The moneys must be transferred in the amounts and at the times requested by the director of the office of management and budget during the biennium beginning July 1, 2007, and ending June 30, 2009, and upon certification by the student loan trust trustee that sufficient moneys remain available to pay all debt service on student loan trust bonds, all required rebate payments to the United States treasury, and all program operating expenses.

SECTION 16. TRANSFER. The state industrial commission shall transfer to the general fund in the state treasury the sum of \$5,000,000 from the North Dakota mill and elevator association. The moneys must be transferred in amounts and at such times as requested by the director of the office of management and budget during the biennium beginning July 1, 2007, and ending June 30, 2009."

Page 8, line 10, replace "project" with "program" and after the semicolon insert "for litigation that may be necessary to protect and promote the continued development of lignite resources;"

Page 8, after line 15, insert:

"SECTION 19. LEGISLATIVE INTENT - BANK PROPERTY. It is the intent of the sixtieth legislative assembly that real estate property owned by the Bank of North Dakota at 1205-1215 west main street in Bismarck not be sold by the Bank of North Dakota during the 2007-09 biennium."

Page 9, remove lines 17 through 21

Page 10, after line 11, insert:

"SECTION 26. AMENDMENT. Subdivision d of subsection 2 of section 57-39.4-10 of the North Dakota Century Code as amended by Senate Bill No. 2380, as approved by the sixtieth legislative assembly, is amended and reenacted as follows:

- d. Until December 31, ~~2007~~ 2009, florist sales as defined by each member state. Prior to this date, these items must be sourced according to the requirements of each member state.

SECTION 27. Carbon sequestration and storage projects - Priority. Notwithstanding any other provision of law, the industrial commission, department of mineral resources, public service commission, or any other state entity that approves a carbon sequestration or storage project shall give priority to an operation located in this state for the expected life of the operation."

Page 10, after line 18, insert:

"SECTION 29. APPROPRIATION - STATE CONTINGENCY FUND. In addition to the amount appropriated to the office of management and budget in House Bill No. 1522, there is appropriated from the general fund in the state treasury, not otherwise appropriated, the sum of \$200,000, or so much of the sum as may be necessary, to the office of management and budget for state contingencies for the biennium beginning July 1, 2007, and ending June 30, 2009.

SECTION 30. APPROPRIATIONS REDUCTIONS. The amounts listed reduce the general fund and special funds appropriation authority enacted by the sixtieth legislative assembly of the state of North Dakota for the various agencies and institutions for the biennium beginning July 1, 2007, and ending June 30, 2009:

AGENCY OR INSTITUTION	GENERAL FUND REDUCTION	SPECIAL FUNDS REDUCTION	TOTAL REDUCTION
Governor's office	\$2,694		\$2,694
Secretary of state	2,522	\$108	2,630
Office of management and budget	5,133	1,245	6,378
Information technology department	2,743	40,947	43,690
State auditor	5,291	2,333	7,624
State treasurer	722		722
Attorney general	18,953	3,853	22,806
Tax commissioner	14,845		14,845
Office of administrative hearings		1,228	1,228
Legislative council	5,288		5,288
Judicial branch	52,634	1,394	54,028
Commission on legal council for indigents	2,820		2,820
Retirement and investment office		2,396	2,396
Public employees retirement		3,562	3,562
Department of public instruction	3,451	8,069	11,520
Land department		2,564	2,564
State library	2,199	347	2,546
School for the deaf	2,824	144	2,968
North Dakota vision services - School for the blind	864	260	1,124
Department of career and technical education	1,057	83	1,140
Department of health	11,930	26,844	38,774
Veterans' home	2,212	5,194	7,406
Indian affairs commission	496		496
Department of veterans affairs	576		576
Department of human services	132,310	77,339	209,649
Protection and advocacy project	623	2,549	3,172
Job service North Dakota	125	27,920	28,045
Insurance commissioner		5,855	5,855
Industrial commission	6,786	786	7,572
Labor commissioner	893	357	1,250
Public service commission	3,981	2,073	6,054
Aeronautics commission		808	808
Department of financial institutions		4,438	4,438
Securities department	1,278		1,278
Bank of North Dakota		20,492	20,492
Housing finance agency		4,812	4,812
Mill and elevator association		15,228	15,228
Workforce safety and insurance		32,577	32,577
Highway patrol	15,949	8,215	24,164
Department of corrections and rehabilitation	65,693	3,843	69,536
Adjutant general	9,033	18,719	27,752
Department of commerce	7,579	2,777	10,356
Agriculture commissioner	4,129	3,645	7,774
State seed department		3,284	3,284
Upper great plains transportation	115	955	1,070

institute			
Branch research centers	2,576	920	3,496
North Dakota state university	2,518	1,902	4,420
extension service			
Northern crops institute	80	62	142
Main research center	4,167	1,933	6,100
Agronomy seed farm		184	184
Racing commission	48	226	274
State historical society	5,576	696	6,272
Council on the arts	508		508
Game and fish department		20,072	20,072
Parks and recreation department	5,126	272	5,398
State water commission	10,259	1,033	11,292
Department of transportation		<u>117,956</u>	<u>117,956</u>
Total	\$418,606	\$482,499	\$901,105"

Page 10, line 20, after "fund" insert "; the appropriation in section 7 of this Act for the office of management and budget" and replace "15" with "21"

Page 10, line 21, remove "and" and replace "16" with "22"

Page 10, line 23, after "fund" insert "; and section 23 of this Act"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1014 - Summary of Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Office of Management and Budget				
Total all funds	\$0	\$0	\$5,500,000	\$5,500,000
Less estimated income			5,300,000	5,300,000
General fund	<u>\$0</u>	<u>\$0</u>	<u>\$200,000</u>	<u>\$200,000</u>
Industrial Commission				
Total all funds	\$58,870,922	\$59,155,922	\$0	\$59,155,922
Less estimated income	50,108,132	50,393,132		50,393,132
General fund	<u>\$8,762,790</u>	<u>\$8,762,790</u>	<u>\$0</u>	<u>\$8,762,790</u>
Bank of North Dakota				
Total all funds	\$48,242,359	\$51,742,359	\$0	\$51,742,359
Less estimated income	38,142,359	38,142,359		38,142,359
General fund	<u>\$10,100,000</u>	<u>\$13,600,000</u>	<u>\$0</u>	<u>\$13,600,000</u>
Housing Finance Agency				
Total all funds	\$41,534,102	\$41,534,102	\$0	\$41,534,102
Less estimated income	41,534,102	41,534,102		41,534,102
General fund	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Mill and Elevator				
Total all funds	\$36,780,837	\$36,780,837	\$0	\$36,780,837
Less estimated income	36,780,837	36,780,837		36,780,837
General fund	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Appropriation reductions				
Total all funds	\$0	\$0	(\$901,105)	(\$901,105)
Less estimated Income			(482,499)	(482,499)
General fund	<u>\$0</u>	<u>\$0</u>	<u>(\$418,606)</u>	<u>(\$418,606)</u>
Bill Total				
Total all funds	\$185,428,220	\$189,213,220	\$4,598,895	\$193,812,115
Less estimated income	166,565,430	166,850,430	4,817,501	171,667,931
General fund	<u>\$18,862,790</u>	<u>\$22,362,790</u>	<u>(\$218,606)</u>	<u>\$22,144,184</u>

House Bill No. 1014 - Office of Management and Budget - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Loan repayment			<u>\$5,500,000</u>	<u>\$5,500,000</u>
Total all funds	\$0	\$0	\$5,500,000	\$5,500,000
Less estimated income			<u>5,300,000</u>	<u>5,300,000</u>
General fund	\$0	\$0	\$200,000	\$200,000
FTE	0.00	0.00	0.00	0.00

Dept. 110 - Office of Management and Budget - Detail of Senate Changes

	LOAN REPAYMENT AND STATE CONTINGENCIES ¹	TOTAL SENATE CHANGES
Loan repayment	<u>\$5,500,000</u>	<u>\$5,500,000</u>
Total all funds	\$5,500,000	\$5,500,000
Less estimated income	<u>5,300,000</u>	<u>5,300,000</u>
General fund	\$200,000	\$200,000
FTE	0.00	0.00

¹ Sections are added to provide an appropriation to the Office of Management and Budget from the permanent oil tax trust fund to repay the centers of excellence loan and interest, and to provide additional funding for state contingencies from \$500,000 to \$700,000.

House Bill No. 1014 - Industrial Commission - Senate Action

This amendment declares Section 23 of this Act to be an emergency.

A section is added to provide a transfer from the lands and minerals trust fund to the general fund.

A section is added to provide a transfer from the Bank of North Dakota to the general fund.

A section is added to provide a transfer from the student loan trust fund to the general fund.

A section is added to provide a transfer from the Mill and Elevator Association to the general fund.

A section is added providing an additional \$200,000 to the Office of Management and Budget for state contingencies.

A section is added that reduces appropriations included in the executive budget relating to Senate Bill No. 2050. Senate Bill No. 2050 would have increased the monthly contribution to the state employee retiree health benefit fund by .15 percent, from 1 to 1.15 percent.

House Bill No. 1014 - Bank of North Dakota - Senate Action

A section is added to provide legislative intent that the property at the new Bank location not be sold by the Bank during the 2007-09 biennium.

House Bill No. 1014 - Housing Finance Agency - Senate Action

No changes.

A section is added amending Section 57-39.4-10 of the North Dakota Century Code relating to sourcing rules for sales and use tax purposes.

2007 TESTIMONY

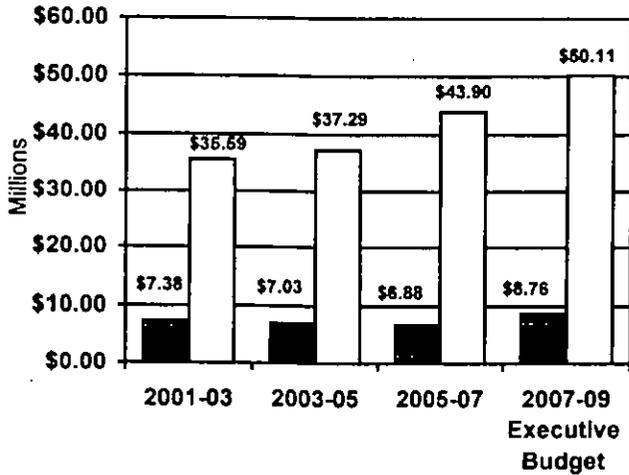
HB 1014

Department 405 - Industrial Commission
House Bill No. 1014

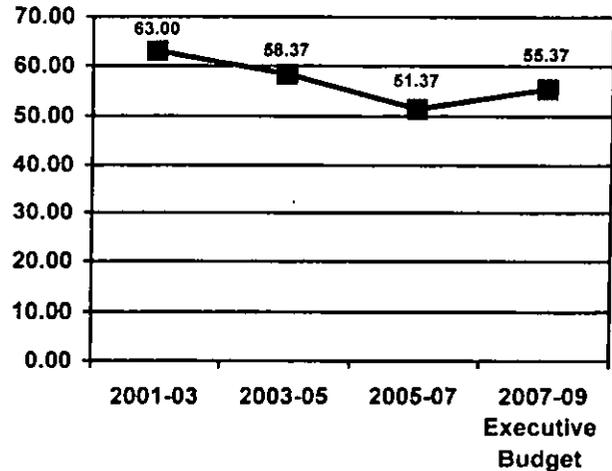
	FTE Positions	General Fund	Other Funds	Total
2007-09 Executive Budget	55.37	\$8,762,790	\$50,108,132	\$58,870,922
2005-07 Legislative Appropriations	51.37 ¹	6,878,658	43,903,138	50,781,796
Increase (Decrease)	4.00	\$1,884,132	\$6,204,994	\$8,089,126

¹The number of FTE positions for the 2005-07 biennium has not been adjusted to reflect the additional 2 FTE positions authorized by Emergency Commission action during the 2005-07 biennium.

Agency Funding



FTE Positions



■ General Fund □ Other Funds

Executive Budget Highlights

	General Fund	Other Funds	Total
1. Increases funding for lignite research program		\$4,210,600	\$4,210,600
2. Increases funding for bond payments for bonds authorized by the 2005 Legislative Assembly with payments beginning in the 2007-09 biennium		\$2,182,604	\$2,182,604
3. Provides funding for 1 energy technician FTE position and 1 paleontology FTE position	\$274,295		\$274,295
4. Changes the funding source for 2 FTE positions previously funded from the lands and minerals trust fund in the 2005-07 biennium	\$276,962	(\$225,000)	\$51,962
5. Transfers \$250,000 from the general fund to the fossil restoration fund for the Corridor of Time and other projects (executive budget identified as one-time funding)	\$250,000		\$250,000
6. Provides funding for core and sample library repairs (executive budget identified as one-time funding)	\$230,000		\$230,000
7. Provides funding for inflationary increases	\$325,162		\$325,162

Continuing Appropriations

- Fossil excavation and restoration fund - NDCC Section 54-17.4-09.1 - Excavation and restoration of fossils.
- Cartographic products fund - NDCC Section 54-17.4-10 - Topographic map sales and purchases.
- Global positioning system community base station - NDCC Section 54-17.4-12 - For maintenance of base station.
- Oil and gas reservoir data fund - NDCC Section 38-08-04.6 - Oil and gas reservoir data.
- Abandoned oil and gas reclamation fund - NDCC Section 38-08-04.5 - Abandoned oil and gas reclamation.

Cash bond fund - NDCC Section 38-08-04.11 - For defraying costs incurred in plugging and reclamation of abandoned oil and gas wells and related activities.

Oil and gas research fund - NDCC Chapter 57-51.1 - Oil and gas research and education.

Lignite research fund - NDCC Section 57-61-01.5 - Research, development, and marketing for lignite industry.

Major Related Legislation

At this time, no major legislation has been introduced affecting this agency.



INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Agriculture Commissioner

**Testimony for House Bill No. 1014
House Appropriations Committee
Government Operations Division
Karlene Fine, Executive Director and Secretary
of the Industrial Commission
January 9, 2007**

Mr. Chairman and members of the Government Operations Division, my name is Karlene Fine and I am Executive Director and Secretary for the Industrial Commission of North Dakota. House Bill 1014 includes the appropriations for the Industrial Commission administrative office and those agencies and programs that report to the Industrial Commission.

The Industrial Commission is made up of the Governor, as Chairman, the Attorney General and the Agriculture Commissioner. The Industrial Commission is responsible for overseeing the State's industries—the Bank of North Dakota and State Mill. In the area of finance the Commission also oversees the Public Finance Authority, the Student Loan Trust, the North Dakota Building Authority and the Housing Finance Agency. In the area of natural resources and regulation the Commission oversees the Department of Mineral Resources which includes the oil and gas, geophysical exploration and subsurface mineral regulation in addition to other programs through its Oil and Gas Division and the Geological Survey. The Commission is also involved in research through the Lignite Research, Development and Marketing Program and the Oil and Gas Research Program. Last session the North Dakota Transmission Authority was added to the responsibilities of the Industrial Commission.

This morning I will primarily be focusing on Subdivision 1 of Sections 1, 2 and 3 of House Bill 1014 or Budget No. 405. Subdivision 1 includes the appropriations for the administrative office of the Industrial Commission as well as the Department of Mineral Resources (Oil and Gas Division and Geological Survey), Public Finance Authority, Lignite Research, Development and Marketing Program and the lease (bond) payments for projects financed by the Building Authority.

The administrative office for the Industrial Commission consists of two full-time employees and the budget includes funding for these two positions along with the needed dollars for operating the office. The administrative budget also includes the funding for the state's participation in the Interstate Oil and Gas Compact Commission. Governor Hoeven was just recently elected as the Chairman of this multi-state organization which speaks on behalf of the oil and gas producing states before Congress and other national groups regarding legislation and regulation of the oil and gas industry.

The administrative office budget request is \$364,523, when you exclude the Lignite Research Program and the lease payments. This is an increase from the prior biennium of \$26,482. The administrative budget is funded by the agencies that report to the Industrial Commission. You will see this funding

Karlene K. Fine, Executive Director and Secretary
State Capitol, 14th Floor - 600 E Boulevard Ave Dept 405 - Bismarck, ND 58505-0840

E-Mail: kfine@nd.gov

Phone: (701) 328-3722 FAX: (701) 328-2820

www.nd.gov

noted in Sections 7 through 11 where authority is being requested for these agencies to transfer funds to the Industrial Commission. No General Fund dollars are utilized for the operations of the administrative office.

Section 5 of House Bill 1014 includes language that would allow the Industrial Commission to utilize funds that may become available from bonds issued by the Commission under Chapters 4-36 (agricultural revenue bonds) and 54-17.2 (North Dakota Building Authority) and Section 54-17-25 (Student Loan Trust) upon the approval of the Emergency Commission. This authority would allow reimbursement from the bond issues for extra costs incurred in preparation of the financing.

Subdivision 1 of Section 3 includes the lease payments (bond payments) for the North Dakota Building Authority in the amount of \$29,475,016 – see line 27 on page 4. This is an increase from the prior biennium of \$2,182,604. Since 1985, the Industrial Commission has issued several series of bonds as directed by the Legislature. Projects financed have been located at the State Penitentiary, Developmental Center located in Grafton, State Hospital, Youth Correctional Center, International Peace Garden, various buildings on the University System campuses, handicapped accessibility construction on the campuses, Southeast Human Services Center in Fargo, Health Department, James River Correctional Center in Jamestown, Historical Society projects, Crime Lab, Parks and Recreation, Extension Service, Job Service in Bismarck and Grand Forks and the Veterans' Home.

Attached for your information is the Debt Service Schedules (Exhibit A) for all the outstanding bond issues except the bonds for ConnectND. As you are aware, the proposed Executive Budget does not include any bonding by the North Dakota Building Authority. If there was bonding proposed Exhibit A shows that there is available debt service under the 10% of 1¢ statutory limitation in the amount of \$5.5 million (approximately \$54 million for projects). Also attached is Exhibit B which shows the debt service schedule for those bond issues that are not under the statutory limitation—energy conservation projects and ConnectND.

*Based on Current Interest rates
and Projected Sales Tax Income*

Section 14 provides the breakdown on the source of funding for the \$29 million of lease (bond) payments for the upcoming biennium. The following non-General Fund sources or energy conservation savings* will be utilized to pay a portion of these payments:

*University System – UND (02A)	\$1,289,371
*University System – NDSU (02A)	\$ 84,782
*University System – UND (05A)	\$ 117,089
*Missouri River Correctional Center (03B)	\$ 17,958
Job Service North Dakota (02A)	\$ 461,955
Job Service North Dakota (93B/02C)	\$ 281,950
Veterans' Home (9 0C/93A/03A)	\$ 256,114
Historical Society (05A)	\$ 33,333
University System (90/93A/03A)	\$ 312,500
University System (01A)	\$ 717,250
Human Services (92A/98B) (federal funds)	\$ 7,962
Dept. of Health (02A) (federal funds)	<u>\$ 343,994</u>
	\$3,924,258

Testimony on House Bill 1014
Page 3
January 9, 2007

In addition the ConnectND bond costs for the 2007-2009 biennium total \$5,407,075. Seventy-one percent of these costs are paid by the University System. *99% State*

I have prepared some information regarding the continuing appropriations related to the Industrial Commission. That information is behind the continuing appropriation tab. If you wish to discuss this information I will be available later this afternoon following Mike Anderson's presentation on the Housing Finance Agency.

Thank you for the opportunity to present testimony on the Industrial Commission budget. With me today is John Dwyer, Chairman of the Lignite Research Council. He will speak to the \$19,410,500 appropriation for the Lignite Research, Development and Marketing Program found on line 25 on Page 4.



INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Agriculture Commissioner

**Testimony for Engrossed House Bill No. 1014
Senate Appropriations Committee
Karlene Fine, Executive Director and Secretary
of the Industrial Commission
February 21, 2007**

Mr. Chairman and members of the Senate Appropriations Committee, my name is Karlene Fine and I am Executive Director and Secretary for the Industrial Commission of North Dakota. Engrossed House Bill 1014 includes the appropriations for the Industrial Commission administrative office and those agencies and programs that report to the Industrial Commission.

The Industrial Commission is made up of the Governor, as Chairman, the Attorney General and the Agriculture Commissioner. The Industrial Commission is responsible for overseeing the State's industries—the Bank of North Dakota and State Mill. In the area of finance the Commission also oversees the Public Finance Authority, the Student Loan Trust, the North Dakota Building Authority and the Housing Finance Agency. In the area of natural resources and regulation the Commission oversees the Department of Mineral Resources which includes the oil and gas, geophysical exploration and subsurface mineral regulation in addition to other programs through its Oil and Gas Division and the Geological Survey. The Commission is also involved in research through the Lignite Research, Development and Marketing Program and the Oil and Gas Research Program. Last session the North Dakota Transmission Authority was added to the responsibilities of the Industrial Commission.

This morning I will primarily be focusing on Subdivision 1 of Sections 1, 2 and 3 of Engrossed House Bill 1014 or Budget No. 405. Subdivision 1 includes the appropriations for the administrative office of the Industrial Commission as well as the Department of Mineral Resources (Oil and Gas Division and Geological Survey), Public Finance Authority, Lignite Research, Development and Marketing Program and the lease (bond) payments for projects financed by the Building Authority.

The administrative office for the Industrial Commission consists of two full-time employees and the budget includes funding for these two positions along with the needed dollars for operating the office. The administrative budget also includes the funding for the state's participation in the Interstate Oil and Gas Compact Commission. Governor Hoeven was just recently elected as the Chairman of this multi-state organization which speaks on behalf of the oil and gas producing states before Congress and other national groups regarding legislation and regulation of the oil and gas industry.

The administrative office budget request is \$364,523, when you exclude the Lignite Research Program and the lease payments. This is an increase from the prior biennium of \$26,482. The administrative budget is funded by the agencies that report to the Industrial Commission. You will see this funding noted in Sections 8 through 12 where authority is being requested for these

agencies to transfer funds to the Industrial Commission. No General Fund dollars are utilized for the operations of the administrative office.

Section 6 of Engrossed House Bill 1014 includes language that would allow the Industrial Commission to utilize funds that may become available from bonds issued by the Commission under Chapters 4-36 (agricultural revenue bonds) and 54-17.2 (North Dakota Building Authority) and Section 54-17-25 (Student Loan Trust) upon the approval of the Emergency Commission. This authority would allow reimbursement from the bond issues for extra costs incurred in preparation of the financing.

Subdivision 1 of Section 3 includes the lease payments (bond payments) for the North Dakota Building Authority in the amount of \$29,475,016 – see line 31 on page 4. This is an increase from the prior biennium of \$2,182,604. Since 1985, the Industrial Commission has issued several series of bonds as directed by the Legislature. Projects financed have been located at the State Penitentiary, Developmental Center located in Grafton, State Hospital, Youth Correctional Center, International Peace Garden, various buildings on the University System campuses, handicapped accessibility construction on the campuses, Southeast Human Services Center in Fargo, Health Department, James River Correctional Center in Jamestown, Historical Society projects, Crime Lab, Parks and Recreation, Extension Service, Job Service in Bismarck and Grand Forks and the Veterans' Home.

Attached for your information is the Debt Service Schedules (Exhibit A) for all the outstanding bond issues except the bonds for ConnectND. As you are aware, the proposed Executive Budget does not include any bonding by the North Dakota Building Authority. If there was bonding proposed Exhibit A shows that there is available debt service under the 10% of 1¢ statutory limitation in the amount of \$5.5 million (approximately \$54 million for projects). Also attached is Exhibit B which shows the debt service schedule for those bond issues that are not under the statutory limitation—energy conservation projects and ConnectND.

Section 14 provides the breakdown on the source of funding for the \$29 million of lease (bond) payments for the upcoming biennium. The following non-General Fund sources or energy conservation savings* will be utilized to pay a portion of these payments:

*University System – UND (02A)	\$1,289,371
*University System – NDSU (02A)	\$ 84,782
*University System – UND (05A)	\$ 117,089
*Missouri River Correctional Center (03B)	\$ 17,958
Job Service North Dakota (02A)	\$ 461,955
Job Service North Dakota (93B/02C)	\$ 281,950
Veterans' Home (90C/93A/03A)	\$ 256,114
Historical Society (05A)	\$ 33,333
University System (90/93A/03A)	\$ 312,500
University System (01A)	\$ 717,250
Human Services (92A/98B) (federal funds)	\$ 7,962
Dept. of Health (02A) (federal funds)	<u>\$ 343,994</u>
	\$3,924,258

Testimony on Engrossed House Bill 1014
Page 3
February 21, 2007

In addition the ConnectND bond costs for the 2007-2009 biennium total \$5,407,075. Seventy-one percent of these costs are paid by the University System.

I have prepared information regarding the continuing appropriations related to the Industrial Commission. That information is behind the continuing appropriation tab. If you wish to discuss this information please let me know.

Thank you for the opportunity to present testimony on the Industrial Commission Administrative Office budget. John Dwyer, Chairman of the Lignite Research Council, will be speaking later this morning in regards to the Lignite Research Program that is within the Administrative Office budget.

NORTH DAKOTA BUILDING AUTHORITY DEBT SERVICE

	1998B 1991-1996	1998B 1992	1993A 1990	2002C 1993B	2002D 1995A	1998C 1998C	2006B 2001A	2002A 2002A	2003B 2003B	2005A 2005A	2006A 1998A 2000A	Totals	Other Source	Energy Conservation	Total Gen. Fund	10% of \$ 01 Sales Tax*	Available Debt Ser
Biennium	2,241,906	571,731	5,475,306	2,008,418	2,620,095	779,071	2,071,753	2,205,166	1,900,005	0	1,995,832	21,869,283	2,653,717	1,214,828	18,000,738	19,587,060	1,586,322
2005-07	2,019,972	56,431	5,970,019	2,395,499	2,868,382	743,035	2,007,831	2,365,329	1,995,356	1,566,396	1,991,800	24,000,050	2,415,058	1,509,201	20,075,791	22,893,398	2,817,607
2009-11	1,895,834	0	0	2,394,120	2,991,128	0	2,062,025	2,379,277	2,064,451	6,574,094	1,675,000	22,035,929	1,864,985	1,887,828	18,283,116	23,809,134	5,526,018
2011-13	0	0	0	2,380,520	2,896,490	0	2,073,025	1,438,916	2,067,145	6,572,563	1,999,800	19,528,459	1,561,471	948,394	17,018,594	24,761,499	7,742,905
2013-15	0	0	0	1,077,650	2,893,925	0	2,085,494	1,007,941	2,062,918	6,573,831	2,002,200	17,803,959	989,546	518,946	16,295,467	25,751,959	9,456,492
2015-17	0	0	0	0	1,473,923	0	2,110,338	894,148	2,066,525	6,570,669	2,004,000	15,219,603	859,631	509,760	13,850,212	26,782,038	12,931,826
2017-19	0	0	0	0	0	0	2,126,363	1,000,049	2,065,750	6,575,206	1,377,800	13,145,168	865,379	510,092	11,769,697	27,853,319	16,083,622
2019-21	0	0	0	0	0	0	1,865,172	1,005,320	2,063,925	6,574,469		11,508,886	868,961	510,020	10,129,905	28,967,452	18,837,547
2021-23	0	0	0	0	0	0	812,924	457,109	1,034,300	6,573,256		8,877,589	413,795	500,664	7,963,130	30,126,150	22,163,020
2023-25	0	0	0	0	0	0	0	0	0	3,285,650		3,285,650	33,336	245,604	3,006,710	31,331,196	28,324,486
Totals	6,157,712	628,162	11,445,325	10,256,207	15,963,943	1,522,106	17,214,925	12,853,255	17,320,375	50,866,134	13,046,432	157,274,576	12,525,878	8,355,337	136,393,360		
	4.67%	4.67%	3.86%	4.01%	4.17%	4.24%	4.15%	5.02%	4.11%	4.23%	4.13%						
Revised 2/18/07																	

*The March 7, 2005 legislative forecast is used for the 2005-2007 biennium. The February, 2007 forecast is used for the 2007-2009 biennium with a 4% increase each subsequent biennium.

Exhibit A

5

**Engrossed House Bill 1014
Senate Appropriations Committee
Testimony of Tim Porter
North Dakota Public Finance Authority**

For the record, my name is Tim Porter and I am the Executive Director of the Public Finance Authority. I am providing this testimony in support of the Industrial Commission's requested appropriation for the Public Finance Authority for the 2007-2009 biennium in the amount of \$584,317. The requested biennial appropriation is \$27,398 more than the current biennial appropriation. This increase reflects the recommended salary adjustments (\$29,598) outlined in the Executive Budget. Some minor adjustments have been made within several operating line items to reduce the budget from the 2005-2007 level and to more accurately reflect projected expenditures. The Public Finance Authority continues to benefit from efficiencies created when it co-located with the Bank of North Dakota in August of 2001.

The Public Finance Authority is a state agency that operates under the supervision and authority of the Industrial Commission. It is a self-supporting state agency and receives no money from the General Fund. The staff of the Public Finance Authority currently consists of 1.75 full-time state employees (FTE's). The Executive Director is considered .75 Public Finance Authority employee and .25 Bank of North Dakota employee. The Public Finance Authority also employs a Business Manager.

In addition to administering its Capital Financing Program and the financial portion of the State Revolving Fund, the 2005 Legislature passed a bill that allows the Public Finance Authority to issue Industrial Revenue Bonds. In September 2006, the Public Finance Authority closed its first loan under this program with a manufacturer in Dickinson. The Public Finance Authority continues to work with the North Dakota Irrigation Caucus to develop a bonding program for irrigation districts and also has been working on a project to act as a conduit issuer for tax exempt bonds used to finance the solid waste portion of an ethanol plant. At this point, we are uncertain how the development of these programs will affect the Public Finance Authority's staffing needs. The current budget for the 2005-2007 biennium includes salaries for 2.75 FTE's. The vacant FTE within the current budget is for a loan officer position that would help analyze the loan applications and financial statements of potential borrowers under all of the Public Finance Authority's programs. Therefore, I ask that you consider allowing this vacant position for the 2007-2009 biennium while we assess the demand for our services under existing programs as well as the new programs mentioned above.

The written testimony below describes the Public Finance Authority and its financing programs. Also, a copy of the 2006 Annual Report for the Public Finance Authority has been included in the binder for your review. This Report describes in more detail the Public Finance Authority's programs and provides a complete history of all the Public Finance Authority's loans and bond issues.

Mission

To develop rural and urban North Dakota by providing political subdivisions and other qualifying organizations access to flexible and competitive financing options for their local

qualifying projects.

The Public Finance Authority was established to make low-cost loans to North Dakota political subdivisions at favorable interest rates. Loans are made to political subdivisions by the Public Finance Authority through the purchase of municipal securities issued by the political subdivisions in accordance with state and federal law. Loans are primarily made with the proceeds of bonds issued by the Public Finance Authority under the programs described below. In certain instances, a direct loan may be made to a political subdivision from the Public Finance Authority's operating fund or from the federal grants or loan repayments held under the State Revolving Fund Program.

The municipal securities issued by a political subdivision to the Public Finance Authority may be either tax-exempt or taxable obligations. A political subdivision must retain bond counsel to assist in the preparation and adoption of its bond resolution and other necessary documents. The Public Finance Authority may purchase municipal securities only if the Attorney General issues an opinion that states the municipal securities are properly eligible for purchase under the North Dakota Century Code (N.D.C.C.) chapter 6-09.4, the Public Finance Authority Act.

Required Debt Service Reserve

Subsection 1 of §6-09.4-10 of the N.D.C.C. requires the Public Finance Authority to establish a debt service reserve in an aggregate amount equal to at least the largest amount of money required in the current or any succeeding calendar year for the payment of the principal of and interest on its outstanding bonds.

Subsection 4 of §6-09.4-10 of the N.D.C.C. of the N.D.C.C. provides as follows:

“In order to assure the maintenance of the required debt service reserve, there shall be appropriated by the Legislative Assembly and paid to the Public Finance Authority for deposit in the reserve fund, such sum, if any, as shall be certified by the Industrial Commission as necessary to restore the reserve fund to an amount equal to the required debt service reserve.”

In the written opinion of the Attorney General, this provision does not constitute a legally enforceable obligation of the State. In the written opinion of the Public Finance Authority's bond counsel, there is no applicable provision of state law that would prohibit a future Legislative Assembly from appropriating any sum that is certified by the Industrial Commission as necessary to restore the reserve fund in an amount sufficient to meet the required debt service reserve amount. The legislative obligation imposed by the Legislative Assembly in subsection 4 of §6-09.4-10 is referred to as a moral obligation because the obligation to provide an appropriation for the Public Finance Authority's reserve fund is not backed by the full faith and credit of the State. All bonds issued by the Public Finance Authority under any of its programs are moral obligation bonds unless the Industrial Commission approves a resolution to allow the Public Finance Authority to issue bonds under section 40-57 as a conduit issuer. Under any of the Public Finance Authority programs, there has never been the need to request an appropriation to cover a shortfall in a reserve fund.

Advisory Committee

The Industrial Commission, by policy, has established a Public Finance Authority Advisory Committee. The Committee is made up of three members appointed by the Commission. The Committee reviews each loan application for the purpose of making a recommendation concerning the loan to the Industrial Commission, which must give its approval before a loan may be made under each Program. However, if the loan is for \$200,000 or less, the Committee may authorize the approval of the loan, then submit a report describing the loan and the action taken to the Commission at its next meeting.

At the present time, the Public Finance Authority has four loan programs: the Capital Financing Program, the State Revolving Fund Program, the School Construction Financing Loan Program, and the Industrial Development Bond Program.

Capital Financing Program

The Capital Financing Program, established in 1990, makes loans to political subdivisions for any purpose for which political subdivisions are authorized to issue municipal securities, subject to certain statutory requirements.

Through December 31, 2006, the Public Finance Authority has made \$84,538,016 of loans to political subdivisions under the Capital Financing Program. The outstanding amount of Capital Financing Program bonds is \$20,199,764. Recognizing the strength of the State's moral obligation pledge, Standard and Poor's (S&P) has assigned a rating of "A" to the Capital Financing Program Bonds.

State Revolving Fund Program

Under the State Revolving Fund (SRF) Program, federal capitalization grants are received by the State through the Health Department from the Environmental Protection Agency (EPA), and are deposited and held under the Program's Master Trust Indenture for the purpose of making below-market interest rate loans to political subdivisions for qualified projects and for other authorized purposes. The projects are subject to the approval by the State Health Department under appropriate state law and the Federal Clean Water Act and the Federal Safe Drinking Water Act. The federal capitalization grants are available to states on the basis of an 80-20 federal-state match. A portion of the SRF Program bonds issued by the Public Finance Authority provides the 20% state match. The federal capitalization grants must be held by the state in a revolving loan fund and are available only for purposes authorized under the Federal Clean Water Act and the Federal Safe Drinking Water Act.

The SRF Program consists of a Clean Water SRF Program and a Drinking Water SRF Program. Federal capitalization grants for the Clean Water SRF Program were first appropriated to the State in 1989. Since that time, \$108,729,600 of federal capitalization grants under the Clean Water SRF Program have been appropriated and awarded to the State through federal fiscal year 2006. Through December 31, 2006, 161 loans totaling \$166,145,092 have been approved under the Clean Water SRF Program. The Health Department's Clean Water Intended Use Plan for 2007 includes approximately \$145,000,000 of potential projects.

Federal capitalization grants for the Drinking Water SRF Program were first appropriated to the State in 1997. Since that time, \$83,687,700 of federal capitalization grants under the Drinking Water SRF Program have been appropriated and awarded to the State through federal fiscal year 2006. Through December 31, 2006, 85 loans totaling \$125,542,571 have been approved under the Drinking Water SRF Program. The Health Department's Drinking Water Intended Use Plan for 2007 includes approximately \$258,746,000 of potential projects.

A project must be on the appropriate Intended Use Plan to be able to apply for a loan under the SRF Program. The current interest rate on loans under the SRF Program is 2.5% with a 0.5% annual administrative fee on the outstanding balance. Bonds issued by the Public Finance Authority under the SRF program are rated "Aaa" by Moody's Investors Service, Inc. (Moody's), which is Moody's highest possible rating.

State School Construction Financing Program

The Public Finance Authority's State School Construction Financing Program provides loans to North Dakota school districts. This program has been assigned an "A+" rating by S&P, which allows the school districts, which generally do not have a credit rating, to borrow at lower interest rates. Bonds issued under this Program will be moral obligation bonds of the State and will also be supported by the state school aid intercept provision adopted by the Legislature in 1999. The state aid intercept provision is found in §6-09.4-23 of the N.D.C.C. A school district will be required to authorize the withholding of state school aid payments which are due and payable to the district under N.D.C.C. chapter 15-40.1 in order to participate in the Program. If a school district defaults on its loans under this Program, the Department of Public Instruction is notified by the Public Finance Authority to withhold aid payments to the defaulting school district until such time that principal and interest have been paid or satisfactory arrangements have been made to make the payment.

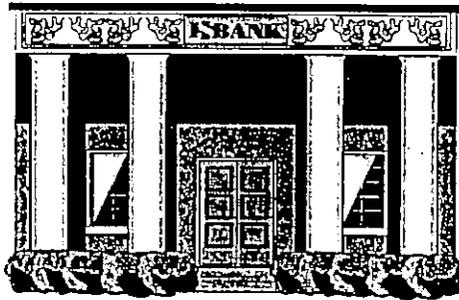
Industrial Development Bond Program

The Public Finance Authority's Industrial Development Bond Program provides loans to North Dakota manufacturers that meet the IRS definition for small issue manufacturers. This program has been assigned an "A" rating by S&P, which allows those manufacturers that qualify to finance fixed assets at attractive tax-exempt rates. Bonds issued under this Program will be moral obligation bonds of the State unless the borrower has the financial strength to request that the Public Finance Authority issue the bonds on a conduit basis. The 2005 Legislature passed the legislation allowing the Public Finance Authority to issue industrial revenue bonds with program limits of \$2,000,000 per project and \$20,000,000 for the entire program. For conduit issuance when the state's moral obligation is not used as a credit enhancement there are no project or program limits. The Public Finance Authority has made one loan under this program in the amount of \$1,360,000 that closed in September 2006.

Annual Report

The Public Finance Authority submits its Annual Report to the Legislative Council each year. The Annual Report provides a complete list of all loans made and bonds issued by the Public Finance Authority since its inception in 1975.

NORTH DAKOTA
PUBLIC FINANCE
AUTHORITY



2006
ANNUAL REPORT

NORTH DAKOTA PUBLIC FINANCE AUTHORITY

Industrial Commission of North Dakota

John Hoeven
Governor
Chairman

Wayne Stenehjem
Attorney General

Roger Johnson
Agriculture Commissioner

Advisory Committee

Tish Kelly
Fargo

Wade Williams
Jamestown

Brian Walters
Fargo

Staff

Tim C. Porter
Executive Director

DeAnn Ament
Business Manager

NORTH DAKOTA
PUBLIC FINANCE AUTHORITY

2006 Annual Report

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NORTH DAKOTA PUBLIC FINANCE AUTHORITY

The North Dakota Public Finance Authority (PFA) was established for the purpose of making loans to political subdivisions of the State through the purchase of municipal securities which, in the opinion of the Attorney General of North Dakota, are properly eligible for purchase by the PFA. Subject to credit and program requirements, a loan can be made by the PFA to a political subdivision for any purpose for which the political subdivision has the legal authority to borrow money through the issuance of municipal securities. Certain types of municipal securities issued under N.D.C.C. ch. 40-57 (MIDA bonds) may also be purchased by the PFA.

The PFA, which is under the operation, control and management of the Industrial Commission of North Dakota, is a self-supporting state agency. The costs and expenses of operation of the PFA are financed with earnings on program assets and fees paid by participating political subdivisions.

Obligations of the PFA which are issued to provide funds to purchase municipal securities do not constitute a debt or liability of the State or a pledge of the faith or credit of the State. All obligations of the PFA are payable solely from revenues or program assets pledged or available for their payment as authorized by law. The PFA has no authority to incur any indebtedness or liability on behalf of or payable by the State.

The PFA is required by statute (N.D.C.C. § 6-09.4-10(1)) to establish and maintain a reserve fund for its bonds. The Legislative Assembly has made a non-binding pledge to the PFA to replenish the reserve fund if it is depleted by the default of a political subdivision. Section 6-09.4-10(4) provides that "there shall be appropriated by the legislative assembly and paid to the PFA for deposit in the reserve fund, such sum, if any, as shall be certified by the industrial commission as necessary to restore the fund to an amount equal to the required debt service reserve." Because future Legislative Assemblies are not legally obligated or required to appropriate moneys certified as necessary by the Industrial Commission, this statutory provision is referred to as a "moral obligation." There has never been the need to request an appropriation of the reserve fund.

Mission

To develop rural and urban North Dakota by providing political subdivisions and other qualifying organizations access to flexible and competitive financing options for their local qualifying projects.

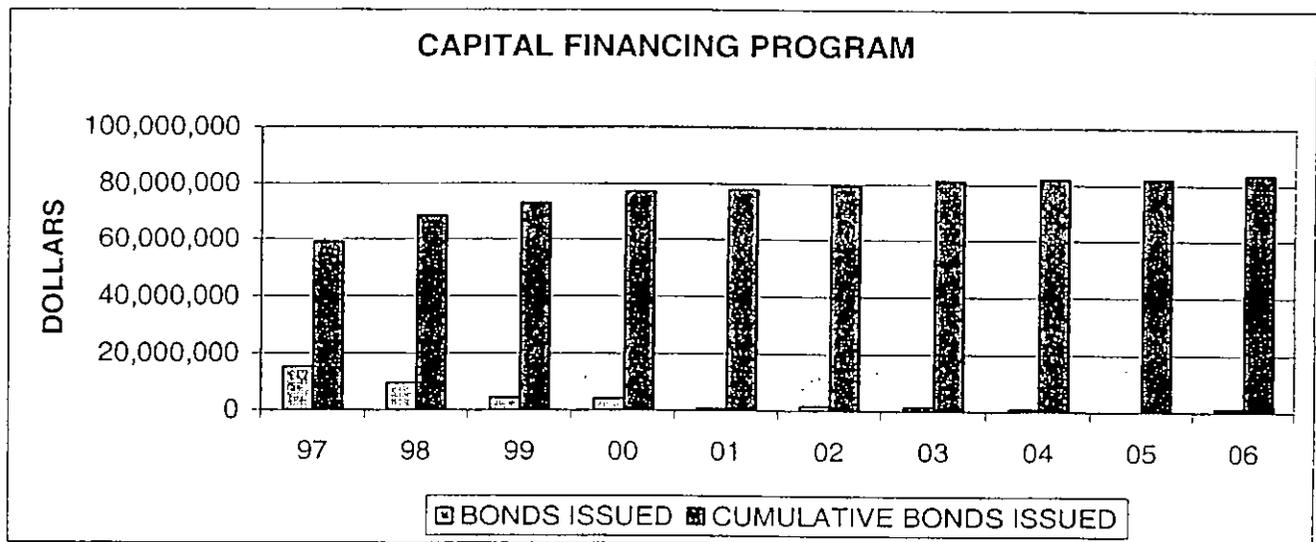
Vision Statement

A municipal bond market that realizes the competitive advantage of utilizing the North Dakota Public Finance Authority's (PFA) superior bond rating to issue municipal securities, resulting in lower interest rates to fund local projects. A PFA that enables customers to utilize on-line services, such as accessing account information or applying for additional financing. A PFA that leads a cooperative effort with other state agencies to combine available resources into programs that finance infrastructure and improvements for political subdivisions and other qualifying organizations. A State that recognizes the PFA as the leader in providing municipal financing for local projects.

CAPITAL FINANCING PROGRAM

Under its Capital Financing Program (CFP), the PFA makes loans for the purpose of financing projects or improvements for which political subdivisions are legally authorized to borrow money through the issuance of municipal securities. Subject to credit requirements and certain program requirements, financing is available in any dollar amount.

The interest rates payable by a political subdivision are market rates, which are set through a competitive bid process when the PFA issues and sells its bonds to fund a loan. The interest rates paid by the PFA on its bonds are the same rates a political subdivision will pay on its municipal securities sold to the PFA.



The Capital Financing Program has been assigned a rating of "A" by Standard & Poor's Ratings Group.

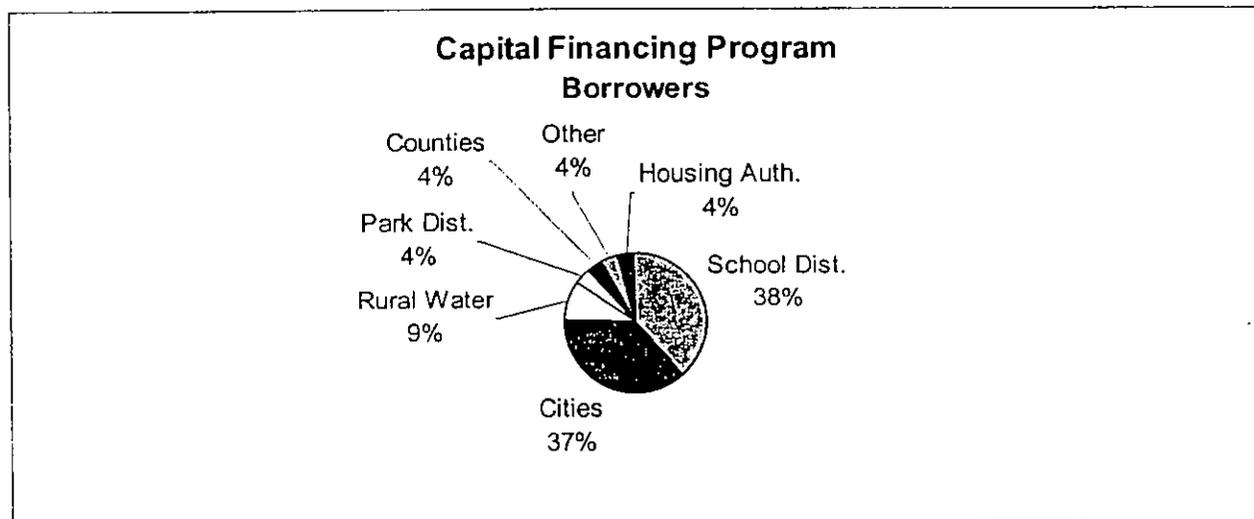
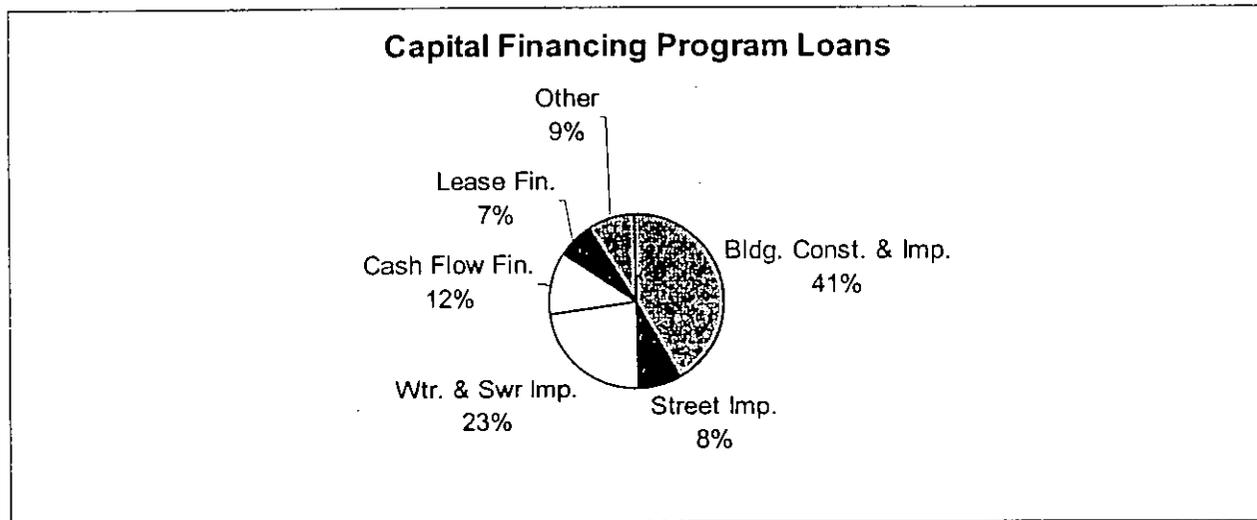
The PFA issued \$1,385,000 of CFP Bonds in 2006. The proceeds of the 2006 CFP Bonds were used to make loans to the city of Enderlin, Belcourt Public School District and Rolette County Housing Authority.

The total outstanding amount of CFP Reserve Notes at December 31, 2006, was \$4,096,906, and the total outstanding amount of CFP Reserve Fund Letters of Credit at December 31, 2006, was \$3,641,435. The CFP Reserve Notes and CFP Reserve Fund Letters of Credit are issued to meet the requirement of the CFP General Bond Resolution that the PFA maintain reserves for each series, equal to the largest aggregate amount of principal and interest due in any twenty-four consecutive month period. The CFP Reserve Notes are purchased by the Bank of North Dakota (BND) and the CFP Reserve Fund Letters of Credit are issued by BND.

As of December 31, 2006, the total cumulative amount of bonds issued under the CFP General Bond Resolution was \$83,570,000 and the total outstanding amount of bonds under the CFP General Bond Resolution was \$20,000,000

Part E of Attachment 1 beginning on page 1-4 of this Report contains a complete list, as of December 31, 2006, of all loans made by the PFA with proceeds of CFP Bonds issued under the CFP General Bond Resolution, including the name of each political subdivision, the original amount of each loan, and the outstanding principal of each loan.

Part F of Attachment 2 on page 2-1 of this Report contains a complete list, as of December 31, 2006, of all series of Capital Financing Bonds issued under the CFP General Bond Resolution, including the original dollar amount and the outstanding principal amount of each series of CFP Bonds.



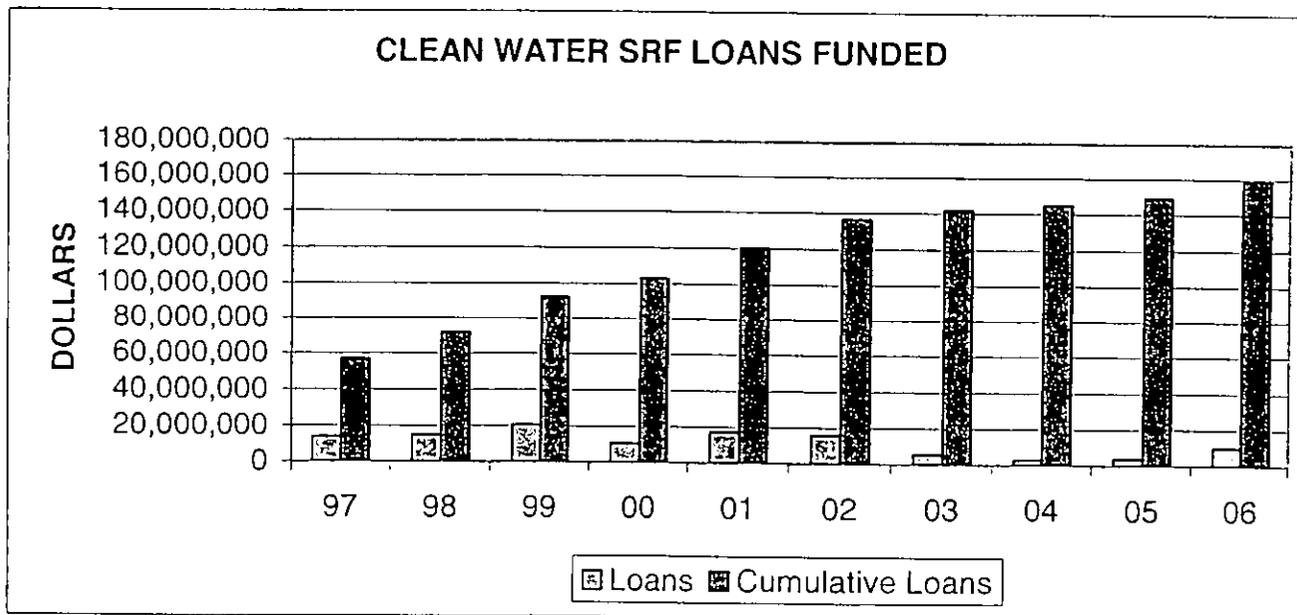
STATE REVOLVING FUND PROGRAM

The State Revolving Fund Program (SRF Program) was established in 1990 to enable North Dakota to receive federal capitalization grants as authorized under the Clean Water Act. In 1998, the SRF Program was amended to enable the State to receive capitalization grants as authorized under the Safe Drinking Water Act. The SRF Program grants, received from the United States Environmental Protection Agency, are to be used to make below-market interest rate loans to political subdivisions for the purpose of financing authorized projects, to establish reserve funds, and for other purposes under the Clean Water Act and the Safe Drinking Water Act. Authorized projects under the Clean Water Act include wastewater treatment facilities and nonpoint source pollution control projects. Authorized projects under the Safe Drinking Water Act include public water systems. The SRF Program is administered jointly by the North Dakota Department of Health and the PFA.

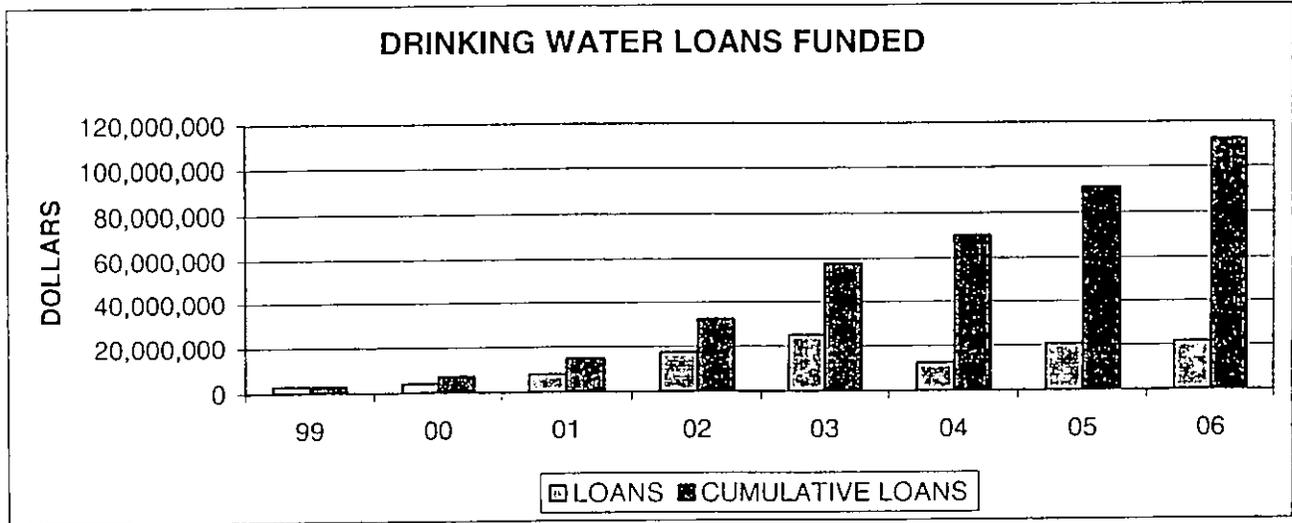
In 2001, Moody's Investors Service, Inc. upgraded the North Dakota SRF Program from "Aa2" to "Aaa", Moody's highest rating,

The interest rates on SRF Program loans are set by the Health Department in consultation with the PFA. The interest rates are fixed for the term of a loan. The interest rate for all 2006 SRF Program loans was 2.5%.

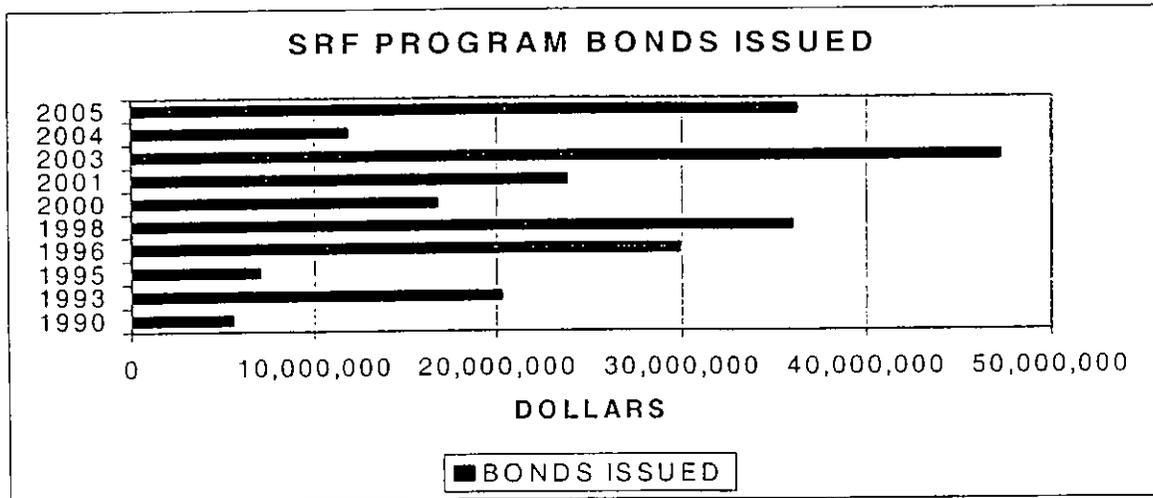
The PFA approved \$11,508,500 of Clean Water SRF Program loans to 9 political subdivisions in 2006. Subpart 15 of Part F of Attachment 1 on page 1-13 of this Report contains a list of all approved Clean Water SRF Program loans for 2006, including the approved amount, the funded amount, and the outstanding principal amount of each loan as of December 31, 2006.



The PFA approved \$16,488,257 of Drinking Water SRF Program loans to 19 political subdivisions in 2006. Subpart 8 of Part G of Attachment 1 on page 1-16 of this Report contains a list of loans made under the Drinking Water SRF Program during 2006, including the approved amount, the funded amount and the outstanding principal amount of each loan as of December 31, 2006.



The total amount of SRF Program Bonds issued under the PFA's SRF Program Master Trust Indenture is \$234,225,000. This total includes \$57,170,000 of the 1990, 1993, 1995, 1996, 1998 and 2000 SRF Program Bonds which have been advance refunded and are no longer considered to be outstanding.



As of December 31, 2006, the total amount of SRF Program Bonds outstanding was \$137,250,000, and the total outstanding amount of SRF Program loans was \$203,213,492. The total amount on deposit in the SRF Program Reserve Fund as of December 31, 2006, was \$14,055,745, which represents the Total Reserve Requirement under the Master Trust Indenture.

Part G of attachment 2 on page 2-3 of this Report contains a complete list of the SRF Program Bonds issued by the PFA under the Master Trust Indenture, including the original dollar amount and the outstanding principal amount of each series of SRF Program Bond.

INDUSTRIAL DEVELOPMENT BOND PROGRAM

The Public Finance Authority's Industrial Development Bond Program provides loans to North Dakota manufacturers that meet the IRS definition for small issue manufacturers. Bonds issued under this Program are moral obligation bonds of the State unless the borrower has the financial strength to request that the Public Finance Authority issue the bonds on a conduit basis. The 2005 Legislature passed the legislation allowing the Public Finance Authority to issue industrial revenue bonds with program limits of \$2,000,000 per project and \$20,000,000 for the entire program. For conduit issuance when the state's moral obligation is not used as a credit enhancement there are no project or program limits.

The interest rates payable by a borrower are market rates, which are set through a competitive bid process when the PFA issues and sells its bonds to fund a loan. The interest rates paid by the PFA on its bonds are the same rates a borrower will pay on its bonds sold to the PFA.

This program has been assigned an "A" rating by S&P, which allows those manufacturers that qualify to finance fixed assets at attractive tax-exempt rates.

In 2006, one loan in the amount of \$1,360,000 was made to Prairie Gold Real Estate LLC.

The outstanding amount of Reserve Fund Letters of Credit at December 31, 2006, was \$198,050. The IDBP Reserve Fund Letters of Credit are issued to meet the requirement of the IDBP General Bond Resolution that the PFA maintain reserves for each series, equal to the largest aggregate amount of principal and interest due in any twenty-four consecutive month periods. The IDBP Reserve Fund Letters of Credit are issued by BND.

OTHER BONDS

1977 General Bond Resolution. The PFA, pursuant to a 1977 General Bond Resolution, issued \$15,000,000 in 1977, \$16,590,000 of bonds in 1979, and \$11,600,000 of bonds in 1983, for a total principal amount of \$43,190,000. The 1977, 1979 and 1983 bonds have been retired.

1985 Local Governmental Assistance Program. In 1985, the PFA issued \$35,290,000 of bonds under a Local Governmental Assistance Program. These bonds were retired in 1986.

1990 Government Assistance Program. In 1990, pursuant to its Government Assistance Program, the PFA issued two series of bonds in the total amount of \$2,006,704. These bonds were retired in 1991.

1989 Insured Water System Revenue Bonds and 1999 Taxable Insured Water System Refunding Revenue Bonds. Pursuant to a Trust Indenture adopted in 1989, the PFA issued two series of Water System Revenue Bonds. The 1989 Series A Bonds were issued in the amount of \$11,650,000, and the 1989 Series B Bonds were issued in the amount of \$1,410,000 (the 1989 Series A Bonds and the 1989 Series B Bonds are referred to as the "1989 Bonds"). The Series B Bonds were issued to fund a reserve fund for the Series A Bonds. Proceeds of these taxable bonds were used by the PFA to make loans to certain political subdivisions to enable them to repurchase, at a discount, outstanding loans with the Farmers Home Administration. On December 21, 1995, the PFA entered into a Purchase Contract with Dain Bosworth Incorporated (now RBC Dain Rauscher) for the forward refunding of the 1989 Insured Water System Revenue Bonds. Under the terms of the Purchase Contract, the PFA issued and delivered \$8,875,000 of its Taxable Insured Water System Refunding Revenue Bonds, 1999 Series B to Dain Rauscher on April 1, 1999, for the purpose of refunding the 1989 Bonds. The benefits realized by the PFA through the refunding of the 1989 Bonds are being passed through to the participating political subdivisions in the form of lower interest rates and interest rate buydowns over the remaining terms of their loans. The debt service requirement for these bonds for the 2007-2009 biennium is \$2,742,000.

BIENNIAL DEBT SERVICE REQUIREMENTS

The debt service requirement for the outstanding CFP Bonds for the 2007-2009 biennium is \$5,666,550, and the debt service requirement for the outstanding SRF Program Bonds for the 2007-2009 biennium is \$27,411,729. The outstanding IDBP debt service requirement for 2007-2009 is \$193,380.

The aggregate debt service requirement for all outstanding PFA Bonds for the 2007-2009 biennium is \$36,013,659.

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY
LOANS MADE 1977 THROUGH 2006**

Part A**Subpart 1****\$15,000,000 1977 Series A Bonds****Borrower**

Alexander PSD	Kensal PSD	Rock Lake PSD
Alexander	Kinloss PSD	Rolla
Almont	Kinyon PSD	Rutland
Ashley	Kulm	Sawyer PSD
Barney	LaMoure PSD	Scotia PSD
Bell PSD	LaMoure	Scranton
Beulah	Lawton	Sharon
Bismarck	Leeds	Sharon PSD
Bismarck Park District	Lehr	Sherwood
Butte PSD	Leonard PSD	Sheyenne PSD
Buxton	Leonard	Solen PSD
Carrington PSD	Lidgerwood	South Heart PSD
Cass County	Lignite	South Bend PSD
Casselton	Lincoln PSD	Southern PSD
Center	Linton	Southwest Fargo
Courtenay Special PSD	Linton PSD	Stanley
Drake	Maddock	Stanton
Edinburg PSD	Mandan	Steele
Edmore PSD	Mayville	Streeter PSD
Elgin	McVile	Sutton PSD
Ellendale PSD	Michigan	Thompson
Emerado	Minnewauken PSD	Tioga PSD
Enderlin	Napoleon	Tolna
Esmond	Nedrose PSD	Traill County District
Esmond PSD	Nesson PSD	Turtle Lake
Fingal PSD	New Salem	Valley City
Finley	New Leipzig Fire District	Velva
Fordville	New Rockford	Verona
Gackle PSD	New Leipzig PSD	Walcott
Galt PSD	New Leipzig	Walhalla
Garrison	New Rockford	Washburn
Glen Ullin PSD	North Sargent PSD	Watford City
Gwinner	Park River	Westhope
Halliday	Parshall	Wildrose PSD
Hampden PSD	Pembina	Wilton
Hazelton Moffitt PSD	Portland	Wishek PSD
Hazen	Reeder PSD	Wishek
Jamestown	Regent PSD	Woodworth PSD
Juzeler PSD	Reynolds	Yellowstone Irrigation District
Kathryn PSD	Robinson PSD	Zeeland PSD

Subpart 2**\$16,590,000 1979 Series A Bonds****Borrower**

Anita Fire Protection District	Hazen	Richardson PSD
Ashley PSD	Hazen PSD	Rock Lake
Beulah	Hebron	Rolla
Beulah PSD	Hettinger	Scranton
Center PSD	Hope	Sherwood Fire Protection District
Edgeley	Hunter	Stanley
Edinburg	Linton	Stanton
Edmore	Lisbon	Strasburg
Enderlin	Mandan	Streeter
Finley	Mayville	Thompson
Gackle	Medina	West Fargo PSD
Garrison	Mott	Wilton
Glen Ullin	Napoleon	Wishek
Grand Forks Park District	New Rockford	Zap
Halliday	New Rockford Park District	
Harwood	Park River	
Hazelton	Portland	

Subpart 3**\$11,600,000 1983 Series A Bonds****Borrower**

Anamoose	Grafton PSD	New Leipzig
Antler	Gwinner	Osnabrock
Binford	Hankinson Rural Fire District	Pembina
Bismarck Rural Fire District	Horace	Pingree PSD
Bowbells PSD	Killdeer	Rhame
Carrington	Lakota PSD	Richardton
Cass Richland Drainage District	Larimore	Rolette
Casselton	Leonard	Stanley
Crosby	Linton	Strasburg
Dodge	Mandan	Towner
Edgeley PSD	Manning PSD	Velva
Elgin PSD	Mapleton	Westhope
Enderlin	Medina	Wildrose
Finley	Michigan PSD	Zap PSD
Flasher PSD	Milnor	
Gladstone	New England	

Part B

**Local Government Assistance Program
\$35,290,000 1985 Series A Bonds**

Borrower

Barnes County
Bismarck PSD
Border Central PSD
Burleigh County
Cass Valley North PSD
Cass County
Crary PSD
Dakota PSD
Dickey County
Dickinson PSD
Drayton PSD
Edgeley PSD
Epping PSD

Fargo PSD
Fessenden
Fordville
Grace City PSD
Grand Forks County
Grand Forks PSD
Killdeer PSD
LaMoure PSD
Mandan PSD
Mandan
McIntosh County
Michigan PSD
Minot PSD

Morton County
Powers Lake PSD
Ramsey County
Richland County
Solen PSD
Stanton PSD
Stark County
Steele County
Stutsman County
Tolley PSD
Walsh County
West Fargo PSD

Part C

**Government Assistance Program
\$765,000 1990 Series A Bonds**

Borrower

Cavalier
Edgely PSD
Eight Mile PSD
Marion PSD
Pembina PSD
Sherwood PSD

Part D

**Insured Water System Revenue Bonds
\$8,875,000 1999 Series A Bonds
\$1,410,000 1999 Series B Bonds**

Borrower

All Season Water Users
Cass Rural Water
Dakota Water Users
Lidgerwood
North Valley Water Users Association
Richland Rural Water
Traill County Rural Water Users, Inc.
Tri-County Water Users Association

Capital Financing Program

Part E

<u>Borrower</u>	<u>Original Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 1	1990	
Morton County	\$ 400,000	\$ 0
Linton	185,000	0
Mandan	95,000	0
Hankinson	155,000	0
Fargo Park District	680,000	0
Traill County Water Resource District	100,000	0
Dickinson Recreation Building Authority	250,000	0
Rolla	220,000	0
Morton County Water Resource Board	230,000	0
North Valley Rural Water Association	140,000	0
Milnor	85,000	0
Bismarck Parks & Recreation District	770,000	0
Twin Buttes School District	70,000	0
Hettinger Park District	35,000	0
Mandan Parks & Recreation District	335,000	0
	3,750,000	0
Subpart 2	1991	
Burleigh County Housing Authority	225,000	0
Bismarck Parks & Recreation District	1,300,000	0
Bismarck Parks & Recreation District	410,000	0
Mandan Parks & Recreation District	560,000	0
Richardton	165,000	65,000
Kindred	25,000	0
Montefiore PSD	75,000	0
Pembina PSD	195,000	0
Eight Mile PSD	150,000	0
Lake Agassiz Regional Council	180,000	0
North Valley Water Association	200,000	0
Finley	875,000	0
Wyndmere	65,000	0
Ward County	85,000	0
Oakes Municipal Airport Authority	45,000	0
Devils Lake PSD	1,810,000	540,000
Greater Richland Education Communications Consortium	250,000	0
Cass County	400,000	0
	7,015,000	605,000

<u>Borrower</u>		<u>Original Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 3	1992		
Mandan PSD		\$ 2,500,000	\$ 780,000
New England		75,000	0
Cavalier		75,000	0
Lidgerwood		75,000	0
Kindred PSD		1,545,000	544,000
Edinburg		120,000	30,000
Milnor		205,000	15,000
West Fargo PSD		2,500,000	880,000
Lisbon PSD		800,000	285,000
Emerado PSD		100,000	0
Milnor		190,000	0
Pembina PSD		195,000	0
Eight Mile PSD		200,000	0
Briarwood		40,000	0
Buxton		40,000	5,000
Missouri Hills Interactive Consortium		455,000	0
Grand Forks PSD		2,500,000	0
Mercer County Housing Authority		435,000	0
Nelson County		100,000	0
		<u>12,150,000</u>	<u>2,539,000</u>

Subpart 4	1993		
Lake Metigoshe Recreation Service District		150,000	0
Glenburn PSD		880,000	380,000
Fargo PSD		1,975,000	165,000
Fargo PSD		525,000	45,000
Thompson PSD		900,000	365,000
Souris		40,000	0
Marion PSD		115,000	0
Pembina PSD		180,000	0
Eight Mile PSD		150,000	0
Sims PSD		60,000	0
Oakes		120,000	0
McVille		230,000	40,000
Milnor		195,000	0
Emerado PSD		60,000	0
Grand Forks PSD		2,000,000	815,000
Burleigh County Housing Authority		325,000	60,000
		<u>7,905,000</u>	<u>1,870,000</u>

<u>Borrower</u>		<u>Original Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 5	1994		
Mandan Airport Authority		\$ 180,000	\$ 0
Fairmount PSD		305,500	0
Grafton PSD		2,000,000	0
Sawyer PSD		450,000	0
Glenburn PSD		592,500	79,628
Lincoln PSD		274,000	0
Finley-Sharon PSD		499,500	0
Oakes PSD		1,650,000	0
North Sargent-Gwinner PSD		538,300	0
Rolette PSD		461,900	0
Zap PSD		250,000	0
Stanley PSD		1,185,000	0
Clifford-Galesburg PSD		532,669	0
Rhame PSD		180,000	0
West Fargo PSD		3,000,000	281,135
Manvel PSD		228,000	0
United-Des Lacs PSD		942,647	0
Surrey PSD		413,000	0
Cando PSD		50,000	0
Surrey PSD		325,000	0
Sawyer		150,000	0
Marion PSD		105,000	0
Pembina PSD		90,000	0
Eight Mile PSD		200,000	0
Sims PSD		50,000	0
		<u>14,653,016</u>	<u>360,764</u>

Subpart 6	1995		
Burleigh County Housing Authority		1,600,000	0
Traill County Water Resource District		100,000	0
Mooreton		170,000	60,000
Milnor		160,000	0
Ward County		95,000	0
Marion PSD		105,000	0
Eight Mile PSD		200,000	0
Sims PSD		75,000	0
		<u>2,505,000</u>	<u>60,000</u>

<u>Borrower</u>		<u>Original Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 7	1996		
Minot		\$ 500,000	\$ 0
Rolette County Housing		500,000	0
Dunseith		100,000	0
Garrison		120,000	50,000
Hazelton		140,000	30,000
Walcott-Colfax District		70,000	20,000
Burleigh Water Users		1,585,000	0
Marion PSD		120,000	0
Garrison PSD		230,000	0
		<u>3,365,000</u>	<u>100,000</u>
Subpart 8	1997		
Cavalier		540,000	40,000
Burleigh Rural Water Users		3,350,000	0
New Town PSD		300,000	0
North Valley Water Association		1,400,000	740,000
South Central Water Users District		350,000	185,000
Grafton PSD		4,500,000	3,010,000
Richardton		205,000	0
Aggasiz Water Users		375,000	210,000
Sims PSD		50,000	0
West Fargo PSD		1,000,000	0
Wahpeton		1,600,000	1,065,000
Garrison		125,000	30,000
McVille		1,550,000	1,025,000
		<u>15,345,000</u>	<u>6,305,000</u>
Subpart 9	1998		
Gackle		295,000	235,000
Lidgerwood		120,000	80,000
Prairie Rose		175,000	40,000
Surrey		100,000	0
Hettinger Park District		200,000	110,000
Maple River Water Resource District		55,000	15,000
Milnor		400,000	220,000
Grandin		165,000	125,000
West Fargo PSD		1,000,000	0
Sims PSD		50,000	0
Park River		450,000	340,000
		<u>3,010,000</u>	<u>1,165,000</u>

<u>Borrower</u>		<u>Original Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 10	1999		
Lidgerwood		\$ 1,075,000	\$ 0
Drayton		140,000	45,000
Drayton		70,000	0
Max		50,000	15,000
Surrey		100,000	30,000
West Fargo PSD		1,000,000	0
Sims PSD		100,000	0
Tri-County Water District		1,710,000	1,455,000
Tri-County Water District		285,000	245,000
		<u>4,530,000</u>	<u>1,790,000</u>
Subpart 11	2000		
Lisbon		765,000	0
Enderlin		195,000	0
Amenia		155,000	0
West Fargo PSD		3,000,000	0
Sims PSD		100,000	0
		<u>4,215,000</u>	<u>0</u>
Subpart 12	2001		
Frontier		<u>735,000</u>	<u>610,000</u>
Subpart 13	2002		
McVile		215,000	190,000
Southeast Water Users District		700,000	620,000
Bismarck Rural Fire District		185,000	160,000
Kulm		150,000	125,000
Fessenden-Bowdon PSD		350,000	220,000
		<u>1,600,000</u>	<u>1,315,000</u>
Subpart 14	2003		
Langdon Rural Water District		<u>1,495,000</u>	<u>1,390,000</u>
Subpart 15	2004		
Traill Rural Water		300,000	280,000
Surrey		500,000	425,000
Mercer County Housing		80,000	0
		<u>880,000</u>	<u>705,000</u>
Subpart 16	2006		
Rolette County Housing Authority		235,000	235,000
Belcourt Public School District		1,045,000	1,045,000
Enderlin		105,000	105,000
		<u>1,385,000</u>	<u>1,385,000</u>
Total Capital Financing Program Loans		<u>\$ 84,538,016</u>	<u>\$ 20,199,764</u>

Clean Water State Revolving Fund Program

Part F

<u>Borrower</u>	<u>Approved Loan Amount</u>	<u>Funded Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 1 1990			
Enderlin	\$ 490,000	\$ 490,000	\$ 0
Fargo	3,561,559	3,561,559	1,490,000
Minot	879,386	879,386	0
	<u>4,930,945</u>	<u>4,930,945</u>	<u>1,490,000</u>
Subpart 2 1993			
Fargo	7,770,000	7,770,000	3,445,000
Jamestown	1,581,406	1,581,406	700,000
Minot	665,000	665,000	260,000
Northwood	1,150,000	1,150,000	485,000
Wahpeton	1,062,366	1,062,366	467,366
West Fargo	175,000	175,000	70,000
Lake Metigoshe	296,263	296,263	111,263
New Town	132,050	132,050	0
Jamestown	1,289,702	1,289,702	645,000
Williston	252,835	252,835	60,000
	<u>14,374,622</u>	<u>14,374,622</u>	<u>6,243,629</u>
Subpart 3 1994			
Minot	443,522	443,522	0
Burlington	165,037	165,037	80,000
Devils Lake	1,076,423	1,076,423	545,000
Grafton	410,000	410,000	165,000
Casselton	112,000	112,000	30,000
	<u>2,206,982</u>	<u>2,206,982</u>	<u>820,000</u>
Subpart 4 1995			
Fargo	2,850,429	2,850,429	1,665,429
Max	74,912	74,912	33,750
Cooperstown	55,000	55,000	0
Northwood	225,837	225,837	105,000
Colfax	36,297	36,297	3,000
Edmore	62,256	62,256	28,071
Ellendale	196,826	196,826	0
Minot	400,000	400,000	0
Williston	291,881	291,881	80,000

<u>Borrower</u>	<u>Approved Loan Amount</u>	<u>Funded Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 4 Cont.	1995		
Lisbon	\$ 100,000	\$ 100,000	\$ 10,000
Napoleon	133,851	133,851	85,000
Park River	498,279	498,279	265,000
Carrington	835,000	835,000	455,000
Mott	211,157	211,157	100,000
Harvey	478,556	478,556	270,000
Beach	226,241	226,241	140,000
Williston	328,581	328,581	100,000
Buffalo	38,248	38,248	10,200
Hettinger	156,001	156,001	100,000
Davenport	176,339	176,339	90,000
Ellendale	220,990	220,990	0
Cando	113,006	113,006	40,000
Cooperstown	300,000	300,000	105,000
	<u>8,009,687</u>	<u>8,009,687</u>	<u>3,685,450</u>

Subpart 5	1996		
Jamestown	16,300,000	16,300,000	9,155,000
Cooperstown	1,174,952	1,174,952	660,000
Park River	72,312	72,312	24,500
Portland	82,368	82,368	41,190
Medina	67,255	67,255	15,000
Mayville	105,433	105,433	0
Manvel	478,416	478,416	270,000
Oriska	21,531	21,531	0
Bottineau	100,000	100,000	50,000
Arthur	132,963	132,963	85,000
Cando	254,052	254,052	150,000
Kindred	124,498	124,498	74,498
Page	47,738	47,738	23,870
Argusville	213,061	213,061	115,000
Bottineau	104,500	104,500	0
Grand Forks	13,700,000	13,700,000	9,015,000
Bank of North Dakota	1,500,000	1,101,444	227,548
	<u>34,479,079</u>	<u>34,080,523</u>	<u>19,906,606</u>

Subpart 6	1997		
Grand Forks	3,940,000	3,940,000	2,585,000
Casselton	1,589,652	1,589,652	970,000
Christine	385,273	385,273	250,000
Mapleton	152,864	152,864	65,000

<u>Borrower</u>	<u>Approved Loan Amount</u>	<u>Funded Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 6 Cont.	1997		
Horace	\$ 225,330	\$ 225,330	\$ 135,000
Carrington	805,000	805,000	490,000
Mandan	5,191,929	5,191,929	3,655,000
Berthold	82,875	82,875	45,975
Cooperstown	123,067	123,067	80,000
Jamestown	2,277,487	2,277,487	1,380,000
Lakota	1,933,969	1,933,969	1,220,000
Minnewauken	218,000	218,000	135,000
	<u>16,925,446</u>	<u>16,925,446</u>	<u>11,010,975</u>
Subpart 7	1998		
Granville	42,000	42,000	10,500
Enderlin	342,373	342,373	210,000
Wishek	140,704	140,704	100,000
Fargo	1,482,337	1,482,337	972,337
Gwinner	258,711	258,711	180,000
Southeast Cass	214,000	214,000	134,000
Casselton	108,261	108,261	70,000
Sanborn	76,195	76,195	35,000
Frontier	98,603	98,603	60,000
Abercrombie	300,875	300,875	195,875
Grandin	97,042	97,042	60,000
Taylor	59,872	59,872	28,000
Fargo	10,723,277	10,723,277	7,855,000
Grand Forks	2,650,804	2,650,804	1,585,000
	<u>16,595,054</u>	<u>16,595,054</u>	<u>11,495,712</u>
Subpart 8	1999		
Fargo	210,000	210,000	140,000
Gackle	118,020	118,020	77,000
Hillsboro	360,000	360,000	100,000
Kindred	1,113,522	1,113,522	785,000
Wimbledon	74,738	74,738	54,000
Jamestown	747,990	747,990	455,000
Lisbon	87,025	87,025	62,000
Stanley	102,413	102,413	32,000
Buffalo	213,667	213,667	149,000
Buxton	77,000	77,000	24,000
Hankinson	88,000	88,000	62,000
Jamestown	454,641	454,641	270,000
	<u>3,647,016</u>	<u>3,647,016</u>	<u>2,210,000</u>

<u>Borrower</u>		<u>Approved Loan Amount</u>	<u>Funded Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 9	2000			
Abercrombie		\$ 20,064	\$ 20,064	\$ 14,000
Hankinson		84,999	84,999	63,000
Fargo		1,816,295	1,816,295	1,360,000
Lidgerwood		89,405	89,405	67,000
Enderlin		1,189,549	1,189,549	885,000
Hunter		158,395	158,395	111,000
Cogswell		81,960	81,960	58,000
Mayville		1,075,000	1,075,000	855,000
Ward County Water Resource District		797,375	797,375	595,000
Emerado		406,207	406,207	315,000
		<u>5,719,249</u>	<u>5,719,249</u>	<u>4,323,000</u>
Subpart 10	2001			
Jamestown		370,120	370,120	265,000
Mayville		1,169,393	1,169,393	930,000
Forman		135,172	135,172	104,000
Lisbon		716,436	716,436	535,000
Amenia		141,489	141,489	106,000
Grand Forks		13,781,500	13,781,500	10,950,000
Kulm		678,640	621,211	502,571
Tower City		503,123	503,123	399,000
Lake Metigoshe		485,400	480,546	399,896
Williston		1,124,000	1,124,000	890,000
Rolette		102,000	102,000	81,000
Hebron		122,890	122,890	99,000
Hankinson		1,457,760	1,457,760	1,155,000
Harvey		69,281	69,281	55,100
Oakes		106,076	106,076	82,000
		<u>20,963,280</u>	<u>20,900,997</u>	<u>16,553,567</u>
Subpart 11	2002			
Sanborn		30,694	30,694	25,400
Williston		1,190,559	1,190,559	1,005,000
Grand Forks		1,580,755	1,580,755	1,298,000
Grand Forks		3,094,077	2,226,932	1,711,932
Grand Forks		6,686,156	6,455,027	5,327,027
Linton		95,770	95,770	80,000
Mayville		3,073,811	3,073,811	2,576,000
Morton County Water Resource District		258,000	258,000	220,000

<u>Borrower</u>		<u>Approved Loan Amount</u>	<u>Funded Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 11 Cont.	2002			
Wildrose		\$ 86,405	\$ 86,405	\$ 0
Mapleton		80,790	80,790	67,000
Wahpeton		374,065	374,065	330,000
		<u>16,551,082</u>	<u>15,452,808</u>	<u>12,640,359</u>
Subpart 12	2003			
Hunter		41,930	41,930	36,900
Oakes		746,350	746,350	653,000
Harvey		244,615	244,615	227,000
Hankinson		133,790	133,790	118,000
Mantador		50,000	50,000	43,900
Litchville		236,381	236,381	212,000
Courtenay		49,444	49,444	42,900
Jamestown		1,309,568	1,309,568	1,250,000
		<u>2,812,078</u>	<u>2,812,078</u>	<u>2,583,700</u>
Subpart 13	2004			
Oakes		601,500	601,500	555,000
Portland		291,164	291,164	270,000
Lidgerwood		84,416	84,416	78,000
Lincoln		397,944	397,944	357,000
Hillsboro		186,336	186,336	0
Warwick		32,775	32,775	31,000
West River Water and Sewer		335,976	335,976	308,076
		<u>1,930,111</u>	<u>1,930,111</u>	<u>1,599,076</u>
Subpart 14	2005			
Mapleton		335,000	240,009	226,009
Hazen		276,120	276,120	264,120
Enderlin		200,000	175,437	166,437
Rutland		180,841	180,841	173,000
Grand Forks		4,500,000	4,238,690	4,063,690
		<u>5,491,961</u>	<u>5,111,097</u>	<u>4,893,256</u>
Subpart 15	2006			
Jamestown		1,600,000	1,440,739	1,430,739
Rice Lake Recreation Service District		3,500,000	1,648,888	1,648,888
Fargo		4,000,000	2,486,457	2,486,457
Gackle		80,000	77,824	77,824
Tower City		145,000	110,299	110,299
BND		1,000,000	408,298	381,349
Portland		43,500	22,703	22,703
Wyndmere		190,000	183,915	183,915
Oakes		950,000	373,648	373,648
		<u>11,508,500</u>	<u>6,752,771</u>	<u>6,715,822</u>
Total		<u>\$ 166,145,092</u>	<u>\$ 159,449,386</u>	<u>\$ 106,171,152</u>

Drinking Water State Revolving Fund Program

Part G

<u>Borrower</u>	<u>Approved Loan Amount</u>	<u>Funded Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 1	1999		
Wahpeton	\$ 345,715	\$ 345,715	\$ 235,000
Park River	261,000	261,000	155,000
New Rockford	281,102	281,102	185,000
Sawyer	136,000	136,000	83,000
Walsh Rural Water District	3,000,000	3,000,000	2,250,000
Tioga	44,004	44,004	13,200
Williston	3,901,331	3,901,331	3,105,000
St. John	399,388	399,388	301,000
	8,368,540	8,368,540	6,327,200
Subpart 2	2000		
Grand Forks	13,200,000	10,230,682	7,445,682
Lisbon	912,115	912,115	670,000
Stutsman Rural Water Users	666,168	666,168	500,000
State Water Commission	1,500,000	1,500,000	1,125,000
Cooperstown	300,000	300,000	226,000
Harwood	866,514	866,514	695,000
Mayville	1,025,000	1,025,000	810,000
	18,469,797	15,500,479	11,471,682
Subpart 3	2001		
Hankinson	405,000	405,000	300,000
Finley	2,479,994	2,479,994	1,971,600
Enderlin	195,000	195,000	140,000
Valley City	1,444,139	1,444,139	1,145,000
Grand Forks	10,050,000	9,998,850	7,923,850
Oxbow	475,657	475,657	375,000
Lisbon	460,381	460,381	365,000
Nome	22,465	22,465	0
Southeast Water Users	60,000	60,000	47,500
	15,592,636	15,541,486	12,267,950

<u>Borrower</u>		<u>Approved Loan Amount</u>	<u>Funded Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 4	2002			
Lisbon	\$	413,522	\$ 413,522	340,000
Harvey		427,076	427,076	360,000
Grafton		285,616	285,616	245,000
Mandan		4,197,565	4,197,565	3,504,565
Ramsey County WRD		3,482,000	3,482,000	3,034,000
Enderlin		87,500	87,500	74,000
Linton		563,063	563,063	470,000
Cleveland		206,406	206,406	156,000
Langdon		522,796	522,796	426,000
Drayton		132,362	132,362	94,000
Larimore		1,991,805	1,991,805	1,640,000
Wahpeton		1,890,000	1,890,000	1,777,000
Grafton		1,150,000	527,929	429,929
		<u>15,349,711</u>	<u>14,727,640</u>	<u>12,550,494</u>
Subpart 5	2003			
Southeast Water District		1,446,906	1,446,906	1,215,000
Grand Forks - Traill Water District		3,991,780	3,991,780	3,350,000
North Valley Water District		4,138,000	4,138,000	3,515,000
Williston		3,693,344	3,693,344	3,255,000
Barnes Rural Water District		816,000	816,000	720,000
Argusville		360,718	360,718	330,000
Casselton		1,547,000	1,186,577	1,062,577
Aneta		171,340	171,340	156,300
Stutsman Rural Water District		201,651	201,651	186,000
		<u>16,366,739</u>	<u>16,006,316</u>	<u>13,789,877</u>
Subpart 6	2004			
Oakes		147,652	147,652	134,000
Cass Rural Water District		1,890,923	1,890,923	1,735,000
Leeds		179,000	179,000	165,000
Hazen		1,000,000	1,000,000	920,000
Tioga		418,727	418,727	413,000
Lincoln		307,681	307,681	278,000
Lincoln		447,000	447,000	419,500
Abercrombie		244,002	244,002	222,002
Lisbon		410,000	56,855	38,855
Williston		5,000,000	5,000,000	3,990,000
Harvey		703,000	626,399	596,399
Noonan		39,602	39,602	38,000
Williams County Rural Water		1,500,000	1,298,650	1,248,650
Williston		16,000,000	16,181,078	16,181,078
Jamestown		2,800,000	1,966,367	1,856,367
		<u>31,087,587</u>	<u>29,803,936</u>	<u>28,235,851</u>

<u>Borrower</u>	<u>Approved Loan Amount</u>	<u>Funded Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 7	2005		
Argusville	217,304	217,304	207,000
Park River	746,100	706,859	701,859
Mapleton	105,900	78,435	74,435
Bottineau	750,000	750,000	710,000
Southeast Water Users District	2,000,000	329,789	319,789
	<u>3,819,304</u>	<u>2,082,387</u>	<u>2,013,083</u>
Subpart 8	2006		
Walcott	201,000	129,603	128,603
Stutsman Rural Water District	1,455,000	493,669	483,669
Wildrose	52,291	52,291	50,000
Velva	1,986,240	1,485,241	1,484,001
Cooperstown	320,000	278,084	265,084
Riverdale	1,245,125	762,138	722,138
Pick City	224,260	174,734	173,734
Braddock	16,610	16,610	15,710
Center	358,800	294,340	294,340
Page	125,000	84,560	84,560
Harvey	112,223	81,402	81,402
Hillsboro	1,225,108	1,000,920	1,000,920
Washburn	1,977,000	702,572	702,572
Southeast Water Users District	4,655,000	4,655,000	4,655,000
Portal	50,000	50,000	50,000
Park River	517,600	64,872	64,872
Central Plains Water District	1,700,000	61,134	61,134
Columbus	57,000	57,000	57,000
Southeast Water Users District	210,000	11,464	11,464
	<u>16,488,257</u>	<u>10,455,634</u>	<u>10,386,203</u>
Total	\$ <u>125,542,571</u>	\$ <u>112,486,418</u>	\$ <u>97,042,340</u>

Industrial Development Bond Program Loans

Part H

<u>Borrower</u>		<u>Funded Loan Amount</u>		<u>Outstanding Loan Amount</u>
Subpart 1	2006			
Prairie Gold Real Estate, LLC	\$	<u>1,360,000</u>	\$	<u>1,352,500</u>

<u>Borrower</u>		<u>Original Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 8	2000		
New Town PSD		\$ 500,000	\$ 0
Sanborn		13,500	0
Havana		120,000	0
		<u>633,500</u>	<u>0</u>
Subpart 9	2001		
Fort Pembina Airport Authority		117,000	76,000
Sims PSD		100,000	0
		<u>217,000</u>	<u>76,000</u>
Subpart 10	2002		
Kulm		21,360	0
Southeast Water Users		640,000	0
Solen PSD		200,000	0
		<u>861,360</u>	<u>0</u>
Subpart 11	2003		
Solen PSD		200,000	0
Trails County Rural Water Users		50,000	0
St. John		85,000	62,000
		<u>335,000</u>	<u>62,000</u>
Subpart 12	2004		
Solen PSD		200,000	0
New Town PSD		60,000	38,000
		<u>260,000</u>	<u>38,000</u>
Subpart 13	2005		
Enderlin		92,000	0
Columbus		57,000	0
Solen PSD		200,000	0
Gackle		75,000	61,000
Portal		185,000	0
Surrey Township		42,500	34,500
		<u>651,500</u>	<u>95,500</u>
Subpart 14	2006		
Solen PSD		<u>200,000</u>	<u>200,000</u>
Total Direct Loans		<u>\$ 3,949,610</u>	<u>\$ 559,250</u>

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY
BONDS ISSUED 1977 THROUGH 2006**

Part A 1977 General Bond Resolution

	Initial Bond <u>Amount</u>	Outstanding Bond <u>Amount</u>
1977 Series A	\$ 15,000,000	\$ 0
1979 Series A	16,590,000	0
1983 Series A	<u>11,680,000</u>	<u>0</u>
Subtotal	43,270,000	0

Part B Local Governmental Assistance Program

1985 Series A	35,290,000	0
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Part C Insured Water System Revenue Bonds

1989 Series A	11,650,000	0
1989 Series B	<u>1,410,000</u>	<u>0</u>
Subtotal	13,060,000	0

Part D Government Assistance Program

1990 Series A	765,000	0
1990 Series B	<u>1,241,704</u>	<u>0</u>
Subtotal	2,006,704	0

Part E Taxable Insured Water System Refunding Bonds

1999 Series A	8,875,000	4,125,000
1999 Series B	<u>1,410,000</u>	<u>1,410,000</u>
Subtotal	10,285,000	5,535,000

Part F Capital Financing Program

1990 Series A	400,000	0
1990 Series B	185,000	0
1990 Series C	95,000	0
1990 Series D	155,000	0
1990 Series E	680,000	0
1990 Series F	100,000	0
1990 Series G	250,000	0

Part F Cont.

	<u>Initial Bond Amount</u>	<u>Outstanding Bond Amount</u>
1990 Series H	\$ 220,000	\$ 0
1990 Series I	230,000	0
1990 Series J	140,000	0
1990 Series K	85,000	0
1990 Series L	770,000	0
1990 Series M	70,000	0
1990 Series N	35,000	0
1990 Series O	335,000	0
1991 Series A	225,000	0
1991 Series B	1,300,000	0
1991 Series C	410,000	0
1991 Series D	560,000	0
1991 Series E	265,000	0
1991 Series F	345,000	0
1991 Series G	380,000	0
1991 Series H	280,000	0
1991 Series I	2,460,000	0
1992 Series A	565,000	0
1992 Series B	820,000	0
1992 Series C	2,650,000	0
1992 Series D	115,000	0
1992 Series E	1,870,000	0
1992 Series F	3,260,000	0
1992 Series G	290,000	0
1992 Series H	395,000	0
1992 Series I	535,000	5,000
1992 Series J	2,500,000	0
1992 Series K	535,000	0
1993 Series A	150,000	0
1993 Series B	880,000	380,000
1993 Series C	1,975,000	165,000
1993 Series D	1,465,000	410,000
1993 Series E	505,000	0
1993 Series F	2,930,000	915,000
1994 Series A	5,335,000	0
1994 Series B	525,000	0
1994 Series C	445,000	0
1995 Series A	1,700,000	0
1995 Series B	425,000	60,000
1995 Series C	380,000	0
1996 Series A	500,000	0
1996 Series B	930,000	100,000
1996 Series C	1,585,000	0
1996 Series D	350,000	0
1997 Series A	540,000	40,000

Part F Cont.	Initial Bond Amount	Outstanding Bond Amount
1997 Series B	\$ 3,350,000	\$ 0
1997 Series C	300,000	0
1997 Series D	1,750,000	925,000
1997 Series E	4,705,000	3,010,000
1997 Series F	375,000	210,000
1997 Series G	1,050,000	0
1997 Series H	3,275,000	2,120,000
1998 Series A	945,000	480,000
1998 Series B	6,685,000	3,140,000
1998 Series C	565,000	345,000
1998 Series D	1,050,000	0
1998 Series E	450,000	340,000
1999 Series A	1,075,000	0
1999 Series B	260,000	60,000
1999 Series C	100,000	30,000
1999 Series D	1,100,000	0
1999 Series E	1,710,000	1,455,000
1999 Series F	285,000	245,000
2000 Series A	1,115,000	0
2000 Series B	3,100,000	0
2001 Series A	735,000	610,000
2002 Series A	1,700,000	1,415,000
2003 Series A	1,495,000	1,390,000
2004 Series A	880,000	765,000
2006 Series A	1,385,000	1,385,000
Subtotal	83,570,000	20,000,000

Part G State Revolving Fund Program

1990 Series A	¹	5,520,000	0
1993 Series A	^{2,5}	20,220,000	0
1995 Series A	³	6,975,000	350,000
1996 Series A	³	29,845,000	500,000
1998 Series A	⁵	35,965,000	22,305,000
2000 Series A	⁴	16,725,000	2,635,000
2001 Series A		23,725,000	20,345,000
2003 Series A		26,795,000	23,740,000
2003 Series B		20,455,000	19,975,000
2004 Series A		11,790,000	11,680,000
2005 Series A		36,210,000	35,720,000
Subtotal		234,225,000	137,250,000

¹ A portion of the proceeds of the 1993 Series A SRF Bonds was used to defease and refund the 1990 Series A SRF Bonds.

² A portion of the proceeds of the 2001 Series A SRF Bonds was used to defease and refund the 1993 and 1995 Series A SRF Bonds.

³ The proceeds of the 2003 Series B SRF Bonds was used to defease and refund the 1996 Series A SRF Bonds.

⁴ The proceeds of the 2004 Series A SRF Bonds was used to defease and refund the 2000 Series A SRF Bonds.

⁵ A portion of the proceeds of the 2005 Series A SRF Bonds was used to defease and refund the 1993 and 1998 Series A SRF Bonds.

	Initial Bond Amount	Outstanding Bond Amount
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Part H

2006 Series A

	<u>1,360,000</u>	<u>1,360,000</u>
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Total All Bonds

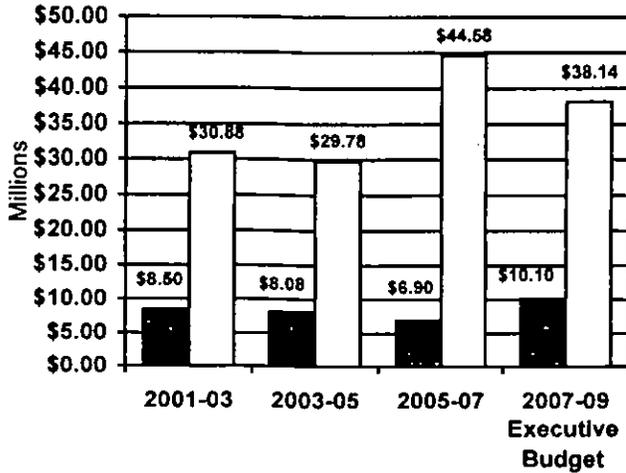
	<u>\$ 423,066,704</u>	<u>\$ 164,145,000</u>
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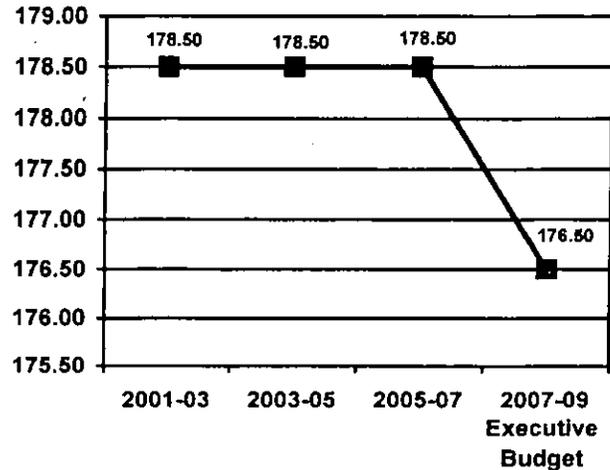
**Department 471 - Bank of North Dakota
 House Bill No. 1014**

	FTE Positions	General Fund	Other Funds	Total
2007-09 Executive Budget	176.50	\$10,100,000	\$38,142,359	\$48,242,359
2005-07 Legislative Appropriations	178.50	6,900,000	44,575,075	51,475,075
Increase (Decrease)	(2.00)	\$3,200,000	(\$6,432,716)	(\$3,232,716)

Agency Funding



FTE Positions



■ General Fund □ Other Funds

Executive Budget Highlights

	General Fund	Other Funds	Total
1. Increases funding for replacement of information technology equipment		\$1,400,000	\$1,400,000
2. Provides funding for equipment and landscaping at new facility		\$500,000	\$500,000
3. Increases funding for Information Technology Department rate increases		\$752,640	\$752,640
4. Increases funding for equipment less than \$5,000		\$1,024,920	\$1,024,920
5. Changes funding source and decreases level of funding for Ag PACE	\$1,400,000	(\$1,425,000)	(\$25,000)
6. Decreases level of funding for PACE from \$5,700,000 to \$4,500,000	(\$1,200,000)		(\$1,200,000)
7. Removes funding for Biodiesel PACE	(\$1,200,000)		(\$1,200,000)
8. Provides funding for new Biofuels PACE (executive budget identified as one-time funding)	\$4,200,000		\$4,200,000
9. Maintains 2005-07 biennium funding level for the beginning farmer loan program		\$950,000	\$950,000

Other Sections in Bill

Section 6 of House Bill No. 1014 allows for a carryover of unexpended funds in the capital assets line item in Sections 3 and 6 of 2005 Senate Bill No. 2014 related to construction of the new building during the 2007-09 biennium.

Section 15 of House Bill No. 1014 provides that the Bank of North Dakota transfer the funds appropriated in subdivision 3 of Section 3 of this bill to the PACE fund (\$4,500,000), the Ag PACE fund (\$1,400,000), and the Biofuels PACE fund (\$4,200,000). This section also provides that the Bank of North Dakota may not be construed as a general fund agency because of the appropriations made in subdivision 3 of Section 3 of this bill.

Continuing Appropriations

No continuing appropriations.

Major Related Legislation

House Bill No. 1021 - Section 5 of this bill provides that the Information Technology Department may borrow from the Bank of North Dakota an amount necessary to pay telecommunications costs for connecting approved schools and libraries in the event e-rate funding is not received by the department from the Schools and Libraries Division of the Universal Service Administrative Company.

House Bill No. 1027 - Section 41 of this bill provides for a general fund appropriation of \$1.2 million to the Bank of North Dakota for the purpose of defraying expenses of the Biodiesel PACE fund.

House Bill No. 1027 - Section 42 of this bill provides for a general fund appropriation of \$8 million for the purpose of defraying the expenses of the PACE fund.

House Bill No. 1027 - Section 43 of this bill provides that the Bank of North Dakota transfer the funds appropriated in Sections 41 and 42 to the Biodiesel PACE fund and the PACE fund and provides that the Bank of North Dakota may not be construed as a general fund agency because of the appropriations made in Sections 41 and 42.

Senate Bill No. 2015 - Section 7 of this bill provides that the Bank of North Dakota transfer \$60 million from the Bank's current earnings and accumulated profits to the general fund during the 2007-09 biennium.

December 2006

HISTORY OF BANK OF NORTH DAKOTA PROFITS AND EQUITY**HISTORIC BANK OF NORTH DAKOTA PROFITS, CAPITAL, ASSETS, AND LIABILITIES**

The following schedule shows the Bank of North Dakota profits (before transfers), capital, assets, and liabilities for calendar years 1992 through 2006:

Calendar Year	Profits (Before Transfers)	Year-End Capital	Year-End Assets	Year-End Liabilities
1992	\$22,340,000	\$114,119,000	\$1,064,109,000	\$949,990,000
1993	\$17,530,000	\$100,000,000	\$872,220,000	\$772,220,000
1994	\$18,031,000	\$100,206,000	\$935,070,000	\$834,864,000
1995	\$21,639,000	\$76,000,000	\$1,033,816,000	\$957,816,000
1996	\$23,191,000	\$98,477,000	\$1,068,082,000	\$969,605,000
1997	\$25,544,000	\$128,888,000	\$1,162,415,000	\$1,033,527,000
1998	\$28,137,000	\$139,931,000	\$1,609,039,000	\$1,469,108,000
1999	\$30,459,000	\$139,275,000	\$1,687,167,000	\$1,547,892,000
2000	\$32,582,000	\$153,045,000	\$1,806,517,000	\$1,653,472,000
2001	\$33,059,000	\$170,496,000	\$2,107,456,000	\$1,936,960,000
2002	\$32,191,000	\$149,113,000	\$1,974,448,000	\$1,825,335,000
2003	\$31,694,000	\$153,744,000	\$1,953,178,000	\$1,799,434,000
2004 (actual)	\$34,216,000	\$152,776,000	\$2,014,525,000	\$1,881,749,000
2005 (actual)	\$38,357,000	\$161,824,000	\$2,062,247,000	\$1,900,423,000
2006 (estimates)	\$42,700,000	\$164,000,000	\$2,250,000,000	\$2,086,000,000

BANK OF NORTH DAKOTA TRANSFERS TO THE GENERAL FUND

The following schedule shows the Bank of North Dakota-authorized transfers to the general fund and actual transfers to the general fund from the 1991-93 through 2007-09 bienniums:

Biennium	Authorized Transfers	Actual Transfers
1991-93	\$23,217,457 ¹	\$27,217,457 ¹
1993-95	\$48,000,000	\$14,100,000 ²
1995-97	\$59,900,000	\$50,214,540
1997-99	\$29,600,000	\$29,600,000 ³
1999-2001	\$50,000,000 ⁴	\$50,000,000
2001-03	\$85,000,000 ⁵	\$78,699,787 ⁶
2003-05	\$60,000,000 ⁷	\$60,000,000
2005-07	\$60,000,000 ⁸	
2007-09	\$60,000,000 ⁹	

¹The 1991 Legislative Assembly authorized the transfer of \$23.2 million from the accumulated profits of the Bank of North Dakota to the general fund during the 1991-93 biennium. Senate Bill No. 2053 (1993) transferred an additional \$4 million from the accumulated profits of the Bank to the general fund prior to June 30, 1993.

²The 1995 Legislative Assembly reduced the 1993-95 biennium Bank of North Dakota transfers to \$14.1 million.

³Section 21 of House Bill No. 1015 (1997) provided that any balance in or amounts to be transferred to the budget stabilization fund on July 1, 1997, were to be transferred to the Bank of North Dakota and added to the Bank's undivided profits (capital). As a result, in October 1997, \$17,116,291 was transferred to the Bank of North Dakota.

⁴Section 12 of Senate Bill No. 2015 (1999) provided that the Bank of North Dakota transfer \$50 million from the Bank's current earnings and accumulated undivided profits (capital) to the state general fund. No more than \$15 million of the \$50 million to be transferred could come from the accumulated and undivided profits of the Bank, and no transfer could reduce the Bank's capital structure below \$100 million.

⁵Section 11 of House Bill No. 1015 (2001) provided that the Bank of North Dakota transfer \$60 million from the Bank's current earnings and accumulated undivided profits to the state general fund. No more than \$15 million of the \$60 million to be transferred may come from the accumulated and undivided profits of the Bank, and no transfer may reduce the Bank's capital structure below \$140 million. The Budget Section approved the transfer of an additional amount of up to \$25 million to the state general fund from the earnings and accumulated and undivided profits of the Bank pursuant to Section 12 of House Bill No. 1015 (2001).

⁶The Bank of North Dakota transferred the regular \$60 million and made a contingent transfer of \$18.7 million to the state general fund. The 2001 Legislative Assembly authorized a transfer of up to \$25 million to the general fund in the event of a revenue shortfall during the 2001-03 biennium, but only \$18.7 million of that amount was required.

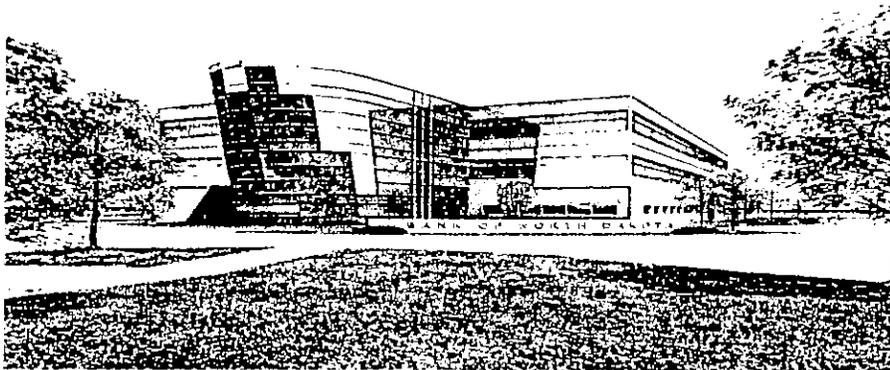
⁷Section 9 of Senate Bill No. 2015 (2003) provided that the Bank of North Dakota transfer \$60 million from the Bank's current earnings and accumulated undivided profits to the state general fund. No more than \$15 million of the \$60 million to be transferred may come from the accumulated and undivided profits of the Bank. In addition, Section 10 of Senate Bill No. 2015 (2003) provided for a contingent Bank transfer not to exceed the lesser of \$9 million or the revenue shortfall of actual collections compared to the March 2003 legislative forecast. Section 11 of Senate Bill No. 2015 (2003) provided that no transfer may reduce the Bank's capital structure below \$140 million.

⁸Section 9 of House Bill No. 1015 (2005) provides for transfers of up to \$60 million of Bank of North Dakota current earnings and accumulated and undivided profits to the general fund during the 2005-07 biennium. Section 9 also provides that any transfer authorized from the Bank of North Dakota to the general fund may only be made to the extent that the transfer does not reduce the Bank's capital structure below \$150 million.

⁹The 2007-09 executive budget provides that the Bank of North Dakota transfer \$60 million to the general fund.

New Bank Of North Dakota

1200 Memorial Highway Bismarck, ND

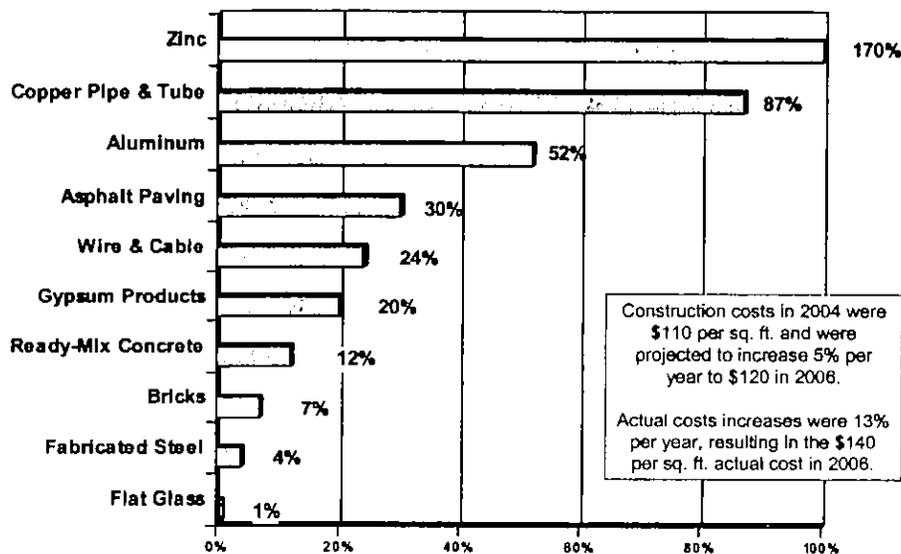


Presentation to
House Appropriations Committee
January 9, 2007

Background Information on Costs & Values Building Space Comparisons

Construction Costs increased 27% in 2 years

Examples of Annual Building Cost Increases



Building Cost Summary

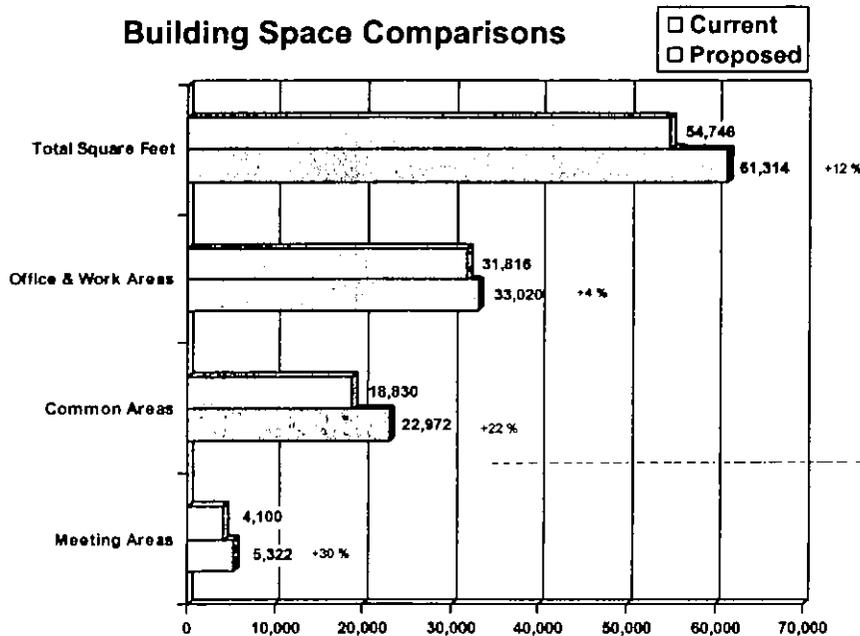
as of December 2006

	Estimate 2004	Actual - Dec. 2006	Difference
Land	1,500,000	1,933,470	+ 433,470
Professional Fees	450,000	700,000	+ 250,000
Bldg. Const. (\$120 to \$140)	7,200,000 ^{\$0,000}	8,583,960 ^{\$1,314}	+ 1,383,960
Site Work	<u>450,000</u>	<u>387,240</u>	- 62,760
Sub-Total:	9,600,000	11,604,670	+ 2,004,670
Contingency	400,000	265,655	- 134,345
Furniture & Equipment	<u>1,000,000</u>	<u>83,531</u>	- 916,469
Sub-Total:	1,400,000	349,186	- 1,050,814
Total:	11,000,000	11,953,856	+ 953,856

Additional Authorization (Oct. 2006):

Capital Assets	+ 243,356
Contingency	+ 625,000
Dept. of Commerce Grant	<u>+ 85,500</u>
Total:	+ 953,856

Building Space Comparisons



Projected Costs & Values

Current costs as of December 2006: \$ 11,953,856

Additional costs (Included in 2007-09 Budget):

<input type="checkbox"/>	Office Furniture & Equipment	\$ 970,000
<input type="checkbox"/>	Audio Visual & Additional Security	\$ 230,000
<input type="checkbox"/>	Additional Landscaping	<u>\$ 100,000</u>
	Sub-total:	\$ 1,300,000

Total Projected Cost: \$ 13,253,856

(\$11,000,000 to \$13,253,856 = + 20%)

Additional Value to State:

<input type="checkbox"/>	Est. <u>net</u> proceeds from sale of current building	\$ 2,200,000 +/-
<input type="checkbox"/>	Remaining land for future building <small>(@ \$25/sq ft)</small> <small>(Approx. 2.8 acres = 40,000 sq. ft. Building)</small>	<u>\$ 1,000,000 +/-</u>
	Total:	\$ 3,200,000

Other Notes of Interest

Operating & Maintenance costs for the new building are projected to be similar to current buildings. (No additional increase in the budget)

➤ **Costs balance out: e.g.**

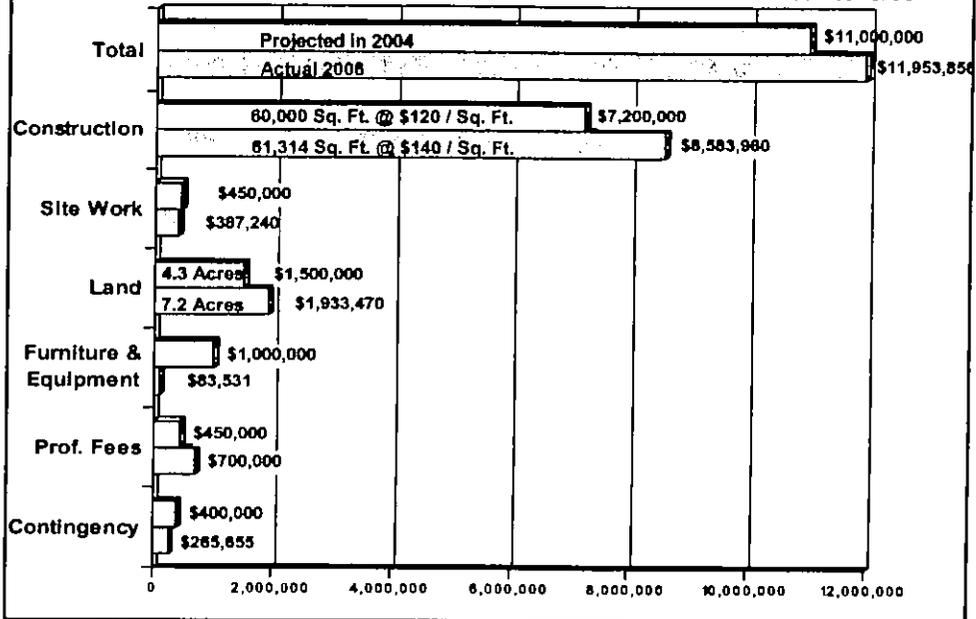
- Larger building, but more energy efficient
- Ground source heating system adds \$100,000 to construction cost, but \$15,000 less in annual operating costs. (7 year payback)
- Additional area for lawn mowing & snow removal; but less hauling cost for snow removal & no cost to lease parking spaces
- **Exception: + \$25,000 for cleaning windows.**

➤ **Temporary duplicate costs:**

- The 2007-09 budget is higher than 2005-07 since there will be two locations for a period of time. These duplicate costs will not continue forward.

BND Building Cost Comparisons

August 2004 Projections
 Actual - December 2006



**BANK OF NORTH DAKOTA
HOUSE BILL 1014
OPERATIONS SECTIONS 1-3**

The Bank of North Dakota's (BND) 2007-09 proposed operations budget is comprised of the five major line items outlined below.

BND revenues fund all Bank expenses. Profits are available to provide capital or make transfers to the General Fund.

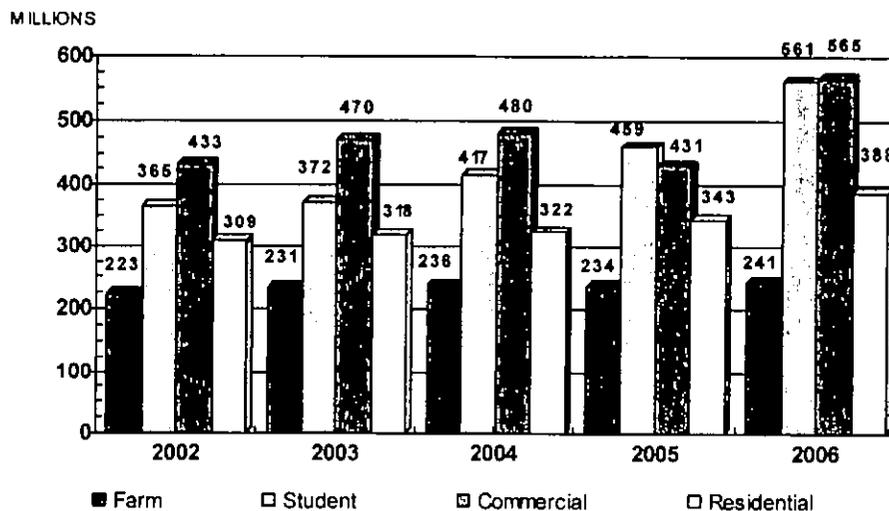
BND Financial Highlights (millions)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	Unaudited <u>2006</u>	Projected <u>2007</u>
Assets	\$1,953	\$2,015	\$2,062	\$2,326	\$2,272
Loans	\$1,392	\$1,456	\$1,467	\$1,756	\$1,798
Deposits	\$1,057	\$1,199	\$1,352	\$1,617	\$1,505
Capital	\$ 153	\$ 153	\$ 163	\$ 164	\$ 185
Ratio	7.83%	7.75%	7.90%	7.24%	8.14%
Income	\$31.7	\$34.2	\$36.4	\$42.8	\$45.0
GF transfer	\$34.0	\$30.0	\$30.0	\$30.0	\$30.0
ROE	20.7%	22.1%	22.9%	26.1%	24.97%

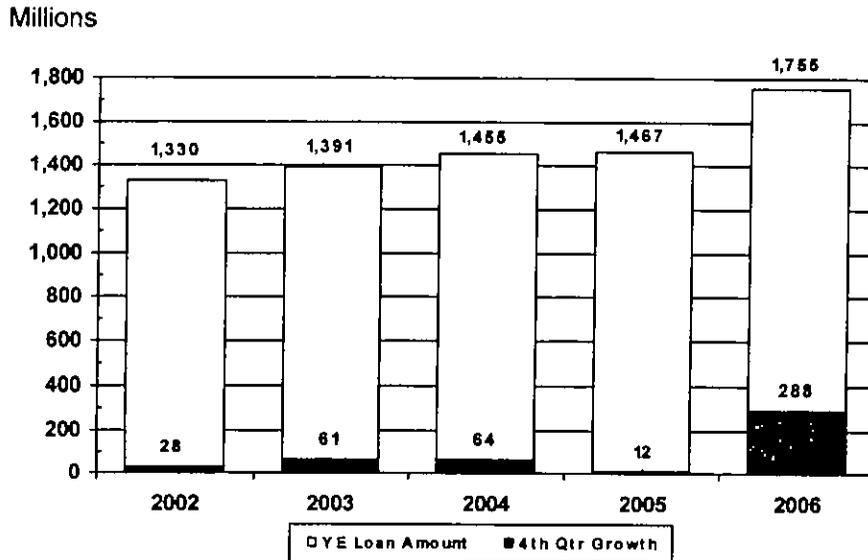
Assets have grown over the last 4 years with significant growth in 2006. This growth generally can be attributed to the overall strength of North Dakota's economy. As tax and fee income grows they are deposited at BND. Those deposits are then deployed into various asset types; loans or investments.

Loan volume has increased each year with nearly a 20% increase in net loans in 2006. The loan portfolio is diversified into four main categories: business, agriculture, student loans, and residential. The breakdown is as follows: business - \$565 million, agriculture - \$241 million, student loans - \$561 million, and residential - \$388 million.

PORTFOLIO BY LOAN GROUP



TOTAL LOAN PORTFOLIO



The Bank of North Dakota is adequately capitalized with capital of \$164 million or 7.24% of average assets. According to Federal Reserve regulations, to qualify as "well-capitalized", a financial institution must have at least 5% capital. A nation-wide average for banks of similar size is 8.01%, while the North Dakota average for all banks is 9.91%. Our internal goal is for BND to have equity of 8% and by the end of the 2005-07 biennium, we project equity to be over 8%.

With the final \$30 million installment to be paid in June of 2007, BND over the past ten years will have transferred to the General Fund nearly \$280 million, making it the fifth largest source of revenue to the state.

Earnings have been consistent over the last four years, with BND achieving record profits the last three years, although 2006 are unaudited at this point. For 2006, we had budgeted for earnings to be \$38 million; however, as a result of increased loan demand and deposit growth, earnings came in at nearly \$43 million. For the 2005-07 biennium, total BND earnings will be approximately \$83 million. This allows BND to grow capital by \$23 million after the \$60 million in transfers to the General Fund.

The return on equity ratio, which averages 23% for the last four years, represents the state's return on its investment in the Bank.

MAJOR LINE ITEM EXPENSE CATEGORIES:

SALARIES AND WAGES

Budget 2007-2009	\$20,295,359	Appropriation
Budget 2005-2007	<u>18,302,410</u>	Base level
	\$ 1,992,949	Enhancement

The salaries and wages line item increase represents the salary and insurance premium increase as proposed in the Governor's executive budget. Our budget reflects a decrease in authorized FTEs from 178.5 to 176.5. This reduction is a result of our desire to outsource some IT services to ND ITD rather than provide them internally.

Currently we have 165 positions filled and we are actively recruiting for three positions. Before we fill a vacated position, we first determine if there is a way to absorb the responsibilities with existing staff. We believe that resources (human, equipment, etc.) should be available to flow to the location within the Bank where they are most needed. Consequently, if we have a business opportunity where additional revenue can be generated, or if there is a specific need, we have the ability to move resources to meet the need.

BND continues to monitor efficiency ratios for salaries and wages and also in regard to the number of employees. Expenditures for salaries and benefits are .40% of average assets. Industry average for banks in North Dakota is well over 1%. Operating profit per employee at BND is \$256,000, compared to the industry average for banks in North Dakota of less than \$80,000. There are \$12.8 million in assets per employee at BND compared to an industry average for banks in North Dakota of \$3 million. These industry averages are taken from the 2006 Sheshunoff Publication: *Banks and S&L's of the Great Plains*. Sheshunoff is a nationally recognized bank analysis and consulting firm.

OPERATING EXPENSES

Budget 2007-2009	\$13,297,000	Appropriation
Budget 2005-2007	<u>\$10,925,665</u>	Base level
	\$ 2,371,335	Enhancement

Major expense items that are projecting to increase include a one time expenditure of \$975,000 for furniture and fixtures for the new Bank building. This expense should have been included in the capital asset line item, but at the time of budget submission it was decided that these items should be expensed rather than capitalized. We now have another opinion. Other increases include additional funds for outsourcing IT services and increased marketing expenditures.

A key industry benchmark for gauging the efficiency of a financial institution is the efficiency ratio. This measures non-interest expense as percentage of income. Anything below 50% is considered to be excellent. BND is operating with a 26% efficiency ratio, which is more than twice as good as the industry average of 56.7%

CAPITAL ASSETS

Budget 2007-2009	\$ 1,900,000	Appropriation
Budget 2005-2007	<u>11,272,000</u>	Base level
	\$ (9,372,000)	Enhancement

The 2005-07 appropriation included funds for the new Bank building. The funds requested for 2007-09 includes approximately \$1 million for server replacement for check imaging, core systems, and storage systems. Also included are funds for replacement of bond accounting and safekeeping systems, audio-visual equipment and landscaping.

CONTINGENCY

Budget 2007-2009	\$ 1,700,000	Appropriation
Budget 2005-2007	<u>1,700,000</u>	Base level
	\$ 0	Enhancement

7th St

The \$1,700,000 is requested to budget for the potential need for tower demolition on the existing Bank site, ongoing check clearing expenses and potential system enhancements.

**BANK OF NORTH DAKOTA
HOUSE BILL 1014
ECONOMIC DEVELOPMENT SECTIONS 1-3**

PACE FUND

Budget 2007-2009	\$ 4,500,000	Appropriation*
Budget 2005-2007	<u>5,700,000</u>	Base level
	\$ (1,200,000)	Enhancement

from Governors Budget \$250,000 CAP

The PACE Fund was established to buy-down the interest rate on loans to assist North Dakota communities in expanding their economic base by providing local jobs development. The program is available to all cities and counties throughout North Dakota for business projects involved in manufacturing, processing, value-added processes and targeted service industries. In 2005, the PACE program was expanded to include a special limited provision called Flex PACE. This special program allows local communities to set their own standards for use of the program including business retention or essential services. In this biennium, \$2 million of PACE funding was earmarked for Flex PACE

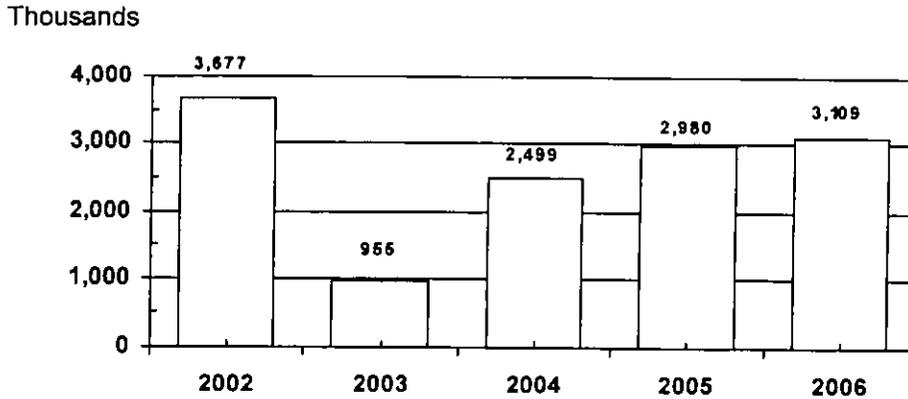
The PACE Fund began in 1991. Money provided to the PACE Fund by biennium are as follows:

1991-1993	\$5,700,000
1993-1995	4,700,000
1995-1997	4,500,000
1997-1999	4,600,000
1999-2001	6,000,000
2001-2003	6,000,000
2003-2005	5,700,000
2005-2007	5,700,000
2007-2009	<u>4,500,000*</u>
Total	\$47,400,000

3-1 (maximum) match Grant

*House Bill 1027 submitted by the legislative economic development committee has \$8 million earmarked for PACE.

PACE BUY-DOWN FUNDS



A total of 30 PACE loans were funded in 2006 in comparison to 49 in 2005. PACE loan volume for 2006 decreased from 2005, but a number of 2006 PACE projects are in the construction phase and funding is pending.

2005-2007 Biennium Buy-down Fund

Total Available Appropriated Funds	\$8,945,927*
PACE Buy-down Funds - Funded/Committed Loans	\$5,061,886
Flex PACE Buy-down Funds - Funded/Committed Loans	\$1,300,072
Flex PACE Buy-down Funds - Reserved	<u>\$ 447,924</u>
Remaining Buy-down Funds	\$ 2,136,045

* Includes \$2,000,000 from Beginning Farmer Revolving Fund.

A total of 6 Flex PACE Loans were funded in 2006 which included two large energy related projects. There were 7 Flex PACE loans funded in 2005 with this program starting in August of 2005.

BEGINNING FARMER REVOLVING LOAN FUND

Budget 2007-2009	\$ 950,000	Appropriation
Budget 2005-2007	<u>950,000</u>	Base level
	\$	0 Enhancement

As was the case in the 2005-07 biennial appropriation, BND has determined that the Beginning Farmer Revolving Loan (BFRL) fund has sufficient resources to fund the 2007-09 buy-down provision for the Beginning Farmer program. This will save the General Fund \$950,000. As of December 31, 2006 the BFRL fund has \$7,640,352 of cash and \$8,346,732 of loans in a total fund of \$18,106,810. The Beginning Farmer Revolving Loan Fund was established to make direct loans or to buy-down the interest rate on loans to beginning farmers for the first purchase of farm real estate or chattels.

*On
Investment
Not Principal*

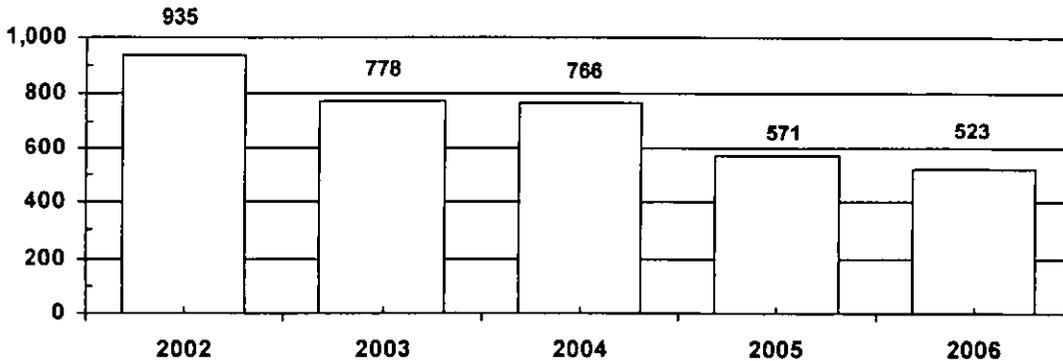
General Fund dollars appropriated for buying down the interest rate on these loans by biennium are as follows:

1991-1993	\$1,000,000	
1993-1995	1,000,000	
1995-1997	950,000	
1997-1999	921,500	
1999-2001	1,000,000	
2001-2003	1,000,000	
2003-2005	950,000	
2005-2007	0	
2007-2009	0	Proposed
Total	\$6,821,500	

*deligens...
...nothing*

BEGINNING FARMER RE BUYDOWN

Thousands



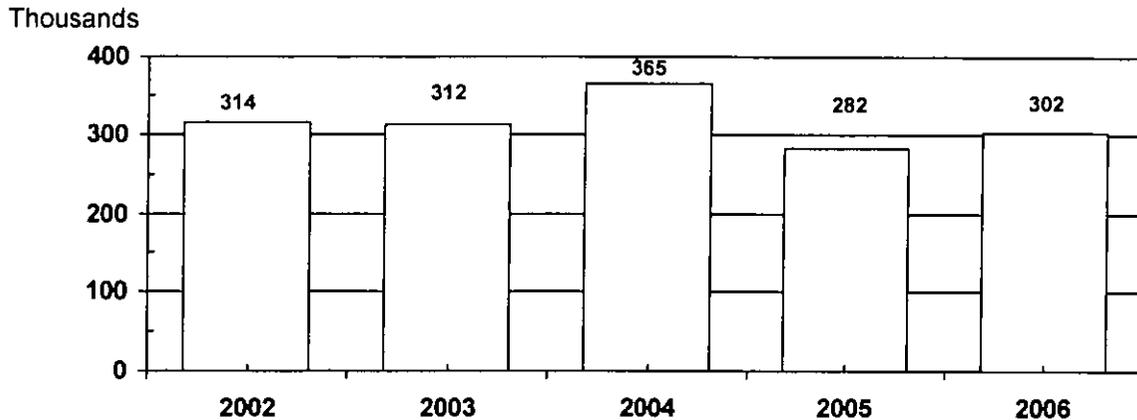
A total of 36 Beginning Farmer RE Loans were funded in 2006 in comparison to 59 in 2005. The number of Beginning Farmer Real Estate loans funded has decreased, but the loan amounts are larger with a higher total loan maximum and increased land values.

2005-2007 Biennium Beginning Farmer Buy-down Fund

Total Available Appropriated Funds	\$978,691*
Buy-down - Funded/RE Committed Loans	658,487
Buy-down - Funded/Chattel Committed Loans	401,186
Remaining Buy-down Funds	(\$80,982)

* Total Buy-down funds are shared between Real Estate & Chattel Loans. (\$950,000 appropriation plus \$28,691 in adjustments. The entire cash balance in the Beginning Farmer Revolving Fund is available for buy-down purposes.)

BEGINNING FARMER CHATTEL BUYDOWN



Program's inception date was July 1, 2001. A total of 55 Beginning Farmer Chattel Loans were funded in 2006 in comparison to 52 in 2005.

AG PACE FUND

Budget 2007-2009	\$ 1,400,000	Appropriation
Budget 2005-2007	<u>1,425,000</u>	Base level
	\$ (25,000)	Enhancement

Draw beginning down from cash fund

In the 2005-07 biennial appropriation BND had determined that the Beginning Farmer Revolving Loan Fund has sufficient resources to fund the buy-down provisions for both AG Pace and Beginning Farmer programs. This saved the General Fund \$2,375,000. Statute allows funds to be transferred between the Beginning Farmer revolving loan fund and the AG PACE Fund. BND has determined the funds in the Beginning Farmer Fund no longer can fund both the Beginning Farmer and AG PACE buy-down provisions. Consequently, General Funds are being requested to fund the AG PACE program.

The AG PACE Fund was established to buy-down the interest rate on loans to on-farm businesses. The program is available to businesses which are integrated into the farm operation and will supplement farm income.

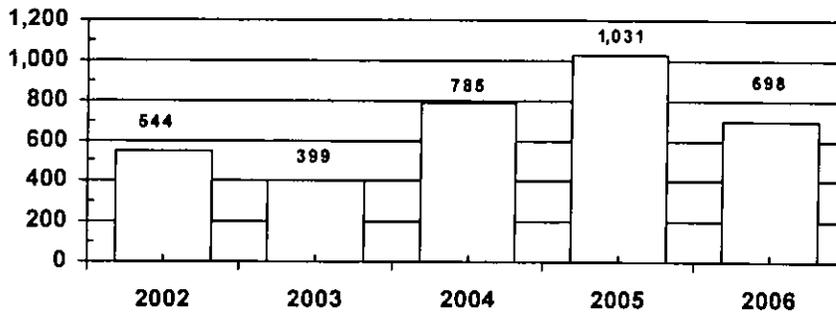
The AG PACE Fund began in 1991. Money provided to the AG PACE Fund by biennium are as follows:

1991-1993	\$ 996,000
1993-1995	400,000
1995-1997	380,000
1997-1999	397,100
1999-2001	1,500,000
2001-2003	1,500,000
2003-2005	1,425,000
2005-2007	0
2007-2009	<u>1,400,000</u>
Total	\$7,998,100

GRANT

Thousands

AG PACE LOAN PROGRAM BUYDOWN



20,000 CAP
60,000 lifetime CAP

2005-2007 Biennium Buy-down Fund

Total Available Appropriated Funds	\$1,425,000
Buy-down Funds - Funded/Committed Loans	\$ <u>983,431</u>
Remaining Buy-down Funds	\$ 441,569

BIO-FUELS PACE FUND

Budget 2007-2009	\$4,200,000	Appropriation -
Budget 2005-2007	<u>1,200,000</u>	Base level*
	\$3,000,000	Enhancement

Gov Budget
unspent - rolls here
\$800,000
\$500,000 CAP

no community match

* A bill is expected to be introduced that will convert Bio-diesel Pace to Bio-fuels Pace. This program will expand and increase funding for bio-fuel facilities which will include both ethanol and bio-diesel facilities. It will also provide funding for dairy and feedlot facilities that utilize by-products from ND bio-fuel plants. This program constitutes one time spending.

HOUSE BILL 1014, SECTION 6 Exemption

This allows for the continuation of spending the 2005-07 biennial appropriation for capital assets. It is anticipated that construction spending for the new Bank will continue until its completion scheduled for January 2008, consequently this continuation is requested.

HOUSE BILL 1014, SECTION 8 Transfer to the Industrial Commission

BND provides funding to the Industrial Commission each biennium for its operations including administrative and clerical costs. For the 2005-07 biennium, the amount to be transferred is \$102,066.

HOUSE BILL 1014, SECTION 15 BND Enterprise, not General Fund

This language is included to clarify that appropriations for the PACE Program, AGPACE, and Bio-fuels PACE go directly to the fund, not to BND for its operations. BND is an

enterprise fund, not a general fund agency, that is, it generates revenues to cover all of its own operations. The appropriations for the PACE Programs are passed through BND because it manages the PACE funds.

**HOUSE BILL 1014, SECTION 16
Transfer Authority**

This allows BND to transfer unobligated funds between the PACE and Biofuels PACE programs to meet the demands.

**HOUSE BILL 1014, SECTION 17
Amendment - Continuing Appropriation**

This declares that any unspent Bio-diesel PACE funds appropriated for the 2005-07 biennium will be transferred to the new Bio-fuels PACE program and will not be subject to section 54-44.1-11

**HOUSE BILL 1014, SECTION 18
Emergency provision for PACE funds**

The buy-down funding for the PACE Program is requested with an emergency provision so that it is available as soon as possible. Additionally, an emergency provision is also declared for the transfer of funds between PACE and Bio-fuels PACE.

1/18/2006	BEGINNING FARMER REAL ESTATE LOANS	BEGINNING FARMER CHATTEL LOANS	AG P	PACE	BIODIESEL PACE	PACE
BORROWER	North Dakota resident whose principal occupation is farming or ranching	North Dakota resident whose principal occupation is farming or ranching	North Dakota resident whose principal occupation is arming	Any ND manufacturing, processing, data processing, telecommunications, retail, telecommunications, smaller tourist businesses & essential community businesses	Biodiesel production facilities located in ND involved in production of diesel fuel containing at least 5% biodiesel, meeting the specifications adopted by the American Society of Testing & Materials	Any ND manufacturing, processing, data processing, telecommunications, retail, telecommunications, smaller tourist businesses & essential community businesses
BND FUNDING LIMIT	\$250,000 maximum to any one borrower - up to 75% of appraised value of property.	\$250,000 to any one borrower - BND to fund no less than 50% or greater than 80% of total loan.	Not less than 50% nor greater than 80% of the total loan.	BND's share - up to BND lending limit	Not more than one loan per production facility. BND's share - up to BND lending limit.	BND's share - up to BND lending limit
USE OF PROCEEDS	Purchase of agricultural real estate	Purchase of equipment or livestock	Purchase of equipment and facilities, equity shares of a value added ag processing business, irrigation equipment, or capital improvements to feedlots and dairy operations.	Working capital, equipment and real property	Real property, equipment, facility expansion, working capital and inventory	Working capital, equipment and real property
INTEREST RATE	First 5 years fixed at 1% below BND base, 6% max; next five years variable at 1% below the BND base, adjusted annually; then floats at BND base	BND share-5 years fixed at 1% below BND base, max 6%, then adjusted annually at BND base -1%. Lead lender share is reduced by 5% below yield rate, no less than 1%	5% below yield rate - no less than 1%; maximum buydown of \$20,000 per annum. Lifetime cap of \$60,000 if net worth less than \$1,000,000	Below market rates. PACE will fund up to \$250,000 for interest rate buy down of 5% below yield rate	Below market rate. BIODESEL PACE will fund up to \$400,000 for interest rate buy down of 5% below yield rate. If PACE funds are not available, the maximum increases to \$600,000 per facility	Below market rates. Flex PACE will fund up to \$250,000 for interest rate buy down of 5% below yield rate
TERM	25 year maximum	7 year maximum	Averages: working capital 3-5 years; equipment 5-7 years; and facilities up to 25 years	Averages: working capital 1-5 years, equipment 5-7 years, and real estate 12-15 years	Averages: working capital 1-5 years, equipment 5-7 years, and real estate 12-15 years	Averages: working capital 1-5 years, equipment 5-7 years, and real estate 12-15 years
COLLATERAL	First mortgage on farm real estate	First security interest on the chattels; 80% maximum loan to value	First interest security on acceptable business assets	First security interest on acceptable business assets	First security interest acceptable business assets	First security interest on acceptable business assets
EQUITY OR NET WORTH	\$300,000 or less	\$300,000 or less	Each loan will be reviewed on its own merits.	No minimums - based on project and management	No minimums - based on project and management	No minimums - based on project and management
CREDIT CRITERIA	Entire operation must demonstrate repayability	Entire operation must demonstrate repayability	Entire operation must demonstrate repayability	Based on borrower and project	Based on borrower and project	Based on borrower and project
SPECIAL PROGRAM REQUIREMENTS	May not own real estate greater than 30% of the median farm size in the county where the parcel is located	May not have previously farmed for more than 15 years determined by receipt of federal farm program payments	For nontraditional agricultural, manufacturing and value-added processing businesses	ND business which creates one job for every \$75,000 of loan proceeds - Not available for refinancing	Blending facilities do not qualify	Not available for refinancing.
OTHER FUNDING SOURCES	No lead lender is required	Beginning Farmer Revolving Fund will provide the interest rate buydown	Lead Lender portion - Not less than 20% nor greater than 50%	Lead lender required - BND must participate in 50% to 80% of total loan	Lead lender required - BND must participate in 50% to 80% of total loan	Lead lender required - BND must participate in 50% to 80% of total loan
APPRAISAL REQUIREMENTS	BND qualified appraisal	BND must be provided with an acceptable appraisal	Appraisal requirements evaluated on a case-by-case basis	Appraisal requirements evaluated on a case-by-case basis	Appraisal requirements evaluated on a case-by-case basis	Appraisal requirements evaluated on a case-by-case basis
COSTS AND FEES	All loan costs	None to BND	Origination fee	Origination fee	Origination fee	Origination fee
DIRECT OR PARTICIPATION	Direct	Participation	Participation	Participation	Participation	Participation
GENERAL FUND APPROPRIATION 2003-2005	\$950,000	\$950,000	\$1,425,000	\$5,700,000	Program Not Available	Program Not Available
GENERAL FUND APPROPRIATION 2005-2007	As of 12-31-06, \$1,059,673 has been utilized from the Beginning Farmer Revolving Fund Available Cash.	No Appropriation - \$1,425,000 Transferred from Beginning Farmer Revolving Fund	No Appropriation - \$1,425,000 Transferred from Beginning Farmer Revolving Fund	\$5,700,000	\$1,200,000	No Appropriation - \$2,000,000 Transferred from PACE Fund
PROPOSED GENERAL FUND APPROPRIATION 2007-2009	NONE - use the Available Cash from BFRF (See cashflow projection)	NONE - use the Available Cash from BFRF (See cashflow projection)	\$1,400,000	(HB 1014) \$4,500,000 Funds are Transferable Between PACE & Biodiesel PACE per HB 1014. (HB 1027) \$8,000,000	(HB 1014) \$4,200,000 (HB 1027) \$1,200,000	NONE

- 1014.1.19.07B

Beginning Farmer

Cash Flow Statement - 12 months Ended June 30

	06/30/05	06/30/06	06/30/07	06/30/08	06/30/09
Beginning Cash	10,137,959	10,137,959	8,450,659	4,828,007	4,130,197
New Loans -					
Real Estate Loan Mortgages - 1st					
Real Estate Loan Mortgages - 2nd					
Chattel Loans		(1,975,000)	(2,000,000)	(2,000,000)	(2,000,000)
Loan Payments -					
Principal		2,000,000	2,050,000	2,100,000	2,150,000
Interest		380,000	373,848	371,723	367,473
Late Fees					
Investment Interest Income		156,000	180,000	331,967	223,955
Buy down Interest Disbursed		(775,000)	(950,000)	(950,000)	(950,000)
Operating Expenses Paid					
Administrative Fees		(45,000)	(48,000)	(48,000)	(48,000)
Audit Expense		(3,300)	(3,500)	(3,500)	(3,500)
Disbursals from Fund - AgPace (1)		(1,000,000)	(1,225,000)	0	0
Disbursals to Pace Fund (2)		0	(2,000,000)		
Agriculture Fuel Tax Fund (3)		(425,000)			
ENVEST Program (4)				(500,000)	(500,000)
PSC Rail Case Ready Reserve (5)					(800,000)
Ending Cash	10,137,959	8,450,659	4,828,007	4,130,197	2,570,126

NOTES:

1) Ag PACE Fund Transfer - \$2,225,000

- * \$1,425,000 - Transfer to Ag PACE Fund, authorized by 2005 Legislative Assembly (2003-05 Biennium \$1,425,000 Appropriation from General Fund)
- * \$ 800,000 - Transfer to NDSU Beef Systems Centers of Excellence project authorized by Senate Bill 2020 of the 2005 Legislative Assembly.

2) PACE Fund Transfer - \$2,000,000

* Due to PACE funds shortage, \$2 million was transferred from Beginning Farmer Revolving Loan Fund. This transfer was justified by the number of agricultural related projects that received PACE funds in the form of value-added processing operations primarily consisting of renewable energy projects.

3) Ag PUC Fund Transfer - \$425,000

* Transfer to the Ag Fuel Tax Fund for usage by Ag PUC appropriated by Senate Bill 2014 of the 2005 Legislative Assembly.

4) House Bill 1135 - Authorizes up to a \$1 million transfer from Beginning Farmer Revolving Loan Fund each biennium with funds used for interest buy down on loans made for investments in feedlots or dairy operations.

5) Senate Bill 2008 - Appropriates \$800,000 for the rail rate complaint case as contained in Section 4 of SB 2008.

- 1014.1.19.07C -

January 16, 2007

IMPACT TO BND ON NOT HAVING \$60 MILLION TRANSFER TO GENERAL FUND FOR THE BIENNIUM JULY 1, 2007 – JUNE 20, 2009

IMPACT ON INCOME(OPERATING PERFORMANCE):

This current biennium BND is transferring the \$60 million to the general fund as follows:

\$30 million – December 31, 2006

\$30 million – June 30, 2007

The same dates as above were used to calculate the impact of BND not making the transfers to the general fund in the next biennium. BND's earnings would increase during the period January 1, 2009 – June 30, 2009. This is based on the bank having additional interest free money of \$30 million for this six month period, earning at the current Federal Funds Rate of 5.25%, BND would have additional interest earnings of 3.75%, or \$562,500. **Either the bank or the State Treasurer has this \$562,500 in earnings depending on whose name is attached to the money.**

IMPACT ON RETURN ON EQUITY:

Retaining the transfers, in turn, growing equity, the banks return on equity goes from having averaged 24% over the past 4 years to being 20% in calendar year 2008 and 18.5% in calendar year 2009. This is because we currently do not have the ability to grow the loan portfolio and leverage these equity dollars and therefore, return on equity would decrease.

IMPACT ON BALANCE SHEET(FINANCIAL POSITION):

If BND retains the \$60 million, the banks capital will increase by the \$60 million. An important ratio for BND is its leverage ratio, which basically is capital/average quarterly assets. Capital at June 30, 2009 would be at \$275 million versus being at \$215 million. Based on this, the leverage ratio of the bank based on \$2.3 billion in average quarterly assets would be at nearly 12% versus being at 9.3%. A bank is considered well capitalized if the leverage ratio is above 5%. BND's target is 8%. North Dakota banks leverage ratios average around 10%. The leverage ratio is a measure of the financial strength of the bank.

Appropriation amounts for the PACE Programs:

	<u>PACE</u>	<u>Biodiesel PACE</u>
<u>2005-2007 Biennium:</u>	\$5,700,000	\$1,200,000
 <u>Proposed for 2007-2009 Biennium:</u>		
HB 1014: * (IC Appropriation Bill)	\$4,500,000	\$4,200,000 (Biofuels PACE) \$ 801,964 plus Biodiesel Balance \$5,001,964
Total General Fund Appropriation:	\$8,700,000	
HB 1027: (EDC Bill)	\$8,000,000	\$1,200,000
Total General Fund Appropriation:	\$8,398,036	(\$8,000,000 + \$1,200,000 - \$801,964) **
Total Difference Between the Two Bills:	\$301,964	

* It should be noted that in HB 1014, BND will have the ability to transfer any unobligated funds between the Biofuels PACE and PACE Fund.

** Existing N.D.C.C. 6-09.17-02 requires that any unused Biodiesel PACE funds be returned to the General Fund at the end of the 2005-2007 biennium.

Additional information on the Flex PACE Program:

Flex PACE does not have a separate appropriation and interest buydown is provided by PACE funds. Flex PACE is an extension of PACE that came about at the request of North Dakota Economic Developers and Lenders that wanted more flexibility in providing interest buydown funds to businesses that did not fit the PACE eligibility definition and did not meet the job creation requirement. The beauty of Flex PACE is the local community decides what type of business they want to support. The funds have currently been used to support essential community businesses such as hospitals and grocery stores. The North Dakota Economic Development Association is a strong supporter of both PACE and Flex PACE.

It should be noted that BND's plan was to use \$2 million of the 2003-2005 PACE carry-forward balance for Flex PACE, but legislation mandated \$2,200,000 be returned to the General Fund and earmarked for the Centers of Excellence program). Because of this scenario and with increased demand for eligible PACE projects in the 2005-2007 biennium, the PACE funds were committed 9 months into the biennium. With the shortage in PACE funds, a \$2 million transfer from the Beginning Farmer Revolving Loan Fund was necessary. This transfer was justified by the number of agricultural related projects that were receiving PACE funds in the form of value-added processing operations primarily consisting of renewable energy projects.

Hardmeyer, Eric A.

From: Fine, Karlene K.
Sent: Tuesday, January 09, 2007, 1:29 PM
To: Hardmeyer, Eric A.
Subject: Appropriations List

Eric--Here is the list from my notes:

1) What would the Bank of North Dakota be able to do with an additional \$60 million if they did not need to transfer profits to the General Fund? When you responded at the meeting you talked in terms of making an additional \$700,000+ and also the possibility that rates to borrowers could be lowered. *Karlene*

2) I think you already have the memo prepared regarding the Bank of North Dakota building -- old site/new site. Be sure to add in the value per square foot at the old site.

3) With the building they wanted a time frame of when you might start advertising it, etc.

4) Would like a summary of the guidelines for the various economic development programs--PACE, AG PACE, Beginning Farmer; BioDiesel (as it currently stands) and then we should include what might be proposed as guidelines for the BioFuels. You might also want to include some discussion on how often a borrower can access these programs - that might be covered somewhat in your guidelines. *Bob*

5) Would like a summary of the general areas our PACE funding went to. Pick whatever time period you want--two years, five years, whatever. I think they just need a sense of how it is being used. *Bob*

6) I don't know if we want to give any more detail than what you already have, on where the growth has been in the commercial loan portfolio. You talked in terms of energy (both renewable and the oil industry) but maybe there are some other broad categories we might want to touch on. *Bob*

7) Memo on how the PACE, BioFuels PACE will work --ability to transfer between the funds. You might want to include information on how all those economic development programs work together. *Bob*

8) Tammy may have already called you for this for another purpose -- the balances in the Beginning Farmer Revolving Loan Fund. I think that information will also be useful for the subcommittee on your budget. *Angie*

That's all I got for now. Let me know if I missed some of the ones you jotted down. Karlene

- Building issues
- Amendment
- BioD profits

PACE Reconciliation

	HB1014	Amended HB1014	HB 1027	HB 1273
PACE	\$4.50	\$8.00	\$8.00	\$0
Biofuels PACE	\$4.20	\$4.20	\$1.20	\$0
Med PACE	\$0	\$2.00		\$5.00
Totals	\$8.70	\$14.20 6.20	\$9.20	2.00 \$5 2.00

$\$8.70 + \$9.20 - \$14.20 = \3.50

MEMORANDUM

TO: Government Operations Appropriation committee members
FROM: Eric Hardmeyer, President
DATE: January 23, 2007
RE: Follow up information

The following summarizes the points in the Executive Budget Highlights for Bank of North Dakota House Bill No. 1014

1. The \$1,400,000 IT Equipment Budget is for:
 - a. \$918,000 - 4 year replacement cycle on servers and two AS400 computers
 - b. \$300,000 - Replace BND's bond accounting and safekeeping software
 - c. \$182,000 - Replacement of other IT equipment
2. The 500,000 equipment request is for:
 - a. \$100,000 - landscaping at new facility
 - b. \$187,000 - audio visual equipment for new facility
 - c. \$78,000 - equipment related to new facility
 - d. \$135,000 - replacement of equipment utilized to provide banking services.
3. \$752,640 - strictly for services provided by NDITD
4. The \$1,024,920 includes \$975,000 for furniture for the new bank. These costs should have been included in capital assets, but due to decision at the time it was put under operating expense. At the time we thought we would simply expense these items, we have now decided they should be capitalized and depreciated over the useful life.

We also talked about the opportunity to sell the existing bank property. Based on discussions with legal counsel we feel that an amendment to statute would be needed to clarify BND's authority to sell. Below is the proposed amendment language.

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1014

Page 1, line 3, after "reenact" insert "subsection 6 of section 6-09-15 and"

Page 1, line 4, after "to" insert "authorizing the Bank of North Dakota to sell real property and to"

Page 9, after line 6, insert:

SECTION 17. AMENDMENT. Subsection 6 of section 6-09-15 of the North Dakota Century Code is amended and reenacted as follows:

6. Lease, assign, sell, exchange, transfer, convey, grant, pledge, or mortgage all real and personal property, title to which has been acquired in any manner.

Page 9, line 19, after the semicolon insert "the Amendment in section 17 of this Act authorizing the Bank of North Dakota to sell real property;"

Renumber accordingly.

Finally, you asked for our thoughts on the adequacy and safeguard protections of PACE funding. One of the concerns that was brought up was the "double dipping" for bio-fuels projects, wherein project owners could use both PACE and Bio-fuels PACE and receive a total of \$750,000 per project (\$250,000 from PACE and \$500,000 from Bio-fuels PACE). Because of the large number of bio-fuels projects on the horizon, this could easily absorb the majority of PACE funding.

Further complicating the issue, the Governors' budget reduced the amount of money for PACE from \$5.7 million to \$4.5 million.

I would suggest that if the state wants to provide \$750,000 in buydown for a biodiesel project, then it should be addressed in the bill that deals with biodiesel, SB 2180.

It was also asked if I had thoughts about additional incentives for ethanol projects that use alternatives to corn as the feedstock. We think that is largely a legislative decision and one that we do not have the expertise to weigh in on.

For the current biennium we project to spend nearly \$8 million for PACE and with the strength of the economy we anticipate a need of \$8 million for PACE funding in the 2007-09 biennium for PACE equal to \$8 million. In fact HB 1027 provides for \$8 million in PACE funding.

**TESTIMONY TO THE
SENATE APPROPRIATIONS COMMITTEE**

February 21, 2007

ENGROSSED HOUSE BILL 1014

ERIC HARDMEYER - BANK OF NORTH DAKOTA

House Bill 1014 contains twelve sections relative to Bank of North Dakota. Those sections are listed below:

Section 1: Base Level funding information

Subdivision 2: BND - Operations

Subdivision 3: BND – Economic Development

Section 2: Funding Adjustments or Enhancements information

Subdivision 2: BND - Operations

Subdivision 3: BND – Economic Development

Section 3: Appropriation

Subdivision 2: BND - Operations

Subdivision 3: BND – Economic Development

Section 7: Exemption – Allows for the unexpended funds from the capital asset line item from the 2005 Senate Bill 2014 to be spent in the 2007-09 biennium.

Section 9: Transfer - BND Transfer to the Industrial Commission for its administration and clerical support operations

Section 15: Appropriation transfer - BND Enterprise Fund, not General Fund

Section 16: Transfer Authority – Allows for the transfer of any unobligated funds between the PACE fund and the Bio-Fuels PACE fund.

Section 17: Transfer Budget Section Approval - Allows for the transfer of any unobligated funds from Medical PACE fund to the PACE fund, subject to Budget section approval.

Section 18: Amendment – Allows for BND to sell its excess real estate.

Section 19: Amendment - Transfers unexpended from Bio-diesel PACE to Bio-fuels PACE.

Section 20: PACE fund incentive limitation – A project that receives buydown from the Bio-fuels fund may not also receive funds for the same project from PACE funds.

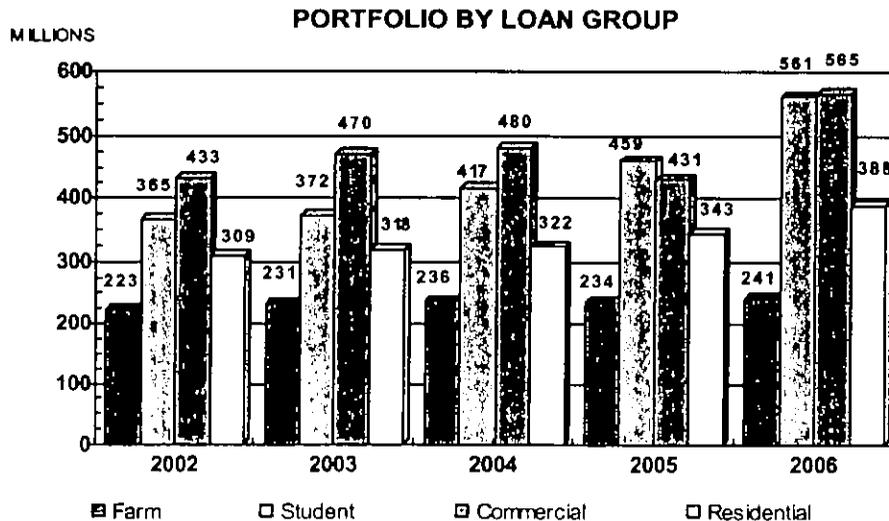
Section 22: Emergency - Declares an emergency provision for PACE Program funding and the ability to transfer unobligated funds between PACE and Bio-fuels funds.

BND Financial Highlights (millions)

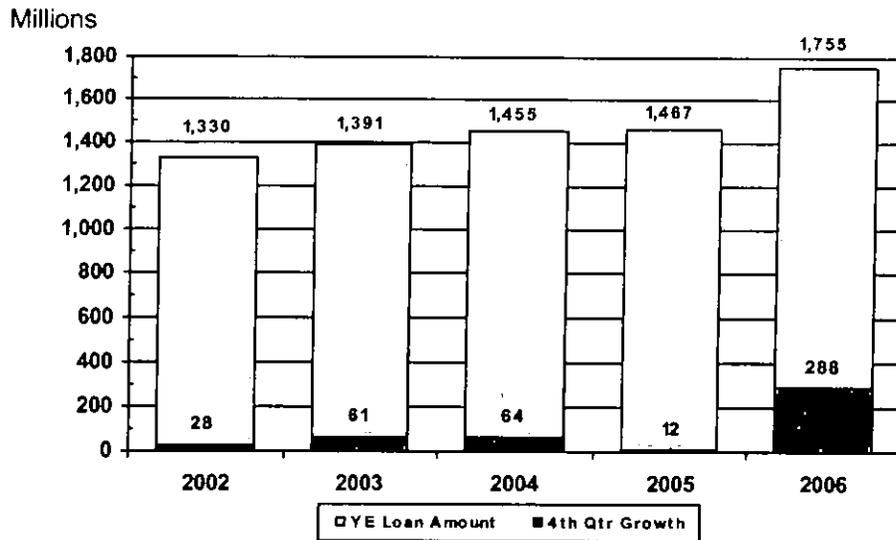
	<u>2003</u>	<u>2004</u>	<u>2005</u>	Unaudited <u>2006</u>	Projected <u>2007</u>
Assets	\$1,953	\$2,015	\$2,062	\$2,326	\$2,272
Loans	\$1,392	\$1,456	\$1,467	\$1,756	\$1,798
Deposits	\$1,057	\$1,199	\$1,352	\$1,617	\$1,505
Capital Ratio	\$ 153 7.83%	\$ 153 7.75%	\$ 163 7.90%	\$ 164 7.24%	\$ 185 8.14%
Income	\$31.7	\$34.2	\$36.4	\$42.8	\$45.0
GF transfer	\$34.0	\$30.0	\$30.0	\$30.0	\$30.0
ROE	20.7%	22.1%	22.9%	26.1%	24.97%

Assets have grown over the last 4 years with significant growth in 2006. This growth generally can be attributed to the overall strength of North Dakota's economy. As tax and fee income grows they are deposited at BND. Those deposits are then deployed into various asset types; loans or investments.

Loan volume has increased each year with nearly a 20% increase in net loans in 2006. The loan portfolio is diversified into four main categories: business, agriculture, student loans, and residential. The breakdown is as follows: business - \$565 million, agriculture - \$241 million, student loans - \$561 million, and residential - \$388 million.



TOTAL LOAN PORTFOLIO



The Bank of North Dakota is adequately capitalized with capital of \$164 million or 7.24% of average assets. According to Federal Reserve regulations, to qualify as "well-capitalized", a financial institution must have at least 5% capital. A nation-wide average for banks of similar size is 8.01%, while the North Dakota average for all banks is 9.91%. Our internal goal is for BND to have equity of 8% and by the end of the 2005-07 biennium, we project equity to be near 8%.

Subject to approval of Senate Bill 2339, the final \$30 million installment of BND's \$60 million transfer will be paid in June of 2007. With that transfer BND over the past ten years will have transferred to the General Fund nearly \$280 million, making it the fifth largest source of revenue to the state.

Earnings have been consistent over the last four years, with BND achieving record profits the last three years, although 2006 are unaudited at this point. For 2006, we had budgeted for earnings to be \$38 million; however, as a result of increased loan demand and deposit growth, earnings were nearly \$43 million. For the 2005-07 biennium, total BND earnings will be approximately \$83 million. This allows BND to grow capital by \$23 million after the \$60 million in transfers to the General Fund.

The return on equity ratio, which averages 23% for the last four years, represents the state's return on its investment in the Bank.

BANK OF NORTH DAKOTA ENGROSSED HOUSE BILL 1014 OPERATIONS SECTIONS 1-3

The Bank of North Dakota's (BND) 2007-09 proposed operations budget is comprised of the four major line items outlined below. BND revenues fund all Bank expenses. Profits are available to provide capital or make transfers to the General Fund.

MAJOR LINE ITEM EXPENSE CATEGORIES:

SALARIES AND WAGES

Budget 2007-2009	\$20,295,359	Appropriation
Budget 2005-2007	<u>18,302,410</u>	Base level
	\$ 1,992,949	Enhancement

The salaries and wages line item increase represents the salary and insurance premium increase as proposed in the Governor's executive budget. Our budget reflects a decrease in authorized FTEs from 178.5 to 176.5. This reduction is a result of our desire to outsource some IT services to ND ITD rather than provide them internally.

Currently we have 165 positions filled and we are actively recruiting for three positions. Before we fill a vacated position, we first determine if there is a way to absorb the responsibilities with existing staff. We believe that resources (human, equipment, etc.) should be available to flow to the location within the Bank where they are most needed.

Consequently, if we have a business opportunity where additional revenue can be generated, or if there is a specific need, we have the ability to move resources to meet the need.

BND continues to monitor efficiency ratios for salaries and wages and also in regard to the number of employees. Expenditures for salaries and benefits are .40% of average assets. Industry average for banks in North Dakota is well over 1%. Operating profit per employee at BND is \$256,000, compared to the industry average for banks in North Dakota of less than \$80,000. There are \$12.8 million in assets per employee at BND compared to an industry average for banks in North Dakota of \$3 million. These industry averages are taken from the 2006 Sheshunoff Publication: *Banks and S&L's of the Great Plains*. Sheshunoff is a nationally recognized bank analysis and consulting firm.

OPERATING EXPENSES

Budget 2007-2009	\$13,297,000	Appropriation
Budget 2005-2007	<u>\$10,925,665</u>	Base level
	\$ 2,371,335	Enhancement

Major expense items that are projecting to increase include a one time expenditure of \$975,000 for furniture and fixtures for the new Bank building. This expense should have been included in the capital asset line item, but at the time of budget submission it was decided that these items should be expensed rather than capitalized. We now have another opinion. Other increases include additional funds for outsourcing IT services and increased marketing expenditures.

A key industry benchmark for gauging the efficiency of a financial institution is the efficiency ratio. This measures non-interest expense as percentage of income. Anything below 50% is considered to be excellent. BND is operating with a 26% efficiency ratio, which is more than twice as good as the industry average of 56.7%

CAPITAL ASSETS

Budget 2007-2009	\$ 1,900,000	Appropriation
Budget 2005-2007	<u>11,272,000</u>	Base level
	\$ (9,372,000)	Enhancement

The 2005-07 appropriation included funds for the new Bank building. The funds requested for 2007-09 includes approximately \$1 million for server replacement for check imaging, core systems, and storage systems. Also included are funds for replacement of bond accounting and safekeeping systems, audio-visual equipment and landscaping.

CONTINGENCY

Budget 2007-2009	\$ 1,700,000	Appropriation
Budget 2005-2007	<u>1,700,000</u>	Base level
	\$ 0	Enhancement

The \$1,700,000 is requested to budget for the potential need for tower demolition on the existing Bank site, ongoing check clearing expenses and potential system enhancements.

**BANK OF NORTH DAKOTA
ENGROSSED HOUSE BILL 1014
ECONOMIC DEVELOPMENT SECTIONS 1-3**

PACE FUND

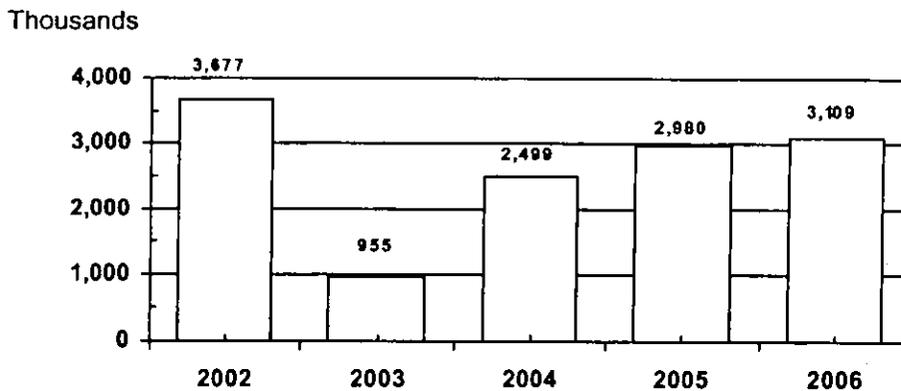
Budget 2007-2009	\$ 8,000,000	Appropriation
Budget 2005-2007	<u>5,700,000</u>	Base level
	\$ 2,300,000	Enhancement

The PACE Fund was established to buy-down the interest rate on loans to assist North Dakota communities in expanding their economic base by providing local jobs development. The program is available to all cities and counties throughout North Dakota for business projects involved in manufacturing, processing, value-added processes and targeted service industries. In 2005, the PACE program was expanded to include a special limited provision called Flex PACE. This special program allows local communities to set their own standards for use of the program including business retention or essential services. In this biennium, \$2 million of PACE funding was earmarked for Flex PACE

The PACE Fund began in 1991. Money provided to the PACE Fund by biennium is as follows:

1991-1993	\$5,700,000
1993-1995	4,700,000
1995-1997	4,500,000
1997-1999	4,600,000
1999-2001	6,000,000
2001-2003	6,000,000
2003-2005	5,700,000
2005-2007	5,700,000
2007-2009	8,000,000 Proposed
Total	\$50,900,000

PACE BUY-DOWN FUNDS



A total of 30 PACE loans were funded in 2006 in comparison to 49 in 2005. PACE loan volume for 2006 decreased from 2005, but a number of 2006 PACE projects are in the construction phase and funding is pending.

2005-2007 Biennium Buy-down Fund

Total Available Appropriated Funds	\$8,945,927*
PACE Buy-down Funds - Funded/Committed Loans	\$5,061,886
Flex PACE Buy-down Funds - Funded/Committed Loans	\$1,300,072
Flex PACE Buy-down Funds - Reserved	<u>\$ 447,924</u>
Remaining Buy-down Funds	\$ 2,136,045

* Includes \$2,000,000 from Beginning Farmer Revolving Fund.

A total of 6 Flex PACE Loans were funded in 2006 which included two large energy related projects. There were 7 Flex PACE loans funded in 2005 with this program starting in August of 2005.

BEGINNING FARMER REVOLVING LOAN FUND

Budget 2007-2009	\$ 950,000	Appropriation
Budget 2005-2007	<u>950,000</u>	Base level
	\$	0 Enhancement

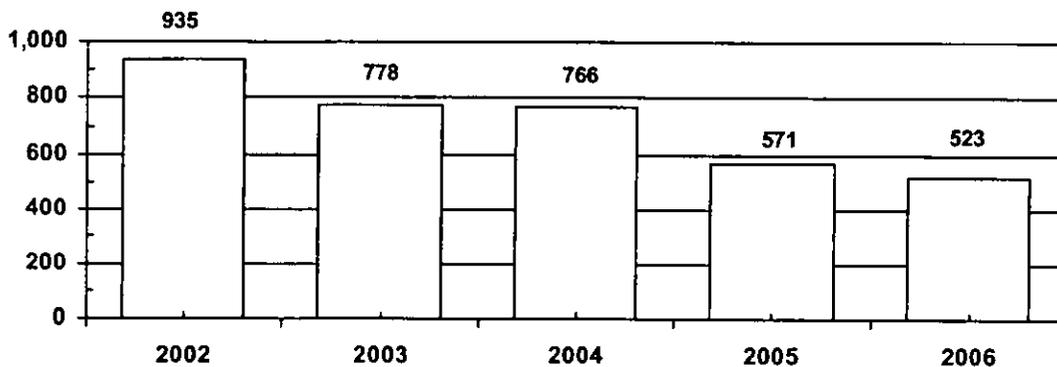
As was the case in the 2005-07 biennial appropriation, BND has determined that the Beginning Farmer Revolving Loan (BFRL) fund has sufficient resources to fund the 2007-09 buy-down provision for the Beginning Farmer program. This will save the General Fund \$950,000. As of December 31, 2006 the BFLR fund has \$7,640,352 of cash and \$8,346,732 of loans in a total fund of \$18,106,810. The Beginning Farmer Revolving Loan Fund was established to make direct loans or to buy-down the interest rate on loans to beginning farmers for the first purchase of farm real estate or chattels.

General Fund dollars appropriated for buying down the interest rate on these loans by biennium are as follows:

1991-1993	\$1,000,000	
1993-1995	1,000,000	
1995-1997	950,000	
1997-1999	921,500	
1999-2001	1,000,000	
2001-2003	1,000,000	
2003-2005	950,000	
2005-2007	0	
2007-2009	<u>0</u>	Proposed
Total	\$6,821,500	

BEGINNING FARMER RE BUYDOWN

Thousands



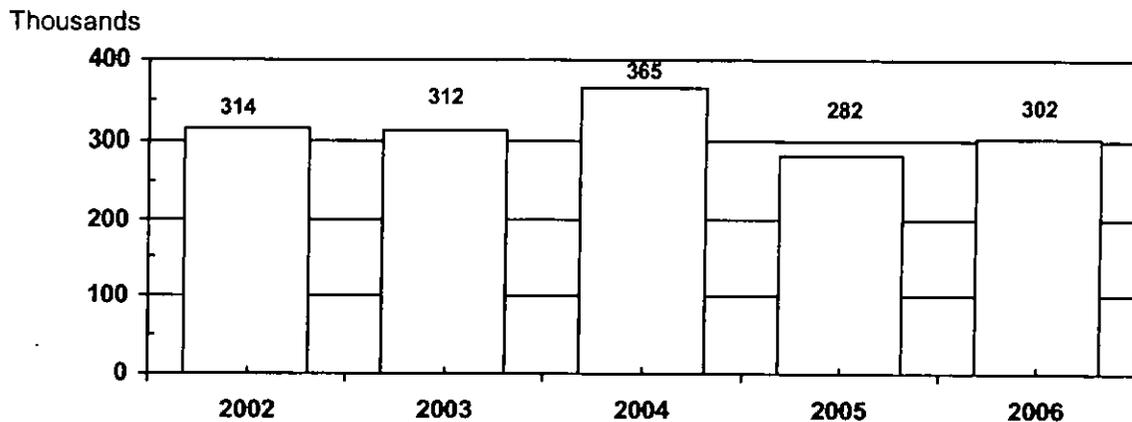
A total of 36 Beginning Farmer RE Loans were funded in 2006 in comparison to 59 in 2005. The number of Beginning Farmer Real Estate loans funded has decreased, but the loan amounts are larger with a higher total loan maximum and increased land values.

2005-2007 Biennium Beginning Farmer Buy-down Fund

Total Available Appropriated Funds	\$978,691*
Buy-down - Funded/RE Committed Loans	658,487
Buy-down - Funded/Chattel Committed Loans	<u>401,186</u>
Remaining Buy-down Funds	(\$80,982)

* Total Buy-down funds are shared between Real Estate & Chattel Loans. (\$950,000 appropriation plus \$28,691 in adjustments. The entire cash balance in the Beginning Farmer Revolving Fund is available for buy-down purposes.)

BEGINNING FARMER CHATTEL BUYDOWN



Program's inception date was July 1, 2001. A total of 55 Beginning Farmer Chattel Loans were funded in 2006 in comparison to 52 in 2005.

AG PACE FUND

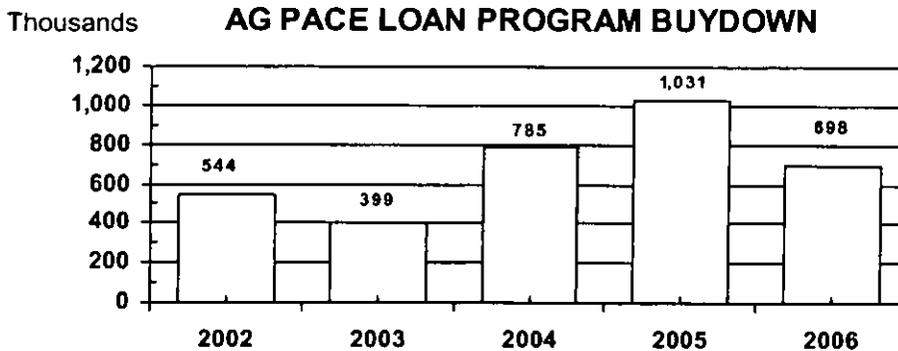
Budget 2007-2009	\$ 1,400,000	Appropriation
Budget 2005-2007	<u>1,425,000</u>	Base level
	\$ (25,000)	Enhancement

In the 2005-07 biennial appropriation BND had determined that the Beginning Farmer Revolving Loan Fund has sufficient resources to fund the buy-down provisions for both AG Pace and Beginning Farmer programs. This saved the General Fund \$2,375,000. Statute allows funds to be transferred between the Beginning Farmer revolving loan fund and the AG PACE Fund. BND has determined the funds in the Beginning Farmer Fund no longer can fund both the Beginning Farmer and AG PACE buy-down provisions. Consequently, General Funds are being requested to fund the AG PACE program.

The AG PACE Fund was established to buy-down the interest rate on loans to on-farm businesses. The program is available to businesses which are integrated into the farm operation and will supplement farm income.

The AG PACE Fund began in 1991. Money provided to the AG PACE Fund by biennium are as follows:

1991-1993	\$ 996,000
1993-1995	400,000
1995-1997	380,000
1997-1999	397,100
1999-2001	1,500,000
2001-2003	1,500,000
2003-2005	1,425,000
2005-2007	0
2007-2009	<u>1,400,000</u>
Total	\$7,998,100



2005-2007 Biennium Buy-down Fund

Total Available Appropriated Funds	\$1,425,000
Buy-down Funds - Funded/Committed Loans	\$ <u>983,431</u>
Remaining Buy-down Funds	\$ 441,569

BIO-FUELS PACE FUND

Budget 2007-2009	\$4,200,000	Appropriation
Budget 2005-2007	<u>1,200,000</u>	Base level*
	\$3,000,000	Enhancement

- This program will expand and increase funding for bio-fuel facilities which will include both ethanol and bio-diesel facilities. It will also provide funding for dairy and feedlot facilities that utilize by-products from ND bio-fuel plants. This program constitutes one time spending.

ENGROSSED HOUSE BILL 1014, SECTION 7
Exemption

This allows for the continuation of spending the 2005-07 biennial appropriation for capital assets. It is anticipated that construction spending for the new Bank will continue until its completion scheduled for January 2008, consequently this continuation is requested.

**ENGROSSED HOUSE BILL 1014, SECTION 9
Transfer to the Industrial Commission**

BND provides funding to the Industrial Commission each biennium for its operations including administrative and clerical costs. For the 2005-07 biennium, the amount to be transferred is \$102,066.

**ENGROSSED HOUSE BILL 1014, SECTION 15
BND Enterprise, not General Fund**

This language is included to clarify that appropriations for the PACE Program, AGPACE, and Bio-fuels PACE go directly to the fund, not to BND for its operations. BND is an enterprise fund, not a general fund agency, that is, it generates revenues to cover all of its own operations. The appropriations for the PACE Programs are passed through BND because it manages the PACE funds.

**ENGROSSED HOUSE BILL 1014, SECTION 16
Transfer Authority**

This allows BND to transfer unobligated funds between the PACE and Biofuels PACE programs to meet the demands.

**ENGROSSED HOUSE BILL 1014, SECTION 17
Transfer – Budget Section Approval**

This allows for any unobligated funds from Medical PACE (HB 1273) to be transferred to the PACE fund, subject to Budget section approval.

**ENGROSSED HOUSE BILL 1014, SECTION 18
Amendment**

This allows BND to sell its' excess real estate.

**ENGROSSED HOUSE BILL 1014, SECTION 19
Amendment**

This declares that any unspent Bio-diesel PACE funds appropriated for the 2005-07 biennium will be transferred to the new Bio-fuels PACE program and will not be subject to section 54-44.1-11

**ENGROSSED HOUSE BILL 1014, SECTION 20
PACE Fund incentive limitation**

This restricts the use of buydown funds for a bio-fuels project and does not allow a project to use both PACE and Bio-fuels PACE.

ENGROSSED HOUSE BILL 1014, SECTION 22
Emergency provision for PACE funds

The buy-down funding for the PACE Program is requested with an emergency provision so that it is available as soon as possible. Additionally, an emergency provision is also declared for the transfer of funds between PACE and Bio-fuels PACE.

Fine, Karlene K.

To: Holmberg, Ray E.
Subject: House Bill 1014

Senator Holmberg—

House Bill 1014 (First Engrossment with Senate Amendments – 78014.0400), the Industrial Commission budget bill, has one provision in it that can now be removed as the bill for Med-PACE has been defeated in the Senate. The section that can be removed is Section 23. What this section does is authorizes the transfer of any unobligated funds from Med-PACE to the PACE Fund upon approval by the budget section. Since there is no funding appropriated for Med-PACE then this section is no longer needed. (However, if you think there is any chance that Med-PACE may show up again this session, then we would need this section to remain.)

Leave it up to you as to whether the removal of this section should be done by Senate Appropriations or if we can deal with Section 23 in Conference Committee.

As per your instructions I am giving a copy of this e-mail to your clerk in Senate Appropriations to put with the bill.

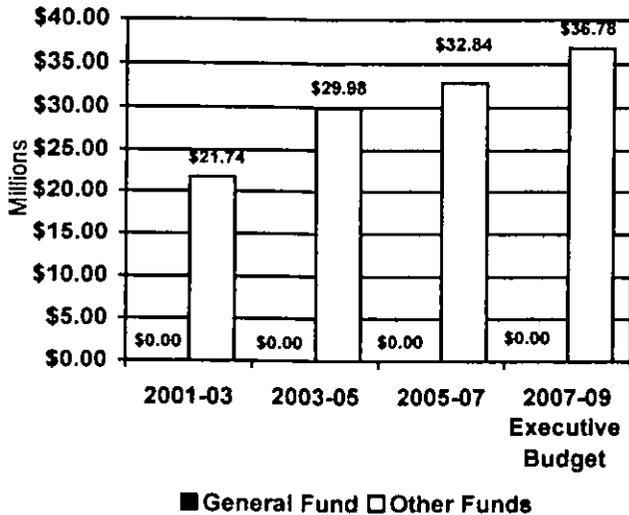
Thank you for your consideration of this issue.

Karlene Fine
328-3722

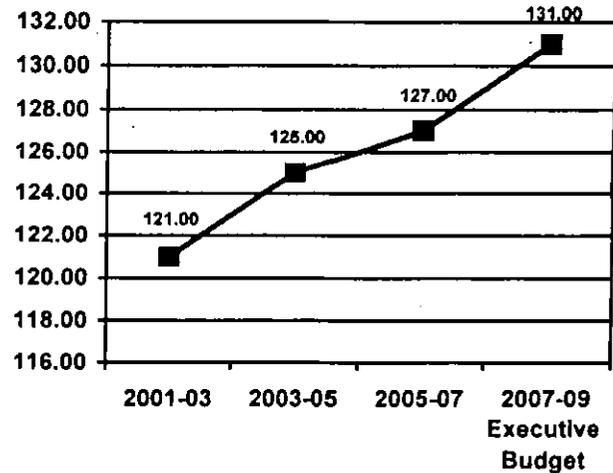
**Department 475 - Mill and Elevator Association
 House Bill No. 1014**

	FTE Positions	General Fund	Other Funds	Total
2007-09 Executive Budget	131.00	\$0	\$36,780,837	\$36,780,837
2005-07 Legislative Appropriations	127.00	0	32,841,404	32,841,404
Increase (Decrease)	4.00	\$0	\$3,939,433	\$3,939,433

Agency Funding



FTE Positions



Executive Budget Highlights

	General Fund	Other Funds	Total
1. Increases the operating expenses line item due to increased utilities costs		\$1,303,559	\$1,303,559
2. Decreases funding for agriculture promotion		(\$100,000)	(\$100,000)
3. Adds 4 FTE positions for volume increase		\$352,721	\$352,721

Other Sections in Bill

Section 12 of this bill provides that the Industrial Commission transfer \$5 million from the Mill and Elevator Association to the general fund as requested by the director of the Office of Management and Budget during the 2007-09 biennium.

Continuing Appropriations

No continuing appropriations for this agency.

Major Related Legislation

At this time, no major legislation has been introduced affecting this agency.

(6A)



**House Appropriations Committee
Government Operations Division
Representative Al Carlson - Chairman**

January 23, 2007

Response to a January 9, 2007 question concerning House Bill No. 1014 Budget 475

Large capital projects under consideration at the North Dakota Mill

1. Terminal elevator upgrade, automation and grain conveying speed increase
 Estimated cost: \$5,000,000 Estimated Annual Payback: \$750,000
 - Replace present belt conveyors with automated, higher capacity drag conveyors
 - Replace present unloading system with higher capacity equipment
 - Install two truck scales
 - Move grain testing building

2. Expand terminal elevator storage capacity
 Estimated cost: \$3,000,000 Estimated Annual Payback: \$500,000
 - Add two million bushels of grain storage capacity
 - Install conveyors to connect to existing storage

3. Bulk flour storage automation
 Estimated cost: \$2,500,000 Estimated Annual Payback: \$300,000
 - Automate existing flour conveying equipment
 - Install electronic inventory system
 - Interface PLC controls with existing mill systems

4. Expand bulk flour storage capacity
 Estimated cost: \$1,250,000 Estimated Annual Payback: \$200,000
 - Add 4 bulk storage and load-out bins with a total capacity of 10,000 cwts.

5. Bagged product warehouse expansion
 Estimated cost \$2,600,000 Estimated Annual Payback \$250,000
 - Add a 35,000 square ft. of warehouse space
 - Install 4 additional truck docks and 2 additional rail docks

6. Durum mill capacity increase
 Estimated cost: \$2,000,000 Estimated Annual Payback: \$270,000
 - Add debranning equipment to expand the durum mill by 10%

*With the
exception of the
following pages
some
testimony
given to
House
and Senate*



Legislative Committee Hearing

January 9, 2007

House Bill No. 1014 Budget No. 475
North Dakota Mill & Elevator Association

Mr. Chairman and Representatives:

My name is Vance Taylor. I am President and General Manager of the North Dakota Mill and Elevator. With me today is Ed Barchenger, our Controller and Finance Manager.

The North Dakota Mill and Elevator Association is now the largest single site wheat flour mill and the 8th largest wheat milling company in the United States with sales of over \$136 million per year.

Our milling complex includes 6 milling units with the capacity to produce 3.3 million lbs. of finished product per day, a terminal elevator with total available storage of over 4,000,000 bu. of grain and a packaging center and warehouse capable of producing, storing and shipping large quantities of various sized bags of milled products. We process up to 75,000 bu. of top quality North Dakota spring wheat and durum per day, adding value to over 20,000,000 bu. per year. All facilities are located in Grand Forks.

Budget Request

All operating funds are generated from profits. Short or long-term needs are met by borrowing from the Bank of North Dakota. No funds or financial assistance is received from the State.

The budget request is for \$36,780,837. This is a \$3,939,433 increase. This increase represents increases in both wages and benefits and other operating expenses.

Wages and benefits increase \$2,735,874 over the current budget. The mill is in the first year of a four-year contract with the Local Union No. 135G of the American Federation of Grain Millers International. This contract expires June 30, 2009. The Union represents approximately 65% of the employees at the mill.

*union contract for 65%
other follow contract*

Operating expenses excluding wages and benefits increased \$1,303,559. Travel expenses increased \$152,900 over the current budget. Increased fuel costs will drive up the cost of travel. There will also be an increase in the amount of travel in order to sell the additional 1.2 million cwts. of production.

Utilities expense increased \$1,358,900 over the current budget. Projects underway will increase production by about 1.2 million cwts. This increased production will require an increase in energy use. The Western Area Power Administration supplies a significant portion of our electrical power. They informed us that on January 1, 2008, our electrical rates will increase at a minimum of 25%.

Repairs expense increased \$212,500 over the current budget. Increases in production volumes and increases in the number of rail cars leased drive this expense higher.

Miscellaneous supplies expense increased by \$160,500. The major item driving this expense is the cost of fumigations. Currently methyl bromide is used to fumigate the plant. This must be phased out and a new method used. The alternatives to methyl bromide are significantly more expensive.

The mill recently completed a purchase of property from the BNSF that had been leased since the Mill began operations. The cost of leasing this property was budgeted at \$40,000 in the 2005-2007 biennium.

103,000 for purchase

Insurance rates have declined from the budgeted amounts. Rates have declined significantly after the initial shock and rate hike resulting from 9/11. However, rates are increasing from their current level. Unless we have another national insurance event, we do not anticipate the large increases that have occurred in the past. We have reduced our requested budget for insurance \$625,641 from the 2005-2007 Biennium Budget Request.

Five items; wages and benefits, travel, utility expense, repair expense, and miscellaneous supplies expense account for \$4,620,674 of the increase in our requested appropriations. A large share of these expenses are driven by the expected increases of sales and production at the mill as well as increases in energy costs.

Profits for fiscal year 2006 were \$5,806,157. Estimated profits for the current fiscal year⁷ are \$4,000,000 resulting in projected profits for the 2005-2007 Biennium of \$9,806,157.

The transfer to the General Fund has been budgeted at \$5 million for the Biennium. This is the same as the current Biennium.

Thank you for your time and consideration of our budget request. I will be happy to answer any questions you may have at this time.



Legislative Committee Hearing

February 21, 2007

Engrossed House Bill No. 1014 Budget No. 475
North Dakota Mill & Elevator Association

Mr. Chairman and Senators:

My name is Vance Taylor. I am President and General Manager of the North Dakota Mill and Elevator. With me today is Ed Barchenger, our Controller and Finance Manager.

The North Dakota Mill and Elevator Association is now the largest single site wheat flour mill and the 8th largest wheat milling company in the United States with sales of over \$136 million per year.

Our milling complex includes 6 milling units with the capacity to produce 3.3 million lbs. of finished product per day, a terminal elevator with total available storage of over 4,000,000 bu. of grain and a packaging center and warehouse capable of producing, storing and shipping large quantities of various sized bags of milled products. We process up to 75,000 bu. of top quality North Dakota spring wheat and durum per day, adding value to over 20,000,000 bu. per year. All facilities are located in Grand Forks.

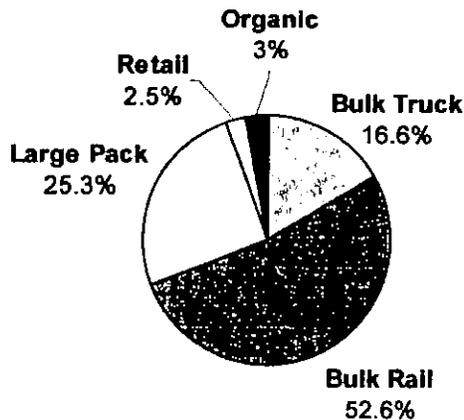
Capacity

- Flour Production 33,000 CWT/Day
(34,000 - 4/07)
- Wheat Processed 75,000 Bu./Day
- Elevator Capacity 4.3 Million Bu.
- Flour Storage 90,000 CWT

The mill normally operates 24 hours per day, 5 to 7 days per week. Our total current staffing is 127 full time employees.

We are primarily a spring-wheat mill, shipping 90% spring wheat products and 10% durum products. 70% of our products are shipped in bulk trucks or railcars and 30% is shipped in bags or totes. Demand for organic spring wheat and durum products has increased and now organic products make up over 3% of our total shipments.

Flour Shipments FY 2006



Economic Impact

A North Dakota State University study stated that for every dollar in direct economic activity from wheat processing, another \$2.32 was generated in secondary economic activity. For the past two fiscal years, the mill produced \$182,407,000 in direct economic activity resulting in an additional \$423,184,000 in secondary economic activity. This results in a total economic impact to the region of more than \$605,591,000 over the last two fiscal years.

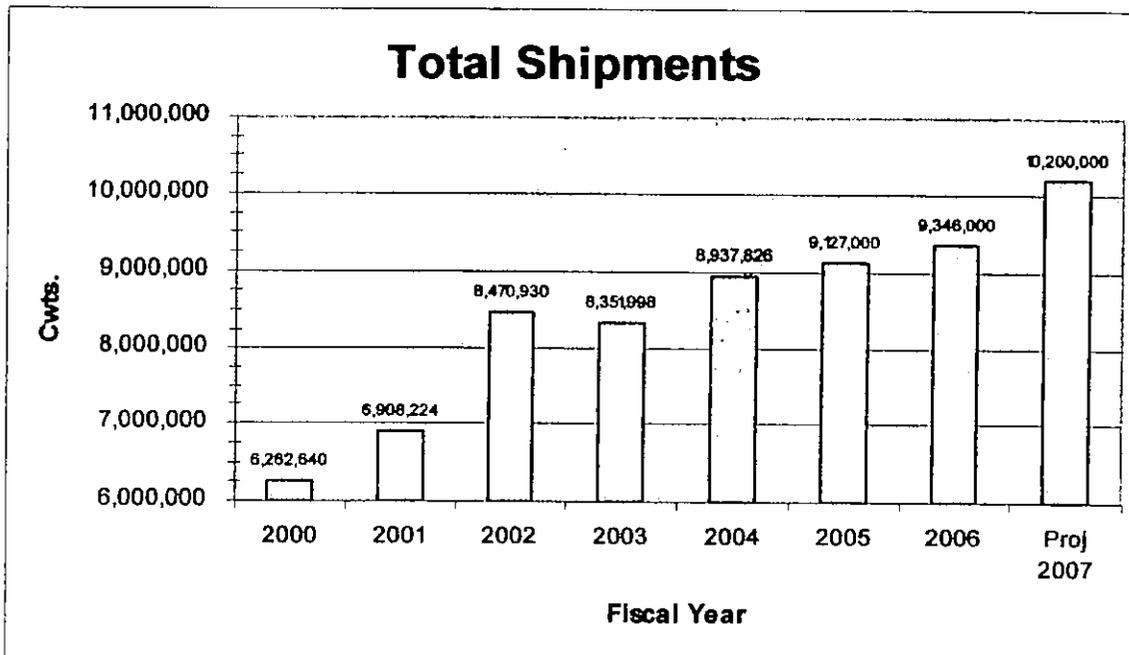
Strategic Plan 2007

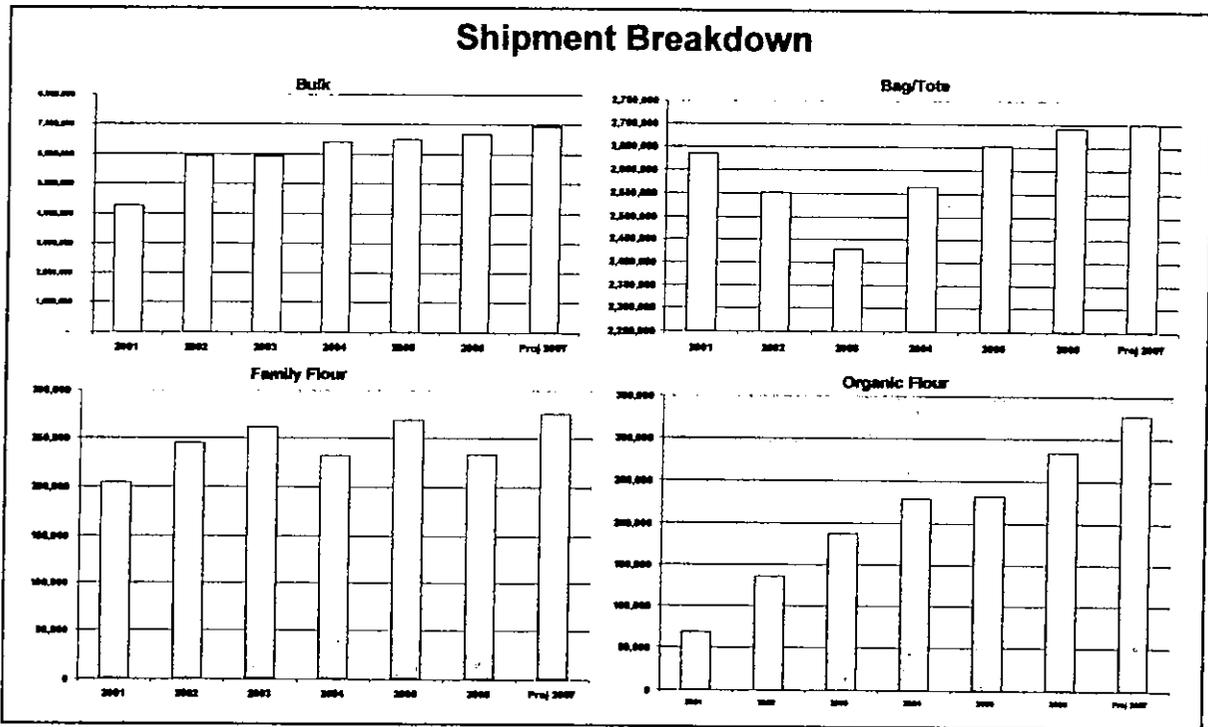
Working with the UND Office of Work Force Development, The State Mill management team has developed the following strategic objectives for fiscal year 2007:

- Promote and Support ND Agriculture, Commerce and Industry
- Increase Profitability
- Grow our Customer Base
- Invest in our Employees

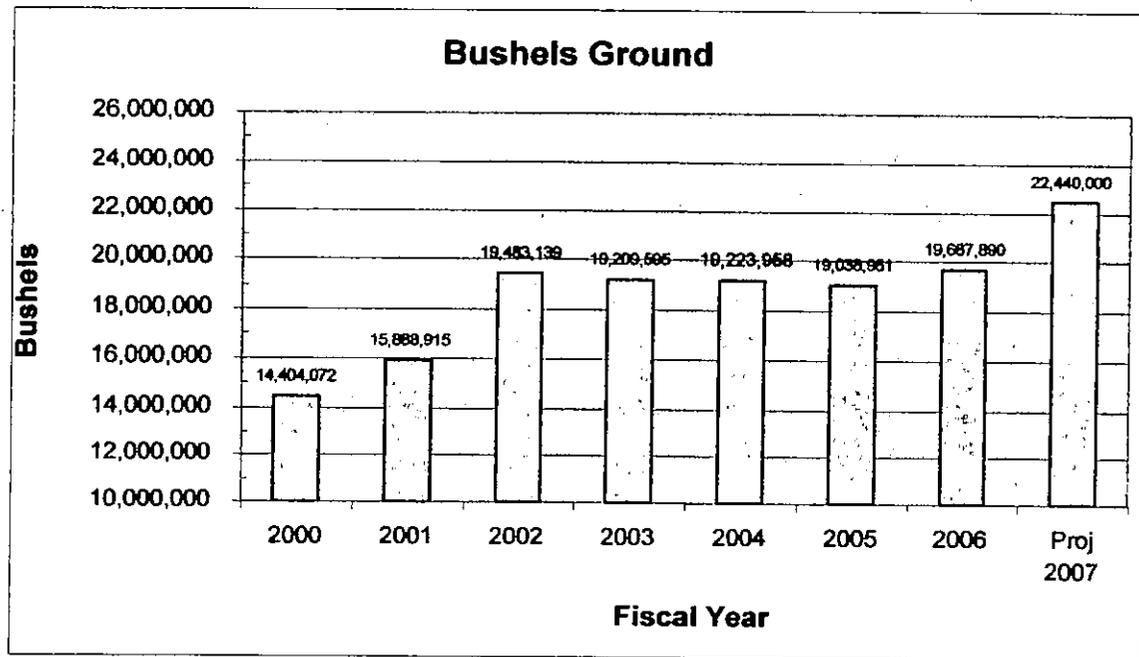
Business Growth

Our Renovation and Expansion Project was completed during fiscal year 2002, at a cost of \$19.5 Million. This project provided for various upgrades resulting in a production capacity increase of 4000 cwts. per day and an increase in average milling yields. In fiscal year 2005 we replaced our whole-wheat milling unit with a larger, more automated mill, at a cost of \$1.7 Million. During fiscal year 2007 two new projects will be completed that will result in a 17% increase in spring wheat milling capacity and a further increase in milling yields. An increase of our large bag packaging capacity by 30% will also occur. The first project involves an upgrade and expansion of the K Mill, a spring-wheat milling unit, and provides for the completion of the C Mill, a new spring-wheat mill which began initial operations in the fall of 2006, at a cost of \$5.7 Million. When the K Mill expansion is finished in March our daily capacity will increase to 3.4 million pounds of flour per day. The second project includes the addition of a carousel packer and palletizing system, at a cost of \$.85 Million. Our need to expand has partially been driven by increasing demand from our current customers.





Benefits of the two new projects include the milling of an additional 2,760,000 bu. of North Dakota wheat, increased visibility for North Dakota agricultural products via the sale of 1,200,000 additional cwts. of flour, improved mill efficiencies and reduced operating costs per cwt. All of this allows the North Dakota Mill to continue to compete effectively and provide a more significant economic impact to the State.



Markets and Competition

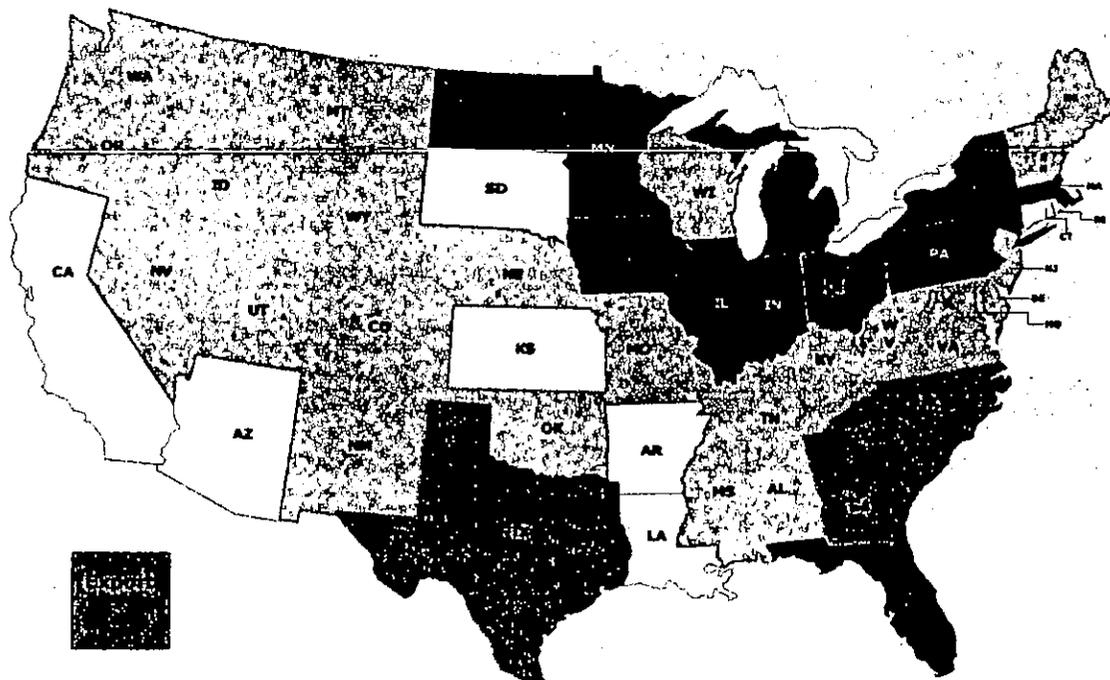
Our bulk and large package shipping area is diverse but more concentrated in the Ohio River Valley and on the East Coast. We also export product to the Caribbean, Japan, Korea and Brazil.

Our customers include bakery flour distributors, retail distributors, large bakeries and pasta companies. Sales are made by our in-house sales staff and food brokers.

We compete with large milling companies such as Horizon Milling, ADM, ConAgra, General Mills and others. The outstanding quality of our products, verified by our ISO 9001 – 2000 certification, allows us to be very competitive against these companies. North Dakota Mill flour is in demand across the country and abroad.

Margins continue to be under pressure due to overcapacity in the industry. But on a positive note, declining U.S. annual per capita consumption of wheat flour has recently leveled off. Low carbohydrate diets are losing favor and consumption of whole grain and organic products is on the increase. It is expected that one or two older, out of date mills in poor locations will be considered for plant closings over the next two years. Going forward, we intend to continue to maximize production volume, increase the percentage of bagged products sold, continue to aggressively market family flour and retail mixes, grow our organic flour business and investigate new markets, new products and extensions of current product lines.

We will continue to leverage our greatest strength – our employees, whose efforts have given us an excellent reputation for product quality and customer service in the market place.



2008 Sales Volume	
	Over 1,000,000
	Over 250,000
	Over 100,000
	Over 20,000
	Less than 20,000

Budget Request

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The budget request is for \$36,780,837. This is a \$3,939,433 increase. This increase represents increases in both wages and benefits and other operating expenses.

Wages and benefits increase \$2,735,874 over the current budget. The mill is in the first year of a four-year contract with the Local Union No. 135G of the American Federation of Grain Millers International. This contract expires June 30, 2009. The Union represents approximately 65% of the employees at the mill.

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Insurance rates have declined from the budgeted amounts. Rates have declined significantly after the initial shock and rate hike resulting from 9/11. However, rates are increasing from their current level. Unless we have another national insurance event, we do not anticipate the large increases that have occurred in the past. We have reduced our requested budget for insurance \$625,641 from the 2005-2007 Biennium Budget Request.

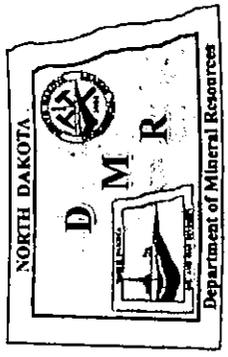
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Profits for fiscal year 2006 were \$5,806,157. Estimated profits for the current fiscal year are \$4,000,000 resulting in projected profits for the 2005-2007 Biennium of \$9,806,157.

Governor Hoeven's Executive Budget included a \$5 million transfer to the General Fund for the 2007-2009 Biennium. The House has amended out any transfer for the upcoming Biennium. The current Biennium does include a \$5 million transfer to the General Fund. It is anticipated that this transfer will occur in June 2007.

Thank you for your time and consideration of our budget request. I will be happy to answer any questions you may have at this time.

*the
with the year of past mining
with excellent feedback to House
SA
SA*



House Bill 1014

January 9, 2007

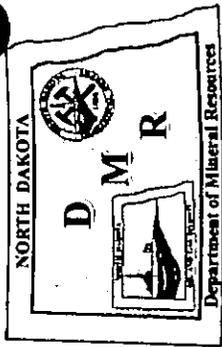
House Appropriations, Government Operations

Lynn D. Helms, Director

Department of Mineral Resources

North Dakota Industrial Commission





EXPLANATION OF PROGRAM COSTS

The DMR base budget request is 79% Salaries & Wages, 21% Operating Expenses, and 0% Capital Equipment. 75% of our Operating Expense budget is driven by other entity guidelines as DOT mileage rates, ITD charges, and office rent.

Salaries and Wages are the projection of present salaries.

Operating Expenses for our agency were reduced in order to meet OMB guidelines.

Due to increases in DOT motor pool mileage rates, ITD rates, and Office Rent of 5% - 50% achieving a no increase budget would have required us to close our field offices in Dickinson, Minot, and Williston and reduce the number of OGD field inspections and GSD field mapping services. Optional funding will permit us to restore these services.

Capital Equipment for our agency was reduced in order to meet OMB guidelines.

Optional Requests approved in the Governor's budget recommendation are prioritized as follows:

A Changing the funding source for 1 Field Inspector and 1 Reclamation Supervisor from Special Funds to General Funds

B Restoring funding cuts in advertising, equipment, ITD services, printing, rent, and travel

Page 8 - Extraordinary repairs required on the core library roof and lights (one-time expense)

Page 9 - External (Market) Equity salary funds for both OGD and GSD

New FTE (Engineering Technician) for the OGD

New FTE (Paleontologist) for the GSD

Dust collection equipment for paleontology lab safety (one-time expense)

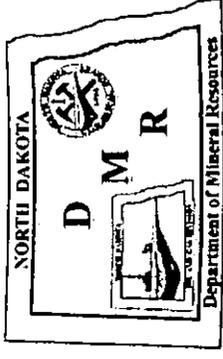
Page 10 - Funding a shallow gas investigation in eastern North Dakota (one-time expense)

19800 Map printer/plotter for GSD (one-time expense)

Map printer for the OGD (one-time expense)

Page 12 - Transfer (General Fund to Fossil Excavation & Restoration Fund) for Corridor of Time and other projects (one-time expense)

350,000



Engrossed House Bill 1014

February 21, 2007

Senate Appropriations Committee

Lynn D. Helms, Director

Department of Mineral Resources

North Dakota Industrial Commission

(Handwritten initials)

SERVICES PROVIDED

The Department of Mineral Resources (DMR) through the Oil & Gas Division (OGD) is responsible for regulating all facets of petroleum production through enforcement of statutes, rules and regulations of the Industrial Commission with regards to permitting of wells, establishing well spacing for producing reservoirs, inspection of facilities, approving enhanced oil recovery operations, ensuring proper plugging and site reclamation of all wells, and conducting hearings on oil and gas matters in a manner that will be most beneficial to the producer, royalty owner and all citizens of the state.

The DMR through the North Dakota Geological Survey (GSD) provides detailed information on the surface and subsurface geology of North Dakota to citizens, industry, municipalities, and other state and federal agencies; to identify, collect, and display important fossils of North Dakota; to disseminate educational geologic material to the general public; and to efficiently administer regulatory programs for coal exploration, mineral exploration, geothermal energy production, paleontology assessment.

You manage what you measure.

Pages 2, 3 & 4 are graphs of agency performance measures.

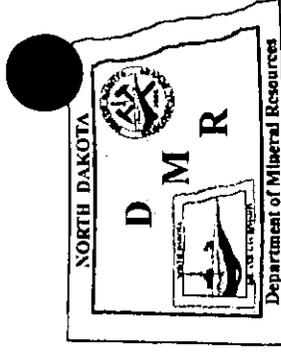
Our performance measures show we are doing an excellent job of fulfilling our statutory missions.

To accomplish this, the DMR maintains a technical staff trained in engineering; geology; field enforcement; and data acquisition, compilation, and analysis. The Bismarck staff also includes clerical and support persons who compile, store, and process coal, geological, geophysical, geothermal, mineral, oil and gas, paleontology, and well information for dissemination to other governmental agencies (State Auditor's Office, State Tax Department, State Health Department, State Land Department, OMB, and counties), industry, royalty owners, and the public via maps, publications, and agency web sites.

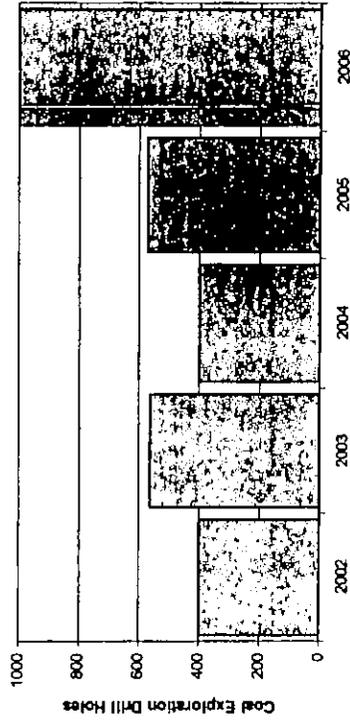
The OGD has field offices in Minot, Williston, and Dickinson. These offices provide each field inspector with computer access to our database and files, along with office space for preparing paper work and meeting with individuals from industry or the public.

The GSD operates the Wilson Laird core library in Grand Forks, and a warehouse in Bismarck. These facilities provide geologic data preservation for all state data.

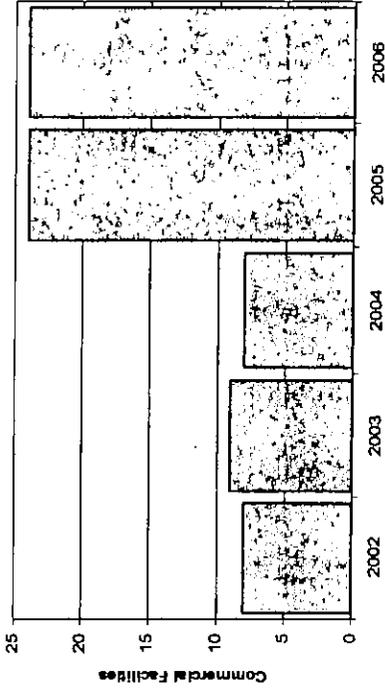
Page 5 is a map illustrating the Department of Mineral Resources locations around the state.



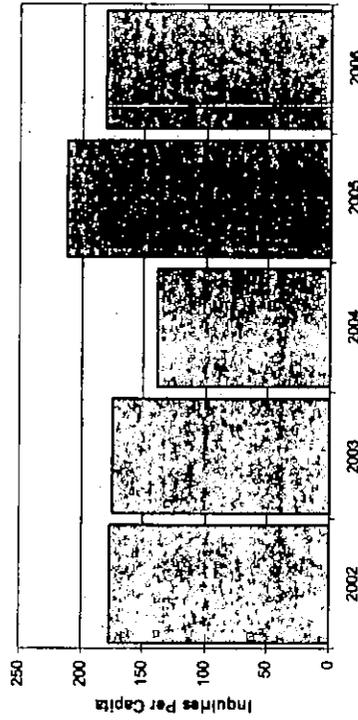
COAL EXPLORATION PROGRAM



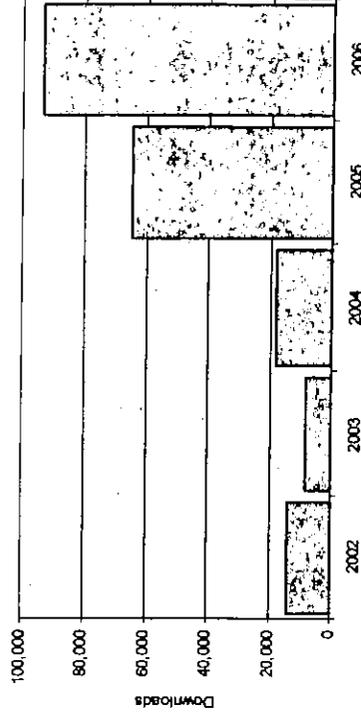
GEO THERMAL INSTALLATIONS



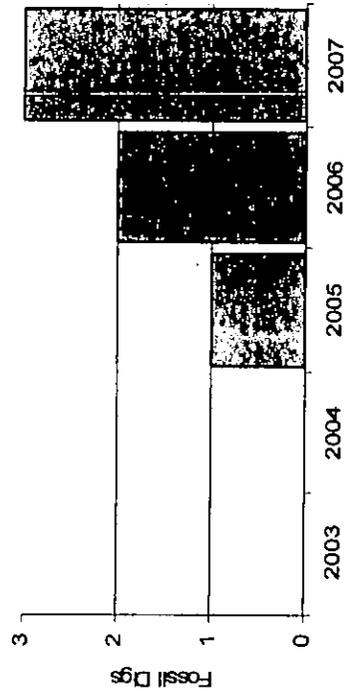
NORTH DAKOTA GEOLOGICAL SURVEY INQUIRIES



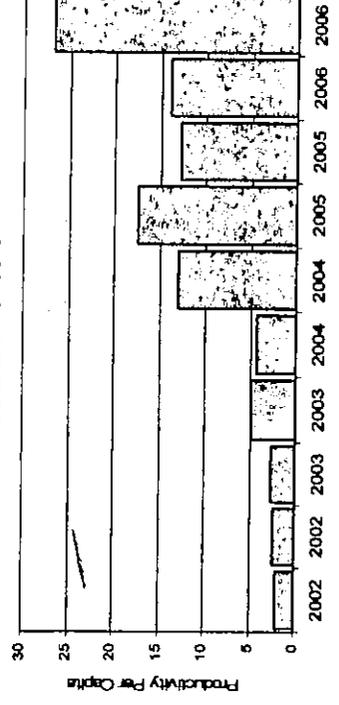
NORTH DAKOTA GEOLOGICAL SURVEY WEBSITE



NDGS Public Fossil Digs

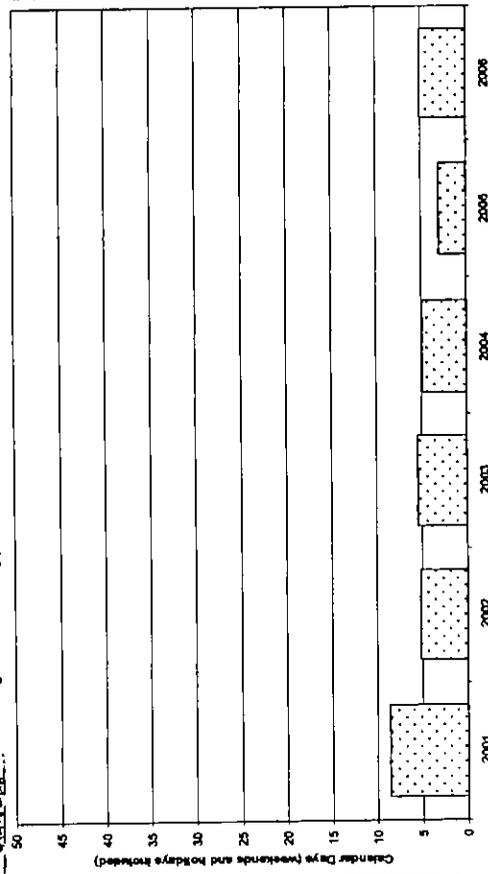


NORTH DAKOTA GEOLOGICAL SURVEY PRODUCTIVITY



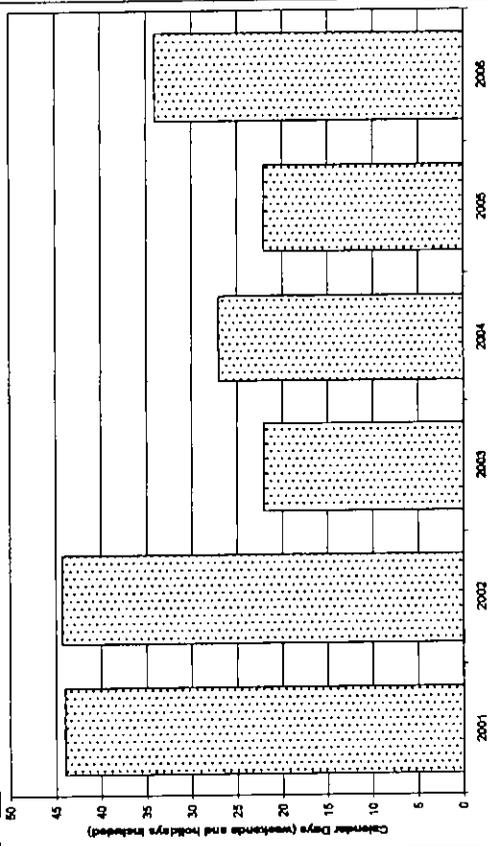
Drilling Permit Approval Time

A large influx of drilling permits has strained the Oil and Gas Division's processing efficiency.



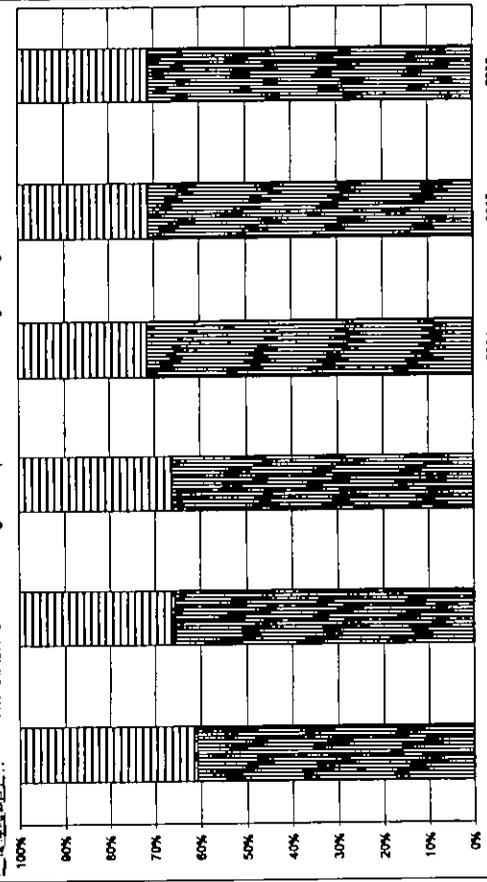
UIC Permit Approval Time

UIC permits in new Units has increase the Oil and Gas Division's permit processing time.



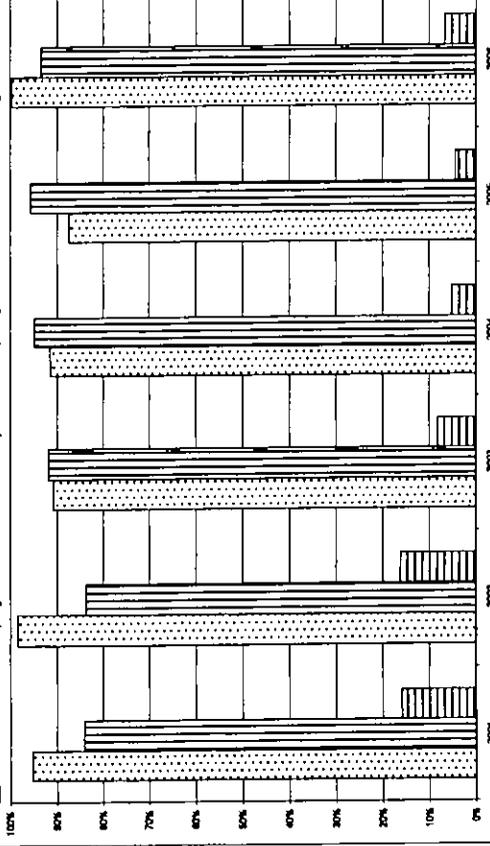
Surface Spills

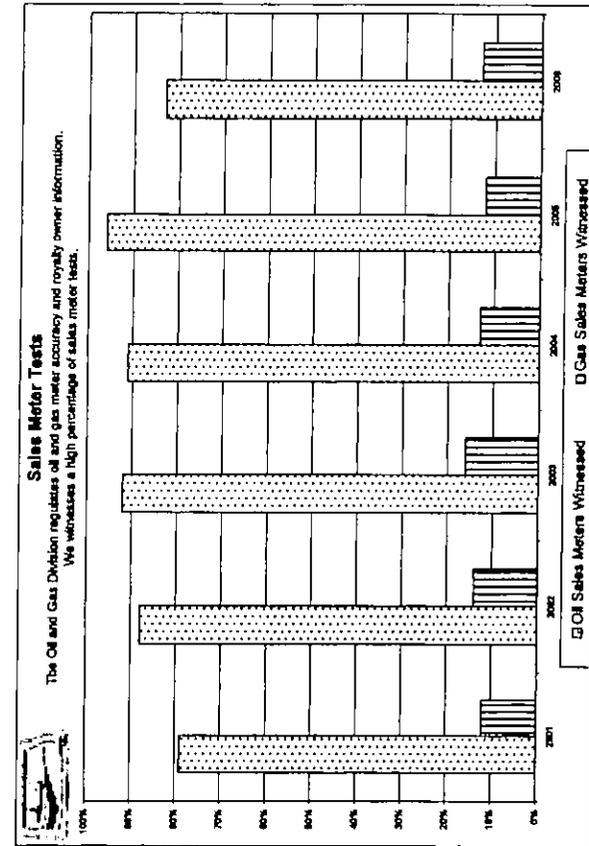
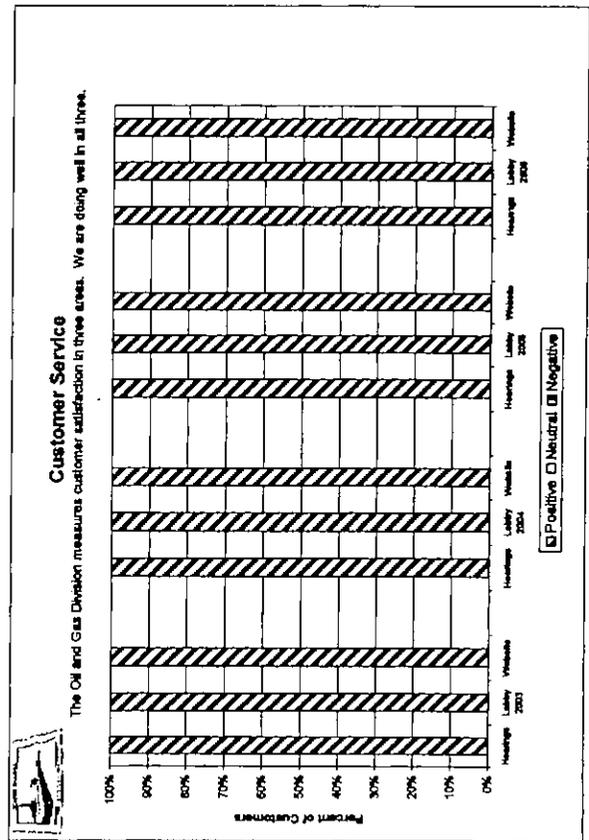
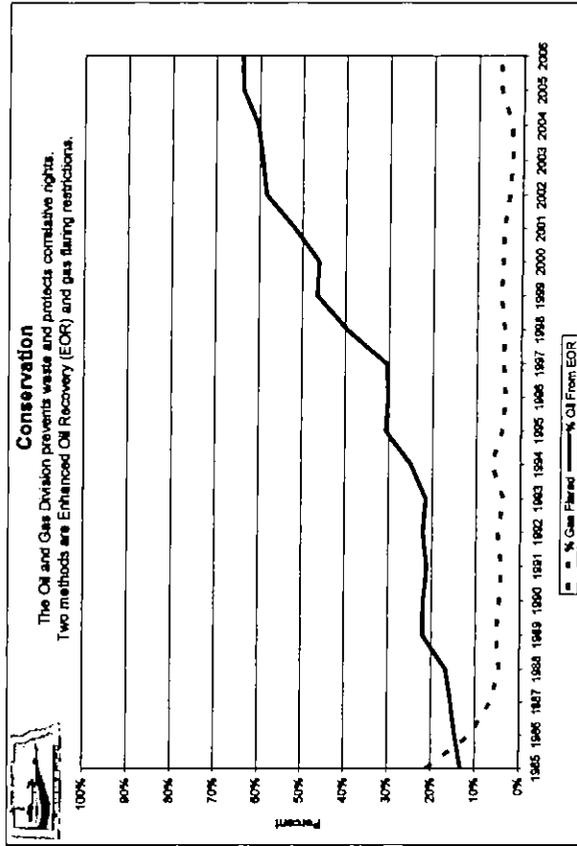
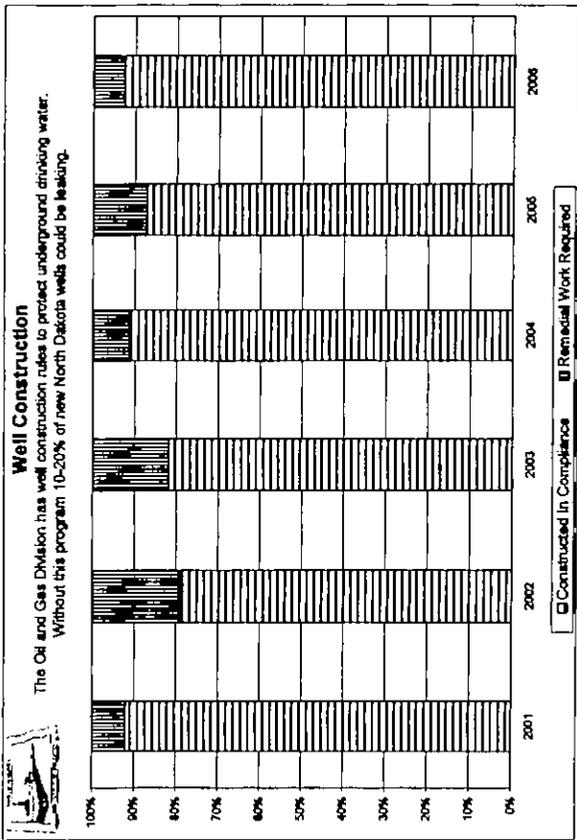
The Oil and Gas Division regulates spill containment through diking and site construction rules.



Mechanical Integrity Tests

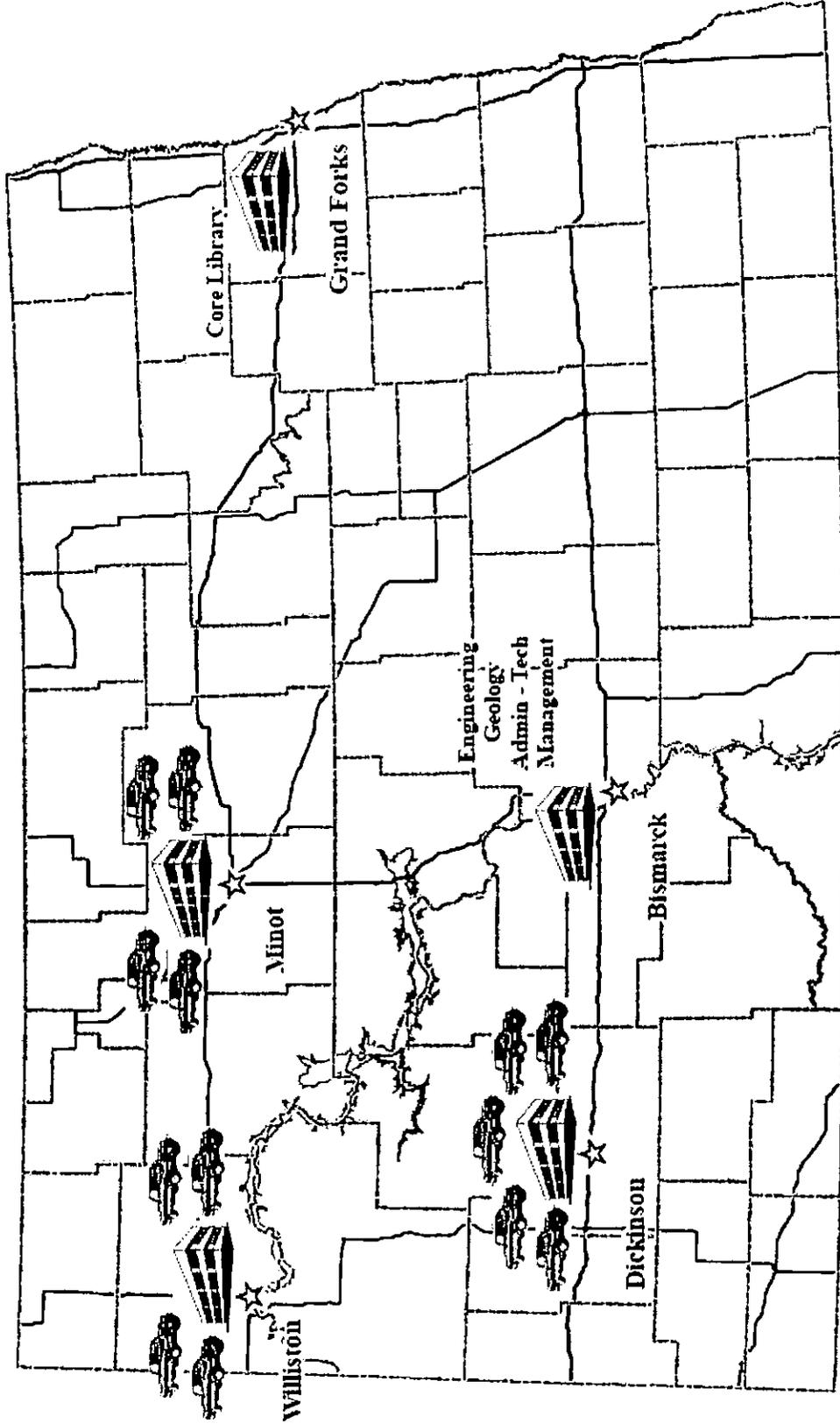
The Oil and Gas Division witnesses a very high percentage of tests. Without this program 5% of North Dakota injection and temporary abandoned wells could be leaking.

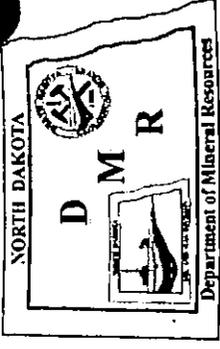




Department of Mineral Resources

Service Locations





EXPLANATION OF PROGRAM COSTS

The DMR base budget request in Section 1 of Engrossed House Bill 1014 is 79% Salaries & Wages, 21% Operating Expenses, and 0% Capital Equipment.

75% of our Operating Expense budget is driven by other entity guidelines as DOT mileage rates, ITD charges, and office rent.

Salaries and Wages are the projection of present salaries.

Operating Expenses for our agency were reduced in order to meet OMB guidelines.

Due to increases in DOT motor pool mileage rates, ITD rates, and Office Rent of 5% - 50% achieving a no increase budget would have required us to close our field offices in Dickinson, Minot, and Williston and reduce the number of OGD field inspections and GSD field mapping services. Optional funding will permit us to restore these services.

Capital Equipment for our agency was reduced in order to meet OMB guidelines.

Optional Requests approved in Engrossed House Bill 1014 are prioritized as follows:

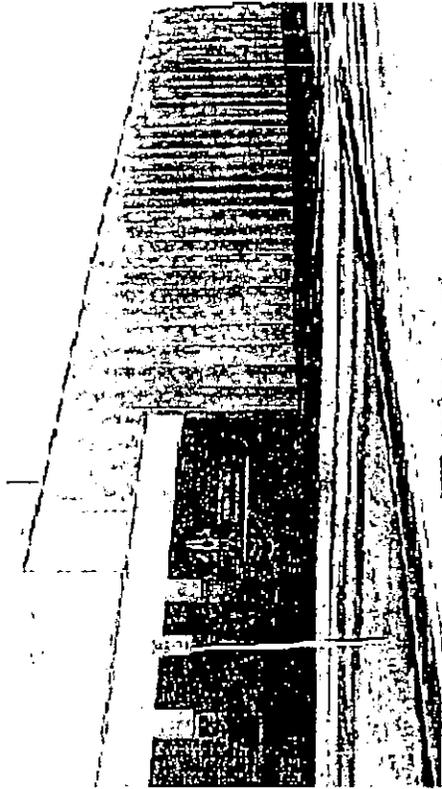
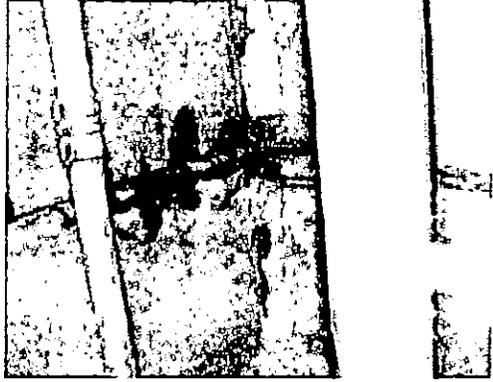
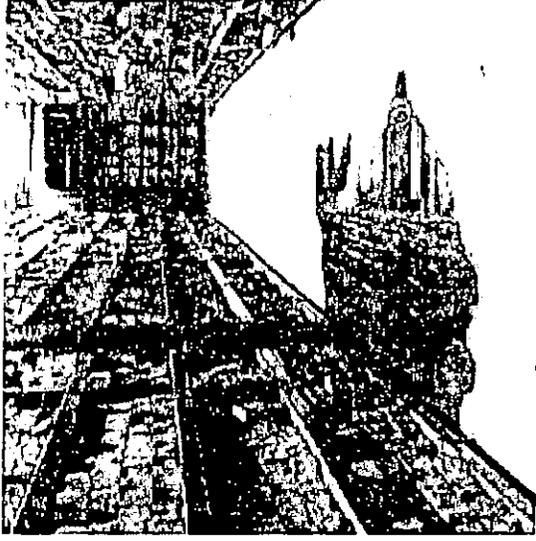
- Section 2 - Changes the funding source for 1 Field Inspector and 1 Reclamation Supervisor from Special Fund to General Fund
- Section 2 - Restores cuts in advertising, equipment, ITD services, printing, rent, and travel required to meet base budget guidelines
- Sections 3 and 4 - Extraordinary repairs required on the core library roof and lights (one-time expense) Page 8
- SB 2189 - Approximately 1/5 External (Market) Equity salary funds needed for both OGD and GSD Page 9
- Section 3 - New FTE (Engineering Technician) for the OGD
 - New FTE (Paleontologist) for the GSD
 - Dust collection equipment for paleontology lab safety (one-time expense)
 - Funding a shallow gas investigation in eastern North Dakota (one-time expense) Page 10
 - Map printer/plotter for GSD (one-time expense)
 - Map printer for the OGD (one-time expense)

Sections 3 and 4 - Transfer General Fund to Fossil Excavation & Restoration Fund (one-time expense) Page 12

Sections 3 and 21 - Contingency funding of two Oil and Gas FTE from Land & Minerals Trust Fund if justified by drilling rig count

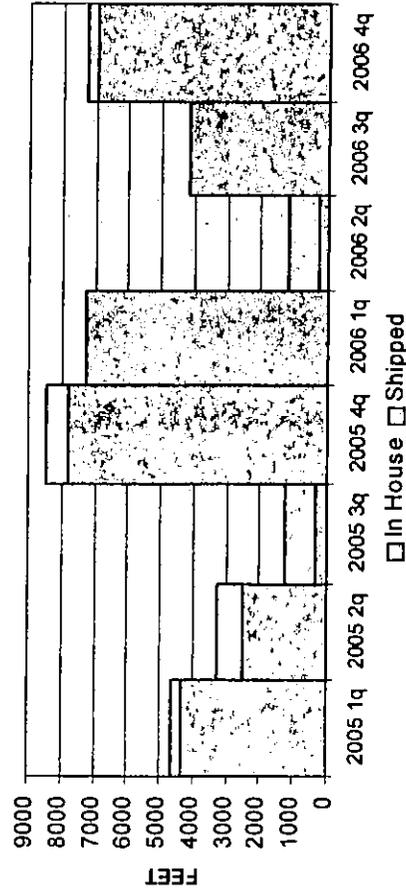
WILSON M. LAIRD CORE AND SAMPLE LIBRARY

Grand Forks, North Dakota



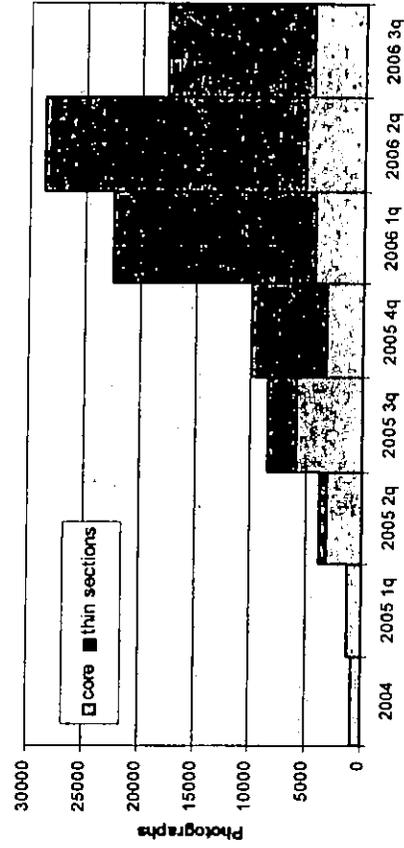
The Wilson M. Laird Core and Sample Library contains approximately 370,000 feet (more than 70 miles) of rock cores from oil and gas wells. Built in 1980, the 20,000 ft² facility houses the most complete set of cuttings (rock chips) in the United States. The tar roof is 27 years old, has leaked in several places, and is no longer repairable. Both the core and thin section laboratories are in need of renovation and the fluorescent lights should be replaced throughout the building.

OIL CORES STUDIED BY INDUSTRY



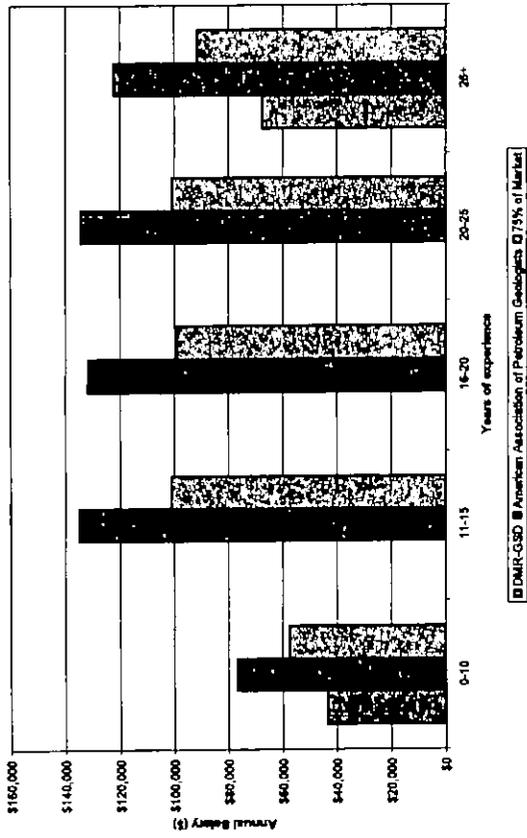
This biennium, oil industry geologists have studied approximately 30,000 feet of rock core. Approximately 85% of this core was studied in the core library by out-of-state geologists (primarily from Texas and Colorado).

NORTH DAKOTA GEOLOGICAL SURVEY PHOTO PROJECT

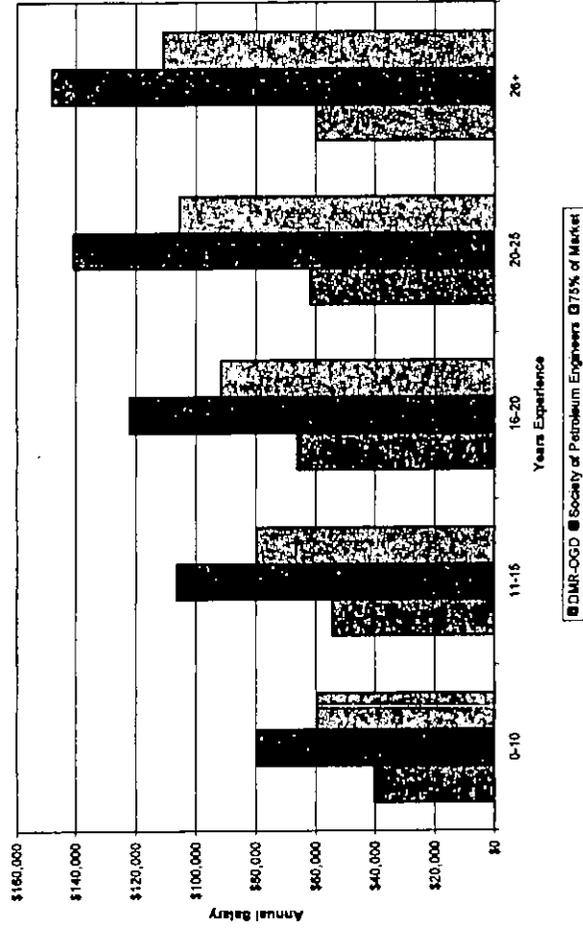


In the last two years, the Geological Survey has taken more than 110,000 photographs of rock cores and thin sections and placed them on the Oil and Gas Division's subscription website.

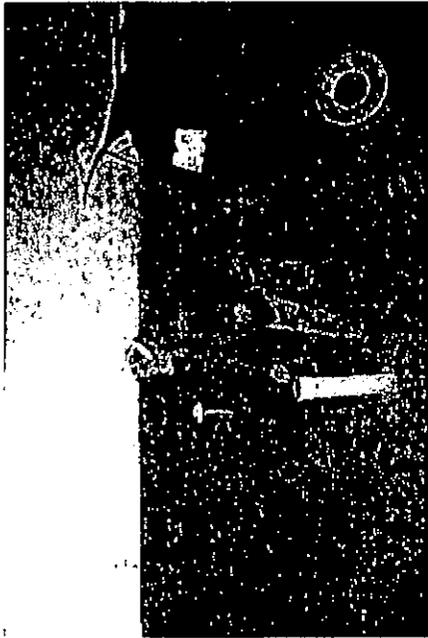
Geologists to Market Salary comparison



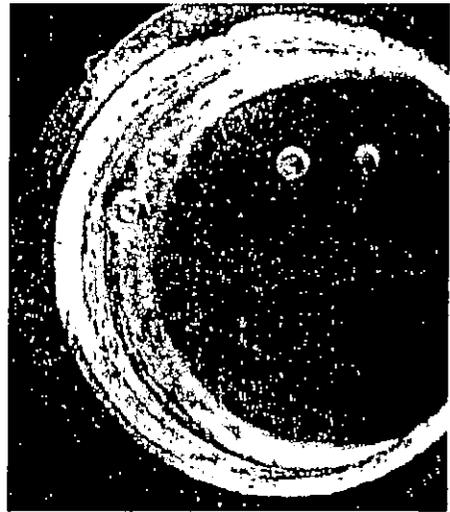
Petroleum Engineers to Market Salary Comparison



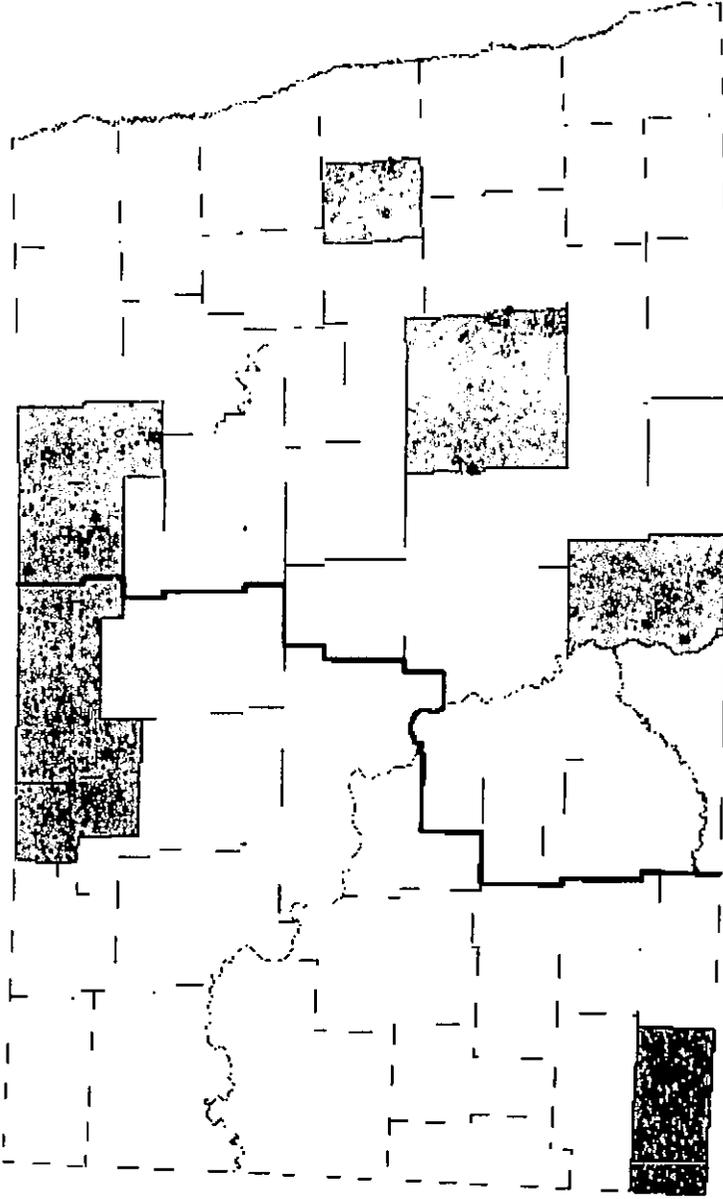
SHALLOW GAS PROJECT



In the fall of 2006, the Geological Survey initiated an investigation of the occurrence of shallow gas in eastern and central North Dakota. A total of 331 NDSWC monitoring wells were tested and 20% (the 66 red dots on the adjoining state map) contained detectable amounts of methane.



Methane bubbling to the surface in a two-inch NDSWC monitoring well.



Counties monitored for shallow gas under the Phase 1 portion of the shallow gas project shown in dark gray, oil and gas counties in tan, and the counties that we are proposing to study under the expanded portion of Phase 1 are shown in light gray. The black line separates the oil and gas producing counties from the non-producing counties. The only county currently producing shallow gas, Bowman County, is shown in red.

The Geological Survey proposes to expand Phase 1 of this project by testing monitoring wells in at least seven additional counties (Ward, McHenry, Pierce, Benson, Kidder, Barnes, and LaMoure) to determine if the gas trends extend into these areas.

If money and time allows, water chemistries will be determined for waters containing gas (coordinated with the NDSWC) to see if we can identify chemical parameters that will aid in gas exploration, gas composition will be determined to identify the source of the gas, and rock cores will be taken of gas intervals to enable study of the gas reservoir.

CONTINUING APPROPRIATIONS

54-17.4-09.1 Fossil Excavation and Restoration Fund

Monies deposited into this fund are from donations to pay for the excavation and restoration of fossils. Monies in this fund are appropriated to the Commission to be used for a) defraying costs incurred in the excavation of North Dakota fossils; and b) defraying costs incurred in the restoration and display of North Dakota fossils.

The size and scope of fossil finds and display opportunities is highly variable making a revolving fund the most efficient way to meet demand.

54-17.4-10 Cartographic Products Fund

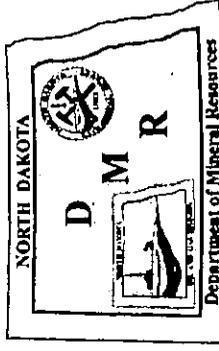
Monies deposited into this fund are from the sale of topographic and other USGS maps to the public. Monies in this fund are appropriated to purchase maps from the federal government.

Map sales are cyclical, therefore a revolving fund is required to efficiently meet demand.

54-17.4-12 Global Positioning System Community Base Station

Monies deposited into this fund are from the payment of fees by users of the GPS data. Monies in this fund are appropriated to maintain the base station used by ten local engineering firms and the federal government.

The amount of equipment repairs and replacement required is highly variable making a revolving fund the most efficient way to manage demand.



FOSSIL EXCAVATION AND RESTORATION FUND

The Fossil Excavation and Restoration Fund was established in 1997 to accept monies donated to pay for the excavation and restoration of fossils. Monies in this fund are appropriated to the Industrial Commission to be used for defraying costs incurred in the excavation, restoration, and display of North Dakota fossils. The Geological Survey has supplied fossils and/or assisted with fossil displays in 22 museums and visitor centers across North Dakota. Monies in this fund have been used to offset the high costs of fossil displays in the Heritage Center in Bismarck, the Cowboy Hall of Fame in Medora, the Long X Visitor Center in Watford City, and the Griggs County Museum in Cooperstown.

Funding in the Governor's budget for the Fossil Excavation and Restoration Fund will enable the Geological Survey to complete Phase III of the Corridor of Time Fossil Exhibit and to assist a number of museums and visitor centers across the state with their fossil displays.



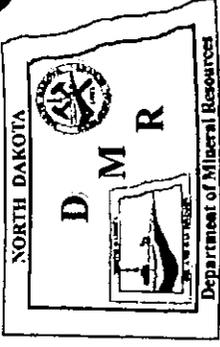
Eight-foot-high fossil tree stump on display in the Watford City visitor Center.



About 15 volunteers and over 200 visitors attended this fossil excavation of a marine turtle near Cooperstown.



More than 300 second graders from the surrounding area attended the Grand Opening of the Corridor of Time Exhibit in the Heritage Center on December 8, 2006.



CONTINUING APPROPRIATIONS

38-08-04.11 Cash Bond Fund for Plugging Oil and Gas Wells and Reclamation of Oil and Gas Well Sites

Monies deposited into this fund are from administrative fees on all monies held or controlled by the Commission under subdivision d of subsection 1 of section 38-08-04.

Monies in this fund are appropriated to the Commission to be used for a) defraying costs incurred in the plugging of abandoned oil and gas wells, and related activities; and b) defraying costs incurred in the reclamation of abandoned oil and gas drilling and production sites, saltwater evaporation pits, drilling fluid pits, and access roads, and related activities.

38-08-04.5 Abandoned Oil and Gas Well Plugging and Site Reclamation Fund

Monies deposited into this fund are from oil and gas operator permit fees and forfeited surety bonds.

Monies in this fund are appropriated to plug oil and gas wells and reclaim well sites, and associated facilities 1) if the person or company drilling or operating the well cannot be found, has no assets with which to properly plug or replug the well or reclaim the well site, or cannot be legally required to plug or replug the well or to reclaim the well site; 2) If there is no surety bond covering the well to be plugged or the site to be reclaimed or there is a forfeited surety bond but the cost of plugging or re-plugging the well or reclaiming the site exceeds the amount of the bond; or 3) the well is leaking or likely to leak oil, gas, or saltwater or is likely to cause a serious threat of pollution or injury to the public health or safety.

The Oil & Gas Division has nine abandoned well sites to be restored and eight additional wells to be scheduled for plugging and site reclamation.

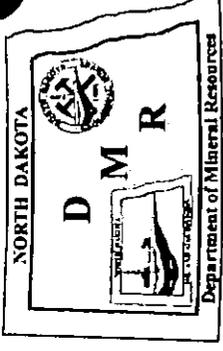
38-08-04.6 Oil and Gas Reservoir Data Fund

Monies deposited into this fund are from the payment of fees for the actual cost of services performed to provide oil and gas reservoir data requested by industry, royalty owners, other governmental agencies, and the public.

Monies in this fund are appropriated to the Commission to be used for purchase of equipment and supplies directly related to storage and dissemination of computerized geophysical exploration, production, and well information data to industry, royalty owners, other governmental agencies, and the public.

Requests for oil and gas reservoir data are cyclical with prices and a revolving fund is required to efficiently meet demand.

2007-2009 BIENNIUM



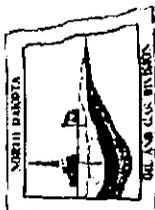
In the 2005-2007 biennium we are experiencing very high oil and gas prices due to demand increases in Asia and supply constraints caused by unrest in Venezuela, Iraq, Iran, and Nigeria. World supply and demand balance is expected to remain tight through the 2007-2009 biennium.

Fortunately most of North Dakota's production comes from EOR projects and horizontal wells. Both yield long term, stable production. Oil production is expected to average 115,000 barrels per day and oil price is expected to decline slowly averaging approximately \$50 per barrel over the 2007-2009 biennium.

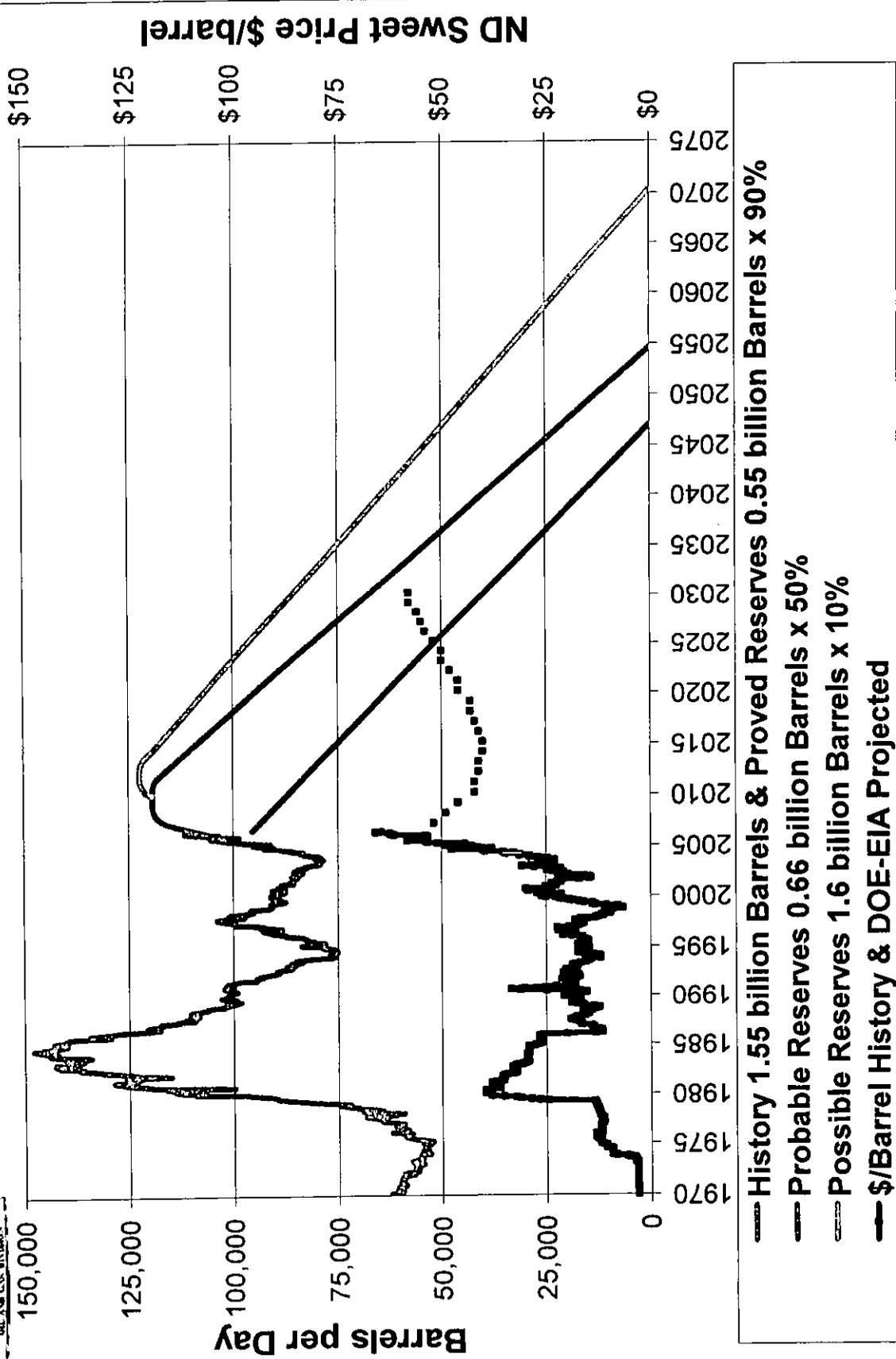
The workload of the Oil and Gas Division has increased substantially with many idle wells returned to production or plugged and reclaimed; drilling rig count over 40 (over 95% of the wells are horizontal drilled and most fracture stimulated); and increasingly complex unitization/EOR proposals.

The workload of the Geological Survey has increased substantially as well with more coal and geothermal permitting; fossil digs, collection, and restoration; and publication of surface studies and subsurface petroleum studies.

Future critical issues are retention of experienced personnel through more competitive salaries, benefits, and professional development as the number of less experienced personnel in industry increases; implementation of electronic reporting and permitting; and lack of growth in federal funding for mandated programs.



North Dakota Oil Production and Price





INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Agriculture Commissioner

Industrial Commission Continuing Appropriations Report House Appropriations Committee - Government Operations Division January 9, 2007

Abandoned Oil and Gas Well Plugging and Site Reclamation Fund. (NDCC 38-08-04.5)
Monies deposited into this fund are from oil and gas operator permit fees and forfeited surety bonds paid to the North Dakota Industrial Commission Oil and Gas Division. Monies in this fund are appropriated to plug oil and gas wells and reclaim well sites, and associated facilities:

- 1) if the person or company drilling or operating the well cannot be found, has no assets with which to properly plug or replug the well or reclaim the well site, or cannot be legally required to plug or replug the well or to reclaim the well site;
- 2) if there is no surety bond covering the well to be plugged or the site to be reclaimed or there is a forfeited surety bond but the cost of plugging or re-plugging the well or reclaiming the site exceeds the amount of the bond; or
- 3) the well is leaking or likely to leak oil, gas, or saltwater or is likely to cause a serious threat of pollution or injury to the public health or safety.

The Oil and Gas Division has 3 reclamation projects currently in progress. The reclamation of a well site may take several years depending on the location of the site and the weather conditions. We are anticipating several additional projects during the upcoming biennium. In House Bill 1060 we are seeking authority to transfer funds from the Cash Bond Fund to this fund and to raise the cap on this fund from \$250,000 to \$500,000. This increase in the cap is reflected in the estimated 07-09 revenues and expenditures.

	Actual 2001-03	Actual 2003-05	Actual 11/30/06	Estimated 2005-07	Estimated 2007-09
Beginning balance	81,626	37,142	141,238	141,238	132,590
Revenues	53,229	140,341	90,939	110,000	255,000
Total available	134,855	177,483	232,177	251,238	387,590
Expenditures	97,713	36,245	69,387	118,648	192,000
Ending balance	37,142	141,238	162,790	132,590	195,590

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www.nd.gov

Cash Bond Fund for Plugging Oil and Gas Wells and Reclamation of Oil and Gas Well Sites. (NDCC 38-08-04.11) Monies deposited into this fund are from administrative fees on all moneys held or controlled by the Commission under subdivision d of subsection 1 of section 38-08-04 (the statute allowing a company to provide a cash bond rather than surety bond when operating in North Dakota). Monies in this fund are appropriated to the Commission to be used for:

- 1) defraying costs incurred in the plugging of abandoned oil and gas wells and related activities; and
- 2) defraying costs incurred in the reclamation of abandoned oil and gas drilling and production sites, saltwater evaporation pits, drilling fluid pits, and access roads, and related activities.

The Oil and Gas Division has 1 reclamation project currently in progress with 4 abandoned wells to be plugged and 4 additional well sites to be scheduled for reclamation. The reclamation of a well site may take several years depending on the location of the site and the weather conditions.

	Actual 2001-03	Actual 2003-05	Actual 11/30/06	Estimated 2005-07	Estimated 2007-09
Beginning balance	350,955	309,880	428,864	428,864	287,864
Revenues	77,442	169,505	55,374	85,000	95,000
Total available	428,397	479,385	484,238	513,864	382,864
Expenditures	118,517	50,521	821	226,000	130,000
Ending balance	309,880	428,864	483,417	287,864	252,864

Cartographic Products Fund. The Cartographic Products Fund was established during the 1989 legislative session (NDCC 54-17.4-10). The fund is used to purchase topographic maps for sale from the federal government. All monies collected from the sale of topographic maps are re-deposited in this fund. Map sales are cyclical and this fund requires a revolving fund to function most efficiently.

	Actual 2001-03	Actual 2003-05	Actual 11/30/06	Estimated 2005-07	Estimated 2007-09
Beginning balance	15,769	12,890	17,777	17,777	21,277
Revenues	25,852	14,083	6,331	8,000	8,500
Total available	41,621	26,973	24,108	25,777	29,777
Expenditures	28,731	9,196	3,993	4,500	15,000
Ending balance	12,890	17,777	20,115	21,277	14,777

Fossil Excavation and Restoration Fund. The Fossil Excavation and Restoration Fund was established during the 1997 legislative session (NDCC 54-17.4-9.1). The fund contains monies donated to the North Dakota Geological Survey to pay for excavation and restoration of fossils. The majority of money in the fund was given to the Geological Survey by the late Clarence Johnsrud of Trenton, North Dakota to pay for new fossil exhibits at the North Dakota Heritage Center. Fossil exhibits are costly and also take a considerable amount of time to plan and prepare. These variables require that money be held for long periods of time. A \$250,000 appropriation is being requested in House Bill 1014 to be placed in this fund. It is not reflected in the 2007-09 estimates.

	Actual 2001-03	Actual 2003-05	Actual 11/30/06	Estimated 2005-07	Estimated 2007-09
Beginning balance	130,918	126,665	118,723	118,723	0
Revenues	1,000	518	3,896	2,000	0
Total available	131,918	127,183	122,619	120,723	0
Expenditures	5,253	8,460	108,627	120,723	0
Ending balance	126,665	118,723	13,992	0	0

Global Positioning System Data Fund. In 1993 the North Dakota Geological Survey, North Dakota Oil and Gas Division, North Dakota Agriculture Department, North Dakota State Water Commission, North Dakota Department of Transportation, United States Geological Survey and Bismarck State College entered into an agreement to establish and maintain a global positioning base station at Bismarck State College. The Global Positioning System (GPS) Data Fund was established by the 1995 Legislative Assembly (NDCC 54-17.4-12). The revolving fund was designed to hold GPS fees and to pay the costs of maintaining the base station. In 2001, all data from the base station was put on line for all users to download for free. The fund is still being used to pay for the costs of maintaining the base station but no new monies are being deposited in the fund. In 2004, ten local engineering and surveying firms contributed towards the purchase of new equipment for the base station.

	Actual 2001-03	Actual 2003-05	Actual 11/30/06	Estimated 2005-07	Estimated 2007-09
Beginning balance	26,751	15,181	15,165	15,165	13,875
Revenues	158	445	38	0	0
Total available	26,909	15,626	15,203	15,165	13,875
Expenditures	11,728	461	900	1,290	3,200
Ending balance	15,181	15,165	14,303	13,875	10,675

Lignite Research Fund. (NDCC 57-61-01.5 and 57-61-01.6) The Lignite Research Fund was established to invest in research and the development and marketing for the lignite industry. It is important to have a continuing appropriation for this type of effort in that research efforts can take a number of years. Each of the projects funded with the monies in the Lignite Research Fund must be matched. Many of the projects funded in part by the Lignite Research Fund are multi-year efforts. Lignite Vision 21 projects require a number of years of research/construction and a continuing appropriation is needed to assure the entities involved in these projects of the State's commitment to assist in the development of their projects. Additional funds have been requested for this Fund in House Bill 1093. These additional funds are reflected in the estimates for 2007-09.

	Actual 2001-03	Actual 2003-05	Actual 11/30/06	Estimated 2005-07	Estimated 2007-09
Beginning balance	11,812,939	11,767,657	10,362,784	10,362,784	6,723,485
Revenues	7,048,063	6,289,612	4,994,944	7,455,000	12,689,795
Total available	18,861,002	18,057,269	15,357,728	17,817,784	19,413,280
Expenditures	7,093,345	7,694,485	3,845,003	11,094,349	19,410,600
Ending balance	11,767,657	10,362,784	11,512,725	6,723,435	2,630,000

North Dakota Building Authority. The North Dakota Building Authority has continuing appropriation authority as found in NDCC 54-17.2-02.2. This authority is needed in order to assure rating agencies and bondholders of the State's intent to fully spend all bond proceeds for their intended purposes of construction, implementation, etc. and to apply all lease rental payments it receives from or on behalf of state agencies each biennium to make debt service payments on outstanding bond issues. Each biennium an appropriation is sought from the Legislature for the lease rental payments which is used to make bond debt service payments.

Oil and Gas Reservoir Data Fund. (NDCC 38-08-04.6) Monies deposited in this fund are from the payment of fees for the actual cost of services performed to provide oil and gas reservoir data requested by industry, royalty owners, other governmental agencies and the public. Monies in this fund are appropriated to the Commission to be used for purchase of equipment and supplies directly related to storage and dissemination of computerized geophysical exploration, production, and well information data to industry, royalty owners, other governmental agencies and the public. Requests for oil and gas reservoir data are cyclical with commodity price and a revolving fund is required to most efficiently meet demand.

	Actual 2001-03	Actual 2003-05	Actual 11/30/06	Estimated 2005-07	Estimated 2007-09
Beginning balance	14,946	30,720	101,068	101,068	79,568
Revenues	105,159	183,457	114,690	178,500	185,000
Total available	120,105	214,177	215,758	279,568	264,568
Expenditures	89,385	113,109	157,678	200,000	225,000
Ending balance	30,720	101,068	58,080	79,568	39,568

Oil and Gas Research Fund. The Oil and Gas Research Fund was established by the 2003 Legislative Assembly to promote the growth of the oil and gas industry through research and education (NDCC 57-51.1). It is important to have a continuing appropriation for this type of effort in that research efforts can take a number of years. Each of the projects funded with the monies in the Oil and Gas Research Fund must be matched. Often it is necessary in obtaining matching dollars from companies as well as universities or the federal government to be able to show that the state can commit to longer than a two-year period of time. Projects that will require drilling programs, analysis of a drilling technique on an oil formation, innovative methods for enhanced recovery or improved reclamation of well sites may need a multi-year research effort to determine the results of the project. Educational efforts can also require more than a two-year period of time to begin to make a difference in the understanding of the oil and gas industry and the benefits it provides to the State of North Dakota. Additional revenues are being requested in House Bill 1128 for this fund. These additional revenues have been reflected in the estimates for 2007-09.

	Actual 2001-03	Actual 2003-05	Actual 11/30/06	Estimated 2005-07	Estimated 2007-09
Beginning balance	0	0	20,061	20,061	694,638
Revenues	0	50,800	1,301,400	1,301,800	3,001,800
Total available	0	50,800	1,321,461	1,321,861	3,696,438
Expenditures	0	30,739	366,711	627,223	3,200,000
Ending balance	0	20,061	954,750	694,638	496,438



INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenchjem
Attorney General

Roger Johnson
Agriculture Commissioner

Industrial Commission Continuing Appropriations Report Senate Appropriations Committee February 21, 2007

Abandoned Oil and Gas Well Plugging and Site Reclamation Fund. (NDCC 38-08-04.5)
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- 2) if there is no surety bond covering the well to be plugged or the site to be reclaimed or there is a forfeited surety bond but the cost of plugging or re-plugging the well or reclaiming the site exceeds the amount of the bond; or
- 3) the well is leaking or likely to leak oil, gas, or saltwater or is likely to cause a serious threat of pollution or injury to the public health or safety.

The Oil and Gas Division has 5 reclamation projects currently in progress. The reclamation of a well site may take several years depending on the location of the site and the weather conditions. We are anticipating several additional projects during the upcoming biennium. In Engrossed House Bill 1060 we are seeking authority to transfer funds from the Cash Bond Fund to this fund and to remove the cap on this fund for the 2007-2009 biennium. In subsequent biennium the cap would be set at \$500,000. This lifting of the cap is reflected in the estimated 07-09 revenues and expenditures.

	Actual 2001-03	Actual 2003-05	Actual 11/30/06	Estimated 2005-07	Estimated 2007-09
Beginning balance	81,626	37,142	141,238	141,238	132,590
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Total available	134,855	177,483	232,177	251,238	387,590
Expenditures	97,713	36,245	69,387	118,648	192,000
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The Oil and Gas Division has 4 abandoned wells to be plugged/reclaimed and 4 additional plugged well sites to be scheduled for reclamation. The reclamation of a well site may take several years depending on the location of the site and the weather conditions.

	Actual 2001-03	Actual 2003-05	Actual 11/30/06	Estimated 2005-07	Estimated 2007-09
Beginning balance	350,955	309,880	428,864	428,864	287,864
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February 21, 2007

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Expenditures	11,728	461	900	1,290	3,200
Ending balance	15,181	15,165	14,303	13,875	10,675

Lignite Research Fund. (NDCC 57-61-01.5 and 57-61-01.6) The Lignite Research Fund was established to invest in research and the development and marketing for the lignite industry. It is important to have a continuing appropriation for this type of effort in that research efforts can take a number of years. Each of the projects funded with the monies in the Lignite Research Fund must be matched. Many of the projects funded in part by the Lignite Research Fund are multi-year efforts. Lignite Vision 21 projects require a number of years of research/construction and a continuing appropriation is needed to assure the entities involved in these projects of the State's commitment to assist in the development of their projects. Additional funds have been requested for this Fund in House Bill 1093. These additional funds are reflected in the estimates for 2007-09.

	Actual 2001-03	Actual 2003-05	Actual 11/30/06	Estimated 2005-07	Estimated 2007-09
Beginning balance	11,812,939	11,767,657	10,362,784	10,362,784	6,723,435
Revenues	7,048,063	6,289,612	4,994,944	7,455,000	12,689,795
Total available	18,861,002	18,057,269	15,357,728	17,817,784	19,413,230
Expenditures	7,093,345	7,694,485	3,845,003	11,094,349	19,410,600
Ending balance	11,767,657	10,362,784	11,512,725	6,723,435	2,630

North Dakota Building Authority. The North Dakota Building Authority has continuing appropriation authority as found in NDCC 54-17.2-02.2. This authority is needed in order to assure rating agencies and bondholders of the State's intent to fully spend all bond proceeds for their intended purposes of construction, implementation, etc. and to apply all lease rental payments it receives from or on behalf of state agencies each biennium to make debt service payments on outstanding bond issues. Each biennium an appropriation is sought from the Legislature for the lease rental payments which is used to make bond debt service payments.

Oil and Gas Reservoir Data Fund. (NDCC 38-08-04.6) Monies deposited in this fund are from the payment of fees for the actual cost of services performed to provide oil and gas reservoir data requested by industry, royalty owners, other governmental agencies and the public. Monies in this fund are appropriated to the Commission to be used for purchase of equipment and supplies directly related to storage and dissemination of computerized geophysical exploration, production, and well information data to industry, royalty owners, other governmental agencies and the public. Requests for oil and gas reservoir data are cyclical with commodity price and a revolving fund is required to most efficiently meet demand.

	Actual 2001-03	Actual 2003-05	Actual 11/30/06	Estimated 2005-07	Estimated 2007-09
Beginning balance	14,946	30,720	101,068	101,068	79,568
Revenues	105,159	183,457	114,690	178,500	185,000
Total available	120,105	214,177	215,758	279,568	264,568
Expenditures	89,385	113,109	157,678	200,000	225,000
Ending balance	30,720	101,068	58,080	79,568	39,568

Oil and Gas Research Fund. The Oil and Gas Research Fund was established by the 2003 Legislative Assembly to promote the growth of the oil and gas industry through research and education (NDCC 57-51.1). It is important to have a continuing appropriation for this type of effort in that research efforts can take a number of years. Each of the projects funded with the monies in the Oil and Gas Research Fund must be matched. Often it is necessary in obtaining matching dollars from companies as well as universities or the federal government to be able to show that the state can commit to longer than a two-year period of time. Projects that will require drilling programs, analysis of a drilling technique on an oil formation, innovative methods for enhanced recovery or improved reclamation of well sites may need a multi-year research effort to determine the results of the project. Educational efforts can also require more than a two-year period of time to begin to make a difference in the understanding of the oil and gas industry and the benefits it provides to the State of North Dakota. Additional revenues are being requested in House Bill 1128 for this fund. These additional revenues have been reflected in the estimates for 2007-09.

	Actual 2001-03	Actual 2003-05	Actual 11/30/06	Estimated 2005-07	Estimated 2007-09
Beginning balance	0	0	20,061	20,061	694,638
Revenues	0	50,800	1,301,400	1,301,800	3,001,800
Total available	0	50,800	1,321,461	1,321,861	3,696,438
Expenditures	0	30,739	366,711	627,223	3,200,000
Ending balance	0	20,061	954,750	694,638	496,438

HB 1014 Lignite R&D Program Funding

I. Lignite Industry Update

A. Current Lignite Industry in North Dakota

- 30 million tons of lignite coal
 - Serves 2 million people with electricity
 - Serves 225,000 homes with SNG (Synthetic Natural Gas)
 - Produces 1,000 tons per day of agricultural fertilizer
- 4,000 people employed / each direct job means 5 indirect jobs/24,000 total direct/indirect/one out of every 14 jobs in the state is tied to the lignite industry

B. Annual Economic Contribution to North Dakota

- \$675 million in direct expenditures / each dollar spent multiplies into three dollars for our economy for a total of \$2 billion
- \$658 million in personal income
- \$80 million in state tax revenues

II. What is the future for North Dakota's lignite industry? Depends on...

A. Having competitive product (coal-based electricity)

- Lignite competes against all forms of generation
 - Montana & Wyoming subbituminous coal-based power
 - Canadian hydro-power
 - Renewable energy
- Lignite needs to be competitive because power is exchanged on a cost-saving basis; Power is sold on ½ mill KWH margin (45 cents per ton for lignite)
- Lowest cost energy has greatest demand / Potential for growth

B. Future Environmental issues impacting our competitiveness / growth potential

- Carbon management policies - CO₂ capture and sequestration technologies will become more important
- Implementation of Regional Haze Rules will require additional NO_x/SO₂ control technology on existing facilities

C. Other regional factors impacting our competitiveness / growth potential

- Transmission constraints
- Emission fees / Externalities / Mandated Renewables
 - Neighboring states (Legislative & Regulatory Policies)

D. The Bottom Line

- The future of North Dakota's lignite industry depends on our ability to use lignite....
 - More cleanly
 - More efficiently
 - More economically
- *Means that we need to continue to invest in our research, development and marketing program to ensure the most economic, efficient & environmentally friendly coal*

III. What is the legislative policy guiding our Research, Development and Marketing Program?

Three principles:

- Help solve problems for our *existing* facilities so we can maintain jobs, economic activity and tax revenue (Research Projects)
- Assist with developing *new* lignite-fired facilities that will create additional jobs, tax revenue and business volume (Lignite Vision 21 Program and Demonstration Projects)
- Help provide favorable *marketing* strategies for increased use of coal-based electricity (Marketing Program)

IV. So what is money used for in primary areas of Research, Development, and Marketing?

A. Marketing Activities – What are the benefits?

- Marketing program includes five advertising flights annually (concentrated in primary market areas in ND & MN)
 - Research shows advertising on broadcast television has improved overall favorability of coal-based electricity in Minnesota and North Dakota
 - Over 75% in ND favor coal-based electricity
 - Approval of coal-based electricity in Minnesota improving
- Development and implementation of successful marketing plan helps preserve and enhance lignite markets
 - Messages include affordability, reliability, environmental and energy security

B. Research Projects for existing facilities (See pages 9 to 11) – What are the benefits?

- Reclamation projects result in cost-effective practices while achieving environmental goals (NDSU)
- Industry alternative landfill cover project (ongoing) holds potential to reduce operating

IV. So what is money used for in primary areas of Research, Development, and Marketing?

A. **Marketing Activities – What are the benefits?**

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B. **Research Projects for existing facilities (See pages 9 to 11) – What are the benefits?**

- Reclamation projects result in cost-effective practices while achieving environmental goals (NDSU)
- Industry alternative landfill cover project (ongoing) holds potential to reduce operating costs by millions of dollars
- Combustion & Environmental Projects help provide solutions that increase efficiencies, reduce emissions, and increase use of combustion byproducts (EERC)
 - Examples are:
 - \$400,000 in state money has resulted in \$13.5 million DOE investment for coal dryers at Coal Creek Station Unit II. This project in turn has led to the proposed construction of a \$192 million power plant at Spiritwood near Jamestown. The plant will be fueled with beneficiated lignite
 - \$80,000 in state money has resulted in sales of nearly 100 percent of fly ash generated at Coal Creek Station – resulting in annual sales revenue of \$2.5 million versus landfill costs of \$2 million
 - \$2 million in state money was leveraged for total of \$26 million used for research to develop cost-effective mercury control technologies for lignite-based plants

D. What is status of Lignite Vision 21 Program?

- Four LV21P participants under contract with NDIC
 - **MDU/Westmoreland Coal Company (MDU/W) – Bowman County**
 - **Great Northern Power Development (GNPD) – Stark County**
 - Both projects have completed most feasibility studies
 - Environmental, generation, water quality and availability, coal ash, power plant foundation, mine plan, transmission, drilling, lignite sampling and testing, coal quality, and socioeconomic impact studies
 - Engineering and permitting
 - MDU/W received air quality permit-to-construct for 175 MW plant (6/05)
 - Both Westmoreland and GNPD filed applications for air permit-to-construct for 500 MW plants in June 2006 with ND Department of Health
 - Both MDU/W conducting transmission studies related to potential Minnesota markets
 - Primary challenges are environmental and transmission
 - Making good progress on environmental issues
 - Transmission major impediment; progress – but slow; estimated costs of \$100 million to \$350 million to resolve transmission constraints/need favorable tariff
 - Resolution of these issues is key to getting customers
 - GNPD looking at alternative technologies and end products
 - **Spiritwood Energy Park (Great River Energy)**
 - Additional 700,000 tons of beneficiated coal from Falkirk mine to be used in new Spiritwood Energy Power Plant to provide steam and electricity to new 100 MGD Newman Ethanol Plant and expansion of Cargill Malting Plant
 - NDIC investment of \$2 Million
 - Cost of power plant \$192 Million
 - 400 construction jobs/40 long-term operations jobs
 - \$380 Million/year economic impact
 - Construction to begin in 2007; operational in 2010
 - **Coal-to-Liquids (NACCO/GRE/Headwaters/Falkirk) - Washburn**
 - 10,000 – 50,000 barrels per day liquid fuels plant
 - 3-15 million tons/year of lignite
 - 300-1,000 employees (including mining)
 - Capital cost: \$1-5 Billion
 - Currently in 3-year front-end engineering and design study
 - Construction and commissioning ~ 3 years
 - Start-up 2012/2013???
 - NDIC commitment: \$10 Million (\$1.2 Million initially)

*TRANSMISSION
VS
CUSTOMER
- Ch. 14.1*

*30-40GW
sold to OTEHAI
POWER*

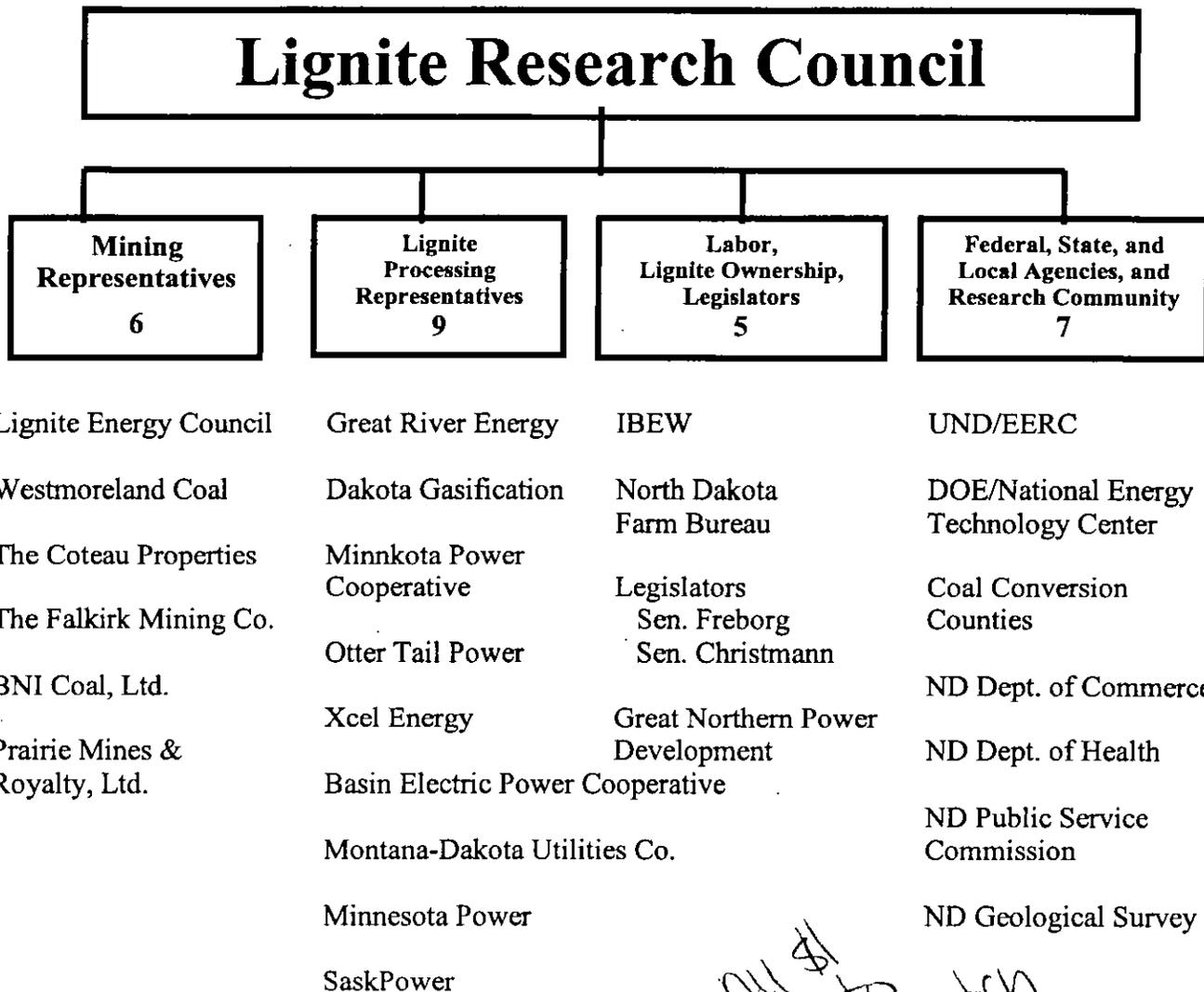
V. How is North Dakota's R&D Program administered?

A. Partnership between the private and public sectors

B. Roles of Industrial Commission & Lignite Research Council

- Industrial Commission
 - Administers research, development, and marketing program
 - Approves or disapproves research and development projects and activities
 - Accepts and distributes funds and enters into contracts

- Lignite Research Council is an advisory group to the Industrial Commission
 - Provides advice on policy and guidelines
 - Provides recommendations on project funding
 - Members are representatives from both the private and public sectors

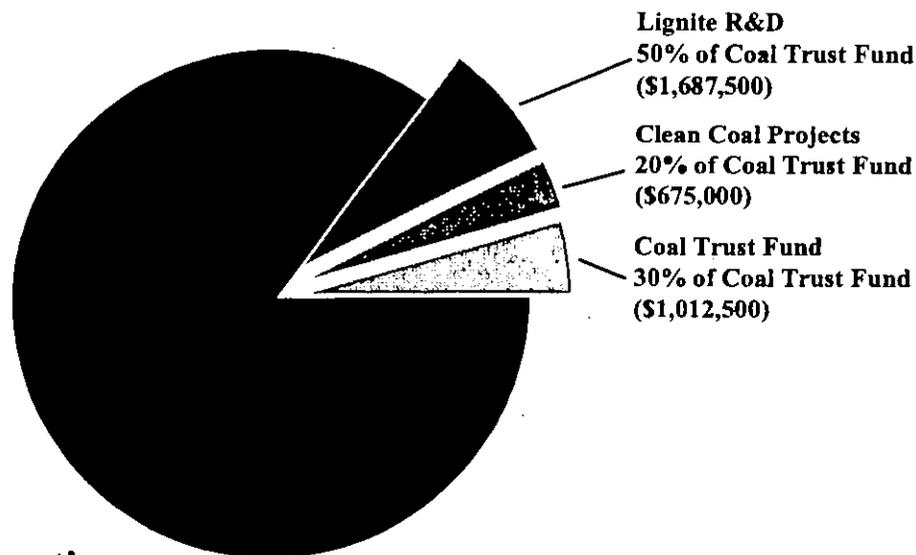


*All \$1
has to
has match*

VI. What are Funding Sources of R&D Program?

Summary of Lignite R&D Funding
ND Coal Severance Tax Annual Revenue and Distribution
 (Assumes 30 million tons of annual production)
 Severance Tax of 37.5 cents*

Coal Trust Fund
30% (\$3,375,000)



Coal Counties
70% (\$7,875,000)

Summary of Annual Revenue

Lignite R&D (50% of Coal Trust Fund)	\$1,687,500
Clean Coal Projects (20% of Coal Trust Fund)	675,000
2 Cents per ton R&D tax	<u>600,000</u>
Total Annual R&D Revenue	<u>\$2,962,500</u>
	x 2
Total Estimated Biennium Revenue	<u>\$5,925,000</u>

Note: In addition to the funding from the Coal Trust Fund, the Lignite R&D Program receives revenue from a two-cents-per-ton R&D tax. The program is also currently receiving a return on its investment with the Dakota Gasification Company from the Anhydrous Ammonia Project. Anticipated income from DGC for the 2007-2009 biennium is estimated to be \$1.3 million.

VII. How was \$15.2 million R&D appropriation allocated in present biennium (2005 to 2007)?

	<u>Amount (\$)</u>
Appropriated	\$15,200,000
Expended (Estimated)	
Research Activities	(\$2,801,646)
Demonstration	(\$6,298,403)
Marketing	(\$1,594,300)
Administration	(\$400,000)
Subtotal	(\$11,094,349)
Balance (Appropriated less expended funds)	\$4,105,651

VIII. Existing and future commitments for Lignite Vision 21 Program (Demonstration Projects)

A. Existing Commitments have been made for three projects outlined below which are dependent on start-up of construction for the Spiritwood and MDU/Westmoreland projects; and raising an additional \$30 million for the FEED Study for the coal-to-liquids project.

• Westmoreland/MDU, Gascoyne Project (Lignite-based electricity/renewable energy)	\$ 8,875,000
• NACCO/GRE/Headwaters/Falkirk Coal-to-Liquids Project (diesel fuel, jet fuel, etc.)	\$ 9,400,000
• GRE Spiritwood Energy Project (Beneficiated coal/lignite-based electricity/renewable energy)	\$ 1,350,000
Subtotal (NDIC approved commitments)	\$19,625,000
• *Great Northern Power Development/South Heart Construction Phase	\$ 7,300,000
Expected NDIC Commitments ('07 to '09 Biennium)	\$26,925,000

*Although the NDIC has not formally approved the construction phase for the Great Northern Power Development (GNPD) project, a formal application is expected for GNPD in the first quarter of '07 to complement their feasibility/permitting phase which was approved by the NDIC

Note: Commitments for these demonstration projects are anticipated to be disbursed over the next four bienniums (2007-2015).

B. In addition, there are several new projects being considered:

- Milton R. Young Unit III - *Strong likely hood*
- Leland Olds Unit III - *competition with SD*
- GRE New Unit
- CO₂ capture and storage project
- Others (????)

C. Requests for these new projects may require an additional \$50 million in R&D funding. To meet future demands the Industrial Commission has requested a 5% allocation from the Coal Conversion Tax (HB 1093).

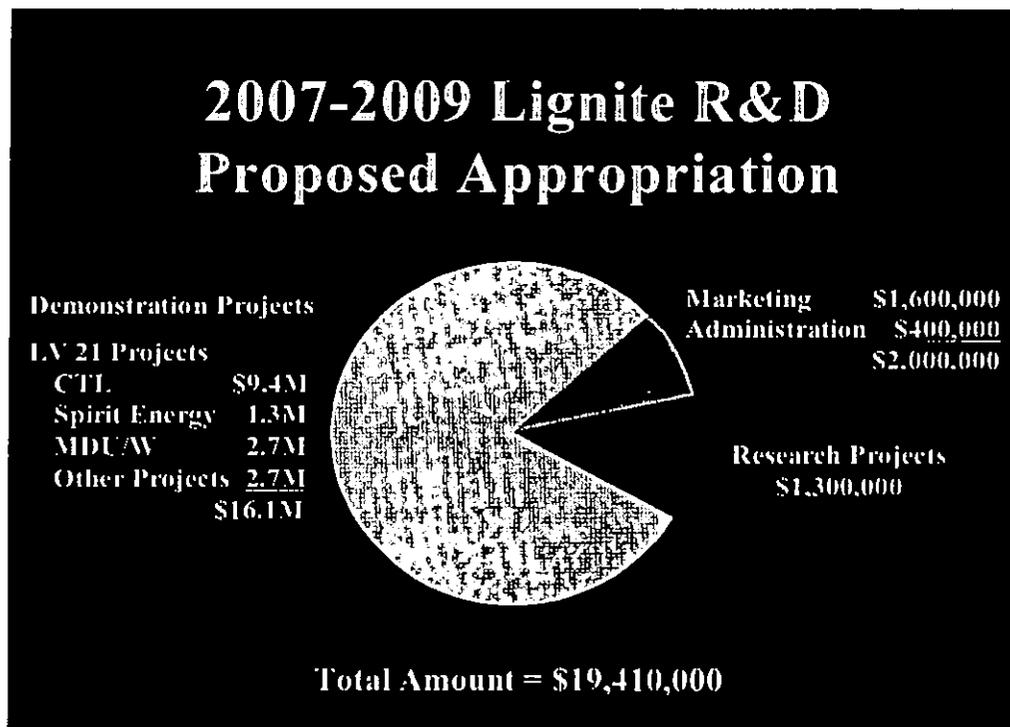
IX. What is proposed for 2007 - 2009 Biennium for lignite R&D program?

A. Governor's Industrial Commission budget of \$19.41 million consists of:

Research Activities - <i>page 3</i>	\$ 1,310,600
Demonstration Projects	\$16,100,000
Marketing	\$ 1,600,000
Administration	<u>\$ 400,000</u>
	\$19,410,600

X. What is proposed for 2007 - 2009 Biennium for lignite R&D program? (Cont.)

A. How will \$19,410,000 be allocated in 2007 to 2009 biennium?



*2007 19.4 mil
biennium*

XI. Summary of Research, Development & Marketing Components

- **Research** – Each dollar in state funds has generated another six dollars in total research funds to solve critical challenges facing the industry, which enhances the environmental performance and efficiency in lignite power plants, results in cost-effective reclamation and leads to development of new products and markets;
- **Marketing** – Developed regional lignite marketing plan, presently being implemented; Assistance to Lignite Vision 21 Program participants; Identified new markets for byproducts;
- **Development (Demonstration)** – Feasibility and permitting of clean coal demonstration projects which will provide new markets for lignite-based electrical generation and renewable energy, upgraded or beneficiated lignite, liquid fuels such as diesel fuels and jet fuels, and by-products such as activated char for enhanced mercury control; Implemented *Lignite Vision 21 Program* to develop new clean coal energy conversion projects; and
- **Bottom Line** – State’s Lignite R&D Program has resulted in an *effective partnership* to *preserve* and *enhance* jobs, economic growth, and tax revenue for the benefit of industry, and our state.

Additional information is also available on the R&D Program Web site:

<http://www.state.nd.us/ndic/lrc-infoP.htm>

Summary of 2005 - 2007 Research Projects

FY01-XXXVII (37)-105 "Pilot Scale Study of Mercury Oxidation Catalysts at Coal Creek Station" Program Funding: \$50,000; Total Project Costs: \$1,184,600. Objective: To evaluate the effectiveness of catalyst materials to oxidize elemental mercury content in the flue gas from coal-fired power plants. A goal is to convert elemental mercury to ionic mercury permitting mercury removal in conventional flue gas desulfurization systems.

FY02-XLIV (44)-110 "Biomass Impacts on SCR Performance" Program Funding: \$120,000; Total Project Costs: \$400,000. Objective: To determine fundamental mechanisms of NOx reduction and potential blinding of selective catalytic reduction catalysts using biomass and lignite.

FY02-XLV (45)-113 "Anaerobic Treatment of Dakota Gasification Company Stripped Gas Liquor" Program Funding: \$130,000; Total Project Costs: \$380,000. Objective: To develop a more efficient method to remove organics from stripped gas liquor effluent. Specific objectives are to develop an anaerobic biological process to degrade organic impurities to reduce heat exchanger fouling thereby reducing cooling tower odors and drift.

FY03-XLVIII (48)-117 "Mercury and Air Toxic Element Impacts of Coal Combustion By-Product Disposal and Utilization" Program Funding: \$37,500; Total Project Costs: \$1,600,000. Objective: Evaluate potential impacts of mercury and other air toxic elements on the management of coal combustion by-products (long-term storage and utilization products).

FY03-XLIX (49)-118 "Mercury Control Technologies for Electric Utilities Burning Lignite Coals – Phase II, Field Testing of Slipstream Technology" Program Funding: \$200,000; Total Project Costs: \$1,100,000. Objective: Using a slip-stream baghouse (up to nominal 10 MW), demonstrate a low-cost mercury control using activated char at SaskPower's lignite-fired Poplar River Power.

FY03-LRC-XLIX (49)-122 "Thermal Pre-Combustion Mercury Removal Process for Low Rank Coal-Fired Power Plants" Program Funding: \$139,403; Total Project Costs: \$956,962. Objective: Evaluate a precombustion thermal-based technology for the removal of mercury from low rank coals, both subbituminous and lignite.

FY04-LRC-L (50)-124 "Enhancing Carbon Reactivity in Mercury Control in Lignite-Fired Systems" Program Funding: \$600,000; Total Project Costs: \$5,732,195. Objective: Substantially enhance the capability of carbon sorbents to remove Hg from lignite combustion flue gas to achieve a high level of cost-effective control in full-scale field tests.

FY-04-L (50)-125 "Large-Scale Mercury Control Technology Testing for Lignite-Fired Utilities—Oxidation Systems for Wet FGD" Program Funding: \$172,500; Total Project Funding: \$2,150,767. Objective: Demonstrate a mercury "chemical addition" oxidation process in flue gas upstream of pollution control equipment, specifically, electrostatic precipitators followed by wet scrubbers. Host sites are Minnkota Power Cooperative MYR (*cyclone-fired*, ESP wet scrubber) Unit 2 and Texas Utilities Monticello (*wall-fired*, ESP, wet scrubber) Unit 3.

FY-04-L (50)-126 "Addendum: Evaluation of Pilot Wet Scrubber in Conjunction with Mercury Oxidation Catalysts." Program Funding: \$42,000; Total Project Funding: \$84,000. Objective: This effort is an amendment to contract FY01-XXXVIII-105. The combined project will evaluate wet scrubber capture efficiency of elemental mercury oxidized by low-temperature catalysts located after an electrostatic precipitator. Recent DOE data challenges the assumed high-efficiency capture of catalytically oxidized mercury in a wet scrubber.

FY-04-L (50)-127 "Alternative Cover Demonstration Project at Coal Creek Station" Program Funding: \$250,000; Total Project Funding: \$500,000. Objective: A field demonstration to evaluate and demonstrate the performance of alternative earth landfill cover designs while maintaining equal or a better level of environmental performance for long-term storage of coal combustion byproducts.

FY-04-L (50)-128 "Plains CO₂ Reduction Partnership (PCORP)" Program Funding: \$240,000; Total Project Funding: \$2,748,139. Objective: Identify cost-effective CO₂ sequestration systems in the Northern Great Plains region, including: 1) Characterize and match sources, sinks & storage options; 2) Identify and address issues for sequestration deployment; 3) Identify promising capture, sequestration and transport options; and 4) Develop public involvement & education mechanisms.

FY05-LI (51)-129 "Lignite Coal Test at a Transport Reactor Gasification Facility in Wilsonville, AL" Program Funding: \$125,000; Total Project Funding: \$250,000. Objective: Conduct short & long-term tests using an advanced IGCC Clean Coal Technology gasification system, Transport Reactor Integrated Reactor (TRIG), at a DOE facility in Wilsonville, AL. Project will ship 700 tons & 3,000 tons of lignite to the PSDF to resolve high-sodium lignite issues, followed by a 1000 hour pre-commercial test.

FY-05-LI (51)-130 "The Health Implications of the Mercury-Selenium Interaction" Program Funding: \$50,000; Total Project Funding: \$158,846. Objective: Explore interactions between mercury and selenium in experimental models designed to closely approximate human patterns of exposure. The project will examine the effects of dietary intakes of methylmercury and the protective effects of dietary selenium.

FY-05-LI (51)-131 "Investigation of Mercury and Carbon-Based Sorbent Reaction Mechanisms" Program Funding: \$54,000; Total Project Funding: \$240,870. Objective: Improve mercury capture efficiency of carbon sorbents through a better understanding of mercury-sorbent reaction mechanisms. Project will produce information to develop more effective and lower-cost sorbent to control mercury emissions.

FY05-LII (52)-134 "North Dakota Partnership in the Canadian Clean Power Coalition (CCPC)" Program Funding: \$75,000; Total Project Funding: \$150,000. Objective: Participate in studies of advanced technologies for future lignite power generation, including IGCC and advanced steam cycles such as ultra super-critical steam cycles in conventional and fluid bed combustion power plants.

FY05-LII (52)-135 "Assessment of Mercury Control Options & Ash Behavior in Fluidized-Bed Combustion Systems" Program Funding: \$200,000; Total Project Funding: \$1,000,000. Objective: Evaluate mercury control options in a Circulating Fluidized Bed Combustion (CFBC) system to evaluate Hg speciation, identify effective control approaches and evaluate impact of chemical oxidation chemicals on corrosion and ash bed agglomeration.

FY05-LII (52)-136 "Center for Air Toxic Metals Affiliates Program - 3 Year Continuation of Membership" Program Funding: \$45,000; Total Project Funding: \$3,000,000. Objective: Continue science-based research on toxic trace metals under an EPA-Industry supported Center for Air Toxic Metals (CATM) Affiliates Program to further the understanding of the behavior of potential toxic metals in coal-fired utilities, other fossil fuel systems, waste-to-energy systems and waste incinerators. A specific objective of the CATM program is the study of the fate and control of mercury emissions from coal-fired systems. This project is a continuation of Project 62, 89 and 111.

FY05-LII (52)-137 "Mercury Oxidation via Catalytic Barrier Filters: Phase II" Program Funding: \$15,000; Total Project Costs: \$245,000. Objective: Continue development of Hg emission control using baghouse filters impregnated with catalytic oxidizers to verify promising data from small-scale proof-of-concept tests. The concept would be applicable to utilities using fabric filter with capture of Hg and fly ash in a baghouse subsystem.

FY05-LIII (53)-139 "Investigation of Mercury and Carbon-Based Sorbent Reaction Mechanism - Comparison of Surface Analysis Techniques" Program Funding: \$19,500; Total Project Costs: \$60,000. Objective: This project is an extension of LRC-LI-131. Additional fundamental work will focus on bonding on carbon surfaces using two more refined techniques of x-ray photoelectron spectroscopy and x-ray absorption fine structure spectroscopy. The results will define carbon sorbent surface structural features before and after exposure to a flue gas stream, providing direction to improving effectiveness.

FY06-LIV (54)-142 "Investigating the Importance of the Mercury-Selenium Interaction" Program Funding: \$55,000; Total Project Costs: \$385,000. Objective: Study the effects of dietary intakes of methyl of animal models to evaluate the protective effects of dietary selenium in order to resolve the significance of mercury-selenium interactions.

FY06-LV (55)-143 "Plains CO₂ Reduction Partnership - Phase II" Program Funding: \$360,000; Total Project Costs: \$21,487,892. Objective: Initiate Phase II activities leading to field sequestration tests to validation eventual commercial applications that include geologic storage and coal seams (producing coal bed methane) in addition to land management practices and wetlands.

FY06-LV (55)-144 "Gasification of Lignites to Produce Liquid Fuels, Hydrogen, and Power" Program Funding: \$100,000; Total Project Costs: \$2,640,380. Objective: Provide essential information on the impacts of moisture and inorganic impurities on gasifier and gas cleanup technology performance to support power generation and coal-to-liquid processes by addressing key technical challenges facing lignite.

Summary of 2005 - 2007 Demonstration Projects (Matching Funds)

FY01-XLI (46)-107 "MDU-Westmoreland Power Plant Project" Program Funding: \$10,000,000; Total Project Costs: \$740,000,000. Objective: To evaluate the feasibility of constructing a 500 MW lignite-fired baseload power plant near Gascoyne, North Dakota.

FY03-XLIX (49)-123 "Lignite Vision 21 Feasibility Project Phase II - Permitting, Business Development & Engineering" Program Funding: \$687,500. Total Project Cost: \$1,375,000. Objective: Complete Phase II business development, transmission, permitting, and design work activities to move the project into the partnering, financing and pre-construction phases.

FY05-LI (51)-132 "Lignite Fuel Enhancement: Dry Process Coal Cleaning" Program Funding: \$250,000; Total Project Cost: \$1,331,035. Objective: Reduce lignite ash, moisture and other minerals using air and magnetic separation processes without the use of water and at the mine site.

FY05-LI (51)-133 "Demonstrating N.D. Lignite's Profitability in Energy Production & Agricultural Processing (Lignite-Fired Ethanol Plant)" Program Funding: \$350,000; Total Project Cost: \$85,255,700. Objective: Demonstrate the use of a lignite-fired Bubbling Bed Combustor to operate an ethanol processing plant.

FY05-LIII (53)-138 "Field Demonstration of Enhanced Sorbent Injection for Mercury Control" Program
Funding: \$200,000; Total Project Costs: \$1,584,260. Objective: Conduct a seven-week full-scale demonstration of mercury capture at the Leland Olds Station.

FY05-LIII (53)-140 "Activated Carbon Production for North Dakota Lignite" Program Funding: \$250,000; Total Project Costs: \$770,000. Objective: Determine the feasibility to develop a commercial process for activated char (AC) production from lignite.

FY06-LIV (54)-141 "Lignite Coal Test at a Circulating Fluid Bed Facility" Program Funding: \$275,000; Total Project Costs: \$550,000. Objective: Conduct a 10-day test using a vendor CFBC and high sodium lignite (> 6%) to identify potential agglomeration or steam tube fouling. Identify operational and design parameters to define a full-scale CFBC plant for repowering of an existing pc-fired power plant.

FY06-LV (55)-146 "Lignite Vision 21 Feasibility Project - Phase III" Program Funding: \$1,310,443; Total Project Costs: \$2,620,866. Objective: This is Great Northern Power Development's Phase III for developing a 500 MW lignite-fired power plant and its associated surface mine in western North Dakota.

FY06-LVII (57)-148 "LV21 Coal-to-Liquids" Program Funding: \$10,000,000; Total Project Costs: \$50,000,000. Objective: To complete the front-end engineering and design studies, which will include permitting, pilot plant testing and basic design of gasification, liquefaction and ancillary components of the plant.

FY06-LVIII (58)-149 "Spiritwood Energy Power Plant" Program Funding: \$2,000,000; Total Project Costs: \$157,017,896. Objective: To construct and operate a beneficiated lignite-fired combined heat and power plant as part of an energy park including a malting plant and ethanol plant.

Summary of 2005 - 2007 Demonstration Projects (Non-Matching Funds)

LMFS-04-37 "Lignite Vision 21 Program - Phase IV Engineering and Permitting of Lignite Vision 21 Projects"
Program Funding: \$982,000; Objectives: 1) coordinate and assist the LV 21 participants; 2) develop and implement legal, marketing, generation, environmental and transmission strategies; 3) manage the programs in order to eliminate any potential duplication; and 4) maximize value for the State of North Dakota.

LMFS-06-39 "Lignite Vision 21 Program - Phase V Environmental Permitting & Transmission Plan Development of Lignite Vision 21 Projects" Program Funding: \$851,000; Objectives: 1) coordinate and assist the LV 21 participants; 2) develop and implement legal and marketing strategies, develop and implement generation and environmental technologies and strategies, and develop and implement transmission strategies; 3) manage the programs in order to eliminate any potential duplication; and 4) maximize value for the State of North Dakota.

LMFS-38 "Proposal to Submit the North Dakota FutureGen Submission" Program Funding: \$130,000; Objective: To prepare and submit a proposal to the FutureGen Industrial Alliance, on behalf of the State of North Dakota, to host the FutureGen power plant.

Summary of 2005 - 2007 Marketing Projects

FY02-XLVI-115 (46) "Implementation of Regional Lignite Energy Marketing Plan" Program Funding: \$1,800,000; Total Project Costs: \$3,600,000. Objective: Improve overall public regional image of coal and promote the use of coal as a low-cost, efficient and environmentally compatible energy source to ensure the continued utilization and growth of coal-based electrical energy.

FY06-LVI (56)-147 "Implementation of Regional Lignite Energy Marketing Plan" Program Funding: \$2,400,000; Total Project Costs: \$4,800,000. Objective: Improve overall public regional image of coal and promote the use of coal as a low-cost, efficient and environmentally compatible energy source to ensure the continued utilization and growth of coal-based electrical energy.

With exception of this page same testimony given to House and Senate

C. Demonstration Projects - Lignite Vision 21 Program (LV21) – Primary purpose is to assist with developing new projects with cost-effective clean coal technologies to meet additional energy demands.

- **What is in it for State? Why is LV21 important?** One 500-megawatt power plant means:
 - 1,300 jobs
 - \$140 million more business volume
 - \$6 million more annual tax revenue for North Dakota
 - 3 million more tons of coal
- **What is North Dakota's commitment to LV21?**
 - Unqualified support from Legislature and Industrial Commission (Governor, Attorney General & Ag Commissioner)
 - Agency support shortens lead times / reduces risk
 - \$10 million in *matching* funds for development phase for each project upon Industrial Commission approval

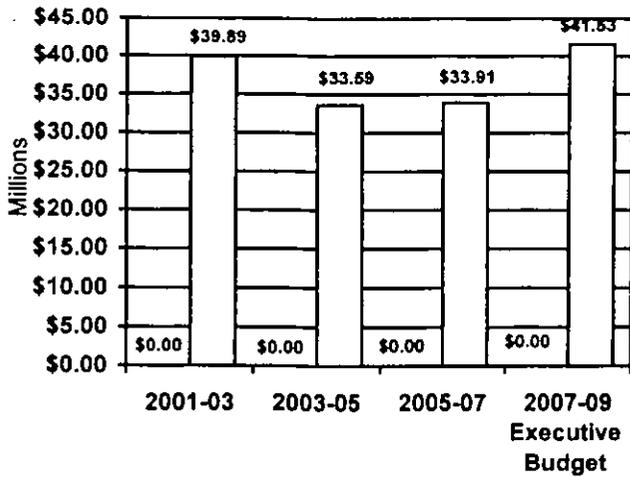
D. What is status of Lignite Vision 21 Program?

- Four LV21P participants under contract with NDIC
 - **MDU/Westmoreland Coal Company (MDU/W) – Bowman County**
 - **Great Northern Power Development (GNPD) – Stark County**
 - Both projects have completed most feasibility studies
 - Environmental, generation, water quality and availability, coal ash, power plant foundation, mine plan, transmission, drilling, lignite sampling and testing, coal quality, and socioeconomic impact studies
 - Engineering and permitting
 - MDU/W received air quality permit-to-construct for 175 MW plant (6/05)
 - Both Westmoreland and GNPD filed applications for air permit-to-construct for 500 MW plants in June 2006 with ND Department of Health
 - Both MDU/W conducting transmission studies related to potential Minnesota markets
 - Primary challenges are environmental and transmission
 - Making good progress on environmental issues
 - Transmission major impediment; progress – but slow; estimated costs of \$100 million to \$350 million to resolve transmission constraints/need favorable tariff
 - Resolution of these issues is key to getting customers
 - GNPD looking at alternative technologies and end products

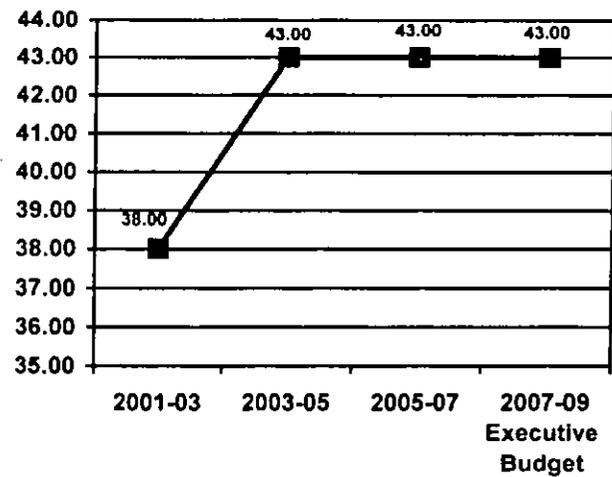
**Department 473 - Housing Finance Agency
 House Bill No. 1014**

	FTE Positions	General Fund	Other Funds	Total
2007-09 Executive Budget	43.00	\$0	\$41,534,102	\$41,534,102
2005-07 Legislative Appropriations	43.00	0	33,910,014	33,910,014
Increase (Decrease)	0.00	\$0	\$7,624,088	\$7,624,088

Agency Funding



FTE Positions



■ General Fund □ Other Funds

Executive Budget Highlights

1. Increases the operating expenses line item, primarily due to establishing a reserve for loan losses for two new loan programs—community housing development assistance and housing rehabilitation and revitalization
2. Increases funding for grants due to increased utilization of programs

	General Fund	Other Funds	Total
		\$6,607,200	\$6,607,200
		\$728,520	\$728,520

Continuing Appropriations

No continuing appropriations for this agency.

Major Related Legislation

At this time, no major legislation has been introduced affecting this agency.



North Dakota
Housing Finance Agency

PO Box 1535 · Bismarck, ND 58502-1535

INDUSTRIAL COMMISSION
JOHN HOEVEN, GOVERNOR
WAYNE STENEHJEM, ATTORNEY GENERAL
ROGER JOHNSON, AGRICULTURE COMMISSIONER

MICHAEL A. ANDERSON, EXECUTIVE DIRECTOR

HB 1014

January 9, 2007

North Dakota Housing Finance Agency
Division of the State Industrial Commission
Budget No. 473.0

Testimony of Michael Anderson, Executive Director
House Appropriations Committee

Budget 473.0 of HB 1014 Section 3, Subdivision 5 covers the revenues associated with the various housing programs administered by the Housing Finance Agency (HFA) solely through Special Funds. The HFA has not utilized state General Funds of any type since its 1980 creation by initiated measure. The \$41,534,102 executive recommendation for the 2007-09 biennium represents a 21.6 percent increase from the last appropriation. Most notable changes precipitating the \$7.6 million increase include a \$6 million loan loss provision to cover the creation of new programs and a \$1.35 million increase in funding for the HFA sponsored grant programs, both of which stem from the HFA's 2006 Housing Priorities (see attached report). Excluding the new programming and increased grants commitment this budget would represent only a 0.09 percent increase.

In May of last year, the HFA adopted its 2006 Housing Priorities which are intended to begin addressing the state's housing challenges outlined in the Statewide Housing Needs Assessment published in 2004. The priorities are 1) expanding new housing in developing communities; 2) housing for our aging population; 3) revitalize our aging housing stock; 4) Native Americans; and 5) Homelessness. New programming already put into place includes 1) a low-interest loan program for predevelopment and site development costs; 2) a low-interest loan program for rehabilitation of rural single- and multi-family properties; 3) the Housing Market Survey Grant program; and 4) the Homeless Technical Assistance Grant program. The loans generated under the first two items are expected to be mostly second mortgages. Since at this time there are no loan details or collection history to rely on for assessing risk, we are establishing the loan loss reserve in order to maintain our status/rating in the national capital markets.



With respect to priority item three above, we have nearly doubled our funding for our Helping HAND and Rehab Accessibility Program (RAP) programs. This budget also contains a \$1 million provision for additional funding of existing grant programs, as well as new grant programming that may be needed as we continue to work on these priorities during the upcoming biennium.

To carry out the new initiatives and expanded programming resulting from the aforementioned priorities, we have created a new Planning and Housing Development Division within the HFA. The Division will be staffed utilizing existing authorized FTE's. Some existing staff were reassigned. In addition, two unutilized authorized FTE's are earmarked for the division with those positions expected to be filled during the upcoming biennium.

Presently, the HFA has a total of 43 authorized FTE's. This budget provides for no increase in FTE's. Currently, the HFA has four vacant FTE's. One was reassigned as discussed in the previous paragraph. We are currently in the process of filling the other three.

The HFA's existing housing programs are briefly described in the attached program summary. Nearly all of the HFA programs involve partnerships with other entities in their delivery to program beneficiaries. These partnerships include lenders, realtors, homebuilders, property developers, community action agencies, regional councils, apartment owners, non-profit organizations, and other state and federal agencies.

Funding of HFA programs is derived primarily from revenue bonds, federal funds, or HFA and bond indenture assets. Total bonds issued to date are \$2,947,774,741. Provisions are included for the associated administrative costs or administrative fees are assessed participants as appropriate. The assets, liabilities, and revenues resulting from bond issues of the HFA are not appropriated as they are not public funds and are held in trust by our bond trustees. The October 31, 2006, assets of these various bond funds were approximately \$781 million. HFA administrative costs of these bond financed programs (included herein) are accrued on a monthly basis and received from the Trustees.

The HFA's largest homeownership program, the ¹⁹⁹⁸ FirstHome loan program, has funded approximately \$1.75 billion in loans representing more than 29,500 homeowners since the program's inception. New loan production during 2006 was approximately 1,300 loans representing \$125 million of loan principal. We expect our annual loan volume during the biennium will average about \$150 million per

year. At present, the HFA has more than 10,500 loans totaling \$610 million in principal balance remaining outstanding.

The HFA also administers the Low Income Housing Tax Credit program, which was created by the U.S. Congress in 1986. These tax credits create an incentive for the development of rental housing for low-income occupants. Currently, the program is the only viable means available for the creation of affordable rental housing in our state. Through a competitive process, the HFA allocates the annual housing tax credit authority to project applicants, and performs the required compliance monitoring for the total compliance period which can extend to 30-years. To date, these tax credits have provided for the new construction or rehabilitation of nearly 4,900 units in 45 cities across North Dakota and have resulted in a private investment in rental housing in the state of more than \$320 million. In 2007, \$2,275,000 in housing tax credits is available for allocation.

The HFA's largest appropriated funds activity involves the administration of federally funded U.S. Department of Housing & Urban Development (HUD) housing programs. Total disbursements for grants is projected at \$27,319,800 of which \$24,439,800 is for rental assistance for the benefit of more than 4,600 very low-income tenants in 154 projects located throughout the state.

Finally, approximately \$870,000 will also be available for the HFA's DCA and HARP programs (see attached program summary).

The 2007-2009 biennium budget, as with past HFA budgets, includes a provision which appropriates any additional or unanticipated funds that may become available to the HFA during the biennium (see Section 4 of HB 1014). Previously, the HFA has relied on this provision to apply for federal funds for new programs that became available following the legislative session. Continuing this provision during the upcoming biennium will provide the HFA critical flexibility in allowing us to react to new housing challenges as we continue to work on the aforementioned housing priorities.

Section 9 of the bill provides a transfer of \$69,259 during the biennium from the HFA to the Industrial Commission for the purpose of defraying Industrial Commission administrative costs.

Again, the HFA is not a state General Fund agency. A six-member Advisory Board, comprised of housing industry representatives, meets monthly and provides invaluable information and recommendations for the HFA and Industrial Commission regarding HFA programming.

The HFA operates solely on the revenues generated from the administration of the various housing programs in a manner similar to a profit-motivated business in order to produce net revenues and to fund the credit requirements of our financing programs.

Our financial reserves have always been utilized to provide a credit enhancement to the bond issues which fund the HFA's lending programs. As evidenced by the earlier discussion on the increased budget items and the housing priorities, the HFA intends to put its financial reserves to work to develop and expand its housing programs to meet the state's housing challenges through direct funding and/or leveraging. Currently, the HFA enjoys a bond rating of Aa1 and an "Issuer" rating of A2 from Moody's. We will be proceeding cautiously so as not to jeopardize these ratings.

In summary, the HFA is North Dakota's housing finance agency providing affordable residential real estate financing and housing assistance to literally thousands of North Dakotans with the assistance of our local partners solely through Special Funds and at no cost to the state's General Fund.



North Dakota
Housing Finance Agency

PO Box 1535 · Bismarck, ND 58502-1535

INDUSTRIAL COMMISSION
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ROGER JOHNSON, AGRICULTURE COMMISSIONER

MICHAEL A. ANDERSON, EXECUTIVE DIRECTOR

HB 1014

January 23, 2007

North Dakota Housing Finance Agency
Division of the State Industrial Commission
Budget No. 473.0

Additional Program Details provided by Michael Anderson, Executive Director
House Appropriations Sub-Committee

The Housing Finance Agency (HFA) budget, No. 473.0 of HB 1014 is proposing a \$7.6 million increase from the last appropriation. This increase is primarily the result of expansion of existing programs, as well as implementing a number of new initiatives in its efforts to begin addressing the state's housing challenges. The following is a list of those programs/initiatives (see attached program details), their impact on the 2007-2009 Budget, and expected benefits on North Dakota's housing.

FirstHome Program

Purpose: Provides low interest loans to first time and other special population home buyers.

Status: Existing program since 1982

Funding Source: Tax-exempt mortgage revenue bonds (Total Bonds issued HTD \$2.9 billion; Current bonds outstanding \$784 million).

07-09 Biennium Impact: Administrative fees generated from issuing bonds and servicing resulting loans offset administrative costs of the program.

Results/Benefits: Loans generated HTD 29,500 loans totaling \$1.75 billion; Current loans outstanding 10,500 loans totaling \$610 million; Anticipating new loan volume during biennium of 1,500 loans totaling \$150 million annually.

Low Income Housing Tax Credit Program

Purpose: Provides an incentive to the development of affordable rental housing units for low-income tenants.

Status: Existing program since 1986.

Funding Source: Tax Credits authorized under Section 42 of Internal Revenue Service (Total credits allocated HTD \$22,332,705; credits available for 2007 \$2,275,000).

07-09 Biennium Impact: Administrative fees generated from allocation process and compliance reviews offset administrative costs of the program.

Results/Benefits: Generated new construction or rehabilitation of 4,900 low income rental units in 45 cities and has resulted in a private investment in rental housing of more than \$320 million. During the biennium more than \$4.5 million of tax credits will be available that will provide for an additional 750 rental units.



Helping HAND Program

Purpose: Provide rehab grants to low & moderate income households living in single family or multi-family housing.

Status: Existing program since 1993

Funding Source: HFA Reserves

07-09 Biennium Proposal: \$900,000 (Last Biennium - \$500,000)

Expected Results/Benefits: Funds are typically used to leverage other private or public funding. Since 2000 the program has provided over \$1.5 million and assisted 2,074 households complete \$7.7 million in rehab or a 5 to 1 leverage of HFA funds. The 07-09 budget proposal is anticipated to assist approximately 1200 households with \$4.5 million in home improvements.

Rehab Accessibility Program (RAP)

Purpose: Provide accessibility improvements to low & moderate income persons with disabilities living in single family or multi-family housing.

Status: Existing program since 1996

Funding Source: HFA Reserves beginning in 2005

07-09 Biennium Proposal: \$100,000 (Last Biennium - \$25,000)

Expected Results/Benefits: Funds are typically used to leverage other private or public funding. Since 2005 the program has provided \$50,000 and assisted 20 disabled households complete nearly \$500,000 in accessibility improvements or a 10 to 1 leverage of HFA funds. It is anticipated the 07-09 budget proposal will assist 25 households with total project costs of up to \$1 million.

Housing Market Survey Grants

Purpose: Provide a cost sharing incentive for rural communities to do a housing study in anticipation of developing a housing strategy.

Status: Created in 2006

Funding Source: HFA Reserves (Initial Funding - \$50,000)

07-09 Biennium Proposal: Will be funded as needed out of the miscellaneous grants line item which has a proposed increase of \$728,500 over the previous appropriation.

Expected Results/Benefits: The grants will facilitate the community in making an informed decision on developing a housing strategy, which in turn will help demonstrate the feasibility of creating new and/or alternative housing, as well as, the revitalization of its existing housing stock.

Rural Community Housing Development Program

Purpose: Provide low interest loans to rural communities to be used for pre-development and site development costs for new single family and multi-family housing projects.

Status: Created in 2006

Funding Source: HFA Reserves and Borrowings (Initial Funding - \$2,000,000 annually or \$4,000,000 for the biennium).

07-09 Biennium Proposal: \$4,000,000 Loan Loss Reserve Fund. Since projects funded with loan proceeds will be in the development stage and at this time there is no loan details or collection history to rely on in assessing repayment risk, the reserve is being established to maintain our ratings in the national capital markets. Actual loan loss details, performance, and loss experience will be factored into adjusting the reserve as appropriate.

Expected Results/Benefits: The program will improve the feasibility of creating needed new and alternative housing by lowering the cost of project planning and site development, thus, reducing the overall cost of construction, which ultimately will lead to reducing the value gap common in rural areas. New housing will be created allowing rural communities to attract new residents, as well as keep existing residents.

Rural Housing Rehab Loan Program

Purpose: Provide low interest rehab loans to homeowners and multi-family project owners in rural communities.

Status: Created in 2006

Funding Source: HFA Reserves and Borrowings (Initial Funding - \$1,000,000 annually or \$2,000,000 for the biennium).

07-09 Biennium Proposal: \$2,000,000 Loan Loss Reserve Fund. Since projects funded with loan proceeds will be in the development stage and at this time there is no loan details or collection history to rely on in assessing repayment risk, the reserve is being established to maintain our ratings in the national capital markets. Actual loan loss details, performance, and loss experience will be factored into adjusting the reserve as appropriate.

Expected Results/Benefits: The program will provide low cost funding for maintaining the state's aging housing stock in rural areas where such funding is very limited if available at all. It will allow communities to keep existing housing viable, as well as revitalize outdated housing.



North Dakota
Housing Finance Agency

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MICHAEL A. ANDERSON, EXECUTIVE DIRECTOR

HB 1014

February 21, 2007

North Dakota Housing Finance Agency
Division of the State Industrial Commission
Budget No. 473.0

Testimony of Michael Anderson, Executive Director
Senate Appropriations Committee

Budget 473.0 of HB 1014 Section 3, Subdivision 5 covers the revenues associated with the various housing programs administered by the North Dakota Housing Finance Agency (North Dakota Housing) solely through Special Funds. To date North Dakota Housing has not utilized state General Funds of any type since its 1980 creation by initiated measure. The \$41,534,102 executive recommendation for the 2007-09 biennium represents a 21.6 percent increase from the last appropriation. Most notable changes precipitating the \$7.6 million increase include a \$6 million loan loss provision to cover the creation of new programs and a \$1.35 million increase in funding for North Dakota Housing sponsored grant programs, both of which stem from our 2006 Housing Priorities (see attached report). Excluding the new programming and increased grants this budget would represent only a 0.09 percent increase.

In May of last year, North Dakota Housing adopted its 2006 Housing Priorities which are intended to begin addressing the state's housing challenges outlined in the Statewide Housing Needs Assessment published in 2004. The priorities are 1) expanding new housing in developing communities; 2) housing for our aging population; 3) revitalizing our aging housing stock; 4) Native Americans; and 5) Homelessness. New programming already put into place includes 1) a low-interest loan program for predevelopment and site development costs; 2) a low-interest loan program for rehabilitation of rural single- and multi-family properties; 3) the Housing Market Survey Grant program; and 4) the Homeless Technical Assistance Grant program (see attached for details). The loans generated under the first two items are expected to be mostly second mortgages. Since at this time there are no loan details or collection history to rely on for assessing risk, we are establishing the loan loss reserve in order to maintain our status/rating in the national capital markets. Maintaining our ratings is essential to keeping our cost of funds with respect to issuing bonds as low as possible.

With respect to priority item three above, we have nearly doubled our funding for our Helping HAND and Rehab Accessibility Program (RAP) programs, the latter targeted to the disabled. This budget also contains a \$1 million provision for additional funding of existing grant programs, as well as new grant programming that may be needed as we continue to work on our priorities during the upcoming biennium.

To carry out the new initiatives and expanded programming resulting from the aforementioned priorities, we have created a new Planning and Housing Development Division. The Division will be staffed utilizing existing authorized FTE's. Some existing staff was reassigned. Two previously unutilized authorized FTE's are also earmarked for the Division and will be filled during the upcoming biennium.



Presently, North Dakota Housing has a total of 43 authorized FTE's. This budget is not requesting an increase. Currently, we have four vacant FTE's all of which are in the process of being refilled.

North Dakota Housing's existing housing programs are briefly described in the attached program summary. Nearly all of the programs involve partnerships with other entities in their delivery to program beneficiaries. These partnerships include lenders, realtors, homebuilders, property developers, community action agencies, regional councils, apartment owners, non-profit organizations, and other state and federal agencies.

Funding of North Dakota Housing programs is derived primarily from revenue bonds, federal funds, or agency and bond indenture assets. Total bonds issued to date are \$2,947,774,741. Provisions are included for the associated administrative costs or administrative fees are assessed participants as appropriate. The assets, liabilities, and revenues resulting from bond issues of North Dakota Housing are not appropriated as they are not public funds. They are held in trust by our bond trustees. As of October 31, 2006, assets of these various bond funds were approximately \$781 million and liabilities totaled \$722 million. HFA costs of administering these bond financed programs are accrued on a monthly basis and received from the Trustees.

North Dakota Housing's largest homeownership program, the FirstHome loan program, has funded approximately \$1.75 billion in loans representing more than 29,500 homeowners since the program's inception. New loan production during 2006 was approximately 1,300 loans representing \$125 million of loan principal. We are anticipating the loan volume during the biennium will average \$150 million per year. At present, there are more than 10,500 loans totaling \$610 million in principal balance remaining outstanding.

North Dakota Housing also administers the Low Income Housing Tax Credit program, which was created by the U.S. Congress in 1986. These tax credits create an incentive for the development of rental housing for low-income occupants. Currently, the program is the only viable means available for the creation of affordable rental housing in North Dakota. Through a competitive process, we allocate the annual housing tax credit authority to project applicants, and we perform the required compliance monitoring for the total compliance period which can extend to 30-years. To date, these tax credits have provided for the new construction or rehabilitation of nearly 4,900 units in 45 cities across North Dakota and have resulted in a private investment in rental housing in the state of more than \$320 million. In 2007, \$2,275,000 in tax credits is available for allocation.

North Dakota Housing's largest appropriated funds activity involves the administration of federally funded U.S. Department of Housing & Urban Development (HUD) housing programs. Total disbursements for grants is projected at \$27,319,800 of which \$24,439,800 is for rental assistance for more than 4,600 very low-income tenants in 154 projects located throughout the state. In addition, approximately \$870,000 will also be available for the DCA and HARP programs (see attached program summary).

The 2007-2009 biennium budget, as with past agency budgets, includes a provision which appropriates any additional or unanticipated funds that may become available to North Dakota Housing during the biennium (see Section 5 of HB 1014). Previously, we have relied on this provision to apply for federal funds for new programs that became available following the legislative session. Continuing this provision during the upcoming biennium will provide North Dakota Housing critical flexibility to react to new housing challenges as we continue to work on the aforementioned housing priorities.

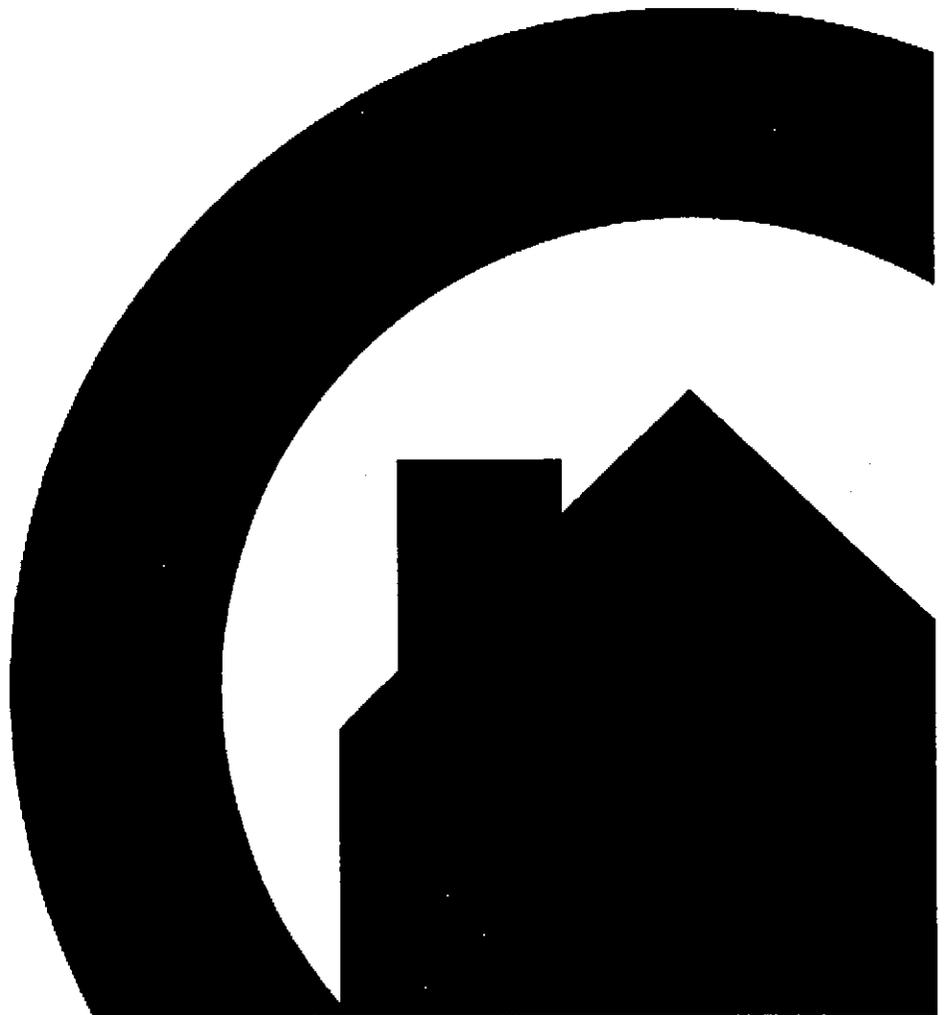
Section 10 of the bill provides a transfer of \$69,259 during the biennium from North Dakota Housing to the Industrial Commission for the purpose of defraying Industrial Commission administrative costs.

Again, North Dakota Housing is not a state General Fund agency. Its programs and operations are administered under close scrutiny from a six-member Advisory Board, comprised of housing industry representatives that meets monthly and provides recommendations to the Industrial Commission. To date it operates solely on the revenues generated from the administration of the various housing programs in a manner similar to a profit-motivated business in order to produce net revenues and to fund the credit requirements of our financing programs.

North Dakota Housing's financial reserves have always been utilized to provide a credit enhancement for our bond issuance activities. As evidenced by the earlier discussion on the increased budget items and the housing priorities, we intend to put our financial reserves further to work in developing and expanding our housing programs to meet the state's housing challenges through direct funding and leveraging. Currently, North Dakota Housing enjoys a bond rating of Aa1 and an "Issuer" rating of A2 from Moody's. We will be proceeding cautiously so as not to jeopardize these ratings.

Finally, North Dakota Housing provides affordable residential real estate financing and housing assistance to thousands of North Dakotans with the assistance of our local partners primarily through Special Funds and to date at no cost to the state's General Fund.

● **2006**
NDHFA
Housing
Priorities



2006 North Dakota Housing Finance Agency Housing Priorities

The 2006 Housing Priorities proposal is intended to begin addressing the housing challenges outlined in the Statewide Housing Needs Assessment conducted by the North Dakota State Data Center in 2004. In addition to the needs assessment, these priorities take into account input from major housing professionals in North Dakota, the North Dakota Housing Finance Agency's (NDHFA) staff priorities, and discussions with the Agency's Advisory Board.

NDHFA's goal is to establish priorities that could be successfully completed or have measurable successes within one to two years. Each priority has more than one initiative listed. Where appropriate, a working group will be created to assist in refining listed initiatives when necessary to achieve targeted results; defining additional initiatives along the way; and to play a role in accomplishing the initiative(s) themselves. Working group members will be selected by the NDHFA with consultation from our Advisory Board and other housing professionals.

It is anticipated the core working group participants will include, but not be limited to, representatives from NDHFA, North Dakota Department of Commerce-Division of Community Services, USDA Rural Housing, Housing and Urban Development, Fannie Mae, the North Dakota Indian Affairs Commission, and CommunityWorks North Dakota. Individual working groups may vary depending on the initiative.

The priorities are listed in order of importance, with number one being the most important. The initiatives under each priority were also ranked with the first objective listed given the highest priority. The NDHFA does not have the capacity to take on each and every objective from the onset. The Agency intends to begin working on the initiatives with the highest priority first. Other initiatives will be worked on as time and resources become available. An annual review and update of the housing priorities will be made.

1. Expanding New Housing for Developing Communities

Many medium and small (rural) communities are experiencing a shortage of housing mostly due to, but not limited to, economic successes. These communities lack the expertise necessary to be able to define their specific housing needs, develop necessary housing projects, or see a housing project through completion. Additionally, many lack the financial resources to keep the housing affordable, attract developers, or overcome certain financial and value gap. NDHFA staff has identified several initiatives upon which the Agency could focus.

Technical Assistance This would involve three related efforts. The first would be to create models or schematics for the appropriate process. These models or schematics could assist each community with creating its own blueprint for determining and addressing its housing needs. The second effort would be to organize a Statewide Technical Assistance Team (STAT team) that would: 1) Go on-site to assist a community in developing its blueprint, 2) Continue to provide necessary support throughout the process, and 3) Develop a proactive educational forum or forums to orientate all communities on anticipating their housing needs.

Financial Gap Most rural communities lack affordable funding resources for project start-up costs, site development, construction, etc. A low interest bridge/interim loan program could be created to assist in the development and construction of affordable housing in rural communities. The loan would be repaid as the homes are sold (single family) or permanent financing is closed (multifamily).

Rural Value Gap Previous efforts to solve rural value gap have been largely unsuccessful. There is no easy solution for the gap between the cost of creating and the market value of rural housing. Compromises in underwriting standards with respect to the property can have some measurable success as long as there is a viable secondary market for the first mortgage loans. NDHFA will explore expanding secondary market options.

2. Housing for the Aging Population

There are several possible avenues to be considered with respect to elderly housing. They included:

Owner-Occupied Aging In Place Many seniors prefer to remain in the homes they own. However, they may lack a monthly income for this to be a viable option. There have been several inquiries recently about Reverse Equity Mortgages, including lenders asking if the NDHFA could offer such a program. These mortgages, utilizing the homeownership equity, can provide a monthly income to the elderly homeowner. The Agency will explore the feasibility and demand for a Reverse Equity Mortgage program.

Empty Nesters Also referred to as pre-elderly or pre-retirement, these households are often looking at life-style changes that involve changing their housing situation. This may mean downsizing and/or different housing environment such as condo/townhouse or rental unit. If the housing they are looking for is not available, they may move out of their current community or even out of state. NDHFA will explore what role it could play in developing a housing niche for empty nesters.

Assisted Living There continues to be a debate as to whether there are enough beds for those in need of assisted living. NDHFA will explore what role it could play in encouraging the creation of additional affordable capacity. There has been some success in using the Low Income Housing Tax Credit (LIHTC) program in this venue, although bringing in services seems to be the biggest hurdle.

Congregate Housing Like assisted living, congregate housing could play a significant role in meeting the state's growing demand for elderly housing. The Agency will explore what role it could play in developing affordable congregate housing.

3. Aging Housing Stock

Due to the challenges of building new housing, rural areas of the state are forced to continue to rely heavily on existing aging housing stock. Much of this housing needs to be updated and/or maintained in order to remain viable. There are several avenues to be considered with respect to rehabilitation/revitalization of the state's housing stock.

Single Family NDHFA will explore expanding and making more accessible our special rehab programs — Helping HAND, RAP, and HARP. Additional funds will be dedicated to our single family program with an emphasis on lower income households. In addition, the Agency will explore creating a revolving low interest rehab loan program for moderate income households that could be either soft second and/or amortizing mortgages.

Multifamily The LIHTC program currently has a ten percent set-a-side for preservation of existing affordable housing properties. The Agency will explore whether this set-a-side is sufficient. Also like for single family, the NDHFA could explore creating a revolving low interest rehab/revitalization loan program for rehab projects for affordable multifamily housing projects. It has also been suggested that some of these rural projects could become more viable if converted to other uses, such as assisted living facilities.

4. Native Americans

Housing on the state's Indian reservations has been called an anomaly. Although some of them are realizing significant successes in creating housing for tribal members, others continue to struggle to make progress. All have a long way to go in meeting their housing needs. One could argue there is not sufficient funding for Native American housing needs, but resources that are or could be available to the reservations are plentiful. Therefore, in addition to the initiatives undertaken to provide housing assistance in other parts

of the state, an emphasis will be placed on providing technical assistance that will aid the tribes in more efficient and timely resource utilization.

Technical Assistance The Agency will explore a technical assistance initiative similar to the suggestion in priority number one.

Education The broad observation is that there continues to be a significant need not only for homebuyer education, but for financial literacy in general within the state's reservations. If this remains true, the Agency should posture itself and offer necessary resources and services to substantially address this shortcoming.

5. Homelessness Including Ex-Criminals

Even though this priority is an activity NDHFA is already involved in, because it is ranked high in the priorities listed in the needs assessment, it is articulated in the NDHFA's 2006 Housing Priorities. The Agency's efforts with respect to this priority will be to continue to actively participate in the current initiatives already in progress and to be committed to support whatever initiatives come out of these groups. Current initiatives include:

Governor's North Dakota Interagency Council on Homelessness NDHFA is an active participant in the Council which is charged with creating a ten-year plan for eliminating chronic homelessness. One of the initiatives being discussed by the Council that is gaining broad support is the creation of a statewide Housing Trust Fund that would supply critical funding resources to this effort, as well as similar needs involving other special populations. Although the Agency should not take the lead on lobbying for a trust fund, it could provide support and resources for that effort.

Transition From Prison to Community Initiative A committee, including an NDHFA staff person, has been meeting and discussing the problem of preventing ex-criminals from becoming homeless upon release from prison. These individuals have difficulty finding employment and, depending on the nature of their crime, are not eligible for assisted housing.

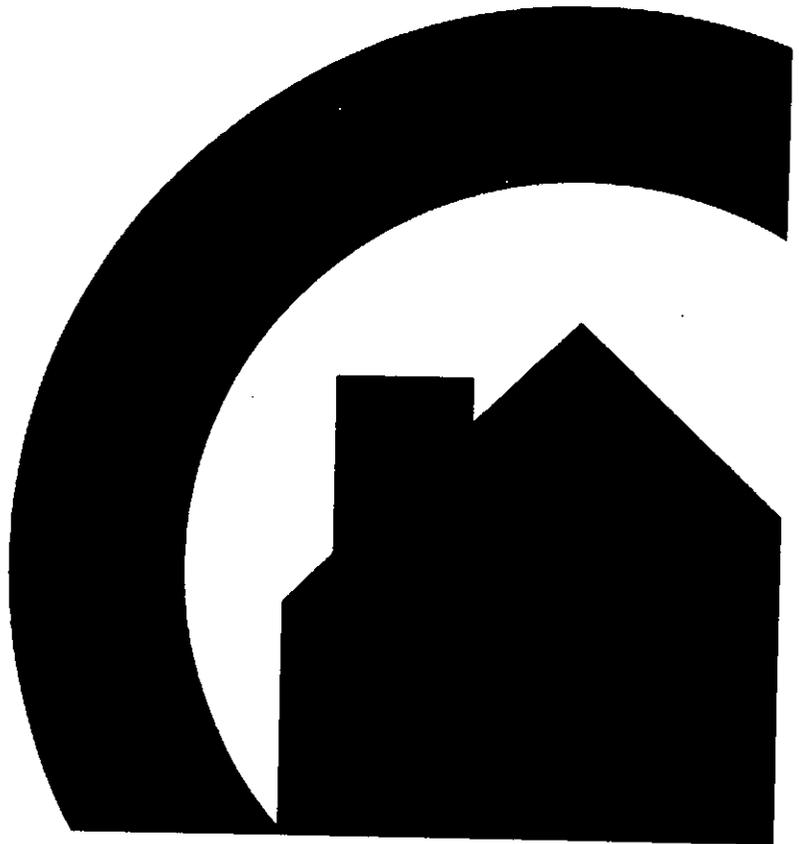


North Dakota
Housing Finance Agency

Michael Anderson, Executive Director
1500 East Capitol Avenue, Bismarck, ND 58501
(800) 292-8621 · www.ndhfa.org · info@ndhfa.org

Program Summary

North Dakota Housing Finance Agency



NORTH DAKOTA HOUSING FINANCE AGENCY

The North Dakota Housing Finance Agency (NDHFA) is a public financial institution dedicated to making housing affordable for all North Dakotans. The Agency facilitates affordable mortgage financing, assures the continued availability of low-income rental housing, and seeks to provide for the state's changing housing needs.

The Industrial Commission of North Dakota, consisting of the Governor, Attorney General and Agriculture Commissioner, oversees the Agency with advice from a six-member citizen advisory board.

HOMEOWNERSHIP DIVISION

CommunityPartners

CommunityPartners provides a financing incentive to first-time homebuyers purchasing homes through community or non-profit sponsored housing developments.

Downpayment and Closing Cost Assistance (DCA)

The zero-interest, deferred payment loans available through the Downpayment and Closing Cost Assistance program help lower income first-time homebuyers meet their out-of-pocket cash requirements.

FirstHome™

Through NDHFA's standard mortgage program, known as FirstHome, North Dakota's low-to moderate-income first-time buyers receive a reduced interest rate mortgage when purchasing a home.

Habitat for Humanity Loan Purchase

NDHFA purchases and services loans made by local Habitat for Humanity affiliates, in turn supporting the organization's mission to eliminate poverty housing and homelessness.

HomeAccess

With the HomeAccess program, permanently disabled, elderly and single-parent households that are not first-time buyers can qualify for reduced-interest mortgage loans.

HomeKey

With HomeKey, lower income first-time buyers are able to enhance their purchasing power by receiving a break on NDHFA's already reduced mortgage interest rate.

Homeownership Acquisition and Rehabilitation Program (HARP)

The Homeownership Acquisition and Rehabilitation Program is a cooperative effort of the NDHFA and local Community Action Agencies that increases homeownership opportunities for low-income families and improves neighborhoods by rehabilitating distressed properties.

HOMEOWNERSHIP DIVISION (continued)

HomeSmart

HomeSmart is a grant program administered by the Agency that encourages first-time buyers to attend classes that prepare them for successful homeownership.

North Dakota Roots

The North Dakota Roots homeownership incentive program provides new and returning North Dakotans with either a below-market interest rate loan or a market rate loan that includes downpayment and closing cost assistance.

Rural Real Estate Mortgage (RREM)

Under the Rural Real Estate Mortgage program, NDHFA offers rural lenders access to a secondary mortgage market thus increasing homeownership opportunities for non first-time buyers in North Dakota's smaller communities.

Start

The Start program offers low- to moderate-income first-time buyers both an affordable first mortgage and assistance with their out-of-pocket cash requirements.

PLANNING AND HOUSING DEVELOPMENT DIVISION

Helping Housing Across North Dakota (Helping HAND)

Helping HAND grant dollars support the housing needs of North Dakota's lower-income families by offering a funding source to targeted single and multifamily housing rehabilitation programs statewide.

Housing Market Survey Grants

The Housing Market Survey Grant program offers a cost-sharing incentive to rural communities to develop a local housing strategy by helping to pay for an analysis of their current and future housing needs.

Low Income Housing Tax Credits (Housing Credits)

The Low Income Housing Tax Credit program provides incentives for the production and rehabilitation of affordable rental housing by compensating the property owner for charging rents that are generally lower than would be feasible without the credits.

Rehab Accessibility Program (RAP)

Rehab Accessibility Program grant dollars address accessibility issues in single or multifamily properties occupied by low-income individuals with physical disabilities.

PLANNING AND HOUSING DEVELOPMENT DIVISION (continued)

Rural Community Housing Development

The Rural Community Housing Development program offers rural North Dakota communities low-cost financing for predevelopment soft costs, land acquisition, site development and construction financing.

Rural Housing Rehabilitation Loan

The Rural Housing Rehabilitation Loan program provides a low-cost revolving loan fund for the rehabilitation of existing housing stock located in areas with less than 20,000 population.

RENTAL MANAGEMENT DIVISION

Affordable Housing Disposition Program (AHDP)

The Resolution Trust Corporation properties sold under the Affordable Housing Disposition Program in North Dakota are monitored by NDHFA. The Agency disseminates information about properties available and does compliance monitoring of properties sold with deed restrictions that must be maintained as affordable housing.

Contract Administration

NDHFA administers contracts for HUD project-based Section 8 housing developments located throughout North Dakota. The Agency's primary role is the regulatory oversight of these low-income multifamily projects and the distribution of HUD rental assistance funds.

Moderate Rehabilitation

The HUD Section 8 Moderate Rehabilitation program enables North Dakota's low-income households to afford safe and decent housing through the use of rent subsidies. NDHFA determines applicant eligibility, provides regulatory oversight of the properties and distributes HUD rental assistance funds.



North Dakota Housing Finance Agency

1500 East Capitol Ave
PO Box 1535
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North Dakota
Housing Finance Agency

PO Box 1535 · Bismarck, ND 58502-1535

INDUSTRIAL COMMISSION
JOHN HOEVEN, GOVERNOR
WAYNE STENEHJEM, ATTORNEY GENERAL
ROGER JOHNSON, AGRICULTURE COMMISSIONER

MICHAEL A. ANDERSON, EXECUTIVE DIRECTOR

HB 1014
North Dakota Housing Finance Agency
Division of the State Industrial Commission
Budget No. 473.0
Senate Appropriations Committee

Program Details

FirstHome Program

Purpose: Provides low interest loans to first time and other special population home buyers.

Status: Existing program since 1982

Funding Source: Tax-exempt mortgage revenue bonds (Total Bonds issued HTD \$2.9 billion; Current bonds outstanding \$784 million).

07-09 Biennium Impact: Administrative fees generated from issuing bonds and servicing resulting loans offset administrative costs of the program.

Results/Benefits: Loans generated HTD 29,500 loans totaling \$1.75 billion; Current loans outstanding 10,500 loans totaling \$610 million; Anticipating new loan volume during biennium of 1,500 loans totaling \$150 million annually.

Low Income Housing Tax Credit Program

Purpose: Provides an incentive to the development of affordable rental housing units for low-income tenants.

Status: Existing program since 1986.

Funding Source: Tax Credits authorized under Section 42 of Internal Revenue Service (Total credits allocated HTD \$22,332,705; credits available for 2007 \$2,275,000).

07-09 Biennium Impact: Administrative fees generated from allocation process and compliance reviews offset administrative costs of the program.

Results/Benefits: Generated new construction or rehabilitation of 4,900 low income rental units in 45 cities and has resulted in a private investment in rental housing of more than \$320 million. During the biennium more than \$4.5 million of tax credits will be available that will provide for an additional 750 rental units.



Helping HAND Program

Purpose: Provide rehab grants to low & moderate income households living in single family or multi-family housing.

Status: Existing program since 1993

Funding Source: HFA Reserves

07-09 Biennium Proposal: \$900,000 (Last Biennium - \$500,000)

Expected Results/Benefits: Funds are typically used to leverage other private or public funding. Since 2000 the program has provided over \$1.5 million and assisted 2,074 households complete \$7.7 million in rehab or a 5 to 1 leverage of HFA funds. The 07-09 budget proposal is anticipated to assist approximately 1200 households with \$4.5 million in home improvements.

Rehab Accessiblilty Program (RAP)

Purpose: Provide accessibility improvements to low & moderate income persons with disabilities living in single family or multi-family housing.

Status: Existing program since 1996

Funding Source: HFA Reserves beginning in 2005

07-09 Biennium Proposal: \$100,000 (Last Biennium - \$25,000)

Expected Results/Benefits: Funds are typically used to leverage other private or public funding. Since 2005 the program has provided \$50,000 and assisted 20 disabled households complete nearly \$500,000 in accessibility improvements or a 10 to 1 leverage of HFA funds. It is anticipated the 07-09 budget proposal will assist 25 households with total project costs of up to \$1 million.

Housing Market Survey Grants

Purpose: Provide a cost sharing incentive for rural communities to do a housing study in anticipation of developing a housing strategy.

Status: Created in 2006

Funding Source: HFA Reserves (Initial Funding - \$50,000)

07-09 Biennium Proposal: Will be funded as needed out of the miscellaneous grants line item which has a proposed increase of \$728,500 over the previous appropriation.

Expected Results/Benefits: The grants will facilitate the community in making an informed decision on developing a housing strategy, which in turn will help demonstrate the feasibility of creating new and/or alternative housing, as well as, the revitalization of its existing housing stock.

Rural Community Housing Development Program

Purpose: Provide low interest loans to rural communities to be used for pre-development and site development costs for new single family and multi-family housing projects.

Status: Created in 2006

Funding Source: HFA Reserves and Borrowings (Initial Funding - \$2,000,000 annually or \$4,000,000 for the biennium).

07-09 Biennium Proposal: \$4,000,000 Loan Loss Reserve Fund. Since projects funded with loan proceeds will be in the development stage and at this time there is no loan details or collection history to rely on in assessing repayment risk, the reserve is being established to maintain our ratings in the national capital markets. Actual loan loss details, performance, and loss experience will be factored into adjusting the reserve as appropriate.

Expected Results/Benefits: The program will improve the feasibility of creating needed new and alternative housing by lowering the cost of project planning and site development, thus, reducing the overall cost of construction, which ultimately will lead to reducing the value gap common in rural areas. New housing will be created allowing rural communities to attract new residents, as well as keep existing residents.

Rural Housing Rehab Loan Program

Purpose: Provide low interest rehab loans to homeowners and multi-family project owners in rural communities.

Status: Created in 2006

Funding Source: HFA Reserves and Borrowings (Initial Funding - \$1,000,000 annually or \$2,000,000 for the biennium).

07-09 Biennium Proposal: \$2,000,000 Loan Loss Reserve Fund. Since projects funded with loan proceeds will be in the development stage and at this time there is no loan details or collection history to rely on in assessing repayment risk, the reserve is being established to maintain our ratings in the national capital markets. Actual loan loss details, performance, and loss experience will be factored into adjusting the reserve as appropriate.

Expected Results/Benefits: The program will provide low cost funding for maintaining the state's aging housing stock in rural areas where such funding is very limited if available at all. It will allow communities to keep existing housing viable, as well as revitalize outdated housing.



North Dakota Housing Finance Agency Helping HAND 2007 Program Criteria

1. Funds are intended to support new or existing single family or multi-family housing rehabilitation programs (inclusive of homeless shelters). Funds may not be used for an organization's general operating expenses. Existing housing projects with project-based rental assistance are not eligible to receive funding.
2. The allocation plan does not represent an entitlement to funds. Eligible Helping HAND Recipients must submit an application for an allocation of funds. If insufficient applications are received for a set-aside, the set-aside funds will be made available to other eligible Helping HAND Recipients.
3. Only one application per Habitat/Reservation/CAA/Rebuilding Together will be approved.
4. Helping HAND funds must be used to address housing needs of families or individuals with household incomes that do not exceed 80 percent of the HUD median income for the county in which the property is located.
5. Matching funds, from a non-NDHFA source, of at least 25 percent of the total project costs are required.
6. Helping HAND funds may be used only for the purpose stated in the Helping HAND Recipient's application for approval, unless a change is approved by NDHFA.
7. Community Action Agencies and Native American grantees are encouraged to use funding to benefit the largest number of households.
8. Grantees may request reimbursement for costs incurred on a monthly basis by submitting a Request for Reimbursement form. Before final disbursement is completed Grantees must submit a narrative description of their project(s).
9. NDHFA reserves the right to audit the use of Helping HAND funds.
10. Funds must be committed to eligible projects within twelve months of receiving notice of the award (herein the "Initial Grant Period"). Helping Hand Funds not committed by the end of the Initial Grant Period will be reallocated to other Helping Hand Recipients who have fully committed their initial allocation; can demonstrate a need for additional funds; and apply for reallocated funds. Helping Hand Funds committed during the Initial Grant Period must be expended (The Request for Reimbursement received by the Agency) no later than six months from end of the Initial Grant Period. Reallocated funds will be subject to a new Initial Grant Period and funds expended requirement.
11. Final total project costs must be submitted upon project completion.



North Dakota Housing Finance Agency Rehab Accessibility Program (RAP)

GENERAL PROVISIONS

Grant funds can only be used to provide accessibility improvements for people with physical disabilities. Examples of qualifying improvements include, but may not be limited to, ramps, door levers, walk-in/roll-in showers, grab bars and widening doorways.

Eligibility is limited to households with incomes not exceeding 80 percent of HUD county median income adjusted for family size.

Grant funds can be used to improve rental property or single family homes. Project costs for improving rental properties that is not directly attributable to lower-income disabled households may be pro-rated for grant eligibility based on the percentage of eligible units to total project units.

Grants will be limited to one per rental property or single-family home in a calendar year. NDHFA reserves the right to require income verification be completed regarding beneficiaries of the grant proceeds.

The maximum RAP grant is \$4,000. Matching funds of at least 25 percent of the total project costs is required.

Reimbursement of costs for work completed prior to application approval is not an eligible use of grant funds

Application

Applications are available at NDHFA. Interested parties may contact NDHFA, at (701) 328-8080, (800) 292-8621, (800) 366-6888 (TTY), info@ndhfa.org or by mail at NDHFA, PO Box 1535, Bismarck, ND 58502-1535. Evidence of project cost estimates and income eligibility must accompany the application.

COMPLIANCE

Recipient Requirements

Grant funds will be disbursed after submission of a certification of project completion by the grantee. The certification must be received by NDHFA within 30 days of project completion and include evidence of actual project costs. Final award is contingent upon costs meeting those included in the application.

Modification to the RAP Program

In order to address unforeseen circumstances, NDHFA reserves the right to waive certain program requirements or administrative procedures including, but not limited to, the maximum grant amount and the match requirement. All waivers must be approved by the NDHFA Executive Director.



North Dakota Housing Finance Agency Housing Market Survey Grant Criteria

The Housing Market Survey Grant Program is a cost-sharing incentive program for rural communities to develop a local housing strategy. A housing strategy or plan is essential for a community striving to maintain or expand its population. This is true whether the community is pursuing economic and workforce development, or whether it is just trying to maintain its population by keeping aging housing stock viable and offering alternative housing solutions for its citizens. The critical first step to establishing a successful housing strategy is to conduct a market survey/analysis to determine the status of existing housing as well as, future housing needs.

1. Eligible applicants are communities or non-profit organizations representing or working in partnership with communities.
2. Eligible communities must meet the USDA Rural Development definition of rural (populations of 20,000 or less).
3. The maximum grant will be 50 percent of the out-of-pocket costs of the market survey, not to exceed \$5,000.
4. Applicant should submit written notification to the North Dakota Housing Finance Agency (NDHFA) indicating intent to conduct a market survey and request participation in the Housing Market Survey Grant Program by completing the **Housing Market Survey Grant Application** (SFN TBA).
5. NDHFA will issue a written commitment letter, as appropriate. Market survey should be completed within six months from the date of approval to proceed.
6. Upon completion of the market survey, the eligible applicant will submit the **Housing Market Survey Grant Request for Payment** (SFN TBA).
7. The request for payment should be made within 60 days following completion of the survey.

For more information:

Jolene Kline, Director of Planning and Housing Development
North Dakota Housing Finance Agency
1500 East Capitol Ave.
PO Box 1535
Bismarck, ND 58502

Phone: (701) 328-8072 or (800) 292-8621
Email: jkline@ndhfa.org



North Dakota Housing Finance Agency Rural Community Housing Development Program

- Funding Source: \$2,000,000 from HFA Reserves
- Type of Assistance: Low Interest Revolving Loan Fund
- Pilot Period: Earlier of one year or funds utilized
- Eligible Borrower: Communities located within an area meeting the USDA Rural Development definition of rural (population of less than 20,000) and non-profit organizations working in partnership with a community located within an area meeting the USDA Rural Development definition of rural. The Agency will seek a local lender or a non-profit to originate and sell the loan to the Agency.
- Maximum Loan Amount: 75% of project cost not to exceed \$200,000. If the loan purpose includes construction financing and there is no permanent loan take out commitment, the maximum loan amount will be 50% of project cost not to exceed \$200,000.
- Term of Loan: Maximum three years with, extensions available on a case by case basis and at the sole discretion of the Agency.
- Interest Rate: 4.0%
- Proceeds Usage: Planning and project design, including, soft costs such as engineering, architectural, legal, title work, etc.; land acquisition; site development, and construction financing.
- Repayment Terms: Periodic (quarterly, semi-annual, or annual) interest payments only. Principal repayment tied to housing units placed into service (i.e. as single family lots are sold or the permanent financing for multi-family project or single family home is closed.)
- Collateral: First lien preferred, but, no less than second lien.
- Underwriting: The Agency will establish underwriting and documentation standards that reserves its right to determine the long term viability of the project and reasonable assurances that loan will be repaid.



North Dakota Housing Finance Agency Rural Housing Rehab Loan Program

- Funding & Source:** \$1,000,000 from HFA Reserves
- Type of Assistance:** Low Interest Revolving Loan Fund
- Pilot Period:** One year
- Eligible Borrower:** Homeowners with household income of 100% of area medium income or less and located within an area meeting the USDA Rural Development definition of rural (population of less than 20,000). Owner, general partner or other authorized agent for multi-family projects located within an area meeting the USDA Rural Development definition of rural.
- Maximum Loan Amount:** For single family 75% of project costs not to exceed \$25,000.
For multi-family 75% of project costs not to exceed \$100,000.
- Term of Loan:** For single family a maximum of 20 years or minimum payment of \$50.
For multi-family projects a maximum of 25 years or minimum payment of \$150. In the case of multi-family the loan may include a 5 year balloon and provisions for renewal.
- Interest Rate:** 4.0%
- Proceeds Usage:** Any improvement to the property to a decent, safe and sanitary condition, requiring more than routine or minor repairs or improvements that may vary in degree from gutting and extensive reconstruction to cosmetic improvements combined with cure of substantial accumulation of deferred maintenance, the construction of additions, the rehabilitation of an attached or detached garage, driveway, and sidewalks, improvements to achieve energy efficiency. Ineligible uses include the construction or rehab of sheds, storage facilities or other buildings or facilities attached to or adjacent to the property, swimming pools, decks, patios, saunas, spas or other purely recreational facilities.
- Repayment Terms:** Monthly amortization. See also Terms of Loans.
- Collateral:** No less than second lien on subject property preferred (exceptions at sole discretion of the Agency).
- Underwriting:** The Agency will establish underwriting and documentation standards that reserves its right to determine the long term viability of the project and reasonable assurances that loan will be repaid.

For More Information

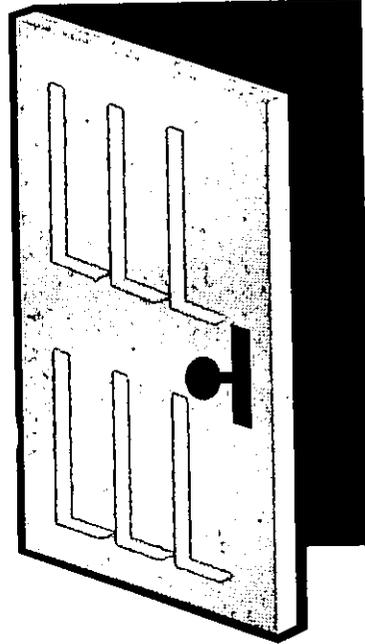
Interested parties may contact NDHFA for additional information and an application.

Inquiries can be sent to:

North Dakota Housing Finance Agency
1500 East Capitol Avenue
PO Box 1535
Bismarck, ND 58502-1535

Ph: (701) 328-8080
(800) 292-8621 (Toll Free Nationwide)
(800) 366-6888 (TTY)

www.ndhfa.org or info@ndhfa.org



Open the Door to
Affordable Housing
with the
**Low Income Housing
Tax Credit**

NDHFA makes no representation concerning any tax consequences resulting from Housing Credit allocations and accepts no responsibility for any adverse consequences to the owner under the Internal Revenue Code. Compliance with the law and regulations is, and will remain, the owner's responsibility.

The laws and regulations governing the Low Income Housing Tax Credit are complex. This brochure contains only general information. It is not comprehensive and should not be relied upon as an authoritative work.

NDHFA does not discriminate against any person on the basis of race, color, sex, national origin, religion, age, familial status or disability. This brochure may be available in other formats upon request.



Equal Housing
Opportunity

3/06



North Dakota
Housing Finance Agency

History and Purpose

The 1986 Tax Reform Act created the Low Income Housing Tax Credit (Housing Credit) as an incentive to encourage the construction and rehabilitation of rental housing for lower income households. Individuals, corporations, L.L.C.s, partnerships and other legal entities may benefit from the Housing Credit, subject to applicable restrictions.

Beginning in 2002, each state may allocate housing credits in an amount not to exceed the greater of \$1.90 per resident or \$2 million, adjusted for inflation. The North Dakota Housing Finance Agency (NDHFA) administers North Dakota's allocation.

How the Housing Credit Works

The Housing Credit offers a reduction in federal income tax liability to owners of rental housing projects who are willing to set aside a minimum portion of the project units for households earning 60 percent or less of area median gross income. Developers of Housing Credit projects typically syndicate or form limited partnerships, involving investors who are willing to provide equity capital in return for the economic benefits (including Housing Credits) generated by the project.

The amount of Housing Credit an owner receives is determined at the time the Housing Credit is allocated. The Housing Credit amount is based on several factors including depreciable development costs, type of project (new construction, rehabilitation or acquisition), percentage of housing units designated for low income use, the allocating agency's evaluation and project financing.

Housing Credits may be claimed annually for a ten-year period. In order to claim Housing Credits, the owner must comply with governing rules and regulations (Section 42 of the Internal Revenue Code) throughout the applicable compliance period.

Eligible Projects

Types of rental housing projects that qualify under the Housing Credit guidelines include: new construction, substantial rehabilitation and acquisition of existing properties that will be substantially rehabilitated. The size of the project can vary from a detached, single family home being used as a rental unit to a large apartment complex.

In order to be eligible for the Housing Credit, housing projects must meet the following conditions:

1. The project must be:
 - ◆ In conformance with the NDHFA Allocation Plan.
 - ◆ A permanent residential structure that can be occupied on a year-round, nontransient basis.
 - ◆ In compliance with applicable federal, state and local building and health codes.
 - ◆ Subject to an extended, low-income housing commitment.
 - ◆ Advertised to the public as required by federal, state and local fair housing laws and statutes.
2. The project must have either:
 - ◆ A minimum of 20 percent of the units rent restricted and available to tenants whose income does not exceed 50 percent of the area median gross income, or
 - ◆ A minimum of 40 percent of the units rent restricted and available to tenants whose income does not exceed 60 percent of the area median gross income. Income limits are defined annually by the US Department of Housing and Urban Development (HUD) based on family size and project location.

Limits on Housing Credit Use

The amount of Housing Credits that may be claimed during each year of the credit period is subject to the rules of general business credit, passive loss restrictions and alternative minimum tax provisions. These rules limit the amount of annual credit individuals may claim. Many corporations, however, are not subject to the restrictions and may use larger amounts of Housing Credits.

Before applying for a Housing Credit allocation, developing a project, or investing in a low income housing tax credit project, it is recommended that a qualified accountant and/or legal counsel be consulted.

Tax-Exempt Bond Financing

Projects which have 50 percent or more of the eligible basis of buildings and land financed by tax-exempt bonds may receive a 30 percent PVC if they qualify under the program regulations and meet the requirements of the North Dakota Housing Finance Agency Allocation Plan. Credits received by these projects are in addition to North Dakota's annual allocation authority.

Using Housing Credits with HUD Programs

Proposed projects using both Housing Credits and HUD assistance may be subject to a Federal Subsidy Review. This is to ensure that no more assistance than necessary is provided to a project which receives HUD subsidies. Under this process, projects are subject to subsidy layering guidelines established by HUD.

Housing Credit Calculation Examples

(1) A 24-unit project at a cost of \$1,500,000 with conventional financing and with all of the apartments for low-income tenants (70% PVC):

Total Development Costs	\$ 1,500,000
Less Land & Federal Grants	<u>(100,000)</u>
Eligible Basis	\$ 1,400,000
Applicable Fraction (Low Income Units Divided by Total Units: 24/24)	x <u>100%</u>
Qualified Basis (Eligible Basis x Applicable Fraction)	\$ 1,400,000
Applicable Housing Credit Percentage (In this example, 70% PVC or 8.5%* annually)	x <u>8.5%</u>
Maximum Annual Housing Credit** (Qualified Basis x Applicable Housing Credit Percentage)	\$ 119,000
Total Housing Credit over 10-year Credit Period	\$ 1,190,000
Estimated Equity from Syndication of Credits (\$1,190,000 x \$.80)	\$952,000

(2) A 24-unit project at a cost of \$1,500,000 with a federal financing subsidy and all of the apartments reserved for low income tenants (30% PVC):

Total Development Costs	\$ 1,500,000
Less Land & Federal Grants	<u>(100,000)</u>
Eligible Basis	\$ 1,400,000
Applicable Fraction (Low Income Units Divided by Total Units: 24/24)	x <u>100%</u>
Qualified Basis (Eligible Basis x Applicable Fraction)	\$ 1,400,000
Applicable Housing Credit Percentage (In this example, 30% PVC or 3.75%* annually)	x <u>3.75%</u>
Maximum Annual Housing Credit** (Qualified Basis x Applicable Housing Credit Percentage)	\$ 52,500
Total Housing Credit over 10-year Credit Period	\$ 525,000
Estimated Equity from Syndication of Credits (\$525,000 x \$.80)	\$420,000

*Actual percentage will vary depending upon monthly rate published by the IRS. Once the rate is chosen it remains constant throughout the credit period.

**Actual amount of Housing Credit awarded could be less based upon NDHFA analysis of project.

3. The project's low income unit gross rents, including tenant-paid utilities, may not exceed 30 percent of qualifying income limitations. Maximum gross rents allowed under the program vary by area and the number of bedrooms in a unit. These rents are based upon the annual income limits published by HUD.
4. The project must be maintained as low income housing for an initial 15-year compliance period and be subject to an extended use period of 15 additional years or more, depending upon the owner's commitment. The extended use period provides for termination, contingent upon a sales provision outlined in the Tax C

Housing Credit Allocation

Prior to allocating Housing Credits, each state is required to develop an Allocation Plan which provides a competitive process for awarding Housing Credits to projects addressing the states' low income housing needs. The plan, which is reviewed and updated each year, also includes other selection criteria, including federally mandated requirements.

Federal regulations require that at least 10 percent of each state's Housing Credit be set aside for qualified nonprofit organizations that are tax-exempt under Section 501(c)(3) or 501(c)(4) of the Internal Revenue Code. Providing low income housing must be one of the organizational purposes of the qualified nonprofit. The nonprofit also must have ownership and materially participate in the development and management of the project during the applicable compliance period.

Maximum Housing Credit Eligibility

The maximum annual Housing Credit available to a project is calculated using an annual Housing Credit percentage which provides a "present value" of either 30 or 70 percent of the qualified costs of the low income units in a project.

Project costs eligible for a 30 percent present value credit (PVC) include: qualified acquisition costs of projects that will be substantially rehabilitated; and qualified costs of new construction and substantial rehabilitation projects that will be financed with tax-exempt bonds or subsidized federal loans.

Project costs eligible for 70 percent PVC are costs of new construction and substantial rehabilitation that have no federal financing subsidies.

Over the 10-year credit period, the annual rate for 30 percent PVC is approximately 4 percent; the annual rate for 70 percent PVC is approximately 9 percent. The maximum annual Housing Credit amount is determined by multiplying the applicable annual percentage rate (approximately 4 or 9 percent) by the eligible development, acquisition and rehabilitation costs attributable to the designated low income units in the project.



Welcome Home with NDHFA



*We want to help you afford your first home.
With our program, the dream of homeownership may
be easier than you think!*

The effects of homeownership are positive and long-term. Homeownership strengthens our economy and builds communities. For the homeowners themselves, it builds economic stability and self-esteem. It encourages savings and investment, promotes economic and civic responsibility, and is the primary means of wealth accumulation for most Americans.

North Dakota Housing Finance Agency is a public financial institution established to meet the public purpose housing finance needs of the State. Helping North Dakotans secure affordable housing is our purpose and focus.

Our mission statement makes it clear:

"NDHFA's mission is to make housing more affordable for North Dakota's low and moderate income residents by providing financing, management, information, and other appropriate assistance."

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- 2** Homebuyer Education
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- 7** Home Inspections Recommended
- 8** Recapture Provision

Back Pocket Inserts:

- HomeSmart Program Fact Sheet
- FirstHome Program Fact Sheet
- HomeKey Program Fact Sheet
- Start Program Fact Sheet
- DCA Program Fact Sheet
- HomeAccess Program Fact Sheet
- Participating Lenders • Program Limits

This brochure is intended to provide an overview of NDHFA's homeownership programs. For specific information on your situation, we recommend that you talk with a lender in your community who is participating in NDHFA's loan programs, or with your local real estate professional or builder. You'll find a current list of participating lenders on an insert in the back pocket of this brochure.



Your Eligibility for an NDHFA loan

If you meet these four eligibility requirements, you may qualify for an NDHFA loan.

You are a First-Time HomeBuyer.

If you have not owned a home in the past three years (excluding mobile homes), you are considered a first-time buyer. Your lender generally will need your past three years' federal income tax returns as proof that you have not owned a home.

You meet the Income Requirements.

In the back pocket of this brochure, you'll find an insert with NDHFA's income limits. Income limits vary depending on your family size and the location of the home you'll purchase.

You are Creditworthy.

You need to have proven yourself an acceptable credit risk with a history of responsible and timely payments.

You will fulfill the Occupancy Requirement.

You must occupy the home as your principal place of residence within 60 days of the loan closing.

Homebuyer Education

The purchase of a home will likely be the biggest financial decision a household will encounter. It is a decision that should be made with realistic goals, sound advice, careful planning, and an understanding of the responsibilities and costs involved.

Even with all the advantages of homeownership, for some people there are drawbacks too. Owning a home can lead to higher housing costs, decreased mobility, and the cost and responsibility of repairs and maintenance. Also there is no guarantee that property values will increase over time.

To learn more about the advantages of homeownership and the possible drawbacks, you should educate yourself about the homebuying process and the responsibilities of homeownership. You need to go into homeownership with your eyes wide open. Homebuyer education workshops are available to help you evaluate what owning a home could mean for you.

Completion of a homebuyer education workshop may make you eligible for a HomeSmart grant and other financial incentives. See the HomeSmart insert in the back pocket.

Ask your lender, local real estate professional, or builder about a homebuyer education workshop near you, or visit our website, www.ndhfa.org.

Eligibility of the Home

To qualify for an NDHFA loan, the home you want to buy needs to meet certain requirements.

Selling Price

In the back pocket of this brochure, you'll find an insert with the current maximum purchase price limits, which vary based on the type of home and the county where it is located. These price limits are updated periodically.

Single-Family Homes

The lot size or amount of land cannot exceed an amount required to reasonably maintain the basic utility of the residence. In the case of rural areas, under no circumstances can the amount of land exceed 10 acres. NDHFA does not provide temporary construction financing for

a new home. It may provide the permanent mortgage as long as the new home is built according to local building codes. Your lender or another lender may be able to provide the temporary construction financing.

Duplex, Triplex, or Four-plex Homes

Duplex, triplex, or four-plex homes may qualify for an NDHFA loan, but you must occupy one of the units as your permanent residence.

Manufactured/Mobile Homes

To qualify, a manufactured home unit must be legally classified as real estate, must be permanently affixed to a foundation, and must assume the characteristics of a site-built home. It must have been built after June 15, 1976, and in accordance with the Federal Home Construction and Safety Standards. The wheels, axles, and hitch must be removed and the foundation must be constructed in accordance with manufacturer's specifications and local building codes.

For more specific information, consult a participating lender.

Applying for an NDHFA Loan

1. Contact the lender of your choice from our list of participating lenders (on insert in the back pocket).

When you visit a lender, you'll need to provide employment, income, and asset information, and a list of your outstanding debts.

2. Find a qualifying home within your price range.

There are many ways to approach finding the home for you. We recommend calling a local real estate professional or builder, but there are other ways, including looking in the real estate section of your local newspaper or in your community real estate sales publication.

3. Once you find a home, you should sign a contract between yourself and the seller. This contract is commonly known as an Earnest Money Agreement, Purchase Agreement, an Agreement to Purchase, or Purchase and Sales Agreement.

The contract should state that you promise to buy the home at a certain price within a certain amount of time.

The contract should list the condition or "contingency" of obtaining an NDHFA loan at the current loan rate and with the necessary down payment. By including this contingency, you will not be obligated to purchase the home if you are unable to obtain an NDHFA loan.

Bringing your contract to your lender.

The lender will take your application and may charge an application fee, which is applied to the cost of a property appraisal and a credit report.

The lender will then begin processing your loan. You can expect the process to take from 30 to 45 days.



Your Financing Costs

During the application process you will be provided an estimate of your monthly payments and the upfront costs that are required when you apply for an NDHFA loan. Your lender, real estate professional, or lender can also help you estimate this. There are a number of programs available through NDHFA to help pay the upfront costs and expenses. Ask a participating lender about your possible eligibility.

Monthly Payment

- The combined monthly cost of your home loan, property taxes and home insurance generally should not exceed 28% of your gross monthly income.
- Your total monthly debt, including the home loan payment and other debt such as credit card bills and car payments, generally should not exceed 36% of your gross monthly income.

These percentages may vary depending on loan type.

Down Payment

- Minimum down payment required will range from 0% to 20% depending on the type of loan you obtain and how much monthly payment can afford.
- Mortgage Insurance is required unless you make a 20% or larger down payment. Types of mortgage insurance may vary by lender. The types of mortgage insurance eligible for NDHFA loans are as follows:

1. Federal Housing Administration (FHA) Insurance:

- requires from 3% to 5% down on most properties

2. Department of Veteran Affairs (VA) Guarantee:

- requires as little as 0% down

3. Private Mortgage Insurance (PMI):

- available from all lenders
- requires 5% down on most properties, mobile homes, condos and 2-4 unit homes
- downpayment may be reduced to 3% under certain circumstances

4. United States Department of Agriculture — Rural Development (USDA-RD).

- requires as little as 0% down

Which mortgage insurance options are you eligible for, and which fit your needs? Ask your participating lender for details.

Closing Costs

- Several activities must be completed before the lender can close your mortgage loan. The costs of these activities are known as "Closing Costs." Some are included in the application fee mentioned above, and some are due at the final "closing," the signing of the loan documents. Closing costs may include the following:

Appraisal: \$300 - \$500

Credit Report: \$40 - \$50

Home Inspection: \$250 - \$350

Survey: \$50 - \$500

Points: one point = 1.0% of loan amount

Unpaid Interest: cost varies

Prepayments: cost varies

Title Examination Fees: \$125 - \$150

Title Insurance: \$1.50 - \$2.00 per \$1,000 borrowed

Flood Certification: \$15 - \$25

Closing cost amounts listed above are estimates.



Home Inspections Recommended

A professional inspection of your home is not required by NDHFA, but we strongly recommend it. Here's why:

- No surprises. A home inspection will identify the remaining life expectancy of your home's major systems (heating, plumbing, electrical) and structural conditions of such components as the roof and foundation. It may also provide information about any hazardous materials.

- It's well worth the cost. An inspection may cost between \$250 to \$350, depending on the amount of work done. You can walk through the home with the inspector, ask questions and make notes on the findings. This information may be valuable to you both in making the decision to buy and also for planning future maintenance.
- It offers a safety net. You should include a contingency in your contract with the seller that makes the sale and price subject to an acceptable inspection report.

Please note that a home inspection is not the same as a home appraisal. A home appraisal is required by lenders and estimates the current market value of the property.



Recapture Provision

If you sell your home within nine years of your closing, the federal government may "recapture" all or part of the benefit you received from the NDHFA program.

Recapture occurs only if you make a profit on the sale of your home, and if your income increases above certain levels. For many borrowers, there will be no recapture payment or a very small amount. In no case will it exceed 50% of the gain on the sale, or 6.25% of the original mortgage amount, whichever is less.

You will be given more information on how to calculate any recapture amount when you apply for the program. If due, the recapture payment is made through your federal income taxes for the year when you sell your home.





HOMESMART



WHAT is HomeSmart?

HomeSmart is a grant program to encourage first-time homebuyers to take advantage of homebuyer education workshops.

Through HomeSmart, a \$100 grant is awarded at loan closing to homebuyers who have completed an approved homebuyer education workshop and obtained a North Dakota Housing Finance Agency (NDHFA) loan.

HomeSmart grant money may be used for such things as closing costs or other housing expenses.

Completion of an approved workshop may also qualify you for other cost reduction or incentive programs. Learn about these other programs when you attend a workshop, ask your lender, real estate professional or builder.

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WHO is Eligible for HomeSmart?

You must have successfully completed an approved homebuyer education workshop within the year preceding the purchase of a home.

You must be obtaining an NDHFA loan.

You must provide your lender with a certificate of completion from an approved workshop.

You must not be receiving financial assistance from or obtaining a loan through a homebuying program that mandates attendance at a homebuyer education workshop.

North Dakota Housing Finance Agency
1-800-292-8621 or 701-328-8080
1-800-366-6888 (TTY)

Visit our website at www.ndhfa.org



WHAT is FirstHome?

The FirstHome Program provides low interest rate mortgages for North Dakota's first-time homebuyers. Participating lenders originate FirstHome loans and sell them to the North Dakota Housing Finance Agency (NDHFA). The loans are either serviced by the participating lender or NDHFA.

WHO is Eligible for FirstHome?

FirstHome is targeted to low- to moderate-income borrowers. (See accompanying insert for FirstHome income limits)

The borrowers must be first-time buyers (not owned a home as a principal residence in the last three years, excluding mobile homes.) They must have proven themselves an acceptable credit risk with a history of responsible and timely payments; and must occupy the home as their principal residence within 60 days of the loan closing.

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WHAT Homes Are Eligible?

FirstHome funds are available statewide for existing and newly constructed homes including town homes, condominiums and manufactured homes on a permanent foundation.

Up to four unit structures may qualify for this NDHFA loan; however, the borrower must occupy one of the units as their permanent residence.

The purchase price of the home cannot exceed the limits in effect at the time of the purchase. (See accompanying insert for FirstHome income limits.)

The lot size or amount of land cannot exceed an amount required to reasonably maintain the basic livability of the residence with a maximum of 10 acres.

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HOMEKEY

WHAT is HomeKey?

HomeKey Program increases the purchasing power of low-income borrowers by providing them with an interest rate reduction of approximately one-percent the first year of a North Dakota Housing Finance Agency (NDHFA) mortgage loan.

The interest rate and monthly payments are stepped up twice during the next two years, holding constant for the remaining term of the mortgage.

WHO is Eligible for HomeKey?

HomeKey is targeted to low-income borrowers. To be eligible the homebuyers must have an income of 50 percent or less of the applicable program income limit (see accompanying insert for HomeKey income limits)

The borrowers must be first-time buyers (not owned a home as a principal residence in the last three years, excluding mobile homes). They must have proven themselves an acceptable credit risk with a history of responsible and timely payments; and must occupy the s their principle residence within 60 days of the .osing.

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WHAT Homes are Eligible?

HomeKey funds are available statewide for existing and newly constructed homes including town homes, condominiums and manufactured homes on a permanent foundation.

Up to four unit structures may qualify for this loan; however, the borrower must occupy one of the units as their permanent residence.

The purchase price of the home cannot exceed the limits in effect at the time of the purchase. (See accompanying insert for HomeKey income limits.)

The lot size or amount of land cannot exceed an amount required to reasonably maintain the basic livability of the residence with a maximum of 10 acres.

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START

WHAT is Start?

The Start Program provides first-time buyers with affordable first mortgages and help with their out of pocket cash requirements.

The program assistance is equal to three percent of the Start first mortgage. The help is in the form of a credit to the borrower's closing costs and prepaid items.

Start assisted first mortgages have a slightly higher interest rate than FirstHome mortgages. The program cannot be used in conjunction with other downpayment assistance programs. The borrower must have a minimum of a \$500 out of pocket investment.

WHO is Eligible for Start?

Start is targeted to low- to moderate-income borrowers. (See accompanying insert for Start income limits)

The borrowers must be first-time buyers (not owned a home as a principal residence in the last three years, excluding mobile homes).

Start homebuyers must be receiving a loan from the North Dakota Housing Finance Agency, and have a minimum of a \$500 out of pocket cash investment.

Borrowers must have proven themselves an acceptable credit risk with a history of responsible and timely payments.

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WHAT Homes are Eligible for Start?

Start funds are available statewide for existing and newly constructed homes including town homes, condominiums and manufactured homes on a permanent foundation.

Start can only be used for one-unit structures.

The purchase price of the home cannot exceed the limits in effect at the time of the purchase. (See accompanying insert for Start income limits.)

The lot size or amount of land cannot exceed an amount required to reasonably maintain the basic livability of the residence with a maximum of 10 acres.

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Visit our website at www.ndhfa.org

DCA (DOWNPAYMENT AND CLOSING COST ASSISTANCE)

WHAT is DCA?

The Downpayment and Closing Cost Assistance (DCA) Program provides zero interest, deferred payment loans to help lower income first-time homebuyers meet their out-of-pocket cash requirements.

Qualified borrowers may be eligible to receive the greater of three percent of the purchase price of the home or \$2,000.

The program can be used in conjunction with FirstHome and HomeKey loans. The program cannot be used in conjunction with other downpayment assistance programs.

WHO is Eligible for DCA?

DCA is targeted to low-income borrowers. To be eligible the homebuyers must have an income of 80 percent or less of the applicable program income limit. (See accompanying insert for DCA income limits.)

The borrowers must be first-time buyers (not owned a home as a principal residence in the last three years, excluding mobile homes.)

DCA homebuyers must be receiving a loan from the North Dakota Housing Finance Agency, and have a minimum of a \$500 out of pocket cash investment.

Borrowers must have proven themselves an acceptable credit risk with a history of responsible and timely payments.

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WHAT Homes are Eligible for DCA?

DCA funds are available statewide for existing and newly constructed single-family homes including town homes, condominiums and manufactured homes on a permanent foundation.

DCA can only be used for one-unit structures.

The purchase price of the home cannot exceed the limits in effect at the time of the purchase. (See accompanying insert for DCA purchase price limits.)

The home must pass both HUD Housing Quality Standards and environmental reviews at time of occupancy.

The home cannot have been rented at any time during the past 12 months by anyone other than the buyer. Waivers may be granted on a case-by-case basis.

The home cannot be located within a 100-year flood plain.

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Visit our website at www.ndhfa.org

HOMEACCESS

WHAT is HomeAccess?

The HomeAccess Program provides low interest rate mortgages to disabled, elderly and single-parent households who have previously owned a home. Participating lenders originate HomeAccess loans at the FirstHome Program interest rate currently in effect at the time a loan reservation is made and sell them to the Dakota Housing Finance Agency (NDHFA). The loans are either serviced by the participating lender or NDHFA.

HomeAccess can be used in conjunction with NDHFA's Start, DCA (Downpayment and Closing Cost Assistance) and HomeKey programs.

WHO is eligible for HomeAccess?

HomeAccess is targeted to low- to moderate-income borrowers. (See accompanying insert for HomeAccess income limits.) Financing provided through HomeAccess is not restricted to first-time buyers.

Eligible households include those that have either a permanently disabled immediate family member or an immediate family member age 65 or older. Immediate family member is defined as being the mortgagor, mortgagor's spouse, and any dependent(s) permanently residing in the home. Single-parent households with at least one dependent child residing in their home 50 percent of the time may also be eligible for HomeAccess financing.

Borrowers must have proven themselves an acceptable credit risk with a history of responsible and timely payments; and must occupy the home as their principal residence within 60 days of the loan closing.

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WHAT Homes are Eligible?

HomeAccess funds are available statewide for existing and newly constructed homes including town homes, condominiums and manufactured homes on a permanent foundation.

Multi-unit homes may qualify for this NDHFA loan; however, the borrower must occupy one of the units as their permanent residence.

The purchase price of the home cannot exceed the limits in effect at the time of the purchase. (See accompanying insert for HomeAccess purchase price limits.)

The lot size or amount of land cannot exceed an amount required to reasonably maintain the basic livability of the residence with a maximum of 10 acres.

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Visit our website at www.ndhfa.org

PROGRAM LIMITS

as of March 2006

MAXIMUM INCOME LIMITS

STARLAND HOMEACCESS

HOMEKEY

COUNTY	FAMILY SIZE (less than 3) \$ 65,400	FAMILY SIZE (3 or more) \$ 75,210	COUNTY	FAMILY SIZE (less than 3) \$ 32,700	FAMILY SIZE (3 or more) \$ 37,605
Burleigh, Mercer, Morton			Burleigh, Mercer, Morton		
Cass	65,000	74,750	Cass	32,500	37,375
Grand Forks, Oliver, Pembina, Ransom, Richland, Traill	58,200	66,930	Grand Forks, Oliver, Pembina, Ransom, Richland, Traill	29,100	33,465
All other Counties	57,000	65,550	All other Counties	28,500	32,775

(Includes projected income from all sources for 12 months following the date of application.)

DCA Income Limits are available online at www.ndhfa.org

MAXIMUM ACQUISITION COST LIMITS

FIRSTHOME, HOMEKEY, START* AND HOMEACCESS

	1 Unit	2 Units	3 Units	4 Units
Previously Occupied (Existing)				
Statewide	\$ 237,000	\$ 266,000	\$ 323,000	\$ 375,000
Previously Unoccupied (New)				
Statewide	\$ 237,000			

	1 Unit
Previously Occupied (Existing)	
Statewide	\$ 200,160
Previously Unoccupied (New)	
Statewide	\$ 200,160

* Start may only be used for one-unit structures.

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PARTICIPATING LENDERS

as of April 2006

Alerus Financial*
American Federal Bank*
American State Bank, Dickinson
America's Home Loans*
Bank Center First, Bismarck
Bank of Glen Ullin
Bank of Hamilton
Bank of Minto
Bank of Tioga
Bank of the West*
JNC National Bank*
Bremer Bank*
Capital Credit Union, Bismarck
Choice Financial Group*
Citizens Community Credit Union, Devils Lake
Citizens State Bank, Cavalier
Community Bank of the Red River Valley,
Grand Forks
CommunityWorks North Dakota, Bismarck
CountryBank USA*
Dacotah Bank*
Dakota Community Bank*
Dakota West Credit Union, Watford City
Dakota Western State Bank, Hettinger
Farmers & Merchants Bank, Hatton
Farmers & Merchants State Bank of Langdon
Farmers & Merchants State Bank, Tolna
Farmers Security Bank, Washburn
Farmers State Bank, Crosby
First Choice Mortgage, Fargo
First Community Credit Union*
First International Bank & Trust*
First Mortgage Service Inc., Fargo
First National Bank & Trust, Bottineau
First Security Bank - West, Beulah
First Security Bank, Underwood
First State Bank*
First State Bank, Golva
First State Bank, Harvey

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First State Bank of LaMoure
First State Bank of Munich*
First State Bank, Wilton
First United Bank, Park River
First Western Bank & Trust, Minot
F-M Mortgage Corporation*
Gate City Bank*
Great Plains National Bank*
Kirkwood Bank & Trust*
Lakeside State Bank, New Town
Liberty State Bank, Powers Lake
McKenzie County Bank, Watford City
ND Air National Guard Credit Union, Fargo
Northland Educators Federal Credit Union, Fargo
People's State Bank, Fairmount
People's State Bank of Velva
Postal Family Federal Credit Union, Fargo
Ramsey National Bank & Trust of Devils Lake
Real Estate Mortgage Investment, Bismarck
Scandia American Bank, Stanley
Security First Bank of ND*
Security State Bank, Wishek
St. Alexius Medical Center Credit Union, Bismarck
Starion Financial*
State Bank & Trust of Kenmare
State Bank & Trust, Fargo
State Bank of Lakota
Strasburg State Bank
Town & Country Credit Union*
Union Bank, The*
Union State Bank*
United Community Bank of ND, Leeds
United Savings Credit Union, Fargo
US Bank*
Valley Mortgage Inc.*
Vision Bank, Fargo
Wells Fargo Home Mortgage*
Western Cooperative Credit Union*
Western State Bank*

** Multiple Locations*

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