

2009 SENATE APPROPRIATIONS

SB 2014

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2014

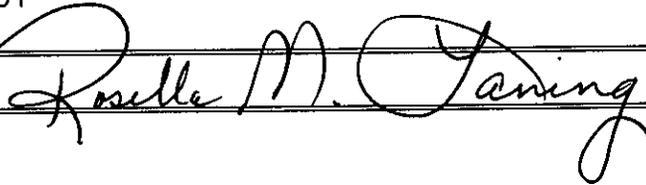
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 1-15-09

Recorder Job Number: 7051

Committee Clerk Signature



Minutes:

Chairman Holmberg called the committee hearing to order at 8:33 am in reference to SB 2014 – Industrial Commission. All members were present.

Senator Krauter handed out testimony from and ITD & EDU tech.

John Schaff – page for the day – from Red River School, in Grand Forks.

Karlene Fine, Executive Director and Secretary, Industrial Commission

(handed out Industrial Commission testimony and read from the Administration tab.)

(8:35)

Senator Christmann Refresh my memory from where the money is coming from.

Karlene Fine said \$3M came from the general fund for the current biennium and then there was authority for \$17M in special funds. Bio mass incentives came from Bank of ND.

(Continuing with testimony – pg 3)

13 40

Senator Mathern remarked that there has been a lot of turnover in that office and wondered if they were employees or contract people.

Karlene Fine: They are contract employees.

(17:22)

Senator Krauter asked what is Industrial Commission's philosophy of building bond funding.

Karlene Fine referred him to Exhibit A in the IC testimony and said that was available to the committee.

(20:24)

Senator Krauter asked if there wasn't a conflict of interest in having the Transmission Authority help you draft the Lignite Energy Council area and was told that wind energy and coal energy work hand in hand. You need a base load to support wind energy because you need a source all the time. **Sandy Tabor** of the Transmission Authority can properly reflect both interests. We don't see it as conflict of interest.

End of testimony

(21:58)

Chairman Holmberg named the subcommittee which is chaired by **Senator Wardner** and included **Senator Fischer** and **Senator Krauter** who are also on the subcommittee.

Senator Mathern asked if we had a transmission project that we are working on that will move power out of ND and was informed no specific project is in the works because the challenge is to find funding and find people interested in doing the project.

(25:00)

Senator Warner asked for information on coordinate wind energy with WAPA power.

Do ND policy makers have any ability to influence the outcome from a policy standpoint? On the national level those discussions are just beginning.

(29:24)

Senator Robinson asked if the agency was involved in the Ashtabula Wind Area and the transmissions that were put in place from Laverne to Fargo. Also wondered about the two phases and if additional transmission lines will be needed when they all get online? He was

informed by **Sandy Tabor** that it is all handled through the PSC, but the main challenge will be how we integrate future wind transmission into the system.

(34:12)

Karlene Fine introduced **John Dwyer, Director of Lignite Research Council,**
John Dwyer (reading from LRC tab in Industrial Commission book)

(39:11)

Senator Warner asked if the Lignite Council has a plan in place in relation to the Bakken formation and was informed that the Antelope Valley Station in Beulah produces 3000 tons of pipeline quality CO2 in sequestration. There is no plan in place but a key phase is utilizing CO2 for oil recovery.

(41:03)

Senator Wardner asked if beneficiated coal helps to keep the CO2 emissions high and was assured that it was. Beneficiated coal has moisture eliminated to help raise the BTUs.

(Continuing reading page 4 in LRC tab.)

(45:06)

V. Chair Bowman wondered how many projects have been done that complements the research and implementing the research. **John Dwyer** said that nearly all the projects need private industry development including in-kind or monetary input.

V. Chair Bowman stated that when Jerry Grinwold was here and said they could produce a plant today that could meet any requirement, why then is there so much anti-coal use. **John Dwyer** informed him that you can do all these things, but in a cost effective manner.

(Continuing)

(50:20)

Senator Mathern (referencing page 4) of testimony asked if they hope to develop another clean coal technology project.

(51:33)

Senator Seymour stated they've had entities say they get their coal from Montana and was informed that Montana coal has much higher BTUs and no they don't have a robust research development program. NDs are probably the best in the country.

(53:00)

Lynn D. Helms, Director, Dept. of Mineral Resources

Field staff – need qualified staff

(57:26)

Senator Robinson asked if there is ever a situation with seasoned veterans thru special work arrangements, whether we can encourage them to stay longer and was informed that they have been able to make use of retention bonuses. Thank the legislature and emergency commission for affording to use contingency funds from this current biennium to pay bonuses.

Senator Robinson questioned the amount of performance bonuses and was told that they are limited to \$1000 a biennium and he gave seasoned veterans a 5, 6 -\$7000 retention bonuses and in return, they signed paper stating length of time of work.

(All line numbers are off by two on page 8)

(65:36)

Senator Warner asked how your paleontology works with State Historical Society.

Lynn Helms informed him that they are the paleontology department for the state. We provide bones and digs and displays for the SHS.

(Continuing)

(84:12)

Senator Warner asked about the amount of ground water resources and the amount of water needed to crack a well. Lynn replied that 70% of water goes into cooling power plants. ND is close to maxing out water resources, but haven't used Missouri River.

Senator Warner questioned the use of polymers in the fracing process and wondered whether they are degradable? Or will they never break down? He was told they are proprietary and will break down with temperature.

Senator Warner wondered if they use something other than water, such as diesel fuel and was told that it's expensive but competitive. It's also very dangerous. There is also a lot of interest in using carbon dioxide as frac fluid.

(92:18)

Senator Wardner questioned the salary of field people who do this work or what is the price tag of the individual to do this work? **Lynn Helms** referenced him to page 8, sub-surface geologist is \$174,000.

Senator Krauter asked if he had data on gas production on the oil here. And referred to charts.

Chairman Holmberg recessed and will start again at 10:20

(94:06)

Tim Porter, Director, Public Finance Authority

(Testimony in PFA tab of Industrial Commission book)

Senator Warner clarified authorization for FTE but not funding and Tim said they want to keep the position open.

Michael Anderson, Exec. Director, ND Housing Finance Agency

(Testimony in HFA tab of Industrial Commission book)

(113:35)

Chairman Holmberg referenced the testimony on page 3 and asked if this can be utilized in central ND to build an apartment or 4 plex. It may cost a lot to build but may be worth much less. Mike Anderson stated this item was for emergency situations and the development of housing situations, we'd be better served if we had a program of sustaining funding. HB 1177 and HB 1259 are introduced into the legislature to help mitigate the gap.

(117:24)

Senator Seymour wondered if authorization for a housing study for Stanley, how much would Stanley's share be and was informed that up to 50 % of that cost would be provided.

Senator Mathern asked if a 1st time home buyer has higher interest rates higher than commercial rates and was told that if you compared street conventional rates to our rates, but in an effort to stimulate home owners, the federal government has reduced rates to secondary market and puts Industrial Commission at a disadvantage.

(121:13)

Senator Krauter questioned the relocation and refurbishing expenses in biennium, and also rental property. He was informed that several agencies are housed outside the capital and are looking at private landlords. They're looking at a larger site that needs refurbishing. The line item is an estimate.

Senator Krauter, looking at lowering reserve loss, wondered if it was a separate piece of legislation. **Mike Anderson** answered that they were required to set aside some of our reserve as a loan loss.

Chairman Holmberg asked for others to testify

(124:41)

Senator Christmann wanted to discuss bonding issues and asked **Karlene Fine** to come back and answer questions. When I look at the totals, and when I look at page 1, the \$27M, difference between the two appears to be the ITV bonds, why doesn't that show up as other source on the graph?

Karlene Fine: That was going to be done outside the chart. We could've had another column for ConnectND, but there wasn't room. That's the only thing that's different.

Senator Christmann also questioned the University Conservation Project and the Corrections Conservation Project and the columns total, but what are the other sources, the \$1.846 line item? **Karlene Fine** replied there are several entities that comprise the fund. On page 2 of the testimony, the numbers add up.

Senator Christmann questioned the total debt service, if it included Connect ND and trying to get a feel of how much of an impact we're having last session and now this session with not adding any bonding, and what we're doing to our payments.

Karlene Fine: It's a two million dollar drop. First time it's going down due to mature bonds.

Chairman Holmberg mentioned some housekeeping issues, reminding members of a conference call at 2:00.

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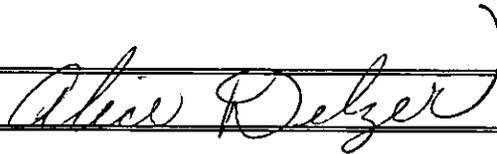
Senate Appropriations Committee

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Minutes:

Chairman Holmberg reopened the hearing on SB 2014 in regards to Bank of North Dakota in the Industrial Commission bill. All committee members were present.

Eric Hardmeyer, President of Bank of North Dakota: presented Testimony # 1. See testimony. Section 1: Appropriation. Section 2: One-Time funding.

He talked to the commissioners about the state of the bank and referred to bottom of first page, Financial Highlights. There was tremendous growth between 2008 and 2007. A lot of that growth is in the loan area. Deposits are up 41%. As the state grows so grows our deposits.

V. Chair Grindberg commented that he had conversations last week with one of his board members who is a regional president of the US Bank of Sioux Falls, he indicated they are setting on an enormous amount of cash. There is no loan demand. That would slow down lending requests for the bank.

Eric Hardmeyer: Absolutely. He referred to written testimony #1 stating his bank sees those same issues. The housing sector, the automobile industry and credit card industry; all those are suffering right now. We'll see some sort of spill over into the ND economy. The growth

they are looking at for next year is not so much in the commercial area but probably the student loan area where they continue to see good growth.(8.00) A hand out was given

regarding information about loan originations .Testimony # 2. This shows the committee exactly what the Bank of ND did back in 2008. This was just a phenomenal year for the Bank of ND. Further discussion was held regarding the types of loans on testimony #2. We have 4 major categories of loans and explanations were given for each type of loan.

1. Commercial Loans they doubled what they did in 2007.
2. Agricultural Loans
3. Residential Loans said that they paid attention to what was happening in the housing industry and behaved themselves.
4. Student Loans are a very robust part of the Bank of ND's business.

Senator Robinson requested more discussion on student loans.

Eric Hardmeyer stated he has more information separately on the student loan program and will address that when the Committee feels the timing is right.

V. Chair Bowman: under state institutions the amount changed. What institutions are borrowing that kind of money and is their money in the budget to pay it back.

Eric Hardmeyer : A significant portion of this was the State Mill and Elevator and they have the ability to pay it back. Further disclosure was given regarding this matter. (13.23) He said he could take questions on the Student Loan Program.

Senator Robinson asked Mr. Hardmeyer to talk about portfolio and how it is growing and the concerns we hear of interest rates that we're charging. He heard last fall when he was campaigning that you could borrow farm equipment money at a cheaper rate then we can finance a student loan. Why are we doing that, our students are already encumbered.

Eric Hardmeyer: presented Testimony #3 regarding student loans and explained the pie chart on page 3 and shared the information that there are basically two types of student loans. (15.01) Further testimony concerning student loans followed. Interest rates are set by the

Federal Government on the Stafford loans. He also stated students do not pay on their loans until they have graduated and the Bank of ND pays the federal government as they go along.

Also explained the two fees that they have to pay and they do not pass this on to the students.

Senator Kilzer had questions regarding the substantial increase in appropriations for student's loan in the governor's budget, he asked how this would affect the bank. He was informed there will be an impact but they are grants and not loans.

Senator Mathern why don't we take the federal government out of the middle and have this loan program as our own? Why don't we just run it as a state?

Erick Hardmeyer: said if you look at the second page we do have our own program. It is called DEAL. He further explained this issue. Listen to testimony 23.43. The Federal Government strongly suggest that if they have an alternate loan program that you give the student the opportunity to max out their programs first. He also talked about the DEAL program. He referred to the pie chart on page 3 in Testimony # 3. The Federal Government restricts what a student can borrow. How do they come up with the difference? Either your parents can help you out, or scholarship money or the Bank of ND can make you a DEAL loan to make up the balance. He said as you look at his narrative on student loans we give the student's two options, a variable and fixed rate. Variable rate today is under 3%, fixed rate is 5.99%. The student gets the advantage of lower rates in this environment. If they have all fixed rates they can get a blended rate. 27.23

V. Chair Grindberg said he didn't think we understood what is going on in the country and the economy and effect on ND. The banks have been told by the Federal government that they will participate in the TARP program. They will use those TARP funds for lending at higher rates so the bank is profitable but the rates in the spread will go back to the Federal government to address the deficit situation. He asked Steve Cochren, given the uniqueness of

our economy in ND and forecasting into the future, business is going to pay the price of the federal deficit. Rates are going up on the commercial side, would it be in ND's interest to use the Bank of ND, expect lower rate for two years and work with all the private banks across the state to make sure capital is there at 2 points below the national competitive rate because of what is going on. Rather than having a big amount of money in the bank we would be loaning out more money below the market.

Eric Hardmeyer made two points. In ND the borrowers enjoy the lowest rate environment in the country. Rates are sufficiently low and will probably stay low much longer than 6 months. Some of our prime right now is at 3.25 %. The benefit of the markets is being passed on to the borrowers.

V. Chair Grindberg said businesses in Fargo are being quoted much larger interest rates.

Eric Hardmeyer what is playing out is fear. The financial community is scared. He said lenders are afraid to lend. If they do they will do it at a rate they can make money at. This is not the case at the BND. He further explained the programs 32.39

Senator Krebsbach in regard to Stafford loan the federal government picks up the interest for the student, is that correct?

Eric Hardmeyer replied yes, while they are in school. The interest accrues and gets added to the loan.

V. Chair Bowman is there any capital required to get a loan.

Eric Hardmeyer the student or their parents have to fill out a FAST form. These are unsecured loans. What you get is a guarantee from the federal government.

V. Chair Bowman on your commercial loans are they going to require more down before they make the loan. Insufficient collateral is what got us into the problem to begin with?

Eric Hardmeyer absolutely. I refer to it as rebooting. They have to have some money down. The last 15 years things have gotten so loose. I think we will come back to good lending practices. We have to look at it as if this is underwritten the way it should be.

V. Chair Bowman asked if competition drives that. Who caused the problem by giving the loans with nothing to back them up with.

Eric Hardmeyer in ND there is 104 banks, many banks per capita. It is a very competitive business. Underwriting is a little loose but still safe. On the national level when we see the failures of Wachovia and others like them there are many different reasons. Many different people are to blame for this.

Senator Robinson as you reflect back on where we are on student loans and also the concern of growing student debt is there anything that you would recommend that we do as a legislature to improve what we have?

Eric Hardmeyer said he thinks the programs we have are meeting the needs. The debt per student is high. Providing a better balance for the student in terms of tuition assistance, scholarship assistance, and savings is what will help.

Senator Robinson said we should emphasis the student loans with less pressure on tuition and other financial aid incentives.

Eric Hardmeyer we have the college save program (1999). We provide matching grants to people who want to start up and we are trying to hit more people with it.

Senator Robinson thanks for the great information.

Eric Hardmeyer said to go to capital ratio and income. Page 1 of Testimony #1. (41.07) You can see that last year was a tremendous year.

Senator Seymour what is your role as bank president? Is your role to make profit or are we here to help ND?

Eric Hardmeyer said they are here to meet a specific mission to promote Agriculture, Commerce and Industry. Our number one job is not profits but to provide economic development opportunities to business, students, farmers or to help people with housing. The fact that we are profitable is a sideline. We are mission driven.

Senator Warner comments on retained earnings and capitalization(can't understand).

Eric Hardmeyer it depends on the amount of money you will take from us. If you allow us to retain earnings at a rate that allows us to grow, then I am o-k with it.

- The next session is the actual appropriation, as you know we are a special fund agency and we pay our own way. 45.46 page 3 Testimony #1. The appropriations that you see are the two major line items are operations and capital assets. In this budget there is a reduction of 5 FTE's. and we are asking that they be reinstated. He said the communication between OMB and BND could have been better on where we were at with these vacancies.

Chairman Holmberg ask Tammy this question about the vacancies.

Tammy said that based on the new staffing information OMB would support adding these positions back in.

Eric Hardmeyer chart on page 4 of Testimony #1. regarding FTE's

Senator Fischer do you have difficulty filling these positions and what rate of turnover do you have.

Eric Hardmeyer said they have fairly good luck filling the positions.. Our turnover has been manageable. Our biggest challenges will be in retirees. We have had some areas with the IT area where we struggle sometimes. In the collection area we see some turnover. We built a good path for recruiting and retaining. If we don't have to fill positions we don't fill them.

Senator Wardner asked how many positions were classified and how many not.

Eric Hardmeyer said they had 176 ½ FTE, twenty two or three are unclassified.

The next area is the operating area. He said refer to page 5 operating expense on Testimony #1. He addressed contingency on page 6 of Testimony #1. (54.38) we work with ITD in the whole process. The next part is the Economical Development Programs and these would be where we get the general fund appropriations. What we have is request for PACE funding to remain equal to what we have had in the past. page 6 of Testimony #1. We created Flex Pace (page 7) this is where we let the community decide, we've helped rural hospitals, drug stores, grocery stores in small communities and this is how we have expanded the program. Beginning Farmer Revolving Loan Fund on page 7, that fund is building up with cash and they decide to just use that cash. (page 8) We have not requested general fund money since 2005 and we will continue to do the same way. Explained further on page 9 of Testimony # 1. 1.00.17. AG PACE is on page nine of his testimony – same budget request. Bio-Fuels PACE Fund not a whole lot of activity (page 10) we moved some out of there for use last biennium for the bio-mass demonstration project.

Transfer to general fund information found on page 11 of his testimony. This section provides for a transfer of \$60 million from the current earnings and the accumulated undivided profits of the bank. He anticipates that BND will end the 2007-2009 biennium with capital of \$242 million and if assets remain constant at \$3.5 billion, they will be at a capital position of 6.9% which is below our target of 8%. However, based on projected earnings of \$120 million over the course of the next biennium and \$60 million transfer to the General fund, that will leave BND with \$60 million for capital growth. This would put total capital at \$302 million for BND at the end of the 2009-2011 biennium. This could support an asset base of \$3.8 billion with an 8% capital position.

Senator Warner: on page 3 it shows the ratio average of 26%. How does that compare with the average bank in North Dakota?

Eric Hardmeyer said our peer banks are another banker's bank and not a real good comparison. Their mission is not to make a big profit, but provide services to the other banks. The big banks across the country are losing money.

Senator Warner we have capitalization which is actually ownership of the bank, lot of agencies must have their money in your bank as well. What percentage is agency money?

Eric Hardmeyer statute requires agencies deposit to the treasurer and then to us. Vast majority of our deposits are state deposits. 1.05

Senator Warner: asked how competitive are your rates that you pay the agencies?

Earl Hardmeyer we belong to something that is called rate watch. We monitor 14 or 15 banks around the state of ND for their CD rates. We are in the middle. We don't want to anger our private sector banks. We need to be honest and fair to Kelly Schmidt, in the Treasurer's office.

Senator Wardner it looks like it will be adequate. The response was yes.

Senator Mathern: asked what fund a farmer would use to fund a wind tower with the bank of North Dakota.

Earl Hardmeyer said through the AG PACE program. And we have used it.

A short break was taken at this time.

Chairman Holmberg : reopened the hearing on SB 2014 in reference to the Mill and Elevator in the Industrial Commission bill.

Vance Taylor, President and General Manager of the North Dakota Mill and Elevator: presented Testimony # 1. He provided facts concerning the Mill and Elevator 1.31.30 and his testimony on page 2 he listed strategic plan for 2009 and also went over his budget requests with the committee. On page 3 of Testimony # 1 wages and benefits were addressed as well as operating expenses. The other items referred to are repairs expenses, miscellaneous supplies expense and insurance expense for inventory values. He introduced Ed Barchenger,

their Controller and Finance Manager. During the fiscal year we were able to retain all of our customers and get new customers also.

Senator Fischer said what he didn't understand was the increase in fees. Do you have justification for increase? Is it a lack of water

Vance Taylor said they have justification back at the office but said lack of water was in Montana . They are not referring to that this year.

Senator Fischer but there is a snow pack in the mountain. He asked if Vance could forward that information to the committee. He said yes. What is the percentage of health insurance?

Vance Taylor said it did increase but he will get back to them with that information.

Senator Robinson the labor contract, you go for 4 year contracts, is that a joint agreement between the mill and the union? What range of % will you be looking at?

Vance Taylor the length of contract does change. We've seen 5 year agreements, 4 or 2 year contracts. The management prefer longer agreement. We look at what is happening in the state. I would rather not say on the percentage.

Senator Robinson asked about turnover.

Vance Taylor said not a lot of turnover.

Senator Krauter had a technical question. History of transfers, have they always been at the end of biennium or fiscal year?

Vance Taylor in recent history they come at end of biennium .

V. Chair Bowman said you had a poor year. You borrowed a lot of money. What financial position is the state mill in? Can we recoup in a year or two? Compare us with other elevators.

Vance Taylor said we have had a very tough year, fiscal year 2008 first half, operated as normal into last year. In January and February we ran into serious problems, we hedge every

flour and wheat purchase. Because of the events a lot of those losses carried over into 2009. We haven't tied up the second quarter but there are further losses in the second quarter, but it is much better. To continue on, we have Eide Bailly working on forecasts and things are looking much better. I'd like to wait on any numbers until after we finish our work with Eide Bailly.

V. Chair Bowman asked if the markets were going to be there for the products they produce.

Vance Taylor said the good news in our industry is that everyone still has to eat, we have seen some reduction in volume. Restaurant businesses are down especially on the east coast and a lot of our product goes there, people are cutting back.

Senator Kilzer several sessions ago there were complaints about overtime, even a bill concerning that, where are you at with overtime. Do you have enough people?

Vance Taylor there has been a lot less overtime in 2008. Lately we've been down Sundays and even some Saturdays. We completed a couple projects and we also added another packing line. There will be overtime going forward. That pressure could come back at some time.

Senator Mathern in light of what economic benefit is generated to the state and plans to support ND Agriculture do you ever consider another site for the Mill, like a site in the West.

Vance Taylor we have discussed that. Part of our strategic plan is to grow the business and just expand our plant in GF. We will have to give some serious thought to another location. No need in the immediate future.

Senator Wardner you didn't finish V. Chair Bowman question about comparing the State Mill to other facilities.

Vance Taylor said it was a tough year for everybody. 1.62.17 Some other companies experienced losses more than us and some did not, General Mills they were hit by hedging.

Senator Krebsbach you did some sales on the lifefo method of accounting. Is that going to have an impact on the future sales that they may be better.

Vance Taylor we use Fifo for all our accounting.

Senator Robinson with budget release and challenges we have had an unusual year, should we not consider the possibility of no transfer given the economics of the state and the financial situation of the mill. Is there merit to not making a transfer at all at this time? If there is not a need in the general fund should we not make the transfer and let the mill recover quickly and be stronger down the road.

Chairman Holmberg the mill doesn't need to answer the question they are built into the budget. You are talking about a transfer that would occur June 30th, 2011. We are going to hear those things over the next few months.

Senator Fischer are you still at about 50 label. Are you still making pancake mixes.

Vance Taylor total is 300 and yes we are making pancake mixes.

V. Chair Bowman a transfer would only amount to borrowed money. One way or the other you are operating on borrowed money.

Vance Taylor said that they are still a strong company we have a nice looking balance sheet.

It's up to you on the transfer it comes out of the equity.

Senator Krebsbach can we get a copy of financial statement.

Vance Taylor Yes.

Chairman Holmberg He asked if there was anyone else to testify on this section of 2014.

Closed hearing on SB 2014.

Senator Holmberg asked for a briefing on the Federal Recovery Package.

V. Chair Grindberg quite a few state listening into the stimulus package. The House is going to vote on it the week of the 26th of January. 1.59. The comment was made that the Senate

would act in an expeditious matter. And the President will sign it on or close to President's Day. There will be a huge ramifications to our budget.

Senator Krauter enhancements, an increase from the federal government, transportation dollars injected right away. 120.34

Chairman Holmberg was there any talk about states that are in good economic position.

Senator Krauter said they didn't talk about it from that stand point.

Chairman Holmberg was there additional discussion around foreclosure.

V. Chair Grindberg addresses that.

Discussion followed on the Stimulus Bill. You can view the information on the web

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2014

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 02-12-0912

Recorder Job Number: 9428

Committee Clerk Signature



Minutes:

Chairman Holmberg called the committee to order on SB 2014 regarding the Industrial Commission bill.

Senator Wardner explained the amendments to the committee. (05.43)

Chairman Holmberg They are looking at utilizing coal in a demonstration project. They are looking at a series of inputs in order to put together a program. There is a boiler at UND that they are looking at utilizing and they are looking at department of energy money, they are looking at sources from industry.

Senator Mathern had questions regarding section 15.(06.38) and the age of the burns.

Senator Wardner This is talking about beneficiating coal not just taking it right out of the pit.

Senator Christmann Those burns are probably close to 100 years or even more than that but with environmental regulations and such a lot of them have switched over and using out of state. This would be to experiment with state of the art type boiler systems and some of them, and gave the example of the new ethanol plant at Richardton. Big deal, we'll use North Dakota coal and that lasted for months and then they ended up getting it from out of state. It didn't work out. We need to protect the boilers in the institutional type settings otherwise about the only purpose for that coal is more? (7.54) so with the beneficiation process now can be developed and new technology we think we can make it work again.

Chairman Holmberg That is the purpose.

Senator Robinson The only institution, correct me if I'm wrong, it's Valley City. I don't know about Bottineau.

Chairman Holmberg They are coming from Wyoming. UND's coal all comes from Wyoming or is it Montana.

Senator Christmann It is one of those. It's Powder River Basin. That is why we are such big fans of Valley City. They are such a size they have to meet those emission requirements.

Senator Krauter These are issues that we have a public hearing on. We went through this same scenario three years ago and now tiptoeing around and introducing things at the last minute. There are so many things we need to publically talk about here. I think it is the right stuff, but I'm not sure. I just would hope that those individuals involved would get this stuff in.

this is frustrating. How do you make decisions that are good?

Chairman Holmberg stated two things: First that there will be public hearings, obviously, because if this goes to the House, there will be public hearings on that. Secondly, it was not industry ? toying around that actually brought this together. There was information that Senator Christmann and I had received and we did some exploring on that and actually we were looking at doing something when we were working on the University System budget, but it made a much better fit, I thought, in the Industrial Commission. So that's why I asked Senator Wardner to look at putting in an amendment. The amendment was drafted by some people in the Industry. That's who drafted the language, but the idea originally came well after we had the hearing on this. In fact, it was about a week ago, from the plant director at UND who runs the boiler and said we have this boiler, we have been exploring with various sources to try to get a large demonstration project and how we can utilize these large boilers to burn North Dakota lignite efficiently and meet all of the environmental requirements.

Senator Krauter What happens to Minot State? We have a boiler problem up there. These are issues that are important.

V. Chair Bowman There is a project or a drying of lignite coal to get more BTU's out of it and I don't know where that project is at but it is one we discussed earlier so that we have more opportunities to utilize our lignite industry.

Senator Christmann That is that beneficiation. That was a separate bill. This would be an opportunity to use more.

V. Chair Grindberg I find it interesting that the bill that the Bank of North Dakota is in that they're not so hot and heavy for all this student loan forgiveness but how many employees does this cover with this section of this money in the department of mineral resources in section 13. The footnote says a dollar amount for the education loan repayment program for new employees. And they have the student loan debt for a certain amount, can we easily assume that is for 10 people they are going to hire. (13.16)

Senator Wardner That would be the most. That would be the Limit. So much per employee for fiscal year so you could have an employee that could get a loan repayment up to a certain dollar amount(13.39)

V. Chair Grindberg asked what type of employee. This is exactly my point that the Legislature is allowing that elephant to get his ears under the tent because we have another proposal for STEM, which would be the same thing to be eligible for and now we are sneaking in other loan repayment and all these agencies and next session we're going to come back and add 16 other individual requests and there is no plan. I am greatly concerned about the way we're letting this loan repayment get out of control.

Senator Wardner People are going and seeing other people doing it and that's where they are taking up the idea.

V. Chair Grindberg said then it's our job to put a stop to it or make some sense out of it.

Senator Robinson had questions regarding section 14 of the amendments. Do we have anything in law in the present time that is similar to what is in section 14 or is this all new language?

Senator Wardner I believe that is language that they just had to do some changes on the overstrikes and bring it up to what they need currently. What it is to support educational activities relating to ? (15.44) and they are expanding it. They are already doing it, all this does is expand it. That was brought in subcommittee on the student loan repayment. That was not testified in committee. He continued explaining the amendments. (18.47) We were told and I am not sure if that was presented in full committee, but there was a miscommunication, and I think it was, Eric Hardmeyer made that clear, between OMB and the bank or the governor's office and the bank, and so everybody was ok to put those FTE (5) in and they explained why they needed them and they've got the positions.

Chairman Holmberg asked if OMB support that addition.

Senator Wardner stated they did.

Chairman Holmberg asked if the governor amended his budget to increase it.

Senator Wardner stated he could not answer that. He continued to explain the last amendment is with the Mill and Elevator. (20.09)

b asked is it in this bill or is it in another bill that the requirement that the State Mill and Elevator transfer money (20.28) to the general fund at the end of this biennium. Is that the repealer, Section 14, restoring session law. Because I remember the governor's budget. (someone mumbled an answer , not picked up by recorder) That answers that questions My other question is about the bill itself so forget it.

More discussion followed regarding this matter.

Chairman Holmberg if we repeal that, that session law says that at the end of biennium the State Mill and Elevator shall transfer money.

Senator Wardner said the manager of the Mill said they were ok with half of that for next biennium

V. Chair Grindberg I am not going to support the amendments. I appreciate all the hard work of the subcommittee but I just think that is something we have to resolve with these loan forgiveness programs and for that reason I can't support the amendment.

Chairman Holmberg told Senator Wardner that he can take that section out and we can vote separately and still pass the amendments.

More discussion followed regarding the amendments.

Chairman Holmberg Let's do A of section 13. B is section 14. We can do them separately. They are separate issues. C is 15. And then D is the remainder of the bill which deals with the bank and the Mill and Elevator and one FTE for the geology position. Everyone understand how the divisions are. Division A is loan repayment program. All in favor say aye. Opposed carried. That is out of the bill. When it gets attached to the bill that will be gone.

Division B is Section 14

Senator Christmann I was wondering if it is opposition to this section or if there is going to be 14 and 15 together. He was told they are separate. But the desire to separate them, that suggestion has made to throw them together, and if there was opposition to this to try and defend it, this has been as long as I can remember, it's like if there is some changing in the words here, I am not sure what the opposition to this section would be.

Chairman Holmberg This is on B now in Section 14.

Senator Krauter I stated my opposition before. Things like this need another hearing. Bottom line. And I don't think anyone is against this, it is just the process here. We need to make sure that people understand.

Senator Christmann this is using the old statistics of like over so many dollars of annual business volume that's been for years and years and this just updates it and it is now nearly some dollars and this education programs, I don't know that that wasn't into effect when I got into the Legislature. If not it has been for a long, long time already. So it is not really new.

Senator Mathern I'm wondering what the rationale has to be to add the words support education by activities relating to the lignite industry.

Senator Christmann I don't know the answer to that but I always felt that was the point of the program why they wanted to do it.

Senator Wardner It was clarified if they could get the money they could go to the research and development fund to get the money to use for

Sandi Tabor, Lignite and Energy Council We have always paid for teachers education program out of lignite general funds, not out of the research council. For the last about 5 or 6 years, the teachers have been asked, we surveyed them after every seminar, and they have been asking us to expand. Their additional costs associated with expanding it, which we were going to put a grant application together for us so that the research council can ask if they can help with the costs. We were still going to take money out of the general fund of the lignite council to match that research money. We talked to Karlene Fine, and she said I am not sure you have the authority to do this. Now the other research programs, oil and gas and renewables, have that language allowing. We never did because we never used the research council for it. So she said she'll go ask the Attorney General. She asked the Attorney General

and they said it is not exactly crystal clear and you should probably get an amendment to the bill the parts about existing language.

Chairman Holmberg Section 14, which is B, all in favor say aye, opposed- none. It carried. C – Section 15, all in favor of that say aye, opposed, raise of hands, all in favor say aye, that passed. The rest of the amendments all in favor say aye, opposed. That passed. So the amendments are as presented except the loan repayment program is out. Now we have the bill before us.

SENATOR WARDNER MOVED A DO PASS AS AMENDED. SECONDED BY VICE CHAIRMAN BOWMAN. A ROLLCALL VOTE WAS TAKEN RESULTING IN 14 YEAS, 0 NAYS, 0 ABSENT. SENATOR WARDNER WILL CARRY THE BILL.

Chairman Holmberg closed the hearing on SB 1014.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2014

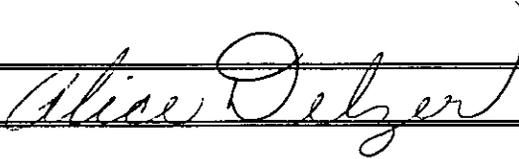
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 02-17--09

Recorder Job Number: 9667

Committee Clerk Signature



Minutes:

Chairman Holmberg called the committee back to order at 7:25 pm in reference to SB 2014. The amendment #98033.0207 was distributed to the committee. **He asked the committee to reconsider our action on 2014. V. Chair Grindberg moved to reconsider seconded by Bowman. Voice vote all carried.**

Chairman Holmberg explained the new amendment.

Senator Mathern asked for some rational about the money.

Chairman Holmberg talked about the money historically in the general fund.

Senator Mathern said he did not receive testimony about this.

Senator Warner commented that he had heard they were short to cover the loans that were outstanding.

V. Chair Bowman moved Do PASS AS AMENDED. Senator Krebsbach SECONDED.

ROLL CALL VOTE WAS TAKEN WITH 14 yes 0 no 0 absent. Senator Wardner will carry the bill.

FISCAL NOTE
Requested by Legislative Council
05/02/2009

Amendment to: Reengrossed
SB 2014

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.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$4,735,836	\$0	\$5,117,989	\$0
Expenditures						
Appropriations						

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

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

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

This fiscal note relates only to the provisions regarding transfers from the State Mill profits to the General Fund and does not include any of the other fiscal impacts of the conference committee amendments.

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.*

The conference committee amendments establish a set formula of 50% of profits to the General Fund after transfers to other agriculture related programs beginning with the 2009-2011 biennium. Based on projected income of \$9,970,182 and a transfer of 5% for agriculture related programs for the 2009-2011 biennium the transfer to the General Fund would be \$4,735,836 and with projected income of \$10,774,712 for the 2011-2013 biennium the transfer to the General Fund would be \$5,117,989.

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.*

The conference committee amendments establish a set formula of 50% of profits to the General Fund after transfers to other agriculture related programs beginning with the 2009-2011 biennium. Based on projected income of \$9,970,182 and a transfer of 5% for agriculture related programs for the 2009-2011 biennium the transfer to the General Fund would be \$4,735,836 and with projected income of \$10,774,712 for the 2011-2013 biennium the transfer to the General Fund would be \$5,117,989.

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.*

Name:	Karelne Fine	Agency:	Industrial Commission
Phone Number:	328-3722	Date Prepared:	05/03/2009

FISCAL NOTE
Requested by Legislative Council
04/13/2009

Amendment to: Reengrossed
SB 2014

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.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$6,979,128	\$0	\$7,542,298	\$0
Expenditures						
Appropriations						

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

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

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

This fiscal note relates only to the provisions regarding transfers from the State Mill profits to the General Fund and does not include any of the other fiscal impacts of the House amendments.

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.*

The House amendments establish a set formula of 70% of profits for transfers to the General Fund beginning with the 2009-2011 biennium. The Senate had authorized no transfer during the 2009-2011 biennium. Based on projected income of \$9,970,182 for the 2009-2011 biennium the transfer would be \$6,979,128 and with projected income of \$10,774,712 for the 2011-2013 biennium the transfer would be \$7,542,298.

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.*

The House amendments establish a set formula for transfers to the General Fund beginning with the 2009-2011 biennium. The Senate had authorized no transfer during the 2009-2011 biennium. Based on projected income of \$9,970,182 for the 2009-2011 biennium the transfer would be \$6,979,128 and with projected income of \$10,774,712 for the 2011-2013 biennium the transfer would be \$7,542,298.

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.*

Name:	Karlene K. Fine	Agency:	Industrial Commission
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Phone Number: 328-3722

Date Prepared: 04/13/2009

PROPOSED AMENDMENTS TO SENATE BILL NO. 2014

Page 1, line 2, remove "to amend"

Page 1, remove line 3

Page 1, line 4, remove "research fund deposits;"

Page 7, remove lines 10 through 20

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

This amendment removes Section 13 relating to the maximum allocation of oil and gas gross production tax and oil extraction tax collections to the oil and gas research fund.

Date: 2/12/09

Roll Call Vote # 1

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2014

Senate _____ **Senate Appropriations** _____ Committee

Check here for Conference Committee

Legislative Council Amendment Number 98033.0204 amendment

Action Taken Do Pass Do Not Pass Amended

Motion Made By Wardner Seconded By Bowman

Senators	Yes	No	Senators	Yes	No
Sen. Ray Holmberg, Ch			Sen. Tim Mathern		
Sen. Tony S. Grindberg, VCh			Sen. Aaron Krauter		
Sen. Bill Bowman, VCh			Sen. Larry J. Robinson		
Sen. Randel Christmann			Sen. John Warner		
Sen. Rich Wardner			Sen. Elroy N. Lindaas		
Sen. Ralph L. Kilzer			Sen. Tom Seymour		
Sen. Tom Fischer					
Sen. Karen K. Krebsbach					

Total Yes voice vote yes No _____

Absent _____

Floor Assignment _____

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

Date: 2/12/09

Roll Call Vote # 2

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2014

Senate Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass Do Not Pass Amended

Motion Made By Wardner Seconded By Bowman

Senators	Yes	No	Senators	Yes	No
Sen. Ray Holmberg, Chairman	✓		Sen. Aaron Krauter	✓	
Sen. Bill Bowman, VCh	✓		Sen. Elroy N. Lindaas	✓	
Sen. Tony S. Grindberg, VCh	✓		Sen. Tim Mathern	✓	
Sen. Randel Christmann	✓		Sen. Larry J. Robinson	✓	
Sen. Tom Fischer	✓		Sen. Tom Seymour	✓	
Sen. Ralph Kilzer	✓		Sen. John Warner	✓	
Sen. Karen K. Krebsbach	✓				
Sen. Rich Wardner	✓				

Total Yes 14 No 0

Absent 0

Floor Assignment Wardner (maybe Bowman)

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

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2014

Page 1, line 2, after the semicolon insert "to amend and reenact section 54-17.5-01 of the North Dakota Century Code, relating to education activities relating to the lignite industry;"

Page 1, line 17, replace "2,562,503" with "2,733,761" and replace "9,770,047" with "9,941,305"

Page 1, line 18, replace "589,978" with "609,886" and replace "2,845,668" with "2,865,576"

Page 1, after line 21, insert:

"State facility lignite feasibility demonstration project	0	1,000,000	1,000,000"
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Page 2, line 2, replace "\$15,590,470" with "\$14,399,304" and replace "65,077,880" with "66,269,046"

Page 2, line 4, replace "4,480,792" with "5,671,958" and replace "15,756,796" with "16,947,962"

Page 2, line 5, replace "4.69" with "5.69" and replace "60.06" with "61.06"

Page 2, line 10, replace "5,721,483" with "6,698,389" and replace "40,993,350" with "41,970,256"

Page 2, line 13, replace "5,276,483" with "6,253,389" and replace "42,448,350" with "43,425,256"

Page 2, line 15, replace "(5.00)" with "0.00" and replace "171.50" with "176.50"

Page 3, line 6, replace "(150,000)" with "25,000" and replace "150,000" with "325,000"

Page 3, line 7, replace "175,000" with "0" and replace "325,000" with "150,000"

Page 3, line 26, replace "5,880,792" with "7,071,958" and replace "26,556,796" with "27,747,962"

Page 3, line 27, replace "(11,800,248)" with "(10,823,342)" and replace "174,008,864" with "174,985,770"

Page 3, line 28, replace "\$5,919,456" with "\$3,751,384" and replace "200,565,660" with "202,733,732"

Page 4, after line 6, insert:

"State facility lignite feasibility demonstration project	0	1,000,000"
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Page 4, line 9, replace "6,493,152" with "7,493,152"

Page 5, remove lines 26 through 30

Page 6, remove lines 1 through 8

Page 7, after line 8, insert:

"SECTION 11. AMENDMENT. Section 54-17.5-01 of the North Dakota Century Code is amended and reenacted as follows:

54-17.5-01. Declaration of findings and public purpose. The legislative assembly finds and declares that North Dakota's lignite industry produces approximately thirty million tons of lignite annually, contributing to our state's and nation's energy independence by generating electricity for more than two million people in the northern great plains region and by producing synthetic natural gas from coal that heats three hundred thousand homes and businesses in eastern states, which is equivalent to over twenty thousand barrels of oil per day. The legislative assembly further finds and declares that North Dakota's lignite industry generates over ~~seventeen~~ twenty-eight thousand direct and indirect jobs for North Dakota, ~~over one~~ nearly three billion dollars in annual business volume, and over ~~sixty-five~~ one hundred three million dollars in annual tax revenue. The legislative assembly further finds and declares that it is an essential governmental function and public purpose to assist with the development and wise use of North Dakota's vast lignite resources by supporting a lignite research, development, and marketing program that promotes economic, efficient, and clean uses of lignite and products derived from lignite in order to maintain and enhance development of North Dakota lignite and its products; support educational activities relating to the lignite industry; preserve and create jobs involved in the production and utilization of North Dakota lignite; ensure economic stability, growth, and opportunity in the lignite industry; and maintain a stable and competitive tax base for our state's lignite industry for the general welfare of North Dakota. The legislative assembly further finds and declares that development of North Dakota's lignite resources must be conducted in an environmentally sound manner that protects our state's air, water, and soil resources as specified by applicable federal and state law.

SECTION 12. STATE FACILITY LIGNITE FEASIBILITY DEMONSTRATION PROJECT. The state facility lignite feasibility demonstration project line item in subdivision 1 of section 1 of this Act includes \$1,000,000 from the general fund for the purpose of demonstrating the feasibility of using lignite at a state-owned facility equipped with coal-fired boilers generating at least 200,000 pounds of steam at 125 pounds per square inch."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98033.0207 FN 5

A copy of the statement of purpose of amendment is attached.

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2014 - Summary of Senate Action

	Executive Budget	Senate Changes	Senate Version
Industrial Commission			
Total all funds	\$65,077,880	\$1,191,166	\$66,269,046
Less estimated income	49,321,084	0	49,321,084
General fund	\$15,756,796	\$1,191,166	\$16,947,962
Bank of North Dakota			
Total all funds	\$54,198,350	\$976,906	\$55,175,256
Less estimated income	43,398,350	976,906	44,375,256
General fund	\$10,800,000	\$0	\$10,800,000
Housing Finance Agency			
Total all funds	\$41,232,188	\$0	\$41,232,188
Less estimated income	41,232,188	0	41,232,188
General fund	\$0	\$0	\$0
Mill and Elevator			
Total all funds	\$40,057,242	\$0	\$40,057,242
Less estimated income	40,057,242	0	40,057,242
General fund	\$0	\$0	\$0
Bill total			
Total all funds	\$200,565,660	\$2,168,072	\$202,733,732
Less estimated income	174,008,864	976,906	174,985,770
General fund	\$26,556,796	\$1,191,166	\$27,747,962

Senate Bill No. 2014 - Industrial Commission - Senate Action

	Executive Budget	Senate Changes	Senate Version
Salaries and wages	\$9,770,047	\$171,258	\$9,941,305
Operating expenses	2,845,668	19,908	2,865,576
Capital assets	49,000		49,000
Grants - Lignite research & development	19,971,300		19,971,300
Grants - Bond payments	27,441,865		27,441,865
Renewable energy development	5,000,000		5,000,000
State facility lignite demo project		1,000,000	1,000,000
Total all funds	\$65,077,880	\$1,191,166	\$66,269,046
Less estimated income	49,321,084	0	49,321,084
General fund	\$15,756,796	\$1,191,166	\$16,947,962
FTE	60.06	1.00	61.06

Department No. 405 - Industrial Commission - Detail of Senate Changes

	Adds 1 FTE Geologist Position ¹	Adds Funding for Lignite Feasibility Demonstration ²	Total Senate Changes
Salaries and wages	\$171,258		\$171,258
Operating expenses	19,908		19,908
Capital assets			
Grants - Lignite research & development			
Grants - Bond payments			
Renewable energy development			
State facility lignite demo project		1,000,000	1,000,000
Total all funds	\$191,166	\$1,000,000	\$1,191,166
Less estimated income	0	0	0
General fund	\$191,166	\$1,000,000	\$1,191,166
FTE	1.00	0.00	1.00

¹ This amendment adds 1 FTE geologist position and related operating expenses for the Department of Mineral Resources.

² This amendment adds \$1 million from the general fund for demonstrating the feasibility of using lignite at a state-owned facility equipped with coal-fired boilers generating at least 200,000 pounds of steam at 125 pounds per square inch. A section is also added relating to this demonstration project.

A section is added providing that the lignite research, development, and marketing program also supports educational activities relating to the lignite industry.

Senate Bill No. 2014 - Bank of North Dakota - Senate Action

	Executive Budget	Senate Changes	Senate Version
Capital assets	\$1,455,000		\$1,455,000
Bank of North Dakota operations	40,993,350	976,906	41,970,256
PACE fund	8,000,000		8,000,000
Ag PACE fund	1,400,000		1,400,000
Beginning farmer revolving loan fund	950,000		950,000
Biofuels PACE fund	1,400,000		1,400,000
Total all funds	\$54,198,350	\$976,906	\$55,175,256
Less estimated income	43,398,350	976,906	44,375,256
General fund	\$10,800,000	\$0	\$10,800,000
FTE	171.50	5.00	176.50

Department No. 471 - Bank of North Dakota - Detail of Senate Changes

	Restores 5 FTE Positions¹	Total Senate Changes
Capital assets		
Bank of North Dakota operations	976,906	976,906
PACE fund		
Ag PACE fund		
Beginning farmer revolving loan fund		
Biofuels PACE fund		
Total all funds	\$976,906	\$976,906
Less estimated income	976,906	976,906
General fund	\$0	\$0
FTE	5.00	5.00

¹ This amendment restores 5 FTE positions that were removed in the executive recommendation.

This amendment removes the 2009-11 biennium transfer of \$60 million from the Bank of North Dakota to the general fund.

Senate Bill No. 2014 - Mill and Elevator - Senate Action

	Executive Budget	Senate Changes	Senate Version
Salaries and wages	\$22,599,324		\$22,599,324
Operating expenses	16,982,918		16,982,918
Contingencies	150,000	175,000	325,000
Agriculture promotion	325,000	(175,000)	150,000
Total all funds	\$40,057,242	\$0	\$40,057,242
Less estimated income	40,057,242	0	40,057,242
General fund	\$0	\$0	\$0
FTE	131.00	0.00	131.00

Department No. 475 - Mill and Elevator - Detail of Senate Changes

	Changes Funding to Correct Error¹	Total Senate Changes
Salaries and wages		
Operating expenses		
Contingencies	175,000	175,000
Agriculture promotion	(175,000)	(175,000)
Total all funds	\$0	\$0
Less estimated income	0	0
General fund	\$0	\$0
FTE	0.00	0.00

 _____
¹ This amendment corrects an error in the bill as introduced relating to the funding provided for the contingencies and agriculture promotion line items.

This amendment removes the 2009-11 biennium transfer of \$2.5 million from the Mill and Elevator to the general fund.

Date: 2/18/09
Roll Call Vote #: 1

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2014

Senate Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number amendment 98033.0207

Action Taken Do Pass Do Not Pass Amended

Motion Made By Bundberg Seconded By Bowman

Representatives	Yes	No	Representatives	Yes	No
Senator Fischer			Senator Warner		
Senator Christmann			Senator Robinson		
Senator Krebsbach			Senator Krauter		
Senator Bowman			Senator Lindaas		
Senator Kilzer			Senator Mathern		
Senator Grindberg			Senator Seymour		
Senator Wardner					
Chairman Holmberg					

Total Yes Univ Yes No _____

Absent _____

Floor Assignment _____

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

Date: 2/18/09
Roll Call Vote #: 2

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2014

Senate Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass Do Not Pass Amended

Motion Made By Bowman Seconded By Krebsbach

Representatives	Yes	No	Representatives	Yes	No
Senator Wardner	✓		Senator Robinson	✓	
Senator Fischer	✓		Senator Lindaas	✓	
V. Chair Bowman	✓		Senator Warner	✓	
Senator Krebsbach	✓		Senator Krauter	✓	
Senator Christmann	✓		Senator Seymour	✓	
Chairman Holmberg	✓		Senator Mathern	✓	
Senator Kilzer	✓				
V. Chair Grindberg	✓				

Total Yes 14 No 0

Absent 0

Floor Assignment Wardner

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

REPORT OF STANDING COMMITTEE

SB 2014, 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 SB 2014 was placed on the Sixth order on the calendar.

Page 1, line 2, after the semicolon insert "to amend and reenact section 54-17.5-01 of the North Dakota Century Code, relating to education activities relating to the lignite industry;"

Page 1, line 17, replace "2,562,503" with "2,733,761" and replace "9,770,047" with "9,941,305"

Page 1, line 18, replace "589,978" with "609,886" and replace "2,845,668" with "2,865,576"

Page 1, after line 21, insert:

"State facility lignite feasibility demonstration project	0	1,000,000	1,000,000"
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Page 2, line 2, replace "(\$15,590,470)" with "(\$14,399,304)" and replace "65,077,880" with "66,269,046"

Page 2, line 4, replace "4,480,792" with "5,671,958" and replace "15,756,796" with "16,947,962"

Page 2, line 5, replace "4.69" with "5.69" and replace "60.06" with "61.06"

Page 2, line 10, replace "5,721,483" with "6,698,389" and replace "40,993,350" with "41,970,256"

Page 2, line 13, replace "5,276,483" with "6,253,389" and replace "42,448,350" with "43,425,256"

Page 2, line 15, replace "(5.00)" with "0.00" and replace "171.50" with "176.50"

Page 3, line 6, replace "(150,000)" with "25,000" and replace "150,000" with "325,000"

Page 3, line 7, replace "175,000" with "0" and replace "325,000" with "150,000"

Page 3, line 26, replace "5,880,792" with "7,071,958" and replace "26,556,796" with "27,747,962"

Page 3, line 27, replace "(11,800,248)" with "(10,823,342)" and replace "174,008,864" with "174,985,770"

Page 3, line 28, replace "(\$5,919,456)" with "(\$3,751,384)" and replace "200,565,660" with "202,733,732"

Page 4, after line 6, insert:

"State facility lignite feasibility demonstration project	0	1,000,000"
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Page 4, line 9, replace "6,493,152" with "7,493,152"

Page 5, remove lines 26 through 30

Page 6, remove lines 1 through 8

Page 7, after line 8, insert:

"SECTION 11. AMENDMENT. Section 54-17.5-01 of the North Dakota Century Code is amended and reenacted as follows:

54-17.5-01. Declaration of findings and public purpose. The legislative assembly finds and declares that North Dakota's lignite industry produces approximately thirty million tons of lignite annually, contributing to our state's and nation's energy independence by generating electricity for more than two million people in the northern great plains region and by producing synthetic natural gas from coal that heats three hundred thousand homes and businesses in eastern states, which is equivalent to over twenty thousand barrels of oil per day. The legislative assembly further finds and declares that North Dakota's lignite industry generates over ~~seventeen~~ twenty-eight thousand direct and indirect jobs for North Dakota, ~~over one~~ nearly three billion dollars in annual business volume, and over ~~sixty-five~~ one hundred three million dollars in annual tax revenue. The legislative assembly further finds and declares that it is an essential governmental function and public purpose to assist with the development and wise use of North Dakota's vast lignite resources by supporting a lignite research, development, and marketing program that promotes economic, efficient, and clean uses of lignite and products derived from lignite in order to maintain and enhance development of North Dakota lignite and its products; support educational activities relating to the lignite industry; preserve and create jobs involved in the production and utilization of North Dakota lignite; ensure economic stability, growth, and opportunity in the lignite industry; and maintain a stable and competitive tax base for our state's lignite industry for the general welfare of North Dakota. The legislative assembly further finds and declares that development of North Dakota's lignite resources must be conducted in an environmentally sound manner that protects our state's air, water, and soil resources as specified by applicable federal and state law.

SECTION 12. STATE FACILITY LIGNITE FEASIBILITY DEMONSTRATION PROJECT. The state facility lignite feasibility demonstration project line item in subdivision 1 of section 1 of this Act includes \$1,000,000 from the general fund for the purpose of demonstrating the feasibility of using lignite at a state-owned facility equipped with coal-fired boilers generating at least 200,000 pounds of steam at 125 pounds per square inch."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98033.0207 FN 5

A copy of the statement of purpose of amendment is on file in the Legislative Council Office.

2009 HOUSE APPROPRIATIONS

SB 2014

2009 HOUSE STANDING COMMITTEE MINUTES

SB 2014

House Appropriations Committee

Check here for Conference Committee

Hearing Date: February 25, 2009

Recorder Job Number: 9724

Committee Clerk Signature

Shelby N. Aand

Minutes:

Chm. Svedjan moved the discussion to SB 2014.

Karlene Fine, Executive Director and Secretary, Industrial Commission of North Dakota approached the podium, distributed and reviewed testimony (Attachment A). Some entities do not show up in the budget because they are continuing appropriations. The majority of the bill is non-General Fund. (:24)

Ed Sather, Sr. Vice President, Bank of North Dakota approached the podium, distributed and reviewed testimony (Attachment B). (2:18)

Rep. Wald: Your return on equity is 24.8 percent. What would the average return be on an average bank in North Dakota? (3:47)

Mr. Sather: I would estimate it at between 14 to 16 percent. The big difference is that we don't pay taxes. We do pay a \$60 billion dividend to the state.

Mr. Sather continued and concluded his remarks. (4:40)

Chm. Svedjan: You expect to achieve your 8 percent capitalization ratio which would include a continuing transfer of \$60 million, is that correct? (6:50)

Mr. Sather: That's correct. If you look at the first page, we show capital ending at \$257 million. We look at total income of \$60 million and a \$30 million transfer to the General Fund.

Chm. Svedjan: From 2008 projected to 2009, your assets actually declined from \$3.5 billion to \$3.2 billion. (7:17)

Mr. Sather: Yes. We incorporated from the Governor's budget some shrinkage in tax revenues, some of the initiated measures and also the budget. The transfer to the Budget Stabilization Fund will be like an immediate \$111 million that will go to the state investment . . .

Chm. Svedjan: So that accounts for that?

Mr. Sather: That's correct.

Lynn Helms, Director, Department of Mineral Resources, North Dakota Industrial Commission, approached the podium, distributed and reviewed testimony (Attachment C).
(8:17)

Mr. Helms reviewed Attachment A and the following topics:

Fossils, page 4. (12:30)

Uranium, pages 5 - 7 (13:50)

Coal, pages 8 - 13 (14:48) – 25 billion tons is an 830 year supply of lignite.

Geothermal, pages 14 - 28. In the Piper/Opeche Formations (page 18) we are working with Wind Energy. There are salts in these formations where they want to mine the salt out and create a cavern and use it to store high pressure air like a battery for wind turbines. When they are generating more electricity than they need, they'll pump air into these caverns. When the wind dies and they need to generate electricity, they can bring the air back out and drive turbines with it. (18:22)

CO₂ Sequestration will take place in the Minnelusa Formation. (20:46)

Potash deposits are located along the Canadian border and the northern tier of counties in ND.

Two companies are looking at potash mining in North Dakota. The price today is between \$800 and \$900 per ton today as compared to \$150 before 2007. (22:33)

Asia is the "lurching giant" (p. 26, Attachment C). Mr. Helms said that 2 million barrels of surplus capacity (oil) can drive the price so far down, and 2 million barrels of shortage can drive the price so far up. That is what is creating the volatility. If the world is going to sustain even the low level of growth, we're going to have to bring on renewable, nuclear, coal, natural gas, like we've never done before (see p. 28). (24:22)

Oil and Gas, pages 29 - 45 (26:33)

Mr. Helms discussed the Bakken Formation. (27:29) The top layer of the Bakken rocks is about 43 percent plankton. Over the years that makes oil. 300 to 500 billion barrels of oil is stored in these rocks. To build a well like the one pictured on p. 33 costs about \$6 to \$6.5 million. The rig count typically follows the price of oil and the rig count is down today. There are 61 rigs today.

Mr. Helms distributed and reviewed "North Dakota Rigs" (Attachment D). Dunn, McKenzie and Mountrail counties are where drilling for oil is still economic. Mr. Helms expects that we will see further decline in the rig count. Many of the companies have commitments that they have to stick with but a number are going to reduce their rig count and potentially we could drop the rig count to the mid 40s.

Mr. Helms distributed "Available North Dakota State Land Mineral Leases" map (Attachment E) which shows where the rigs are located and what the economics look like in those counties.

This map also shows when the leases will expire. (34:50)

Mr. Helms discussed how his agency has been impacted in terms of staffing and referred the Committee to pages 42 and 43 of Attachment C. (38:26) The result of paying less than the average has left us with new hires who have about seven years experience and are going to be prime targets for industry and many folks who hired on when the division was first started who are waiting for the rule of 85. Everyone in between has been hired away. We have an

experience vacuum in the middle. Eight to twelve years of experience makes employees a prime target for industry to hire away. Last session you did a market equity bill and I think it's similar to what's in HB 1015. Because I work with geologists and engineers, that plan resulted in the agency getting \$59,000. If you put \$10 million into market equity and the Department of Mineral Resources got \$59,000 to spread across 50 people. Mr. Helms reviewed p. 44. (40:32) Grayed out trucks indicate vacant position he is unable to fill because of the beginning salary of \$36,000 per year. The remaining employees therefore have to pick up the workload and work longer hours. Mr. Helms explained that to convince those employees to stay he used roll-up dollars and gave them retention bonuses. The trucks with crosshairs indicate the employees that have told Mr. Helms that they have an industry job offer. The situation is critical and they need help in terms of market equity and roll-up dollars to retain these employees.

With the staff I have in place I will be forced to ramp the activity level down. With the staff I will be able to handle 550 cases, 350 permits and 45 rigs (See p. 45, Attachment C) unless we can find a way to retain and recruit employees. Mr. Helms concluded his remarks.

Rep. Wald: Referring to p. 5, Attachment C, there's a lot of apprehension in the Dickinson area about uranium mining and the cancer scare. There were actually some cases 25 or 30 years ago. Would you briefly give us some comfort level on that issue? (43:55)

Mr. Helms: Uranium mining that took place in the 60s involved taking the overburden off of the coal pouring diesel fuel and putting old tires on the coal and burning it in an open pit, scraping the ash and hauling the ash away to extract the uranium from it. Today's technology involves drilling pods of seven wells in a honeycomb pattern, injecting hydrogen peroxide into the uranium bed which sets the uranium loose. It flows to the producing wells and then it's pulled out and extracted in a bed like you're water softener. It's completely different technology. We

understand how the process works. We have implemented administrative rules to put that in place. We have little or nothing to fear from using that technology.

Rep. Wald: The amount of regulation on the books as it relates to uranium, you say that we are doing that now? Where's it at? What's the bill number?

Mr. Helms: There is a Surface Owner Protection Act SB 2141 that will be heard in Natural Resources. That bill is designed to put the same surface owner protections in place that we have used for the oil and gas industry for decades for the folks whose land is going to be disturbed by this solution mining. We also shopped all the uranium regulations from Nebraska, Wyoming and South Dakota, brought them together in our shop and spent hundreds of hours making them better and have implemented those regulations for North Dakota.

Mr. Helms concluded his remarks.

Chm. Svedjan recessed the committee until 1:30.

2009 HOUSE STANDING COMMITTEE MINUTES

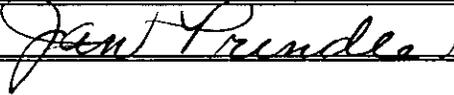
Bill/Resolution No. 2014

House Appropriations Committee
Government Operations Division

Check here for Conference Committee

Hearing Date: 3/2/09

Recorder Job Number: 9948

Committee Clerk Signature 

Minutes:

Chairman Delzer opened the hearing on Senate Bill 2014. Roll was taken with all members present.

Attached testimony

Black Binder- 2014.3.2.09A

Bank of North Dakota Organizational Chart- 2014.3.2.09B

Bank of North Dakota Brochure- 2014.3.2.09C

Karlene Fine, Executive Director of the Industrial Commission, presented her testimony under the tab: Administration.

Chairman Delzer: Do you have a report that shows we are actually receiving the savings we say we are making the bond payments with?

Karlene Fine, Executive Director: The Department of Commerce works on that with the institutions and they every year have a report done and that information is brought forward.

There was an untimely death in Commerce, and that person was working on the report for 2008. I do have the report for 2007 I could bring to you.

Chairman Delzer: Does the report show if there is any reduction in actual costs in any line items to correlate with that?

Karlene Fine, Executive Director: No, the report is just strictly on the amount of savings they have identified on campuses.

Chairman Delzer: So it is just supposition.

Karlene Fine, Executive Director: We would have to discuss that with each of the campuses.

Representative Berg: If follow along the top line of this exhibit, the total of \$22 million is their actual bond payments?

Karlene Fine, Executive Director: That is the amount for the bond issues that are included here. There is another bond issue for Connect ND and that is on Exhibit B.

Representative Berg: So \$22 million is the total of the 1991 through 2006?

Karlene Fine, Executive Director: Correct

Representative Berg: And 10% of 1% of sales tax is \$27.7 million. Of that \$22 million in payments, \$18 million is coming from the GF. The difference between the two is \$9.4 million and that would be available to do additional bonding?

Karlene Fine, Executive Director: To do debt service payments on additional bonding.

Representative Berg: So that would probably factor in to \$60 million in actual bond value?

Karlene Fine, Executive Director: That's correct.

Representative Berg: What you are saying for the next biennium, 11-13, that \$1.8 million will be paid off. So you are just carrying all these forward the same way. The difference between \$18.3 and \$27.7 flows back or stays in the GF?

Karlene Fine, Executive Director: It never leaves the General Fund. It is just a calculation that we have to do.

Chairman Delzer: It looks like you are giving credit for the energy conservation even though we are paying more for energy at all the universities as a rule; you are still giving credit for that amount against the overall amount that could be bonded?

Karlene Fine, Executive Director: When the statute was passed for those projects it was specifically identified that any payments for energy conservation would be outside the cap.

Chairman Delzer: Really?

Representative Kaldor: As I understand it the energy conservation authority, the institution basically pays the same amount of cost as they paid in the past based on historical energy consumption. They actually fund the bond payments and part of the savings accrues to them—that's their fee. Am I correct on that?

Karlene Fine, Executive Director: We will have somebody from UND here later in the presentation. These are projects the campuses did themselves, there was no outside entity doing it. These projects are funded directly to the campuses or the Missouri Correctional Center where they did it in house.

Representative Dosch: Can you tell me the percentage on the end of each column is that the percent of interest rate on the bonds?

Karlene Fine, Executive Director: Yes.

Representative Dosch: Are these tax-exempt?

Karlene Fine, Executive Director: Yes to the state.

Representative Kempenich: Have you gone through these to look at paying them off?

Karlene Fine, Executive Director: With our financial advisor we review on a regular basis to see what the market is like and if would be beneficial to refinance these. That's why you will

see on top of some of the columns where they have been refunded. Under tax code you can only refund so many times. There is a limitation.

Chairman Delzer: I think the question is, are there penalties for early payment?

Karlene Fine, Executive Director: When we issue these bonds, generally they are twenty year bonds and we make a commitment that we won't pay them off earlier than ten years. The Connect ND was a 10 year bonding. Those we could not pay off at all.

Ms. Fine continued her testimony on page three.

Chairman Delzer: Is there information included regarding how much was spent this biennium?

Karlene Fine, Executive Director: Yes, I will get to this later in my testimony.

Ms. Fine continued her testimony on page three and the Renewable/Biomass tab.

Chairman Delzer: Where do the other funds come from for the Biomass program?

Karlene Fine, Executive Director: They come from the BioPACE and Beginning Farmer Funds. The Industrial Commission has instructed me to do is utilize GF dollars before we cap in to those special funds. At this point I have only transferred the \$30.0 that was authorized in legislation for the organic farming project from the Biomass program.

Chairman Delzer: Why did we authorize such a high number on special funds?

Karlene Fine, Executive Director: We authorized \$3 million from the GF and the \$17 million. We had hopes that we would be able to identify some federal funds. Those foundations or the federal government I went to when I had the projects identified would fund the projects directly

but they will not provide funds to the State to disperse. So we have taken all of those other funds out of this budget.

Chairman Delzer: You have taken them all out?

Karlene Fine, Executive Director: We have only included the \$5 million from the General Fund. If there were some funding in the stimulus package, they can come a bit later in the session or we would go to the Emergency Commission.

Chairman Delzer: That is \$5 million on top of the \$3 million from last session?

Chairman Delzer: How much have we spent so far?

Karlene Fine, Executive Director: Actually, \$2.2 million.

Chairman Delzer: Does the bill include the \$1.4 million for biofuel partnership under the BND?

Karlene Fine, Executive Director: That is a separate program.

Ms. Fine described the Oil and Gas Research Program with the tab labeled OG Research.

Chairman Delzer: Shelia, we need a list of all of the things that are coming off of the Oil & Gas Taxes and how they come off: 1st, 2nd. We need to look at what we are doing with taking the caps off and increasing the impact dollars the way it currently sits.

Sheila Sandness, Legislative Council: So you are looking at a summary for the disbursements.

Chairman Delzer: How it goes off. Also I want to see under the legislatively approved budget how much is expected.

Sheila Sandness, Legislative Council: Under the bills adopted?

Chairman Delzer: We adopted a legislative budget with an oil revenue forecast. I want to see that mostly.

Ms. Fine described the Pipeline Authority.

Chairman Delzer: Where does the \$300,000 come from for them?

Karlene Fine, Executive Director: We take it out of the oil and gas research fund and the Oil and Gas Research Council makes the determination and then makes a recommendation to the Industrial Commission on the amount. In the current biennium they had to set aside 10% so it was \$300.0.

Ms. Fine described the North Dakota Transmission Authority.

Chairman Delzer: Before you leave, when we get in to subcommittee we are going to need an organizational chart and spend down for everything you have.

Mike Anderson, Director, Housing Finance Agency described his testimony under the tab labeled HFA.

Representative Kempenich: What is your square foot cost?

Mike Anderson, Director, Housing Finance Agency: We are budgeted at \$15/square foot. Our current cost is \$13.50

Mr. Anderson continued his testimony on page two with the Other Equipment.

Chairman Delzer: What percentage is that?

Mike Anderson, Director, Housing Finance Agency: When we set this last biennium at \$6 million, we didn't know what kind of loans were dealing with and what the terms of those loans would be. We were anticipating guaranteeing at 100% of the principal. We've been able to reduce that to closer to 50% of principal outstanding.

Mr. Anderson continued his testimony.

Chairman Delzer: what are you basing this on, the oil activity?

Mike Anderson, Director, Housing Finance Agency: Most of this is based upon just the demand for our program in the last several years. We have become more effective and relevant for our targeted market. It reflects that we expect a continued level of activity of the program.

Mr. Anderson continued his testimony with the Grants, Benefits & Claims.

Representative Glassheim: You talk about your interest expense for the Bank of North Dakota from the expanded line of credit. What kind of interest do you pay them?

Mike Anderson, Director, Housing Finance Agency: I believe it is LIBOR plus 70 basis points. That floats quarterly.

Representative Glassheim: There is this position that was authorized in 03 that has not been filled. What happens to the funds that are not used for that position? Are they used for other purposes?

Mike Anderson, Director, Housing Finance Agency: It just stays within our reserves.

Mr. Anderson continued on page four.

Representative Berg: Is there anything that we can do to strengthen the quality of our bonds? I'm thinking that as you look around the country, ND bonds may trade at a premium.

Mike Anderson, Director, Housing Finance Agency: We are very well thought of in the capital markets. One of the interesting things we have been hearing in the last several months from the capital markets is that it is a matter of liquidity. The investors that we typically look to if they have any liquidity, they are sitting on it. In years past we have used bond insurance for supposedly strengthening our issues. We are finding today that even bond insurance is actually a detriment in maintaining the level of quality with our issues. We have issue that has insurance and we are trying to find a way to get it off the issue so that it would be easier to trade those bonds.

Representative Berg: There may be some creative ways such as offering a buyback to investors who are purchasing these bonds to give them some liquidity. There are all kinds of financial tools out her. In the bigger picture one of the biggest barriers we have had relates to housing in rural ND. The inescapable fact that you build a \$200.0 home or duplex or apartment and the day you get done it is worth \$100.0. What programs do you have that would address that specific area and what it is that we can do in this session that would help encourage investment in housing in rural areas where you have a growing employment base?

Mike Anderson, Director, Housing Finance Agency: Yes, that is the \$64,000 question for the agency over the last couple of years. We haven't found a way of reducing the cost to build in rural communities so we have to find a way to subsidize or offset that value gap. There were several bills introduced this session to deal with the rural value gap and affordability.

Unfortunately only one of those bills has survived and that is the mobile home loan guarantee

program. We proposed legislation for a housing tax credit to entice private investment in house in rural communities. That bill did not survive. We believe right now you need some sort of incentive whether it is coming from the private sector or wherever to have private investment in to those projects if you are get it done.

Representative Berg: Maybe you can brief me on that bill later. I do think before we leave this session, we ought to have a plan in place to try to address this in a way that does not create favoritism for one developer or anything like that. The last thing, we have talked a lot about the stimulus package and obviously its focus is housing. When will you know what the stimulus package will do for ND?

Mike Anderson, Director, Housing Finance Agency: We are paying close attention. There are a lot of housing things in the current bill.

Representative Berg: If you could just give us a quick cheat saying here's what we know and subject to change daily of what would apply to housing.

Mike Anderson, Director, Housing Finance Agency: I can do that.

Representative Dosch: How is North Dakota as far as our delinquency rates as compared to the national?

Mike Anderson, Director, Housing Finance Agency: Our first time home buyers are performing are performing as well as the states statistics. I won't try to kid you that there isn't a little bit of elevation but there is nothing to give us any concern at this point.

Chairman Delzer: Were you around when the oil busted in the 80's? How does it compare to that?

Mike Anderson, Director, Housing Finance Agency: Yes we were. We're in much better shape. The big difference then and what you are seeing now is what we were realizing in the housing sector in terms of the oil bust in the 80s is what you are seeing now in MI and OH

where their unemployment rate is going through the roof. You just see people abandoning properties.

Representative Dosch: Do you have that delinquency rate?

Mike Anderson, Director, Housing Finance Agency: I believe that our delinquency rate is around 2%. Our default rate is less than 1%.

Chairman Delzer: That's just yours, not around the state.

John Dwyer, Lignite Research Council presented his testimony under the tab LRP.

Representative Kempenich: Is there a real feverish pitch in the Congress (on energy).

John Dwyer, Lignite Research Council: Congress has it much higher on the agenda. The speaker of the house recently indicated she wanted to pass legislation the end of the summer. The Senate by the end of the year.

Representative Kempenich: Have these people looked at Europe. From what I have read they are trying to disentangle themselves from that trade.

John Dwyer, Lignite Research Council: What happened in Europe is that they gave an excess of allowances to industry so the value of the carbon credits didn't trade very much. I'm sure the Obama administration will take a look at that. It's important to us because we cannot burn lignite without emitting CO₂—at least today.

Representative Kempenich: Nationally are you involved with other groups or states that produce energy?

John Dwyer, Lignite Research Council: Yes we are. I will go through some of that.

Mr. Dwyer continued his testimony.

Representative Kaldor: On the carbon sequestration, are we shipping off some CO2 for oil recover?

John Dwyer, Lignite Research Council: We have the world's largest capture facility. We do pipe that CO2 to Canada for oil recovery. It is a demonstrated technology but you have to understand that this is different.

Mr. Dwyer continued his testimony on page four.

Chairman Delzer: What happens to the money you don't use? Does it just sit in the fund?

John Dwyer, Lignite Research Council: That is carried over. As you will see by the balance after all of our commitments, the estimated unexpended fund leaves about \$1.3 million. That is carried over to meet the commitments of Vision 21 projects primarily. Basically we can only commit for the two-year legislative biennium, but we have set it up so we can dollars over a longer period of time because obviously you don't do the project in two years.

Chairman Delzer: Is this under a continuing appropriation or is it appropriated every year?

John Dwyer, Lignite Research Council: It is under a continuing appropriation.

Chairman Delzer: What we did last biennium was five biennium issue.

John Dwyer, Lignite Research Council: Yes, what you passed was separate bill that added the conversion tax to the pie to take care of our commitments under Lignite Vision 21. On page 7 you will see the \$2.2 coal conversion tax; the Legislature passed a law saying 5% of that tax would go for research and development purposes. That is the addition from that tax.

Chairman Delzer: and that would be for 2017?

John Dwyer, Lignite Research Council: That is correct. It expires July 31, 2018.

Mr. Dwyer concluded his testimony.

Chairman Delzer: How many new dollars do we have this biennium?

John Dwyer, Lignite Research Council: A total of \$8.4 million.

Chairman Delzer: That's over last biennium's?

John Dwyer, Lignite Research Council: It's basically flat.

Chairman Delzer: Is there anything changing in the law that is going to cost more than this is saying.

John Dwyer, Lignite Research Council: There is nothing pending that we are proposing or that anyone else is proposing that I am aware of that is going to cost any more.

Chairman Delzer: What about Section 10 of the reengrossed bill.

John Dwyer, Lignite Research Council: That's a continuation and has been in there for the last 5 biennia. That has nothing to do with UND. The section of the bill that deals with UND is section 12. We didn't request it, but we support it.

Chairman Delzer: What does it do?

John Dwyer, Lignite Research Council: It sets up prototype boiler and tests various technologies as to burning lignite.

Representative Meyer: On your Great Northern projects, have you planned anything on the research side of this dealing with uranium?

John Dwyer, Lignite Research Council: We don't have anything specifically allocated, but there would be nothing wrong with anybody coming forward with a research proposal to study that. That is how these projects are funded. Entities bring a proposed project forward and that would certainly qualify.

Representative Glassheim: Your total expenditures are \$20 million?

John Dwyer, Lignite Research Council: Our total appropriation request is \$19.9 million.

Representative Glassheim: And that is roughly the same as 07-09?

John Dwyer, Lignite Research Council: It's roughly the same. It was \$19.4 million.

Chairman Delzer: The only thing we would actually have control over on that is if we wanted to take away what we did last biennium.

John Dwyer, Lignite Research Council: That would be one thing you could do. (laughter)

Chairman Delzer: The rest of it is mostly set by the constitution.

John Dwyer, Lignite Research Council: Yes, the voters passed two measures providing a good share of the funding. There is one thing that I wanted to mention is in Section 11 of the bill, that doesn't have any money associated with it but it is just to clarify that we could use the money for educational purposes similar to the oil and gas research council. It updates the economic impact footprint of the lignite industry.

Chairman Delzer: When was the last time that was updated?

John Dwyer, Lignite Research Council: It was passed in 91 or 93 so it has been a while.

Lynn Helms, Dept. of Mineral Resources presented his written testimony under the tab labeled Dept. Min. Res.

Chairman Delzer: You are building your budget on the idea that you are going to have 90-100 rigs operating?

Lynn Helms, Dept. of Mineral Resources: That is correct. We anticipate that kind of activity by the end of the biennium.

Mr. Helms continued his testimony.

Chairman Delzer: How much of time do the field agents spend in the field offices?

Lynn Helms, Dept. of Mineral Resources: Approximately ½ to 1 day per week. That's an ideal scenario. In today's environment with the vacant position especially in Dickenson where they are covering for the two vacant positions, they are not doing that. They are spending 1 or 2 hours in there.

Chairman Delzer: Well the real question is why don't you want to close those and let them work out of their home?

Lynn Helms, Dept. of Mineral Resources: What we are experiencing is a lot of unhappy folks who would normally travel to that field office and meet with a field inspector instead they are trying to work out the problem over the phone and then what we are having to do is call back to the field inspectors and ask them to travel out there.

Chairman Delzer: Having an office is not going to change that if they are not in it.

Lynn Helms, Dept. of Mineral Resources: If we get back to full staff, they will be in the office. That's the idea to get back to full staff so they can be in there to meet with those people. Of course, with 56 rigs instead of 96, some of the pinch in that rope is disappearing.

Chairman Delzer: The \$362,424 is all related to rent?

Lynn Helms, Dept. of Mineral Resources: Not entirely. We will get the detail.

Mr. Helms continued on page eight.

Chairman Delzer: Are those new FTEs the ones that you are talking about going from special contingent to GF.

Lynn Helms, Dept. of Mineral Resources: No, those are two additional on top of those two.

Chairman Delzer: You still have a contingency section in the bill?

Lynn Helms, Dept. of Mineral Resources: Yes, we have. It adds 3 FTEs. If we had a rig count of 100 and stay at that rig count for three or more months, then we would add another

field inspector, another engineering tech, and then there is the geologist contingency if we get a permit for a uranium program or a potash program. We would add a field geologist to cover those. There are two conversions FTE, 2 new FTE, and three FTE contingency.

Mr. Helms continued on page eight explaining the optional funding requests.

Tim Porter, Executive Director of the Public Finance Authority presented his written testimony from the tab labeled PFA.

Chairman Delzer: Is there any equity money included in that \$82,815?

Tim Porter, Public Finance Authority: Yes there is.

Chairman Delzer: That's ok we can get it. I just wanted to know if there was any.

Mr. Porter continued with his testimony.

Chairman Delzer: Was that position removed in the executive budget or in the Senate?

Tim Porter, Public Finance Authority: It was not.

Chairman Delzer: Where are you housed at?

Tim Porter, Public Finance Authority: We are housed in the Bank of North Dakota.

Chairman Delzer: will you get us a list of your spend down and what you have done.

Representative Kempenich: How has your luck been in securing bonds, like your industrial bond?

Tim Porter, Public Finance Authority: The bond markets have struggled a bit. The spread between municipal bonds and the treasury markets has widened. We have still been able to do our deals because of the credit rating that we get.

Chairman Delzer: Why the clean water is done through you guys and not the Water Commission?

Tim Porter, Public Finance Authority: We act as the financing consultants for the clean water and drinking water programs. The capitalization grants from the federal government are received by the Health Department and they hire us to assess each loan and the financing side of that program.

Representative Glassheim: How much do you have in loans outstanding?

Tim Porter, Public Finance Authority: Under all of our programs collectively, that would be in our annual report. If you look at section 2.1, you will see the bonds outstanding listed there. The total of all bonds is \$175,100,000.

Representative Kempenich: You must have just about every municipality in the state, don't you?

Tim Porter, Public Finance Authority: A lot of the larger communities have their own bond rating so they wouldn't utilize the Public Finance Authority generally. It's more to help the smaller ones that don't have a bond rating.

Eric Hardmeyer, President, Bank of North Dakota presented his written testimony under the tab labeled BND.

Chairman Delzer: it seemed to me that about 8% of that is the fact that we are not taxed as such.

Eric Hardmeyer, President, BND: This is a non tax ROE similar to a Sub S but given the nature of the tax structure if you were to apply that to the BND we would probably be taxed in the 30% - 35% bracket. Our earnings would probably be closer to 18% or so.

Mr. Hardmeyer continued with his testimony.

Chairman Delzer: It seemed to me that the original bill had \$60 million worth of transfers for the next biennium.

Eric Hardmeyer, President, BND: No, we have another \$30 million remaining for 07-09. We have sent \$30 million and will send the other \$30 million on June 30, 2009. The action that Senate took did not address that \$30 million. Where that does affect us is I had projected our capital at the end of 2009 to be \$257 million. Now with the action that the Senate took, with taking out the \$60 million transfer, that will become \$272 million because they are not taking that out of the earnings of the bank.

Chairman Delzer: How much of your assets is stock portfolio?

Eric Hardmeyer, President, BND: You will see that at the end of the year we are \$3.5 billion and we have loans of \$2.6 billion. The \$900 million difference will be made up of a combination of cash, short-term investments, and other securities. \$324 million.

Chairman Delzer: When do you recognize the changes in the value of that?

Eric Hardmeyer, President, BND: We mark the market continuously. The big issue in the financial world is what is called OTTI which stands Other Than Temporarily Impaired. That is what has brought down a number of these big banks. That means their securities are not temporarily impaired—they are permanently impaired. That means they have to write those down to fair value. The Bank of North Dakota has a small portfolio of private label securities but we have exposure. The rest would be guaranteed by the federal government. Our private label securities portfolio is probably in the range of \$20 - \$25 million. We are of the position right now that we still are in a position to collect 100% of that. We are not prepared to write any of that done. There are a number of things in the stimulus package that may be positive for

those mortgage backed securities where you buy a stream of cash flows. We have done that just to support the earnings of the bank. We mark them to market but as far as any permanent impairment, we don't see any right now.

Mr. Hardmeyer continued his testimony discussing the transfers.

Chairman Delzer: Have you ever calculated what the amount transferred to the GF would be if it were taxed the 35% rate?

Eric Hardmeyer, President, BND: You can see the percent of transfer on the first page. When you look at the percentage of transfer we are taxed at a higher percentage that what you would find in the private sector tax.

Representative Glassheim: What was the Senate's reasoning for cutting the \$60 million? transfer? Did you ask for it? It looks like you are in a pretty sound position with the transfer.

Eric Hardmeyer, President, BND: I was not contesting the \$60 million transfer. The Senate looked at the projected ending fund surplus and asked why are we taking money of the bank. Now is the time to build capital. It might be a very wise move at this time.

Representative Kaldor: Over the past 12 years if the BND would have had that \$340 million, what would have that leveraged in to in economic product to the State of ND?

Eric Hardmeyer, President, BND: I would tell you that it wouldn't have changed dramatically anything that we have done. We have at the BND access funds above and beyond what you see here today. We have alternative funding sources. We could borrow from the federal home loan bank, we could issue international and national CDs, and we could sell loans to the student loan trust. It would have perhaps lowered our cost of funds.

Representative Kaldor: I remember being on the Appropriations Committee 12 years ago when we were discussing the first \$60 million transfer and your predecessor was not at all excited about it at that time. I appreciate your analysis and comments.

Chairman Delzer: When we get into the detail we are going to want your spend down, and a little information on the building and the old building and some information what has happened with the amount of lost loans—whether there is write down. Also the last time the Legislature wrote down a large amount of money—I think it was '91.

Eric Hardmeyer, President, BND: There was a real estate trust issue . . . and in '01 when the state had a budget deficit. . .

Chairman Delzer: I believe we authorized \$25 million but we used \$18 million.

Representative Kempenich: I wanted to touch on student loans. We are getting some questions about the variety of interest rates on those. Have you though anything about how to look at these loans?

Eric Hardmeyer, President, BND: What absolutely needs to be discussed with you, the Legislature, is how the student loan rates work. Right now the federal government dictates to us what we can charge. On the Stafford Loans it has been fixed at 6.8%. Most people assume that the student makes their payment and the BND gets 6.8%. That's not true. We get a special allowance calculation based on a different index and today that's the commercial paper rate of the quarter plus a spread of 130 basis points if you are in school and 180 if you have graduated. When we looked at this at the last quarter we got to keep 3.92% and the rest went back to the federal government. For this quarter that will change dramatically and we will get less than 2% of that 6.8%.

Representative Kempenich: Some of the other states must be buying down the interest rates. It also may depend on when they borrowed the money.

Eric Hardmeyer, President, BND: Let me also address that. When people say they are lower than that perhaps they are talking about the alternative loans. Last session you authorized us

to provide a variable rate student loan. Today that rate is 2.96% and our fixed is 5.99%.

When you compare that to anyone else in this business, we are lower. We have the best program in the country in terms of interest rates.

Chairman Delzer: Anybody that does anything with federal financial aid is required to use the federal loan program?

Eric Hardmeyer, President, BND: The Department of Education wields a pretty strong arm in this thing. They will tell you that if you are going to provide alternative loans, we want you to provide the student the opportunity to max out the federal programs first. You can see on the federal program side there are all sorts of opportunities for forgiveness and reduced payment so we want the student to have the opportunity to get those breaks. They strongly encourage lenders to first use the federal programs.

Chairman Delzer: Once all of the subsidies are done, do they have to take a federal loan or can they switch to yours.

Eric Hardmeyer, President, BND: They can switch. If you go to UND it is going to cost you about \$15.0. The most you can get from the federal Stafford loan is \$5,500. We have provided this alternative loan to make up the difference.

Representative Kempenich: Do they borrow on a fixed rate? Do they have to reapply year after year?

Eric Hardmeyer, President, BND: You have to go through a pretty rigorous application. It is an annual process.

Representative Kempenich: So that's why rates change?

Eric Hardmeyer, President, BND: The federal rate does not change.

Representative Kaldor: Going back to the middle pie chart, the portion that goes back to the federal Department of Education. Is that the same regardless if it is a subsidized or unsubsidized loan?

Eric Hardmeyer, President, BND: Actually, no it is not the same. It is only for the unsubsidized. The federal government has provided themselves a benefit. If it is subsidized the rate over time will be cut in half. The federal government picks up the difference.

Representative Glassheim: I hear stuff about the federal government taking over all of the student loans. How will that affect the bank?

Eric Hardmeyer, President, BND: That is a very real possibility. The Obama administration has been clear. In 1993 President Clinton provided the direct program so schools could go directly to the Dept of Ed and get funding. It didn't catch on in ND. There are two things that have happened: 1) they have taken some of the fees from lenders and they found it was not profitable to lend and 2) quit. The Obama administration may go back to the direct lending. It could have tremendous impact on us and other lenders who provide student loans.

Vance Taylor, Mill and Elevator presented his written testimony.

Chairman Delzer: What are your wage increases?

Vance Taylor, Mill and Elevator: \$2,546,000

Chairman Delzer: How did you figure that? Is that the 5 and 5?

Vance Taylor, Mill and Elevator: On the 5 and 5 and also those in the final year of our union contract. We will be renegotiating that contract this spring and it will determine them.

Chairman Delzer: Is there any equity money in there?

Vance Taylor, Mill and Elevator: No.

Chairman Delzer: Are you still running that horrendous overtime?

Vance Taylor, Mill and Elevator: With the downturn in the economy we have seen a 14% decrease in overall volume this year and that has decreased the overtime by quite a bit. Right now we are running only about 5.5 days per week so it is quite a lot less overtime. We have budgeted quite a few dollars for overtime because we expect that to pick up.

Chairman Delzer: This loss that you have had, it all ends up being borrowed money from the BND.

Vance Taylor, Mill and Elevator: Essentially it decreases our equity. Because of our losses, our total debt to the BND has increased.

Chairman Delzer: The issue of the Senate removing the 2.5 the governor had in there. Does that go in to your equity side?

Vance Taylor, Mill and Elevator: It would go to the equity side. In effect the amount of the loan would go down.

Chairman Delzer: Did you have to borrow this time to make your payment?

Vance Taylor, Mill and Elevator: We are due to make that payment in May. The payment is being waived.

Chairman Delzer: Both of those were Senate actions?

Vance Taylor, Mill and Elevator: The Governor actually pulled the \$5 million out also.

Mr. Taylor continued his testimony.

Representative Kempenich: Do you use the future markets at all?

Vance Taylor, Mill and Elevator: We do. We tried to stay as fully hedged as possible.

Representative Kempenich: You don't have next fall's wheat bought already?

Vance Taylor, Mill and Elevator: We have forward contracted. We do hedge that in the futures market.

Mr. Taylor continued his testimony.

Chairman Delzer: Who is the insurance through? Do you not use Fire & Tornado?

Vance Taylor, Mill and Elevator: No we do not—we do that directly. The agency is Ag States.

Chairman Delzer: Why do you not use fire and tornado?

Vance Taylor, Mill and Elevator: It is a different type of building. We have a low loss rate. We have been doing our own insurance

Chairman Delzer: Shelia can you try to get some history on that as to when that changed and why?

Mr. Taylor continued his testimony.

Representative Kaldor: Relative to the total number of bushels handled, what does that represent for the state as a percentage of total production?

Vance Taylor, Mill and Elevator: It varies from year to year but we figure we grind about 10% of the total spring wheat production of the state.

Representative Berg: In the current biennium we are not turning money back to the General Fund. In 09 -11 we are proposing to turn back \$2.5 million.

Chairman Delzer: That was taken out by the Senate as well. It went to zero.

Representative Berg: This is a business that the state owns and runs, do you have a spreadsheet that you can say over the next four or six years here's how we are going to turn it around and here is what the State of ND can expect. We are increasing GF funding \$5.4 million over last biennium.

Chairman Delzer: Is this General Fund spending?

Vance Taylor, Mill and Elevator: Those would be special funds within the mill.

Representative Berg: But it is money that is not turned over to the General Fund. If we are not making money, why are we increasing operational by \$5 million bucks. If we are doing that so that we will eventually make money, then I would like to see how that plays out in the future.

Vance Taylor, Mill and Elevator: It is difficult to project that far ahead but we can give you some ranges. Definitely the request to increase in the budget is our intent to grow the business and get back to the kind of profitability that we saw in previous four fiscal years of approximately \$5 million per year.

Chairman Delzer: At the same time can you put together the marketing strategies. Have you lost market share in certain areas? Why? Those are some of the questions that need to be answered.

Vance Taylor, Mill and Elevator: I will be ready to talk about that in detail. We have not lost customers, we have actually added costumers and those customers we have are demanding less flour due to their business being down due to the economy.

Chairman Delzer: Is it a case of that or are they getting their stuff from other mills?

Vance Taylor, Mill and Elevator: We do stay in close contact with our customers and they pull from other mills we do, in general, know that. For the most part that is not happening.

Rick Tonde, UND presented his written testimony regarding the Boiler project.

Chairman Delzer: When I look through here, it looks like it is just a research project. Are you making any changes to the Boiler?

Rick Tonde, UND: No. We have the boiler there as a device if necessary. We will do some pilot plant work which will be very limited. For the most part we will be working on the research components that get us to that level.

Chairman Delzer: Why has this not funded through the Lignite Research Council? Have you came before them and requested this?

Rick Tonde, UND: I guess it was a process of coming to the Industrial Commission with the Lignite Resource Council as a partner in this.

Chairman Delzer: Was this added in the Governor's Budget or was this added by the Senate? I would like to know what constitutes the different things you have listed here for the amounts of money.

Rick Tonde, UND: Both Steve and I would enjoy coming back and giving a detailed explanation of our entire program.

Chairman Delzer: I don't see you needing to come back. I would like you to send a list of how you developed your budget all the way through. Detail it if you can and then some numbers where we could get a hold of you and visit with you on the phone if we needed to.

Rick Tonde, UND: I would be happy to do that.

Representative Glassheim: Do you have partners? You hope to leverage money but it's pretty sketchy now. Do you have partners that you have had preliminary conversations with? What kind of leverage might we anticipate? Where are we with the leveraging?

Rick Tonde, UND: Our goal with the initial funding is to establish programs and protocol where we will build relationships to share costs with industry partners such as Hitachi and the Department of Energy for federal funding because this leans towards improving overall emissions standards. Our goal here is to start with funding that gives us initial research and initial information that shows promise for future investment by these partners.

Representative Glasheim: If the research is somewhat successful, what good will we see for the state of ND?

Rick Tonde, UND: My ultimate goal for this project would be to develop and make available technology that can be used in the construction of new steam generation or retrofitting existing steam generation plants in such a way that there is an extraordinarily reduced emission in CO2 and particulate levels.

Representative Kaldor: I see we have another document in our binder that also relates to this subject. As I read this, we have ample supplies of lignite coal in ND that isn't something we can export to other parts of the state to use in some of our facilities. What you are saying is that you will enhance the value of lignite coal if you are successful? The dollars that have appropriated in this plan are intended to lever. I just want to be reaffirmed of that.

Rick Tonde, UND: Yes. It is my hope that will greatly enhance the value of lignite. Secondly, I have to be a little bit of dreamer knowing that the technology and the ability to do this isn't perfected yet. I have in my mind a framework where it gets from point A to point B and is successful. Of course, that has to be refined. I think in these initial first stages we are going to develop enough clear cut information that all of a sudden it's not a vague promise but a much more concrete one that will enable industry and the federal government to weigh in much more successfully in terms of seeing a final product.

Representative Kaldor: At a neighboring institution, the state is in the process through energy conservation to put in a coal-fired power plant. It would be great if we could burn lignite coal. I know we are going to have do some things. The community is not at all fired up about having a coal smokestack in our in our community. If this can help that would be very important to us.

Chairman Delzer: The question to me is if this has as much potential as what you are hoping, I'm surprised it isn't funded through the Lignite Research Council and the \$20 million under their control.

Rick Tonde, UND: I'm under the impression that they wouldn't want us to dilute the \$20 million any more than absolutely necessary. I certainly don't want to pick their pocket either—to speak frankly and that's why I'm looking at new dollars if at all possible.

Chairman Delzer: In essence, they are picking our pocket to start with and we are in the same pocket. That's one of the issues we have to think about.

Representative Berg: In your budget were you going to put the three platforms together? So we have the whole picture. I think it is great that we are leveraging all of these needs together and what you are doing here is very good.

Chairman Delzer: There is no requirement in the bill for this for any kind of match.

Karlene Fine, Executive Director: I think all the things that were made in the Senate have been covered. There was one minor change where in the Mill budget they just had wrong numbers in two line items. We just corrected that typo.

Chairman Delzer: I meant to ask one more thing of the Mill and Elevator. Does the Industrial Commission ever change the budget from what they bring in?

Karlene Fine, Executive Director: No, they present the budget to OMB but they have not been changing their budget.

Chairman Delzer: In any history that you can remember have they?

Karlene Fine, Executive Director: No.

Chairman Delzer closed the hearing.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2014

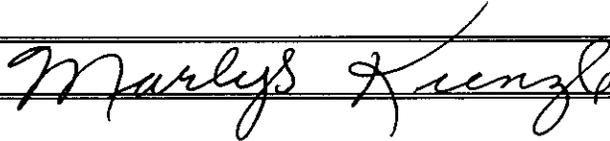
House Appropriations Committee
Government Operations Division

Check here for Conference Committee

Hearing Date: 3/16/09

Recorder Job Number: #11033

Committee Clerk Signature



Minutes:

Chairman Delzer opened the detail hearing on Senate Bill 2014. Roll was taken with all members present.

Attached Testimony and Information

Analysis of the Lignite Research Fund for the 07-09 and 09-11 biennium's- 2014.3.16.09A

Organizational Chart for Department of Mineral Resources- 2014.3.16.09B

Department of Mineral Resources spend down- 2014.3.16.09C

Formula for Mineral Resources Division- 2014.3.16.09D

Industrial Commission Organizational Chart- 2014.3.16.09E

Industrial Commission Administrative Office- 2014.3.16.09F

Organizational chart for the North Dakota Public Finance Authority- 2014.3.16.09G

Spend Down for the North Dakota Public Finance Authority- 2014.3.16.09H

Packet from Housing and Finance Agency- 2014.3.16.09I

Karlene Fine introduced John Dwyer.

Chairman Delzer: What is the tonnage done in the last two years and how has this affected the tax situation in the Lignite Research Center.

John Dwyer, Lignite Research Council: The collected tax is because there is several pieces in it is about 10 cents a ton. The tonnage is about 30 million tons a year. That has stayed pretty constant.

Chairman Delzer: Your total going to the Lignite Council is about 20 million?

John Dwyer, Lignite Research Council: That is correct.

Chairman Delzer: Last biennium we passed something with a ten year lifespan, did we not? What is the status on that?

John Dwyer, Lignite Research Council: That is correct. What you passed last session was legislation that allowed 5% of the Coal Conversation Tax for the Lignite Research Council until July 2018. That is presently being used for demonstration projects.

Chairman Delzer: How much money will that be when it comes off?

Karlene Fine, Executive Director: \$2.5million.

Representative Kaldor: Did the Senate make any changes to this part of the bill?

John Dwyer, Lignite Research Council: They made no changes to the dollars but they did add sections 11 and 12. We don't have a problem with it but it was not our amendment.

Chairman Delzer: I think there will probably be some questions about that issue at the meeting tomorrow afternoon. Mr. Dwyer did you know if there is any stimulus money for that?

John Dwyer, Lignite Research Council: My understanding is It would not qualify for the stimulus.

Chairman Delzer: Why not? Or is it because it is using fossil fuel?

Representative Berg: I have two questions, One, on the revenue you have investment coming from Dakota Gasification and Red Trail. I see that got a bump of about 1.3 million on our next biennium. Can you just briefly recap what that is and is that ongoing revenue source?

John Dwyer, Lignite Research Council: We had an agreement with Old Red Trail for the plant to utilize Lignite. They are going to pay that back because they are not using Lignite.

Representative Berg: So when that has been repaid, it will no longer be revenue?

John Dwyer, Lignite Research Council: That is correct. The Great Plains plant revenue has to do with the ammonia plant funding that we did 4 sessions ago and this is the payback. After that is paid back there will no longer be revenue.

Representative Berg: On the spending side, the demonstration projects, could you recap what they are and what results you are expecting to benefit the state with those?

John Dwyer, Lignite Research Council: On page 8 of my testimony details those 2 projects, but I will go through the remainder of the testimony for the benefits of the projects.

Chairman Delzer: When the Governor updated his forecast, increased the coal taxes that are coming to the state for about 10 million dollars. Can you explain that?

Karlene Fine, Executive Director: It is a separate agreement that deals with Basin Electric and Dakota Gasification.

Chairman Delzer: Why would that have been keyed to show up when he did his forecast versus when he did the original?

Karlene Fine, Executive Director: That was just an oversight by OMB. It should have been in the November forecast.

Chairman Delzer: There is nobody trying to get those taxes collected?

Karlene Fine, Executive Director: No, just an oversight.

John Dwyer, Lignite Research Council: SB 2221 will impact this which is in appropriations right now and has to do with tax credits for Great Plains.

Chairman Delzer: That is not listed as related bills. Who put that bill in?

John Dwyer, Lignite Research Council: Representative Belter and Senator Cook.

Chairman Delzer: What does that do to that dollar figure?

John Dwyer, Lignite Research Council: It reduces it about \$79.00.

Chairman Delzer: So it increases from 3 to 10?

John Dwyer: Great Plains will increase its revenue by about 6 million dollars.

Karlene Fine introduced Lynn Helms, Dept. of Mineral Resources.

Lynn Helms, Dept. of Mineral Resources:

Chairman Delzer:

Lynn Helms, Dept. of Mineral Resources. I have brought some organizational charts for you. Part of the Goal when I took over the Department of Mineral Resources is to illuminate Middle Management.

Organizational chart attachment

Went through the testimony and discussed the raise that they are coming largely from Market equity funds in the 5+5. We are adding a petroleum engineer, an engineer technician, and a subsurface geologist.

Chairman Delzer: What is the priority order for those?

Lynn Helms, Dept. of Mineral Resources: The Petroleum engineer, and engineer technician and a subsurface geologist in that order. So we are adding 3 FTD'd and we have the Marketing Equity Funds.

Chairman Delzer: This shows more than three.

Lynn Helms, Dept. of Mineral Resources: There are two FTD's that are currently special fund and we are converting them to General Fund. The contingency FTD's that were added when the rate count hit 45 last year those are paid from the Land and Mineral Trust Fund, we are also converting those to General Fund dollars. So there is a total of 5.69 FTD's..

Chairman Delzer: Why are we converting the funding?

Lynn Helms, Dept. of Mineral Resources: It is to keep the salaries in sync with the other General Fund employees. If we are funding them from the Land and Mineral Trust Fund they are paid by another salary schedule. Which would mean the employee may not get the same pay increases as the ones paid from the General Fund

Representative Kempenich: On these positions, are you going to find people to do this with what you are paying? .

Lynn Helms, Dept. of Mineral Resources: We believe that if we get the funding that we requested in the Governor's budget we will be able to hire people. We are going to have to pay them at Market Value.

Representative Kempenich: What I am driving at, would it pay to have these people on a unclassified schedule and pay them what we need to?

Chairman Delzer: Didn't we just pass a bill that would unclassify a bunch of positions.

Lynn Helms, Dept. of Mineral Resources: You did in fact pass a bill and just passed the Senate. The Emergency Clause was removed but it did pass.

Representative Kempenich: I thought we did and that is why I was asking.

Lynn Helms, Dept. of Mineral Resources: When the Geophysics Program was started in 1997 it was funded by 3 or 4 bienniums by the Land and Mineral Trust Fund. What happens to us there the salaries became completely out of sync with the General Fund Employees.

Chairman Delzer: So is there a reduction in the amount that you are using from the Trust Fund? Does it correlate with the other or do you just increase that?

Lynn Helms, Dept. of Mineral Resources: What you will see in the bill is the elimination of that Land and Mineral Trust Fund money that comes to \$285,000 and has requested in this bill 2 contingency employees but they would be triggered at 100.

Chairman Delzer: What is the current rig count?

Lynn Helms, Dept. of Mineral Resources: 51 today.

Chairman Delzer: What is its peak?

Lynn Helms, Dept. of Mineral Resources: It was 98 in November. We needed more as all we did was inspect drilling rigs.

Chairman Delzer: Should we have a trigger if it drops if the trigger gets below 50 if that is what the trigger is to add them?

Lynn Helms, Dept. of Mineral Resources: The trigger to add them was 45. Perhaps that is what we should be looking at is if we go below 45 we would consider reduction of staff.

Chairman Delzer: Do you use any Land and Mineral's Trust fund besides the contingency?

Lynn Helms, Dept. of Mineral Resources: We do not.

Representative Kempenich: We did that here a couple sessions ago.

Chairman Delzer: In all likely hood, If you have increased activity in the oil fields there should subsequently more money in the Oil & Gas Trust Fund.

Lynn Helms, Dept. of Mineral Resources: On the flip side of that, both Houses passed SB2095 which is going to plant Carbon Sequestration regulation in our pocket which we have not budgeted anything for more employees.

Representative Kempenich: Section six of the bill, would that kind of fall into that if that went through?

Lynn Helms, Dept. of Mineral Resources: The ideal behind section six is a different kind of a person. This would be geologists that would work with pot ash and uranium.

Chairman Delzer: On the pot ash though how much would that increase the money to Land and Mineral Trust Fund?

Lynn Helms, Dept. of Mineral Resources: There is no tax right now on Pot Ash or uranium in this state. To my knowledge they have not leased any land. There may be some royalties that would flow to the Land Department from uranium process from Belfield.

Chairman Delzer: You do have 3 contingencies in your hand out for \$479,244 yet the bill says \$515,207 why the difference?

Lynn Helms, Dept. of Mineral Resources: I believe the \$515,000 is correct. What I had in my handout was dealing with salaries and benefits for the employees. There are some offering expenses as well as computers etc,

Chairman Delzer: These are upon emergency approval but not the budget section. It does not have to go through the budget section?

Lynn Helms, Dept. of Mineral Resources: that is a great question. Last year they did have to go through the budget section.

Chairman Delzer: When we say that they go through the budget section we usually say it in the bill too.

Lynn Helms, Dept. of Mineral Resources: I have no problem with explicitly putting that in there.

Chairman Delzer: It seemed to me that in our previous discussion we talked about office space in the outlying areas. Did you have any more consideration on that?

Lynn Helms, Dept. of Mineral Resources: Let me explain what I was talking about when I was talking about the \$363,000 in restoring cuts. Most of this is for mileage and not office space. The total of the rental is \$32,000.

Chairman Delzer: Where are they at?

Lynn Helms, Dept. of Mineral Resources: In Dickinson we rent the basement from the Chamber of Commerce. In Williston the upper floor of a realtor's office and Minot we are in a building by the railroad tracks.

Chairman Delzer: It seems that you are requiring some pretty good education degrees from the inspectors.

Lynn Helms, Dept. of Mineral Resources: In fact we have. I am in some discussions up here with the president from Bismarck State College with regards to that program to fill the inspectors program.

Chairman Delzer: You would have calculations in the computer I would think?

Lynn Helms, Dept. of Mineral Resources: We do but the difficult part is that when they need to make a judgment in the middle of the night when the conditions change.

Chairman Delzer: How many vacant positions do you have in your 15 field inspectors?

Lynn Helms, Dept. of Mineral Resources: Three

Chairman Delzer: Are you counting three with the one you want to add?

Lynn Helms, Dept. of Mineral Resources: With the one I want to add we would have four vacant positions. The one in Williston is the biggest problem we actually hired someone from Minot, he moved over there and worked for three weeks but couldn't find a house that he could afford to pay him so went back to Minot.

Representative Kempenich: Could we put a manufactured house that we could put them into until we could house these people?

Lynn Helms, Dept. of Mineral Resources: We have not but I appreciate your suggestion.

Representative Kempenich: That is what all the companies are doing. We are basically looking at 1.5 million to keep the people is that what you are looking at?

Lynn Helms, Dept. of Mineral Resources: That is correct. We have difficulties with hiring and retaining the people. We are also losing the Federal Funding from our Haswapper Funding. To keep the inspectors certified we have to spend the \$6,000 a year to keep that training on. We use to get some funds from the Emergency Funds Services which we no longer are going to get.

Chairman Delzer: Is that a federal requirement?

Lynn Helms, Dept. of Mineral Resources: It is not, but we invested a lot of money to get them there. And at instances they have to be Haswapper certified. Otherwise we would be excluded from some of these sites.

Chairman Delzer: Is the \$6,000 for all 15 of the inspectors?

Lynn Helms, Dept. of Mineral Resources: Yes. There is about \$21,000 that is lab work that is associated with Frack Sand project and coal, meth line and natural gas projects.

Chairman Delzer: Travel is a big one. How did you build that travel?

Lynn Helms, Dept. of Mineral Resources: We build our travel from 15 field inspectors at driving at .59 cents a mile. That is what DOT has asked us to build the budget at but we have not used that.

Chairman Delzer: What is your average this biennium?

Lynn Helms, Dept. of Mineral Resources: Could we please get back to you on this?

Chairman Delzer: Do it in percents and dollars if you would.

Lynn Helms, Dept. of Mineral Resources: OK.

Karlene Fine, Executive Director explained the renewable energy program.

She explained that they have put together two programs, the Renewable Energy Program and the Biomass Incentive and Research Program.

Explained the Renewable/Biomass Testimony.

The Governor build his budget and put in about 5 million dollars of General Fund into renewable.

Chairman Delzer: Do you have that listed in here on what that is supposed to go for?

Karlene Fine, Executive Director: I don't have specific projects because all of our projects come into us by application and they need to have matching funds, so it is project by project. In the back of the book I did provide you with a brochure with all of our programs.

Chairman Delzer: What happened to the \$3million that we put in there for the switch grass last time?

Karlene Fine, Executive Director: The project they are talking about now is the Biomass Incentive Project by NDSU. We did have a switch grass project come in that we did not fund. We did do a feed study for pilot scale plant to produce fuels ad materials from Biomass feed stock. It was a Grand for \$800,000 we awarded and they provided matching funds.

Chairman Delzer: Which one was that?

Karlene Fine, Executive Director: Developing a Biomass Industry in North Dakota.

Chairman Delzer: And you only used \$800,000 of the \$3million that we gave you?

Karlene Fine, Executive Director: No. There was \$2 million that was made available for the Biomass projects.

Chairman Delzer: This time right now, the Senate passed this out with \$5 million

Karlene Fine, Executive Director: Yes.

Chairman Delzer: What happened to the levels where we got the special funds last time?

Karlene Fine, Executive Director: One million came from the Bio Pace and one million from the Beginning Farmer.

Chairman Delzer: Is there BioPACE fund out there where this 5 million going to go? Into this Bio Pace Fund? Where is this going to reside at?

Karlene Fine, Executive Director: This will reside at a separate Renewable Energy Development Fund. There is a special fund that is cut out especially for this.

Chairman Delzer: So what is happening with the BioPACE fund, where does it get its funding?

Karlene Fine, Executive Director: On Bio Pace, Erik will be talking about that on that and the 1.4 million dollars.

Chairman Delzer: What does that fund?

Karlene Fine, Executive Director: That is General Fund.

Chairman Delzer: What is that suppose to fund the same kind of projects?

Karlene Fine, Executive Director: Not necessarily. He would have to give you more information.

Chairman Delzer: This is called the renewable energy fund?

Karlene Fine, Executive Director: That is correct. I do have a summary sheet for appropriations.

Representative Kempenich: That \$5million, when you say continuing, you are going to get \$5million but it is one time funding.

Karlene Fine, Executive Director: If we had good quality projects and worthy of funding it could all be spend in the next biennium. Some of these are more than a two year project so that can go into the next biennium.

Chairman Delzer: That fund was set up last biennium with continued appropriations.

Karlene Fine, Executive Director:

Chairman Delzer: Becky is this listed out in the red book.

Becky Keller, Legislative Council: I don't believe so but I worked it up in a sheet that looks like this.

Chairman Delzer: I think we need to go a little deeper on these.

Karlene Fine, Executive Director: Many of these would have a handout with the breakdown.

Many of the projects are just starting so they don't have expenditures on them yet.

Chairman Delzer: What triggers the second payment?

Karlene Fine, Executive Director: How we run all our projects is you don't get all your money up front. You get a small portion at the beginning. As you get this part done we issue another payment. We laid out a contract for each project. So some don't see the money until the end of their project.

Chairman Delzer: committee members I will say right up front that I have some concerns with putting 5 million into this.

Representative Kempenich: That is what I am driving at.

Karlene Fine, Executive Director: I am going to go to Oil and Gas Research program. It is not in this budget as it is a continuous appropriation. Some of this is for the Pipeline authority. Discussed the Pipeline Authority Testimony under their tab

Chairman Delzer: That originally passed at one million did it not?

Karlene Fine, Executive Director: Yes but the first biennium it was \$50,000 and then it was increased to 1.3 million dollars then last biennium it was increased to 3 million dollars. In the Oil and Gas Research

Chairman Delzer: Becky I think we asked for a list of all of the different bills that they plan to take money out of the oil tax revenue from the Legal Council.

Becky: I can bring that down to you tomorrow.

Chairman Delzer: What did you say the status is for the bill that is in front of the Full Appropriation Committee?

Karlene Fine, Executive Director: I far as I know it was referred to the Full Appropriation.

Representative Meyer: That is for \$6million?

Karlene Fine, Executive Director: That is correct.

Chairman Delzer: Didn't we pass a bill that changed the bonding authority for the pipeline?

Karlene Fine, Executive Director: It was for the transmission authority not the bonding authority.

Karlene Fine, Executive Director described the spending down for the General Industrial Commission.

She went through the organizational chart of her department and the total Industrial Commissions.

Chairman Delzer: What is the total of the Industrial Commissions section for FTE's? Our green sheet shows that you are going from 55.37 to 60.06 that is Administrative and the Department of Mineral Resources.

Karlene Fine, Executive Director: That is correct.

Chairman Delzer: That does not account for the two contingencies?

Karlene Fine, Executive Director: No If the rate count goes over 100.

Lynn Helms, Dept. of Mineral Resources: Does that also count the Geologist?

Chairman Delzer: No that probably doesn't and would bring the amount to 61.

Karlene Fine, Executive Director: Overview the Budget in her testimony.

Chairman Delzer: Asked how many people were on the Interstate Compact Committee Members.

Karlene Fine: From North Dakota the Governor has appointed 9 members. The members who are citizens or Legislatures travel on my budget.

Chairman Delzer: How big of an organization is that?

Lynn Helms: There are 31 gas producing states and 4 Canadian Provinces' and 4 Foreign Countries. It has been around since 1935 and we have been members since 1953. The

reason that the dues increase is that it is based on production and we moved from 9th to 5th in the Nation.

Chairman Delzer: What is the value of it?

Lynn Helms: The biggest value is IOGCC was the only organization that went in and fought the Clinton Administration initiative called Net Revenue Sharing. This would allow the Federal Government to carve out royalties that the State is receiving. After this passed the net dollar amount to the State of North Dakota was \$240,000 a year than half goes out to the counties. The second thing is that our Oil and Gas Legislation was built on their model.

Karlene Fine: Discussed Holmberg's Demo Project that it has a separate line item, Line 24, in her budget.

Tim Porter, Executive Director of the North Dakota Public Finance Authority. The book does have a organizational chart of his department and the budget.

Tim Porter, Public Finance Authority: The details of these numbers are updated from December 2008 as you requested.

Chairman Delzer: You have a vacant FTE for how long?

Tim Porter, Public Finance Authority: That FTE has been vacant for 7 years and has been funded by Special Funds.

Chairman Delzer: Where do your Special Funds come from?

Tim Porter, Public Finance Authority: Our Special Funds are from our fees that we charge from our programs and we also have operating money that has been built up from those fees.

Chairman Delzer: What I am looking for is the balance on this fund.

Tim Porter, Public Finance Authority: I can get that exact dollar from December 31, 2008.

The estimate it is about 4 million dollars. All our Funds are listed as Special Funds.

Tim Porter, Public Finance Authority: Our professional services include our audit, the Attorney General Fees, amounts that we pay our advisory committee, the B&D credit analysis that we do for loans to Political Subdivisions. We usually come quite a bit under budget because we run the financial portion of the revolving funds which is funded by the Federal moneys. If something happens to the Federal moneys this budget would pretty accurate but right now a good portion of each line item is covered with the revolving fund.

Chairman Delzer: What kind of situation would happen if you did not receive the federal funding?

Tim Porter, Public Finance Authority: It would be the case if the Health Department would not be suited to manage their financial program anymore.

Representative Berg: Please touch on the States Revolving Fund and the Clean Safe Drinking Water Act. You are involved with the Health Department. With the new Stimulus Fiscal coming in how would you see what is changing?

Tim Porter, Public Finance Authority: Clean Safe Drinking Water Act will receive in the neighborhood of 19 million dollars from the stimulus money. That money is sent with all kind of earmarks that has to be spend a certain way and only on specific things. The Department of Health decides the priority ranking of those programs and determines which projects would qualify for that stimulus money. Of course we always have the State Revolving Fund moneys that are available for those projects that do not get money from the stimulus.

Representative Berg: Will some of this money require additional bonding to match locally or is going to pass through without a local match?

Tim Porter, Public Finance Authority: That is exactly right. The stimulus package is coming to us without a local match. The State Revolving Fund comes to us with a 20% match and we bond to meet this 20% match.

Chairman Delzer: Will there be requirements to continue at a higher level that the stimulus started after the stimulus is gone?

Tim Porter, Public Finance Authority: 50% of that stimulus money has to given out as form of loan forgiveness so that money will never enter the State Revolving Fund. The other 50% once the stimulus part has been repaid by the Political Subdivision that gets it that money will go right back into the State Revolving Fund.

Chairman Delzer: The real question is, is the stimulus going to cost us 4 or 5 years out, are we going to have a higher maintenance to cover to continue because of the guidelines of the stimulus.

Representative Berg: My question is if the stimulus will pay for safe water act to assist a number of cities what is going to happen with the other cities that will have the same expectation?

Tim Porter, Public Finance Authority: Because the stimulus is sent to us with 50% loan forgiveness has created some problems managing the fund because obviously when you are talking grant money everyone wants grant money and nobody wants to go with the 3% loan money. On the Drinking water side, the Department of Health presented those projects that qualify. For the 19 million dollars that qualified stimulus side there were 8 projects. Are the rest of the projects that are on the priority list because there is an excess of two million dollars that are below those 8 projects. Are they going to come to the state and ask for grant moneys to pay for those projects? We still have a State Revolving Fund that they can access 20 year money at 3 %. It is well below where they could issue bonds.

Representative Berg: Is there a direct or indirect changing in our standards with this federal money coming forward?

Tim Porter, Public Finance Authority: There weren't any direct changes in our standards or criteria use to set up a priority list. There are list of 5 or 6 items. Affordability is one of them. The status of their system is another. There is a point system that makes it very clear as to who is top priority; the rest can look for funding through the regular program or Rural Development.

Representative Berg: As you sat through that they had a priority list that they reshuffled and then the stimulus had guidelines and that is how they chose who was to get the funds?

Tim Porter, Public Finance Authority: That is an accurate statement.

Representative Berg: How much were they reshuffled?

Tim Porter, Public Finance Authority: Not very much. I think there were a few more points put on the affordability side versus what was on the Regular State Revolving Fund.

Chairman Delzer: They were able to shuffle them off of the loan priority and put them on the stimulus priority?

Tim Porter, Public Finance Authority: That is correct. I don't believe that any of the projects that ended up on the priority for the stimulus money were brand new projects.

Chairman Delzer: They hadn't been approved yet though?

Tim Porter, Public Finance Authority: They had not gone through the loan application & approval process. That is correct.

Mike Anderson, Director, Housing Finance Agency presented his packet.

Testimony in Binder for North Dakota Housing Finance Agency

Chairman Delzer: The Senate did not make any changes to your budget?

Mike Anderson, Director, Housing Finance Agency: No they did not. Continued with his testimony.

Chairman Delzer: What year did you add staff?

Mike Anderson, Director, Housing Finance Agency: Prior to the 2003-2005 biennium's.

Continued with testimony

Representative Meyer: Could you explain the big drop in the foreclosures and the reasons in the 4th quarter in 07?

Mike Anderson, Director, Housing Finance Agency: The big drop is in the regional number I don't know that I can explain it except that this is the statistic we received.

Chairman Delzer: Your North Dakota numbers where are they from?

Mike Anderson, Director, Housing Finance Agency: The North Dakota Lenders who participate in the ND Bankers Mortgage Survey. So all of these statistics are from that survey, with the exception of the agencies portfolio.

Chairman Delzer: Do you have any idea they crossed over in the second quarter of 06?

Mike Anderson, Director, Housing Finance Agency: I really could not explain that at this point.

Chairman Delzer: How do you handle this are they all subsidized housing or what is that you handle here?

Mike Anderson, Director, Housing Finance Agency: This is the first time home buyer loan portfolio as well as our North Dakota Roots Portfolio. Mike explained page three of his packet.

Chairman Delzer: You do a onetime funding for relocation, as where are you moving to or what are you doing

Mike Anderson, Director, Housing Finance Agency: We are currently moving to a private site.

Chairman Delzer: And what is the overall cost of your rent?

Mike Anderson, Director, Housing Finance Agency: Our square footage is capped at \$15.00 a foot.

Chairman Delzer: Have you got a copy of this green sheet? What about Program Utilization?

Karlene Fine, Executive Director: They are self funding

Chairman Delzer: Your outreach, you are going up \$338,000 on that?

Mike Anderson, Director, Housing Finance Agency: I believe that this is the Rural Development division that we have been working on the last couple of years. Our operations cost have gone up with more staff being on the road.

Chairman Delzer: Number 5 four positions how many are growth and how many are outreach?

Mike Anderson, Director, Housing Finance Agency: One is going to the program Planning and Housing Outreach, one going Property Management, one going Homeownership and one going operations.

Chairman Delzer: What happens to the money if it is not used for staffing and is available for loans than?

Mike Anderson, Director, Housing Finance Agency: It stays in the fund. We do not redirect the money.

Chairman Delzer: Any staffing you have takes away from loan money?

Mike Anderson, Director, Housing Finance Agency: That is not necessarily correct. Most of our programs are funded through the tax exempt mortgage revenue bonds. So it is a special fund that we raise in the National Capital Markets. The North Dakota Roots Program is the only one we are funding and that actually isn't using our funds it is using the line of credit at the Bank of North Dakota.

Chairman Delzer: If you could explain number 6 and 7.

Mike Anderson, Director, Housing Finance Agency: Number 6 is a reflection we are anticipating to be a reduced budget authority with our unassisted programs. And number 7 is a

internal one last session we set aside a loan loss pool of six million dollars for reserve. We do not need that much reserve and so we are setting aside 3 million from our agency.

Chairman Delzer: Do you have a priority on the four FTEs?

Mike Anderson, Director, Housing Finance Agency: One would be for the Planning and Housing Development division, next would be the Homeownership, and I don't know if I want to prioritize between the last two.

Representative Glassheim: Your capital loan money is borrowed but where does your administrative money come from?

Mike Anderson, Director, Housing Finance Agency: All the agency operations funds are generated from fees from the bond issues as well as the fees from the tax credit program to developers. So it is all fees generated through our programs.

Representative Glassheim: so as you have more business you take in more money and fees to pay administrative costs.

Mike Anderson, Director, Housing Finance Agency: That is correct.

Chairman Delzer: What happens if you do not create enough revenues?

Mike Anderson, Director, Housing Finance Agency: We do have a fund balance, which is one hundred and six million dollars. 86 million of that is revenues within our bond indenture.

Representative Glassheim: Is there a fire wall between your agency funds and the loans you have? So if you cut more positions could you give more loans?

Mike Anderson, Director, Housing Finance Agency: I don't think by cutting positions we would raise additional capital to generate more loans. We do fund some grant programs with agency reserves. As an example Our helping Hand Program, which provides help for the homeless, preparing analysis for preparing 10 year plans.

Representative Dosch: How does your Loan Loss Reserve work?

Mike Anderson, Director, Housing Finance Agency: There is a separate loan loss reserve fund within our Bond indentures. This would be like agency funding the ND Roots Program which is funded outside our bond indentures. This fund would be used to offset our losses if we deemed it necessary.

Representative Dosch: What is the balance in the ROOTS fund?

Mike Anderson, Director, Housing Finance Agency: We actually did issue some bond for a line of credit for about 15 million dollars a year ago. We have about 2 million dollars now that are not tied to a bond indenture.

Representative Berg: Are there any moneys from the stimulus for the rural housing for the immediate need.

Mike Anderson, Director, Housing Finance Agency: Some information is in the Binder that the agency is tracking from the stimulus funding. The only thing we are seeing in the Stimulus package that will have an effect on the agency is the low housing tax credit program. These are multiple units. There also is weatherization and so forth that will be available.

Representative Berg: As far as home gap financing there would be nothing really be anything for individual home.

Mike Anderson, Director, Housing Finance Agency: That is correct. There is the first home time buyer tax credit.

Chairman Delzer: Is there any language that is going through congress for weatherization or commerce that would cause the problems to the state that we would have to be concerned with.

Mike Anderson, Director, Housing Finance Agency: There may be some eligibility that may be available and the only thing else that I am hearing is the total dollar amount they will get they might not be able to utilize all those funds as we are talking 25 million.

Unconstructive discussion

Mike Anderson, Director, Housing Finance Agency: I am not familiar with the details.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2014

House Appropriations Committee
Government Operations Division

Check here for Conference Committee

Hearing Date: 3/17/09

Recorder Job Number: #11102

Committee Clerk Signature *Marlyp Kienzle*

Minutes:

Chairman Delzer opened the discussion on Senate Bill 2014.

Attached Testimony

Motor Pool Costs for Dept. of Mineral Resources- 2014.3.17.09A

Organizational Chart for Mill and Elevator- 2014.3.17.09B

North Dakota Mill Projected Income Statement- 2014.3.17.09C

North Dakota Mill Projected Balance Sheet- 2014.3.17.09D

North Dakota Mill Four Year Projections- 2014.3.17.09E

2007/08 Hedging Analysis Phase I- 2014.3.17.09F

North Dakota Mill 07-09 Budget vs. Expenditures- 2014.3.17.09G

North Dakota Mill & Elevator Strategic Plan 2009- 2014.3.17.09H

North Dakota Mill Gain Sharing Program- 2014.3.17.09I

Bank of North Dakota Spend Down- 2014.3.17.09J

Bank of North Dakota Loan Charge-Offs/Recoveries- 2014.3.17.09K

Bank of North Dakota Organizational Chart- 2014.3.17.09L

Bank of North Dakota Performance Highlights- 2014.3.17.09M

Advanced Power System Education Initiative- 2014.3.17.09N

US Flour exports in '08 fall 31% as Canada accounts for 48% 2014.3.17.09O

Karlene Fine, Executive Director explained the materials she distributed regarding motor pool costs.

Vance Taylor, Mill and Elevator explained his organizational chart and explained need for FTE,s. They have 126 employees and with the unauthorized FTE's that bring the total to 131.

Representative Glassheim: What happens to the salaries of the unfilled positions?

Vance Taylor, Mill and Elevator: So far we have not had to use the money set aside for the unfilled positions.

Chairman Delzer: This is a union shop so how do you handle pay increases?

Vance Taylor, Mill and Elevator: We negotiate a contract with a union. We have had this contract for 5 years. The shortest contract we have had is 2 years. We are coming off a 4 year contract at the end of the fiscal year.

Chairman Delzer: So what did you build in your budget?

Vance Taylor, Mill and Elevator: We have 5 and d 5 build into all our employees.

Chairman Delzer: What gives you that authority?

Vance Taylor, Mill and Elevator: Working through the Industrial Commission the legislature has allowed it since the nineteen forties.

Chairman Delzer: Is there a section of law that gives you that authority?

Vance Taylor, Mill and Elevator: I think that comes under the language of doing what other similar businesses do as long as it is not against any other business code.

Chairman Delzer: These are all exempt employees then?

Vance Taylor, Mill and Elevator: Yes.

Vice Chairman Thoreson: I am a little surprised about the flexibility of the length of the union contract. Why would you not have a fixed length of the contract?

Vance Taylor, Mill and Elevator: In the flour milling industry it is pretty common to leave the union contract with flexibility allowing them to vary from contract to contract.

Vice Chairman Thoreson: So walk me through the process, if I am the union do I come to you and say I want to negotiate my contract and then you negotiate the contract or is it vice a versa?

Vance Taylor, Mill and Elevator: It is a little more formal than that. With the union, we normally receive a letter 3 or 4 months before contract expiration and ask for a renegotiation of the contract.

Vice Chairman Thoreson: What may happen then if they do not notify you, to me it seems that at any time anyone could jump in and renegotiate.

Vance Taylor, Mill and Elevator: No that does not happen. They are written in such a way that the union would not come in middle of the contract and want to renegotiate. Both agree at the time of the contract for the length of the contract.

Representative Berg: I just had a couple of questions to follow through on this. You have a request for 131 FTEs. Do you have a copy of what the turnover has been in the last two years?

Vance Taylor, Mill and Elevator: I can get you that.

Representative Berg: The salaries and wages 22.6 million dollars, if we take 131 FTE's for average compensation per employee are 86,000. Is that comparable to the industries and how is this comparable to others in the industry? What benchmarks do you use or do you do that?

Vance Taylor, Mill and Elevator: The answer to that one is kind of a theme that runs through the whole budget. When we budget, we budget for seven days a week, twenty-four hours a day. We do not average that for the past years. We do for about one half of the year.

Representative Berg: What did we expend last biennium on salaries and wages?

Vance Taylor, Mill and Elevator: Included in my packet is the current spend down. It would be through January 1st and we have spend 7.7 milion. In the biennium for 2005/2007 total compensation was 16 million 596.

Chairman Delzer: How long was the contract that you are currently running out of?

Vance Taylor, Mill and Elevator: It is a four year contract.

Chairman Delzer: What were your increases?

Vance Taylor, Mill and Elevator: In the last year it was 2%.

Representative Berg: To evaluate where we are at, we need to know what the real numbers are. So I would like to know exactly what the 07/09 biennium. I understand there was a bonus paid of \$1.2million could you explain how that works?

Vance Taylor, Mill and Elevator: I am not sure where that number was coming from. For the fiscal of 08 there was a loss of 800,000 and no bonus where paid at all.

Representative Berg: It came from Legislative Council.

Vance Taylor, Mill and Elevator: In the previous year, fiscal year 2007, we had profits of 5 million we had gain sharing pad that was close to 10% which was 750,000 for that year. The previous year it was a similar amount.

Chairman Delzer: Do you have that in your contract?

Vance Taylor, Mill and Elevator: The gain sharing program is outside the contract. It is in place to incent better performance in the employees and a better performance from the mill. We do not pay unless we have a profit of one million and profit sharing doesn't until we reach 2 million. We also have goals for the pay out.

Representative Berg: So the 16million 596 does that include gain share?

Vance Taylor, Mill and Elevator: Yes.

Representative Berg: I would like to see a copy of the gain share is and if the mill loses money is there any consequences or not?

Vance Taylor, Mill and Elevator: We can provide that. The consequences would be that they do not get the bonuses.

Representative Berg: Maybe LC can give us a copy of that so you could refute that if it is not accurate.

Vance Taylor, Mill and Elevator: That would be interesting to see.

Chairman Delzer: When I take the math of your expenses of 12-1240 through January 31. Is this for 21 months?

Vance Taylor, Mill and Elevator: That would be 19 months.

Chairman Delzer: \$15.7million if it stays the way it is. You are not expected to have a profit this fiscal year.

Vance Taylor, Mill and Elevator: Not this fiscal year.

Chairman Delzer: The contract is not considered part of the pay raise?

Vance Taylor, Mill and Elevator: No the gain sharing is outside of the contract.

Chairman Delzer: \$1million looks to me as about 2 1/2% of your total operating. You have to make a 5% profit before that kicks in.

Vance Taylor, Mill and Elevator: The 1million refer to gain sharing and 750 thousand.

Chairman Delzer: You would have to make a 5% profit before that kicks in is what you are looking at. What is the one million recognizing for profit level of years on your cost? Your total operating cost has to over 20 million per year. How much is your overall budget for the year?

Vance Taylor, Mill and Elevator: For the 2007/2009 the total was 40.7 million.

Chairman Delzer: That is not what I am talking about you have to add the cost of the grain and the cost of the sales.

Vance Taylor, Mill and Elevator: That is going to vary from year to year. Our total costs for the year 2008 the sales were around 275 million and for that time we had an 800,000 dollar loss.

Chairman Delzer: I am trying to get at is, what your profit level percentage was over all operating. It looks like a 1/3 of a % and then you kick in your profit sharing. That seems pretty quick to me.

Vance Taylor, Mill and Elevator: If you look at 2008 report we had total operating expenses of 240 million. If you look at the 2005, 06, 07 report they are more normal.

Chairman Delzer: That includes your budget too right? That still give you a 1% profit and then your profit sharing is kicking in your profit sharing.

Vance Taylor, Mill and Elevator: Right and again at the one million it would be the gain sharing that is if they meet all their goal we have and that would be 4%. Then the profits gain sharing doesn't kick in until we meet 2 million. For our employees to receive a gain sharing check it would be in the neighborhood of 10% of their W-2 we would have to be in the range of 5 to 6 million dollars.

Representative Berg: Are we on the income statement?

Mr. Taylor explained the projected income statement which includes the projects and shows the past 4 years. Testimony in Black Binder

Representative Berg: My personal desire is to try to and energize the mill. My first question is what business decisions have you made differently since you have had the Eide Bailey projection since you have had the showing 7 million dollar loss this year?

Vance Taylor, Mill and Elevator: We have working hard to make sure as to what happened to us in February 08 and April 08 does not happen again. We are working with Dr Wilson from NDSU on our risk strategy and have developed a new hedge policy than what we have had in the past. Risk Management and Hedge Policy that is virtually complete but not fully improved

by the Industrial Commission but should be within a few days. We are operating so we do not run into that situation again. We have been talking about this for some time since the middle of 2008. What happened to the mill is not a mystery. We know what positions we took that caused the losses. We know that exact transactions that added up to the losses and looked through the books as has the Eide Bailey we know what that number is and that it is behind us know. We are now back to a normal profits level now even above the levels. We actually we have more customers now than we did last year. We do think we have the place turned around now.

Representative Berg: Are 100% of your losses you project in 2009 because of 2008?

Vance Taylor, Mill and Elevator: What happened to us is because of the highest peak of the market back in 2008.

Representative Berg: What are you going to do to get the sales up there to help the bottom line?

Vance Taylor, Mill and Elevator: The reduction in sales in 2010 versus 2009 relates to the assumption that the wheat prices are to be lower at that time. Projecting four years out these numbers are conservative. We are looking for more sales and output. To relay back to that we padded our budget. That is really not the case at all. We can, hope and are trying to run the mill seven days and we are budgeting for running the mill seven days.

34:00

Representative Berg: What is your average run time over the couple years?

Vance Taylor, Mill and Elevator: Over this fiscal year it is about 85% on 5 ½ days average for this fiscal year. Normally at this time we are running 6 to 6 1/2 days.

Representative Berg: The bottom line is that you will not make the 5 million dollars until 4 years down the road. Reason the projections to us.

Vance Taylor, Mill and Elevator: We want to build our total assets level up to at least as far as the past. How much we contribute to the General Fund of course that is up to the Legislature. As we grow we would like to keep the plant up along with some technology up.

Representative Berg: Is there any target that you aim for from your net assets or if you need capital improvements you just dip into that for those with the approval of the Industrial Commission?

Vance Taylor, Mill and Elevator: On the bottom of the page we have a total of net assets and where does this money come from for the improvements but out of the net assets.

Representative Berg: That is fine but that is not what the legislature gets. I would have you do another line that is the returns that go to the General Funds. You said you are using the net assets for Capital improvements than that money is not going to General Funds. I would like a copy of the two Eide Bailey audits.

Representative Kempenich: Is that where you took the losses, in your unrestricted? I see you dropped down to 10 million dollars. Where are you going to come up with the money for those losses?

Vance Taylor, Mill and Elevator: This does come out of our Unrestricted. The offset to the losses are more for the higher level of borrowing power from the State Bank.

Chairman Delzer: What do you owe the bank today?

Vance Taylor, Mill and Elevator: It is about 53 million presently.

Chairman Delzer: What was it two years ago?

Vance Taylor, Mill and Elevator: About 20 million. At the peak of the grain market run up we were at the 80 to 85 million range so we do have it down by a good bit.

Chairman Delzer: Roxanne did the bill get passed last session with only 2 and half million projected or was it 5 million?

Roxanne Woeste, Legislative Council: I believe the transfer from the Mill was 5 million.

Chairman Delzer: The Governor put 2 and a half for the next biennium.

Representative Kempenich: Do you mean for 09/11?

Chairman Delzer: The Senate took out the 5 million for this time and the 2 and a half for next time.

Representative Dosch: Just getting back to Representative Berg's question. There is no stated policy as far as what drives the amount of money that is returned to the General Fund?

Vance Taylor, Mill and Elevator: I did want to refer back to Rep Berg's question. The target that we do have is about 50% of our profits. To keep our business healthy the return back or contributions to the General Fund should average about 50%. If you go back to 1970's until now the return back has been about 53%.

Roxanne Woeste, Legislative Council: I don't believe there is a set policy for the transfer to the mill. The certain percentage profit of amount that is transferred to the mill from the General Funds has been directed by the Legislative Assembly.

Chairman Delzer: Has the Assembly ever differed before from the Governors recommendation?

Roxanne Woeste, Legislative Council: I would have to go back and look.

Chairman Delzer: Vance would you prefer to have language in the bill that would state a percentage of the profit?

Vance Taylor, Mill and Elevator: I guess it would be up to the Legislatures. For the health of the business 50% is about right. If that happens every year is that important I would say not as long as we maintain a long term average of about 50%.

Chairman Delzer: Is there an upper limit where your assets should not be above? You should reach a point where it should not be above.

Vance Taylor, Mill and Elevator: The level of our assets should grow with the size of the business. Over the past eight years since about 2000 the total volume that we ship, which is the best way to measure of growth for a flour mill because wheat prices go up and down ever year and using a sales figure distorts the number. Our total growth over the past years has been 40%. It is in our mission statement to grow the business. We expect growth in the future.

Chairman Delzer: You are pretty limited unless you rebuild the Mill again.

Vance Taylor, Mill and Elevator: For the near term we do have some growth planned. On the Durum side we have got a project that will increase our durum capacity by 50%. We also are organizing in installing a small pilot mill which we purchase from NDSU. We will find ways to grow the business whether it is further capacity in Grand Forks or somewhere else.

Representative Berg: I do think it is critical no matter what, to have some kind of formula. Clearly you have the ability to borrow whatever money you want from the Bank and plus you have your assets but I think it makes sense to have some kind of logic. I would like to stick with these years we have here and would like to know what your capital expenditure were for these years and what you are projecting for capital expenditures.

Two other concerns are that about 10% of the wheat in North Dakota comes to the Mill. What can we do to increase that percentage by increasing our sales?

Only 1% of our flour is exported. It seems to me that this has a huge potential for the Mill.

What is your plan to increase sales as we are moving forward?

Vance Taylor, Mill and Elevator: We do have a plan to continue growth with our existing customers. On the export side that is an area that we have focused on by taking several trips by our sales and myself to various countries. The 1% of total volume sounds small but that is

about the average Flour Mill in the US does. The total export of flour in the US has been a pretty serious decline for the last 10 or 15 years.

Chairman Delzer: There is an option that some of could stay and work on the Mill and the rest could work on Bank. We will stay on the Mill.

Representative Dosch: Could we also get the policy on the Gain Bonus Program? Do you have that?

Vance Taylor, Mill and Elevator: We can provide that.

Chairman Delzer called the committee back to order.

Vance Taylor, Mill and Elevator: I would like to refer back to some of the previous questions. When looking at our projected income statement we see the top line for net sales go from a level of 101 million back in 2005 up to the 241 in 2008 and dropping down going forward. That is due to the cost of wheat in our sales price of our flour dropping.

Representative Kempenich: Let's run forward, in 09, 10, and 11, what are you projecting the cost of wheat to be?

Vance Taylor, Mill and Elevator: On the projected sheet on the Testimony the projected cost of wheat is \$7 a bushel and durum is \$8 a bushel.

Chairman Delzer: Is that the set and then you inflate that by 4%?

Vance Taylor, Mill and Elevator: That is what we use all the way through.

Representative Kempenich: What is the problem with selling the finished project to be exported?

Vance Taylor, Mill and Elevator: A lot of the Mills have been built in developing countries. That drives buying wheat versus flour. If they are buying wheat they have more options. They can pick up wheat from different countries. It is also the shelf life that becomes an issue as it takes a long as a month to ship a bag of flour which gives a month life if they get wheat.

Another thing that is decreasing exports out of the US to these countries is price. When we are trying to sell exports we are out there selling to smaller niche sales. We are trying to find people that care about quality, want higher quality to mix with cheaper low protein flour and focused on the organic market in the Far East and other places.

Representative Kempenich: They do have quality issues is what I heard so it makes sense.

Vance Taylor, Mill and Elevator: Went over hand outs of the Executive Summary from Dr. Wilson from Nov and a copy of the Executive Summary Feb. This does go back to explain the losses that occurred in Feb to April 08 which stems from March Contracts which we took hits of \$3 a bushel from the hedging losses.

Representative Kempenich: So if you would bring a bushel in, your theory is now if you go long on one your selling short on the other to put a window together?

Vance Taylor, Mill and Elevator: As we have in the past, we hedge our flour sales and our grain purchases, and then match them up to offset. We do keep our hedge ratio as close as possible. The change going forward is trying to keep our Monthly hedge ratios at a more perfect 1.0.

Vance Taylor, Mill and Elevator: We are going through the Spend Down sheets.

Chairman Delzer: The only thing is the Utilities you are up 1.1 million. That is quite high.

Vance Taylor, Mill and Elevator: We have been notified utility providers, Minkota, WAPA and EXCEL on the gas side and we budgeted for the increase.

Chairman Delzer: Is it going to go up that much?

Vance Taylor, Mill and Elevator: Some of the increase is that we have been running 5 days and plan on running 6 days.

Chairman Delzer: If the economy stays the way it is it is going to be hard for you to pick up market share to run 7 days a week.

Vance Taylor, Mill and Elevator: I guess no one is saying that it is going to be easy. Since this back off in demand, we have had pretty good luck sell North Dakota Mill flour. Our niche is on the high end quality side using the ND spring wheat and durum. There are some benefits from using our flour over Moster or the competition. We also are trying to up our service level which we feel is the best in the industry. I do have confidence that we will be back up there again.

Chairman Delzer: Most of that was your remodeling for 17 million. You don't have plans to do something like that again do you?

Vance Taylor, Mill and Elevator: Nothing large like that. The smaller capacity for the durum mill is coming on line next year and the small pilot mill.

Chairman Delzer: Has that 17 million been recouped and paid to the Bank?

Vance Taylor, Mill and Elevator: Since we finished that in 2002 and we have had some profit I would say yes.

Chairman Delzer: You have had profits of \$20million but how much of that has been sent to the General Fund?

Vance Taylor, Mill and Elevator: Previously to this biennium it has been 5 million per each biennium which is 10 million for the past 4 years and slightly less than the previous to that.

Chairman Delzer: So it was 10 out of the 17 that went to the capital assets.

Vance Taylor, Mill and Elevator: Don't forget the money that spends on that capacity increase that came out of our own funds. That increase increased our capacity by 4 to 5 thousand hundred weights a day. That is just the first piece of that you still have to go out and sell that capacity at profits that can be made.

Chairman Delzer: Have you got some kind of list that tells how your marketing has been the last 2 years? What was your total volume as what sales you lost and what you have increased?

Vance Taylor, Mill and Elevator: Our customer list longer and we have added some significant customers in the last year or two. We also some decline that was shipped to our bigger customers just because of decline in the demand that the customer had. We did lose some customers due to the price and they purchased winter wheat at a reduced price. We are now trying to get those customers back.

Chairman Delzer: Do you want to go through your strategic plan at all?

Vance Taylor, Mill and Elevator: I just provided it to you for your reference. I had not planned on going through that at all. We do with UND on this.

Chairman Delzer: How much of increase is there in your budget is 2 1/2 to 4%?

Vance Taylor, Mill and Elevator: In percentage bases?

Representative Kempenich: In 09/11 you are increasing it from 170 to one thousand. I was wondering if we could get a report for the next biennium.

Chairman Delzer: Roxanne let's put a section of the bill that would do that

Representative Kempenich: I suppose the Budget Section.

Chairman Delzer: When is that triggered at the end of the FN?

Vance Taylor, Mill and Elevator: Yes. I will have some information that I will get back to you.

Chairman Delzer: so could we have it for this fiscal year and the next fiscal year.

Eric Hardmeyer, President, Bank of North Dakota presented his hand outs.

Eric Hardmeyer, President, BND: You have my testimony for early March. What I will concentrate on is questions from a previously hearing. The first question I am going to try and answer for you is on the Spend-Down Report which is done quarterly. If you over or under budget at any time in any of those 4 categories. Last session we were allowed to carry 176 1/2 FTE's this has reduced to 171 1/2 and the senate has put it back to 176 1/2. We carry 169

FTE's. We do have a job justification report before we hire anyone for a vacant position. We are at 29%.

We are a very efficient facility and bank. A bank that does bottom line of 50% is good. If you can get below that you are doing great.

We did put into the budget building contingency which we put into play to absorb dealing with the old facility. To sell it we thought that we might have to knock down the old tower so we build in 400 or 500 thousand and we didn't have to we sold it as it.

Chairman Delzer: Is the contingency in your budget for next time?

Eric Hardmeyer, President, BND: Yes it is. There is 4 million build in for next biennium but that is to deal specifically for the purchase of a Student Loan lender system which is about 3 1/2 million.

Chairman Delzer: Why do you have that listed as a contingency?

Eric Hardmeyer, President, BND: Rather than Capital Assets?

Chairman Delzer: Yes

Eric Hardmeyer, President, BND: We did put this budget together a year ago and has firm up just lately.

Chairman Delzer: Yet it all just resides in your operating line in the bill.

Eric Hardmeyer, President, BND: Yes.

Chairman Delzer: Because you don't have a contingency line in the bill.

Eric Hardmeyer, President, BND: The way the bill has two lines capital and operating it is operating.

Chairman Delzer: Do you have a sheet here of the BIOPACE Fund?

Eric Hardmeyer, President, BND: Yes I do.

Representative Berg: I really don't understand the green sheet I have never seen such a slope. I would like a copy of your policy to review the filling of a vacant position when it becomes vacant.

Chairman Delzer: Why did they go from 176 to 171 and then you are requesting them back?

Eric Hardmeyer, President, BND: This is not easy for me to answer. This took me by surprise and was not communicated to me that they reduce the number of FTE's until the budget. He went through all the difficulties of not having enough employees as banking industries has grown more difficult.

Chairman Delzer: Was the executive recommendation because of the position had been vacant for a long period of time?

Tammy Dolan, OMB: Yes when the budget was submitted there were 12 vacant positions.

Some had been vacant for a long time, 5 had been vacant for three years and some longer than that. From the information I got at that time they were recruiting 3 of the 12. There were four other areas that needed staff. So we included those five. You can see in Eric's testimony since that time there is new information that the bank ask to restore those.

Representative Kempenich: Are some of these people internal auditors?

Eric Hardmeyer, President, BND: As I said in my testimony there are a number of areas that have seen growth. Our loan growth has grown from 2 billion from 2.6 billion. The bank assets have grown from 2.7 billion to 4 billion. On page 4 you will see that we did a billion 6 in commercial loans. We have loan officers that 300 in their portfolio, when I started I had 50. Also the bottom line has improved so you have to have growth in FTE's. So we have to have enough employees for the growth, revenue and risk stand point of it.

Representative Kempenich: Has this happened in the last four months or has this been going on?

Eric Hardmeyer, President, BND: There is 55 employees in Student Loans. The Federal Government made mandates that squeezed many of the lenders out and so we have grown. In the Commercial banking industry there is a lot of liquidity problems. They have come to us.

Representative Kempenich: WE have put triggers for Lynn Helms department would you have a problem with that?

Eric Hardmeyer, President, BND: These were positions we already were approved to have. We are not going to add FTE's unless we need them.

We are a revenue generator and have provided 340 million dollars to the General Fund in the last 12 years.

Chairman Delzer: On the green sheet it shows that the Senate restored the position and added \$83,332 or did they add back the 893 plus the 83.

Tammy Dolan, OMB: That 893 includes the compensation package. The 83,332 is included in what is back in.

Unconstructed discussion about the Green sheet.

Representative Glassheim: Doing the math it 893 plus the 83.

Eric Hardmeyer, President, BND: You had a question about the Bio fuels Program?

Chairman Delzer: Yes.

Eric Hardmeyer, President, BND: Discussed the quarterly report done for Advisory Board and the Industrial Commission. This walk through all the aspects we do at the bank.

Chairman Delzer: What I want to know why we have to put 1.4 million General Fund into there?

Eric Hardmeyer, President, BND: When the budget was put together we put the 1.4 million in to get back to the 5 million dollars figure that was looked at last biennium so that was whole.

Chairman Delzer: So you are still sitting at a balance of 3.6?

Eric Hardmeyer, President, BND: Out of the 5 million there were 2 pieces that were spend for two other things. One was million for the Bio Mass project and another 30,000 for a demonstration project. Funded and committed is 2 million 115 thousand. There was further commitment that could be used for other things as Bio diesel ethanol plants, livestock facilities, pumps, Condo storage you see the break down on the sheet.

Chairman Delzer: Karlene, how does this compare to the \$5 million in your section?

Karlene Fine, Executive Director: It is all in the General Fund.

Chairman Delzer: I understand that. Are they doing the same things? How is this compared to the blender pumps that we are giving 2 million dollars to?

Karlene Fine, Executive Director: The way this was structured for blender pumps as well as condo storage you see there has not been much call for that. They have only utilized \$10,000.

Chairman Delzer: This is probably not blender pumps, this has been E85 pumps. So there is little demand? Than can the stimulus take place of both of these? This is renewable what we are talking about.

Karlene Fine, Executive Director: One pump. The Department of Commerce would be better qualified to answer that question about whether those blender pumps could be used in the stimulus.

Chairman Delzer: I think there is no question about that. But I am questioning your 5 million and the 1.4 where we are using General Fund money on renewable. I am talking about next biennium.

Karlene Fine, Executive Director: The only place where we are possibly crossing over is the million dollars that we have transferred out for the Bio Mass Program and further we are going

to draw that money down. There kinds of projects are different than the ones we do on the renewable program.

Eric Hardmeyer, President, BND: The two kinds of fuels that would look to take the majority of this money is a Bio Diesel plant or another ethanol plant or feed lots or livestock facilities that utilized the byproducts.

Eric Hardmeyer, President, BND: Information on the old building and on the existing building update is --

Chairman Delzer: What was the cost on the building total?

Eric Hardmeyer, President, BND: The total cost for the 10 million 2. The land was about 1 million 171 that we are utilizing and there is about 3 acres that we are not utilized right now and that has a land value of about 761 thousand.

Representative Berg: What is the plan for the other 3 acres?

Eric Hardmeyer, President, BND: Last session there were difference of opinions. One was to sell it the other one was to sit on it and not do anything with it. Right now there is no plan for it.

Representative Berg: It might make sense if someone were interested in developing a similar office type space on the parcel it would be advantages to pursue.

Chairman Delzer: That would have to come through the Legislature to sell it ? They are currently in taxpaying properties.

Eric Hardmeyer, President, BND: Put another building on there that would create a economic development campus and so when we do business with the Department of Commerce the house financing agencies that are in these states that we work with continuously, we would be in the same proximity. Right now there is room for about 40 thousand sq feet of building on this space and that doesn't include the extra two properties that I have talked about.

Chairman Delzer: They are apparently are taxpaying properties? Did they question you at all about paying taxes for out there?

Eric Hardmeyer, President, BND: Is Workforce Safety taxpaying? We have never paid taxes as a State Agency. So the property that we sold now sold to IRET which purchased the nearly two acres that was down town. So that was the off set of with the city of Bismarck.

Representative Berg: I would like to see you have the flexibility to move forward with what you are thinking. I would like to create a 20 year lease but the ultimate control would stay with the state to have control of the design and so forth.

Chairman Delzer: I would be real hesitant if you are talking about state agencies coming aboard.

Representative Berg: Typically the private business sector would have to pay property tax.

Eric Hardmeyer, President, BND: I would like to report to you about our Loan losses. Our charge offs percentage of total loans is significant smaller than the industry. The industry average is 5.7%. Even last year with the largest amount we were at 2.2%. Out of the 5 million dollar 4 million was for one specific project. It had nothing to do with the subprime issues.

Chairman Delzer: How many of the people that are at the bank where around in the 80's when the Ag market. It seemed to me in 91 there was a 50 million dollar write down. We legislated to take off the cap to be set by you guys and I hope we do not get ourselves in that same position again.

Eric Hardmeyer, President, BND: That is a great point. What you are talking about is the Real Estate Trust and that was a bond issue that was put together in the mid 70's and 80's where we put a bunch of ag loans together and used them as collateral and issued bonds against those. We had a significant down turn in agriculture and we did a very poor job of

administering the Agriculture Loan process at the Bank. We didn't check on collateral, on barrowers some of the land had not been farmed in years.

Ed: We commissioned to the Legislature to give us 23 billion to the bank capital to the Real Estate trust to make up the short fall and pay up the bond.

Eric Hardmeyer, President, BND: I appreciate what you are saying making sure that we do not get into that position.

Representative Kempenich: Are you capable to adjust interest rates as other Banks and can you adjust fast enough so before you are going to under water?

Eric Hardmeyer, President, BND: Yes we can. We have a pretty good banking system around the state to work with those issues. The financial community is pretty conservative in North Dakota. They are very in touch with their customers, they know what to lend and they are willing to work with their customers. We have gone through the Agriculture declining in 70's and the Oil boom in the 80's and we took note and that is why we don't see that in North Dakota.

Chairman Delzer: The one question I have for Rick Tonde is that we have heard that there are other campuses out there that are in a boiler refit. Isn't there anything that could be done within the retrofit, mostly you are doing research right?

Rick Tonde, UND: What we are looking into to start with is engage the design consultants and research the capacity to actually get the machine underway. The technology that would result in this would not retrofit the other campuses. In time there will be opportunity to do that.

Chairman Delzer: The problem is we have one that is out there right now.

Steve Benson: The opportunity that we have here is to develop a state of the art system and put a platform in for the future. We want to put in a system that gives us a system that would

be for steam as well as electricity. It also has a platform that gives us continuous flue gas stream for future potential research activities that will be unique globally.

The opportunities are there for developing our North Dakota resources in a system that is challenging, so we are building a flat form that does

#1 provides the basic needs for steam and energy.

#2 provides education and research flat form.

Chairman Delzer: If you had this flat form two what would you do with it?

Are these stand alone platforms?

Rick Tonde, UND: The Three flat forms fit together like a comprehensive way. If you look at the fuel properties analyzes and characterization that is going to dove tail into the preliminary design of the plant itself.

Chairman Delzer: It would but you would have to characterization and properties before you do the design right.

Rick Tonde, UND: If you consider the preliminary design of the plant itself the plant foot print itself are going to drive some of the fuel analyzes also.

Steve Benson: Plat Form two gives us the background information that will feed into the preliminary design. We will need all of them for the key design.

Chairman Delzer: So what you are saying it is an all or nothing design?

Rick Tonde, UND: We are not going to say that. If we have to take and part some this out I think we part out it would be part of the education component. The actual technical component is something that fits together.

Representative Kempenich: What is the time span on this?

Steve Benson: We envision this to be about an 18 month program.

Chairman Delzer: EERC is doing considerable work on coal why aren't they looking at this?

Steve Benson: I came from the EERC. They would definitely have a component in implementing this.

Chairman Delzer: Have you proposed this to any of the users or the suppliers of coal to try to get private money?

Steve Benson: We already had interested after the feasibility.

Rick Tonde, UND: I think we have to show a commitment of certain level of feasibility to them to show them if we can be successful.

Chairman Delzer: Have you folks gone to the Lignite Council yourselves and push this?

Steve Benson: We have not proposed it to the Lignite Council.

Rick Tonde, UND: Part of our effort here is timing. Taking this in a step of going to the Lignite Council, Industrial Commission or through another funding takes time. What we are hoping to do this as soon as possible. We also need to go for Federal Funding. By getting this together we will be able fit all the boxes filled so we can come back to you and show you the actual demonenstration.

Representative Kempenich: This is part of the clean coal initiative from what I am seeing.

Chairman Delzer: One of the problems I see is you haven't been in contact with all of the players. Is there any research like this being done by the Council?

John Dwyer, Lignite Research Council: There is research ongoing in these areas. We do not have a specific project like this. For them to get \$1million from the Lignite Research Council, we really don't have that kind of funds. We are generally supportive of the project.

Chairman Delzer: Let's go one step further. What happens if we go ahead and then next session more comes in and they are not coming through the research council at all with their issues? Are we going out of what we allocated for the research council and what kinds of problems are we creating?

John Dwyer, Lignite Research Council: I don't think there would be any problems and we don't have any problems with them coming through the research councils.

Representative Glassheim: If they should have positive results from their demonstration project what can you see from this project? Do you see something coming out of this that is useful for the industry?

John Dwyer, Lignite Research Council: It is very useful and I can see benefits coming out of this study. You will have base line data for other power plant applications. Most institutions use Wyoming and Montana coal because boilers are not contusive to lignite coal. If this would work it would help the lignite market.

Chairman Delzer: If we are honest about that, even if you got somewhere with this the only place you would look at is North Dakota because the other states will do to keep their share of their markets.

John Dwyer, Lignite Research Council: There are other institutions along with sugar beets plants, other institution in Minnesota to use.

Chairman Delzer: What is the cost if this proves successful to change out of the boilers? Are you going to have to come back here again after the research so that it can go to market?

Rick Tonde, UND: To start with on the fundamental side of the research, when we are complete with this project which will take us to about a total of 5 million dollars to get where we have everything scoped out and ready to pour concrete. We see this one million will have other sources over the next two years to come up with the 5 million.

Chairman Delzer: Are you talking the state through the University system that way.

Steve Benson: There is also Federal Money we would we would aggressively go after funding through the clean power associates and others.

Chairman Delzer: Have you gone through them yet?

Steve Benson: The source of patience has intent. For your information this will also test at smaller scale as well as industrial size.

Rick Tonde, UND: We will be back in two year.

Chairman Delzer: Is there any value to the knowledge, can you sell the knowledge to other customers? And why would people pay it instead of buying WY or MT coal?

Steve Benson: The resource of lignite is huge. There are parts of lignite that is very good. It fires very well, has good carbon conversion and works very well in systems with the exception of the water it contains.

Chairman Delzer: Are you talking using raw coal or beneficiated coal?

Steve Benson: The system would be designed for both.

Chairman Delzer: Lignite is a big issue for North Dakota but this is a big investment.

Karlene Fine presented an article regarding US flour exports.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2014

House Appropriations Committee
Government Operations Division

Check here for Conference Committee

Hearing Date: **19 March 2009**

Recorder Job Number: 11312

Committee Clerk Signature

Jan Priddle

Minutes:

Chairman Delzer opened the discussion of Senate Bill 2014.

Chairman Delzer: Under subdivision one, we have equity money at least in the Industrial Commission itself. Any of the other places we have that; we need to have to have that discussion. We have a \$5.0 million appropriation for renewal energy development. I don't know how anybody else feels about that but I would like to remove the \$5.0 million in GF and put \$3.0 million of stimulus money if available to that fund. This is where they have the contingent language for the Department of Mineral Resources where they could fund their people out of the Lands and Mineral Trust fund and switch them over to the GF. There's also a section in here that allows them if the rig count gets back up over 100, they could . . . They have two for oil and one for uranium. The uranium one may come in pretty early. I wonder why we would want have it contingent coming out of the Land and Minerals Trust Fund compared to coming out of the GF if they are going to want to switch them the next year anyway.

Representative Kempenich: We did that in 2003. That's what we set that up for. We started having rig activity and we triggered it to 25 or something. Last session we went to 45.

Chairman Delzer: Those two are number 8 that we switching from 285 of special funds to 306 of GF

Representative Kempenich: It doesn't matter to me. Whatever the Committee wants.

Chairman Delzer: Do we want to give them 5 new positions? The Senate added one on top of this. It's actually 61.06

Representative Kempenich: You never know if this going to work. At the time we were here two years ago, they were shooting for 45 and it's doubled then.

Chairman Delzer: Some of these are the positions that they have 3 vacant ones already.

Representative Kempenich: That's the reason. . .

Chairman Delzer: If we can't do the negative appropriation we need to make sure we do some travel operating adjustment.

Chairman Delzer: Bank of North Dakota. They have \$1.4 million going to the biodiesel. I would like to have an amendment that would reduce that to \$700.0. The reasoning for that is that would give them and the fund the same amount that they basically used this biennium.

Representative Berg: We probably want to pull those five FTEs out that the Senate added.

Chairman Delzer: Anything else on the BND.

Representative Berg: There were amendments I had drafted (98033.0304). Right now the Bank operates a college SAVE program. That's where people can put money in and it grows tax free and can be used for college education. By the BND doing this, they receive annual fees of about \$250.0 and they currently have about \$1.2 in cash assets for this program.

What they have done is through their administrative decision process is if someone has income of \$40.0 or less, they'll match \$300 that a parent or guardian would put in with \$300 from the fees on this program. They will do it three times if your income is under \$40.0 and they will do it one time if you income is under \$80.0. They have spent \$23.0 in this last year

matching those dollars. What this amendment does is encourages them to use that \$250.0 as some sort of matching to encourage more people to do this college SAVE program. It is kind of simple concept where the fees this program generates would be plowed back in to it thereby encouraging more people to expand and set up these funds and generating more fees.

I had another amendment that related to the development of the rest of the land around the bank. We talked about some of that—they have kind of a weird street in there. I don't have that put together but what I would like to see happen is the BND would put some sort of master plan together there and that might be allowed to use some of their assets for another investment limited to some adjoining property and they would not be a developer but they could lease the land to the developer so they wouldn't be building something but they may. . . I don't think we want the Bank to be in the business of owning, building, and developing buildings. What they could do is if they find the right mix of property where you have a good use of the property—office space, retail, restaurant, they could lease the land to a developer who would build the building and be responsible to lease it out and long-term the Bank would or could own it. I'm trying to figure out how we encourage some forward thinking there but at the same don't have the Bank being a developer or putting in their assets at risk.

Chairman Delzer: Why would we want to do that instead of just selling it?

Representative Berg: If you take that land to the east—there's about 3 acres there. If you could just put that on the market and sell it, it could end up in a number of uses that really aren't compatible with office use. I look at it long term.

Chairman Delzer: Couldn't you just state it such that if the bank had someone that they were comfortable with as a neighbor, that they could come back before the Legislature and try to sell the land. You would still have to have a restriction as to what kind of business is there.

Representative Berg: There are a number of examples.

Chairman Delzer: I've never been comfortable with them. I know they work from the standpoint of the university but I sure don't feel comfortable doing that with the bank.

Representative Berg: One of the models is there is a strip mall with a McDonald's and a bank and everything else across from the university on the property that the university owns. They own land. I just kind of envision that long term it would be good to have something compatible with the look of the bank, the architecture, the flow of parking.

Chairman Delzer: If you can get something put together I would feel more comfortable if it still had to come before the Legislature before it was approved.

Representative Berg: Maybe have them put a master plan together for Legislative approval. The only other kicker is that there are a couple of little buildings to the south and there is a street in there they would want to vacate. I think they can probably buy now if they wanted to.

The time to buy something to buy something like that is when it for sale and vacant. Brady, can they acquire real estate as part of their investment.

Brady Larson, Legislative Council: I am not sure.

Representative Berg: If you could check on that.

Chairman Delzer: Mill and Elevator. Representative Berg you were talking about some languages on both the formula for model profits that should come back to the people of ND and the gain-share situation.

Representative Berg: I don't want to study this in the interim so we have to do our work now. I did talk to Mark Martin from Eide Bailey who did both of the reports. One simply looked at the money they lost and figuring out if they were appropriate in their decision making, which they were. The second report just said what it is going to look like for the next 2 or 3 months.

There's not necessarily a lot of value in those reports. What my question to him was what is an appropriate amount to put in the GF or not. I would like to draft an amendment that would

have a simple formula that would move money to the GF when it is appropriate. Then if the Governor or Legislature decides not to take it, they can always make that decision. What is clearly happening here as I look at the balance sheet is there are profits every year but they are not going to the GF they are going back in to capital improvements which is fine but we should have some process.

The other problem, and this in the Commerce Department, is APUC. APUC is going down in revenue because its revenue came from a rebate on the farmer gas tax. One of my thoughts was maybe what we could do is take a small percent of the profits of the Mill and send that to APUC since that is where people that are looking at value added agriculture are coming to get initial proposals for the development of that.

The third thing is the gain share. I haven't had time to dig in to that. I am a little uncomfortable on how that works.

Chairman Delzer: Tomorrow we will try to vote on some of these smaller bills and this may be one that I think we can work on. I don't think there are a whole lot of political ramifications to this one.

Representative Kempenich: I did request one amendment on the gain share.

Chairman Delzer: Grady, have you got that on the list?

Representative Glassheim: One thing I asked for yesterday and haven't gotten is there is a report by Legislative Council on the profit sharing at the BND. It was presented to the interim IBL Committee in August and the Employee Benefits Committee this fall.

Chairman Delzer: Brady, you guys have developed the language about moving something to stimulus money—something that's going to go in all of them. Is it such that it pulls all of that in to separate sections so that is not added to the base?

Brady Larson, Legislative Council: Yes, that is correct. It will be separate section so it does not get blended in with base funding going forward.

Chairman Delzer: Housing Finance—there is an increase of four people there. It seemed to me when we talked about that they felt fairly strong about two of them. The other two were wanted but I think they were lower on the priority list. I think it was the growth and outreach positions. Brady, you might just give them a call and ask them what their priority on those four were. I'd like a discussion on the two lower ones. In all of these sections there is equity. Do we need language for the stimulus money? Is there any in here?

Brady Larson, Legislative Council: If there is we will put in a section for it.

Representative Glassheim: Why are some of the monies taken out of the Land and Minerals Trust Fund and put into the GF? Is that justified?

Chairman Delzer: It is the ones that last year they would trigger if the recount got above 45 rigs for three months. This time they are requesting to have it paid out of the GF and put that trigger in at 100 rigs for 3 months.

Representative Kempenich: Is the Land and Minerals Trust Fund stressed?

?: (Explained the history of the LMTF)

Chairman Delzer: Brady what is the essence of the Land and Minerals Trust Fund?

Brady Larson, Legislative Council: I am not familiar with that trust fund.

Chairman Delzer: There must be a minimum level that stays in it?

Chairman Delzer: This may be appropriate way to fund them because if it is contingent upon the work being done in the oil patch because it is doing well, is that not the right place to fund them.

Representative Berg: I think it is quite simple. There is a formula where that money transfers to the GF. Its university lands, lands the state owned, mineral interest and those types of

things. The concept is if the rig count goes up, there is more to do so it makes sense for us to allow them to have a more FTEs and they can get that money out of there which means less money would come through the GF. It is something that during the interim allows that to bridge and cover that. It is one and the same—it is the GF even though it is special funds if there is money there.

Representative Kempenich: It is money that is over and above the distribution.

Chairman Delzer: I don't think it comes automatically to the GF. It is where the Governor is proposing the transfer for \$43.0 million this time and we are transferring \$36.0 million instead. I don't think it automatically comes to the GF.

Representative Kempenich: The land and Minerals Department funds their operation out of that too.

Chairman Delzer: Brady, why don't you put on it discussion about leaving them under the LMTF instead of shifting it to the GF.

Representative Berg: The reason this issue keeps coming back (gap financing) is because it is a problem in ND. We have seen many different versions and my take on it is we have tens of millions of dollars going through the housing finance agency. What this would do is to allow them to establish a pilot project using funds available in subsection 5, which is their own money--it's not GF money—to provide incentives to encourage private sector investment in house development areas.

Chairman Delzer: So you would want to leave that up to them.

Representative Berg: Yes, I don't want to tie their hands. They may decide they don't have money to do it.

Chairman Delzer: I wonder if that should say "may" instead of "shall".

Representative Berg: We can certainly change that to "may." They have been the agency that has been pressured to figure something out. They had a proposal that was a tax credit proposal which was defeated. They can do this without this language if they want. I don't want them to be fearful of trying something and finding out they are going to get into trouble from us. This is more just a little encouragement for them to look at something in that area.

Chairman Delzer: Brady, one thing that I would request on that and we'll take it up and have a discussion that we change it to "may" instead of "shall." If we adopt that I would hope that it would state in the amendments that this would be their special fund which is all federal funds.

Representative Berg: I think I have some better language than this too. I don't like the language where it says the appraised value is less than the cost construction. What I intended talked about low- and moderate-income housing needs along with areas that are hard to develop.

Chairman Delzer: We'll put that on the list and go ahead and make sure you can get it how you want it.

Chairman Delzer closed discussion of 2014.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2014

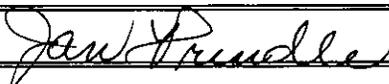
House Appropriations Committee
Government Operations Division

Check here for Conference Committee

Hearing Date: **1 April 2009**

Recorder Job Number: 11633 (1 – 79)

Committee Clerk Signature



Minutes:

Chairman Delzer opened the discussion of Senate Bill 2014.

Chairman Delzer: Committee members what we have is 0310. That is a compilation of what we talked about the other day. 0308 and 0313 both deal with the lignite feasibility study after we get done with the other ones we will have some discussion on that. That is part of this bill. If we take a look at 0310, under the statement of purpose, for the Industrial Commission we have the salary equity being removed, we reduced funding for travel expenses \$150,000 that would be related to the costs of travel for the Department of Mineral Resources. Then we removed the \$5 million for renewable energy development. Then we add \$3 million of stimulus for renewable energy development. Then there is the stimulus and a section adding the appropriation of federal stimulus funds. That section would be section 17 and 18.

Representative Kempenich: I am probably doing the same thing you are on some of this stuff. The more I have been reading about the stimulus money the more I am having problems with supporting it at all. I can support the committee but I probably won't be voting for this on the floor.

Chairman Delzer: We are reducing the General Fund expenditure by \$5 million and putting in the \$3 million as stimulus.

Representative Kempenich: The whole point is if we are going to spend our money on doing this stuff the tails that are coming with this, the more I am reading about it the longer the tail gets. I got a feeling that this is going to get changed in mid stream at some point. I kind of like to know where I am at.

Chairman Delzer: Under the Bank of North Dakota, we have changes there in the salary equity. We reduced the BIOPACE from \$1.4 million to \$700,000 that was to give it the same amount as what it had last time. We have a section of legislative intent added for the college SAVE program. That is section 15 of the amendment. Are there any questions or comments on the Bank of North Dakota? This one will have to be compiled if we adopt more than one of these amendments it will have to be compiled and redrafted. Under the Housing Finance Agency we removed the salary equity. We removed two out of the four positions they had. They gave them to us in priority order and we removed the bottom two. The House amendment appropriates federal stimulus money for Home Tax Credit Assistance Program and Tax Credit Exchange Program of \$25,500. Becky, is this your budget?

Becky Keller, Legislative Council: Yes it is.

Chairman Delzer: The \$25,500 what exactly does that go for?

Becky Keller, Legislative Council: That is the exchange program where if they have a hard time finding somebody who will invest in the program they can offer them a cash payment rather than a tax credit I believe.

Chairman Delzer: What does it take to qualify for the program? It is just a loan program for developers in rural areas?

Representative Berg: I think I may not have this right but I think a developer can sell these tax credits or use them themselves. If they can't sell them there is a federal entity that will buy

these tax credits so they will get cash rather than tax credits. It is like \$.70 on a dollar or something like that. I believe that is what it is for.

Chairman Delzer: Are there limitations or anything that we have to change? Committee members I don't remember us having much discussion about this in front of the committee the \$25,500. Becky do you know are there any rules or anything that we have to adopt that will affect us in future years for taking this?

Becky Keller, Legislative Council: I don't believe so. I think the Industrial Commission testified at the last meeting that there wouldn't be any.

Chairman Delzer: Then we have a section relating to the housing pilot project for difficult to develop areas. Representative Berg I think that is your number 14 there. I think you were trying to influence the agency to try to establish a pilot project for gap financing in rural areas with federal money.

Representative Berg: I have a question, I am just backing up, now the ARRA, have we added amendments in other appropriations bills that accept that money? I think this is one of the few things where there are dollars in the federal package. The breakout of the sheet that has the impact from K-12 to FMAP are we amending that in all of our bills?

Chairman Delzer: We are amending that in all of our bills. That is my understanding. Every one that we have had that has had adjustments so far has had it in it. With that I guess I would entertain a motion on 0310.

Representative Meyer: I was just wondering if you were going to discuss the transfer of the North Dakota Mill and Elevator profits.

Chairman Delzer: Yes. I meant to. We have the section added. Did we get that handed out?

Karlene Fine was down here and showed how that would work. It would show that for fiscal

year 2010, her's says no transfer but I think it is real close and it adds to whether or not you would add the earnings to the capital before or after you tried to do a transfer.

Representative Berg maybe I am wrong on this but the way I understood your proposed amendment is if their earnings, if the capital was 25% of the operating expenses after their earnings and there was say \$2 million worth of earnings on top of that, you would transfer 75% of that to the General Fund. As long as the capital hit the $\frac{1}{4}$ mark.

Representative Berg: We have the legal sized paper here. Again our objective is to have some formula in place. I am certainly not stuck on the percentages or anything but if you look at projected year 2010 again they are saying the annual operating expenses of \$177 million. Now Karlene put this together. One of the challenges is this spreadsheet that you handed out is by biennium and this spreadsheet that you had given us before I think was by calendar year. Is that correct?

Chairman Delzer: It is by fiscal year.

Representative Berg: So the short one would be like July 1 to June 30 for each year.

Karlene Fine, Executive Director: Yes.

Chairman Delzer: My understanding on the proposed amendment is that it would be looked at each year separately. This shows pretty much what would happen if you take a look back here in 07 there you have the transfer that would have been \$3.8 million under this 75% of earnings. In 06 it would have been \$4.4 million. Then for the current biennium it would have been zero and zero because they lost money both times and then the projected biennium should be the possibility of \$3.6 million and \$3.8 million. What it does and I actually think it is probably pretty good, it puts a formula in there and the Mill and Elevator had something about 50%, I actually like the 75% better. I think it is closer to what we have been talking about.

Representative Glassheim: On that in some good years they get closer to \$8 million instead of the \$5 million that we always thought was pretty good, with them having more retained earnings.

Chairman Delzer: Committee members I don't know if any of us are real strong on the number. That is just what is before us is 75%.

Representative Berg: 2005 had sales of \$100 million and 2008 we had sales of \$241 million. Operating with the assumption that we are just going to provide \$2.5 million or \$5 million a biennium, it doesn't really seem like it is an appropriate measure if in fact we are more than doubling our volume.

Representative Meyer: What if we apply that same scenario to the Bank of North Dakota?

Representative Berg: I think that would be appropriate to look at the Bank a little more from a fiscal analysis.

Chairman Delzer: One of the differences the way I see it though right now, the Bank of North Dakota is really not over capitalized at all. A lot of the average banks it seemed to me are 12% and we are at about less than 8%. Now you could certainly do that and set the percentage for capitalization wherever you want. You could put the same type of formula on the Bank if you wanted to. I think we should probably roll this out on the Mill and Elevator and see how it works one time before we do both of them. How it is accepted by the full committee. How it is accepted by the Senate when they see it.

Representative Glassheim: I would be a lot more comfortable at 60% than 75%. I don't know that I have the votes to be comfortable.

Chairman Delzer: Representative Berg, are you also going to try to get 5% on the PACE fund?

Representative Berg: Yes.

Chairman Delzer: I would say we could go down to 70.

Representative Berg: I think if you look at this legal spread sheet, a couple of things are important. You can look at the net assets final on the bottom and you can see as we move forward we are building our net assets. It's going from \$45 million to \$55 million. In a sense that's like working capital. If you look at what was income in '06 and '07, which I think ties in to '05 and '07 biennium, our net income was \$11.3 million. When it's 75% of the earnings transfer, it's a little over \$8 million being transferred. So it's really leaving 25% in there for capital investments for reinvesting in to whatever.

Representative Kempenich: I think that's at 50%. You are going from 45 to 55 on a \$10 million increase and on 75% you are only going from 39 to 48 aren't you?

Representative Berg: I'm looking at two sheets. This was an earlier sheet that shows the net income of \$6.2 million in '07 5.1 million for a total \$11 million net income in the '05/'07 biennium. Clearly our objective here is to have a formula here that people can watch and monitor.

Representative Glassheim: I'm not as sophisticated with balance sheets as Representative Berg but we should be getting any building expansions out of that growth in net assets and so if you are only growing \$2 - \$3 million in a biennium, you would have start borrowing money for any large capital expansion rather than taking it out of your accumulated profits. Isn't that why you want your assets to grow for?

Representative Berg: If there is a substantial investment needed they would then come before the legislature and say what they needed to spend to reinvest.

Representative Kempenich: That's one of the problems we had when we did ___(K?) project. That showed up. The Industrial Commission approved it, but the legislature didn't have any input in to it. It just went ahead and that actually makes more sense when you keep

it where they do. It's circulating around anyway. Truthfully, I wasn't really happy when they came in with these projects already pretty much done before we got informed of it. If you kept it a little tighter it would mean they had to come in with a balance sheet and show how they are going to pay for it.

Chairman Delzer: The way the amendment is setting before us is at 75%. That could be changed to whatever the committee wants. We do not have a motion on the full set of amendments yet.

Representative Berg: If people feel comfortable with 70%

Chairman Delzer: I think we should roll it at 70—just drop the 5 off that. The Senate did take out all the transfers totally, but they have never had a discussion of setting some sort of formula that creates transfers. I think the formula is a pretty good deal.

Representative Berg: That's the point. I think there will be a decision process on how much money we put into the GF every biennium like has been done in the past. At least this forwards some formula of expectations.

Chairman Delzer: I think we should go ahead and deal with .0310. They will have to be all rolled together. I think if we have something further that changes it that can be worked in that way.

Representative Berg: Would you like me to explain these amendments or do you want to take up . . .

Chairman Delzer: Let's take up .0310. Why don't you explain it?

Representative Berg: I think everyone is familiar with APUC. APUC has gotten revenue from a gas rebate and I'll give you the last three biennia. Fuel tax collections were \$450.0 in '03/'05. They went down about \$100.0 to \$365.0 in '05/'07. They went down by \$120.0 in '07/'09. They are project to be about \$180.0 in '09/'11. They obviously need more GF money.

It is using its money it has to grant out. The thinking was is there another revenue source that would be appropriate to fund APUC. What APUC does is it evaluates ideas for value-added agriculture. People come with ideas and get some seed money to do studies or get started or something like that. The thought was if we said there is no money in our budget now from the Mill and Elevator budget now for the next biennium but if we said 5% of the money from their net profits would go to APUC potentially it could be \$500.0 per year or more or less. These amendments would propose just tagging whatever their net profit and a percentage would go into APUC.

Representative Meyer: This 5% is after or before the formula?

Representative Berg: I would say you take the 5% before. I'm not stuck on the number; we want to maintain our liquid assets. The problem is that we don't really have any data that shows what is an appropriate amount of cash to have on hand. The Industrial Commission can borrow anytime it needs for acquisitions and growth.

Chairman Delzer: That's what they when did the last \$17 million improvement—they borrowed it all.

Representative Berg: This at least dedicates some of Mill and Elevator to things that involve agriculture. I think this is a good tieback in that direction.

Representative Glassheim: It's the middle one that's going to be your formula. What you are growing is about \$1.2 million per year. So you are growing about 2% per year. I think you are weakening the Mill needlessly. The Bank of ND makes all kinds of agricultural loans. Do you want to take 5% of the BND to money into APUC? They are stronger than the Mill and Elevator now. Why would we go out of our way to take more than we need from Mill and Elevator?

Representative Berg: Look at net assets, 50% method. That's what I would say would be the strength of the Mill. Follow that line item. That's the capital they have. It's growing from \$39.0 million to \$48.0 million.

Representative Glassheim: That's because you don't take anything in '07. But it goes from 44 to 47 to 48. That's my point.

Representative Berg: My intentions are not to weaken the Mill. If you look at that line you can't say that it is weakening the Mill. It's providing that capital. I think we can generate more capital there. In the bigger picture the Mill and Elevator's primary purpose is to increase net income of agriculture producers in ND. It only benefits two producers—those that grow wheat and those that grow durum because that's all it processes. My point for suggesting and thinking about APUC is that the wheat acres have gone down and durum acres are flat, if we have this Mill to help our Ag producers I think APUC does that by helping growers expand in to other high value dollar crops. The link is that it uses our commitment to the Mill to help benefit other producers beyond just wheat and durum when it goes back to APUC.

Chairman Delzer: It fits here but it also fits in 2018. We do not have a motion as of yet for .0310. We talked about 70%. I'm sure this one will go conference committee.

Representative Kempenich: I move amendment .0310, changing the 75% to 70% under Section 16.

Representative Berg: Second. My only other point here and I don't mean to belabor it; we are like the stockholders of this business. We own this business. The people of ND own this business and we are the board of directions and we have an operating group that is delegated to manage it and that's the Industrial Commission. What we are saying is of our business we are operating, we only want 70% of the profits. Most board of directors and business would want 100% of the net profits. Maybe I confused things further.

A voice vote was taken and Amendment 98033.0310 was adopted.

Chairman Delzer: Let's take up .0314 which deals with Mill and Elevator also. These will have to be rolled together if more than one is adopted.

Representative Dosch: The purpose of .0314 is to limit the gain share. It prevents the gain share program in years when there is a loss or is no money transferred to the GF. Basically what it does is it is that the assets of the company of must be 25% of the annual operating budget of the Mill before the gain share program can kick in.

Chairman Delzer. It looks to me that it says the transfer to the GF has to be made before the gain sharing is approved so the gain sharing would be on the remaining profits.

Representative Meyer: We have heard over and over that the labor costs are low compared to other mills and elevators across the country and I just don't understand why you want take this away from employees. This is part of their incentive to work harder and do better. Now we are going in and micromanaging this also and saying we are not going to let you participate in this profit-sharing program. The labor costs are low.

Representative Dosch: We are not doing this just because. It's a business and if the business is losing money like it has this last biennium, according to their own projections they already had another \$2.0 million worth of profit sharing going out to the employees in the next biennium. So here you have a situation of a state-owned entity that has lost money, the state has forgone its transfer out of any profits out of it, and yet they are paying out \$2.0 million worth of bonuses. You can talk about AIG and we have a similar situation here. What this amendment attempts to do is say in cases where the state is getting 0% return and in fact the Mill is borrowing money to meet its obligations, we're not going to allow \$2.0 worth of bonuses to be paid out. It's going to require that there is a minimum capital amount in the state Mill

and Elevator so that the entity itself is secure, that it is profitable, that the state is getting a return on its money, and then they can go ahead and issue their \$2.0 million worth of bonuses.

Representative Meyer: There is only one other time in history where this every even happened. It was called the short squeeze. The Mill and Elevator did remarkably well compared to General Mills or multi-billion dollar companies. When this happened in harvest time we had wheat that went from \$5 a bushel to \$25 a bushel. It's only happened one other time and they did remarkably well. They have shown a profit over the years and to hinge everything on what I believe was a unique circumstance in history, I don't think we can just put those projections on what happened a year ago. I don't think it will happen again.

Chairman Delzer: I don't see this as not allowing a gain share program. What it says is if that your capital isn't 25% of your operating costs then you can't do a gain share but if you have profits you can do a gain share. That's the way I read it.

Representative Glassheim: If you take your money out before you pay employees going rates in the industry, you aren't going to have any problem. This is a standard deal in the grain milling industry and grain contracts. If you take your profits before your people are paid the way they are used to being paid and their contracts call for them to be paid, you are setting out to ruin the mill. I believe that is not sound management. Secondly, we are not quite like a private, for-profit corporation. One of the things we are set up to do is to make better amounts for our wheat farmers to sell their goods. We are doing that whether the mill makes a profit or not. The individual income tax from people making a profit, getting decent prices for grain, that's all going on separately from whether they are giving you \$1 million or \$4 million in a biennium. This seems extremely short sighted. The impact of this is going to much more serious than you think.

Representative Dosch: In private business if I'm losing money, I'm not paying out bonuses. My employees realize that if they expect a bonus the company better be profitable. The requirement saying that no, you cannot pay out \$2 million worth of bonuses when you are losing money substantial amounts of money is not going too far. I think if employees realize that if they want bonuses the place that they are working for has to be profitable. We are not discontinuing this; we're saying that if the unit is profitable they get their gain share. We are just putting out some conditions.

Chairman Delzer: We do not have motion on the floor. Someone needs to do that.

Representative Dosch: I move .0314

Representative Berg: Second.

Representative Thorson: This is something that in the private sector it does work that way. I deal with it every quarter. I work in a company where we are paid our salaries so we are taken care of as employees, but quarterly the directors of our companies the directors like to see where we are. If we are doing better we get a bonus and we're all very pleased about that. If we do not, we realize that it is incumbent upon ourselves to produce more. The industry I work in is very volatile as this one is and I don't know of an employee who has left our company because of this. They understand that it is part of our duty to make sure that company is doing well even in hard times. Sometimes we get bonuses and sometimes we don't, but we are all very proud of what we do.

Representative Glassheim: This has very little to do with AIG. The upper level management at AIG was skimming off significant amounts of money when they were not profitable because of their decisions. Here we talking about working people who do the best they can and are working hard and if the mill is not profitable because of changing conditions in the environment in which most mills are not profitable, this is not them sinking the company.

Representative Kempenich: The problem is that if the mill were private, they would be laying people off and looking for another buyer. The state isn't going to let go under. We have to make a policy because management is not going to make a policy. This makes a lot of sense. It may never happen again but I think there should be some sort of public policy because this isn't operated as a private business either. It's operated as a state agency. I call the question.

A voice vote was taken. The amendment 98033.0314 was adopted.

Chairman Delzer: Before we go to .0313 and .0308, Becky, on the bill, what is the repealer?

Becky Keller, Legislative Council: I believe that is the Mill transfer.

Chairman Delzer: That needs to stay in there then. In Section 4 of the bill is that normal language or is that something put in special this biennium?

Becky Keller, Legislative Council: (Inaudible)

Chairman Delzer: We have these two amendments that deal with a million dollars which is Section 12 of the Second engrossed bill. It has to do with the lignite feasibility study.

In .0308 it would remove the \$1 million and replace it with \$100.0 and put it through it Lignite Research Council. Representative Glassheim looks like he would have a \$100.0 grant from the permanent oil trust fund and then \$500.0 of borrowing authority with the repayment from the permanent oil trust fund. Does this run at all through the Lignite Research Council?

Representative Glassheim: I wanted to put as many constraints on it as possible so there would be some level of comfort with the money. The \$500.0 would not be released unless approved by the Lignite Research Council. The Industrial Commission could do the borrowing but the Lignite Research Council would have to approve that it would make sense to them to go ahead with the project. They would also have to have one for two which means they would have to have a million dollars from a private source or a government grant to get the \$500.0.

They wouldn't spend a penny until they had a million or more plus approval by the Lignite Council that this was a potentially useful project. I don't know if this is worded quite right, (Unstructured discussion.)

Chairman Delzer: There are several ways to do this. You can leave it the way it is—a million dollars with very little restraints on it. You have Representative Glassheim's. You have .0308. The other option would be to remove the million dollars altogether or something in between there.

Representative Berg: I like the proposal that puts \$100.0 in Lignite. Those people understand the projects better. There may be other funding to help with it. I don't really like the trigger to borrow another \$500.0 because we are going to have to pay that back next session. I was expecting a \$200.0 going to the Lignite Council and then leaving it at that.

Unless ND and the coal industry make a case for clean coal, I think the next four years are going to be pretty tough on them. What I understood this is was about a \$10 - \$15 million project.

Chairman Delzer: My understanding was that it was about a \$5 million project for the technology and if they actually built the boiler, it would be close to \$50.0 million and where that money would come from, I don't know.

Representative Glassheim: I don't remember the \$50.0 million, but I may have missed it.

Representative Berg: I think Lignite Research probably can put some numbers and projects to this to find out how realistic it is.

Chairman Delzer: We've made enough changes that this bill will be in conference committee. I think if we do something it needs to be run through the Lignite Research Council. I think that should be a prerequisite of any of it that they agree that this is a sustainable project that makes sense. I'm surprised it would cost \$200.0 to write grants.

Representative Glassheim: I drafted what I'd like to see but if the Committee is comfortable in putting \$200.0 in to get the project underway and get it to the Senate for discussion. . .

Representative Berg: I would change that language to give \$200.0 to the Lignite Council to facilitate the project. They may find it takes \$30.0 to write a grant and then you can do some other stuff.

Chairman Delzer: .0308 actually puts everything through the Lignite Research Council. The \$100.0 would remain in the Industrial Commission. If the Council decides on a viable project they could approve that being given from the Industrial Commission to this group at UND.

Representative Berg: Let's walk through the process: UND would need to go to Lignite Research and make a case for this boiler project and Lignite Research would need to go to the Industrial Commission to make a case for it.

Chairman Delzer: No, Lignite Research would make the decision of whether it was a viable project and if they thought it was they would approve it for the Industrial Commission to give that money out. If they don't approve it, it should come back to the GF.

Representative Berg: My thinking was that if you give it to Lignite Research and let them use it for other research if they don't use it for this they are going to scrutinize it pretty close.

Chairman Delzer: They currently have \$1.3 million that they deal with on their small research projects already. I personally didn't think we needed to add to that number. That is set out of their formula that they have asked for. I guess that this is why this was asked for in the way it was so it would remain separate from that fund.

Representative Berg: I think we are splitting hairs. I think now is the time that we need to do some research on clean coal. I would suggest that if we want to go to .0308, that maybe we bump that to \$200.0 and not have the loan thing. **I move that.**

Chairman Delzer: We have a motion for .0308 changing the number \$1.0 million to \$200.0.

Representative Glassheim: Second.

A voice vote was taken and the amendment was adopted.

Representative Berg: I have some amendments that I don't have yet. It would have the Mill report on some of the measures that we talked about so we would know for sure that labor costs were lower than other comparable mills and that type of thing. Becky was going to draft that. I know some of that is incorporated.

Chairman Delzer: I know that we did have some discussion on that. Those amendments are coming down. We wanted one for the budget section.

(Unstructured discussion.)

Representative Berg: The first thing they did is look at why they have this deficit, this big drop. The second report was to look out into a 6-month projection to see if this was going to continue or if it was going to be corrected. When I talked to the fellow who did the audit, it was more anecdotal. One of his points was that perhaps we put less in marketing and sales than similar mills. If we are going to evaluate this, it would be better to have a third party take a look at it. That's what these amendments would do.

This next one is about the Bank and we talked about the property next to the bank. We talked about this last Wednesday and said if the Bank can do it, let them do it. I talked to Eric and he was concerned and said if we were interested in controlling that property, he would like legislative intent that would encourage them to do that. This was drafted up after our discussions to make sure those properties are developed consistent with this. **I move this amendment .0309.**

Representative Kempenich: Second.

Representative Meyer: In our discussions last Friday, they have the ability to do this now don't they?

Representative Berg: They do; but he was concerned that the Legislature would not want them to do that so he didn't want to move ahead with that unless he had some direction from the Legislature.

Representative Meyer: My concern is with the language the way it is: "to insure that properties adjacent to the BND are developed. . . ." Reading it that way, my land is adjacent to it. I think it has to be defined.

Chairman Delzer: I'm not sure they can do that. I almost think that discussion about the idea. . . .

Representative Kempenich: It is intent language and I don't think the Bank's in the business—the lots on the south side is the only place that they really have to worry about. (Unstructured discussion while looking at a plat map.)

Chairman Delzer: I don't think anyone has a real problem with telling them that it's okay to go after those two, but the language the way we have it worded is concerning. Let's say northwest of West Street. That would limit it to that piece.

Representative Berg: I change my motion to include that. "Northwest of West Street."

Representative Kempenich: (who seconded it) Agreed.

Chairman Delzer: The wording is "it is the intent of the 61st Legislative Assembly that to the best of its ability the BND ensure that the property adjacent to the BND property and NW of West Street are developed for uses that are consistent with the mission and purpose of the BND."

A voice vote was taken and the amendment 98033.0309 as changed was adopted.

Representative Berg: In reflecting on the Mill, these were six criteria that you would use to compare the business to another business. The essence of the bill would be that the Industrial Commission would contract with a third party to evaluate this in relationship to industry standards. They would look at the balance sheets and income statements, cash flow, working capital, operating efficiencies and maybe some other ratios, liquidity ratios, pretax income and capital investment which in a mill is a big issue. I added to touch on the gain-sharing in officer and employee compensation guidelines. They would do one evaluation and report to the budget section. I think this information would be helpful on many fronts. **I move the amendment .0315.**

Representative Kempenich: Second. I was reading this weekend that growers are issuing contracts for durum. If the mill is going to look at the dollars it's going to spend or what it's going to cost them, they may have to start looking at that too. We had a fellow from Arthur Daniels saying ten years ago that these generic products are going to become harder and harder because the farmers are dealing only with pennies or less of profit. They are going to move to higher profit type crops and the Mill is going to have to start looking at that too. You have to have some type of supply line that you know what it is going to cost you.

Chairman Delzer: The only question I have is I know there was some discussion about looking at what they did for hedging, storage, purchasing and marketing. I don't know if that would be part of this in anything I have seen here. I think that should be part of the analysis of the Mill operation.

Representative Berg: Hedging has been thoroughly reviewed. That was the focus of the first review by Bailey under contract with NDSU. I think they are on track with that. The fundamental problem with that is that they have to lock in contracts they have to get the wheat, but they can't lock in the buyers on the other side. That's where they got in to a pinch. We

could certainly add something about marketing in here although I think that number three when they talk about a ratio analysis and talk about how much of your expenses are related to sales and marketing and how much for management. Maybe we can add marketing in there.

“. . . working capital, operating efficiencies, marketing and other ratios.”

Representative Meyer: Here again, what is a consultant to do this going to cost? We are going to have to add an FTE or two to cover that. I believe that in every one of these things right now we have the information. I feel there is someone in this room that could give us all that information right now so why do we have to duplicate?

Representative Berg: If anyone can provide this information, I would withdraw this amendment but I would like to know how the Mill compares with the industry in what it spends in labor, sales or marketing, capital and working capital. I don't think anyone has ever looked at that. I would defer to anyone who could provide that information.

Chairman Delzer: Representative Meyer you might contact the Mill and see what they have so we could discuss that in conference committee.

Representative Glassheim: Are we going to put any money in for this?

Representative Berg: No, but the Industrial Commission is charged with managing this business and I think it is prudent for them to spend a little money on a \$100 million asset that's generating \$3 - \$5 million per year. I think it would be prudent for them to find the \$25.0, \$50.0, or \$75.0 that it would take to review it.

Chairman Delzer: I would guess that if we did not put any money in it and it was done, it would become part of the operating costs for the Mill and Elevator.

Representative Kempenich: You are getting where the Mill is number one or two in size in the country is for reasons that raw products are going overseas. Would it be cheaper to ship things finished instead of raw products? It is going to cost some money but it might go beyond

what is stated here when they get going in to it. I do think the industry is changing quite a bit and you need to keep looking at it. This again is public policy because it is a public entity. That's the reason I'm supporting it.

A voice vote was taken. Amendment 98033.0915 with "marketing" added to line 3 was adopted.

Chairman Delzer: We now have the amended bill before us.

Vice Chairman Thoreson: I move Do Pass as Amended.

Representative Kempenich: Second.

A roll call vote was taken: Yes: 5, No: 2, Absent: 1 (Kaldor)

Representative Berg will carry the bill.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2014

House Appropriations Committee

Check here for Conference Committee

Hearing Date: April 6, 2009

Recorder Job Number: 11736

Committee Clerk Signature

Carmen Hart

Minutes:

Chm. Svedjan moved the Committee's work to SB 2014 – Industrial Commission.

Rep. Berg moved Amendment .0316 (Attachment A). **Rep. Thoreson** seconded the motion.

Rep. Berg explained amendment .0316. If you go to page 2, we will talk about the financial first. Number 1 removes the salary equity. Number 2 is an adjustment for travel expenses. In footnote 4, what we did is we replaced the general fund renewable energy with stimulus renewable energy. Number 3, there was a project for a clean coal heating system at UND. It was kind of a stand alone. What we did is we put \$200,000 with the Lignite Research to flow through there. If we go to the Bank of North Dakota, the footnote again removes the salary equity funding, adjusts the biofuel PACE from 1.4 to 7. If we go to the Housing Finance, again footnote 1 removes the equity. Footnote 2 reduces 2 new FTE positions. Footnote 3 allows the inflow of the ARRA money which they are anticipating will increase to stimulate more housing construction.

Rep. Berg: If you turn to page 2 of the bill, Section 13, talks about the (3:50) Mill and Elevator. There needs to be a review as it relates to the industry and where we are going.

There were two reports done by an independent accountant—one was to analyze last spring, the loss and another report was done this fall to anticipate the cash flow. Section 13 would

require that the Industrial Commission would bring in a third party and really look at the financial, the balance sheets, income statements, cash flow data and really the ratios as it relates to industry standards. One of the things that again without much review really related to the amount of money they spent on sales and marketing which is much lower than the industry standards. This report would come to the Budget Section. Section 17 of the bill relates to the Mill as well. We have no formula as to what amount of money should come to the General Fund. It has been a Governor decision. As we look forward, the balance of 2009 is bad, but the next two years they are anticipating revenue of \$5 million or a profit of \$5 million a year. We expect none of that revenue coming to the General Fund. 70 percent of your earnings would go to the General Fund and the balance would be retained by the Mill and Elevator. There is a ratio between their capital balance and their operating cost so that their capital assets would be 25% of their operating costs. The Industrial Commission has a gain share where profits go to the employees. The intention would be to take a closer look at that and also insure that gain share profit sharing is not provided unless the General Fund is also receiving money.

Section 14 – Housing Finance Agency – that amendment is to give a push to them. . . in difficult developed areas of the state. It has a sunset at the end of this biennium, but the hope here is that they will be able to focus on creative solutions to help generate some housing where it is most needed and most difficult to develop.

Section 16 is a program that the bank has instituted that allows a person to set up a 529 program with the state of North Dakota. It is basically an educational program where the interest is not taxed, but it builds the corpus. The Bank of North Dakota has run this program.

The best way to describe it is they have about \$1.2 million in profits because they receive a management fee of about \$250,000 a year. Right now if parents have an income of less than

\$40,000 the bank will match the \$300 contribution by the parents for three years. If their income is under \$80,000, they will match a \$300 contribution with \$300 from the profit they have made on this program. They would continue to use the revenue they are making from this program to create incentives for more parents and guardians to set up college save programs.

Section 19 relates to the Housing Finance that are pieces of the stimulus package that will encourage more construction and more tax credits. This allows that to pass through to them.

Chm. Svedjan: (10:00) Neither of those two areas displace General Funds, do they?

Rep. Berg: No. I believe there are no General Funds. It is primarily federal funds.

Rep. Klein: (10:45) Would you expand a little bit on that Housing Tax Credit Exchange Program?

Rep. Berg: The program provides a tax credit for someone that is going to provide some low income housing. If someone receives a tax credit of 100% and can't sell those tax credits to an investor, they would buy that back for 75%. It would enable a developer to go ahead with a project knowing that if they can't sell the tax credits, at least they could get 75% of those tax credits to help them finance the project.

Section 18 – We have two renewable energy programs which were combined into one bill which passed the House and Senate, 2129. When we put this amendment to supplant that \$3 million with stimulus money, we thought that could be used for that purpose. Information has come forward saying that stimulus money cannot be used for research. If we don't put General Fund dollars in there, that is defunct. The discussion that was in Conference Committee that would need money added. The number we had in there was about \$3 million.

The Governor put in \$5 million. This amendment zeroes that out, but I think the intention would be to take a look at that in conference committee.

Rep. Delzer: (13:30) That information came forward after this. Our Section has not discussed that. I don't know that I agree that it has to be \$3 million. The stimulus is a floating situation as we all know. The longer we hold off on General Fund money the better off we are.

Rep. Nelson: There are a number of Committee members who don't think it should be \$0 either.

Rep. Delzer: Understood.

Rep. Berg: It will probably be somewhere between 0 and \$3 million.

Section 15 -- Rep. Berg distributed "Site Plan. REH Architects + HDR Architecture.04"

(Attachment B).

Rep. Berg: It's important to have something that is consistent with the Bank of North Dakota. This amendment says that the Bank of North Dakota do something consistent with the mission of the Bank of North Dakota. The bank does have the authority to acquire those if they should do so.

Rep. Nelson: (15:49) The biofuels base program, you took half of that away. What was the reason?

Rep. Berg: That puts us at the same level as we were last biennium.

Rep. Delzer: There was cash money put in last time. That puts us at the same level as it was last biennium.

Rep. Nelson: Was the money utilized last time?

Rep. Delzer: No it was not. We had funded \$2.5 million available which they used about 2.3 last biennium.

Rep. Nelson: Can you tell me the reason for the decrease in the state facility lignite demo project? Was that a clean coal project and was the money not needed in that as well?

Rep. Berg: One was simply process. This came in separate from any of our current research efforts going in lignite coal to put a million dollars into this boiler at UND. The discussion said that it is a cost of \$20 - \$30 million, maybe higher for that. Our intention was to have it directed by the lignite research council so we can get a better handle on the costs before we act on it as a state. We thought this would be a good project for stimulus money. The problem is the stimulus money is focused on renewable energy, not coal. It appears there won't be any federal money available for this project.

Rep. Nelson: What do we get for \$200,000 that we wouldn't for a million?

Rep. Delzer: The way this was proposed, it came over from the Senate as a Senate add on. There is a possibility of writing grants and getting some federal money for the technology parts. The million dollars may have matched those. They figured they needed \$200,000 to do the grant writing. To get that initial technology part would be about \$5 million. Then it would be \$30 - \$50 million to build the actual boiler plant. We reduced it down. We thought we should do what we can, but until the federal grants are in place and we see what comes out of that, that is why we reduced it to \$200,000 and kept it alive.

Rep. Berg: The key is that the Lignite Council would love to have solutions to show that lignite is a long-term energy source. That was the most fundamental part. The money is just to get them going.

Rep. Delzer: This had not gone through the process with the Lignite Council and that is why we thought it should. They have roughly \$1.3 million that they use biennium for these type of projects. This would give the \$200,000 over and above that if it was used for this. If it's not used for this, it will go back to the General Fund.

Rep. Wald: (20:53) I do not see a reference to the Oil and Gas Division. We had a bill that dealt with hiring and keeping engineers and geologists. Was that addressed or discussed?

We had a trigger mechanism that if the rig count got to a specific number the Oil and Gas Division was authorized to hire more people if they could. Could you address those issues?

Rep. Delzer: We had those discussions. The equity money has come out of everything. The other issue is still in there. It's triggered on . . .

Rep. Wald: Where in the bill?

Rep. Delzer: Section 6. It's triggered on three months of 100 rigs and whether uranium or potash starts up, that triggers one also.

Rep. Wald: 100 rigs for three months?

Rep. Delzer: 100 rigs for three months.

Rep. Wald: Is that realistic?

Rep. Delzer: Probably not. This came in from the Oil and Gas Division. I don't think it will be there, but we did not remove any of the people that were triggered last time. They are still in there.

Rep. Wald: There seems to be a sense that when oil activity declines there is less need. I think perhaps the opposite is true because when things are not quite as profitable as they use to be, they do shortcuts and that is when you see problems out in the patch. I would hope that we would not cut back just because the rig count is down and the revenue is down.

Rep. Delzer: We did not cut back. They have vacant FTEs and that may give them a chance to actually fill those.

Rep. Pollert: (23:37) With the state mill and elevator and the losses they incurred, was there any discussion as to whether the senior management have the skills to alleviate the problems we had last spring?

Rep. Berg: I think the problem is they were hedging their grain to make sure they had an adequate supply locked in. Their hedge was a lot higher than ultimately what the market price

was when they took to delivering that grain or when they milled the grain and tried to sell the grain that is where they got pinched. The economy hit the country this fall and they are not able to lock in their sales when they lock in the purchase of the grain. They did not have contracts on the other side.

Rep. Pollert: We all got into that squeeze. Do they have the expertise for marketing? There is concern that they're hoping the expertise and employees are there in running a flour mill. I know that is not the legislature's responsibility.

Rep. Berg: That's where we came up with Section 13. It's not meant to be negative, but where do we fit in the industry. It should show which areas we are strong in and which areas we need to improve on. What they have done, they are working with NDSU and Bill Wilson to help with their marketing and hedging of the mill. Bill has been an economist that is very good and advises a lot of companies in the market. At one time he suggested that what we ought to do is convert the mill to a stock company and give everyone in the state one share.

Rep. Meyer: (26:42) The state mill and elevator has done a great job. Only one other time has there been a short squeeze. They did an exceptional job and it was reflected in all the reports we saw in our committee.

A voice vote was taken to adopt amendment .0316. Motion carries.

Rep. Skarphol: (27:45) There seems to be a problem in the oil patch with regard to some operators not living up to their responsibilities with regard to paying royalties to mineral owners. There is a lack of ability in the law with regard to the Industrial Commission's capability to do much about it. **I am making this a motion. I am proposing language which would give the Director of Mineral Resources the ability to suspend the continued activities of an oil and gas operator in the event of failure to comply with state laws with regard to payments or royalties.**

Rep. Meyer seconded the motion.

Rep. Meyer: (30:00) When the interest accrues after 150 days, when the state land department goes in they get the 18 percent interest from day one. For the private, it starts at the 151st day.

Rep. Dosch: (30:49) Shouldn't this be run through the policy committee so we understand the consequences to doing this? I am in no way an expert in the oil industry. It just seems there could be consequences. I agree that the provisions should be in place. I just think it needs a hearing.

Rep. Kempenich: Is there a timeframe you are looking at?

Rep. Skarphol: I don't think the number of days matter. They are just ignoring the law. The ability of the Director of Mineral Resources grants some degree of enforceability to this. I don't think waiting two years is the answer. If there are title issues, I don't have a problem. If there are not title issues, I have a big problem. While I don't disagree with Rep. Dosch's assessment, if this does become burdensome, I think the director would use good discretion and two years from now we will visit this in a policy committee.

Rep. Delzer: (34:03) What would happen if the Director issues a cease and assist order and the company keeps drilling?

Rep. Skarphol: That's probably one of those instances where we didn't put a penalty in place, but at least it would create that public perception of the violation of the law that I think would probably be sufficient to make them at least have negotiations with the director of the Mineral Resources Department.

Rep. Berg: I understand the objective, but I wonder if we are changing the role of the Director to be judge and jury. What happens if he's wrong? Is that the barrier? And should we not address that?

Rep. Skarphol: You're right. Our legal system has a problem and most oil companies have a battery of lawyers that they don't really have any problem pursuing a lawsuit where mineral owners who do \$4,000 to \$6,000 don't typically want to use their resources to take it to court. They just sit there and wait and hope. It's unenforceable. In the current law, the Industrial Commission has the ability to suspend the drilling permits, but they don't have the ability to suspend the capability to continue to do additional business.

Rep. Meyer: (36:34) It's no question of being right or wrong. If they haven't paid royalties, it's not a question of them making a judgment call. It's simply a call of where those royalties are not being paid.

Rep. Wald: (37:21) On page 2, Line 3, of the engrossed bill, was that removed by the Senate or was the in the original bill? Why do we have a zero?

Rep. Berg: I'll defer to Rep. Delzer.

Rep. Delzer: It's not a separate line anymore. It's part of the operating and salaries line.

A voice vote was taken. The motion carries and the amendment is adopted.

Rep. Berg moved a Do Pass as Amended. Rep. Kempenich seconded the motion.

DO PASS AS AMENDED. 20 YEAS, 1 NAY, 4 ABSENT AND NOT VOTING. Rep. Berg is the carrier of this bill.

2009 HOUSE STANDING COMMITTEE MINUTES

SB 2014

House Appropriations Committee

Check here for Conference Committee

Hearing Date: 04/07/09

Recorder Job Number: 11770

Committee Clerk Signature

Jeanette Cook

Minutes:

Rep. Kempenich moved to reconsider SB 2014.

Rep. Wald seconded the motion.

Rep. Kempenich explained that would like to bring the bill back up and visit the verbal amendment that was made yesterday dealing with the Industrial Commission and the Oil and Gas Division. There are some underlying issues that need to have further discussion.

Rep. Skarphol: I have a handout that I would like the committee (2 handouts – Attachment #1). This was an unsolicited email today at 2:08. I have never heard of this well and have no idea of this individual. If you read through this email, it is exactly the issue I'm referring to. What you will find is that the state law is not being complied with in certain instances. I agree with the vast majority of the time it is. Unless we give some indication of an expectation that there be compliance with the state law, we aren't doing our responsibilities in this assembly. It is rather disturbing when individuals who are legitimately owed money, are made light of by the operators. I find that unacceptable behavior. There are all kinds of responsible operators. Obviously, there are problem incidents, and I'm fully aware of those. My motion is that in the event there is a violation of the law in regards to the payment of royalties to mineral owners, the director of Mineral Resources has the right to suspend additional activity for that company.

My motion was for additional activity be suspended. I believe that is what the amendment says. This is unsolicited. I guarantee you.

Rep. Kempenich: I think it is. I'm not going to say there aren't issues. One problem you will run into is when you start putting the 150 day time frame in, it is going to be done by rule. If we are going to go further into this, then we better go back and put some language together that is going to put some definitions on how they are going to approach this to put a cease and desist order out on an operator. There are other constraints that come into play because of leases that need to be carried through that have time frames to drill on. If we are going to vote for this stuff, I think we are going to have to have knowledge of what we are doing other than just telling the director of Mineral Resources to put a cease and desist order on if there is a complaint issued.

Rep. Onstad: When we talk about additional activities, there are leases that have 3-400 mineral owners. We might need a clarification of that. Only 1 or 2 of those people are actually receiving payment because it is unclear if they are true to that title. They continue to work through and get that. We pass legislation that if they don't receive the payment in the 120-150 days that interest is going to be paid on top of that at 18%. That alone is going to be a huge encouragement to get these kinds of endeavors done. I will agree with Kempenich that there are situations out there, but I do believe that the vast majority are complying with all of this. I don't know if this is the thing to do to effect the one or two situations that we know of that are going to involve every company at this point. I think that we tried to correct that with some interest payments. I do not fully understand why the amendment needs to be put forth.

Rep. Skarphol: As I stated yesterday, there are mineral owners in western North Dakota that are receiving letters from a company in Sidney called Bakken Oil, LLC. The letters tell them that they need to request in writing the interest payments. That is not the law. The Attorney

General has talked to the operator that Bakken Oil is representing and told them they are not required. They continue to send out the letters. There seems to be willingness on the part of some entities in some situations (less than 2% of the time). Those people that are in that 2% are feeling violated by the fact that they are entitled to royalties that they are not receiving. If there is a title issue, there would be no reason for the director of Mineral Resources to take action. It is only if they are in violation of the law.

Chr. Svedjan: We have a motion to reconsider.

A voice vote was taken.

The motion passed.

Rep. Kempenich: We have a couple of bills this session. We should have looked into this further. At this time I would like to have a further understanding, if we are going to do something with this. We should have input from the players that are involved or vote to remove the amendment from the bill. **I move to remove .0318 off of 2014.**

Chr. Svedjan: For clarification before the second, is .0318 the combination of both .0316 and the verbal amendment? The date of it is April 7th.

Rep. Skarphol: .0318 is the language that Legislative Council put together to reflect the motion that was made yesterday.

Chr. Svedjan: The motion is to remove the language in .0318 from SB 2014.

Rep. Dosch seconded the motion.

Rep. Meyer: I would like clarification for the record. I have heard it said, "We can't pay you royalties because the Division Order has not been executed." Can royalty payments be withheld or not if there hasn't been a Division Order executed?

Rep. Skarphol: I am just referring to the handout that I gave you that originated out of the Industrial Commission's office, and it references part of the Century Code.

Rep. Wald: I don't think it is in the (inaudible) of Legislative Council to make a legal opinion here as addressed by Rep. Meyer.

Rep. Berg: In this e-mail it talks about Section 47-16.39.3. That is a separate issue. I support **Rep. Kempenich's** motion. I also understand the intent. We are dealing with people that live outside the state of North Dakota that are very hard to track down. Yet, the problem is when you have a carte blanche thing, it effect 100% of the good operators as well. I would suggest that you pass legislation that will just get at the bad operators. If the penalties are not strong enough, they should be increased for those that are not appropriately sending out royalty payments. For the rest of the industry this would cause a risk factor. It would go against the direction that we have gone to welcome oil companies and encourage development in North Dakota.

Rep. Glassheim: I certainly support taking this off. But, then I really question whether this is an appropriate place to try to resolve the question. We are not talking about money. This is a policy issue. If we take it off, we should either send 2014 to the policy committee to talk about the issue, or we should have a delayed bill that deals with this. Then there can be hearings with people that know something about the field. This has nothing to do with appropriations, except that Rep. Skarphol is on the committee. This is very complex, and we need something else.

Rep. Skarphol: The possibility exists for the organization of a mineral owner's organization. If the mineral owner's ever get angry enough to do that, I can assure you that this will be taken care of.

Chr. Svedjan: On the motion to amend by removing what is printed on .0318, **a voice vote was taken.**

The motion carried and the amendment is adopted, so .0318 is removed.

Chr. Svedjan: We now have the bill as was amended by .0316.

Rep. Delzer moved a Do Pass as amended.

Rep. Thoreson seconded the motion.

A roll call vote was taken on SB 2014 as amended. **Aye 24 Nay 1 Absent 0**

The motion carried.

Representative Berg will carry SB 2014.

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2014

Page 7, after line 31, insert:

"SECTION 13. LEGISLATIVE INTENT - COLLEGE SAVE PROGRAM INCENTIVE. It is the intent of the sixty-first legislative assembly that the Bank of North Dakota use administrative fee collections associated with the Bank's college SAVE program to provide incentives to establish 529 college savings plans under the Bank's college SAVE program."

Renumber accordingly

Adopted

March 26, 2009

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2014

Page 1, line 2, after the semicolon insert "to create and enact a new section to chapter 54-18 of the North Dakota Century Code, relating to mill and elevator profits;"

Page 1, line 7, remove "and" and after "transfers" insert "; and to declare an emergency"

Page 1, line 19, replace "2,733,761" with "2,138,453" and replace "9,941,305" with "9,345,997"

Page 1, line 20, replace "609,886" with "459,886" and replace "2,865,576" with "2,715,576"

Page 2, line 5, replace "(15,000,000)" with "(20,000,000)" and replace "5,000,000" with "0"

Page 2, line 6, replace "\$14,399,304" with "\$20,144,612" and replace "66,269,046" with "60,523,738"

Page 2, line 7, replace "(20,071,262)" with "(20,083,862)" and replace "49,321,084" with "49,308,484"

Page 2, line 8, replace "\$5,671,958" with "\$60,750" and replace "16,947,962" with "11,215,254"

Page 2, line 14, replace "6,698,389" with "6,490,407" and replace "41,970,256" with "41,762,274"

Page 2, line 17, replace "6,253,389" with "6,045,407" and replace "43,425,256" with "43,217,274"

Page 2, line 29, replace the first "1,400,000" with "700,000" and replace the second "1,400,000" with "700,000"

Page 3, line 2, replace "1,400,000" with "700,000" and replace "11,750,000" with "11,050,000"

Page 3, line 5, replace "1,400,000" with "700,000" and replace "10,800,000" with "10,100,000"

Page 3, line 20, replace "1,533,535" with "1,151,836" and replace "6,230,247" with "5,848,548"

Page 3, line 25, replace "\$297,102" with "\$678,801" and replace "41,232,188" with "40,850,489"

Page 3, line 27, replace "4.00" with "2.00" and replace "47.00" with "45.00"

Page 4, line 1, replace "7,071,958" with "639,250" and replace "27,747,962" with "21,315,254"

Page 4, line 2, replace "(10,823,342)" with "21,934,951" and replace "174,985,770" with "207,744,063"

Page 4, line 3, replace "(\$3,751,384)" with "\$22,574,201" and replace "202,733,732" with "229,059,317"

Page 4, remove line 14

Page 4, line 16, replace "7,493,152" with "2,493,152"

Page 8, after line 2, insert:

"SECTION 14. HOUSING FINANCE AGENCY FINANCING - PILOT PROJECT. The housing finance agency may establish a pilot project using funds available in subdivision 5 of section 1 of this Act to provide incentives for private sector investment in single-family residential dwelling units and multifamily housing facilities in difficult-to-develop areas of the state, for the biennium beginning July 1, 2009, and ending June 30, 2011.

SECTION 15. LEGISLATIVE INTENT - COLLEGE SAVE PROGRAM INCENTIVE. It is the intent of the sixty-first legislative assembly that the Bank of North Dakota use administrative fee collections associated with the Bank's college SAVE program to provide incentives to establish 529 college savings plans under the Bank's college SAVE program.

SECTION 16. A new section to chapter 54-18 of the North Dakota Century Code is created and enacted as follows:

Transfer of North Dakota mill and elevator profits to general fund. The industrial commission shall transfer to the state general fund seventy-five percent of the annual earnings and undivided profits of the North Dakota mill and elevator association. 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 must be made under this section if the total net assets balance of the mill and elevator is at least twenty-five percent of the mill and elevator's total annual operating budget for that same year.

SECTION 17. APPROPRIATION - FEDERAL FISCAL STIMULUS FUNDS - ADDITIONAL FUNDING APPROVAL. The funds provided in this section, or so much of the funds as may be necessary, are appropriated from federal funds made available to the state under the federal American Recovery and Reinvestment Act of 2009, not otherwise appropriated, to the industrial commission, for the period beginning with the effective date of this Act and ending June 30, 2011, as follows:

Renewable energy development	\$3,000,000
------------------------------	-------------

The industrial commission may seek emergency commission and budget section approval under chapter 54-16 for authority to spend any additional federal funds received under the federal American Recovery and Reinvestment Act of 2009 in excess of the amounts appropriated in this section, for the period beginning with the effective date of this Act and ending June 30, 2011.

Any federal funds appropriated under this section are not a part of the agency's 2011-13 base budget. Any program expenditures made with these funds will not be replaced with state funds after the federal American Recovery and Reinvestment Act of 2009 funds are no longer available.

SECTION 18. APPROPRIATION - FEDERAL FISCAL STIMULUS FUNDS - ADDITIONAL FUNDING APPROVAL. The funds provided in this section, or so much of the funds as may be necessary, are appropriated from federal funds made available to the state under the federal American Recovery and Reinvestment Act of 2009, not

otherwise appropriated, to the housing finance agency, for the period beginning with the effective date of this Act and ending June 30, 2011, as follows:

HOME tax credit assistance program	\$4,860,574
Housing tax credit exchange program	<u>25,500,000</u>
Total federal funds	\$30,360,574

The housing finance agency may seek emergency commission and budget section approval under chapter 54-16 for authority to spend any additional federal funds received under the federal American Recovery and Reinvestment Act of 2009 in excess of the amounts appropriated in this section, for the period beginning with the effective date of this Act and ending June 30, 2011.

Any federal funds appropriated under this section are not a part of the agency's 2011-13 base budget. Any program expenditures made with these funds will not be replaced with state funds after the federal American Recovery and Reinvestment Act of 2009 funds are no longer available.

SECTION 19. EMERGENCY. Sections 17 and 18 of this Act are declared to be emergency measures."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98033.0310 FN 2

A copy of the statement of purpose of amendment is attached.

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2014 - Summary of House Action

	Executive Budget	Senate Version	House Changes	House Version
Industrial Commission				
Total all funds	\$65,077,880	\$66,269,046	(\$2,745,308)	\$63,523,738
Less estimated income	49,321,084	49,321,084	2,987,400	52,308,484
General fund	\$15,756,796	\$16,947,962	(\$5,732,708)	\$11,215,254
Bank of North Dakota				
Total all funds	\$54,198,350	\$55,175,256	(\$907,982)	\$54,267,274
Less estimated income	43,398,350	44,375,256	(207,982)	44,167,274
General fund	\$10,800,000	\$10,800,000	(\$700,000)	\$10,100,000
Housing Finance Agency				
Total all funds	\$41,232,188	\$41,232,188	\$29,978,875	\$71,211,063
Less estimated income	41,232,188	41,232,188	29,978,875	71,211,063
General fund	\$0	\$0	\$0	\$0
Mill and Elevator				
Total all funds	\$40,057,242	\$40,057,242	\$0	\$40,057,242
Less estimated income	40,057,242	40,057,242	0	40,057,242
General fund	\$0	\$0	\$0	\$0
Bill total				
Total all funds	\$200,565,660	\$202,733,732	\$26,325,585	\$229,059,317
Less estimated income	174,008,864	174,985,770	32,758,293	207,744,063
General fund	\$26,556,796	\$27,747,962	(\$6,432,708)	\$21,315,254

Senate Bill No. 2014 - Industrial Commission - House Action

	Executive Budget	Senate Version	House Changes	House Version
Salaries and wages	\$9,770,047	\$9,941,305	(\$595,308)	\$9,345,997
Operating expenses	2,845,668	2,865,576	(150,000)	2,715,576
Capital assets	49,000	49,000		49,000
Grants - Lignite research & development	19,971,300	19,971,300		19,971,300
Grants - Bond payments	27,441,865	27,441,865		27,441,865
Renewable energy development	5,000,000	5,000,000	(5,000,000)	
State facility lignite demo project		1,000,000		1,000,000
Federal fiscal stimulus funds			3,000,000	3,000,000
Total all funds	\$65,077,880	\$66,269,046	(\$2,745,308)	\$63,523,738
Less estimated income	49,321,084	49,321,084	2,987,400	52,308,484
General fund	\$15,756,796	\$16,947,962	(\$5,732,708)	\$11,215,254
FTE	60.06	61.06	0.00	61.06

Department No. 405 - Industrial Commission - Detail of House Changes

	Removes Salary Equity Funding ¹	Reduces Funding for Operating Expenses ²	Removes Funding for Renewable Energy Development ³	Appropriates Federal Fiscal Stimulus Funds ⁴	Total House Changes
Salaries and wages	(\$595,308)				(\$595,308)
Operating expenses		(150,000)			(150,000)
Capital assets					
Grants - Lignite research & development					
Grants - Bond payments					
Renewable energy development			(5,000,000)		(5,000,000)
State facility lignite demo project					
Federal fiscal stimulus funds				3,000,000	3,000,000
Total all funds	(\$595,308)	(\$150,000)	(\$5,000,000)	\$3,000,000	(\$2,745,308)
Less estimated income	(12,600)	0	0	3,000,000	2,987,400
General fund	(\$582,708)	(\$150,000)	(\$5,000,000)	\$0	(\$5,732,708)
FTE	0.00	0.00	0.00	0.00	0.00

¹ This amendment removes salary equity included in the executive recommendation.

² This amendment reduces funding for travel expenses.

³ This amendment removes funding for renewable energy development.

⁴ This amendment appropriates federal fiscal stimulus funds from the American Recovery and Reinvestment Act of 2009 for renewable energy development.

A section is added relating to appropriation of federal fiscal stimulus funds.

Senate Bill No. 2014 - Bank of North Dakota - House Action

	Executive Budget	Senate Version	House Changes	House Version
Capital assets	\$1,455,000	\$1,455,000		\$1,455,000
Bank of North Dakota operations	40,993,350	41,970,256	(207,982)	41,762,274
PACE fund	8,000,000	8,000,000		8,000,000
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	1,400,000	1,400,000	(700,000)	700,000
Total all funds	\$54,198,350	\$55,175,256	(\$907,982)	\$54,267,274
Less estimated income	43,398,350	44,375,256	(207,982)	44,167,274
General fund	\$10,800,000	\$10,800,000	(\$700,000)	\$10,100,000
FTE	171.50	176.50	0.00	176.50

Department No. 471 - Bank of North Dakota - Detail of House Changes

	Removes Salary Equity Funding¹	Reduces Funding for Biofuels PACE²	Total House Changes
Capital assets			
Bank of North Dakota operations PACE fund	(207,982)		(207,982)
Ag PACE fund			
Beginning farmer revolving loan fund			
Biofuels PACE fund		(700,000)	(700,000)
Total all funds	(\$207,982)	(\$700,000)	(\$907,982)
Less estimated income	(207,982)	0	(207,982)
General fund	\$0	(\$700,000)	(\$700,000)
FTE	0.00	0.00	0.00

¹ This amendment removes salary equity funding included in the executive recommendation.

² Funding for the biofuels PACE fund is reduced from \$1,400,000 to \$700,000.

A section of legislative intent is added relating to the College SAVE program.

Senate Bill No. 2014 - Housing Finance Agency - House Action

	Executive Budget	Senate Version	House Changes	House Version
Salaries and wages	\$6,230,247	\$6,230,247	(\$381,699)	\$5,848,548
Operating expenses	8,677,581	8,677,581		8,677,581
Grants	26,224,360	26,224,360		26,224,360
Housing Finance Agency contingencies	100,000	100,000		100,000
Federal fiscal stimulus funds			30,360,574	30,360,574
Total all funds	\$41,232,188	\$41,232,188	\$29,978,875	\$71,211,063
Less estimated income	41,232,188	41,232,188	29,978,875	71,211,063
General fund	\$0	\$0	\$0	\$0
FTE	47.00	47.00	(2.00)	45.00

Department No. 473 - Housing Finance Agency - Detail of House Changes

	Removes Salary Equity Funding¹	Removes FTE Positions²	Appropriates Federal Fiscal Stimulus Funds³	Total House Changes
Salaries and wages	(\$115,139)	(\$266,560)		(\$381,699)
Operating expenses				
Grants				
Housing Finance Agency contingencies				
Federal fiscal stimulus funds			30,360,574	30,360,574
Total all funds	(\$115,139)	(\$266,560)	\$30,360,574	\$29,978,875
Less estimated income	(115,139)	(266,560)	30,360,574	29,978,875
General fund	\$0	\$0	\$0	\$0
FTE	0.00	(2.00)	0.00	(2.00)

¹ This amendment removes salary equity funding included in the executive recommendation.

² This amendment removes 2 new FTE positions relating to program growth and outreach included in the executive recommendation.

³ This amendment appropriates federal fiscal stimulus funds from the American Recovery and Reinvestment Act of 2009 for the HOME tax credit assistance program (\$4,860,574) and the housing tax credit exchange program (\$25,500,000).

A section is added relating to a housing pilot project for difficult-to-develop areas.

ate Bill No. 2014 - Mill and Elevator - House Action

A section is added relating to transfers of mill profits to the general fund.

Adopted

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2014

Page 1, line 2, after the semicolon insert "to create and enact a new section to chapter 54-18 of the North Dakota Century Code, relating to gain sharing;"

Page 7, after line 31, insert:

"SECTION 13. A new section to chapter 54-18 of the North Dakota Century Code is created and enacted as follows:

Gain sharing program. The industrial commission may not approve a gain sharing program for mill and elevator employees from mill and elevator profits unless the total net assets balance of the mill and elevator is at least twenty-five percent of the mill and elevator's total annual operating budget for that same year. Any legislatively authorized transfers to the state general fund must be made before a gain sharing program is approved. The goals and participation criteria for the gain sharing program must be designated in policy established by the industrial commission. The industrial commission shall report to the budget section regarding any approved gain sharing program at the first meeting after August thirty-first of each year. For the purpose of this section, "gain sharing program" means a program approved annually by the industrial commission with provisions that promote profitability, productivity, and safety.

Renumber accordingly

98033.0308
Title.
Fiscal No. 1

*Adopted
with
changes*

Prepared by the Legislative Council staff for
House Appropriations - Government
Operations

March 25, 2009

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2014

Page 1, line 24, replace "1,000,000" with "100,000" and replace "1,000,000" with "100,000"

Page 2, line 6, replace "(\$14,399,304)" with "(\$15,299,304)" and replace "66,269,046" with
"65,369,046"

Page 2, line 8, replace "5,671,958" with "4,771,958" and replace "16,947,962" with
"16,047,962"

Page 4, line 1, replace "7,071,958" with "6,171,958" and replace "27,747,962" with
"26,847,962"

Page 4, line 3, replace "(\$3,751,384)" with "(\$4,651,384)" and replace "202,733,732" with
"201,833,732"

Page 4, line 12, replace "1,000,000" with "100,000"

Page 4, line 16, replace "7,493,152" with "6,593,152"

Page 7, line 29, replace "\$1,000,000" with "\$100,000"

Page 7, line 31, after the period insert "The use of funds provided for in this section must be
approved by the lignite research council."

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98033.0308 FN 1

A copy of the statement of purpose of amendment is attached.

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2014 - Summary of House Action

	Executive Budget	Senate Version	House Changes	House Version
Industrial Commission				
Total all funds	\$65,077,880	\$66,269,046	(\$900,000)	\$65,369,046
Less estimated income	49,321,084	49,321,084	0	49,321,084
General fund	\$15,756,796	\$16,947,962	(\$900,000)	\$16,047,962
Bank of North Dakota				
Total all funds	\$54,198,350	\$55,175,256	\$0	\$55,175,256
Less estimated income	43,398,350	44,375,256	0	44,375,256
General fund	\$10,800,000	\$10,800,000	\$0	\$10,800,000
Housing Finance Agency				
Total all funds	\$41,232,188	\$41,232,188	\$0	\$41,232,188
Less estimated income	41,232,188	41,232,188	0	41,232,188
General fund	\$0	\$0	\$0	\$0
Mill and Elevator				
Total all funds	\$40,057,242	\$40,057,242	\$0	\$40,057,242
Less estimated income	40,057,242	40,057,242	0	40,057,242
General fund	\$0	\$0	\$0	\$0
Bill total				
Total all funds	\$200,565,660	\$202,733,732	(\$900,000)	\$201,833,732
Less estimated income	174,008,864	174,985,770	0	174,985,770
General fund	\$26,556,796	\$27,747,962	(\$900,000)	\$26,847,962

Senate Bill No. 2014 - Industrial Commission - House Action

	Executive Budget	Senate Version	House Changes	House Version
Salaries and wages	\$9,770,047	\$9,941,305		\$9,941,305
Operating expenses	2,845,668	2,865,576		2,865,576
Capital assets	49,000	49,000		49,000
Grants - Lignite research & development	19,971,300	19,971,300		19,971,300
Grants - Bond payments	27,441,865	27,441,865		27,441,865
Renewable energy development	5,000,000	5,000,000		5,000,000
State facility lignite demo project		1,000,000	(900,000)	100,000
Total all funds	\$65,077,880	\$66,269,046	(\$900,000)	\$65,369,046
Less estimated income	49,321,084	49,321,084	0	49,321,084
General fund	\$15,756,796	\$16,947,962	(\$900,000)	\$16,047,962
FTE	60.06	61.06	0.00	61.06

Department No. 405 - Industrial Commission - Detail of House Changes

	Reduces Funding for Demonstration Project¹	Total House Changes
Salaries and wages		
Operating expenses		
Capital assets		
Grants - Lignite research & development		
Grants - Bond payments		
Renewable energy development		
State facility lignite demo project	(900,000)	(900,000)
Total all funds	(\$900,000)	(\$900,000)
Less estimated income	0	0
General fund	(\$900,000)	(\$900,000)
FTE	0.00	0.00

¹ This amendment reduces funding added by the Senate from \$1 million to \$100,000 for a state facility lignite feasibility demonstration project.

Adopted +
Changes

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2014

Page 7, after line 31, insert:

"SECTION 13. LEGISLATIVE INTENT - LAND PURCHASE. It is the intent of the sixty-first legislative assembly that to the best of its ability the Bank of North Dakota ensure that properties adjacent to Bank of North Dakota property are developed for uses that are consistent with the mission and purpose of the Bank of North Dakota."

Renumber accordingly

AND NW of West Street

**2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 2014**

House House Appropriations- Government Operations Committee

Check here for Conference Committee

Legislative Council Amendment Number 98033.0309

Action Taken Adopt Amendment

Voice Vote

Roll Call Vote

Motion Made By Representative Berg: Seconded By Representative Meyer

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer			Representative Glassheim		
Vice Chairman Thoreson			Representative Meyer		
Representative Kempenich			Representative Kaldor		
Representative Berg					
Representative Dosch					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Land developing around the Bank of North Dakota

Amendment Adopted

Adopted

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2014

Page 7, after line 31, insert:

"SECTION 13. MILL AND ELEVATOR - EVALUATION. The industrial commission shall obtain the services of a consultant to evaluate the state mill and elevator association. The evaluation must include a comparison to industry standards of:

1. Financial data reflected on balance sheets and income statements;
2. Cashflow data;
3. Ratio analyses of working capital, operating efficiency, ^{marketing} and other ratios;
4. Liquidity ratios to determine appropriate working capital needed for the mill;
5. Pretax income levels;
6. Capital investment levels; and
7. Officer and employee compensation guidelines, including gain sharing programs.

The industrial commission shall report to the budget section on the results of the evaluation during the 2009-10 interim."

Renumber accordingly

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2014

House House Appropriations- Government Operations Committee

Check here for Conference Committee

Legislative Council Amendment Number 98033.0315

Action Taken Adopt Amendments

Voice Vote

Roll Call Vote

Motion Made By Representative Berg; Seconded By Representative Kempenich;

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer			Representative Glassheim		
Vice Chairman Thoreson			Representative Meyer		
Representative Kempenich			Representative Kaldor		
Representative Berg					
Representative Dosch					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Amendment Adopted

Date: 4/6/09
 Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2014

Full House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number . 0316

Action Taken Adopt amendment . 0316

Motion Made By Berg Seconded By Thoreson

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Rep. Skarphol			Rep. Kroeber		
Rep. Wald			Rep. Onstad		
Rep. Hawken			Rep. Williams		
Rep. Klein					
Rep. Martinson					
Rep. Delzer			Rep. Glassheim		
Rep. Thoreson			Rep. Kaldor		
Rep. Berg			Rep. Meyer		
Rep. Dosch					
Rep. Pollert			Rep. Ekstrom		
Rep. Bellew			Rep. Kerzman		
Rep. Kreidt			Rep. Metcalf		
Rep. Nelson					
Rep. Wieland					

Total (Yes) _____ No _____

Absent _____

Floor Assignment Vote. Carries

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

Date: 4/6/09
Roll Call Vote #: 2

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2014

Full House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number TBD

Action Taken Amend as ind. below

Motion Made By Skarphol Seconded By Meyer

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Rep. Skarphol			Rep. Kroeber		
Rep. Wald			Rep. Onstad		
Rep. Hawken			Rep. Williams		
Rep. Klein					
Rep. Martinson					
Rep. Delzer			Rep. Glassheim		
Rep. Thoreson			Rep. Kaldor		
Rep. Berg			Rep. Meyer		
Rep. Dosch					
Rep. Pollert			Rep. Ekstrom		
Rep. Bellew			Rep. Kerzman		
Rep. Kreidt			Rep. Metcalf		
Rep. Nelson					
Rep. Wieland					

Total (Yes) _____ No _____

Absent _____

Floor Assignment Voie Vote - Carries

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

*Director of Mineral Resources to
suspend activities of drilling companies
w/ failure to pay royalties.*

Date: 4/6/09
 Roll Call Vote #: 3

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2014

Full House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number TBD

Action Taken No Pass as Amended

Motion Made By Burg Seconded By Kempenich

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich	✓				
Rep. Skarphol	✓		Rep. Kroeber	✓	
Rep. Wald	✓		Rep. Onstad	✓	
Rep. Hawken	✓		Rep. Williams	✓	
Rep. Klein	✓				
Rep. Martinson	✓				
Rep. Delzer	✓		Rep. Glassheim	✓	
Rep. Thoreson	✓		Rep. Kaldor	✓	
Rep. Berg	✓		Rep. Meyer	✓	
Rep. Dosch	✓				
Rep. Pollert	✓		Rep. Ekstrom	✓	
Rep. Bellew	✓		Rep. Kerzman	✓	
Rep. Kreidt	✓		Rep. Metcalf	✓	
Rep. Nelson		✓			
Rep. Wieland	✓				

Total (Yes) 20 No 1

Absent 4

Floor Assignment Burg

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

Date: 4-7-09
 Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2014

Full House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Reconsider 2014

Motion Made By Kempenich Seconded By Wald

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Rep. Skarphol			Rep. Kroeber		
Rep. Wald			Rep. Onstad		
Rep. Hawken			Rep. Williams		
Rep. Klein					
Rep. Martinson					
Rep. Delzer			Rep. Glassheim		
Rep. Thoreson			Rep. Kaldor		
Rep. Berg			Rep. Meyer		
Rep. Dosch					
Rep. Pollert			Rep. Ekstrom		
Rep. Bellew			Rep. Kerzman		
Rep. Kreidt			Rep. Metcalf		
Rep. Nelson					
Rep. Wieland					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2014

Page 1, line 2, after "to" insert "create and enact a new section to chapter 38-08 and a new subsection to section 54-09-02 of the North Dakota Century Code, relating to duties of the director of mineral resources and secretary of state; to"

Page 1, line 3, replace "section" with "sections 47-16-39.1 and" and after "to" insert "remedies for nonpayment of oil and gas royalties and"

Page 7, after line 3, insert:

"SECTION 11. A new section to chapter 38-08 of the North Dakota Century Code is created and enacted as follows:

Failure to pay oil and gas royalties. The director of mineral resources may recommend that the secretary of state revoke or suspend the privilege of a person to do business in this state for the failure to pay oil and gas royalties as required by section 47-16-39.1.

SECTION 12. AMENDMENT. Section 47-16-39.1 of the North Dakota Century Code is amended and reenacted as follows:

47-16-39.1. Obligation to pay royalties - Breach. The obligation arising under an oil and gas lease to pay oil or gas royalties to the mineral owner or the mineral owner's assignee, or to deliver oil or gas to a purchaser to the credit of the mineral owner or the mineral owner's assignee, or to pay the market value thereof is of the essence in the lease contract, and breach of the obligation may constitute grounds for the cancellation of the lease in cases where it is determined by the court that the equities of the case require cancellation or require revocation or suspension of the operator's privilege to do business in this state. If the operator under an oil and gas lease fails to pay oil or gas royalties to the mineral owner or the mineral owner's assignee within one hundred fifty days after oil or gas produced under the lease is marketed and cancellation of the lease is not sought, the operator shall pay interest on the unpaid royalties at the rate of eighteen percent per annum until paid and the director of mineral resources may recommend that the secretary of state revoke or suspend the privilege of the operator to do business in this state, except that the commissioner of university and school lands may negotiate a rate to be no less than the prime rate as established by the Bank of North Dakota plus four percent per annum with a maximum of eighteen percent per annum, for unpaid royalties on minerals owned or managed by the board of university and school lands. Provided, that the operator may remit semiannually to a person entitled to royalties the aggregate of six months' monthly royalties where the aggregate amount is less than fifty dollars. The district court for the county in which the oil or gas well is located has jurisdiction over all proceedings brought pursuant to this section. The prevailing party in any proceeding brought pursuant to this section is entitled to recover any court costs and reasonable attorney's fees. This section does not apply when mineral owners or their assignees elect to take their proportionate share of production in kind or in the event of a dispute of title existing that would affect distribution of royalty payments; however, the operator shall make royalty payments to those mineral owners whose title and ownership interest is not in dispute.

SECTION 13. A new subsection to section 54-09-02 of the North Dakota Century Code is created and enacted as follows:

Upon recommendation of the director of mineral resources, suspend or revoke the privilege of a person to do business in this state."

Renumber accordingly

passed
voted on
bill not
final
amendment

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2014

That the House recede from its amendments as printed on pages 1330-1333 of the Senate Journal and pages 1353-1356 of the House Journal and that Reengrossed Senate Bill No. 2014 be amended as follows:

Page 1, line 2, after the semicolon insert "to create and enact two new sections to chapter 54-18 of the North Dakota Century Code, relating to mill and elevator profits and gain-sharing;"

Page 7, after line 31, insert:

"SECTION 13. MILL AND ELEVATOR STUDY. The industrial commission shall obtain the services of a consultant to evaluate the state mill and elevator association during the 2009-10 interim. The evaluation must include a comparison to industry averages or standards of:

1. Financial data reflected on balance sheets and income statements;
2. Cashflow data;
3. Ratio analysis of working capital, operating efficiency, marketing, and other ratios;
4. Liquidity ratios to determine appropriate working capital needed for the mill;
5. Pretax income levels;
6. Business opportunities;
7. Capital investment and recommended net assets levels; and
8. Officer and employee compensation guidelines, including gain-sharing programs.

The industrial commission shall provide a summary report exclusive of proprietary information to the budget section on the results of the evaluation during the 2009-10 interim.

SECTION 14. Two new sections to chapter 54-18 of the North Dakota Century Code are created and enacted as follows:

Transfer of North Dakota mill and elevator profits to general fund. The industrial commission shall transfer to the state general fund fifty percent of the annual earnings and undivided profits of the North Dakota mill and elevator association after any transfers to other state agricultural-related programs. The moneys must be transferred on an annual basis in the amounts and at the times requested by the director of the office of management and budget.

Gain-sharing program. For the purpose of this section, "gain-sharing program" means a program approved annually by the industrial commission with provisions that promote profitability, productivity, and safety. Any gain-sharing program

approved by the industrial commission must include provisions that ensure that no payouts occur unless mill and elevator profits exceed one million dollars and transfers will be made to the state general fund for that program year."

Renumber accordingly

Date: 4/7/09
 Roll Call Vote #: 2

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2014

Full House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number 0318 ?

Action Taken Remove language in 0113

Motion Made By _____ Seconded By _____

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Rep. Skarphol			Rep. Kroeber		
Rep. Wald			Rep. Onstad		
Rep. Hawken			Rep. Williams		
Rep. Klein					
Rep. Martinson					
Rep. Delzer			Rep. Glassheim		
Rep. Thoreson			Rep. Kaldor		
Rep. Berg			Rep. Meyer		
Rep. Dosch					
Rep. Pollert			Rep. Ekstrom		
Rep. Bellew			Rep. Kerzman		
Rep. Kreidt			Rep. Metcalf		
Rep. Nelson					
Rep. Wieland					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

VR
4/9/09
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PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2014

Page 1, line 2, after the semicolon insert "to create and enact two new sections to chapter 54-18 of the North Dakota Century Code, relating to mill and elevator profits and gain sharing;"

Page 1, line 7, remove "and" and after "transfers" insert "; and to declare an emergency"

Page 1, line 19, replace "2,733,761" with "2,138,453" and replace "9,941,305" with "9,345,997"

Page 1, line 20, replace "609,886" with "459,886" and replace "2,865,576" with "2,715,576"

Page 1, line 24, replace the first "1,000,000" with "200,000" and replace the second "1,000,000" with "200,000"

Page 2, line 5, replace "(15,000,000)" with "(20,000,000)" and replace "5,000,000" with "0"

Page 2, line 6, replace "(\$14,399,304)" with "(\$20,944,612)" and replace "66,269,046" with "59,723,738"

Page 2, line 7, replace "(20,071,262)" with "(20,083,862)" and replace "49,321,084" with "49,308,484"

Page 2, line 8, replace "\$5,671,958" with "(\$860,750)" and replace "16,947,962" with "10,415,254"

Page 2, line 14, replace "6,698,389" with "6,490,407" and replace "41,970,256" with "41,762,274"

Page 2, line 17, replace "6,253,389" with "6,045,407" and replace "43,425,256" with "43,217,274"

Page 2, line 29, replace the first "1,400,000" with "700,000" and replace the second "1,400,000" with "700,000"

Page 3, line 2, replace "1,400,000" with "700,000" and replace "11,750,000" with "11,050,000"

Page 3, line 5, replace "1,400,000" with "700,000" and replace "10,800,000" with "10,100,000"

Page 3, line 20, replace "1,533,535" with "1,151,836" and replace "6,230,247" with "5,848,548"

Page 3, line 25, replace "(\$297,102)" with "(\$678,801)" and replace "41,232,188" with "40,850,489"

Page 3, line 27, replace "4.00" with "2.00" and replace "47.00" with "45.00"

Page 4, line 1, replace "\$7,071,958" with "(\$160,750)" and replace "27,747,962" with "20,515,254"

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Page 4, line 2, replace "(10,823,342)" with "21,934,951" and replace "174,985,770" with "207,744,063"

Page 4, line 3, replace "(\$3,751,384)" with "\$21,774,201" and replace "202,733,732" with "228,259,317"

Page 4, line 12, replace "1,000,000" with "200,000"

Page 4, remove line 14

Page 4, line 16, replace "7,493,152" with "1,693,152"

Page 7, line 29, replace "\$1,000,000" with "\$200,000"

Page 7, line 31, after the period insert "The use of funds provided for in this section must be approved by the lignite research council."

SECTION 13. MILL AND ELEVATOR - EVALUATION. The industrial commission shall obtain the services of a consultant to evaluate the state mill and elevator association. The evaluation must include a comparison to industry standards of:

1. Financial data reflected on balance sheets and income statements;
2. Cashflow data;
3. Ratio analyses of working capital, operating efficiency, marketing, and other ratios;
4. Liquidity ratios to determine appropriate working capital needed for the mill;
5. Pretax income levels;
6. Capital investment levels; and
7. Officer and employee compensation guidelines, including gain sharing programs.

The industrial commission shall report to the budget section on the results of the evaluation during the 2009-10 interim.

SECTION 14. HOUSING FINANCE AGENCY FINANCING - PILOT PROJECT. The housing finance agency may establish a pilot project using funds available in subdivision 5 of section 1 of this Act to provide incentives for private sector investment in single-family residential dwelling units and multifamily housing facilities in difficult-to-develop areas of the state, for the biennium beginning July 1, 2009, and ending June 30, 2011.

SECTION 15. LEGISLATIVE INTENT - LAND PURCHASE. It is the intent of the sixty-first legislative assembly that to the best of its ability the Bank of North Dakota ensure that properties adjacent to Bank of North Dakota property northwest of west street are developed for uses that are consistent with the mission and purpose of the Bank of North Dakota.

SECTION 16. LEGISLATIVE INTENT - COLLEGE SAVE PROGRAM INCENTIVE. It is the intent of the sixty-first legislative assembly that the Bank of North Dakota use administrative fee collections associated with the Bank's college SAVE

program to provide incentives to establish 529 college savings plans under the Bank's college SAVE program.

SECTION 17. Two new sections to chapter 54-18 of the North Dakota Century Code are created and enacted as follows:

Transfer of North Dakota mill and elevator profits to general fund. The industrial commission shall transfer to the state general fund seventy percent of the annual earnings and undivided profits of the North Dakota mill and elevator association. 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 must be made under this section if the total net assets balance of the mill and elevator is at least twenty-five percent of the mill and elevator's total annual operating budget for that same year.

Gain sharing program. The industrial commission may not approve a gain sharing program for mill and elevator employees from mill and elevator profits unless the total net assets balance of the mill and elevator is at least twenty-five percent of the mill and elevator's total annual operating budget for that same year. Any legislatively authorized transfers to the state general fund must be made before a gain sharing program is approved. The goals and participation criteria for the gain sharing program must be designated in policy established by the industrial commission. The industrial commission shall report to the budget section regarding any approved gain sharing program at the first meeting after August thirty-first of each year. For the purpose of this section, "gain sharing program" means a program approved annually by the industrial commission with provisions that promote profitability, productivity, and safety.

SECTION 18. APPROPRIATION - FEDERAL FISCAL STIMULUS FUNDS - ADDITIONAL FUNDING APPROVAL. The funds provided in this section, or so much of the funds as may be necessary, are appropriated from federal funds made available to the state under the federal American Recovery and Reinvestment Act of 2009, not otherwise appropriated, to the industrial commission, for the period beginning with the effective date of this Act and ending June 30, 2011, as follows:

Renewable energy development \$3,000,000

The industrial commission may seek emergency commission and budget section approval under chapter 54-16 for authority to spend any additional federal funds received under the federal American Recovery and Reinvestment Act of 2009 in excess of the amounts appropriated in this section, for the period beginning with the effective date of this Act and ending June 30, 2011.

Any federal funds appropriated under this section are not a part of the agency's 2011-13 base budget. Any program expenditures made with these funds will not be replaced with state funds after the federal American Recovery and Reinvestment Act of 2009 funds are no longer available.

SECTION 19. APPROPRIATION - FEDERAL FISCAL STIMULUS FUNDS - ADDITIONAL FUNDING APPROVAL. The funds provided in this section, or so much of the funds as may be necessary, are appropriated from federal funds made available to the state under the federal American Recovery and Reinvestment Act of 2009, not otherwise appropriated, to the housing finance agency, for the period beginning with the effective date of this Act and ending June 30, 2011, as follows:

HOME tax credit assistance program \$4,860,574
Housing tax credit exchange program 25,500,000
Total federal funds \$30,360,574

The housing finance agency may seek emergency commission and budget section approval under chapter 54-16 for authority to spend any additional federal funds received under the federal American Recovery and Reinvestment Act of 2009 in excess

of the amounts appropriated in this section, for the period beginning with the effective date of this Act and ending June 30, 2011.

Any federal funds appropriated under this section are not a part of the agency's 2011-13 base budget. Any program expenditures made with these funds will not be replaced with state funds after the federal American Recovery and Reinvestment Act of 2009 funds are no longer available."

Page 8, after line 2, insert:

"SECTION 21. EMERGENCY. Sections 18 and 19 of this Act are declared to be an emergency measure."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98033.0316 FN 6

A copy of the statement of purpose of amendment is attached.

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2014 - Summary of House Action

	Executive Budget	Senate Version	House Changes	House Version
Industrial Commission				
Total all funds	\$65,077,880	\$66,269,046	(\$3,545,308)	\$62,723,738
Less estimated income	49,321,084	49,321,084	2,987,400	52,308,484
General fund	\$15,756,796	\$16,947,962	(\$6,532,708)	\$10,415,254
Bank of North Dakota				
Total all funds	\$54,198,350	\$55,175,256	(\$907,982)	\$54,267,274
Less estimated income	43,398,350	44,375,256	(207,982)	44,167,274
General fund	\$10,800,000	\$10,800,000	(\$700,000)	\$10,100,000
Housing Finance Agency				
Total all funds	\$41,232,188	\$41,232,188	\$29,978,875	\$71,211,063
Less estimated income	41,232,188	41,232,188	29,978,875	71,211,063
General fund	\$0	\$0	\$0	\$0
Mill and Elevator				
Total all funds	\$40,057,242	\$40,057,242	\$0	\$40,057,242
Less estimated income	40,057,242	40,057,242	0	40,057,242
General fund	\$0	\$0	\$0	\$0
Bill total				
Total all funds	\$200,565,660	\$202,733,732	\$25,525,585	\$228,259,317
Less estimated income	174,008,864	174,985,770	32,758,293	207,744,063
General fund	\$26,556,796	\$27,747,962	(\$7,232,708)	\$20,515,254

Senate Bill No. 2014 - Industrial Commission - House Action

	Executive Budget	Senate Version	House Changes	House Version
Salaries and wages	\$9,770,047	\$9,941,305	(\$595,308)	\$9,345,997
Operating expenses	2,845,668	2,865,576	(150,000)	2,715,576
Capital assets	49,000	49,000		49,000
Grants - Lignite research & development	19,971,300	19,971,300		19,971,300
Grants - Bond payments	27,441,865	27,441,865		27,441,865
Renewable energy development	5,000,000	5,000,000	(5,000,000)	
State facility lignite demo project		1,000,000	(800,000)	200,000
Federal fiscal stimulus funds			3,000,000	3,000,000
Total all funds	\$65,077,880	\$66,269,046	(\$3,545,308)	\$62,723,738
Less estimated income	49,321,084	49,321,084	2,987,400	52,308,484
General fund	\$15,756,796	\$16,947,962	(\$6,532,708)	\$10,415,254
FTE	60.06	61.06	0.00	61.06

Department No. 405 - Industrial Commission - Detail of House Changes

	Removes Salary Equity Funding ¹	Reduces Funding for Operating Expenses ²	Removes Funding for Renewable Energy Development ³	Appropriates Federal Fiscal Stimulus Funds ⁴	Reduces Funding for Lignite Feasibility Project ⁵	Total House Changes
Salaries and wages	(\$595,308)					(\$595,308)
Operating expenses		(150,000)				(150,000)
Capital assets						
Grants - Lignite research & development						
Grants - Bond payments						
Renewable energy development			(5,000,000)			(5,000,000)
State facility lignite demo project					(800,000)	(800,000)
Federal fiscal stimulus funds				3,000,000		3,000,000
Total all funds	(\$595,308)	(\$150,000)	(\$5,000,000)	\$3,000,000	(\$800,000)	(\$3,545,308)
Less estimated income	(12,600)	0	0	3,000,000	0	2,987,400
General fund	(\$582,708)	(\$150,000)	(\$5,000,000)	\$0	(\$800,000)	(\$6,532,708)
FTE	0.00	0.00	0.00	0.00	0.00	0.00

¹ This amendment removes salary equity included in the executive recommendation.

² This amendment reduces funding for travel expenses.

³ This amendment removes funding for renewable energy development.

⁴ A section is added appropriating federal fiscal stimulus funds from the American Recovery and Reinvestment Act of 2009 for renewable energy development.

⁵ This amendment reduces funding added by the Senate for a state facility lignite feasibility demonstration project from \$1 million to \$200,000.

Adds sections relating to failure to pay oil and gas royalties.

Senate Bill No. 2014 - Bank of North Dakota - House Action

	Executive Budget	Senate Version	House Changes	House Version
Capital assets	\$1,455,000	\$1,455,000		\$1,455,000
Bank of North Dakota operations	40,993,350	41,970,256	(207,982)	41,762,274
PACE fund	8,000,000	8,000,000		8,000,000
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	1,400,000	1,400,000	(700,000)	700,000
Total all funds	\$54,198,350	\$55,175,256	(\$907,982)	\$54,267,274
Less estimated income	43,398,350	44,375,256	(207,982)	44,167,274
General fund	\$10,800,000	\$10,800,000	(\$700,000)	\$10,100,000
FTE	171.50	176.50	0.00	176.50

Department No. 471 - Bank of North Dakota - Detail of House Changes

	Removes Salary Equity Funding¹	Reduces Funding for Biofuels PACE²	Total House Changes
Capital assets			
Bank of North Dakota operations PACE fund	(207,982)		(207,982)
Ag PACE fund			
Beginning farmer revolving loan fund			
Biofuels PACE fund		(700,000)	(700,000)
Total all funds	(\$207,982)	(\$700,000)	(\$907,982)
Less estimated income	(207,982)	0	(207,982)
General fund	\$0	(\$700,000)	(\$700,000)
FTE	0.00	0.00	0.00

¹ This amendment removes salary equity funding included in the executive recommendation.

² Funding for the biofuels PACE fund is reduced from \$1,400,000 to \$700,000.

Two sections of legislative intent are added relating to the College SAVE program and land purchases.

Senate Bill No. 2014 - Housing Finance Agency - House Action

	Executive Budget	Senate Version	House Changes	House Version
Salaries and wages	\$6,230,247	\$6,230,247	(\$381,699)	\$5,848,548
Operating expenses	8,677,581	8,677,581		8,677,581
Grants	26,224,360	26,224,360		26,224,360
Housing Finance Agency contingencies	100,000	100,000		100,000
Federal fiscal stimulus funds			30,360,574	30,360,574
Total all funds	\$41,232,188	\$41,232,188	\$29,978,875	\$71,211,063
Less estimated income	41,232,188	41,232,188	29,978,875	71,211,063
General fund	\$0	\$0	\$0	\$0
FTE	47.00	47.00	(2.00)	45.00

Department No. 473 - Housing Finance Agency - Detail of House Changes

	Removes Salary Equity Funding ¹	Removes FTE Positions ²	Appropriates Federal Fiscal Stimulus Funds ³	Total House Changes
Salaries and wages	(\$115,139)	(\$266,560)		(\$381,699)
Operating expenses				
Grants				
Housing Finance Agency contingencies				
Federal fiscal stimulus funds			30,360,574	30,360,574
Total all funds	(\$115,139)	(\$266,560)	\$30,360,574	\$29,978,875
Less estimated income	(115,139)	(266,560)	30,360,574	29,978,875
General fund	\$0	\$0	\$0	\$0
FTE	0.00	(2.00)	0.00	(2.00)

¹ This amendment removes salary equity funding included in the executive recommendation.

² This amendment removes 2 new FTE positions relating to program growth and outreach included in the executive recommendation.

³ This amendment appropriates federal fiscal stimulus funds from the American Recovery and Reinvestment Act of 2009 for the HOME tax credit assistance program (\$4,860,574) and the housing tax credit exchange program (\$25,500,000).

A section is added relating to a housing pilot project for difficult-to-develop areas.

Senate Bill No. 2014 - Mill and Elevator - House Action

Sections are added relating to the following:

- Transfers of mill profits to the general fund;
- Gain-sharing programs; and
- Mill and Elevator evaluation.

Date: 4/7/09
 Roll Call Vote #: 3

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2014

Full House Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number TBD

Action Taken Do pass as amended

Motion Made By Rep. Delzer Seconded By Rep. Thoreson

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	X				
Vice Chairman Kempenich	X				
Rep. Skarphol	X		Rep. Kroeber	X	
Rep. Wald	X		Rep. Onstad	X	
Rep. Hawken	X		Rep. Williams	X	
Rep. Klein		X			
Rep. Martinson	X				
Rep. Delzer	X		Rep. Glassheim	X	
Rep. Thoreson	X		Rep. Kaldor	X	
Rep. Berg	X		Rep. Meyer	X	
Rep. Dosch	X				
Rep. Pollert	X		Rep. Ekstrom	X	
Rep. Bellew	X		Rep. Kerzman	X	
Rep. Kreidt	X		Rep. Metcalf	X	
Rep. Nelson	X				
Rep. Wieland	X				

Total (Yes) 24 No 1

Absent 0

Floor Assignment Rep. Berg

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

REPORT OF STANDING COMMITTEE

SB 2014, as reengrossed: Appropriations Committee (Rep. Svedjan, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (24 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). Reengrossed SB 2014 was placed on the Sixth order on the calendar.

Page 1, line 2, after the semicolon insert "to create and enact two new sections to chapter 54-18 of the North Dakota Century Code, relating to mill and elevator profits and gain sharing;"

Page 1, line 7, remove "and" and after "transfers" insert "; and to declare an emergency"

Page 1, line 19, replace "2,733,761" with "2,138,453" and replace "9,941,305" with "9,345,997"

Page 1, line 20, replace "609,886" with "459,886" and replace "2,865,576" with "2,715,576"

Page 1, line 24, replace the first "1,000,000" with "200,000" and replace the second "1,000,000" with "200,000"

Page 2, line 5, replace "15,000,000" with "20,000,000" and replace "5,000,000" with "0"

Page 2, line 6, replace "(\$14,399,304)" with "(\$20,944,612)" and replace "66,269,046" with "59,723,738"

Page 2, line 7, replace "20,071,262" with "20,083,862" and replace "49,321,084" with "49,308,484"

Page 2, line 8, replace "\$5,671,958" with "(\$860,750)" and replace "16,947,962" with "10,415,254"

Page 2, line 14, replace "6,698,389" with "6,490,407" and replace "41,970,256" with "41,762,274"

Page 2, line 17, replace "6,253,389" with "6,045,407" and replace "43,425,256" with "43,217,274"

Page 2, line 29, replace the first "1,400,000" with "700,000" and replace the second "1,400,000" with "700,000"

Page 3, line 2, replace "1,400,000" with "700,000" and replace "11,750,000" with "11,050,000"

Page 3, line 5, replace "1,400,000" with "700,000" and replace "10,800,000" with "10,100,000"

Page 3, line 20, replace "1,533,535" with "1,151,836" and replace "6,230,247" with "5,848,548"

Page 3, line 25, replace "(\$297,102)" with "(\$678,801)" and replace "41,232,188" with "40,850,489"

Page 3, line 27, replace "4.00" with "2.00" and replace "47.00" with "45.00"

Page 4, line 1, replace "\$7,071,958" with "(\$160,750)" and replace "27,747,962" with "20,515,254"

Page 4, line 2, replace "10,823,342" with "21,934,951" and replace "174,985,770" with "207,744,063"

Page 4, line 3, replace "\$3,751,384" with "\$21,774,201" and replace "202,733,732" with "228,259,317"

Page 4, line 12, replace "1,000,000" with "200,000"

Page 4, remove line 14

Page 4, line 16, replace "7,493,152" with "1,693,152"

Page 7, line 29, replace "\$1,000,000" with "\$200,000"

Page 7, line 31, after the period insert "The use of funds provided for in this section must be approved by the lignite research council."

SECTION 13. MILL AND ELEVATOR - EVALUATION. The industrial commission shall obtain the services of a consultant to evaluate the state mill and elevator association. The evaluation must include a comparison to industry standards of:

1. Financial data reflected on balance sheets and income statements;
2. Cashflow data;
3. Ratio analyses of working capital, operating efficiency, marketing, and other ratios;
4. Liquidity ratios to determine appropriate working capital needed for the mill;
5. Pretax income levels;
6. Capital investment levels; and
7. Officer and employee compensation guidelines, including gain sharing programs.

The industrial commission shall report to the budget section on the results of the evaluation during the 2009-10 interim.

SECTION 14. HOUSING FINANCE AGENCY FINANCING - PILOT PROJECT. The housing finance agency may establish a pilot project using funds available in subdivision 5 of section 1 of this Act to provide incentives for private sector investment in single-family residential dwelling units and multifamily housing facilities in difficult-to-develop areas of the state, for the biennium beginning July 1, 2009, and ending June 30, 2011.

SECTION 15. LEGISLATIVE INTENT - LAND PURCHASE. It is the intent of the sixty-first legislative assembly that to the best of its ability the Bank of North Dakota ensure that properties adjacent to Bank of North Dakota property northwest of west street are developed for uses that are consistent with the mission and purpose of the Bank of North Dakota.

SECTION 16. LEGISLATIVE INTENT - COLLEGE SAVE PROGRAM INCENTIVE. It is the intent of the sixty-first legislative assembly that the Bank of North Dakota use administrative fee collections associated with the Bank's college SAVE program to provide incentives to establish 529 college savings plans under the Bank's college SAVE program.

SECTION 17. Two new sections to chapter 54-18 of the North Dakota Century Code are created and enacted as follows:

Transfer of North Dakota mill and elevator profits to general fund. The industrial commission shall transfer to the state general fund seventy percent of the annual earnings and undivided profits of the North Dakota mill and elevator association. 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 must be made under this section if the total net assets balance of the mill and elevator is at least twenty-five percent of the mill and elevator's total annual operating budget for that same year.

Gain sharing program. The industrial commission may not approve a gain sharing program for mill and elevator employees from mill and elevator profits unless the total net assets balance of the mill and elevator is at least twenty-five percent of the mill and elevator's total annual operating budget for that same year. Any legislatively authorized transfers to the state general fund must be made before a gain sharing program is approved. The goals and participation criteria for the gain sharing program must be designated in policy established by the industrial commission. The industrial commission shall report to the budget section regarding any approved gain sharing program at the first meeting after August thirty-first of each year. For the purpose of this section, "gain sharing program" means a program approved annually by the industrial commission with provisions that promote profitability, productivity, and safety.

SECTION 18. APPROPRIATION - FEDERAL FISCAL STIMULUS FUNDS - ADDITIONAL FUNDING APPROVAL. The funds provided in this section, or so much of the funds as may be necessary, are appropriated from federal funds made available to the state under the federal American Recovery and Reinvestment Act of 2009, not otherwise appropriated, to the industrial commission, for the period beginning with the effective date of this Act and ending June 30, 2011, as follows:

Renewable energy development	\$3,000,000
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The industrial commission may seek emergency commission and budget section approval under chapter 54-16 for authority to spend any additional federal funds received under the federal American Recovery and Reinvestment Act of 2009 in excess of the amounts appropriated in this section, for the period beginning with the effective date of this Act and ending June 30, 2011.

Any federal funds appropriated under this section are not a part of the agency's 2011-13 base budget. Any program expenditures made with these funds will not be replaced with state funds after the federal American Recovery and Reinvestment Act of 2009 funds are no longer available.

SECTION 19. APPROPRIATION - FEDERAL FISCAL STIMULUS FUNDS - ADDITIONAL FUNDING APPROVAL. The funds provided in this section, or so much of the funds as may be necessary, are appropriated from federal funds made available to the state under the federal American Recovery and Reinvestment Act of 2009, not otherwise appropriated, to the housing finance agency, for the period beginning with the effective date of this Act and ending June 30, 2011, as follows:

HOME tax credit assistance program	\$4,860,574
Housing tax credit exchange program	<u>25,500,000</u>
Total federal funds	\$30,360,574

The housing finance agency may seek emergency commission and budget section approval under chapter 54-16 for authority to spend any additional federal funds received under the federal American Recovery and Reinvestment Act of 2009 in excess of the amounts appropriated in this section, for the period beginning with the effective date of this Act and ending June 30, 2011.

Any federal funds appropriated under this section are not a part of the agency's 2011-13 base budget. Any program expenditures made with these funds will not be replaced with state funds after the federal American Recovery and Reinvestment Act of 2009 funds are no longer available."

Page 8, after line 2, insert:

"SECTION 21. EMERGENCY. Sections 18 and 19 of this Act are declared to be an emergency measure."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98033.0316 FN 6

A copy of the statement of purpose of amendment is on file in the Legislative Council Office.

2009 SENATE APPROPRIATIONS

CONFERENCE COMMITTEE

SB 2014

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2014

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 04-21-09

Recorder Job Number: 12053

Committee Clerk Signature

Alice Sulzer

Minutes:

Chairman Wardner: Called the conference committee to order. Let the record show that all conferees are present. Senators: Christmann and Krauter, and Representatives: Thoreson, Berg, and Kaldor. Becky Keller of Leg Council and Tammy Dolan of OMB are present as well. We are going to address one issue today because the industrial commission is four budgets in one, we are going to talk about the Mill and Elevator, and the reason is the manager of the mill is here today, I don't know if we get resolution on the issues, I would like to get some agreement on this today.

Representative Berg: It might be easier for me to give an overview recap. Clearly the goal of the Mill and Elevator is to provide an outlet for our farmer's products and get ND products out. Recapping, the last 12 months have been somewhat of a new territory for the Mill. What happened last spring is they locked in a lot of product purchasing and the price dropped. They didn't have the sales locked in and when the market dropped, I think at that time an audit was done and what caused that had to do with hedging or maybe not hedging what you are requiring on the down-side. Eide Bailey did a study and from it, the mill went to NDSU; then there was another report, the vendor, that said we go into this session we are appropriate 5 million from the Mill. The second study was saying let's look at 6 months, that was the time this bill was in the Senate, looking at its condition and its cash flow. For two years there is no

money in the state mill because the Senate took out \$2.5M. We need to be engaged with and operating as efficiently as possible. Section 13 is a discussion of saying we are in a market with a lot of competition, what info would be helpful for us to know, in terms of the Mill as it relates to the Industrial Commission and other Mills. That is the gist of it. One of the things that were an issue was our labor costs at the mill, at least from the sales staff is substantially lower than the industry. From my perspective, maybe that is an area we should be encouraging them to increase sales.

Chairman Wardner: Some of that info gives away the position of the mill, and competitors could be in a position to take advantage of the mill.

Representative Berg: I would be more than willing to keep anything confidential. Certainly the info that would cause that risk can be locked down or sealed. You have seen the cash flows of the mill and we ought to have some sort of formula that says this is what monies is going to the General Fund, rather than arbitrarily saying \$5M, \$2.5M, or \$0. We should say, here is a formula and based on this formula...x is what is available to the general fund like we do with other funds where money is transferred in. Another amendment we had in here was taking a look at their working capital and operational costs and saying "of your profit, you keep 25% and 75% would go to the general fund. So if you look through this #4, it would be important to know what the equity ratios are and the working capital needed for that industry. Our mill is different in that they can borrow from the bank whenever it wants it. #3 ties into that in terms of working capital. Some of this is probably confidential, but I think on a bigger picture many of the other companies are public and so that info is public. What the objective here is not so much to take the Mills info and share it with the world, but grab the competitors info and share it with the Mill.

Chairman Wardner: Two things: 1st- the mill has come off a major remodeling job, and then the price of product went sky high but even with that being said, the public entities even have

info they don't share, some of this would expose the mill and take away the competitive advantage.

Representative Berg: Maybe you can explain which ones of these would do that?

Chairman Wardner: the balance sheet, income flow,

Representative Berg: those are public record now. I am assuming you looked at that when it came through your Appropriations.

Senator Krauter: The Industrial Commission is the management. State Mill and Elevator have a manager themselves. Those meetings are not open to the public. They are closed. If I am going to out and tell my competitor what the cost of my goods are, that takes my competitive edge away. We have the industrial management already and they are doing a good job. The board of directors from State Mill & Elevator have made those corrections and monitoring it now, these are not necessary. 2nd there is some competitive things here, but when we look at corporate reports, we have to be careful there. I look at the history of M&E and we did the renovation and expansion, if we were take away the flexibility that takes away their ability to make those changes and make financial decisions by requiring them to follow a formula of profits to come off right away, then that takes away their ability to make those changes and those financial decisions based upon those reserves and profit. When that sales team goes out and sells the product they are well aware what they need to have. I think this is too much management.

Chairman Wardner: Chance to rebuttal.

Representative Berg: We represent the people of ND in the ownership of this Mill, it lost money and is projected to lose \$7-8M and I think it is our responsibility as a legislative assembly? If it is to say nothing, then fine, but if any other agency were in crisis we would want

to know, what is the solution what happened to the mill and what is the solution to go from 10% of North Dakotas products to 15%?

Senator Krauter: I don't think the mill is in a crisis, they had a profit last quarter.

Representative Kaldor: When the industrial commission evaluates the performance of the mill, what do we expect the content of that to be? Do we expect it to be in detail all of the financial records or do we expect it to be a comparison? One of my thoughts was that the report should not be in explicit detail, rather a comparison of some of the standards and issues within the industry.

Chairman Wardner: in our next meeting have Carlene Fine put some input on what I would like to go to section 17.

Representative Berg: Let's come up with a formula that is fair so the whole world knows what goes to the general fund. All these things would be subject to a governors' recommendation, subject to the House and Senate. But it is really just to put forward some real rough framework that says here is what we ought to expect.

Chairman Wardner: 5% now is dedicational to 8Buck. You are open, but 70% isn't the percent.

Representative Berg: I have no way of knowing what appropriate ratio's for a mill are, what industry standards are, or what kind of profit the industry typically gives. It would be easier for us as Legislators to know if the whole industry is down. This is simply coming up with a formula so we can have some sort of expectation as to how much should be going into the general fund.

Chairman Wardner: any questions before Rep. Berg talks about the gain sharing program.

Representative Berg: The gain share evolved from their bonus program at the mill and probably a concern if we are losing money, should bonuses be given to employees?

Chairman Wardner: It is my understanding when they were in a loss, they couldn't give the bonuses, we were told that on our side. They have been responsible with any bonuses they give. We will have to ask.

Senator Christmann: Could we get an update from Leg Council regarding bonuses that are paid out and where else we pay bonuses. OMB and Leg council will work together.

Representative Berg: We have a handout from Jon Bjornson.

Vance Taylor: from Mill and elevator. We have never paid a bonus when we did not have the profits. My understanding, there is concern regarding bonuses. We don't pay out bonuses until there is a profit of \$2M.

Representative Berg: Was there any biennium that we from 2007-09 there was no gain share.

Vance Taylor: 2008 no gain share bonuses were paid, we have loses this last biennium and they were not paid.

Chairman Wardner: We are going to have at least another section or more in your area.

Vance Taylor: I will be here when you need me to.

Chairman Wardner: I am guessing either Thursday or Friday is when this committee will meet again; we will keep you posted when we will discuss your issue. We are in recess.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2014

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 04-22-09

Recorder Job Number: 12125

Committee Clerk Signature

Alise DeLorenzo

(done upstair)

Minutes:

Chairman Wardner: opened the conference committee at 1:30 in reference to SB 2014. Let the record show all conferees are present. They are as follows: Senators Christmann and Krauter; Representatives Thoreson, Berg, and Kaldor. Becky Keller of Legislative Council and Tammy Dolan of OMB were present.

Chairman Wardner: We are going to start with Mill and Elevator. When we get done with Mill and E in half hour we will move and talk about the industrial commission budget, that is the plan and we would like to spend at least 10 minutes about renewable energy part with stimulus dollars.

With regards to the Mill and Elevator and its evaluation, we have some language that I would like to pass out to the committee that the commission has prepared. It softens the language a little bit; it doesn't demand as much detail; so take a minute or two and take a look at it.

Representative Berg: These amendments are exactly what we were trying to accomplish. Clearly it does bring in a third party. The question is we have a big bill here so how do we want to approach this, do you want a motion as we walk through here? Then at the end we have an all-encompassing vote on all amendments or...

Chairman Wardner: I was thinking of a straw-poll or motion, and then at the end we will have one big motion to accept the bill.

Representative Berg: Moved to adopt amendments.

Senator Krauter: Seconded

Senator Christmann: is there a cost to this?

Representative Berg: We were assuming they would find in their operating budget somehow.

Chairman Wardner: All in favor say aye: the motion passes.

Chairman Wardner: Move to section 17, on the transfer of profits from the general funds, you would like to look at another number. Yesterday the manager of mill and elevator did hand out a document, the last page, which has some language supporting the transfer and also the game sharing program. The floor is open to discussion of that.

Representative Berg: Fiscal year of 2005, do not have this in my minutes. (09.46) Where I get hung up is as my job as a Legislator, I don't really count it as income until it is in the general fund. Sometimes that money is reinvested in capital assets; the income we see is what goes into the general fund, which is where our role is different and I believe this is why we should examine this? Having said that, let's move to those examples, I am not stuck in any formula or whatever, it would good to have some rational.

Chairman Wardner: We just want to make sure the Mill & Elevator has the capitol to operate and operate without having to pinch.

Representative Berg: Being a free market kind of guy, let's make some money, one interesting side note, our constitution allows us to own a mill in Wisconsin. I am not suggesting we expand, but we should be asking the question: How do we go from 200mill to 400 mill, if we have 400 mil in sales, same thing with ethanol, corn price goes up. It is not just about How can the state of ND make more money of the mill, the picture is How do we run more ND wheat through the mill, sell it, and make that profit?

Senator Christmann: I have a long way of getting to a question; if we are looking into this because of the lack of profits, that is fine, but I am guessing the reason for the bad profits were due to the bad market decisions; but most everybody made bad market decisions last years. As far as the revenues, did we really increase the amount of grain that was processed, or did it just go up? Because if you have a gas station that sells a million gallons/year and the price jumps from \$2/gal to \$4.25/gal, ya you have more than doubled your revenues, but you haven't doubled your business. You may have just bigger numbers in fact and no profit.

Representative Berg: I always have a hard time communicating. It is not to spank the mill. It is an attempt for us to view the mill a little different. The key in life is keep your head down, and no one asks any questions, maybe they didn't do it, for not wanting to rock the boat, stew the pot; so the bottom line for me is if the mill can get to that point with leg directive and encouragement that says clearly we are not balancing our state budget at this 5 million, they need to hear that from us. (16.) you made an excellent point. Net sales had to do with the costs. Generally there is a positive trend that speaks well that they are growing in revenue. 2005, our thought take that \$5M, half of that go to the general fund. An example but before we do that look at bottom line and keep in balance with operating expense.

Vance Taylor: Director of North Dakota State Mill and Elevator, If we to try to tie assets to a level of expanses, the level of our total expenses are really volatile, so to try to tie a formula takes assets on a percentage of total expenses is arbitrary. A mill to grow and allow assets to grow. As long as contribution is tied to profit level. That takes care of itself.

Representative Kaldor: So I am clear on this; net sales does not reflect the cost of the acquisition of the grain, that acquisition of grain is part of operating expenses or material costs?

Vance Taylor: The big number of net sales at top is what we have on grain. In 2008, that reflects the \$20 grain.

Representative Berg: Look at material cost line under your operating cost. When I look at the material costs, it seems to climb in relationship to the total net sales. I am wondering if that doesn't reflect the increased cost in grain that you acquired.

Representative Kaldor: When I look at material costs, that seems to climb with
What you're saying is that you can purchase the same number of bushels of grain, but the value can be

Vance Taylor: Bushels sold – the dollars for capital expenses in adding. Allows us to put more bushels through the mill.

Chairman Wardner: Any more questions

Senator Krauter: I thought this was income statement. Balance sheet. Clarify. The change in net assets. I have to ask the change in net asset – 857 – what is an asset side or liability side?

Vance Taylor: Total loss for the year.

Senator Krauter: It wasn't a value of an asset such as a building or the Mill... so

Vance Taylor: inventory

Senator Krauter: I understand what Rep. Berg is saying. The Mill has the value of making it grow as well as profitability. I hope that that is the day to day mission. How do we give that incentive out there? When I look at what the mill has done in the last 10 years, the export market they are involved in, the changes of the mill and expansion. They're inching and inching. How do we do that without tying our hands?

Representative Berg: How do you create an incentive to grow in government sector? If this was owned in terms of cooperative, they would be saying "Vance, go out and take a risk at

\$10 billion dollars and get paid based on what Mill & Elevators that are around the world are getting paid. We look at profit /loss. Unless you look at you asset balance sheet, what would prevent you from showing extra loss or net asset was going down. You're net assets could go down t zero. I apologize for not reading clearly. The second part talks about relationship between net assets. If you would restate why that shouldn't be in there?

Vance Taylor: The reason we like 50% of profits to be transferred. It becomes bigger and bigger and become debt level. Our interest costs increase and profits decrease. That 50% allows net profits to grow at about same level of growth we've seen in last 8-9 years.

Representative Berg: Question relates to net assets. What is industry standard? If I knew all about assets or would I say it was way too much. What is the relationship in your industry to what is appropriate amount of cash or assets on hand?

Vance Taylor: Our net assets are a little higher than the industry average and that allows that 5% growth.

Senator Krauter: As I am listening to this try to put myself in your shoes (Vance), I think the change in net assets, it is a 25% standard of the operating threshold. The reason that is problematic the operating expenses can be so heavily skewed by the price of grain, 25% one year, will not be same as the next year, it is a difficult ratio to apply. There are ratios for certain asset levels, and those things, but when you are dealing with grain inventory to cash, can be so volatile, that is what complicates the last provision. I can understand what Rep. Berg is trying to get at, a ratio that is a standard. I think we have a problem getting to it with that.

Representative Berg: I don't have a problem if we say it is 50%. We need a good bench mark. Look at 2008 or 2009 and take 5% what concerns me I look at 2009 and we are at 46; I look at 2005 and we are at 49. Should that raise a flag or not? If this was Job Service, WSI, or some of these other formula things, I would be saying we need a lot more in liquid assets.

Again, I don't want to get hung up on that, but I think your net income or loss. Why is that important? The first amendment we adopted we will get some information here it will help us establish.

Chairman Wardner: we will continue on this.

Senator Krauter: we should eliminate that last sentence. We are talking about a site. There are large milling, national milling, and the ones that are single sites, when you talk about these averages. We have a anomaly where as a grain producer, the price hit all time high, but when you hit \$24. At a peak, for us to tie all these things together is tying our hands and the Mills hands too much. I would suggest we look at the first part and say 50% or 45% and see what comes back to us.

Chairman Wardner: We understand where you are coming from. 50% we also have the 5%.

Representative Berg: Maybe we got consensus on that, but what is an appropriate net asset? Where we have gotten into trouble is when some of these like Job Service, we forgot about having appropriate reserves and ran into problems. Here is the deal with APUK, basically here APUK has been getting the bulk of its funding from fuel tax, it has gone down every biennium, and the thought was is there another revenue source that could put money into that and take 5% of these profits to APUK. Their goal, not limited to crops but all agriculture. But the ND people who benefit directly, maybe there is some rational to use the agriculture to help, only if there is a profit.

Chairman Wardner: We agreed with you on that. We just want to know how to figure it in. 50% in. We have an agreement to go in that area. Vance do you have any comment.

Vance Taylor: we like 50% it allows us to grow. The less that is taken the more we feel we have room to grow.

Chairman Wardner: do some tweaking, ask the council

Senator Krauter: I would hope that you would go back to original resource for APUK. We don't need to have two funding sources, now we will have a large amount?

Representative Berg: the only challenge, look at 09 10 and 11, we are looking at losing \$7.6M.

Senator Krauter: The solution there that could be the funding source if there is no transfer from the Mill & Elevator. But if there are transfers, they shouldn't be allowable.

Representative Kaldor: We probably need to assess what level we want to fund APUK because the Fuel tax was declining so much.

Representative Berg: my hope would be through appropriation process next term, I don't anticipate APUK receiving.

Chairman Wardner: Take 5/5 off, 95 % ? that is the way(41.38) we will move on we are going to talk about the gain sharing program. You have some comments on that.

Representative Berg: We had the survey done by all agencies. It is kind of interesting. On page 4 talks about mill and elevator. Part is my fault, it is just estimated. Vance and I walked through this, they set aside monthly for gain share, and they don't pay it out if there is no profit. It really gets complicated. One of the questions is gain share paid the first year of the biennium and you could lose money the second year; when you look at it as a two year period, and the state doesn't get any money, how does that work?

Chairman Wardner: if they made a profit, the first year, they had a gain share, the second year they'd lose money...

Representative Berg: The misunderstanding on my part was a concern that bonuses were getting paid in the first year for work not done in the second year of the biennium. How do you run a business without some financial incentives in place for people to grow and make money?

Chairman Wardner: Can we rely on the Industrial Commission to take care of this?

Representative Kaldor: Does the gain share now require at least a million dollars in profits?

Vance Taylor: Yes it does before any payouts are made.

Representative Kaldor: Just follow the same procedure.

Representative Berg: What if, first year, things are going well, pay out, second year, don't pay out, no money goes to ND.

Vance Taylor: under the sec 50% of profits, there would be corresponding transfers.

Representative Berg: This could be an issue. Probably zeros that out. It probably wouldn't be an issue.

Vance Taylor: it would be preferable for us to make that transfer at the end of the biennium

Representative Berg: line 7, any transfer must be made before the

Vance Taylor: that is not workable. At the end of the first year, (49.57) you lose a lot of bang for your buck on the gain sharing program.

Representative Berg: Come July 1, you finish your fiscal year, money goes to the state, and pay out the gain share. End of the year, profit and gain share dialed in to what your profit is.

Vance Taylor: for the first year, profits not transferred. do transfers

Representative Kaldor: how do you account for gain share, is that an operating expense, and new for

Vance Taylor: it is an operating expense our final profit is

Chairman Wardner: are we close on language.

Representative Berg: I would like to work on the language on this gain share.

Chairman Wardner: try to schedule this tomorrow, we will kick off right away, we have moved this issue forward, we got one to go.

Senator Christmann: one point someone provide me with background, but that is a money making entity, was that the plan when that mill was first opened for it to be a money maker,

astrology lab, colleges, we hope it doesn't cost us excessively but still make sure that the service is available for our citizens so they don't get held hostage. Has it always been deemed a profit maker?

Representative Berg: It goes back to NPL and being getting held hostage by railroads and banks in Minneapolis. We harvest grain, the primary reason for the mill to give farmers an outlet so they were not held hostage by the Miller's, railroads, and the banks. I hope I am making myself clear: we are never going to balance the state's budget off the profits from the State Mill. Where the benefit of the mill comes is if they can increase the price by \$.50/bushel in ND, we have done far more good for the economy of the state than profitability. It is not about making money.

Chairman Wardner: We are in recess.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2014 conference committee

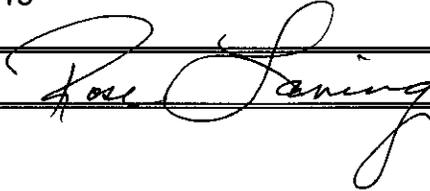
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: April 24, 2009 – 1:30 pm

Recorder Job Number: 12215

Committee Clerk Signature



Minutes:

Senator Wardner: called the conference committee hearing to order on SB 2014 in regards to the Industrial Commission. Let the minutes show all members present. **Senators: Wardner, Christmann, Krauter; Representatives: Thoreson, Berg, and Kaldor.** Tammy Dolan of OMB and Becky Keller of Legislative Council were also present.

Senator Wardner: I'd like to get the Mill and Elevator off the table.

Representative Berg: I have an amendment – .0321 - see attached #1

Senator Wardner: As soon as Mill & Elevator, we'll talk about mineral resources, then the renewable energy. Get it on the table. Then state lignite demonstration project. Senate had \$1M. House had \$200K.

Representative Berg: Section 13. Look at what we want as third party.

Senator Wardner: We passed that.

Representative Berg: Line 7, we were talking about that formula. Section 14 is self explanatory. We talked about 5% to APUC. The way we set this up is they make an annual transfer. No money goes to general fund. The game share codifies what they are doing, there are no new requirements.

Representative Berg: Moved to accept the Berg amendments

Representative Kaldor: Seconded

Senator Krauter: 5% of profits go to APUC, and at that point its 50% of the profits, which would be 95% profits. Totality is 52.5% of the profits are going to be used. There will be request for AGs opinion.

Representative Berg: We did spend quite a bit of time getting the language right, but...

Senator Wardner: The manager of Mill & Elevator.

Voice vote passed. Berg amendment is adopted

Senator Wardner: Remove salary and equity is off the table and will be taken care of. #2 reduces travel funding and expenses which will impact their budget. Mineral resources.

Travel budget will be impacted. Talk about all as one.

Representative Thoreson: See gas now around \$2 range. Somewhere at \$1.45. Obviously we won't see that again – budget line a bit high.

Senator Wardner: Lynn Helms brought forth adding dollars to the salary line. I live in a community that has an office. They only have two employees and they can't find anyone to work for those wages. Those two individuals they lost are working in oil fields making more money. The guy that heads up the office has been there for 28 years. About having an experienced individual, when something happens in oil patch, they call him. He went out and told them what to do. We need to compete to keep people like him– because of his experience; he took things in hand and knew what to do. It's real tough out there. Young lady they were trying to hire. She was from our community and turned job down because getting more money elsewhere. How do we be fair?

Representative Berg: Part of the problem is that our state agency salaries adjust very slowly. We have industry in last six years; the oil only came up in last biennium. My point is, in all positions in state government and those comparable in private sector, I think we need to compensate our people because of the benefit package we have, not necessarily salary, but

they should be the same compensation package overall. So we have an economy that has boomed, and we all know the shortage of workers, I think that in some degree they have been left behind, simply because we as a State ran so slowly. In last biennium when we set up equity pool, and business sector, they weren't fairly compensated. I'm not confident in equity pool. This is extremely unique agency. Never liked the idea that one agency has the pull. That's not the case here. I'm not prepared to make decision on this. We need to look at this case because there is no identical position, and we need the most experienced people where they are.

Senator Wardner: sympathetic to it. Need to talk amongst ourselves. When principal, you have to talk to everyone fairly. The one thing about this situation is that counties say, you're beating up our roads. You can use that in this case. These jobs are critical because they regulate the industry. We can make the case that these people do bring more dollars to the state.

Representative Kaldor: Are the positions all considered classified? (No) They're not, ok. Is there any other agency that has a comparable or similar description of either degree requirements or expertise? Talk about being fair to everyone, market driven need. They may match up with someone in a different agency.

Senator Wardner: Have Lynn Helms go to podium,

Representative Kaldor: I am not going to questioning the need. I am just trying to figure out how we address the need without running things afoul of everything else.

Senator Krauter: We don't want to poke the balloon here and have it poke out somewhere else.

Senator Wardner: If they aren't out there, things really slow up. Could you address positions and how they relate to other positions in state work force?

Lynn Helms: Director of Mineral Resources, ND Department of Commerce: The equity pool is for classified employees. The individuals we are talking about are not classified. The best way to talk about what they compare to is probably go to where those numbers came from with regards to how much maybe we should get in equity – this is study by job service ND that is done every year. If you go to engineers, 20 mining and geological engineers in the entire state. Of those, 14 work for me. That should tell you not only are they in high demand, they are unique period. I suppose that's why they are in such demand; there is just not the number of people. Environmental engineers: 90 statewide, Industrial engineers: 307, mechanical engineers: 410, All other engineers: 80. Just to give you a sense, we have 10 geologists statewide and 8 work for the State. So the Geological Survey is the only State agency that hires geologists. There are some similar occupations (Went over various occupations and comparison to numbers in the state.)

Representative Kaldor: When they are not classified, what kind of flexibility do we have? Are you constrained by any other issues?

Lynn Helms: When they are not classified, we are only constrained by the appropriation.

Senator Wardner: I don't think we'd be able to get you 100%, but if we get you something it would help. Im not promising that either.

Lynn Helms: I greatly appreciate that. I know the individual you are talking about has a job offer and I fully anticipate one of the individuals from the Dickinson office to move to Bismarck because his wife accepted a job here. We are within a few months of closing the office and trying to cover that out of Bismarck.

Senator Wardner: There is an office in Williston and Minot.

Lynn Helms: I sat and talked with my field supervisor about rig counts. The maximum for drilling rigs is 10 rigs. If they have 10 rigs per inspector, that is all they do. We will have to

figure out what to do about salt water rigging. Where we will be sitting in a years time or so means we are limiting the states rig count to 60-70 rigs.

Senator Wardner: What did state fleet quote you as a per mile count?

Lynn Helms: State fleet quoted us \$.59 a mile. If the used car market goes to pieces, a price of the used state vehicles goes up. What would it affect? It would affect state geological, field inspectors.

Senator Wardner: You're running \$.41

Lynn Helms: Great resale value.

Senator Wardner: Difference between old and new. Mileage

Representative Kaldor: I am trying to figure out portion of equity change that affects your division. As I understand governor's budget, your engineers were classified and now we have conundrum where equity pools for classified vs. the non-classified. It's arguable that this particular change worked against us.

Lynn Helms: Loss of equity that the governor built into budget.

Representative Berg: Travel – a lot of budgets were built in middle of summer. Part of why you see reduction. Almost every road in ND will be in construction. There will be a lot of savings. Jumping back to equity thing: we need to establish money and director of agency to manage handle the money. We need to give the director some discretion. It's a good idea.

Representative Kaldor: Since they have been changed to non-classified system and since the equity pool affects them in adversely, they should have access to it at very least. It justifies some sort of action, either through the appropriation or the language.

Senator Wardner: Tammy, would we be able to come up with number that would help.

Tammy Dolan: We can work with you if you'd like.

Representative Berg: Maybe it would be productive to get actual numbers of what was taken out.

Senator Wardner: \$582K

Representative Berg: What is request for?

Senator Wardner: \$42K1 on top of the \$582K.

Lynn Helms: That includes some funds that are in the pool. What that number includes is all funding and resources. We could back down from that number. What we are really talking about here is that amount of money plus we have some vacant positions that weren't part of \$582K. \$588 plus \$288 is actual number for engineers.

Representative Berg: Assuming we have an equity pool for classified employees, then what is the net difference we are talking about for the unclassified for equity. Basically, I'd like to get that on paper and take a look at it.

Senator Wardner: We'll take that up at 5:00. Now talk a little bit about renewable energy. #3 removes funding for renewable energy, it was \$5M. We combined bio mass and funding for renewable energy into renewable energy so that is how we arrived at \$5M. The House removed that and added stimulus dollars for renewable energy. We're told it doesn't work, you can't use those dollars for research, development, and commercialization. There is an education part you could use a little bit, but as for the rest, you can't use for that.

Representative Berg: The stimulus package, which wasn't in play before crossover, has a real thrust towards renewable energy. There was so thinking that out of the \$650M, there should be some money that would apply to this. My understanding is renewable is not for research, but for the implementation of renewable energy. In the last few days, 2nd and 3rd hand, some states taking the stimulus money and not following the Federal parameters and using it anyway. This session, the bill that passed both houses combined into one bill. Maybe

part of the question; what was utilized last session in these two funds, I think there was some carryover.

Karlene Fine: ND Industrial Commission, this program was develop in 2007. (Handed out Funding for Renewable Energy and Biomass Research Programs – see attached # 2)

Representative Berg: Blending two . My question would be new money. What money is carried forward?

Karlene Fine: We would have zero available because they were committed to bio mass projects. Only \$800,000 could come out of those funds.

Representative Kaldor: Without us changing this at the legislative level, those dollars at the end of this current biennium, will no longer be available.

Senator Krauter: There could be application for bio-mass project and if so, you would be able to access that money, correct?

Karlene Fine: If they came in, correct.

Representative Berg: Bottomline is: What happened last biennium clearly doesn't matter because they are zeroed out at the start of the next biennium.

Senator Wardner: Any other questions.

Senator Krauter: In the 09-11 biennium, is money available in the bio fuel phase, is there money left.

Karlene Fine: In the bio-fuel phase, the House has reduced that by \$700,000. They were planning to keep the \$1M dollars. If you said we had to use \$1M for that last 2 biennia.

Representative Berg: if we absolutely didn't want to or wasn't able to put money in there – the money is there and does not go back to the general fund, it stays in there for those programs, which is good. The whole market has changed with renewable. With 1st two years do you see everyone understanding it as it related to this scope of things?

Karlene Fine: Other dollars will come forward. I believe there will be more demand.

Representative Berg: just so I'm clear on the program too, in essence they are matching some research on renewable, is that correct?

Karlene Fine: This is a match program, every dollar.

Representative Berg: This is not for implementation, but from a research standpoint?

Karlene Fine: Correct

Senator Christmann: If this isn't in description. Stimulus money, ingenuity would find a way to get the job done.

Senator Wardner: Explore it a little more.

Representative Thoreson: Discussion earlier. Senator Svedjan is in contact NCSL (National Council of State Legislatures) researching what is happening. We have heard in other states they are using these dollars for a variety of things that were not necessarily tagged by the Feds and we are just trying to get a handle on it.

Senator Wardner: Closed the committee hearing.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2014 conference committee

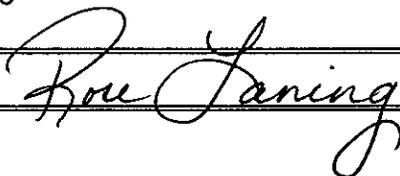
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: April 24, 2009 – 5 pm

Recorder Job Number: 12236

Committee Clerk Signature



Minutes:

1.40 **Senator Wardner** reconvened the conference committee hearing to order on SB 2014 in regards to the Industrial Commission. The minutes are to reflect all members present:

Senators Wardner, Christmann, Krauter; Representatives Thoreson, Berg, and Kaldor.

Senator Wardner: Two issues to work on: Renewable Energy Fund and Federal Stimulus Bonds -Political Subs (See Attachment #1 handed out by Karlene Fine)

Karlene Fine, ND Industrial Commission: Appropriates money; \$4million from the general fund.

Representative Thoreson: This will still show \$4million from general fund?

Senator Wardner: Yes.

Senator Christmann: Is this a compromise between 3 & 5?

Senator Krauter: At the end of last meeting we were just kind of looking at what was expended in this current biennium and it is about \$3.2 million out of the \$5 million available.

There is one more round of grants to come through for process. We just kind of wanted to get some ideas on the table and that's how we came up with the \$4 million.

Senator Christmann: Maybe in light of the emergency things we are having to do, I am trying to think that maybe the House had the number right and we just need to get it from the general fund if necessary.

Representative Berg: In my opinion, it's the same as appropriating \$4million from general fund. We did this language in a number of stimulus things and the concern that we had when we talked about this language was what kind of effort will we put forward to get this stimulus money if you go to the budget and say try to access \$4 million? In this case you wouldn't have to go to the budget section. We crafted some language that if legitimately we want to take a run at stimulus money for something, basically I think it said if you can't get stimulus money then you need to come before the budget section to make your case and they would approve it. Having said all that, I guess my personal thing is that I would like to know more about whether the stimulus can apply or match the grants on research like we are doing or not. I appreciate this language, but I cannot make a decision on this until I get more information.

Senator Wardner: I agree with you that we need to still investigate that, but also I don't have a problem with going before the budget section. We are close; we just need to hammer out a couple details.

Senator Christmann: Maybe whatever the numbers are, maybe the numbers are \$4 million of stimulus money and if they can't get it they can come to the budget section for up to three million dollars in general fund money. You don't get quite as much if you are using the general fund money but you have to look at the numbers.

Representative Berg: If we're trying to balance the budget, this language shows up as a \$4 million general fund expense in our budget statue report. It's important to bring this together now. It was conveyed to me that there may be stimulus money available for what our new entity is doing. Not for their core of matching research, but on that research that is taking to next level of commercialization. That might be eligible for this. If that is true, we may want to put language in here to allow for that money to come in and be spent for amount. If it isn't, it isn't, but at least they would have that authority to go out and seek that.

Senator Wardner: One of you were going to check with NCSL (Asks a committee member to check by the next meeting)

Karlene Fine: Explain the bond issue. (See attachment #2) ARRA (American Recovery and Reinvestment Act) – For the Governor to make an allocation for the political subdivisions for these programs, but there is no mechanism in place for the governor to make the allocation. It will be from the cities and counties working together.

Senator Wardner: We aren't going to act on it and we'll ask questions and maybe act on it tomorrow.

Lynn Helms, Director of Mineral Resources, ND Department of Commerce: (See attachment #3) the bottom line number is \$695,466. Salary plus benefits. The number we talked about earlier was a bit over \$1 million but when you make the adjustments it comes down to this number. Any amount of that would be appreciated.

Representative Berg: These would be the non-classified people?

Lynn Helms: Correct and that is the grayed out people where the shading is.

Representative Berg: What were the equity dollars in the Governor's budget?

Lynn Helms: They were \$555,960 plus benefits, so it would be \$595,308.

Representative Berg: What is the difference? Are you saying the difference is the \$695,000?

Lynn Helms: The \$595,000 had people in there who have been moved out. That is \$100,000 over and above for equity. This didn't include the vacant Williston and Dickenson positions. They were not included in the calculation when you ran the numbers. There is no way we're going to hire (inaudible) position.

Representative Berg: My intention is to move the amendment with the \$695,000 (\$100,000 difference from Governor's budget).

Representative Kaldor: Of that \$595,000, some of that should be accessible to your classified employees. Does the equity pool need to be adjusted by some amount?

Representative Berg: We took \$595,000 out for all your estimates. The difference is not \$100,000.

Lynn Helms: It is the (inaudible) the current version of the bill to where we are at.

Representative Berg: What I am trying to get to here is that with the version that had equity, there is \$595,000 in equity. Some of that was for your classified and some were unclassified. The plan right now as I understand it is there will be a pool that all classified employees will be eligible for. Those people will get money from that avenue. So, the question is – the \$695,000 represents the equity just for the unclassified?

Lynn Helms: Yes.

Representative Berg: How much of the Governor's \$595,000 was for non-classified people?

Lynn Helms: Approximately \$520,000, about \$75,000 was for classified.

Representative Berg: We're really comparing \$520,000 to \$695,000. If we wanted to hit that number exactly, it would be \$175,000. And the ones that are classified, they are going to have access to the pool.

Lynn Helms: They will compete for the pool.

Representative Kaldor: If Representative Berg is thinking that the \$595,000 that we took out which goes into a salary pool, and I believe it is in the OMB bill, is accessible - the one problem with that is that anything going into that salary pool is not accessible for the unclassified.

Representative Berg: I understand. We are trying to get at if you were going to do this in a perfect world, we would take \$525,000 out of that pool and bring it back here and attach it to these people and then what Lynn is asking for is another \$175,000 for those people.

Senator Krauter: I don't want to throw a rock in the pool. The \$595,000 was based on \$24 million in equity and we are at 2/3 of that equity now with the compromise that has been made here at \$16 million. This \$695,000 should be reduced by 1/3 then too.

Lynn Helms: This is the same number as the \$24 million.

Senator Krauter: I want to make sure that we don't get ourselves....

Representative Berg: This is part of trying to make it fair for everyone. Is there a difference between general fund and special fund? Did the pool drop proportionately?

Lynn Helms: It just depends upon which agency. Some agencies are special fund. These are 90% general fund.

Representative Berg: If we look at total general fund in Governor's budget, and we look at the total general fund in what this equity pool is that would give us a percentage. Then if we took that percentage times these numbers you have shared with us that would give us an amount. **Lynn Helms:** Would be consistent with compromise.

Senator Wardner: We want to be fair. We don't want to have people running around saying that they are getting treated better than everyone else.

Representative Berg: Asks Becky to run the numbers on that.

Senator Wardner: We are not making a decision now, we are moving. We will continue to be thinking about those until tomorrow. I appreciate the discussion. We're moving forward and solving issues and pretty soon we will have resolution.

Senator Wardner adjourned.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2014 conference committee

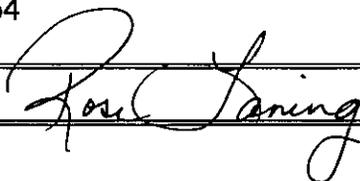
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: April 25, 2009

Recorder Job Number: 12254

Committee Clerk Signature



Minutes:

Senator Wardner: called the conference committee hearing to order on SB 2014 which concerned the Industrial Commission. The minutes are to reflect that all conferees are present: **Senators: Wardner, Christmann, Krauter; Representatives: Thoreson, Berg and Kaldor.** Tammy Dolan of OMB and Becky Keller of Legislative Council present as well.

Senator Wardner: we're talking about oil and gas. On the renewable energy, bring something everyone can agree to. Like to go into the salary issue with the mineral resources division.

Representative Berg: The executive recommendation of \$24M in equity for all state agencies; for the Industrial Commission that reflected \$582,000, the equity pool is \$16 M in special and general combined, which is 65% of the executive recommendation. Of the \$582K, \$520K was for unclassified and applied 65% today that would be \$341K. I think our discussion yesterday was to insure that the \$341K was provided to the Industrial Commission. The other issue would be if we wanted to, we were shown \$695K as request, and if we applied the 65% to that number, it would be \$456K. We have the numbers now, so what we need to do now is show what we have to do. First thing we need to do is we want to make sure their share of equity points to them. \$100,000 difference in exec. And (explained equity pool) From my perspective the \$341K is what's foiling on in equity pool. I would like to add additional money to be accessible by the director, not for increase in salaries, but like a bonus. My reasoning is:

if we're at risk of losing someone that might need a one-time bonus or the likes, I would like the director to have flexibility with the dollars to do that. We plan on giving them more people and money if our rig count goes way up; however there is a downside, if our rig count goes down and we have people having trouble making ends meet, they will probably cut more corners when we have more of a need some regulatory effort to close down. Based on rig count – getting people or not.

Senator Wardner: You're right about requirements out in oil patch. If the rig count goes up and down, they still have work level to maintain. What are you proposing as a dollar amount for that bonus?

Representative Berg: I'd propose one that reflects the \$345K, and provide another \$100K for equity/salaries and that would be \$445K. Suggesting maybe having another \$100-\$150K for a one-time bonus, if you will. I'm not ready to make motion, but want to walk thru it.

Senator Wardner: We're just looking for consensus on it. Do we need comment from Mr Helms?

Senator Krauter: Are you talking about drawing the money out of OMB for classified and non-classified?

Representative Berg: We're dealing just with unclassified people. I think what the bulk of it is for classified.

Senator Krauter: Out of 582,

Representative Berg: I'm just talking about un-classified people. My objective would be to put this into the budget, so we have pool for unclassified I don't know how to explain that. What we're doing too is there's need for \$695K for equity and if we do 2/3 of the executive budget..... We need to think about that.

Senator Wardner: We'll leave it and let it percolate.

Representative Berg: If possible, one of big issue is 5 month trigger. That's on Monday or Tuesday. If it triggers, then tax on oil will reduce for 5 months. I wonder if we can get Lynn (Helms) to recap that briefly.

Senator Christmann: The salary number that we're talking about. Are we talking about the general fund money or extracting the equity pool from OMB.

Representative Berg: This is all general fund money. This would take...

Senator Wardner: Could you answer those questions?

Lynn Helms, Director of Mineral Resources, ND Department of Commerce: Talk about tax trigger? \$50.33. We were 17 cents above triggering. (Explained oil and production costs) Almost guarantees we will not trigger. 4 days next week that crude oil would have to drop to \$48.10 or below and stay there. My best guess – we will not trigger the big package of tax incentives. It's an \$87M swing in revenue for state. We passed 1235. In this scenario, we would trigger on May 1. There is a net \$18M plus for not triggering.

Senator Wardner: What did it close at? \$51.55

Representative Berg: Now we've had 4 months below average and one month above average, does clock start over for 5 more months?

Lynn Helms: Yes. The one month above the average does restart the clock May 1.

Representative Berg: Assuming this plays out, HB 1235 would automatically May 1 take \$69M out?

Lynn Helms: That is correct; it would begin May 1 to carve out the \$69M.

Senator Wardner: What period of time are you talking about? With the period of time that the budget people are talking about, per month, what are we talking about here?

Lynn Helms: That \$87M was for the full biennium and the incentives would be triggered on for a 10 month period.

Senator Wardner: It is possible for it to hit \$70. Then HB 1235 is off. By fall, the picture would be changed.

Lynn Helms: Correct, the triggers drops

Representative Berg: Just so I am clear, the \$69M is not a onetime thing, but forecasted over the next 2 years.

Lynn Helms: Correct. Both of those were full biennium forecasts.

Senator Krauter: HB 1235 I thought it was between \$55 and \$70, your saying that it is even below \$55, the new tax rate.

Lynn Helms: A month of prices below \$55 triggers HB 1235. A month above \$70 triggers it off. It was designed to collect tax incentives for that sandwiched period when all the other incentives were not triggered on, but the Bakken Plain wasn't self-sustaining. At \$70, we believe it is self-sustaining.

Senator Krauter: What if the price/month is \$60.

Lynn Helms: \$60/month would not have impact.

Senator Wardner: Let's say 75 and stops and 60; have to get below 55 to trigger it in. Sits at 60?

Lynn Helms: Nothing, it has got to get below 55 before your trigger that in.

Representative Berg: Kicks in on May 1 because it is below \$55, tax incentives won't kick off till it's above \$70.

Lynn Helms: Correct.

Representative Berg: What is figured into budget status on revenue or zero effect?

Becky Keller: HB 1235 did not have fiscal note, but not figured into the trigger till March 2010.

Representative Berg: If it kicks in May 1, it would have an impact until our forecast expects it to be above \$70.

Becky Keller: Correct.

Senator Wardner: Because the old triggers or the ones in statute are not going to trigger because this one does, we're still going to see about \$18M more revenue to the state than was anticipated.

Senator Krauter: Being the triggers won't go into effect, there was a negative of the fiscal effect of 1235, and we won't know till collections are made month by month. Clear picture on one and unknown on the other.

Senator Wardner: good information. Senate had put in \$1M for a lignite demonstration and the House cut it to \$200,000.

Representative Berg: UND lignite education project. There were high hopes for stimulus, having said that, it appears not even a nickel to help make fossil fuels greener. I'm pretty confident no stimulus. The overall cost to that project is about \$15M, in the end it converts coal to burn cleaner to heat the campus at UND. Rather than starting several projects, run everything through Lignite Council, which does 2 things; give the Lignite Council \$200K for this project and give them latitude to make sure the right kind of work is done. The amount is arbitrary because getting to the \$15M will take a lot of additional money. The part of it allows it to take some steps and keep the project alive.

Representative Kaldor: Looked at other options. One of the justifications is the beneficial lignite coal. Greater utilization of ND coal, for example: if you look at the picture of Crystal Sugar Plant – it burns WY coal. We want everyone to burn ND Lignite.

Senator Wardner: Any other comments.

Senator Christmann: Rep. Berg said it well, it is an arbitrary thing. There's a new boiler at Minot. We're getting things we're unable to service with our ND coal. If we keep that at \$400,000, I'd be satisfied. I don't see any language about the Lignite Council.

Representative Kaldor: We invited Mr. Dwyer spoke to our Committee on that issue.

Senator Christmann: Would that be in here.

Representative Berg: We're trying to solve this with plants. I might up it from the \$200K and give the other \$200K to the Lignite Council and let them develop it.

Senator Wardner: You're saying to give them flexibility.

Representative Berg: Correct. I don't want to put money into a research project that you don't want to pull plug on and can't get the \$15M and all that research is lost when in fact somebody else may be able to leverage and use to take it to the next level.

Senator Wardner: I don't think we have problem with going thru the Lignite Council.

Senator Christmann: This is addition money anyway.

Representative Berg: Our intent was to give the Lignite Council \$200K for research at UND.

Representative Kaldor: We hope it's successful and expands.

Senator Christmann: If we could do that at 4,

Representative Berg: If we add it to do that, we may want to add to the Lignite Council.

Senator Christmann: I think that's fine.

Senator Wardner: We'll work on that language to fit with what we're doing.

Senator Wardner: Another topic to talk on later is travel expense funding. Bank of ND - #1 removing salary equity – it's going to be taken care of in HB 1115. Can you give us insight?

Representative Berg: When we looked at the last biennium, the money spent on bio-fuels, it would cover the same amount as spent in the next biennium.

Senator Wardner: (asking Karlene) Do you remember why it was cut?

Karlene Fine: Industrial Commission, there are funds still in renewable, so they we were anticipating on that coming to the bio-fuels.

Senator Wardner: Any other comments otherwise we agree to leave it where it's at. Another topic; adding \$2M to the Agriculture case.

Karlene Fine:

Representative Berg: I'd like to talk about college save program. The 529 college save program. Truly it allows people to save for investing into education. The Bank makes about \$200K profit on the College Save Program. Money in the account grows interest free and the bank contracts with a third party investor and we get a kick-back from them. That amounts to over \$200K/yr. The bank keeps all this money separate and the balance is \$1.2M. Family saving for college. Will match college money. Spend the \$200,000 for matching it empowers people to spend money where they want it.

Senator Wardner: I forgot about that. I didn't have it on my list.

Representative Berg: It teaches child responsibility.

Senator Krauter: The bank already does this. It's a good deal.

Representative Berg: we're just codifying it.... Right now the bank of ND is on a triangular piece of property. Don't have exact language.

Senator Wardner: This is an addition – or was that in your amendments.

Representative Berg: yes it's in there. They have authority to buy those two buildings on that land. Whatever we do in long term makes sense to have all of it. We're leaving flexibility up to them

Senator Wardner: any comments.

Senator Krauter: Property on west side by river

Representative Berg: No. The amendment – could go on indefinitely. (Drawing a picture on the white board)

Senator Wardner: Talking about housing finance agency. We had equity again and had two FTE positions renewed. Appropriated federal stimulus money. FTE's – we'd like to hear comments. Housing project's, if we could talk about the two FTE's. The senate wanted four and we gave them four.

Representative Berg: Probably that's an area to discuss. On section 14, the Housing finance is all special funds. There programs are federal tax credits. There reserve balance is about \$15M. The challenge I see for ND in reading section 14 is developing housing in difficult areas that are difficult to develop in state. As discussing, they indicated they had money to try this as a pilot project without general fund dollars. If there are areas that need housing – maybe definitions don't fit of housing. Want to lay out plan for ND to get housing pockets where needed.

Senator Wardner: any questions.

Senator Christmann: The definition of "difficult areas" isn't really defined. It's a huge problem. Emphasize that this is something we need a report and not one to sit in a book somewhere that nobody will ever read, but so we are alerted to it and maybe tweak it to get something figured out.

Representative Berg: Maybe it would be appropriate to have a report the summer before the next legislative session. That would be critical.

Senator Krauter: This would be out of the grant line item. Within those dollars, if there are things not committed.

Representative Berg: I think it's not on this sheet. These are numbers they had separate and want to do a pilot project

Senator Krauter: Must come out of grant money.

Depends on how we structure this. If a grant program, a million dollars right now. It is just construed with agency funds Equity no accrued is \$15 M.

Representative Berg: want to have --- purpose for

Blake Anderson: Director of Housing and Finance, We try to raise the capital and markets.

Senator Wardner: Senate agrees to go along – they were special funded agency.

Representative Berg: A lot of times if you take out FTEs, you hear about it.

Senator Wardner: I'd like to meet Monday morning and hopefully finish this.

Senator Wardner: recessed till Monday morning.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2014 conference committee

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: April 27, 2009

Recorder Job Number: 12306 (starts 2:45)

Committee Clerk Signature

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Minutes:

Chairman Wardner called the conference committee to order on SB 2014 in regards to the Industrial Commission. The minutes are to reflect that all conferees are present: **Senators: Wardner, Christmann, Krauter; Representatives Thoreson, Berg, and Kaldor.**

Also present: Becky Keller, Legislative Council and Tammy Dolan, OMB

Senator Wardner: We're going to start with the Housing and Finance agency and hopefully we can wrap that up and come to a consensus. We are then going to Bank of ND; the Mill & Elevator is done, and then we'll end up on the Industrial Commission regular budget. It is possible that we'll be close to wrapping up. One issue was the salary equity and that's taken care of. Number three was the appropriation of Federal Stimulus fund and we are ok there. We had the Housing pilot project and everyone was ok with that. And number 2 is the 2 FTE positions and I will ask Rep. Berg to comment on the two FTEs removed by the House.

Rep. Berg: In light of where we're going, our objective was to reduce growth overall. One of these positions had been held open for quite some time. I don't think there was a strong push to remove those two. See how things are coming together and see what the Senate proposed.

Senator Wardner There are 4 FTEs ok'd for the office. We'd split the difference with you.

Rep. Berg: That's fine.

Senator Wardner: We'd add one and leave one out.

Senator Wardner: As far as the Housing Finance Agency, unless I missed something we agreed that we were going to move on.

Senator Wardner: We are going to move on to the Bank of ND. The amendment removes salary equity. We have the reduction of the biofuels pace fund. We had the school program, the College Save Program. Is there anything else we should consider?

Rep. Kaldor: Notes show we covered this.

Senator Wardner: Right, just want to make sure and see if anything needs to be added.

Rep. Berg: This relates to addressing some of the needs in livestock losses due to flood and snow. The death loss of cattle is approaching 100,000 – 130,000. The best solution came forward from the ag commissioner - (handed out amendment .0324.)

Doug Goehring, Ag Commissioner: Provides \$1 M with emergency clause to Bank of ND to provide a program using time and time again, Ag Pace. This program would provide \$20,000 of interest buy down. The impact in this financial environment need capital and helps with interest costs of that. The way this bill is set up in the next biennium depending on revenue available in the Banks of ND \$1M will be transferred back to the general fund so it can be revenue neutral over the two year biennium. Make it available right now.

Senator Krauter: Explain what you mean by transferred back?

Rep. Berg: Section 15 – explains it. All of PACE funds have authority to spend and could be carried over into the next biennium. This provides revenue neutral at this stage of the program.

Senator Krauter: You're saying take profits from the general fund, then to Ag PACE and then to the general fund. Why are we repaying the general fund?

Rep. Berg: The scope of this is a million dollars.

Senator Krauter: I don't get 2nd part of your equation.

Senator Wardner: Page 1, third line, paying that back

Senator Berg: I would move those amendments.

Senator Christmann seconded.

Senator Krauter: What do you anticipate the total for Ag PACE? We're adding a million and then carryover.

Rep. Berg: I don't have balance at my fingertips. My anticipation is to use \$2.5 carryover, plus this million. There will be sufficient for Ag PACE, assuming that its' \$20,000 per producer.

Senator Krauter: Are you then adding million to that – or is it \$2.5 M above that?

Rep. Kaldor: Statement of Purpose on the bottom of page one.

Senator Krauter: I got it.

Senator Christmann: Are we voting on the concept.

Senator Wardner: We're just adopting the concept and Becky will put it together.

Senator Krauter: Is there language that it's capped at \$20,000.

Rep. Berg: I don't have copy of what was handed out to the Bank. Get a copy to make sure what I'm saying is part of the public record.

Senator Krauter: We're looking at capital purchases. It's not operating?

Rep. Berg: Its' a term loan not a line of credit or something like that.

Karlene Fine, Industrial Commission: Handed out Disaster Assistance – see attached #2.

Rep. Berg: It's a separate issue. This should become part of the public record.

Senator Wardner: We'll vote on the concept. Karlene can work with the council to make sure the amendments are done right.

Voice vote – motion passes.

Senator Wardner: Karlene talked about political subs and I don't think we have any problems with that. With the bonds it gives the state the ability to use them.

Rep. Berg: I have no problem with those bonds. The state's not creating liability for itself.

Senator Wardner: State lignite Demonstration. Our side is satisfied with the \$400,000.

Senator Christmann: Is that through LRC?

Senator Wardner: Yes through LRC - (Lignite Research Council)

Rep. Berg: We'd go to \$300,000 to \$400,000 for lignite project at UND. It was before it was direct appropriation to UND. (Handed out SB 2014 amendments) – see attached #3.

Senator Wardner: If the language is right, we are ok with that. Move to Equity dollars and salary dollars.

Senator Berg: I have information coming and don't have it here. I apologize for that.

Senator Wardner: We understand. Let's talk about the renewable energy part.

Rep. Berg: This amendment makes \$3M general fund. It was our intention that this be funded at least the \$3M level. These stimulus funds are not for research. We may not have had to have this amendment drafted. I would like to add some spending authority that if they get more stimulus dollars that it would be authorized in here.

Senator Wardner: Any other comments from members?

Rep. Berg: Is there an amount that you would want to put on that?

Becky: No, we can just create a section that would say, any funds that become available.

Senator Christmann: Do we want it open ended? Whatever they need to sustain? We may get into bind in a couple years.

Rep. Kaldor: Is it fair to make assumption that these dollars are going to the Industrial Fund for matching grants?

Rep. Berg: These are grants going out matching. They should be viewed as onetime money.

Senator Wardner: We've got it all in language that this is onetime spending.

Rep. Berg: If Senator Christmann wants to put in dollar amount I don't have a problem with that.

Senator Christmann I wasn't thinking along the line of matching.

Rep. Kaldor: Were going to make it any money that comes available through stimulus?

Senator Wardner: Our side is ok with that. Other than salary issue that we will take up next time there is one other issue, its #2 under Industrial Commission. It's tied to the state fleet. This is a reduction of \$150,000. In DOT bill, it's \$500,000 that the House took out of the state fleet. This concerns the Department of Mineral Resources. I have another conference committee that we're talking about.

Rep. Berg Part of that had to do with the Fuel prices that the budget was built on during the summer. I don't have details on that.

Rep. Kaldor: I can comment a little. Rep. Kempenich did an analysis and I haven't seen it. Tried to extract out prices on what the price of fuel was when the budget was set and what is now. I don't know if we need to evaluate that analysis. That's part of the reason it came to this.

Senator Wardner: What did they use as the cents per mile for your agency?

Bruce Hicks, Oil and Gas Divisions, Dept of Natural Resources. They use \$.57 but currently it's at \$.41. We think we are low right now.

Rep. Berg: Does the 150 reflect the deduction from .57 to .41?

Hicks: .59 to .47 cents

Rep. Berg: That reflects a deduction of .59 to .47 cents

Senator Wardner When Helms said \$.41, we're debating this very issue in the Highway Patrol

Senator Christmann: Does state contract for gas for weeks or months?

Senator Krauter: When you're on the road.

Senator Wardner You don't fill up at a filling station unless you are running out of gas otherwise you fill at the state filling spots.

Rep. Kaldor: We discussed hedging fuel prices a few years ago. We just buy what the tanker loads cost.

Senator Wardner: Closed the hearing.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2014 conference committee

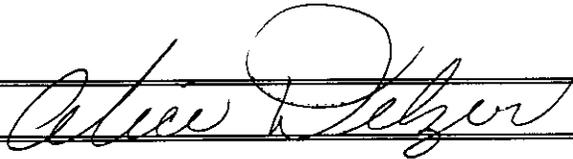
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: April 28, 2009

Recorder Job Number: 12329

Committee Clerk Signature



Minutes:

Chairman Wardner called the conference committee to order on SB 2014 in regards to the Industrial Commission. Let the record show that all conferees are present: **Senators:**

Wardner, Christmann, Krauter; Representatives: Thoreson, Berg, Kaldor. Tammy Dolan, OMB and Becky Keller, Legislative Council were also present.

Chairman Wardner We are in one area of the budget. We are looking at the administrative part of the Industrial Commission. We got consensus on removing the salary equity, we got the part where the lignite demonstration is set at \$400,000, those bonds have been ok'd. We have three areas that we are still sparing around on and probably need more information. The 1st one I'd like to mention reduces travel expenses funding. We would like Bruce Hicks to go back and talk to fleet services and show how they were calculated. None of us are experts in this area.

Bruce Hicks Mineral Resources. We don't know how exactly, we can go back and get those. One thing that does figure in the current .41 cents we are paying now is fuel, salvage value, and resale of the used vehicles. We are concerned that with the present recession those prices may come down.

Representative Berg Every time you mention .41cents, the house position gets more firm. So, I think what we would really like to do is go back to fleet services, with what we know today,

and reforecast. I agree with you, the value of used vehicles have gone down. I think it would be helpful to reforecast today where we will be at.

Chairman Wardner The second area that we have been discussing is the salary equity thing, we are not ready. We need to some more work on that. We need some time there. The 3rd thing I'd like to discuss is the renewable energy, what we did yesterday—is everybody ok wit that?

Representative Berg Could we have kind of a straw vote on that?

Chairman Wardner I thought we had a general consensus.

Representative Berg I think that is the decision we decided yesterday. Not that these can't be changed. I don't think it is necessary as long our committee recognizes...(conversation among the conferees)

Chairman Wardner We need time on those two unless you have any other further comments.

Representative Berg I think if we could meet in the morning I think we will have the information we need.

Senator Christmann I'm wondering, we know almost everything now except the equity money and this operating expense and travel. Did we agree we would do something for equity? So, would it be kind of a waste to have the amendments prepared with the dollar amounts? The amendment could be drafted and then plug in the dollar amount. When we meet again we can act on this.

Becky Keller I could do a working list like we have done when we met in the separate houses, to do the amendment without those two numbers would be tough. I can do a working list which would be a summary.

Senator Christmann I am thinking about that language, if we add this equity money in for non-classified employees, money which is not coming out of the pool, so however that needs to be worded...

Representative Kaldor There has been some discussion on this and confusion, in this particular budget when the equity dollars were calculated these non-classified employees were classified at that time so the equity dollars associated with them was actually put in to the rule and now of there is a revision to that equity pool, I am assuming that the dollars attributable to those employees would be pulled out of that pool?

Becky I am not sure if they will be pulled out or if they will just be available for someone else.

Representative Kaldor So we would then be appropriating additional general fund dollars to accommodate the equity needs that are in the rest of the bill. I just want to be clear about that.

Chairman Wardner We are recessed.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2014 Conference Committee

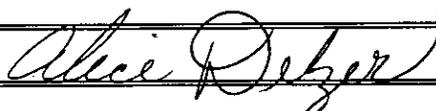
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 04-29-09

Recorder Job Number: 12374

Committee Clerk Signature



Minutes:

Chairman Wardner called the conference committee to order on SB 2014 at 10:30 am in regards to Industrial Commission. Let the record show that all conferees are present:

Senators: Wardner, Chirstmann, Krauter; Representatives: Thoreson, Berg, Kaldor.

Becky Keller, Legislative Council and Tammy Dolan, OMB were also present.

Chairman Wardner: So the committee knows as far as the Senate talking with the division of resources, on the 150,000 on the travel we will leave it the way the House has it, in the words of the director if he doesn't have any people, no one will drive these vehicles anyway. That issue is off the table and now I'd like to have Rep Berg talk about the salary and equity bonus.

Representative Berg: The amendments that were handed out (#1) the last page, last section, we are not going to do that. There are two issues, whatever equity pool is established the fair share goes to the Industrial Commission and so what I would propose I make a motion to explain it. If OMB provide at least 4% of the equity pool to the department of Mineral Resources, I want the words in least in there so again if that number changes or floats or they feel if all state agencies this is the one that needs the most equity adjustment, they could in fact put the full amount in there if they chose to do so.

Chairman Wardner: Is that a motion?

Representative Berg made the motion. Seconded by Representative Thoreson.

Chairman Wardner it is a straw vote going into the amendments.

Representative Kaldor: Could I have Representative Berg explain how it would operate.

Would they come to OMB for their requests?

Representative Berg: I asked Pam Sharp, she explained how they originally went through the equity and she explained with the equity pool what they will do is two things. They will look across the state government and find out which agencies have the most disparity as it relates to equity and address those needs as best they can. And also look within agencies to see if there is disparity where equity dollars with an agency. But the best way for me to explain it was that I think there is priorities and we have those priorities for equity. The one at the top maybe needs 100% of equity dollars and maybe there is one at the bottom, if it is limited funds, they won't get any equity. I know in corrections they have done and others have done this where they put percent in there and my fear with that is if OMB feels this is an area that really needs more equity they may not be able to give them more equity if that percentage becomes a cap. I should make it clear if we used exact proportions, the proportion with the department of mineral resources to the total equity dollars about 3.83 percent so the 4% is just rounding that up to 4%. Just to talk about the other one. We will make that part of the motion too is we talked about onetime funding for retention recruitment and I would like to propose that we add \$185,000 which can be used tagged as one-time spending that would be at the discretion of the director for compensation for employees. **Rep Thoreson seconded that also.**(5.31)

Representative Berg: Did a recap of his motion. I should not have drawn your attention to the language in the bottom because it is not what I am proposing. What I am proposing is that the Dept of Mineral Resources would kick in at least 4% of the equity pool. The reason 4% is approximately what their proportion would have been to the total equity dollars in the governor's budget but I wanted to make sure that if in fact OMB they deserve more equity

that they wouldn't be capped at 4%. The second part of the motion would be to add \$185,000 of one time money for recruitment and detention at the discretion of the director. It would not go in the base salary.

Chairman Wardner The motion was made by Rep Berg, and seconded by Rep Thoreson.

Senator Krauter: Is this all general funds. He was told yes.

Representative Kaldor: if they make that request, and OMB find they are closer, they would have to give them at least 4%. That is a yes.

Representative Berg: One of my concerns was last biennium we did have an equity pool, my understanding the department only received \$25,000 a year from that pool. As I talked with Pam we had a very intricate formula that that money float through and as a result it precluded them from receiving more to some degree has increased some of this equity problem for the department since two years ago.

Senator Christmann I have two questions. I need to answer to the first one before I can ask the second one. Is the intention here that the 4% in the equity pool is for the classified employees and the \$185,000 is aimed toward the non classifieds?

Representative Berg: I apologize for not having a specific amendment. My intention would be we would be Looking at the global pools that are out there. I am not sure this changes daily but I think the intention is to have two different pools, a pool for each. I view this amendment would be if that both of those total pools are 9 M dollars. It would be 4% of the 9 M. If we end up with 2 pools, a pool for 6 M for classified and 2 M for unclassified I am not (inaudible) this would be 4% of the 2 M dollar pool. as long as we have that at least it is in here.

Senator Christmann: had more questions regarding the equity pool and general fund.

Representative Berg: it would come out of our onetime money, but it would be over and above whatever is done in equity.

Chairman Wardner: We have a motion. All in favor say aye, motion passes. We are done. I've enjoyed meeting with you. This was provided by council. This gives you a good inventory of all that was covered. I will have Becky draft the amendment and we will meet one more time. At the time we will be ready to go. As early as we can, tomorrow morning . I appreciate all the work. We are in recess until tomorrow.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2014 Conference Committee

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 04-30-09

Recorder Job Number: 12408

Committee Clerk Signature



Minutes:

Chairman Wardner called the conference committee to order on SB 2014 in regards to Industrial Commission. Let the record show that all conferees are present: **Senators:**

Wardner, Christmann, Krauter; Representatives: Thoreson, Berg, Kaldor. Becky Keller, Legislative Council and Tammy Dolan, OMB were present.

Chairman Wardner: This is our last hurrah on this bill. We've gone through the bill we have no problems. There is just a couple of little things. We are going through the amendments .0327. Becky, would you explain them to the committee?

Becky Keller On page 4, section 23, the equity pool on the last line after resources we are going to insert for nonclassified employees. That was my omission.

Representative Berg: That creates a problem. If we end up with two pools, one pool has so much for classified, the other pool for unclassified, and we are saying give 4% we are talking \$20,000. that is not the intent. When I came up with that 4% that was for the whole pool. That number could change. My point is 4% of the overall equity funding for all employees. The question is, of course, if we end up with 2 pools and if 4% equals 500,000 of 9 M there may only be 500,000 in the nonclassified equity pool.

Chairman Wardner: What is on the statement of purpose?

Representative Berg: Maybe Becky could take a look at that and put the total equity fund pool or pools if there is multiple ones.

Becky: If we would just change it from pool to pools.

Representative Thoreson: Another question would be on the third line of section 23, it references at least 4% of any general funds salary equity pool that is appropriated toward general fund in there, are we certain that all equity funds are from the general fund or are there other sources. We need to check that out also.

Representative Berg: We will have special funds and general funds. The mineral resources is funded with general funds. 100%. I think it is ok to have it in the general fund pool. What I want to make sure is if we end up with multiple pools. My position we should have two pools, we should have a pool for nonclassified employees.

Becky: So you want this to be for all department of mineral resources employees, or just for the nonclassified.

Representative Berg: Just for the nonclassifieds. If we end up with 1 pool of 9M dollars I would want 4% to go to the nonclassified employees. So if we end up with two pools I would still like 4% of the combined total of those pools to go to the nonclassified employees at mineral resources.

Becky: If you have a pool for classified employees how can you have classified funding for it?

Senator Krauter: You want to say nonclassified.

Representative Berg: (There was more discussion regarding the equity pools). The first issue is maybe we should say equity pools. (7.58) I want to make it simple.

Senator Krauter: The wording lets that happen 4% of any pool. It covers that.

Representative Berg: If we are going to do the amendments anyway we should do it right. A part of that is nonclassified with mineral resources. The other employees should be able to access equity dollars from that pool. (9.13)

Becky: The second change in section 25, we are going to add section 24 of the bill which is repealing the mill's transfer to the general fund from the 2007-09 biennium. We are going to add that to the emergency measure so it can happen when it is suppose to.

Representative Berg: Is there any money in the 07-09? What we are doing is saying there will be no transfer from the mill for 07-09.

Becky: Correct. The section has already been in the bill. Nobody changed it. And so we thought we would need to make it an emergency measure because this bill won't become, that portion won't become effective until July 1 and the transfer was suppose to happen before that.

Representative Berg: so how will that affect their budget status?

Becky: It's already figured in there.

Chairman Wardner: Any other discussion? We have the amendment before us, we talked this budget over pretty well. There could be adjustments but the Chair is open for a motion.

Representative Thoreson: I would move the House recede from it's amendments as printed on pages 1330 -1333 in the Senate Journal and that the Reengrossed SB 2014 be amended as per version, whatever will follow this version. Seconded by Representative Kaldor.

A ROLL CALL VOTE WAS TAKEN WITH 6 YEAS. SENATOR WARDNER WILL CARRY THE BILL.

Chairman Wardner: Thank-you very much. We are adjourned.

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2014

That the House recede from its amendment as printed on pages 1330-1333 of the Senate Journal and pages 1353-1356 of the House Journal and that Reengrossed Senate Bill No. 2014 be amended as follows:

Page 1, line 7, remove "and" and after "transfers" insert "; and to declare an emergency"

Page 2, line 26, replace "0" with "1,000,000" and replace "1,400,000" with "2,400,000"

Page 3, line 2, replace "1,400,000" with "2,400,000" and replace "11,750,000" with "12,750,000"

Page 3, line 5, replace "1,400,000" with "2,400,000" and replace "10,800,000" with "11,800,000"

Page 4, line 1, replace "7,071,958" with "8,071,958" and replace "27,747,962" with "28,747,962"

Page 4, line 3, replace "\$3,751,384" with "\$2,751,384" and replace "202,733,732" with "203,733,732"

Page 4, after line 13, insert:

"Ag PACE disaster program	0	1,000,000"
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Page 4, line 16, replace "7,493,152" with "8,493,152"

Page 8, after line 2, insert:

"SECTION 14. AGRICULTURE PARTNERSHIP IN ASSISTING COMMUNITY EXPANSION DISASTER PROGRAM - RETURN OF FUNDS TO GENERAL FUND.

The agriculture partnership in assisting community expansion fund line item in subdivision 3 of section 1 of this Act includes \$1,000,000 from the general fund which may be deposited in the agriculture partnership in assisting community expansion fund and used by the Bank of North Dakota to expand parameters for the agriculture partnership in assisting community expansion program to assist those farmers and livestock producers that suffered extraordinary losses directly as a result of the weather-related events in the winter and spring of 2009, for the biennium beginning July 1, 2009, and ending June 30, 2011. The Bank of North Dakota may transfer any agriculture partnership in assisting community expansion program disaster funds allocated under this section but not obligated by January 1, 2011, to the general fund. The Bank of North Dakota may transfer funds available in the partnership in assisting community expansion and biofuels partnership in assisting community expansion programs to the agriculture partnership in assisting community expansion program for

providing additional funds for the disaster program, for the period beginning July 1, 2009, and ending June 30, 2011.

SECTION 15. TRANSFER - BANK OF NORTH DAKOTA. The industrial commission may transfer \$1,000,000 from the current earnings and undivided profits of the Bank of North Dakota to the general fund during the biennium beginning July 1, 2009, and ending June 30, 2011. The moneys must be transferred in the amounts and at the times requested by the director of the office of management and budget.

SECTION 16. EMERGENCY. The sum of \$1,000,000 from the general fund included in the agriculture partnership in assisting community expansion fund in subdivision 3 of section 1 of this Act and section 14 of this Act are declared to be an emergency measure."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98033.0324 FN 1

A copy of the statement of purpose of amendment is attached.

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2014 - Summary of Conference Committee Action

	Executive Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Industrial Commission						
Total all funds	\$65,077,880	\$66,269,046	\$0	\$66,269,046	\$62,723,738	\$3,545,308
Less estimated income	49,321,084	49,321,084	0	49,321,084	52,308,484	(2,987,400)
General fund	\$15,756,796	\$16,947,962	\$0	\$16,947,962	\$10,415,254	\$6,532,708
Bank of North Dakota						
Total all funds	\$54,198,350	\$55,175,256	\$1,000,000	\$56,175,256	\$54,267,274	\$1,907,982
Less estimated income	43,398,350	44,375,256	0	44,375,256	44,167,274	207,982
General fund	\$10,800,000	\$10,800,000	\$1,000,000	\$11,800,000	\$10,100,000	\$1,700,000
Housing Finance Agency						
Total all funds	\$41,232,188	\$41,232,188	\$0	\$41,232,188	\$71,211,063	(\$29,978,875)
Less estimated income	41,232,188	41,232,188	0	41,232,188	71,211,063	(29,978,875)
General fund	\$0	\$0	\$0	\$0	\$0	\$0
Mill and Elevator						
Total all funds	\$40,057,242	\$40,057,242	\$0	\$40,057,242	\$40,057,242	\$0
Less estimated income	40,057,242	40,057,242	0	40,057,242	40,057,242	0
General fund	\$0	\$0	\$0	\$0	\$0	\$0
Bill total						
Total all funds	\$200,565,660	\$202,733,732	\$1,000,000	\$203,733,732	\$228,259,317	(\$24,525,585)
Less estimated income	174,008,864	174,985,770	0	174,985,770	207,744,063	(32,758,293)
General fund	\$26,556,796	\$27,747,962	\$1,000,000	\$28,747,962	\$20,515,254	\$8,232,708

Senate Bill No. 2014 - Bank of North Dakota - Conference Committee Action

	Executive Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Capital assets	\$1,455,000	\$1,455,000		\$1,455,000	\$1,455,000	
Bank of North Dakota operations	40,993,350	41,970,256		41,970,256	41,762,274	207,982
PACE fund	8,000,000	8,000,000		8,000,000	8,000,000	
Ag PACE fund	1,400,000	1,400,000	1,000,000	2,400,000	1,400,000	1,000,000
Beginning farmer revolving loan fund	950,000	950,000		950,000	950,000	
Biofuels PACE fund	1,400,000	1,400,000		1,400,000	700,000	700,000
Total all funds	\$54,198,350	\$55,175,256	\$1,000,000	\$56,175,256	\$54,267,274	\$1,907,982
Less estimated income	43,398,350	44,375,256	0	44,375,256	44,167,274	207,982
General fund	\$10,800,000	\$10,800,000	\$1,000,000	\$11,800,000	\$10,100,000	\$1,700,000
FTE	171.50	176.50	0.00	176.50	176.50	0.00

Department No. 471 - Bank of North Dakota - Detail of Conference Committee Changes

	Increases Funding for Ag PACE ¹	Total Conference Committee Changes
Capital assets		
Bank of North Dakota operations		
PACE fund		
Ag PACE fund	1,000,000	1,000,000
Beginning farmer revolving loan fund		
Biofuels PACE fund		
Total all funds	\$1,000,000	\$1,000,000
Less estimated income	0	0
General fund	\$1,000,000	\$1,000,000
FTE	0.00	0.00

¹ This amendment increases funding for Ag PACE to assist farmers and livestock producers and adds sections creating a \$1 million Ag PACE disaster program and declaring an emergency.

A section is added transferring \$1 million from Bank of North Dakota profits to the general fund.

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2014

That the House recede from its amendments as printed on pages 1330-1333 of the Senate Journal and pages 1353-1356 of the House Journal and that Reengrossed Senate Bill No. 2014 be amended as follows:

Page 1, line 2, after the semicolon insert "to create and enact two new sections to chapter 54-18 of the North Dakota Century Code, relating to mill and elevator profits and gain sharing;"

Page 1, line 7, remove "and" and after "transfers" insert "; and to declare an emergency"

Page 1, line 19, replace "2,733,761" with "2,323,453" and replace "9,941,305" with "9,530,997"

Page 1, line 20, replace "609,886" with "459,886" and replace "2,865,576" with "2,715,576"

Page 1, line 24, replace the first "1,000,000" with "400,000" and replace the second "1,000,000" with "400,000"

Page 2, line 5, replace "(15,000,000)" with "(17,000,000)" and replace "5,000,000" with "3,000,000"

Page 2, line 6, replace "(\$14,399,304)" with "(\$17,559,612)" and replace "66,269,046" with "63,108,738"

Page 2, line 7, replace "(20,071,262)" with "(20,083,862)" and replace "49,321,084" with "49,308,484"

Page 2, line 8, replace "5,671,958" with "2,524,250" and replace "16,947,962" with "13,800,254"

Page 2, line 14, replace "6,698,389" with "6,490,407" and replace "41,970,256" with "41,762,274"

Page 2, line 17, replace "6,253,389" with "6,045,407" and replace "43,425,256" with "43,217,274"

Page 2, line 26, replace "0" with "1,000,000" and replace ^{the second} "1,400,000" with "2,400,000"

Page 2, line 29, replace the first "1,400,000" with "700,000" and replace the second "1,400,000" with "700,000"

Page 3, line 2, replace "1,400,000" with "1,700,000" and replace "11,750,000" with "12,050,000"

Page 3, line 5, replace "1,400,000" with "1,700,000" and replace "10,800,000" with "11,100,000"

Page 3, line 20, replace "1,533,535" with "1,285,116" and replace "6,230,247" with "5,981,828"

Page 3, line 25, replace "\$297,102" with "\$545,521" and replace "41,232,188" with "40,983,769"

Page 3, line 27, replace "4.00" with "3.00" and replace "47.00" with "46.00"

Page 4, line 1, replace "7,071,958" with "4,224,250" and replace "27,747,962" with "24,900,254"

Page 4, line 2, replace "(10,823,342)" with "19,068,231" and replace "174,985,770" with "204,877,343"

Page 4, line 3, replace "\$3,751,384" with "\$23,292,481" and replace "202,733,732" with "229,777,597"

Page 4, line 9, replace "1,400,000" with "700,000"

Page 4, line 12, replace "1,000,000" with "400,000"

Page 4, after line 13, insert:

"Ag PACE disaster program	0	1,000,000
Recruitment/retention bonuses	0	185,000"

Page 4, line 14, replace "5,000,000" with "3,000,000"

Page 4, line 16, replace "7,493,152" with "5,378,512"

Page 7, after line 3, insert:

"SECTION 11. MILL AND ELEVATOR STUDY. The industrial commission shall obtain the services of a consultant to evaluate the state mill and elevator association during the 2009-10 interim. The evaluation must include a comparison to industry averages or standards of:

1. Financial data reflected on balance sheets and income statements;
2. Cashflow data;
3. Ratio analysis of working capital, operating efficiency, marketing, and other ratios;
4. Liquidity ratios to determine appropriate working capital needed for the mill;
5. Pretax income levels;
6. Business opportunities;
7. Capital investment and recommended net assets levels; and
8. Officer and employee compensation guidelines, including gain-sharing programs.

The industrial commission shall provide a summary report exclusive of proprietary information to the budget section on the results of the evaluation during the 2009-10 interim.

SECTION 12. Two new sections to chapter 54-18 of the North Dakota Century Code are created and enacted as follows:

Transfer of North Dakota mill and elevator profits to general fund. The industrial commission shall transfer to the state general fund fifty percent of the annual earnings and undivided profits of the North Dakota mill and elevator association after any transfers to other state agricultural-related programs. The moneys must be transferred on an annual basis in the amounts and at the times requested by the director of the office of management and budget.

Gain-sharing program. For the purpose of this section, "gain-sharing program" means a program approved annually by the industrial commission with provisions that promote profitability, productivity, and safety. Any gain-sharing program approved by the industrial commission must include provisions that ensure that no payouts occur unless mill and elevator profits exceed one million dollars and transfers will be made to the state general fund for that program year."

Page 7, line 29, replace "\$1,000,000" with "\$400,000"

Page 7, line 31, after the period insert "The use of any funds provided for in this section must be approved by the lignite research council and the industrial commission after following the standard lignite research development program review and approval process.

SECTION 15. AGRICULTURE PARTNERSHIP IN ASSISTING COMMUNITY EXPANSION DISASTER PROGRAM - RETURN OF FUNDS TO GENERAL FUND.

The agriculture partnership in assisting community expansion fund line item in subdivision 3 of section 1 of this Act includes \$1,000,000 from the general fund which may be deposited in the agriculture partnership in assisting community expansion fund and used by the Bank of North Dakota to expand parameters for the agriculture partnership in assisting community expansion disaster program to assist those farmers and livestock producers that suffered extraordinary losses directly as a result of the weather-related events in the winter and spring of 2009, for the period beginning with the effective date of this Act and ending June 30, 2011. The Bank of North Dakota shall return any agriculture partnership in assisting community expansion disaster program funds not obligated by January 1, 2011, to the general fund. The Bank of North Dakota may transfer funds available in the partnership in assisting community expansion and biofuels partnership in assisting community expansion programs to the agriculture partnership in assisting community expansion program for providing additional funds for the disaster program, for the biennium beginning July 1, 2009, and ending June 30, 2011.

SECTION 16. TRANSFER - BANK OF NORTH DAKOTA. The industrial commission, by June 30, 2011, shall transfer from the current earnings and undivided profits of the Bank of North Dakota to the general fund an amount equal to any general fund moneys deposited in the agriculture partnership in assisting community expansion fund and obligated for the disaster program provided for under section 15 of this Act, for the biennium beginning July 1, 2009, and ending June 30, 2011.

SECTION 17. HOUSING FINANCE AGENCY FINANCING - PILOT PROJECT.

The housing finance agency may establish a pilot project using funds available in subdivision 5 of section 1 of this Act to provide incentives for private sector investment in single-family residential dwelling units and multifamily housing facilities in difficult-to-develop areas of the state, for the biennium beginning July 1, 2009, and ending June 30, 2011. The housing finance agency shall report to the budget section at its last interim meeting prior to the 2010 legislative assembly organizational session.

SECTION 18. LEGISLATIVE INTENT - LAND PURCHASE. It is the intent of the sixty-first legislative assembly that to the best of its ability the Bank of North Dakota ensure that properties adjacent to Bank of North Dakota property northwest of west

street are developed for uses that are consistent with the mission and purpose of the Bank of North Dakota.

SECTION 19. LEGISLATIVE INTENT - COLLEGE SAVE PROGRAM INCENTIVE. It is the intent of the sixty-first legislative assembly that the Bank of North Dakota use administrative fee collections associated with the Bank's college SAVE program to provide incentives to establish 529 college savings plans under the Bank's college SAVE program.

SECTION 20. APPROPRIATION - FEDERAL FISCAL STIMULUS FUNDS - ADDITIONAL FUNDING APPROVAL. The industrial commission may seek emergency commission and budget section approval under chapter 54-16 for authority to spend any additional federal funds received under the federal American Recovery and Reinvestment Act of 2009, for the period beginning with the effective date of this Act and ending June 30, 2011.

Any federal funds received and spent under this section are not a part of the agency's 2011-13 base budget. Any program expenditures made with these funds will not be replaced with state funds after the federal American Recovery and Reinvestment Act of 2009 funds are no longer available.

SECTION 21. APPROPRIATION - FEDERAL FISCAL STIMULUS FUNDS - ADDITIONAL FUNDING APPROVAL. The funds provided in this section, or so much of the funds as may be necessary, are appropriated from federal funds made available to the state under the federal American Recovery and Reinvestment Act of 2009, not otherwise appropriated, to the housing finance agency, for the period beginning with the effective date of this Act and ending June 30, 2011, as follows:

HOME tax credit assistance program	\$4,860,574
Housing tax credit exchange program	<u>25,500,000</u>
Total federal funds	\$30,360,574

The housing finance agency may seek emergency commission and budget section approval under chapter 54-16 for authority to spend any additional federal funds received under the federal American Recovery and Reinvestment Act of 2009 in excess of the amounts appropriated in this section, for the period beginning with the effective date of this Act and ending June 30, 2011.

Any federal funds appropriated under this section are not a part of the agency's 2011-13 base budget. Any program expenditures made with these funds will not be replaced with state funds after the federal American Recovery and Reinvestment Act of 2009 funds are no longer available.

SECTION 22. FEDERAL FISCAL STIMULUS BOND ALLOCATIONS - RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS - RECOVERY ZONE FACILITY BONDS - QUALIFIED ENERGY CONSERVATION BONDS. Any bond allocations made available to the state of North Dakota under the federal American Recovery and Reinvestment Act of 2009 for the national recovery zone economic development bond limitation, the national recovery zone facility bond limitation, and the qualified energy conservation bond limitation must be reallocated by this state as provided therein and as may be provided in any guidance issued by the secretary of the treasury or the internal revenue service. Any such reallocation must be made by the governor, or may be delegated by the governor to the industrial commission or public finance authority.

SECTION 23. DEPARTMENT OF MINERAL RESOURCES SHARE OF EQUITY POOL. The office of management and budget shall provide at least four percent of all general fund salary equity pools that are appropriated for salary equity increases for state employees, for the biennium beginning July 1, 2009, and ending June 30, 2011, to the department of mineral resources for its nonclassified employees."

Page 8, after line 2, insert:

"SECTION 25. EMERGENCY. The sum of \$1,000,000 from the general fund included in the agriculture partnership in assisting community expansion fund in subdivision 3 of section 1 of this Act and sections 13, 15, 20, 21, 22, and 24 of this Act are declared to be an emergency measure."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98033.0328 FN 7

A copy of the statement of purpose of amendment is attached.

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2014 - Summary of Conference Committee Action

	Executive Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Industrial Commission						
Total all funds	\$65,077,880	\$66,269,046	(\$3,160,308)	\$63,108,738	\$62,723,738	\$385,000
Less estimated income	49,321,084	49,321,084	(12,600)	49,308,484	52,308,484	(3,000,000)
General fund	\$15,756,796	\$16,947,962	(\$3,147,708)	\$13,800,254	\$10,415,254	\$3,385,000
Bank of North Dakota						
Total all funds	\$54,198,350	\$55,175,256	\$92,018	\$55,267,274	\$54,267,274	\$1,000,000
Less estimated income	43,398,350	44,375,256	(207,982)	44,167,274	44,167,274	0
General fund	\$10,800,000	\$10,800,000	\$300,000	\$11,100,000	\$10,100,000	\$1,000,000
Housing Finance Agency						
Total all funds	\$41,232,188	\$41,232,188	\$30,112,155	\$71,344,343	\$71,211,063	\$133,280
Less estimated income	41,232,188	41,232,188	30,112,155	71,344,343	71,211,063	133,280
General fund	\$0	\$0	\$0	\$0	\$0	\$0
Mill and Elevator						
Total all funds	\$40,057,242	\$40,057,242	\$0	\$40,057,242	\$40,057,242	\$0
Less estimated income	40,057,242	40,057,242	0	40,057,242	40,057,242	0
General fund	\$0	\$0	\$0	\$0	\$0	\$0
Bill total						
Total all funds	\$200,565,660	\$202,733,732	\$27,043,865	\$229,777,597	\$228,259,317	\$1,518,280
Less estimated income	174,008,864	174,985,770	29,891,573	204,877,343	207,744,063	(2,866,720)
General fund	\$26,556,796	\$27,747,962	(\$2,847,708)	\$24,900,254	\$20,515,254	\$4,385,000

Senate Bill No. 2014 - Industrial Commission - Conference Committee Action

	Executive Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Salaries and wages	\$9,770,047	\$9,941,305	(\$410,308)	\$9,530,997	\$9,345,997	\$185,000
Operating expenses	2,845,668	2,865,576	(150,000)	2,715,576	2,715,576	0
Capital assets	49,000	49,000		49,000	49,000	0
Grants - Lignite research & development	19,971,300	19,971,300		19,971,300	19,971,300	0
Grants - Bond payments	27,441,865	27,441,865		27,441,865	27,441,865	0
Renewable energy development	5,000,000	5,000,000	(2,000,000)	3,000,000		3,000,000
State facility lignite demo project		1,000,000	(600,000)	400,000	200,000	200,000
Federal fiscal stimulus funds					3,000,000	(3,000,000)
Total all funds	\$65,077,880	\$66,269,046	(\$3,160,308)	\$63,108,738	\$62,723,738	\$385,000
Less estimated income	49,321,084	49,321,084	(12,600)	49,308,484	52,308,484	(3,000,000)
General fund	\$15,756,796	\$16,947,962	(\$3,147,708)	\$13,800,254	\$10,415,254	\$3,385,000
FTE	60.06	61.06	0.00	61.06	61.06	0.00

Department No. 405 - Industrial Commission - Detail of Conference Committee Changes

	Removes Salary Equity Funding¹	Reduces Funding for Operating Expenses²	Removes Funding for Renewable Energy Development³	Reduces Funding for Lignite Feasibility Project⁴	Recruitment or Retention Bonuses⁵	Total Conference Committee Changes
Salaries and wages	(\$595,308)				\$185,000	(\$410,308)
Operating expenses		(150,000)				(150,000)
Capital assets						
Grants - Lignite research & development						
Grants - Bond payments						
Renewable energy development			(2,000,000)			(2,000,000)
State facility lignite demo project				(600,000)		(600,000)
Federal fiscal stimulus funds						
Total all funds	(\$595,308)	(\$150,000)	(\$2,000,000)	(\$600,000)	\$185,000	(\$3,160,308)
Less estimated income	(12,600)	0	0	0	0	(12,600)
General fund	(\$582,708)	(\$150,000)	(\$2,000,000)	(\$600,000)	\$185,000	(\$3,147,708)
FTE	0.00	0.00	0.00	0.00	0.00	0.00

¹ This amendment removes salary equity included in the executive recommendation. This is the same amount removed by the House.

² This amendment reduces funding for travel expenses. This is the same amount removed by the House.

³ This amendment reduces funding for renewable energy development from \$5 million to \$3 million. The House removed the total amount of \$5 million.

⁴ This amendment reduces funding added by the Senate for a state facility lignite feasibility demonstration project from \$1 million to \$400,000. The House reduced funding for the project from \$1 million to \$200,000.

⁵ This amendment adds funding for recruitment or retention bonuses for Department of Mineral Resources nonclassified employees.

This amendment adds sections relating to federal fiscal stimulus funds, federal fiscal stimulus bond allocations, and legislative intent relating to the salary equity pool. The House included \$3 million in federal fiscal stimulus funds for renewable energy which is not included in this amendment.

Senate Bill No. 2014 - Bank of North Dakota - Conference Committee Action

	Executive Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Capital assets	\$1,455,000	\$1,455,000		\$1,455,000	\$1,455,000	
Bank of North Dakota operations	40,993,350	41,970,256	(207,982)	41,762,274	41,762,274	
PACE fund	8,000,000	8,000,000		8,000,000	8,000,000	
Ag PACE fund	1,400,000	1,400,000	1,000,000	2,400,000	1,400,000	1,000,000
Beginning farmer revolving loan fund	950,000	950,000		950,000	950,000	
Biofuels PACE fund	1,400,000	1,400,000	(700,000)	700,000	700,000	
Total all funds	\$54,198,350	\$55,175,256	\$92,018	\$55,267,274	\$54,267,274	\$1,000,000
Less estimated income	43,398,350	44,375,256	(207,982)	44,167,274	44,167,274	0
General fund	\$10,800,000	\$10,800,000	\$300,000	\$11,100,000	\$10,100,000	\$1,000,000
FTE	171.50	176.50	0.00	176.50	176.50	0.00

Department No. 471 - Bank of North Dakota - Detail of Conference Committee Changes

	Removes Salary Equity Funding ¹	Reduces Funding for Biofuels PACE ²	Ag PACE Disaster Program ³	Total Conference Committee Changes
Capital assets				
Bank of North Dakota operations	(207,982)			(207,982)
PACE fund				
Ag PACE fund			1,000,000	1,000,000
Beginning farmer revolving loan fund				
Biofuels PACE fund		(700,000)		(700,000)
Total all funds	(\$207,982)	(\$700,000)	\$1,000,000	\$92,018
Less estimated income	(207,982)	0	0	(207,982)
General fund	\$0	(\$700,000)	\$1,000,000	\$300,000
FTE	0.00	0.00	0.00	0.00

¹ This amendment removes salary equity funding included in the executive recommendation. This is the same amount removed by the House.

² Funding for the biofuels PACE fund is reduced from \$1,400,000 to \$700,000, the same as the House.

³ This amendment adds one-time funding for an Ag PACE disaster program for weather-related events in the winter and spring of 2009.

This amendment adds the following sections, which were also added by the House relating to:

- The College SAVE program.
- Land purchases.

This amendment adds new sections relating to:

- The Ag PACE disaster program.
- A transfer from the Bank of North Dakota to the general fund for Ag PACE funds obligated.

Senate Bill No. 2014 - Housing Finance Agency - Conference Committee Action

	Executive Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Salaries and wages	\$6,230,247	\$6,230,247	(\$248,419)	\$5,981,828	\$5,848,548	\$133,280
Operating expenses	8,677,581	8,677,581		8,677,581	8,677,581	
Grants	26,224,360	26,224,360		26,224,360	26,224,360	
Housing Finance Agency contingencies	100,000	100,000		100,000	100,000	
Federal fiscal stimulus funds			30,360,574	30,360,574	30,360,574	
Total all funds	\$41,232,188	\$41,232,188	\$30,112,155	\$71,344,343	\$71,211,063	\$133,280
Less estimated income	41,232,188	41,232,188	30,112,155	71,344,343	71,211,063	133,280
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	47.00	47.00	(1.00)	46.00	45.00	1.00

Department No. 473 - Housing Finance Agency - Detail of Conference Committee Changes

	Removes Salary Equity Funding ¹	Removes FTE Positions ²	Appropriates Federal Fiscal Stimulus Funds ³	Total Conference Committee Changes
Salaries and wages	(\$115,139)	(\$133,280)		(\$248,419)
Operating expenses				
Grants				
Housing Finance Agency contingencies				
Federal fiscal stimulus funds			30,360,574	30,360,574
Total all funds	(\$115,139)	(\$133,280)	\$30,360,574	\$30,112,155
Less estimated income	(115,139)	(133,280)	30,360,574	30,112,155
General fund	\$0	\$0	\$0	\$0
FTE	0.00	(1.00)	0.00	(1.00)

¹ This amendment removes salary equity funding included in the executive recommendation. This is the same amount removed by the House.

² This amendment removes 1 new FTE position relating to program growth and outreach included in the executive recommendation. The House removed 2 FTE positions.

³ This amendment appropriates federal fiscal stimulus funds from the American Recovery and Reinvestment Act of 2009 for the HOME tax credit assistance program (\$4,860,574) and the housing tax credit exchange program (\$25,500,000).

This amendment adds sections relating to a housing pilot project for difficult-to-develop areas and federal fiscal stimulus funding which were also added by the House.

Senate Bill No. 2014 - Mill and Elevator - Conference Committee Action

This amendment adds the following sections, which were also added by the House relating to:

- Transfers of Mill and Elevator profits to the general fund;
- Gain-sharing programs; and
- Mill and Elevator evaluation.

New Amendment coming.

**REPORT OF CONFERENCE COMMITTEE
(ACCEDE/RECEDE)**

Bill Number 2014 (, as (re)engrossed):

Date: 4/30/09

Your Conference Committee Senate Appropriations

For the Senate:

For the House:

	4/30 YES / NO				4/30 YES / NO		
Wardner	✓	✓		Thoreson		✓	
Christmann	✓	✓		Berg	✓	✓	
Krauter	✓	✓		Kaldor	✓	✓	

recommends that the (SENATE/HOUSE) (ACCEDE to) (RECEDE from)

the (Senate/House) amendments on (SJ/HF) page(s) 1330 ¹³³³ - 1356

____, and place _____ on the Seventh order.

adopt (further) amendments as follows, and place 2014 on the Seventh order:

____, having been unable to agree, recommends that the committee be discharged and a new committee be appointed.

Re-engrossed
(Re)Engrossed 2014 was placed on the Seventh order of business on the calendar.

DATE: 4/30/09

CARRIER: Wardner

LC NO.	of amendment
LC NO.	of engrossment
Emergency clause added or deleted	
Statement of purpose of amendment	

MOTION MADE BY: Thoreson

SECONDED BY: Kaldor

VOTE COUNT 2 YES 0 NO 0 ABSENT

REPORT OF CONFERENCE COMMITTEE

SB 2014, as reengrossed: Your conference committee (Sens. Wardner, Christmann, Krauter and Reps. Thoreson, Berg, Kaldor) recommends that the **HOUSE RECEDE** from the House amendments on SJ pages 1330-1333, adopt amendments as follows, and place SB 2014 on the Seventh order:

That the House recede from its amendments as printed on pages 1330-1333 of the Senate Journal and pages 1353-1356 of the House Journal and that Reengrossed Senate Bill No. 2014 be amended as follows:

Page 1, line 2, after the semicolon insert "to create and enact two new sections to chapter 54-18 of the North Dakota Century Code, relating to mill and elevator profits and gain sharing;"

Page 1, line 7, remove "and" and after "transfers" insert "; and to declare an emergency"

Page 1, line 19, replace "2,733,761" with "2,323,453" and replace "9,941,305" with "9,530,997"

Page 1, line 20, replace "609,886" with "459,886" and replace "2,865,576" with "2,715,576"

Page 1, line 24, replace the first "1,000,000" with "400,000" and replace the second "1,000,000" with "400,000"

Page 2, line 5, replace "(15,000,000)" with "(17,000,000)" and replace "5,000,000" with "3,000,000"

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Page 2, line 14, replace "6,698,389" with "6,490,407" and replace "41,970,256" with "41,762,274"

Page 2, line 17, replace "6,253,389" with "6,045,407" and replace "43,425,256" with "43,217,274"

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Page 2, line 29, replace the first "1,400,000" with "700,000" and replace the second "1,400,000" with "700,000"

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Page 3, line 5, replace "1,400,000" with "1,700,000" and replace "10,800,000" with "11,100,000"

Page 3, line 20, replace "1,533,535" with "1,285,116" and replace "6,230,247" with "5,981,828"

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Page 3, line 27, replace "4.00" with "3.00" and replace "47.00" with "46.00"

Page 4, line 1, replace "7,071,958" with "4,224,250" and replace "27,747,962" with "24,900,254"

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Page 4, line 3, replace "(\$3,751,384)" with "\$23,292,481" and replace "202,733,732" with "229,777,597"

Page 4, line 9, replace "1,400,000" with "700,000"

Page 4, line 12, replace "1,000,000" with "400,000"

Page 4, after line 13, insert:

"Ag PACE disaster program	0	1,000,000
Recruitment/retention bonuses	0	185,000"

Page 4, line 14, replace "5,000,000" with "3,000,000"

Page 4, line 16, replace "7,493,152" with "5,378,512"

Page 7, after line 3, insert:

"SECTION 11. MILL AND ELEVATOR STUDY. The industrial commission shall obtain the services of a consultant to evaluate the state mill and elevator association during the 2009-10 interim. The evaluation must include a comparison to industry

averages or standards of:

1. Financial data reflected on balance sheets and income statements;
2. Cashflow data;
3. Ratio analysis of working capital, operating efficiency, marketing, and other ratios;
4. Liquidity ratios to determine appropriate working capital needed for the mill;
5. Pretax income levels;
6. Business opportunities;
7. Capital investment and recommended net assets levels; and
8. Officer and employee compensation guidelines, including gain-sharing programs.

The industrial commission shall provide a summary report exclusive of proprietary information to the budget section on the results of the evaluation during the 2009-10 interim.

SECTION 12. Two new sections to chapter 54-18 of the North Dakota Century Code are created and enacted as follows:

Transfer of North Dakota mill and elevator profits to general fund. The industrial commission shall transfer to the state general fund fifty percent of the annual earnings and undivided profits of the North Dakota mill and elevator association after any transfers to other state agricultural-related programs. The moneys must be transferred on an annual basis in the amounts and at the times requested by the director of the office of management and budget.

Gain-sharing program. For the purpose of this section, "gain-sharing program" means a program approved annually by the industrial commission with provisions that promote profitability, productivity, and safety. Any gain-sharing program approved by the industrial commission must include provisions that ensure that no payouts occur unless mill and elevator profits exceed one million dollars and transfers will be made to the state general fund for that program year."

Page 7, line 29, replace "\$1,000,000" with "\$400,000"

Page 7, line 31, after the period insert "The use of any funds provided for in this section must be approved by the lignite research council and the industrial commission after following the standard lignite research development program review and approval process."

SECTION 15. AGRICULTURE PARTNERSHIP IN ASSISTING COMMUNITY EXPANSION DISASTER PROGRAM - RETURN OF FUNDS TO GENERAL FUND.

The agriculture partnership in assisting community expansion fund line item in subdivision 3 of section 1 of this Act includes \$1,000,000 from the general fund which may be deposited in the agriculture partnership in assisting community expansion fund and used by the Bank of North Dakota to expand parameters for the agriculture partnership in assisting community expansion disaster program to assist those farmers and livestock producers that suffered extraordinary losses directly as a result of the weather-related events in the winter and spring of 2009, for the period beginning with the effective date of this Act and ending June 30, 2011. The Bank of North Dakota shall return any agriculture partnership in assisting community expansion disaster program funds not obligated by January 1, 2011, to the general fund. The Bank of North Dakota may transfer funds available in the partnership in assisting community expansion and biofuels partnership in assisting community expansion programs to the agriculture partnership in assisting community expansion program for providing additional funds for the disaster program, for the biennium beginning July 1, 2009, and ending June 30, 2011.

SECTION 16. TRANSFER - BANK OF NORTH DAKOTA. The industrial commission, by June 30, 2011, shall transfer from the current earnings and undivided profits of the Bank of North Dakota to the general fund an amount equal to any general fund moneys deposited in the agriculture partnership in assisting community expansion fund and obligated for the disaster program provided for under section 15 of this Act, for the biennium beginning July 1, 2009, and ending June 30, 2011.

SECTION 17. HOUSING FINANCE AGENCY FINANCING - PILOT PROJECT. The housing finance agency may establish a pilot project using funds available in subdivision 5 of section 1 of this Act to provide incentives for private sector investment in single-family residential dwelling units and multifamily housing facilities in difficult-to-develop areas of the state, for the biennium beginning July 1, 2009, and ending June 30, 2011. The housing finance agency shall report to the budget section at its last interim meeting prior to the 2010 legislative assembly organizational session.

SECTION 18. LEGISLATIVE INTENT - LAND PURCHASE. It is the intent of the sixty-first legislative assembly that to the best of its ability the Bank of North Dakota ensure that properties adjacent to Bank of North Dakota property northwest of west

street are developed for uses that are consistent with the mission and purpose of the Bank of North Dakota.

SECTION 19. LEGISLATIVE INTENT - COLLEGE SAVE PROGRAM INCENTIVE. It is the intent of the sixty-first legislative assembly that the Bank of North Dakota use administrative fee collections associated with the Bank's college SAVE program to provide incentives to establish 529 college savings plans under the Bank's college SAVE program.

SECTION 20. APPROPRIATION - FEDERAL FISCAL STIMULUS FUNDS - ADDITIONAL FUNDING APPROVAL. The industrial commission may seek emergency commission and budget section approval under chapter 54-16 for authority to spend any additional federal funds received under the federal American Recovery and Reinvestment Act of 2009, for the period beginning with the effective date of this Act and ending June 30, 2011.

Any federal funds received and spent under this section are not a part of the agency's 2011-13 base budget. Any program expenditures made with these funds will not be replaced with state funds after the federal American Recovery and Reinvestment Act of 2009 funds are no longer available.

SECTION 21. APPROPRIATION - FEDERAL FISCAL STIMULUS FUNDS - ADDITIONAL FUNDING APPROVAL. The funds provided in this section, or so much of the funds as may be necessary, are appropriated from federal funds made available to the state under the federal American Recovery and Reinvestment Act of 2009, not otherwise appropriated, to the housing finance agency, for the period beginning with the effective date of this Act and ending June 30, 2011, as follows:

HOME tax credit assistance program	\$4,860,574
Housing tax credit exchange program	<u>25,500,000</u>
Total federal funds	\$30,360,574

The housing finance agency may seek emergency commission and budget section approval under chapter 54-16 for authority to spend any additional federal funds received under the federal American Recovery and Reinvestment Act of 2009 in excess of the amounts appropriated in this section, for the period beginning with the effective date of this Act and ending June 30, 2011.

Any federal funds appropriated under this section are not a part of the agency's 2011-13 base budget. Any program expenditures made with these funds will not be replaced with state funds after the federal American Recovery and Reinvestment Act of 2009 funds are no longer available.

SECTION 22. FEDERAL FISCAL STIMULUS BOND ALLOCATIONS - RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS - RECOVERY ZONE FACILITY BONDS - QUALIFIED ENERGY CONSERVATION BONDS. Any bond allocations made available to the state of North Dakota under the federal American Recovery and Reinvestment Act of 2009 for the national recovery zone economic development bond limitation, the national recovery zone facility bond limitation, and the qualified energy conservation bond limitation must be reallocated by this state as provided therein and as may be provided in any guidance issued by the secretary of the treasury or the internal revenue service. Any such reallocation must be made by the governor, or may be delegated by the governor to the industrial commission or public finance authority.

SECTION 23. DEPARTMENT OF MINERAL RESOURCES SHARE OF EQUITY POOL. The office of management and budget shall provide at least four

percent of all general fund salary equity pools that are appropriated for salary equity increases for state employees, for the biennium beginning July 1, 2009, and ending June 30, 2011, to the department of mineral resources for its nonclassified employees."

Page 8, after line 2, insert:

"SECTION 25. EMERGENCY. The sum of \$1,000,000 from the general fund included in the agriculture partnership in assisting community expansion fund in subdivision 3 of section 1 of this Act and sections 13, 15, 20, 21, 22, and 24 of this Act are declared to be an emergency measure."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98033.0328 FN 7

A copy of the statement of purpose of amendment is on file in the Legislative Council Office.

Reengrossed SB 2014 was placed on the Seventh order of business on the calendar.

EMPLOYEE BENEFITS PROGRAMS COMMITTEE SURVEY RESULTS

Name of Agency	Question No. 3 Does your agency pay for employee service awards or employee recognition, reward, or incentive programs?			Question No. 4 Does your agency provide employee-paid tuition for higher education coursework for employees?			Question No. 5 Does your agency pay employee membership dues for professional organizations or service clubs? Note: Please exclude membership dues for which an employee is required to be a member for the position the employee is filling, membership dues incidental to professional, and membership dues incidental to continuing education credit for business expenses.			Question No. 6 Does your agency provide employer-paid benefits under District Century Code (NDOC Sections 54-52-21, 54-52-23, and 54-52-24-29-27, 54-52-42(3)?			Question No. 7 Does your agency provide family leave under NDOC Section 54-52-42(3)?		
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C
Adjutant General	Yes	\$5,636	\$5,636	No			Yes	\$350	\$400	No			No		
Aeronautics Commission	Yes	\$475	\$200	No			Yes	\$225	\$225	Yes	\$2,484		Yes		
Attorney General	Yes	\$5,479	\$5,700	Yes	\$7,225	Unknown	Yes	\$131	Unknown	No			Yes		
Bank of North Dakota	Yes	\$8,100	\$5,900	Yes	\$25,634	\$25,634	Yes	\$295	\$430	No			Yes		

*Provided for 2014
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Name of Agency	Question No. 3			Question No. 4			Question No. 5			Question No. 6			Question No. 7				
	Does your agency pay for employee service awards or employee recognition, reward, or incentive programs?			Does your agency provide employer-paid tuition for higher education coursework for employees?			Does your agency pay employee membership dues for professional organizations or service clubs? (Note: Please exclude membership dues for which dues are not included in publications, and membership dues included in continuing education credits for bonuses required by the employer for which the employee is eligible.)			Does your agency provide employee-paid benefits under North Dakota Century Code (NDCC) Sections 54-52-27, 54-52-29, and 54-52-6-09.2?			Does your agency provide family leave with pay under NDCC Section 54-52-4-02(1)?				
	2005-07 Biennium A	2007-09 Biennium C	Description D	2005-07 Biennium B	2007-09 Biennium C	Description D	2005-07 Biennium B	2007-09 Biennium C	Description D	2005-07 Biennium B	2007-09 Biennium C	A	B	Description B	A	B	
Board for Career and Technical Education	Yes	\$1,075	We follow the state policy. NDAC Chapter 4-07-18 (Appendix A).	No			No				No	Yes		Yes		Our agency follows the state policy. NDCC Sections 54-06-14 (Appendix E) and 54-52-4-03 (Appendix B), and NDAC Chapter 4-07-13 (Appendix F). As per Family Medical Leave Act (FMLA).	
Commission on Legal Counsel for Indigents	Yes	\$150	We get certificates or award plaques for employees at our Christmas party and will follow OMB guidelines for years of recognition.	No			No				Yes			Yes		The agency provides 18 weeks (without pay) of family leave for an employee who has been employed for at least one year. Leave can be used for birth, adoption, or re-employment of a child; serious health conditions of a parent, spouse, child, or the employee. For a life-threatening illness, an employee, expected to return to work, may receive up to 12 weeks paid leave.	
Council on the Arts	Yes	\$350	Employee recognition awards are now given at 5, 10, 15, 20, and 25 years, etc.	No			No				Yes			Yes		The agency provides 18 weeks (without pay) of family leave for an employee who has been employed for at least one year. Leave can be used for birth, adoption, or re-employment of a child; serious health conditions of a parent, spouse, child, or the employee. For a life-threatening illness, an employee, expected to return to work, may receive up to 12 weeks paid leave.	
Department of Agriculture	Yes	\$5,144	Service awards under NDAC Chapter 4-07-18 (Appendix A); recognition awards under NDCC Section 54-06-31 (Appendix G) (Quarterly Commissioner's Award).	Yes	\$3,267	Job- or degree-related; 75 percent of tuition; up to \$50 for books.	Yes	\$2,850	Both agency and the employee, professionally, must benefit.	\$2,850		Yes		Yes		Comments: follows state policy and employees sick leave to be used for family sick leave each year. All other family leave is unpaid. See Appendix J.	
Department of Commerce	Yes	\$2,128	Commerce follows NDAC Chapter 4-07-18 (Appendix A) as the department policy.	Yes	\$0	See Appendix L	Yes	\$199,780	Commerce partners with professional organizations that further the mission of the agency. Individual employees may be reimbursed for memberships in professional work-related organizations (not service clubs) if approved by their supervisor.	\$200,000		No		No		Comments: follows state policy and employees sick leave to be used for family sick leave each year. All other family leave is unpaid. See Appendix J.	
Department of Corrections and Rehabilitation	Yes	\$37,037	HRMS NDAC Chapter 4-07-18 (Appendix A) service award programs.	Yes	\$19,038	See Appendix K	Yes	\$18,595	OMB fiscal and administrative membership dues.	\$19,000		Yes		Yes		Follows NDCC Section 54-52-4-02(1) (Appendix B) and the federal FMLA.	
Department of Financial Institutions	Yes	\$425	Our agency does not have incentive programs. We follow NDAC Chapter 4-07-18 (Appendix A) for service awards for eligible employees.	Yes		Has to be preapproved and has to be in field of job.	No		Our department only pays for professional membership dues for professional organizations relating to our agency's directives.			Yes		Yes		We follow Human Resource policy which defaults to 12 weeks of unpaid leave after all annual and sick leave have been used.	
Department of Health	Yes	\$15,000	We follow OMB NDAC Chapter 4-07-18 for service awards and employee recognition. We do not have an incentive program.	Yes	\$60,000	See Appendix L	Yes	\$138,000	Our agency does not pay for personal service club dues. We pay for organizations related to agency directives and goals in order to increase the knowledge or effectiveness of department staff. It may be determined beneficial to have membership in certain organizations. Fees for these memberships will be paid by the department. Section chiefs should determine the appropriate number of multiple memberships in a single organization beneficial to the department. Payment of memberships to organizations must be approved by the section chief. This policy is in compliance with OMB Policy 208 (Appendix C) Professional Membership Dues.	\$138,000		No		Yes		Yes	The State Department of Health provides for employees to use up to 12 weeks of unpaid family leave to care for a family member as provided for by NDCC Chapter 54-52-4 (Appendix B) of the State Employee Leave Policies). The department also allows employees to use up to 40 hours of sick leave each year to care for eligible family members who are ill or to assist them in obtaining services related to their health or well-being as allowed by NDAC Section 4-07-13-07 (Appendix E) (Uses of Sick Leave).

Name of Agency	Question No. 1		Question No. 3		Question No. 4		Question No. 5		Question No. 6		Question No. 7	
	2005-07 Biennium A	2007-09 Biennium C										
Department of Labor	Yes	\$161	Yes	\$525	No			Yes	\$220	No		No
Department of Public Instruction	Yes	\$4,674	Yes	\$9,000	Yes	\$15,904	\$18,000	Yes	\$15,904	No		No
Department of Transportation	Yes	\$60,339	Yes	\$55,334	Yes	\$70,000	\$70,000	No		Yes	\$141,650	\$150,000
Forest Service	Yes	\$0	No		No			Yes	\$648	No		No
Game and Fish Department	Yes	\$7,258	Yes	\$0	Yes	\$0	\$0	No		No		No
Governor's office	No		Yes	\$80	Yes	\$80	\$80	No		No		No
Highway Patrol	Yes	\$9,430	Yes	\$9,681	Yes	\$10,000	\$10,000	Yes	\$1,066	No		No
Housing Finance Agency	Yes	\$1,075	Yes	\$0	Yes	\$300	\$300	No		No		No

Name of Agency	Question No. 3 Does your agency pay for employee service awards or employee recognition, reward or incentive programs?			Question No. 4 Does your agency provide employer-paid tuition for higher education coursework for employees?			Question No. 5 Does your agency pay employee membership dues for professional organizations or services clubs? Please include membership dues for which the employer is reimbursed, and membership dues incidental to continuing education credit for courses required by the employer for the position for which the employee is filling.			Question No. 6 Does your agency provide employer-paid benefits under North Dakota Century Code (NDCC) Sections 54-52-27, 54-52-28 and 54-52-6-09.27?			Question No. 7 Does your agency provide family leave with pay under NDCC Section 54-52-4-02(5)?		
	2005-07 Biennium A	2006-07 Biennium B	Estimated 2007-09 Biennium C	2005-07 Biennium A	2006-07 Biennium B	Estimated 2007-09 Biennium C	2005-07 Biennium A	2006-07 Biennium B	Estimated 2007-09 Biennium C	2005-07 Biennium A	2006-07 Biennium B	Estimated 2007-09 Biennium C	2005-07 Biennium A	2006-07 Biennium B	Estimated 2007-09 Biennium C
Human Services	Yes	\$120,287	\$120,000	Yes	\$37,778	\$35,000	Yes	\$281,823	\$262,000	No	No	\$0	Yes		Department of Human Services grants leave in accordance with what is required under the FMLA. If sufficient annual leave or sick leave exists, the time is paid. If not, the time is without pay. Currently, NDACC inherited a policy of family leave which is deducted from the employee's annual leave.
Indian Affairs Commission	Yes	\$0	\$0	Yes	\$0	\$1,400	Yes	\$300		Yes	Yes	\$0	Yes		The NDACC agency does not pay for service clubs. Fees are paid for memberships to professional organizations whose functions are related to the agency's goals, policies, and directives.
Industrial Commission	Yes	\$5,048	\$1,100	Yes	\$0	\$2,000	Yes			No	No		No		Agency provides that unpaid leave annual and sick leave as outlined under the FMLA. Total leave allowed is 12 weeks.
Information Technology Department	Yes	\$17,833	\$20,000	Yes	\$44,487	\$48,000	Yes			No	No		No		We do pay dues but they all relate to the excursions noted in 5, 4.
Insurance Department	Yes	\$825	\$1,725	Yes	\$828	\$3,700	Yes			No	No		No		See Appendix Z.
Job Service North Dakota	Yes			Yes			Yes			Yes	Yes		No		Our agency pays for professional organization dues directly related to the agency's directives and goals and to employee skill building. To name a few of the large memberships for Job Service North Dakota: • National Association of State Workforce Agencies - \$18,000 • American Statistical Association - \$1,100 • Information Technology Pros - \$630 • North Dakota Chamber - \$525 We are also members of most city chambers across the state which range from \$755 to \$50.
Land Department	Yes	\$820	\$1,710	Yes	\$0	\$0	Yes			No	No		No		Commissoner discretion.
Legislative Council	Yes	\$2,018	\$1,500	No			No			No	No		No		
Mil and Elevator	Yes	\$1,427,481	\$1,700,000	Yes	\$0	\$2,500	Yes	\$53,590	\$55,200	Yes	Yes	\$55,200	No		Dues and memberships to professional organizations and clubs must be approved by the general manager. The organizations for which the Mill pays membership dues relate to the nature of the Mill's operations and such as the National Feed and Grain Association and as part of the Grand Forks community.

Name of Agency	Question No. 3			Question No. 4			Question No. 5			Question No. 6			Question No. 7		
	2005-07 Biennium B	2007-09 Estimated Biennium C	Description D	2005-07 Biennium B	2007-09 Estimated Biennium C	Description D	2005-07 Biennium B	2007-09 Estimated Biennium C	Description D	2005-07 Biennium B	2007-09 Estimated Biennium C	2005-07 Biennium B	2007-09 Estimated Biennium C	A	Description B
North Dakota Vision Services - School for the Blind	Yes	\$554	Policy of the Department of Public Instruction based on years of service.	Yes	\$1,127	\$7,000	No*	\$4,844	\$4,700	This agency belongs to national organizations that enable the field of vision. Employees belong to service clubs but pay their own dues.	No		Yes	Up to 40 hours of family sick leave.	
Office of Administrative Hearings	Yes	\$151	HRMS rules in NDAC - Office of Administrative Hearings recognizes only those years of service awards under NDAC Chapter 4-07-18 (Appendix A).	No			Yes	\$940	\$940	We pay for memberships in required and desired organizations. Due to employees work have educational components (seminars, CLEs, etc.) and be approved by the director.	No		No		
Office of Management and Budget	Yes	\$9,172	We follow NDAC Chapter 4-07-18 (Appendix A) and NDCC Section 54-08-24 (Appendix E). An employee is entitled to a service award if they have completed 5 (\$25), 10 (\$50), 15 (\$75), 20 (\$200), 25 (\$225), 30 (\$250), 35 (\$275), 40 (\$300), 45 (\$400), or 50 (\$500) years of employment with the state. In addition to a monetary gift, a plaque is also given. A retirement award is provided to an employee who has a minimum of 15 years of state service and to exceed \$200 and a plaque. See Appendix DD.	Yes	\$14,702	\$3,000	Yes	\$13,782	\$4,765	Office of Management and Budget Expenditure and Revenue Policy 209 (Appendix C) - Professional Membership Dues. Payment by the state of dues to professional organizations is not a fringe benefit for state employees. Wherever possible, a membership should be carried in the name of the state agency and not of an individual. The idea behind this approach is to promote transferability of the benefits of the membership. To justify the expenditure of funds, association memberships should be related to an employee's job duties or should be beneficial to the state.	No		Yes	Only the 40 hours of sick leave per calendar year that an employee is allowed to use is paid for by the members is paid. The 12 weekly members by the FMLA is unpaid Office of Management and Budget's family and medical leave policy follows state and federal statutes. If an employee opts to take paid leave such as annual or FMLA, the annual or sick leave is the only portion paid. All other leave or FMLA is uncompensated. See Appendix DD for detailed information.	
Parks and Recreation	Yes	\$2,025	Follow OMB guidelines for years of service awards.	Yes	\$1,860	\$1,860	Yes			Chamber of commerce or civic clubs dues in class proximity to parks.	No		No		
Protection and Advocacy Project	Yes	\$1,231	Follows NDAC Chapter 4-07-18 (Appendix A).	No			No				No		No		
Public Employees Retirement System	Yes	\$1,131	Service awards policy is in compliance with NDAC Section 4-07-18-05 (Appendix A).	Yes	\$2,000	\$2,000	Yes	\$1,430	\$1,860	Is an allowable expenditure only if the membership is directly related to the job as evidenced by job description, minimum qualifications, and related job functions.	No		Yes	Leave is only paid if the employee uses accrued sick or annual leave, comp time, or donated leave.	
Public Finance Authority	Yes	\$0	North Dakota Public Finance Authority (NDPFA) follows NDCC Section 54-44.3-12 (Appendix D) and NDAC Chapter 4-07-18 (Appendix A).	Yes	\$0	\$0	Yes	\$185	\$400	NDPFA reimburses employee membership dues to professional organizations that are relevant to municipal finance.	No		Yes	Employees can opt to use some or all of their annual or sick leave maximum of five days of sick leave per year can be used to care for a sick spouse, child, or parent.	

Name of Agency	Question No. 3			Question No. 4			Question No. 5			Question No. 6			Question No. 7		
	Does your agency pay for employee service awards or employee recognition, reward, or incentive programs?			Does your agency provide employer-paid tuition for higher education coursework for employees?			Does your agency pay employee membership dues for professional organizations or service clubs? Note: Please include membership dues for which an employee is required to be a member for the position the employee is filling, membership dues for licensure, and membership dues for the position for which the employee is filling. Do not include credit for licensure required for the position for which the employee is filling.			Does your agency provide employer-paid benefits under North Dakota Century Code (NDCC) Sections 54-52-27, 54-52-28, and 54-52-6-09.27?			Does your agency provide family leave with pay under NDCC Section 54-52-4-02(5)?		
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C
Public Service Commission	Yes	\$2,560	\$2,275	Yes	\$0	\$2,500	Yes	\$14,988	\$15,500	Yes	\$7,988	\$10,000	Yes		
Retirement and Investment Office	Yes	\$689	\$675	Yes	\$0	\$0	Yes	\$3,000	\$3,500	No			No		
Secretary of State	Yes	\$1,392	\$1,000	Yes	\$3,249	\$0	No			Yes	\$0	\$0	Yes		See Appendix JJ.
Securities Department	Yes	\$243	\$0	Yes	\$0	\$0	Yes	\$705	\$705	No			No		Require compliance with the United States Department of Labor FMLA.
State Auditor	Yes	\$2,164	\$2,040	Yes	\$0	\$1,500	Yes	\$10,735	\$10,800	No			No		The State Auditor's office is subject to the FMLA. Eligible employees shall be provided up to 12 weeks of unpaid leave during a 12-month period for qualifying reasons.
State Fair Association	No			No	\$0	\$0	No			Yes			No		Mimors NDCC Sections 54-52.4-01 to 54-52.4-10 (Appendix B).
State Historical Society	Yes	\$5,052	\$4,000	Yes	\$0	\$0	No			No			No		North Dakota State Library staff use appropriate vacation or sick leave earned or time without pay for family leave.
State Library	Yes	\$725	\$125	Yes	\$7,514	\$5,988	No			No			No		Leave must be exhausted before unpaid time.
State Seed Department	No			No	\$0	\$0	Yes	\$600	\$600	No			No		Paid family leave is provided when necessary to tend to the needs of an eligible family member who is ill, or to assist them in obtaining medical services. Any time away from work would be reported as sick leave.
State Water Commission	Yes	\$9,410	\$8,000	Yes	\$0	\$500	Yes	\$39,000	\$39,000	No			No		Paid family leave is provided when necessary to tend to the needs of an eligible family member who is ill, or to assist them in obtaining medical services. Any time away from work would be reported as sick leave.
Supreme Court	Yes	\$23,163	\$23,000	Yes	\$0	\$0	Yes	\$39,000	\$39,000	No			No		An employee is required to exhaust accrued annual leave, sick leave, or family sick leave in accordance with the Office of State Tax Commissioner policies for which the paid leave is normally allowed. When leave is exhausted, are on leave without pay.
Tax Commissioner	Yes	\$5,232	\$6,400	Yes	\$1,500	Unknown	Yes	\$425	\$450	No			No		An employee is required to exhaust accrued annual leave, sick leave, or family sick leave in accordance with the Office of State Tax Commissioner policies for which the paid leave is normally allowed. When leave is exhausted, are on leave without pay.

Name of Agency	Question No. 3		Question No. 4		Question No. 5		Question No. 6		Question No. 7	
	2005-07 Blennium B	2007-09 Blennium C	2005-07 Blennium B	2007-09 Blennium C	2005-07 Blennium B	2007-09 Blennium C	2005-07 Blennium B	2007-09 Blennium C	A	B
University System	Yes \$930	\$1,000	Yes \$875	\$1,500	Yes \$250,230 ¹	\$260,000	Yes \$30	\$250,230 ¹	No	No
Veterans Affairs	No		No		Yes \$30	\$120	Yes	\$30	No	Agency did not answer this question.
Youth Correctional Center	Yes \$4,961	\$4,100	Yes \$600	\$1,800	No		No	\$6,517	Yes	Full-time authorized positions are able to use up to 40 hours of family leave. This leave is to be used from January 1 to December 31, each year a new 40 hours is accrued. The family leave is taken directly from accrued sick leave.
Workforce Safety and Insurance	Yes \$17,397	\$15,000	Yes \$24,338	\$20,000	Yes	\$62,608	Yes	\$50,000	No	Up to 40 hours per employee per year. See Appendix SS.

¹North Dakota Century Code Sections 54-52-27 and 54-52-29 authorize agencies to provide employer-paid sick leave credit and service purchases under the Public Employees Retirement System and Section 54-52.6-09.2 provides for contributions by an employer to an employee's defined contribution retirement plan account for the conversion of sick leave and the equivalent of up to five years of service credit unrelated to any other service.

²North Dakota Century Code Section 54-52.4-02(5) provides that "family leave required by this chapter (54-52.4) is not required to be granted with pay unless otherwise specified by agreement between the employer and employee, by collective bargaining agreement, or by employer policy."

³The divisional budget requests are reviewed by the Department of Corrections and Rehabilitation central office, the Department of Corrections and Rehabilitation budget is compiled and submitted to the Office of Management and Budget. Office of Management and Budget is responsible for the preparation of the executive budget which is presented to the Legislative Assembly. The requested budget is thoroughly reviewed and adjusted at both the executive and legislative levels.

⁴One time in July 2005 (\$47,823).

⁵If the employee has accrued sick or annual leave which is eligible for use for this purpose, it is expected that this will be applied to this period of leave and they will be paid when they have available leave.

⁶Dues for professional organizations only.

⁷Funds were not available to provide benefits under these programs for the 2005-07 biennium nor will North Dakota funds be available for the 2007-09 biennium.

⁸Tuition waivers are allowed. See Appendix E.

⁹We provide this option but employees must pay the cost.

¹⁰We use federal funds for such activities.

¹¹Using federal funds, Job Service North Dakota expenditures for PY05 - \$5,503.53; for PY08 - \$3,553.93; for 2005-07 biennium - \$9,057.46.

¹²Using federal funds, Job Service North Dakota estimates funds to be used in 2007-09 biennium - \$10,000.

¹³Using Job Service North Dakota federal funds for PY05 - \$41,548.50; for PY08 - \$30,353; for 2005-07 biennium - \$71,902.50.

¹⁴Using federal funds, Job Service North Dakota estimates funds to be used in 2007-09 biennium - \$72,000.

¹⁵Federal program and uses federal money.

¹⁶Payment of unused sick leave is provided pursuant to NDCC Section 54-06-14 (Appendix E). The cost of the payout for the 2005-07 biennium was \$74,439.

¹⁷\$47,030 without Midwest Higher Education Compact and Western Interstate Commission on Higher Education dues.

¹⁸Employer memberships versus employee memberships.

2009 TESTIMONY

SB 2014

LISTING OF PROPOSED CHANGES TO SENATE BILL NO. 2014

Industrial Commission

Proposed funding changes:

Description	FTE	General Fund	Special Funds	Total
Industrial Commission				
1 Remove salary equity funding		(\$582,708)	(\$12,600)	(\$595,308)
2 Change funding source for contingent FTE positions added during the 2007-09 biennium from the general fund to the lands and minerals trust fund		(\$306,608)	\$306,608	\$0
3 Change funding source to federal stimulus funds for renewable energy and reduce to \$3 million		(\$5,000,000)	\$3,000,000	(\$2,000,000)
Total proposed changes for Industrial Commission		(\$5,889,316)	\$3,294,008	(\$2,595,308)
Bank of North Dakota				
4 Remove salary equity funding			(\$207,982)	(\$207,982)
5 Reduce funding for biofuels PACE		(\$700,000)		(\$700,000)
6 Remove 5 FTE positions added by the Senate	(5.00)		(\$976,906)	(\$976,906)
Total proposed changes for Bank of North Dakota		(\$700,000)	(\$1,184,888)	(\$1,884,888)
Housing Finance				
7 Remove 2 new FTE positions	(2.00)		(\$266,560)	(\$266,560)
8 Remove salary equity funding			(\$115,139)	(\$115,139)
Total proposed changes for Housing Finance			(\$381,699)	(\$381,699)
Total proposed funding changes for SB 2014	(7.00)	(\$6,589,316)	\$1,727,421	(\$4,861,895)

Other proposed changes:

- 1 Reduce funding for travel - Amount to be determined by committee
- 2 New section - **SECTION** __. **LIGNITE RESEARCH GRANTS**. The grants - lignite research and development line item in section 1 of this Act includes \$1,000,000 for a grant to the energy and environmental research center at the university of North Dakota, for the period beginning July 1, 2009, and ending June 30, 2011.
- 3 Amendment 98033.0303 relating to the Housing Finance Agency gap financing pilot project
- 4 Amendment 98033.0304 relating to the College SAVE program
- 5 New section - **SECTION** __. **PURCHASE OF LAND - MASTER PLAN**. The Bank of North Dakota may purchase land near the Bank building and develop a master plan for the use of acquired land.
- 6 Discussion on distribution of Mill revenue to Agricultural Products Utilization Commission
- 7 Review of profit sharing
- 8 Representative Kempenich amendment



9. Sample section - **SECTION __. APPROPRIATION - FEDERAL FISCAL YEAR 2011 PLUS FUNDS - ADDITIONAL FUNDING APPROVAL.** The funds provided in this section, or so much of the funds as may be necessary, are appropriated from federal funds made available to the state under the federal American Recovery and Reinvestment Act of 2009, not otherwise appropriated, to the (agency name), for the period beginning with the effective date of this Act and ending June 30, 2011, as follows:

(Program/Purpose) (Amount)
(Program/Purpose) (Amount)

The (agency name) may seek emergency commission and budget section approval under chapter 54-16 for authority to spend any additional federal funds received under the federal American Recovery and Reinvestment Act of 2009 in excess of the amounts appropriated in this section, for the period beginning with the effective date of this Act and ending June 30, 2011.

Any federal funds appropriated under this section are not a part of the agency's 2011-13 base budget. Any program expenditures made with these funds will not be replaced with state funds after the federal American Recovery and Reinvestment Act of 2009 funds are no longer available.

LISTING OF PROPOSED CHANGES TO REENGROSSED SENATE BILL NO. 2014

Industrial Commission

Proposed funding changes:

Description	FTE	General Fund	Special Funds	Total
Industrial Commission				
1 remove salary equity funding		(\$582,708)	(\$12,600)	(\$595,308)
salary equity options for unclassified DMR positions:				
a. \$445,000 plus \$185,000 recruitment/retention bonuses				
b. \$525,000 plus \$185,000 recruitment/retention bonuses				
2 lignite feasibility project (leaves \$400,000 in budget)		(\$600,000)	\$0	(\$600,000)
3 Reduce funding for renewable energy (see .0323) (leaves \$3 million in budget)		(\$2,000,000)		(\$2,000,000)
Total proposed changes for Industrial Commission		(\$3,182,708)	(\$12,600)	(\$3,195,308)
Bank of North Dakota				
4 Remove salary equity funding			(\$207,982)	(\$207,982)
5 Reduce funding for biofuels PACE		(\$700,000)		(\$700,000)
6 Ag Pace disaster program		\$1,000,000		\$1,000,000
Total proposed changes for Bank of North Dakota		\$300,000	(\$207,982)	\$92,018
Housing Finance				
7 Remove 1 new FTE positions	(1.00)		(\$133,280)	(\$133,280)
8 Remove salary equity funding			(\$115,139)	(\$115,139)
Total proposed changes for Housing Finance			(\$248,419)	(\$248,419)
Total proposed funding changes for SB 2014	(7.00)	(\$2,882,708)	(\$469,001)	(\$3,351,709)

Other proposed changes

- 1 Federal fiscal stimulus bonds
- 2 One time funding:
 - lignite feasibility project \$400,000
 - Biofuels pace \$700,000
 - Renewable energy \$3,000,000
 - recruitment/retention bonuses \$185,000
 - Ag PACE disaster program \$1,000,000
- 3 Add report to Budget Section (last meeting before session) for housing finance pilot project
- 4 Federal fiscal stimulus funds - remove line item and include language similar to cte for renewable, leave housing finance as is
- 5 98033.0321 - ADOPTED - mill study, transfer and gain share
- 98033.0323 - gf appropriation for renewable energy \$3 million
- 98033.0324 - ADOPTED - Ag PACE disaster loan program
- 98033.0325 - salary equity and bonus - \$525,000 and \$185,000
- 98033.0326 - salary equity and bonus - \$445,000 and \$185,000, intent section

Senate Bill 2014 Amendments

Amendments for the State facility lignite feasibility demonstration project

Purpose of the amendment is to have \$400,000 of General Fund dollars for this program.....

From the Senate Version of the bill 98033.0300

On Page 1, line 24 reduce the amount from \$1,000,000 to \$400,000

On Page 4, line 12 in Section 2 (one-time funding) change the funding amount to \$400,000

On Page 7, line 31. The use of any of the funds provided for in this section must be approved by the lignite research council and the industrial commission after following the standard lignite research development program review and approval process.

**Department 405 - Industrial Commission
 Senate Bill No. 2014**

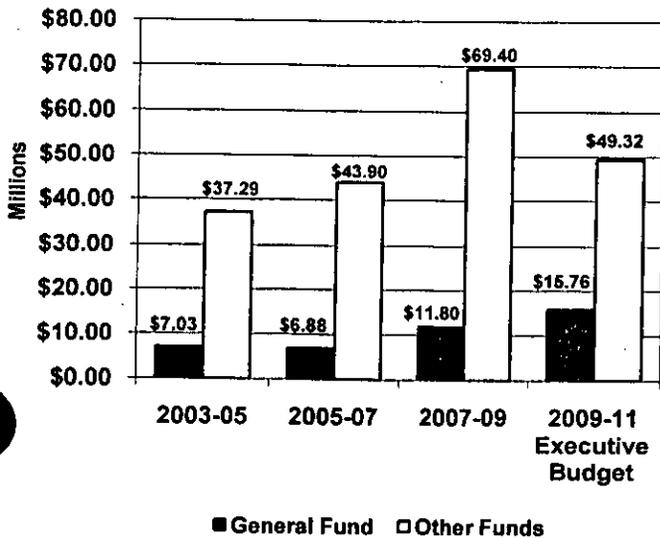
	FTE Positions	General Fund	Other Funds	Total
2009-11 Executive Budget	60.06 ¹	\$15,756,796	\$49,321,084	\$65,077,880
2007-09 Legislative Appropriations	55.37 ²	11,798,636	69,397,775	81,196,411 ³
Increase (Decrease)	4.69	\$3,958,160	(\$20,076,691)	(\$16,118,531)

¹The number of FTE positions for the 2009-11 biennium does not include 3 contingent FTE positions included in the executive budget recommendation.

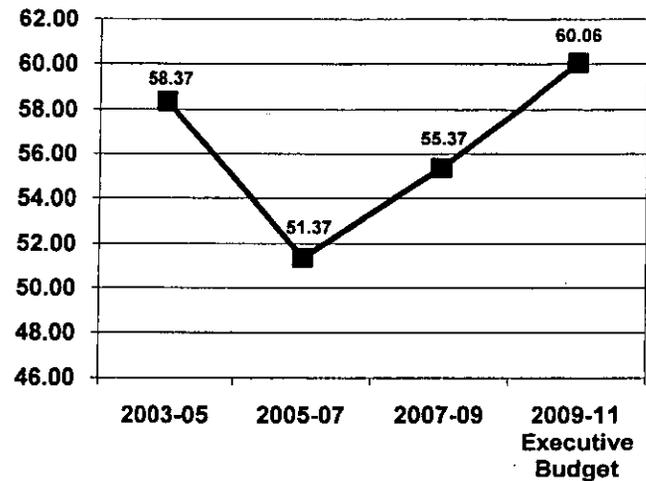
²The number of FTE positions for the 2007-09 biennium has not been adjusted to reflect the additional 2 FTE positions authorized by Emergency Commission action during the 2007-09 biennium.

³The 2007-09 appropriation amounts include \$5,429 of other funds for the agency's share of the \$10 million funding pool appropriated to the Office of Management and Budget for special market equity adjustments for classified employees.

Agency Funding



FTE Positions



Ongoing and One-Time General Fund Appropriations

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2009-11 Executive Budget	\$10,663,644	\$5,093,152	\$15,756,796
2007-09 Legislative Appropriations	11,268,636	530,000	11,798,636
Increase (Decrease)	(\$604,992)	\$4,563,152	\$3,958,160

First House Action

Attached is a summary of first house changes.

**Executive Budget Highlights
 (With First House Changes in Bold)**

	General Fund	Other Funds	Total
1. Provides funding to address salary equity issues (\$565,160) and related second-year salary increases (\$30,148)	\$582,708	\$12,600	\$595,308
2. Removes one-time funding provided to the department for the 2007-09 biennium, including renewable energy development (\$20,000,000), biomass incentive research (\$2,000,000), extraordinary repairs (\$230,000), operating expenses (\$62,500), equipment over \$5,000 (\$8,000), information technology equipment over \$5,000 (\$26,500), and a transfer to the fossil restoration fund (\$250,000)	(\$3,522,500)	(\$19,054,500)	(\$22,577,000)
3. Decreases funding for bond payments to reflect North Dakota University System bonds which have matured		(\$2,033,151)	(\$2,033,151)

4. Increases funding for lignite research for a total of \$19,971,300		\$560,700	\$560,700
5. Provides one-time funding for a fracturing sand project	\$62,001		\$62,001
6. Provides one-time funding for coal bed methane drilling studies in western North Dakota	\$31,151		\$31,151
7. Provides one-time funding for renewable energy development	\$5,000,000		\$5,000,000
8. Changes the funding source for 2 contingent FTE positions previously funded from the lands and minerals trust fund in the 2007-09 biennium (\$244,552) and related operating expenses (\$62,056)	\$306,608	(\$285,000)	\$21,608
9. Provides funding for a .50 FTE administrative assistant position and to reclassify a .19 FTE position	\$36,186	\$51,364	\$87,550
10. Provides funding for 1 FTE engineering technician IV position and 1 FTE petroleum engineer position (\$235,909) and related operating expenses (\$68,882)	\$304,791		\$304,791
11. Provides funding from the lands and minerals trust fund for 3 contingent FTE positions (\$407,167) and related operating expenses (\$108,040)		\$515,207	\$515,207

Other Sections in Bill

Section 13 repeals Section 16 of Chapter 14 of the 2007 Session Laws relating to the Mill and Elevator transfer of \$5 million to the general fund.

Continuing Appropriations

Fossil excavation and restoration fund - North Dakota Century Code (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.

Pipeline Authority administrative fund - NDCC Section 54-17.7-11 - For operations of the North Dakota Pipeline Authority.

Renewable energy development fund - NDCC Section 54-63-04 - Renewable energy research, development, and education.

Geophysical, geothermal, subsurface minerals, and coal exploration fund - NDCC Chapter 38-21 - Reclamation of orphaned facilities and exploration holes.

Geological data preservation fund - NDCC Section 54-17.4-13 - Data preservation.

Major Related Legislation

Senate Bill No. 2095 - This bill establishes regulation for the long-term geologic storage of carbon dioxide and creates two funds with continuing appropriations--the carbon dioxide storage administrative fund and the carbon dioxide trust fund.

Senate Bill No. 2329 - This bill provides for a transfer of \$290,000 from the general fund to the geologic data preservation fund for the Industrial Commission to use for identifying historic trails and creating geographic information system-based maps or overlays of these trails.

ATTACH:1

STATEMENT OF PURPOSE OF AMENDMENT:

ate Bill No. 2014 - Funding Summary

	Executive Budget	Senate Changes	Senate Version
Industrial Commission			
Salaries and wages	\$9,770,047	\$171,258	\$9,941,305
Operating expenses	2,845,668	19,908	2,865,576
Capital assets	49,000		49,000
Grants - Lignite research & development	19,971,300		19,971,300
Grants - Bond payments	27,441,865		27,441,865
Renewable energy development	5,000,000		5,000,000
State facility lignite demo project		1,000,000	1,000,000
Total all funds	\$65,077,880	\$1,191,166	\$66,269,046
Less estimated income	49,321,084	0	49,321,084
General fund	\$15,756,796	\$1,191,166	\$16,947,962
FTE	60.06	1.00	61.06
Bank of North Dakota			
Capital assets	\$1,455,000		\$1,455,000
Bank of North Dakota operations	40,993,350	976,906	41,970,256
PACE fund	8,000,000		8,000,000
Ag PACE fund	1,400,000		1,400,000
Beginning farmer revolving loan fund	950,000		950,000
Biofuels PACE fund	1,400,000		1,400,000
Total all funds	\$54,198,350	\$976,906	\$55,175,256
Less estimated income	43,398,350	976,906	44,375,256
General fund	\$10,800,000	\$0	\$10,800,000
FTE	171.50	5.00	176.50
Housing Finance Agency			
Salaries and wages	\$6,230,247		\$6,230,247
Operating expenses	8,677,581		8,677,581
Grants	26,224,360		26,224,360
Housing Finance Agency contingencies	100,000		100,000
Total all funds	\$41,232,188	\$0	\$41,232,188
Less estimated income	41,232,188	0	41,232,188
General fund	\$0	\$0	\$0
FTE	47.00	0.00	47.00
Mill and Elevator			
Salaries and wages	\$22,599,324		\$22,599,324
Operating expenses	16,982,918		16,982,918
Contingencies	150,000	175,000	325,000
Agriculture promotion	325,000	(175,000)	150,000
Total all funds	\$40,057,242	\$0	\$40,057,242
Less estimated income	40,057,242	0	40,057,242
General fund	\$0	\$0	\$0
FTE	131.00	0.00	131.00
Bill Total			
Total all funds	\$200,565,660	\$2,168,072	\$202,733,732
Less estimated income	174,008,864	976,906	174,985,770
General fund	\$26,556,796	\$1,191,166	\$27,747,962

FTE

409.56

6.00

415.56

Senate Bill No. 2014 - Industrial Commission - Senate Action

	Executive Budget	Senate Changes	Senate Version
Salaries and wages	\$9,770,047	\$171,258	\$9,941,305
Operating expenses	2,845,668	19,908	2,865,576
Capital assets	49,000		49,000
Grants - Lignite research & development	19,971,300		19,971,300
Grants - Bond payments	27,441,865		27,441,865
Renewable energy development	5,000,000		5,000,000
State facility lignite demo project		1,000,000	1,000,000
Total all funds	\$65,077,880	\$1,191,166	\$66,269,046
Less estimated income	49,321,084	0	49,321,084
General fund	\$15,756,796	\$1,191,166	\$16,947,962
FTE	60.06	1.00	61.06

Department 405 - Industrial Commission - Detail of Senate Changes

	Adds 1 FTE Geologist Position ¹	Adds Funding for Lignite Feasibility Demonstration ²	Total Senate Changes
Salaries and wages	171,258		171,258
Operating expenses	19,908		19,908
Capital assets			
Grants - Lignite research & development			
Grants - Bond payments			
Renewable energy development			
State facility lignite demo project		1,000,000	1,000,000
Total all funds	\$191,166	\$1,000,000	\$1,191,166
Less estimated income	0	0	0
General fund	\$191,166	\$1,000,000	\$1,191,166
FTE	1.00	0.00	1.00

¹ This amendment adds 1 FTE geologist position and related operating expenses for the Department of Mineral Resources.

² This amendment adds \$1 million from the general fund for demonstrating the feasibility of using lignite at a state-owned facility equipped with coal-fired boilers generating at least 200,000 pounds of steam at 125 pounds per square inch. A section is also added relating to this demonstration project.

A section is added providing that the lignite research, development, and marketing program also supports educational activities relating to the lignite industry.

Senate Bill No. 2014 - Bank of North Dakota - Senate Action

	Executive Budget	Senate Changes	Senate Version
Capital assets	\$1,455,000		\$1,455,000
Bank of North Dakota operations	40,993,350	976,906	41,970,256
PACE fund	8,000,000		8,000,000
Ag PACE fund	1,400,000		1,400,000
Beginning farmer revolving loan fund	950,000		950,000
Biofuels PACE fund	1,400,000		1,400,000
Total all funds	\$54,198,350	\$976,906	\$55,175,256
Less estimated income	43,398,350	976,906	44,375,256
General fund	\$10,800,000	\$0	\$10,800,000
FTE	171.50	5.00	176.50

Department 471 - Bank of North Dakota - Detail of Senate Changes

	Restores 5 FTE Positions ¹	Total Senate Changes
Capital assets		
Bank of North Dakota operations	976,906	976,906
PACE fund		
Ag PACE fund		
Beginning farmer revolving loan fund		
Biofuels PACE fund		
Total all funds	\$976,906	\$976,906
Less estimated income	976,906	976,906
General fund	\$0	\$0
FTE	5.00	5.00

¹ This amendment restores 5 FTE positions that were removed in the executive recommendation.

This amendment removes the 2009-11 biennium transfer of \$60 million from the Bank of North Dakota to the general fund.

Senate Bill No. 2014 - Housing Finance Agency - Senate Action

Senate Bill No. 2014 - Mill and Elevator - Senate Action

	Executive Budget	Senate Changes	Senate Version
Salaries and wages	\$22,599,324		\$22,599,324
Operating expenses	16,982,918		16,982,918
Contingencies	150,000	175,000	325,000
Agriculture promotion	325,000	(175,000)	150,000
Total all funds	\$40,057,242	\$0	\$40,057,242
Less estimated income	40,057,242	0	40,057,242
General fund	\$0	\$0	\$0
FTE	131.00	0.00	131.00

Department 475 - Mill and Elevator - Detail of Senate Changes

	Changes Funding to Correct Error¹	Total Senate Changes
Salaries and wages		
Operating expenses		
Contingencies	175,000	175,000
Agriculture promotion	(175,000)	(175,000)
Total all funds	\$0	\$0
Less estimated income	0	0
General fund	\$0	\$0
FTE	0.00	0.00

This amendment corrects an error in the bill as introduced relating to the funding provided for the contingencies and agriculture promotion line items.

This amendment removes the 2009-11 biennium transfer of \$2.5 million from the Mill and Elevator to the general fund.

INDUSTRIAL COMMISSION OF NORTH DAKOTA

Administration – Karlene Fine

State Capitol 14th Floor, 600 E Boulevard Avenue Dept 405, Bismarck, ND 58505-0840
Phone: 701-328-3722 Fax: 701-328-2820 www.nd.gov/ndic

Bank of North Dakota – Eric Hardmeyer

Inside Mailing Address: State Capitol, 600 E Boulevard Avenue, Bismarck, ND 58505
Physical Address: 700 East Main, Bismarck, ND 58506
Phone: 701-328-5700 Fax: 701-328-5632 www.banknd.nd.gov/bndhome.jsp

Department of Mineral Resources – Lynn Helms

Inside Mailing Address: State Capitol, 600 E Boulevard Avenue Dept, Bismarck, ND 58505
Physical Address: 1016 E Calgary, Bismarck, ND 58501

Geological Survey

Phone: 701-328-8000 Fax: 701-328-8010 www.dmr.nd.gov/ndgs/

Oil and Gas Division

Phone: 701-328-8020 Fax: 701-328-8022 www.dmr.nd.gov/oilgas/

Housing Finance Agency – Mike Anderson

Inside Mailing Address: State Capitol, 600 E Boulevard Avenue, Bismarck, ND 58505
Physical Address: 1500 E. Capitol Ave, Bismarck, ND 58501
Phone: 701-328-8080 Fax: 701-328-8090 www.ndhfa.state.nd.us/

Lignite Research, Development & Marketing Program – John Dwyer

State Capitol 14th Floor, 600 E Boulevard Avenue Dept 405, Bismarck, ND 58505-0840
Phone: 701-258-7117 Fax: 701-328-2820 www.nd.gov/ndic/lrc-infopage.htm

Mill & Elevator – Vance Taylor

PO Box 13078, Grand Forks ND 58208-3078
Phone: 701-795-7000 Fax: 701-795-7272 www.ndmill.com/

Oil and Gas Research Program – Karlene Fine

State Capitol 14th Floor, 600 E Boulevard Avenue Dept 405, Bismarck, ND 58505-0840
Phone: 701-328-3722 Fax: 701-328-2820 www.nd.gov/ndic/ogrp-infopage.htm

Pipeline Authority – Justin Kringstad

State Capitol 14th Floor, 600 E Boulevard Avenue Dept 405, Bismarck, ND 58505-0840
Phone: 701-220-6227 Fax: 701-328-2820 www.dmr.nd.gov/pipeline/

Public Finance Authority – Tim Porter

Inside Mailing Address: State Capitol, 600 E Boulevard Avenue, Bismarck, ND 58505
Physical Address: 700 East Main, Bismarck, ND 58506
Phone: 701-328-7100 Fax: 701-328-7130 www.nd.gov/pfa/

Renewable Energy Program – Karlene Fine

State Capitol 14th Floor, 600 E Boulevard Avenue Dept 405, Bismarck, ND 58505-0840
Phone: 701-328-3722 Fax: 701-328-2820 www.nd.gov/ndic/renew-infopage.htm

Transmission Authority – Sandi Tabor

State Capitol 14th Floor, 600 E Boulevard Avenue Dept 405, Bismarck, ND 58505-0840
Phone: 701-258-7117 Fax: 701-328-2820



*Attachment A
2/25/09
Ind. Comm. Overview.*

INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Agriculture Commissioner

House Appropriations Committee
Overview of Second Engrossment of Reengrossed Senate Bill 2014
Karlene Fine, Executive Director, Industrial Commission
February 25, 2009

Chairman Svedjan, members of the House Appropriations Committee, I am Karlene Fine, Executive Director of the North Dakota Industrial Commission. I will be providing you with a very brief overview of what is contained in Senate Bill 2014. Following me, Ed Sather from the Bank of North Dakota will make a few comments and then, at the Chairman's request, we will give the majority of the Industrial Commission time to Lynn Helms, Director of the Department of Mineral Resources, who will provide you with an overview of mineral development in North Dakota. If time permits he will comment on the Department of Mineral Resources proposed budget and the challenges he faces with staffing.

Senate Bill 2014 includes the funding for the Industrial Commission administrative office and those entities that report to the Industrial Commission. The Industrial Commission was created in 1919 along with the Bank of North Dakota and North Dakota Mill and Elevator Association ("North Dakota Mill"). Since that time the Oil and Gas Division and Geological Survey (Department of Mineral Resources), Municipal Bond Bank, now known as the Public Finance Authority, Housing Finance Agency, Student Loan Trust, North Dakota Building Authority, Lignite Research, Development and Marketing Program, Oil and Gas Research Program, Renewable Energy Program, North Dakota Transmission Authority and North Dakota Pipeline Authority have been placed under the authority of the Commission. The Industrial Commission's mission is to oversee the activities of each of these entities and, working with the management of each agency, has established a specific agency mission and purpose.

The majority of these programs are self funding or come from designated special funds. The Department of Mineral Resources (\$10,947,962), Renewable Energy Program (\$5,000,000), and the economic development programs within the Bank of North Dakota (\$10,800,000) are funded from General Fund dollars. The Senate has also included \$1,000,000 of General Fund dollars for a lignite feasibility demonstration study in a State facility boiler. As noted in SB 2014 the Bank of North Dakota (Subdivision 2), the North Dakota Mill (Subdivision 4) and the Housing Finance Agency (Subdivision 5) are funded from their own operations. Within the Industrial Commission budget (Subdivision 1) you find the special fund appropriation authority for the Administrative Office, the North Dakota Building Authority, the Public Finance Authority, and the Lignite Research Program and, as noted above, the General Fund appropriation authority for the Department of Mineral Resources and the Renewable Energy Program. The Oil and Gas Research Program and Pipeline Authority are funded from the Oil and Gas Research Fund continuing appropriation and their funding is not included in the appropriation bill.

However, we will be providing information to the Government Operations Division on these entities along with other continuing appropriation funds. The Transmission Authority is funded through the Lignite Research Program.

At this point we do not anticipate any turnback dollars to the General Fund. Any unused General Fund dollars that were appropriated to the economic development programs at the Bank of North Dakota or to the Renewable Energy Program for the 2007-2009 biennium are, by Legislative authority, continuing appropriations.

Included in this bill are four one-time expenditures from General Fund dollars totaling \$7,493,152:

- | | |
|--|-------------|
| • BioFuels PACE | \$1,400,000 |
| • State Facility Lignite Feasibility Demonstration Project | \$1,000,000 |
| • Renewable Energy Development Program | \$5,000,000 |
| • Fracturing sand and coalbed methane studies | \$ 93,152 |

Within all the budgets in SB 2014 we have included the funding as outlined in the Governor's compensation package. In addition, the significant changes in these budgets include:

- Reduction of \$2,033,151 in the total amount of bond payments as bond issues mature and no new projects are approved for bonding (Industrial Commission administration budget);
- Replacement of the Student Loan Lender System (Bank of North Dakota IT systems - \$3,500,000);
- Reduction in the reserve for loan losses of \$3,000,000 and decrease in federal funds for HUD grants of \$1,692,440 (Housing Finance Agency);
- Removal of interest expense as a budgeted item (last biennium the amount appropriated was \$2,170,613) and an increase for utilities of \$1,110,697 and insurance expenses of \$687,684 - (North Dakota Mill).

We will provide detailed information to the Division on these proposed changes along with other items outlined in the Governor's Executive Budget.

This bill had included the transfers to the General Fund. The Senate removed the transfers from the Bank of North Dakota of \$60,000,000 and the State Mill of \$2,500,000 for the 2009-2011 biennium. The Governor proposed in his Executive Budget and the Senate concurred in the repeal of the transfer from the State Mill of \$5,000,000 for the current 2007-2009 biennium.

In our current economy, there are a number of questions raised about the Bank of North Dakota. Mr. Eric Hardmeyer, President of the Bank of North Dakota, could not be here today, but Ed Sather, Senior Vice President – Treasury Services at the Bank is present to provide you with some financial highlights.

Following Mr. Sather's presentation, Mr. Helms will provide you with an overview of mineral development in North Dakota. Thank you for the opportunity to give this brief overview.



INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Agriculture Commissioner

**Testimony for Reengrossed Senate Bill No. 2014
House Appropriations Government Operations Committee
Karlene Fine, Executive Director and Secretary
of the Industrial Commission
March 2, 2009**

Mr. Chairman and members of the House Appropriations Government Operations Division, my name is Karlene Fine and I am Executive Director and Secretary for the Industrial Commission of North Dakota. Reengrossed Senate Bill 2014 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, the Oil and Gas Research Program, Renewable Energy Program and the Biomass Incentive Research Program. In addition the Industrial Commission is the North Dakota Transmission Authority and the North Dakota Pipeline Authority.

This morning I will primarily be focusing on Subdivision 1 of Section 1, and Sections 2, 3, 5, 7, and 8 of Reengrossed Senate Bill 2014 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, the lease (bond) payments for projects financed by the Building Authority and the combined Biomass Incentive and Research and Renewable Energy Programs.

The administrative office for the Industrial Commission consists of two full-time employees. This budget includes the addition of a .50% FTE to assist with the additional duties that have been added to the Industrial Commission over the past two legislative sessions. The administrative budget also includes the funding for the state's participation in the Interstate Oil and Gas Compact Commission. This Commission is a 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. Just recently the Governor appointed another member of the Legislature to this Commission and the costs for the travel of this legislator will be paid from this budget.

The administrative office budget request is \$471,633 for the office and then a total of \$52,884,798 when you include the Lignite Research Program, lease (bond) payments and Renewable Energy Program. The administrative office request reflects an increase of \$107,110 from the prior biennium, the majority coming in the salaries and wages line item. The administrative budget is funded by the agencies that report to the Industrial Commission. You will see this funding source noted in Section 8 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 thus there will be no General Fund turnback. When there are unused dollars from the Commission's agencies for the Administrative Office, then those amounts are applied to the next biennium's transfers.

Section 5 includes language that would allow the Industrial Commission to utilize funds that may become available from bonds issued by the Commission 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 1 includes the lease payments (bond payments) for the North Dakota Building Authority in the amount of \$27,441,865 – see line 2 on page 2. This is a decrease from the prior biennium of \$2,033,151 as a result of bond issues maturing and no new projects being approved for bonding. 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 \$11.8 million (approximately \$60 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 3 provides the breakdown on the source of funding for the \$27 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)	\$1,293,859
*University System – NDSU (02A)	\$ 83,973
*University System – UND (05A)	\$ 491,417
*Missouri River Correctional Center (03B)	\$ 18,580
Job Service North Dakota (02A)	\$ 465,984
Job Service North Dakota (93B/02C)	\$ 281,788

Historical Society (05A)	\$ 33,333
University System (01A)	\$ 717,250
Dept. of Health (02A) (federal funds)	<u>\$ 348,050</u>
	\$3,734,234

In addition the ConnectND bond costs for the 2009-2011 biennium total \$5,405,936. Seventy-one percent of these costs are paid by the University System.

In regards to the bond payments, there generally is an amount that is not requested from the agencies. If the source of the funding for the bond payments is from General Fund dollars then the agencies will be commenting on whether those amounts will be turned back.

In Sections 1 and 2 there are references to the Renewable Energy and the Biomass Incentive and Research Programs. Last session the Legislature authorized \$3,000,000 of General Fund dollars and \$17,000,000 of other funds for the Renewable Energy Program and \$2,000,000 for the Biomass Incentive Research Fund from two special funds at the Bank of North Dakota. The proposed budget combines the Biomass Incentive Research Fund with the Renewable Energy Development Fund and provides \$5,000,000 from the General Fund. (Related legislation is SB 2129)

Section 7 provides an exemption for any remaining funds in the Biomass Incentive and Research Fund to be transferred to the Renewable Energy Development Fund. I have provided some additional information about the Renewable and Biomass Programs behind the tab titled Renewable/Biomass.

Within this bill there is no appropriation for the Oil and Gas Research Program. This Program is funded from oil and gas gross production and oil extraction tax revenues currently up to the \$3 million level. Separate legislation proposes that the amount for this Fund be increased to \$6 million. (Senate Bill 2051) I have provided additional information about the Oil and Gas Research Fund/Program behind the tab titled Oil and Gas.

Last session the Legislature authorized the North Dakota Pipeline Authority. Justin Kringstad is the Director of the Pipeline Authority. The funding for the Pipeline Authority comes from the Oil and Gas Research Fund. After passage of the Pipeline Authority legislation the Commission transferred \$300,000 from the Oil and Gas Research Fund for the Authority. These funds are utilized to compensate the Director of the Authority and for studies conducted by the Authority. More information about the Pipeline Authority is available under the tab titled Pipeline.

In 2005 the Legislature established the North Dakota Transmission Authority. Sandi Tabor serves as the Director of the Transmission Authority. The funding for the Transmission Authority comes from the Lignite Research Fund. This funding is part of the Lignite Vision 21 Program which you will hear more about from John Dwyer, Chairman of the Lignite Research Council. More information about the Transmission Authority is available under the tab titled Transmission.

Thank you for the opportunity to present testimony on the Industrial Commission budget and to briefly comment on a number of the programs that the Industrial Commission oversees.

NORTH DAKOTA BUILDING AUTHORITY DEBT SERVICE

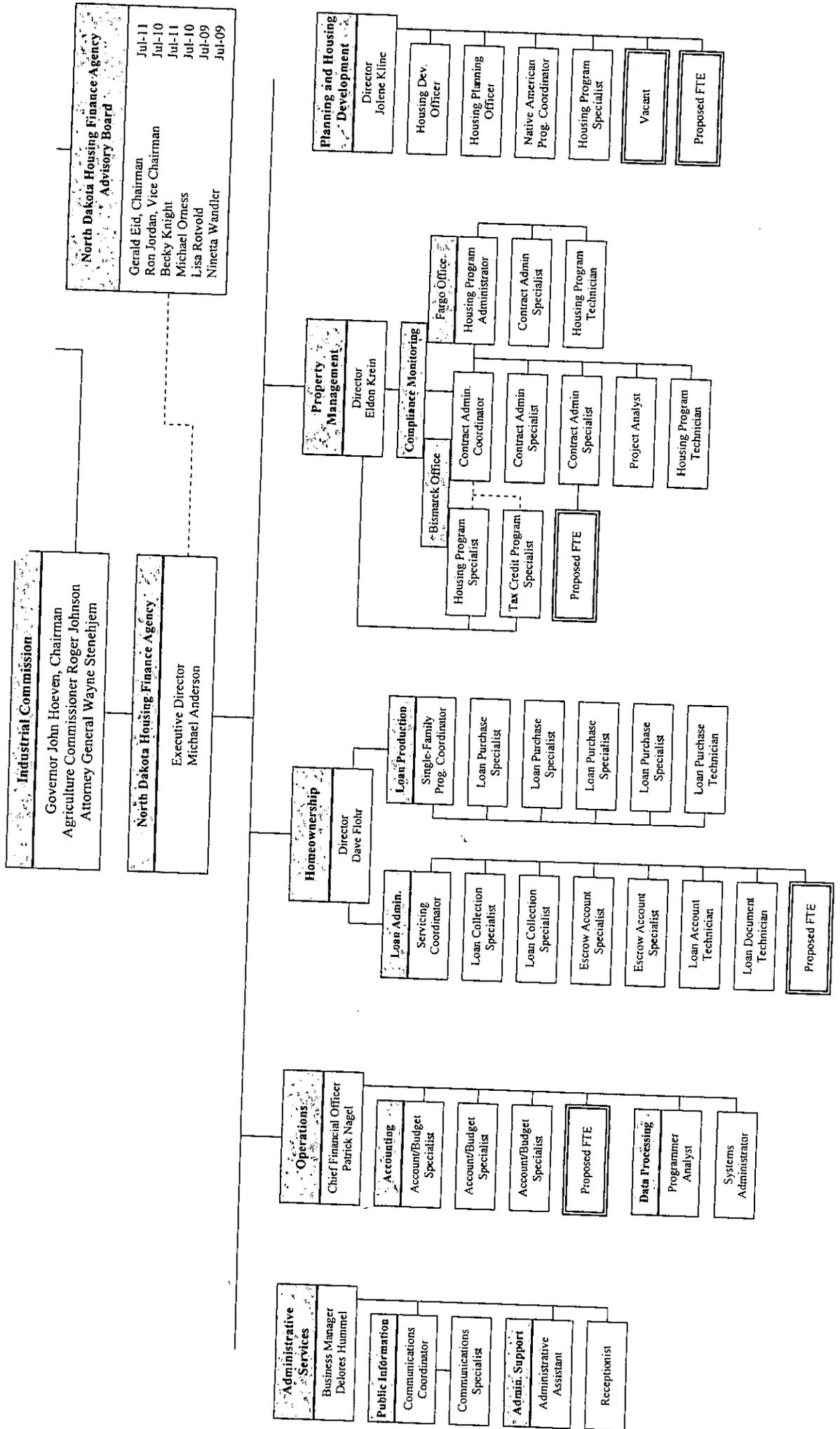
Biennium	2002C		2002D		2006B		2002A		2003B		2005A		2006A		Totals	Other Source	Energy Conser.	Total Gen. Fund	10% of \$.01 Sales Tax*	Available Debt Ser	
	1991-1986	1993B	1995A	1995A	2001A	2001A	2002A	2002A	2003B	2003B	2005A	2005A	2006A	2006A							
2009-11	1,895,834	2,394,120	2,991,128	2,991,128	2,062,025	2,062,025	2,379,277	2,379,277	2,064,451	2,064,451	6,574,094	6,574,094	1,675,000	1,675,000	22,035,929	1,846,405	1,887,828	18,301,696	27,753,960	9,462,264	
2011-13	0	2,380,520	2,996,490	2,996,490	2,073,025	2,073,025	1,438,916	1,438,916	2,067,145	2,067,145	6,572,563	6,572,563	1,999,800	1,999,800	19,528,459	1,542,866	948,394	17,037,199	28,864,118	(11,826,919)	
2013-15	0	1,077,650	2,993,925	2,993,925	2,085,494	2,085,494	1,007,941	1,007,941	2,062,918	2,062,918	6,573,831	6,573,831	2,002,200	2,002,200	17,803,959	970,980	518,946	16,314,033	30,018,683	13,704,650	
2015-17	0	0	1,473,923	1,473,923	2,110,338	2,110,338	994,148	994,148	2,066,525	2,066,525	6,570,669	6,570,669	2,004,000	2,004,000	15,219,603	841,032	509,760	13,868,811	31,219,430	17,350,619	
2017-19	0	0	0	0	2,126,363	2,126,363	1,000,049	1,000,049	2,065,750	2,065,750	6,575,206	6,575,206	1,377,800	1,377,800	13,145,168	846,786	510,092	11,788,290	32,468,208	20,679,918	
2019-21	0	0	0	0	1,865,172	1,865,172	1,005,320	1,005,320	2,063,925	2,063,925	6,574,469	6,574,469			11,508,886	850,386	510,020	10,148,480	33,766,936	23,618,456	
2021-23	0	0	0	0	812,924	812,924	457,109	457,109	1,034,300	1,034,300	6,573,256	6,573,256			8,877,589	404,487	500,664	7,972,438	35,117,613	27,145,175	
2023-25	0	0	0	0	0	0	0	0	0	0	3,285,650	3,285,650			3,285,650	33,336	245,604	3,006,710	36,522,318	33,515,608	
Totals	1,895,834	5,852,290	10,455,466	10,455,466	13,135,341	13,135,341	8,282,760	8,282,760	13,425,014	13,425,014	49,299,738	49,299,738	9,058,800	9,058,800	111,405,243	7,336,278	5,631,308	98,437,657			
	4.67%	4.01%	4.17%	4.17%	4.15%	4.15%	5.02%	5.02%	4.11%	4.11%	4.23%	4.23%	4.13%	4.13%							
Revised 01/01/09																					

*The November 2008 forecast is used for the 2009-11 biennium with a 4% increase each subsequent biennium.

NORTH DAKOTA BUILDING AUTHORITY DEBT SERVICE

Biennium	Energy Conservation	ConnectND	ConnectND		ConnectND	State Portion		State Portion
			71%	NDUS		29%	State	
2009-11	\$1,887,828	\$5,405,938	\$3,838,216	\$1,567,722	\$1,034,696	\$533,025		
2011-13	948,394	5,406,666	3,838,733	1,567,933	1,034,836	533,097		
2013-15	518,946	2,686,144	1,907,162	778,982	514,128	264,854		
2015-17	509,760	0						
2017-19	510,092	0						
2019-21	510,020	0						
2021-23	500,664	0						
2023-25	245,604	0						
Totals	\$5,631,308	\$13,498,748	\$9,584,111	\$3,914,637	\$4,652,548	\$2,396,767		
Revised 01/01/09								

Exhibit B



Industrial Commission Administrative Office - Reporting Level CC1100

Object Code	Expenditures				Change from 07-09 Appropriation
	2005-2007 Biennium	Expenditures thru Dec. 31, 2008	07-09 Appropriation	2009-11 Recommendation	
511000 Salaries	171,156	147,107	198,702	255,144	56,442
512000 Temporary	0	0	0	0	0
516000 Benefits	56,106	49,015	65,330	102,699	37,369
510000 Salaries and Benefits	227,262	196,122	264,032	357,843	93,811
Special Fund	227,262	196,122	264,032	357,843	93,811
Operating Fees & Services					
521000 Travel	16,971	12,322	20,901	26,200	5,299
531000 IT-Software/Supplies	1,251	809	1,400	1,400	0
532000 Professional Supplies	2,126	1,320	800	700	-100
534000 Bldg.Grnds,Veh Maints	25	20	50	50	0
535000 Misc. Supplies	90	0	500	250	-250
536000 Office Supplies	763	882	1,100	1,100	0
541000 Postage	636	313	700	700	0
542000 Printing	2,252	2,392	3,700	3,700	0
551000 It - Equip - Under \$5,000	2,980	1,731	9,500	8,912	-588
571000 Insurance	409	316	440	350	-90
581000 Lease/Rent - Equip.	0	0	0	0	0
582000 Lease/Rent-Bldg/land	11,881	12,389	12,700	13,000	300
591000 Repairs	126	30	100	70	-30
601000 Data Processing	3,241	2,617	4,074	4,662	588
602000 Telecommunications-ISD	1,980	1,754	3,360	3,360	0
603000 IT-Contractual Services	133	266	250	250	0
611000 Professional Dev	18,346	13,713	27,121	35,291	8,170
621000 Operating Fees & Services	1,049	590	795	795	0
623000 Professional Services	11,242	8,441	13,000	13,000	0
TOTAL	75,501	59,905	100,491	113,790	13,299
Reporting Level Total	302,763	256,027	364,523	471,633	107,110
Special Fund	302,763	256,027	364,523	471,633	107,110
FTE Employees	2.00		2.00	2.50	0.50

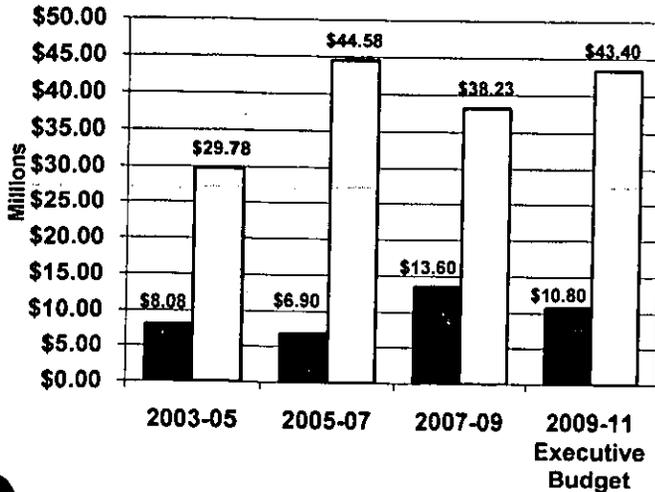
712000 60 GRANTS	7,537,459	6,802,553	19,410,600	19,971,300	560,700
Special Fund 314	7,537,459	6,802,553	19,410,600	19,971,300	560,700
722000 73 Bond Payments	26,111,969	23,725,915	29,475,016	27,441,865	(2,033,151)
Special Fund 305	26,111,969	23,725,915	29,475,016	27,441,865	(2,033,151)
722000 75 Biomass Incentive	0	30,300	2,000,000	0	(2,000,000)
Special Fund 297	0	30,300	2,000,000	0	(2,000,000)
722000 76 Renewable Energy	0	3,000,000	20,000,000	5,000,000	(15,000,000)
General Fund	0	3,000,000	20,000,000	5,000,000	(15,000,000)
Federal Fund	0	0	17,000,000	0	(17,000,000)
TOTAL	0	3,000,000	20,000,000	5,000,000	(15,000,000)
General Fund	0	3,000,000	3,000,000	5,000,000	2,000,000
Federal Fund	0	0	17,000,000	0	(17,000,000)
Special Fund	34,179,453	31,010,917	51,514,171	48,242,641	(3,271,530)
TOTAL	33,952,191	30,784,495	71,250,139	52,884,798	(18,365,341)

Department 471 - Bank of North Dakota
 Senate Bill No. 2014

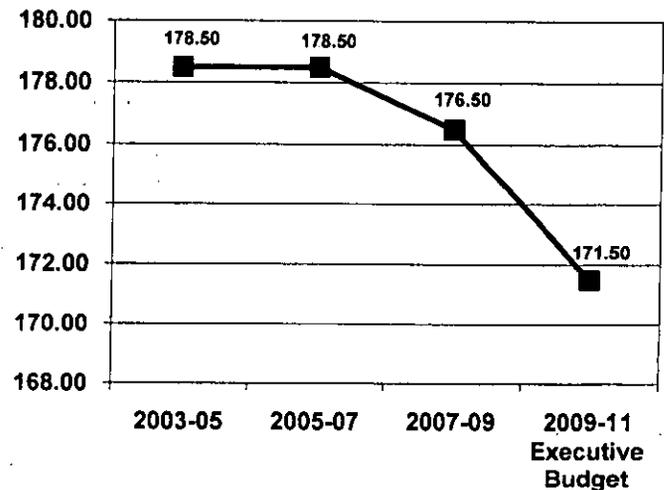
	FTE Positions	General Fund	Other Funds	Total
2009-11 Executive Budget	171.50	\$10,800,000	\$43,398,350	\$54,198,350
2007-09 Legislative Appropriations	176.50	13,600,000	38,226,090	51,826,090 ¹
Increase (Decrease)	(5.00)	(\$2,800,000)	\$5,172,260	\$2,372,260

¹The 2007-09 appropriation amounts include \$104,223 of other funds for the agency's share of the \$10 million funding pool appropriated to the Office of Management and Budget for special market equity adjustments for classified employees. The 2007-09 appropriation amounts do not include \$5,284,266 of additional special funds authority resulting from capital construction carryover from the 2005-07 biennium.

Agency Funding



FTE Positions



■ General Fund □ Other Funds

Ongoing and One-Time General Fund Appropriations

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2009-11 Executive Budget	\$9,400,000	\$1,400,000	\$10,800,000
2007-09 Legislative Appropriations	9,400,000	4,200,000	13,600,000
Increase (Decrease)	\$0	(\$2,800,000)	(\$2,800,000)

First House Action

Attached is a summary of first house changes.

Executive Budget Highlights
 (With First House Changes in Bold)

	General Fund	Other Funds	Total
1. Provides funding to address salary equity issues (\$198,078) and related second-year salary increases (\$9,904)		\$207,982	\$207,982
2. Provides funding to replace information technology equipment		\$1,200,000	\$1,200,000
3. Increases funding for operating expenses		\$3,052,400	\$3,052,400
4. Provides funding to replace equipment		\$255,000	\$255,000
5. Provides one-time funding for biofuels PACE for the 2009-11 biennium, a reduction of \$2.8 million one-time funding from the 2007-09 biennium	\$1,400,000		\$1,400,000
6. Removes funding for capital assets provided for the 2007-09 biennium		(\$7,184,266)	(\$7,184,266)
7. Removes 5 vacant FTE positions. The Senate restored these positions and added \$83,332 for the compensation package.		(\$893,574)	(\$893,574)

Continuing Appropriations

Ag PACE - North Dakota Century Code (NDCC) Section 6-09.13-04 - Buydown interest rates on agriculture-related loans.

PACE - NDCC Section 6-09.14-02 - Buydown interest rates on loans for new or expanding businesses.

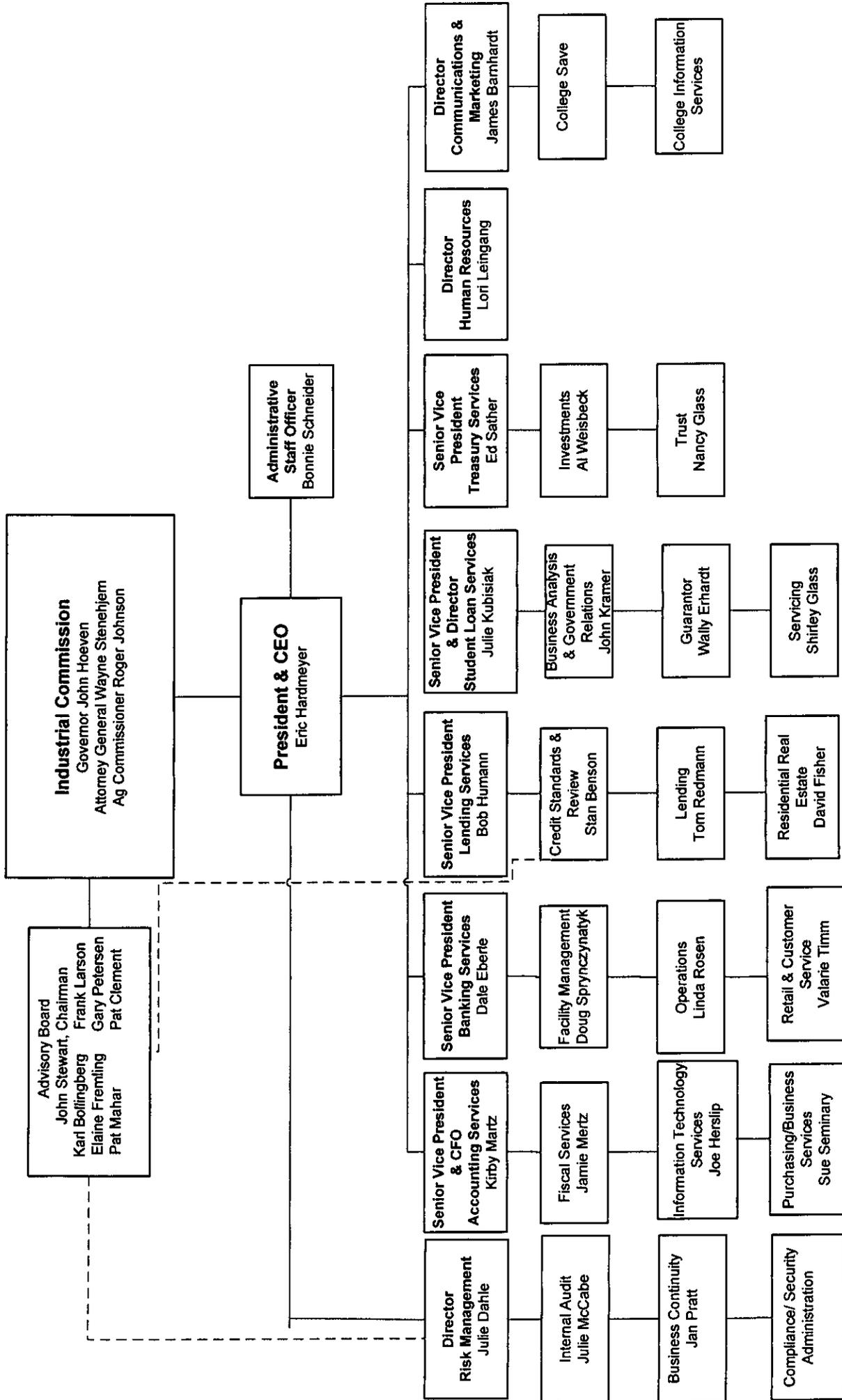
College SAVE - NDCC Section 6-09-38 - Higher education savings plan.

Major Related Legislation

No major legislation is under consideration affecting this agency.

ATTACH:1

Bank of North Dakota Organizational Chart



**TESTIMONY TO THE
HOUSE APPROPRIATIONS COMMITTEE
February 25, 2009
SENATE BILL 2014**

ED SATHER - BANK OF NORTH DAKOTA

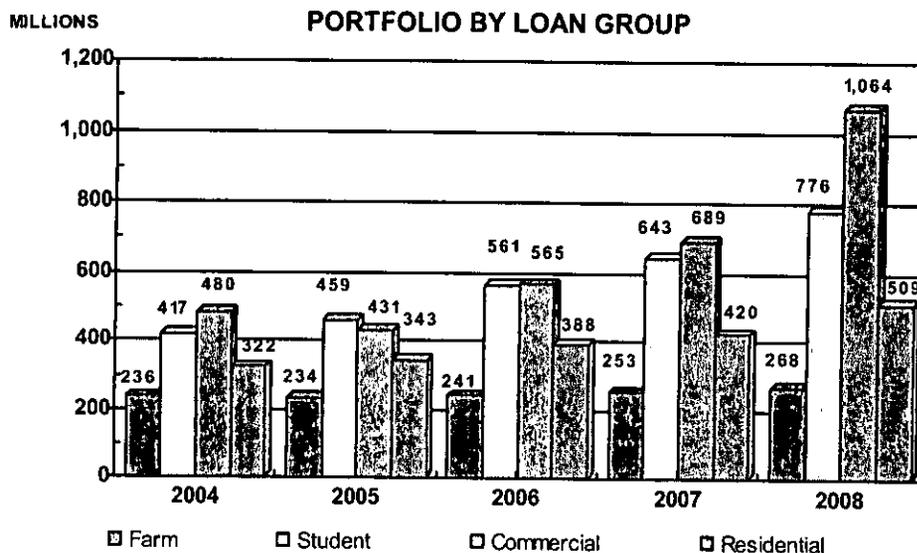
12-31 Year-End BND Financial Highlights (millions)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	Unaudited <u>2008</u>	Projected <u>2009</u>
Assets	\$2,062	\$2,326	\$2,779	\$3,517	\$3,230
Loans	\$1,467	\$1,756	\$2,005	\$2,618	\$2,798
Deposits	\$1,352	\$1,617	\$1,871	\$2,645	\$2,246
Capital	\$ 162	\$ 164	\$ 192	\$ 227	\$ 257
Ratio	7.90%	7.24%	7.19%	6.79%	8.00%
Income	\$36.4	\$42.8	\$51.1	\$57.0	\$60.0
GF transfer	\$30.0	\$30.0	\$30.0	\$30.0	\$30.0
% transfer	82.4%	70.1%	58.7%	52.6%	50.0%
ROE	22.9%	26.1%	27.7%	27.0%	24.8%

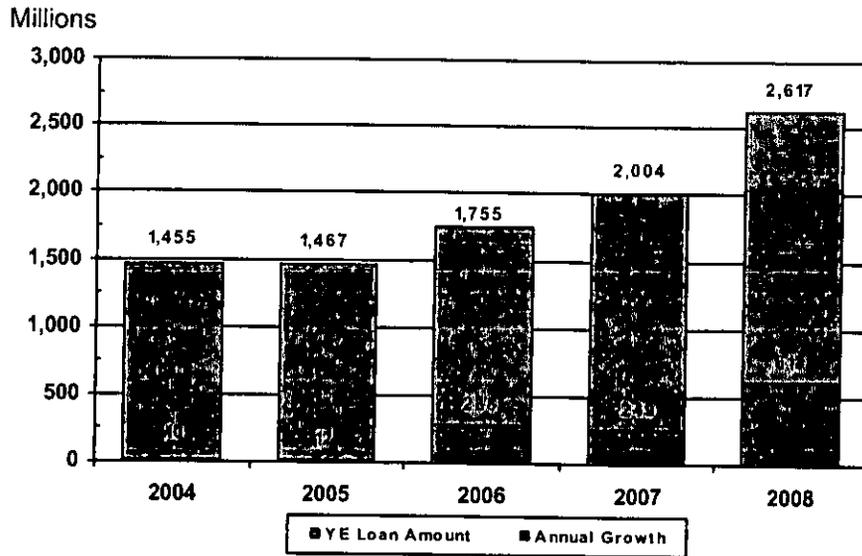
Assets have grown over the last four years with significant growth in 2008. This growth generally can be attributed to the overall strength of North Dakota's economy. As tax and fee income grows they are deposited at BND. Those deposits are then deployed into various asset types: loans, investments, or short term securities.

Loan volume has increased each year with over a 30% increase in net loans in 2008. The loan portfolio is diversified into four main categories: farm, student loans, commercial, and residential. The breakdown is as follows: farm - \$268 million, student loans - \$776 million, commercial - \$1.1 billion, and residential - \$509 million.

This growth demonstrates BND's commitment to achieving our mission of encouraging industry, commerce, and agriculture.



TOTAL LOAN PORTFOLIO



The Bank of North Dakota is adequately capitalized with equity of \$227 million or 6.79% 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 8.96%, while the North Dakota average for all banks is 9.36%. Our internal goal is for BND to have equity of 8% and by the end of 2009, we project equity to be in line with this goal. While BND is below our peers with respect to our capital ratio, the loan portfolio carries a 48% guaranty from various federal and state agencies. This, along with a healthy loan loss reserve mitigates some of the concern of the low capital ratio.

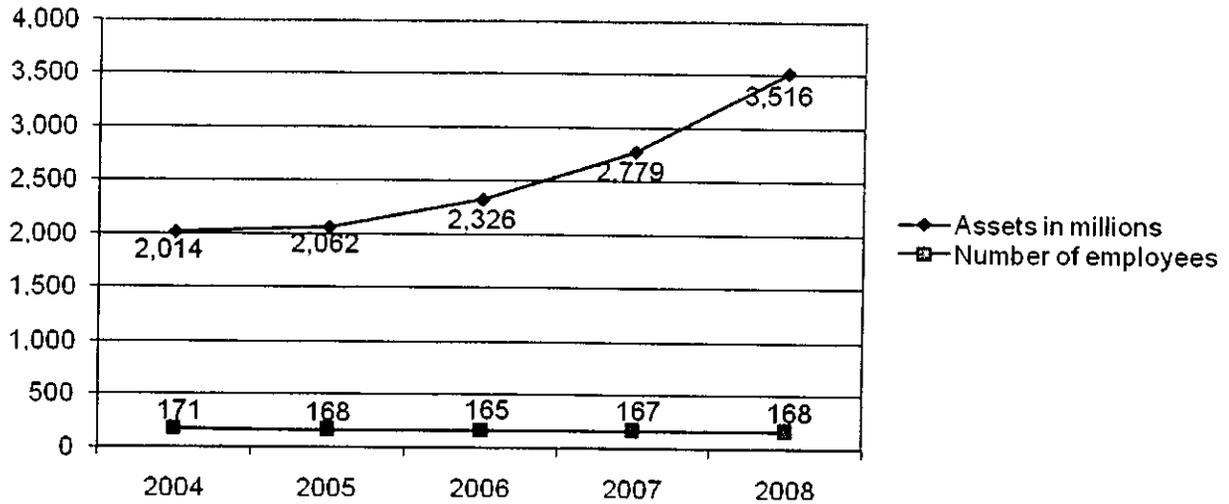
Earnings have been strong over the last four years, with BND achieving record profits the last five, although 2008 financials are unaudited at this point. For 2008, we had budgeted earnings to be \$54 million; however, as a result of increased loan demand and deposit growth, earnings were over \$57 million. For the 2007-09 biennium, total BND earnings will be approximately \$112 million.

As you know, BND is a special fund agency, consequently; all appropriated expenses are funded by revenues generated through operations. Profits are available to provide capital or make transfers to the General Fund. In fact, with the final \$30 million installment of BND's \$60 million transfer to the general fund, BND over the past twelve years will have transferred to the General Fund nearly \$340 million. For that same period, BND retained \$120 million to grow capital.

The return on equity ratio, which averages 26% for the last four years, represents the state's return on its investment in the Bank.

As demonstrated on the graph below, BND's total assets have grown from \$2.0 billion in 2004, to a record \$3.5 billion in 2008, representing a 74% increase in assets. This outstanding growth has been managed with essentially fewer employees in 2008 than in 2004 also as shown below:

Asset Size (in millions) compared to # of FTE's



On an on-going basis, we comprehensively review staffing levels in order to utilize our employees in the most efficient and effective manner and also serve our customers and the State of North Dakota. This practice has brought us to a point today where we need to consider possible additions to continue to effectively manage bank business.

BND continues to monitor efficiency ratios for salaries and wages and also in regard to the number of employees. At BND, expenditures for salaries and benefits are .31% of average assets compared to over 1.2% for peer banks in ND. Operating profit per employee at BND is \$342,000, compared to \$97,000 for our ND peers. There are \$21.6 million in assets per employee at BND compared to \$5 million for the same peer group.

One major initiative that BND is seeking approval for is \$3,500,000 for replacement of the student loan lender system. In conformity with law, this project was submitted to the Senior Information Technology Advisory Committee (SITAC) and was ranked 1st in priority for replacement. The existing system has been in place for over 15 years and is no longer supported by the original vendor. Additionally, the system resides on an ITD owned mainframe. ITD, with legislative approval is in the process of moving to new operating platforms and has worked with agencies to assist in moving to new system platforms.

BND has put out an RFP for a new student loan system. We have received three responses and are just beginning our due diligence. We anticipate selecting a new vendor/system in the next few months. Realistically, we hope to have implementation and conversion done by July, 2010. We have worked closely with ND ITD throughout the process.

**TESTIMONY TO THE
HOUSE APPROPRIATIONS COMMITTEE
GOVERNMENT OPERATIONS DIVISION
MARCH 2, 2009**

SENATE BILL 2014

ERIC HARDMEYER - BANK OF NORTH DAKOTA

The Bank of North Dakota (BND) is the only state-owned bank in the nation. Its mission, established by legislative action in 1919, is to encourage and promote agriculture, commerce and industry in North Dakota. In this role, BND acts as a funding resource in partnership with other financial institutions, economic development groups and guaranty agencies.

BND is also the largest provider of student loans in the state providing over 50% of all loans to ND students. BND also acts as a secondary market for residential loans for ND banks that choose not to hold their residential loans.

BND provides cash management services to other state agencies and North Dakota financial institutions. We provide check clearing services and liquidity programs for over 100 ND financial institutions.

12-31 Year-End BND Financial Highlights (millions)

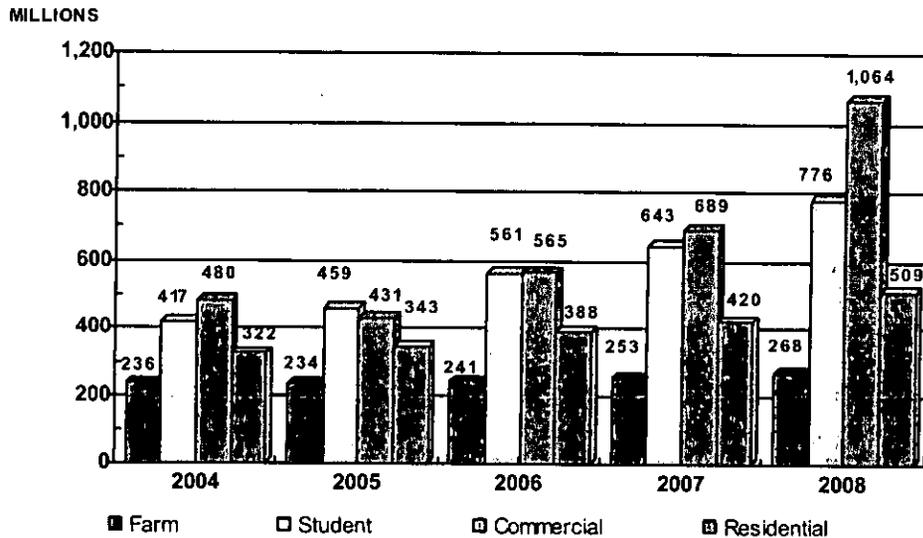
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Income	\$36.4	\$42.8	\$51.1	\$57.0	\$60.0
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% transfer	82.4%	70.1%	58.7%	52.6%	50.0%
ROE	22.9%	26.1%	27.7%	27.0%	24.8%

Assets have grown over the last four years with significant growth in 2008. 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, investments, or short term securities.

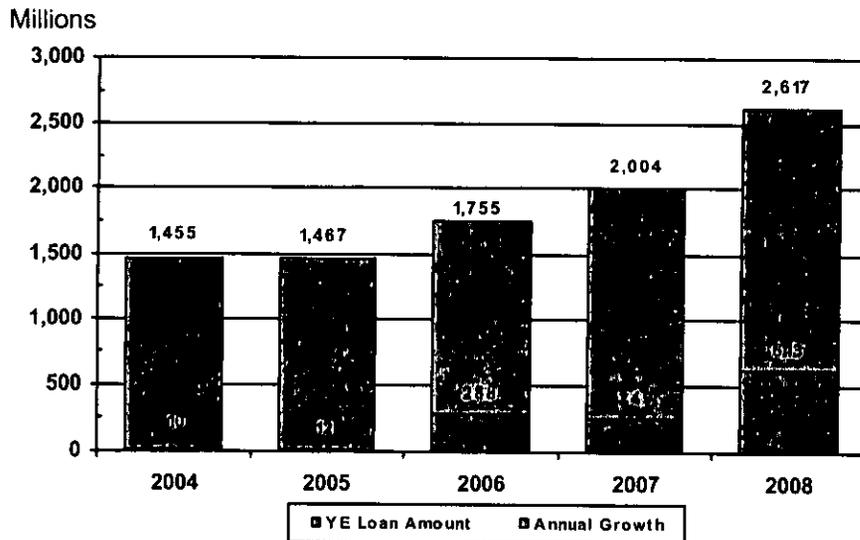
Loan volume has increased each year with over a 30% increase in net loans in 2008. The loan portfolio is diversified into four main categories: farm, student loans, commercial, and residential. The breakdown is as follows: farm - \$268 million, student loans - \$776 million, commercial - \$1.1 billion, and residential - \$509 million.

This growth demonstrates BND's commitment to achieving our mission of encouraging industry, commerce, and agriculture.

PORTFOLIO BY LOAN GROUP



TOTAL LOAN PORTFOLIO



The Bank of North Dakota is adequately capitalized with equity of \$227 million or 6.79% 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 8.96%, while the North Dakota average for all banks is 9.36%. Our internal goal is for BND to have equity of 8% and by the end of 2009, we project equity to be in line with this goal. While BND is below our peers with respect to our capital ratio, the loan portfolio carries a 48% guaranty from various federal and state agencies. This, along with a healthy loan loss reserve mitigates some of the concern of the low capital ratio.

Earnings have been strong over the last four years, with BND achieving record profits the last five, although 2008 financials are unaudited at this point. For 2008, we had budgeted earnings to be \$54 million; however, as a result of increased loan demand and deposit growth, earnings were over \$57 million. For the 2007-09 biennium, total BND earnings will be approximately \$112 million.

As you know, BND is a special fund agency, consequently; all appropriated expenses are funded by revenues generated through operations. Profits are available to provide capital or make transfers to the General Fund. In fact, with the final \$30 million installment of BND's 2007-09 \$60 million transfer to the general fund, BND over the past twelve years will have transferred to the General Fund nearly \$340 million. For that same period, BND retained \$120 million to grow capital.

The return on equity ratio, which averages 26% for the last four years, represents the state's return on its investment in the Bank.

**BANK OF NORTH DAKOTA
SENATE BILL 2014
OPERATIONS SECTION 1**

The Bank of North Dakota's 2009-11 proposed operations budget is comprised of two major line items: operations and capital assets. Included in the operations line item are salaries & benefits, operating expense, and contingency.

MAJOR LINE ITEM EXPENSE CATEGORIES:

OPERATIONS

Budget 2009-2011	\$41,970,256	Appropriation
Budget 2007-2009	<u>\$35,271,867</u>	Base level
	\$ 6,698,389	Enhancement

SALARIES AND WAGES

Budget 2009-2011	\$23,920,856	Appropriation
Budget 2007-2009	<u>20,379,090</u>	Base level
	\$ 3,541,766	Enhancement

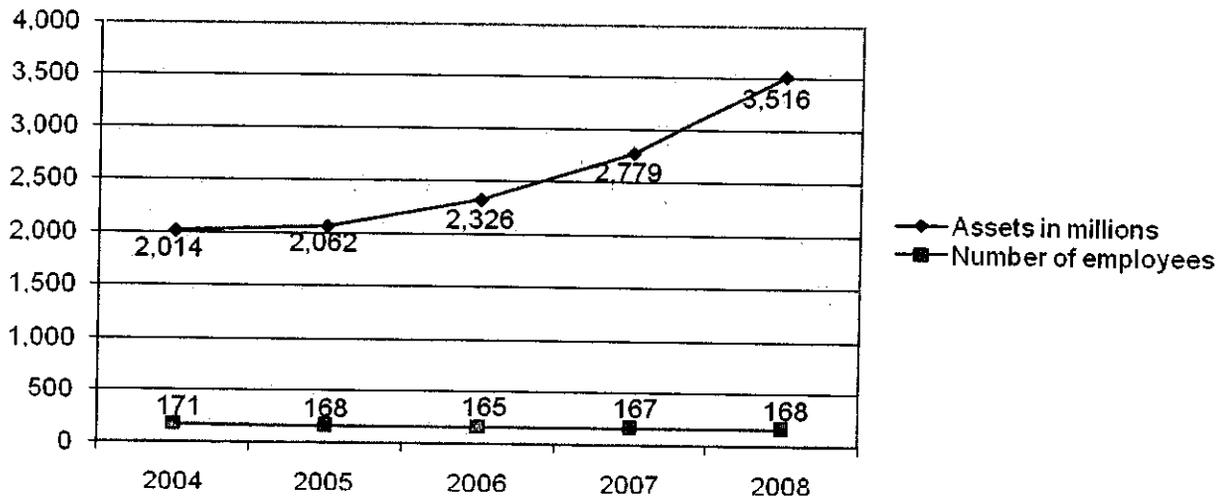
The salaries and wages line item increase represents the salary increases of 5% for 2009 and 2010 as proposed in the Governor's budget. This also reflects the increase in

hospital insurance increases from \$660 to \$827 or 25% as proposed in the Governor's executive budget.

As has been our practice since 2002, 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.

As demonstrated on the graph below, BND's total assets have grown from \$2.0 billion in 2004, to a record \$3.5 billion in 2008, representing a 74% increase in assets. This outstanding growth has been managed with essentially fewer employees in 2008 than in 2004 also as shown below:

Asset Size (in millions) compared to # of FTE's



BND continues to monitor efficiency ratios for salaries and wages and also in regard to the number of employees. At BND, expenditures for salaries and benefits are .31% of average assets compared to over 1.2% for peer banks in ND. Operating profit per employee at BND is \$342,000, compared to \$97,000 for our ND peers. There are \$21.6 million in assets per employee at BND compared to \$5 million for the same peer group.

However the harsh reality is that BND must now look to fill some of these vacant positions. As mentioned earlier, BND's growth over the last few years has been extraordinary. This has put strains on our employees. Additionally, as I know you are all aware, the national financial crisis has affected the banking industry in profound ways. We now find ourselves with a need both from a regulatory standpoint and an internal management concern to delve deeper into risk areas of the bank. These core competencies cannot be automated, but need to be completed by trained individuals.

The following is a summary of our current vacant positions and plans for the future:

- Our current authorized staffing level is 176.5 FTEs. Of these 176.5, our current staffing level is at 168.5 leaving 8 vacancies. Potential plans for these 8 vacancies include:
 - Risk Management Services – due to the increasing need for transparency and proper controls, we see potential for 2 FTE’s added to the areas of audit and/or compliance.
 - Treasury Services – there has been a reduction of 2 FTE’s in this service area over the past few years in anticipation of technology efficiencies. We now need to look at adding at least 1 FTE to manage the increased volume.
 - Lending Services –our loan growth has increased substantially. This phenomenal growth has been managed by only one addition which happened at the end of 2008. We may need to look at adding 1 additional FTE to manage the increased loan volume.
 - Student loans – similar to lending services with the increased volume and additional regulatory burden we anticipate the need to hire 1-2 additional employees.
 - Information Technology – As we look at a new lender system for BND Student Loan Services, we are unsure what human resource implications the addition of such a system may have on staffing. In order to effectively manage this transition, we need the flexibility of additional development and/or application support staff if necessary.

These identified areas alone account for 6-7 of the 8 vacancies we currently have. Other business reasons and our plans for addressing them include: succession planning, professional development program, and mentoring.

All of these areas point to our need for flexibility in managing staffing levels. We have a proven track record of efficiently and effectively managing this so far.

OPERATING EXPENSES

Budget 2009-2011	\$14,049,400	Appropriation
Budget 2007-2009	<u>\$13,297,000</u>	Base level
	\$ 752,400	Enhancement

Operating expenses include things like data processing, training and development, supplies, postage etc. Major increases for 2009-2011 include contracts for ASP providers for new investment and cash management services, disaster recovery contracts and increased marketing funds.

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%.

CONTINGENCY

Budget 2009-2011	\$ 4,000,000	Appropriation
Budget 2007-2009	<u>1,700,000</u>	Base level
	\$ 2,300,000	Enhancement

Of the \$4,000,000 requested for contingency, \$3,500,000 is earmarked for replacement of the student loan lender system. In conformity with law, this project was submitted to the Senior Information Technology Advisory Committee (SITAC) and was ranked 1st in priority for replacement. The existing system has been in place for over 15 years and is no longer supported by the original vendor. Additionally, the system resides on an ITD owned mainframe. ITD, with legislative approval is in the process of moving to new operating platforms and has worked with agencies to assist in moving to new system platforms.

BND has put out an RFP for a new student loan system. We have received three responses and are just beginning our due diligence. We anticipate selecting a new vendor/system in the next few months. Realistically, we hope to have implementation and conversion done by July, 2010. We have worked closely with ND ITD throughout the process.

CAPITAL ASSETS

Budget 2009-2011	\$ 1,455,000	Appropriation
Budget 2007-2009	<u>1,900,000</u>	Base level
	\$ (445,000)	Enhancement

Moneys appropriated for capital assets consist of funds for replacement servers for core banking system, software upgrades, and hardware replacement.

**ANK OF NORTH DAKOTA
SENATE BILL 2014
ECONOMIC DEVELOPMENT SECTION 1**

PACE FUND

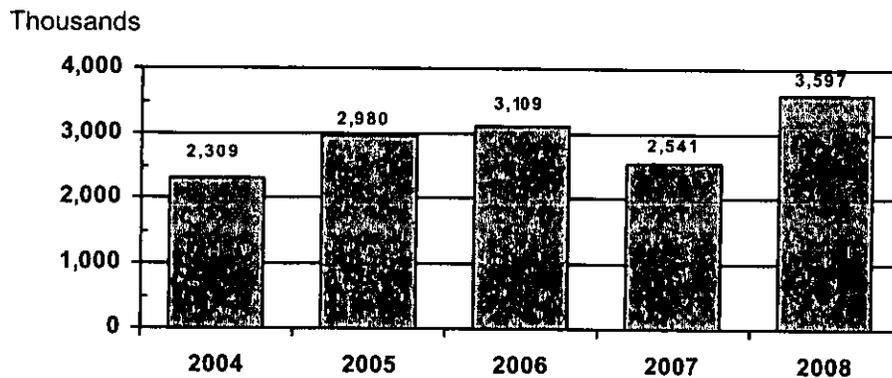
Budget 2009-2011	\$ 8,000,000	Appropriation
Budget 2007-2009	<u>8,000,000</u>	Base level
	\$ 0	Enhancement

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 the 2007-09 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
2009-2011	<u>8,000,000</u> Proposed
Total	\$58,900,000

PACE BUYDOWN FUNDS



A total of 24 PACE loans were funded in 2008 in comparison to 35 in 2007. A total of 20 Flex PACE Loans were funded in 2008 compared to 8 Flex PACE loans funded in 2007.

2007-2009 Biennium Buy-down Fund

Total Available Appropriated Funds	\$9,617,574
PACE Buy-down Funds - Funded/Committed Loans	\$4,133,739
Flex PACE Buy-down Funds - Funded/Committed Loans	<u>\$1,886,421</u>
Remaining Buy-down Funds	\$ 3,597,414

BEGINNING FARMER REVOLVING LOAN FUND

Budget 2009-2011	\$ 950,000	Appropriation
Budget 2007-2009	<u>950,000</u>	Base level
	\$ 0	Enhancement

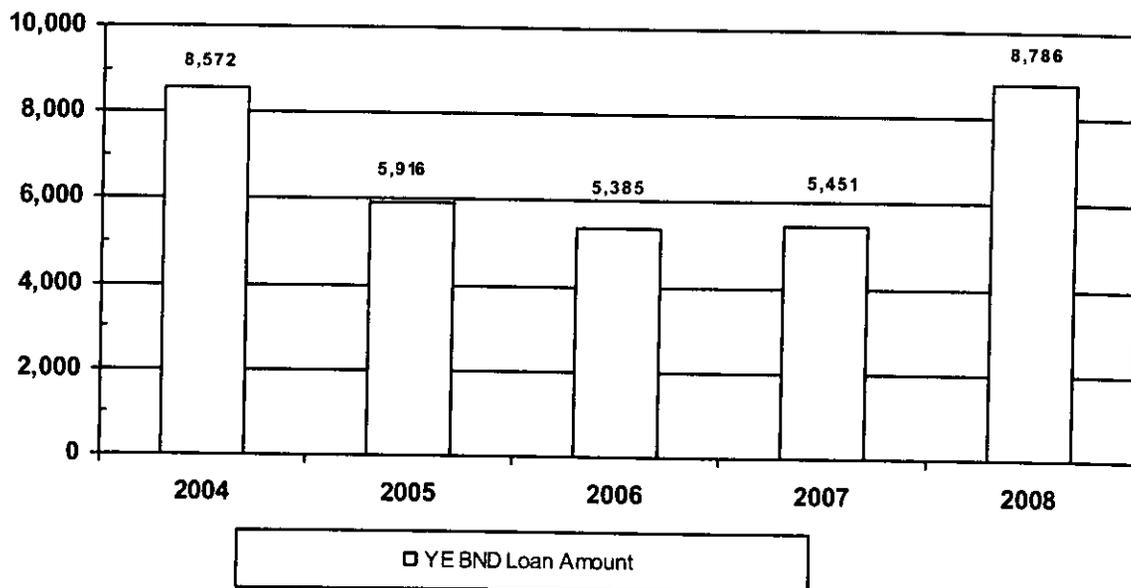
As was the case in the 2007-09 biennial appropriation, BND has determined that the Beginning Farmer Revolving Loan (BFRL) Fund has sufficient resources to fund the 2009-11 buy-down provision for the Beginning Farmer Program. This will save the General Fund \$950,000. As of December 31, 2008, the BFRL Fund has \$4,487,019 of cash. 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	0	
2009-2011	0	Proposed
Total	\$6,821,500	

BEGINNING FARMER RE BUYDOWN

Thousands



Beginning with the 2005-07 biennium, buydown funds for the Beginning Farmer Program were taken directly from the Beginning Farmer Revolving Loan Fund, consequently, no general fund appropriation has been needed or requested.

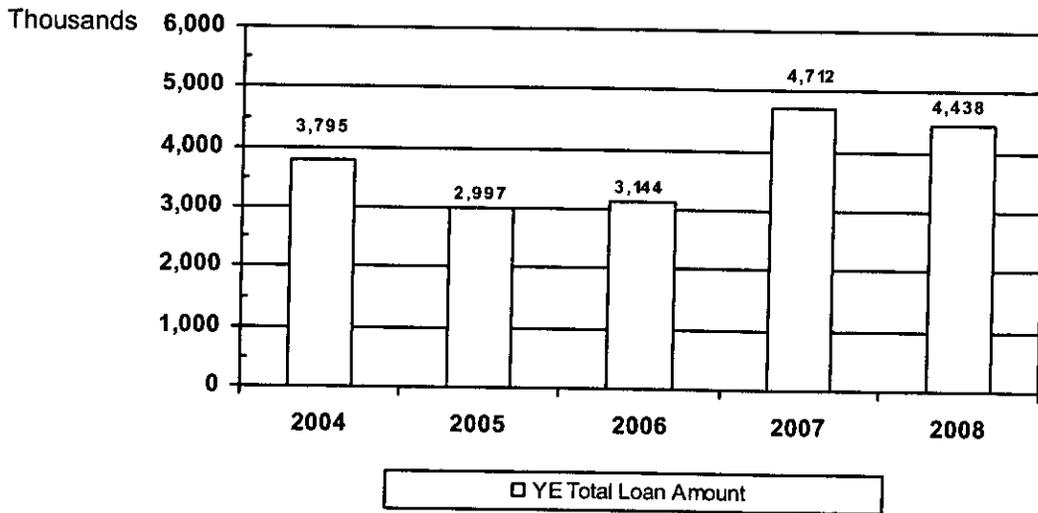
A total of 55 Beginning Farmer Real Estate Loans were funded in 2008 in comparison to 41 in 2007. The number of Beginning Farmer Real Estate loans funded has decreased, but the loan amounts are larger with a higher total loan maximum and increased land values.

2007-2009 Biennium Beginning Farmer Buy-down Fund

Total Available Appropriated Funds	\$ 950,000*
Buy-down - Funded/RE Committed Loans	1,116,000
Buy-down - Funded/Chattel Committed Loans	469,000

*As stated in statute the entire cash balance in the Beginning Farmer Revolving Fund is available for buy-down purposes. As of 12-31-08 there was about \$ 4.5 million in cash available.

BEGINNING FARMER CHATTEL BUYDOWN



The program's inception date was July 1, 2001. A total of 62 Beginning Farmer Chattel Loans were funded in 2008 in comparison to 73 in 2007.

AG PACE FUND

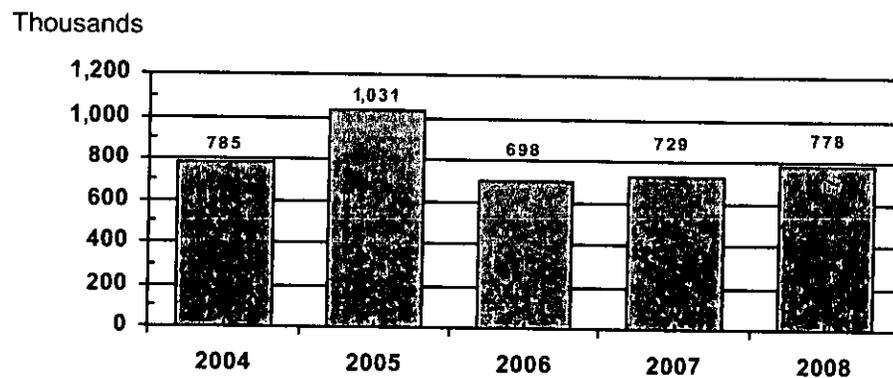
Budget 2009-2011	\$ 1,400,000	Appropriation
Budget 2007-2009	<u>1,400,000</u>	Base level
	\$ 0	Enhancement

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 is 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	1,400,000
2009-2011	<u>1,400,000</u> Proposed
Total	\$9,398,100

AG PACE LOAN PROGRAM BUYDOWN



A total of 66 Ag PACE loans were funded in 2008 compared to 67 in 2007.

2007-2009 Biennium Buy-down Fund

Total Available Appropriated Funds	\$1,510,745
Buy-down Funds - Funded/Committed Loans	<u>\$1,128,842</u>
Remaining Buy-down Funds	\$ 381,903

BIO-FUELS PACE FUND

Budget 2009-2011	\$1,400,000	Appropriation
Budget 2007-2009	<u>4,200,000</u>	Base level
	\$(2,800,000)	Enhancement

2007-2009 Biennium Buy-down Fund

Total Available Appropriated Funds	\$3,971,964
Buy-down Funds - Funded/Committed Loans	<u>\$2,115,112</u>
Remaining Buy-down Funds	\$1,856,852

A total of \$4.2 million was appropriated with \$801,964 of carry forward from the previous biennium. \$1 million is removed from the available balance for a potential Biomass demonstration project (approved by legislature).

The demand for Biofuels PACE funds has generally been for livestock operations with 14 loans made in 2008.

SENATE BILL 2014, SECTION 10
Transfer to the Industrial Commission

BND provides funding to the Industrial Commission each biennium for its operations including administrative and clerical costs.

SENATE BILL 2014, SECTION 11
Appropriation Transfer

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.

BND SUPPORTS A NUMBER OF EDUCATION INITIATIVES

College SAVE™ BND administers North Dakota's 529 plan, College SAVE. Participants can grow their contributions tax-free, write off annual contributions and potentially participate in a multi-tiered matching grant program. ND accounts have grown 187% to 2,311 since July 1, 2007. Nationwide assets total \$262 million.

Student Loans of North Dakota (SLND) administers College Information Service (CIS) which assists residents, high school counselors and financial aid representatives with dissemination of information about financial aid options and education choices.

North Dakota **Dollars for SCHOLARS.** BND partners with North Dakota Dollars for Scholars (NDDFS). With BND administering the program and absorbing expenditures, NDDFS can look to add to the 81 ND chapters and disseminate more student scholarships.

BND has played an important part in forming the North Dakota JumpStart Coalition for Personal Financial Literacy. The coalition has focused on raising awareness through workshops, seminars, conferences, media outlets and fundraisers.



Grant funded College Goal Sunday is a program that BND employees assist in administering along with the North Dakota Association of Student Financial Aid Administrators. Once a year North Dakota families can attend one of 11 locations for assistance in filling out financial aid applications. In 2008 over 500 families participated in the event.

Bridges Guidance Central is a software program that BND and SLND provide to all North Dakota public and private middle schools and high schools. The program allows access to career exploration, education planning and ACT test preparation tools. The over \$600,000, three year sponsorship with Xap Corporation and Bridges Transitions, also serves as the soft match for the North Dakota College Access Challenge Grant administered by the ND University System.



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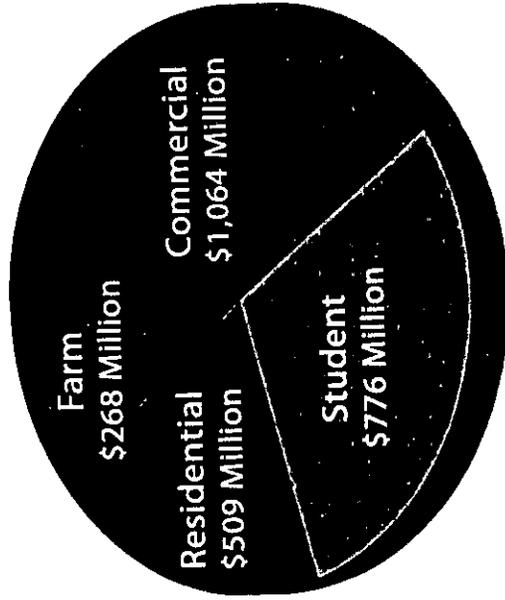
BND
Bank of North Dakota

Promoting

Agriculture, Commerce,
& Industry

since 1919.

**BND 2008 Loan Portfolio
\$2.6 Billion Total**



90 Years
1919-2009

Student Loan Forgiveness Programs

STATE

Teacher Shortage Loan Forgiveness Program

Forgive up to \$1,000 annually up to a maximum of \$3,000. A borrower must teach in a teacher shortage area as identified by the Superintendent of Public Instruction each year. In 2008, 339 teachers benefited from this program.

Technology Occupation Student Loan Program

Forgive up to \$1,000 annually up to a maximum of \$3,000. A borrower must be employed in an approved technology occupation in North Dakota. In 2008, 291 individuals benefited from this program.

FEDERAL

Teacher Loan Forgiveness Program

Between \$5,000 and \$17,500 depending on their qualifications is available to individual teachers; that are teaching in certain locations. In 2008-2009, 241 North Dakota schools qualified.

Income Based Repayment (IBR) Effective July 1, 2009

IBR is intended to make repaying education loans easier for students who pursue jobs with lower salaries, such as careers in public service. It does this by capping the monthly payments at a percentage of the borrower's discretionary income. Monthly payment amount is adjusted annually, based on annual income and family size.

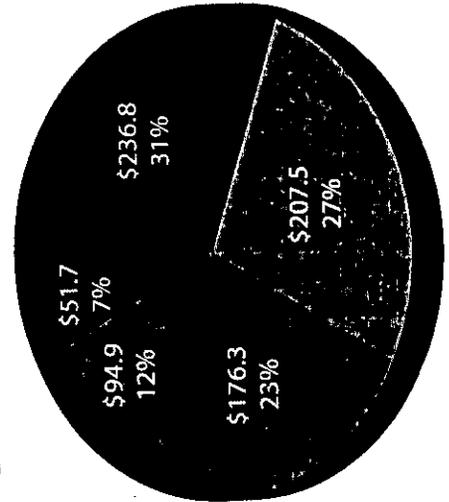
For example, a borrower who has a household income at the North Dakota median of \$43,936, and has student loan debt of \$22,500, would reduce their monthly payment by over 47% from \$258.92 to \$136.

Public Service Forgiveness Program

Student loan debt is forgiven after 10 years of full-time employment in public service and 120 qualified payments. In order to participate, borrowers must consolidate with the William Ford Federal Direct Loan Program.

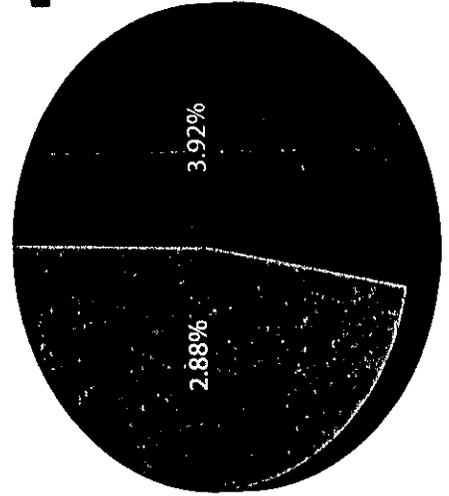
Interest Rate of BND Student Loan Borrowers

- 4% or less
- 6.01% to 7%
- 8.01% to 9%
- 4.01% to 6%
- 7.01% to 8%



BND Loans That Accrue Interest at 6.8% 10/1/08 - 12/31/08 - In School Status

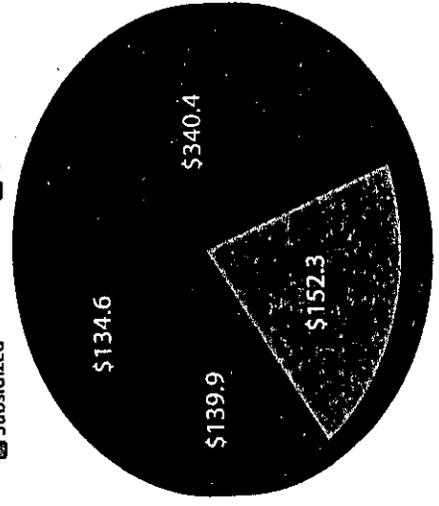
- Excess Interest Submitted to DOE 2.88%
- Earnings on Loans In-School, Grace or Deferment Status Without Deducting Cost of Funds, Operating Expenses and Borrower Benefits 3.92%



BND Borrowers Saved \$3.3 Million in 2008. In Addition, BND Paid \$4.4 Million in additional Fees to the Department of Education.

BND Student Loan Portfolio \$767.2 Million as of 12/31/08

- Consolidation, PLUS, SLS
- DEAL
- Subsidized
- Unsubsidized



Bank of North Dakota
 Biennium Appropriation Report - July 1, 2007 - June 30, 2009
 Eighteen months ended December 31, 2008

Line Item	Total Appropriation	Monthly Approp.	Current Months Expenditures	(Over) Under Budget	Previous Expenditures	Biennium To-Date Expenditures	Previous Available Budget to-date	Total Available To-Date	(Over) Under Budget	Balance Unexpended
Salaries and benefits	20,379,090	868,258	885,552	(17,294)	13,530,560	14,416,112	14,301,290	15,169,548	753,436	5,962,978
Operating Expenses	13,297,000	527,083	522,741	4,342	8,934,190	9,456,931	9,607,415	10,134,498	677,567	3,840,069
Capital Assets	1,800,000	305,000	305,725	(725)	1,035,316	1,341,041	1,046,000	1,351,000	9,959	458,959
Building	5,384,266	0	38,750	(38,750)	5,338,529	5,377,279	5,384,266	5,384,266	6,987	6,987
Contingency	1,700,000	0	0	0	0	0	0	0	0	1,700,000
	42,580,356	1,700,341	1,752,768	(52,427)	28,838,595	30,591,363	30,338,971	32,039,312	1,447,949	11,968,993

	2005 - 2007 Actual Biennium Expenditures	2007-2009 Appropriation	2009-2011 Recommendation	Change from 07-09 Appropriation
BND SPECIAL FUND APPROPRIATIONS - CAPITAL ASSETS	6,698,234	1,900,000	1,455,000	(445,000)
BND OPERATIONS - Salaries and Benefits	17,353,731	20,274,867	23,920,856	3,645,989
Operating Expenses	11,112,735	13,297,000	14,049,400	752,400
Contingency	1,032,464	1,700,000	4,000,000	2,300,000
	36,197,164	37,171,867	43,425,256	6,253,389

	2005 - 2007 Actual Biennium Expenditures	2007-2009 Appropriation	2009-2011 Recommendation	Change from 07-09 Appropriation
GENERAL FUND APPROPRIATIONS - PACE FUND	5,700,000	8,000,000	8,000,000	0
AG PACE FUND	1,425,000	1,400,000	1,400,000	0
BEGINNING FARMER FUND	950,000	950,000	950,000	0
BIODIESAL FUEL	1,200,000	4,200,000	1,400,000	(2,800,000)
	9,275,000	14,550,000	11,750,000	(2,800,000)
TOTAL BANK RELATED APPROPRIATIONS	45,472,164	51,721,867	55,175,256	3,453,389

MEMO TO: BND Advisory Board and ND Industrial Commission

FROM: Eric H. *Forstner*, President - Bank of North Dakota

DATE: January 6, 2009

SUBJECT: BND Loan Charge-Offs/Recoveries - Ten-Year Summary

TEN YEAR SUMMARY OF BND LOAN CHARGE-OFFS/RECOVERIES
(AMOUNTS ROUNDED TO THE NEAREST \$)

	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03
LOANS CHARGED OFF	\$634,423	\$746,196	\$1,264,400	\$1,112,300	\$1,976,038
RECOVERIES OF PREVIOUSLY CHARGED OFF LOANS	(219,636)	(364,376)	(98,000)	(45,700)	(218,362)
NET LOANS CHARGED OFF	\$414,787	\$381,820	\$1,166,400	\$1,066,600	\$1,757,676
AVERAGE LOANS OUTSTANDING FOR THE YEAR	\$938,364,000	\$1,110,148,000	\$1,218,955,000	\$1,309,314,000	\$1,368,000,000
NET LOANS CHARGED OFF AS A % OF AVG. LOANS	.04%	.03%	.10%	.08%	.13%
NET LOANS CHARGED OFF AS A % OF AVG. LOANS (N. DAKOTA AVG.)	.87%	1.08%	.97%	.62%	.59%

	12/31/04	12/31/05	12/31/06	12/31/07	Unaudited 12/31/08
LOANS CHARGED OFF	\$1,971,380	\$1,432,204	\$679,779	\$429,490	\$5,328,206
RECOVERIES OF PREVIOUSLY CHARGED OFF LOANS	(164,400)	(228,225)	(293,030)	(67,269)	(304,862)
NET LOANS CHARGED OFF	\$1,806,980	\$1,203,979	\$386,749	\$362,221	\$5,023,344
AVERAGE LOANS OUTSTANDING FOR THE YEAR	\$1,410,392,000	\$1,472,834,000	\$1,628,704,000	\$1,885,030,000	\$2,326,345,528
NET LOANS CHARGED OFF AS A % OF AVG. LOANS	.13%	.08%	.02%	.02%	.22%
NET LOANS CHARGED OFF AS A % OF AVG. LOANS (N. DAKOTA AVG.)	.43%	.43%	.43%	.57%	Not Yet Published

A loan charge-off is an accounting entry that recognizes the Bank's potential inability to collect the loan. It is an adjustment of the records and not a forgiveness of the debt. The Bank has/will pursue all reasonable courses of action to collect on loan charge-offs it has incurred. A recovery is a collection of a previously charged off loan.



**PERFORMANCE
HIGHLIGHTS**

FOURTH QUARTER REPORT

2008

**BANK OF NORTH DAKOTA
PERFORMANCE HIGHLIGHTS
FOURTH QUARTER REPORT
2008**

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**BANK OF NORTH DAKOTA
BALANCE SHEET - ACTUAL VERSUS BUDGET
DECEMBER 31, 2008 - UNAUDITED**

	(In thousands)			
	Actual	Budget	Difference	% Change
Cash and due from banks	\$577,048	\$150,000	427,048	284.70%
Federal funds sold	75,675	69,315	6,360	9.18%
Securities	231,416	190,193	41,223	21.67%
Loans				
Commercial	1,064,810	739,620	325,190	43.97%
Farm	268,067	265,925	2,142	0.81%
Student loans	776,473	720,435	56,038	7.78%
Residential	509,052	445,993	63,059	14.14%
	2,618,402	2,171,973	446,429	20.55%
Less allowance for loan loss	(36,751)	(31,995)	(4,756)	14.86%
	2,581,651	2,139,978	441,673	20.64%
Other assets	51,184	49,397	1,787	3.62%
Total assets	3,516,974	2,598,883	918,091	35.33%
Deposits -				
Non-interest bearing	313,900	190,000	123,900	65.21%
Interest bearing	2,331,456	1,670,250	661,206	39.59%
Federal funds purchased and repurchase agreements	304,020	330,000	-25,980	-7.87%
Short and long-term borrowings	315,604	154,786	160,818	103.90%
Other liabilities	28,061	43,382	-15,321	-35.32%
Total liabilities	3,293,041	2,388,418	904,623	37.88%
Equity	223,933	210,465	13,468	6.40%
Total liabilities and equity	3,516,974	2,598,883	918,091	35.33%

STRATEGIC OBJECTIVE: One of BND's four strategic objectives is to maintain the strength and financial integrity of the Bank. The Bank monitors, capital adequacy, asset quality, liquidity, and interest rate sensitivity, which are used in the banking industry to assess strength and financial integrity.

COMMENTARY:

Overall, assets are \$918 million higher than budgeted. We exceed budget in all bank investment categories. Cash and due from banks is \$427 higher than budget because of reduced short term investment alternatives. Securities are \$41 million higher than budget. Both of these categories exceed budget as a result of deposit growth. Commercial loans exceed budget by \$325 million as a result of larger than anticipated growth in three loan categories: commercial participations at \$274 million, state institution loans at \$21 million, and match loans at \$28 million. Student loans are \$56 million higher than budget because of fewer student loan lenders and increased borrowing limits. Residential loans are \$63 million higher than budget because of the increased demand in the FHA versus conventional market.

On the liability side, interest bearing deposits are \$661 million higher than budget. State revenues continue to exceed projections.

**BANK OF NORTH DAKOTA
INCOME STATEMENT - ACTUAL VERSUS BUDGET
YEAR ENDED DECEMBER 31, 2008 - UNAUDITED**

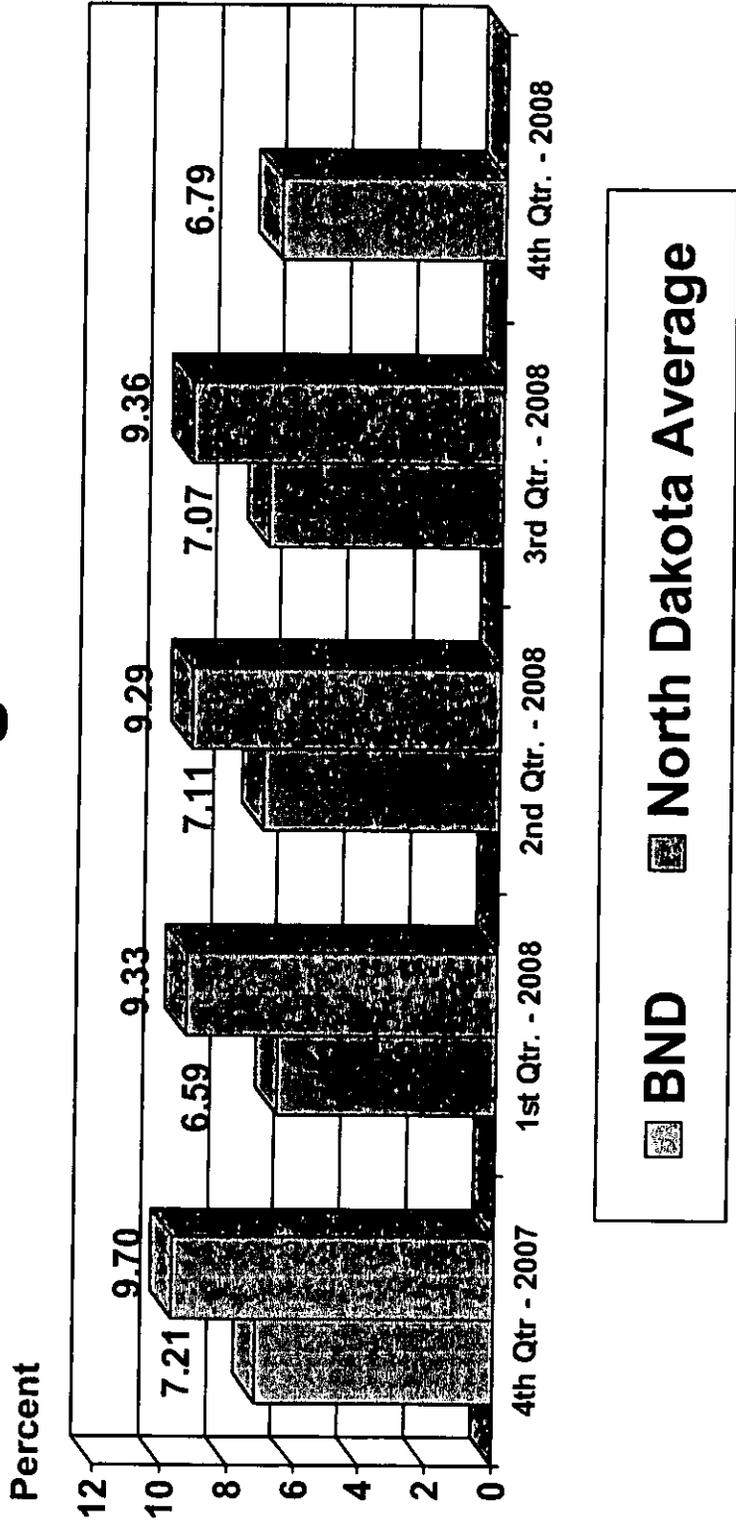
	(In thousands)			
	ACTUAL	BUDGET	DIFFERENCE	CHANGE
INTEREST INCOME	\$148,613	\$147,593	\$1,020	0.69%
INTEREST EXPENSE	71,801	78,577	-6,776	-8.62%
NET INTEREST INCOME	76,812	69,016	7,796	11.30%
PROVISION FOR LOAN LOSSES	8,900	2,400	6,500	270.83%
NET INTEREST INCOME AFTER PROVISION	67,912	66,616	1,296	1.95%
NONINTEREST INCOME	7,617	6,606	1,011	15.30%
NONINTEREST EXPENSE				
Salaries and benefits	9,595	9,686	-91	-0.94%
Data Processing	3,375	3,731	-356	-9.54%
Occupancy and equipment	1,194	981	213	21.71%
Other operating expenses	4,321	4,817	-496	-10.30%
	18,485	19,215	-730	-3.80%
NET INCOME	\$57,044	\$54,007	\$3,037	5.62%

STRATEGIC OBJECTIVE: One of BND's four strategic objectives is to generate a consistent return to the State of North Dakota.

COMMENTARY: Overall, net income is \$3 million more than budget. Interest income is in-line with budget because loan volume has greatly exceeded expectations which is offsetting interest rates being lower than anticipated. Interest expense is considerably less than budget because interest rates are lower than budgeted. We increased the provision for loan loss by \$6,500,000 because of loan growth and loan losses. Noninterest income exceeds budget mainly from the sale of venture capital investments and the sale of the prior bank facility. Noninterest expense categories are either less than or in-line with budget.

BANK OF NORTH DAKOTA

Leverage Ratio



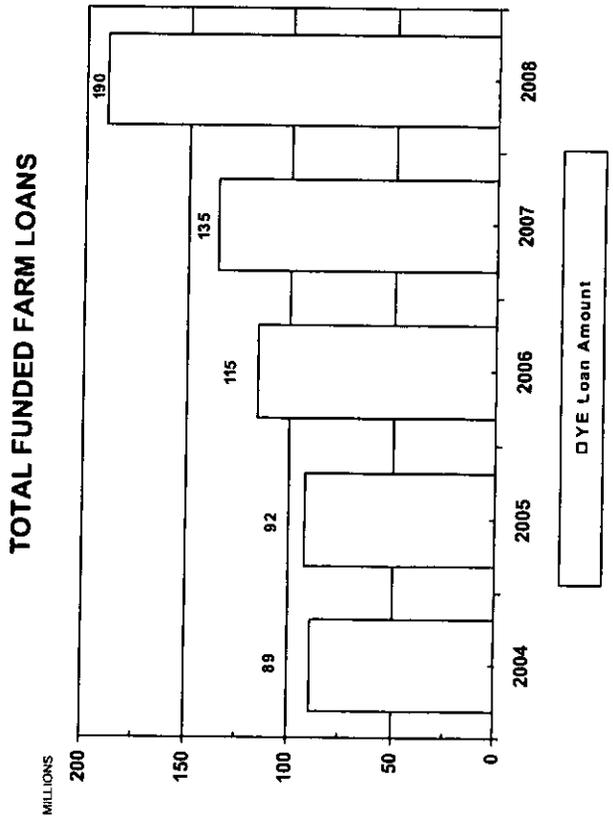
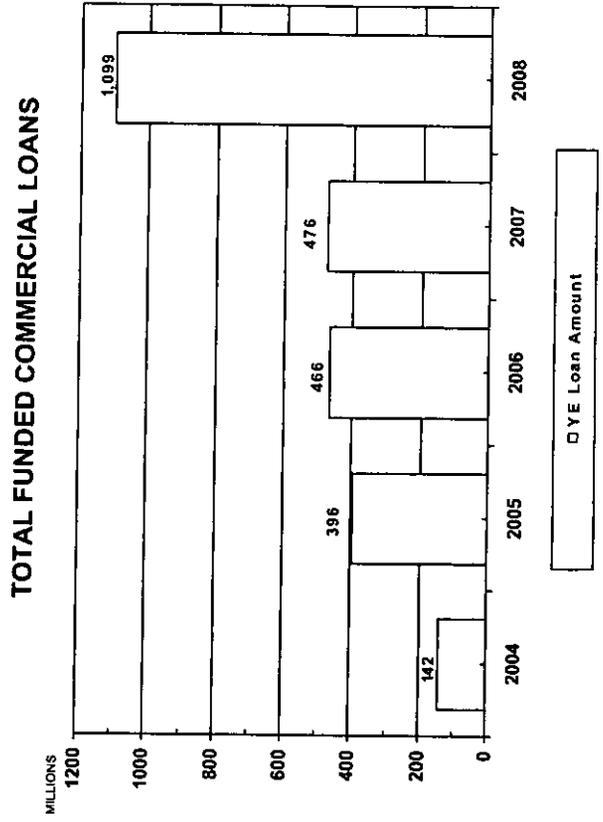
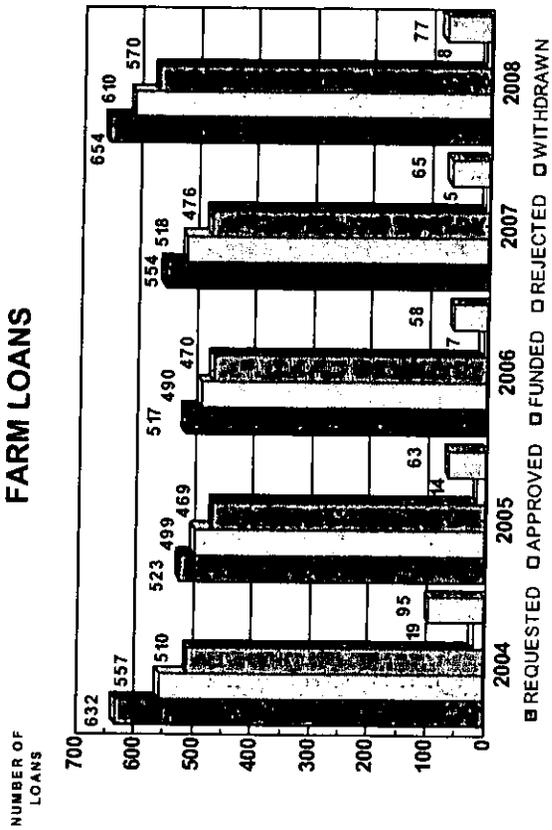
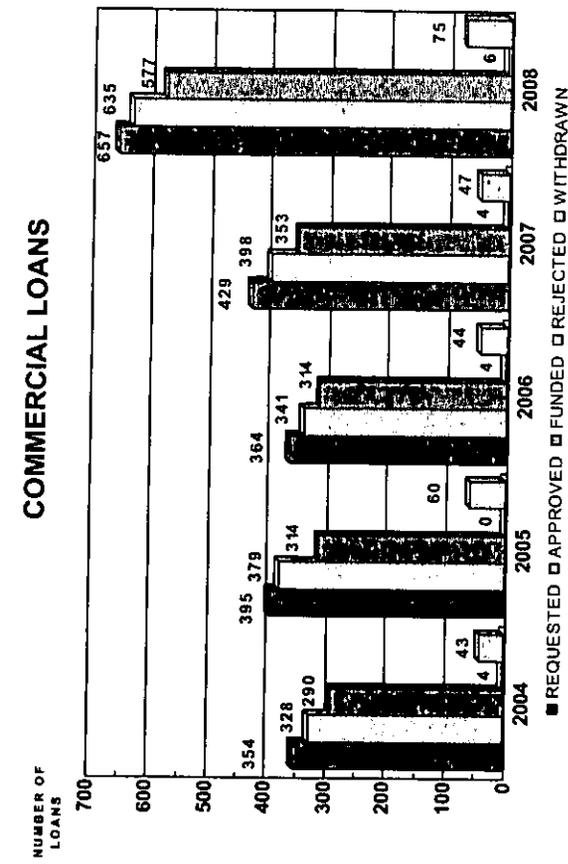
The leverage ratio is calculated by dividing tier one capital by average assets for the quarter. This ratio is a measure of strength. Well capitalized per federal regulation F is 5%. BND's benchmark is 8%. Average asset size has grown over the past few years from a quarterly average of \$2 billion to \$3.3 billion. During 2008, tier one capital has grown \$37.2 million to \$226.9 million. Even though tier one capital has growth, significant asset growth has caused our leverage ratio to further decline from one year ago. The leverage ratio is 9.36 percent as of September 30, 2008 for all insured commercial banks in state. The North Dakota average is obtained from the Federal Financial Institutions Examination Council (FFIEC) who tabulates input from over 100 insured commercial banks in North Dakota. Note: The December 31, 2008 North Dakota average has not yet been determined as the FFIEC publishes this data approximately 60 days after the completion of each calendar quarter.

**BANK OF NORTH DAKOTA
LOAN ORIGINATIONS**

	YEAR TO DATE 31-Dec-08		YEAR TO DATE 31-Dec-07	
	###	\$\$\$	###	\$\$\$
BUSINESS DEVELOPMENT/SMALL BUSINESS	27	2,988,792	25	2,116,519
BANK PARTICIPATIONS - COMMERCIAL	376	715,339,836	175	307,568,521
SMALL BUSINESS MAIN STREET PACE	2	1,160,313	3	1,248,536
FLEX PACE	24	11,431,250	35	10,577,708
BIOFUELS PACE	20	4,360,965	8	3,169,588
MATCH	15	3,015,554	0	0
BANK STOCK	3	42,300,000	1	25,000,000
STATE INSTITUTION	34	76,340,993	45	43,354,039
RURAL DEVELOPMENT (COMMERCIAL)	9	230,300,000	11	78,813,259
CERTIFICATE OF DEPOSIT	4	8,179,627	2	1,948,162
NEW VENTURE CAPITAL PROGRAM	1	20,000	1	125,000
	2	150,000	2	362,500
TOTAL COMMERCIAL LOANS	517	1,095,587,330	308	474,283,832
FARM OPERATING	28	4,199,788	38	5,717,941
FAMILY FARM	11	1,197,498	2	170,940
FARM & RANCH	264	151,087,294	139	93,328,826
ENVEST	3	76,250	2	121,500
ESTABLISHED FARMER	4	1,482,900	1	217,750
BEGINNING FARMER REAL ESTATE	55	8,796,955	41	5,451,364
AG PACE	66	2,778,243	67	2,541,910
FARM SERVICE AGENCY	14	3,186,296	21	4,582,222
LIVESTOCK WASTE MANAGEMENT	2	200,000	6	527,760
FARM DISASTER RELIEF	1	270,000	77	13,153,987
TOTAL AGRICULTURAL LOANS	448	173,275,224	394	125,814,200
FEDERAL HOUSING ADMINISTRATION	921	118,145,651	488	56,038,108
VETERANS ADMINISTRATION	206	30,325,858	148	21,321,611
CONVENTIONAL	1	235,200	0	0
TOTAL RESIDENTIAL LOANS	1,128	148,706,709	636	77,359,719
SUBSIDIZED STAFFORD LOANS	24,200	45,376,810	22,411	39,546,783
UNSUBSIDIZED STAFFORD LOANS	27,940	54,450,152	20,257	39,243,962
PURCHASED STUDENT LOANS	1,857	6,118,274	908	2,472,115
PLUS LOANS	711	2,289,167	901	2,777,236
GRAD PLUS	112	604,541	98	397,868
CONSOLIDATION LOANS	687	6,712,757	2,343	20,123,314
DEAL LOANS	14,578	45,565,035	11,336	33,777,982
DEAL CONSOLIDATION	303	6,477,664	185	3,787,289
DESL LOANS	0	0	7	19,675
TOTAL STUDENT LOANS	70,388	167,594,400	58,446	142,146,224
TOTAL BANK OF NORTH DAKOTA LOANS	72,481	1,585,163,663	59,784	819,603,975
ADMINISTERED LOAN PROGRAMS				
FANNIE MAE	1	34,000	14	2,028,920
BEGINNING ENTR. LOAN GUARANTEE	45	2,060,961	37	1,717,383
COMMUNITY WATER FACILITY LOAN PROGRAM	4	1,085,000	0	0
DEVELOPMENTALLY DISABLED FACILITY	0	0	0	0
LONG-TERM CARE FACILITY LOAN FUND	0	0	0	0
ST LAND DEPT LOAN POOL	54	12,913,520	22	5,916,200
BEGINNING FARMER CHATTEL	62	2,239,553	73	2,424,545
FARM REAL ESTATE LOAN GUARANTEE	1	121,875	4	633,617
LIVESTOCK LOAN GUARANTEE	1	789,225	2	280,925
FIRST TIME FARMER	3	591,650	1	127,600
TOTAL ADMINISTERED LOANS	171	19,835,784	153	13,129,190

COMMERCIAL AND FARM LOAN ACTIVITY 2004 - 2008

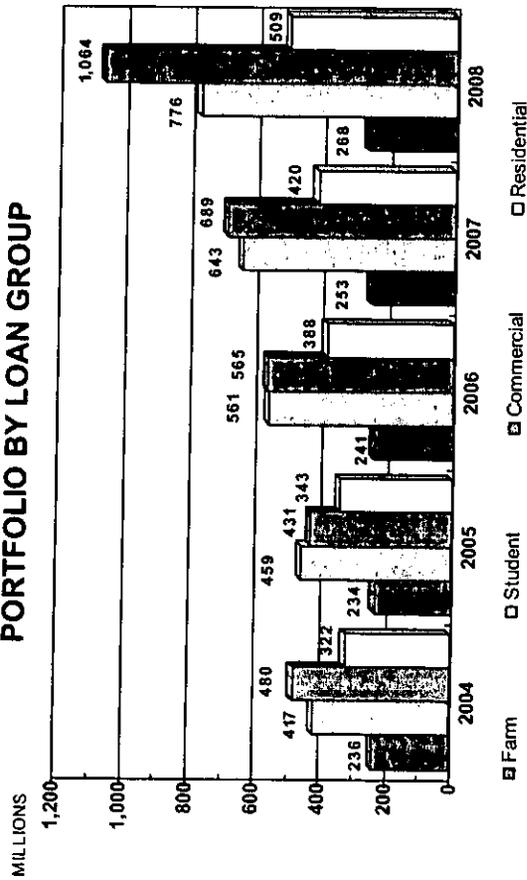
The individual loan program data for this report, as contained on the Loan Originations Report (Page 4), includes data from Bank owned and Administered Loan Programs. 2005 - 2008 activity includes new loan requests and renewals.



CONSOLIDATED LOAN PORTFOLIO

2004 – 2008

PORTFOLIO BY LOAN GROUP



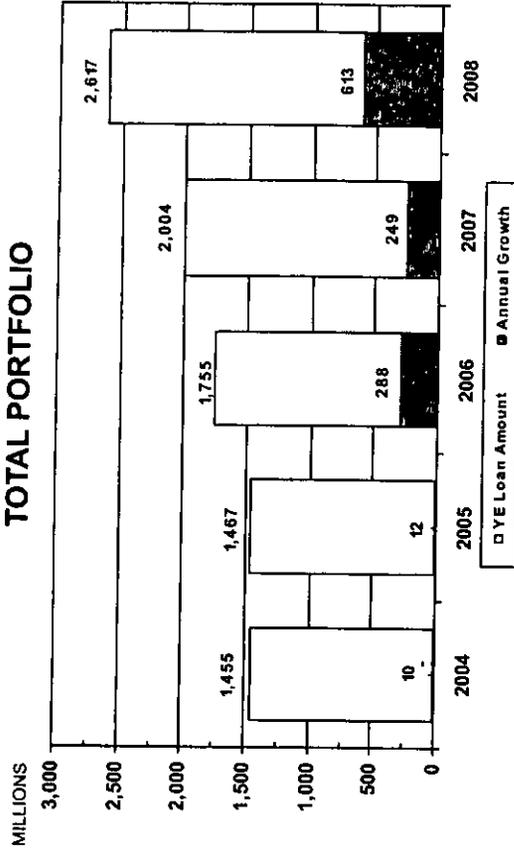
FARM – The farm loan portfolio increased \$15 million with BND funding and renewing \$173 million of loans in 2008. Farm and Ranch loans led the way with \$151 million in loan volume.

STUDENT - The student loan portfolio has historically shown steady growth. This is indicative of the Bank's commitment to provide financing to students for post secondary education. During 2008 BND disbursed \$161.4 million in student loans. In addition \$6.1 million was purchased from other lenders and \$16.7 million was purchased from the North Dakota Student Loan Trust.

COMMERCIAL - The commercial loan portfolio increased by \$375 million with BND funding and renewing over \$1 billion of loans in 2008. The largest areas of growth were commercial participations with BND funding and renewing \$715 million and state institution loans at \$230 million.

RESIDENTIAL – The residential loan portfolio increased by \$89 million in 2008 with BND funding \$148 million in home loans. BND provides a secondary market for home loans. Most conventional mortgages are sold on the secondary market.

TOTAL PORTFOLIO



FARM LOANS include: Ag PACE, Envest, Family Farm, Farm & Ranch, Farm Disaster Relief, Farm Operating, Farm Real Estate, FSA Guaranty Purchase, and Livestock Waste Management.

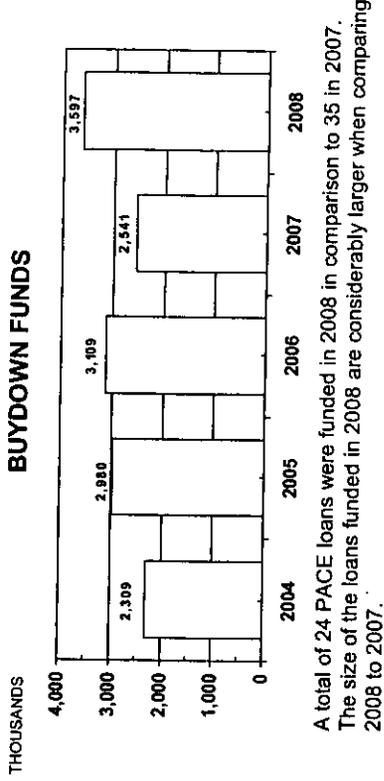
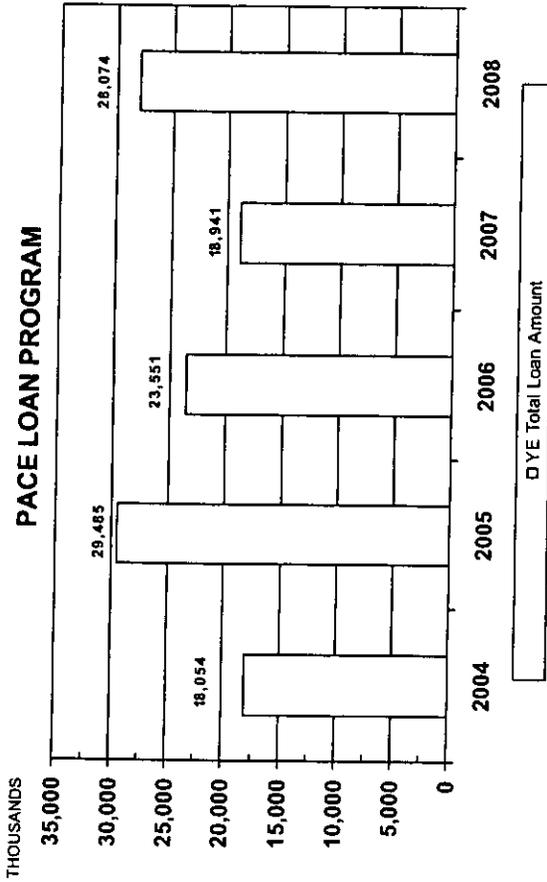
STUDENT LOANS include: Consolidation, DEAL, DESL, SLS, Stafford, PLUS and Grad PLUS.

COMMERCIAL LOANS include: Bank Participation, Bank Stock, Biofuels PACE, Business Development, Business Disaster Relief, Developmentally Disabled Loan Fund, Flex PACE, Match, New Venture Capital, PACE, Guarantee Purchases, and State Institutions.

RESIDENTIAL LOANS include: Conventional, FHA, and VA Loans.

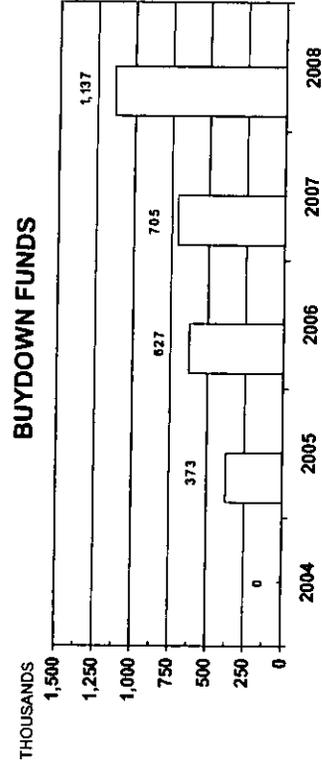
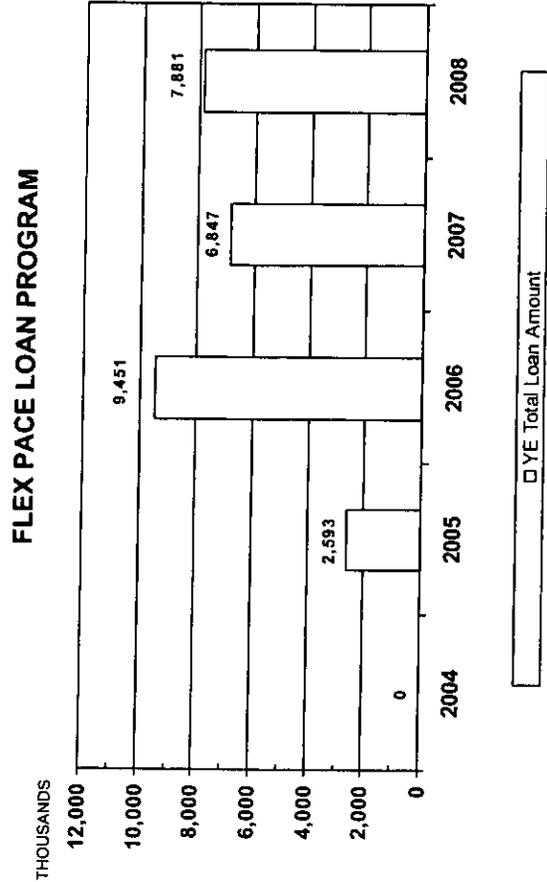
BUSINESS PROGRAM HIGHLIGHTS

2004 - 2008



A total of 24 PACE loans were funded in 2008 in comparison to 35 in 2007. The size of the loans funded in 2008 are considerably larger when comparing 2008 to 2007.

2007-2009 Biennium PACE Buydown Fund	
Total Available Funds (\$8 Million Appropriation)	\$9,617,574
PACE Buydown Funds - Funded/Committed Lns	\$4,133,739
Flex PACE Buydown Funds - Funded/Committed Lns	\$1,886,421
Remaining Buydown Funds	\$3,597,414

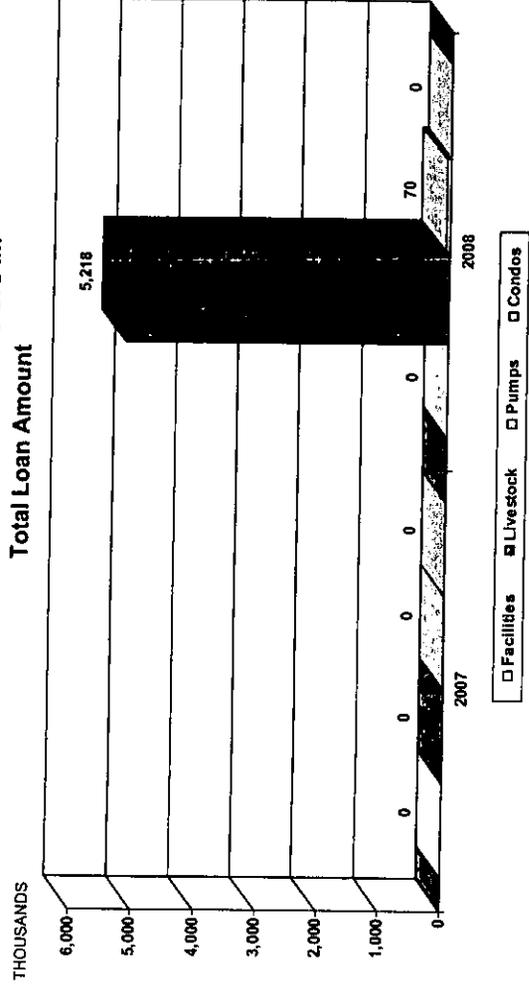


A total of 20 Flex PACE Loans were funded in 2008 in comparison to 8 in 2007.

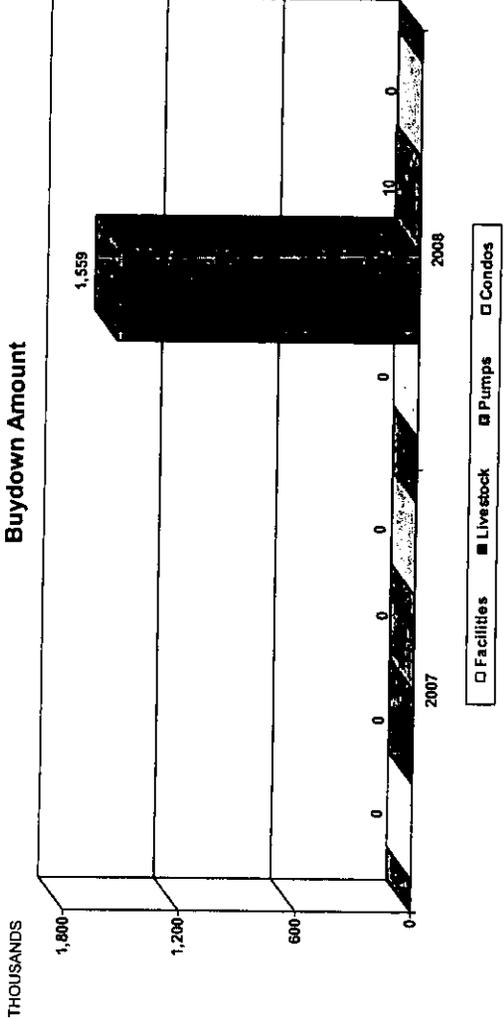
BUSINESS PROGRAM HIGHLIGHTS

2007 - 2008

BIOFUELS PACE LOAN PROGRAM
Total Loan Amount



BIOFUELS PACE LOAN PROGRAM
Buydown Amount



2007-2009 Biennium Biofuels PACE Buydown Fund

Total Available Funds	\$3,971,964*
Funded/Committed Loans	\$2,115,112
Remaining Buydown Funds	\$1,856,852

* A total of \$4.2 million was appropriated with \$801,964 carry over from the previous biennium and \$30,000 transferred per HB 1515. Also reflects possible Biomass Demonstration Project Transfer of \$1MM. (An additional \$1 million may be transferred from Beginning Farmer Revolving Fund for the Biomass Project.)

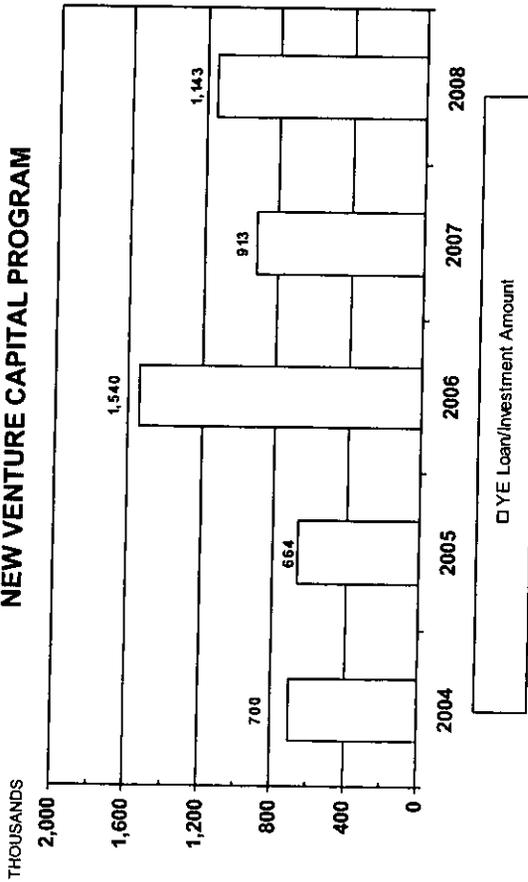
Fund Breakdown:	
Biofuels Facilities/Livestock Buydown Funds -	\$3,471,964
Biofuels Facilities Funded/Committed Lns -	\$ 0
Livestock Facilities Funded/Committed Lns -	\$2,105,112
Available Funds	\$1,366,852
Retailer Pumps/Condo Storage Buydown Funds - \$ 500,000	
Retailer Pumps Buydown Funds -	\$ 10,000
Condo Storage Buydown Funds -	\$ 0
Available Funds	\$ 490,000

The demand for Biofuels PACE funds is with livestock operations with 14 of the 18 livestock loan commitments closed in 2008. 1 loan was funded in 2008 for a retail pump facility.

BUSINESS PROGRAM HIGHLIGHTS

2004 - 2008

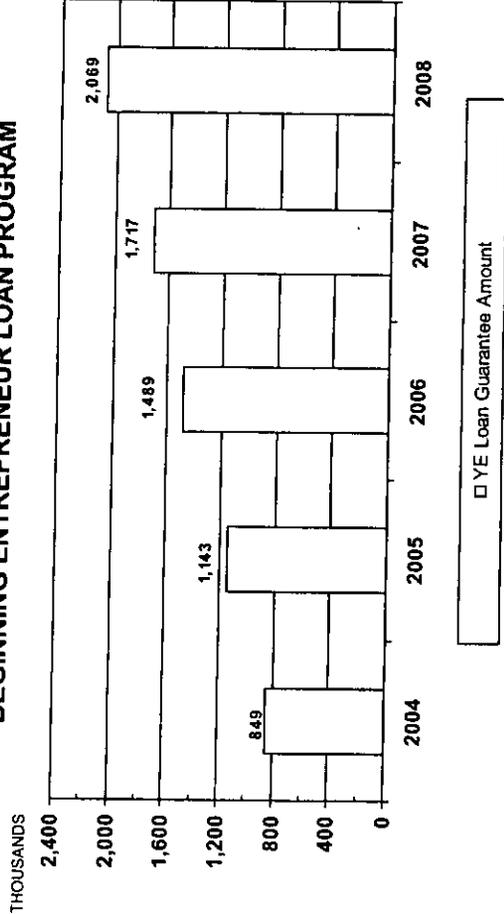
NEW VENTURE CAPITAL PROGRAM



New Venture Capital Program Funds	
Total Available Funds	\$ 10,000,000
Outstanding Loans/Investments	\$ 4,225,511
Committed Loans/Investments	\$ 703,960
Reserved Loans/Investments	\$ 0
Remaining Funds Available	\$ 5,070,529

A total of 10 loans for \$1,387,500 and 24 investments for \$3,571,922 have been funded by BND. The New Venture Capital Program is available through July 31, 2009.

BEGINNING ENTREPRENEUR LOAN PROGRAM



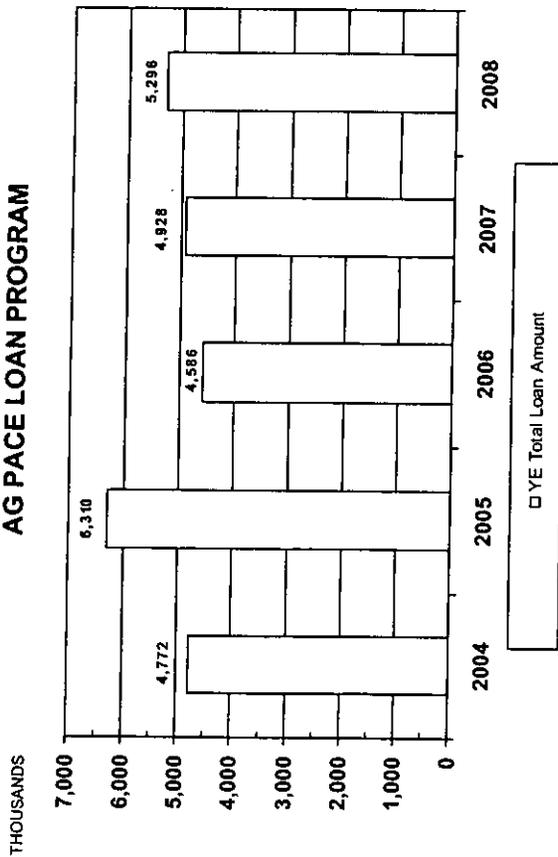
2007-2009 Biennium Beginning Entrepreneur Guarantee Program	
Maximum Loan Amount	\$8,000,000
Beginning Entrepreneur Loan Guarantee Percentage	X 85%
Maximum Guarantee Amount Available	\$6,800,000
Guarantee Amount - Funded/Committed Loans	\$4,673,608
Remaining Guarantee Amount Available	\$2,126,392

BND issued 45 guarantees in 2008 in comparison to 37 in 2007.

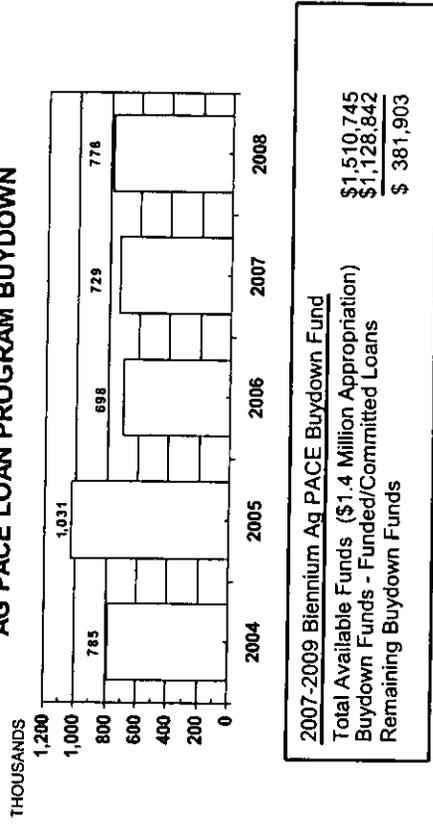
FARM PROGRAM HIGHLIGHTS

2004 – 2008

AG PACE LOAN PROGRAM



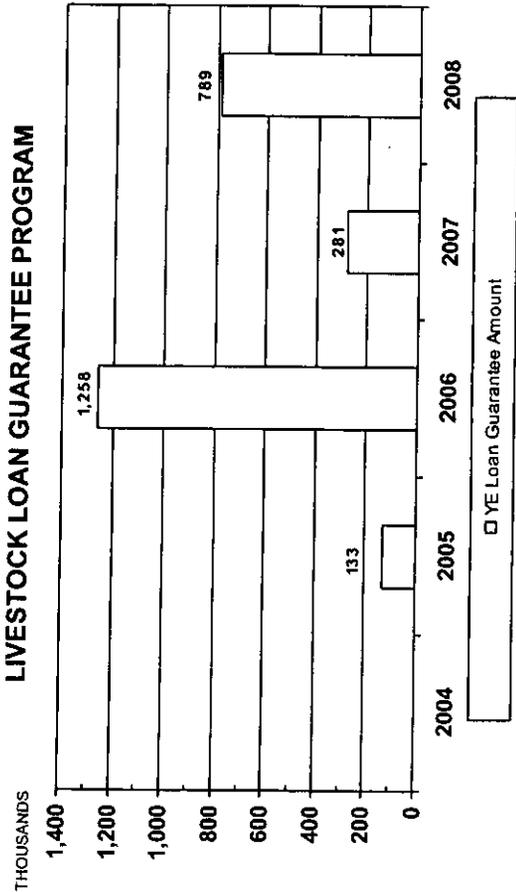
AG PACE LOAN PROGRAM BUYDOWN



2007-2009 Biennium Ag PACE Buydown Fund
 Total Available Funds (\$1.4 Million Appropriation) \$1,510,745
 Buydown Funds - Funded/Committed Loans \$1,128,842
 Remaining Buydown Funds \$ 381,903

A total of 66 Ag PACE loans were funded in 2008 in comparison to 67 in 2007. The majority of the loans funded were for equity share purchases in value-added processing operations.

LIVESTOCK LOAN GUARANTEE PROGRAM

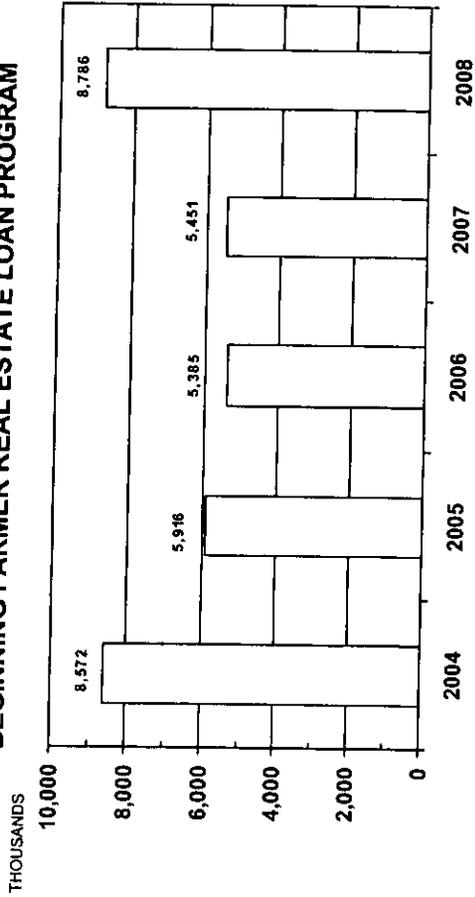


The Feedlot Loan Guarantee Program started on August 1, 2005 and was replaced on August 1, 2007 by the Livestock Loan Guarantee Program. A total of 6 Feedlot Loan Guarantees were issued as follows: one in 2005, two in 2006, two in 2007 and one in 2008. Most new or expanding livestock operations are taking advantage of Biofuels PACE as opposed to using the expanded eligibility provided by the Livestock Loan Guarantee Program.

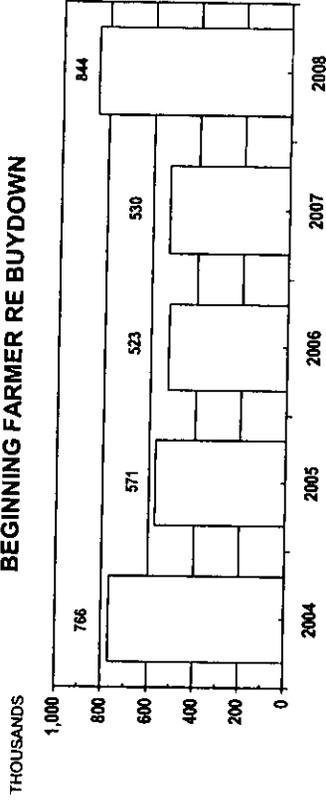
FARM PROGRAM HIGHLIGHTS

2004 - 2008

BEGINNING FARMER REAL ESTATE LOAN PROGRAM



BEGINNING FARMER RE BUYDOWN



A total of 55 Beginning Farmer RE Loans were funded in 2008 in comparison to 41 in 2007. The increase in loan amounts from 2008 to 2007 is a result of the increase in land prices.

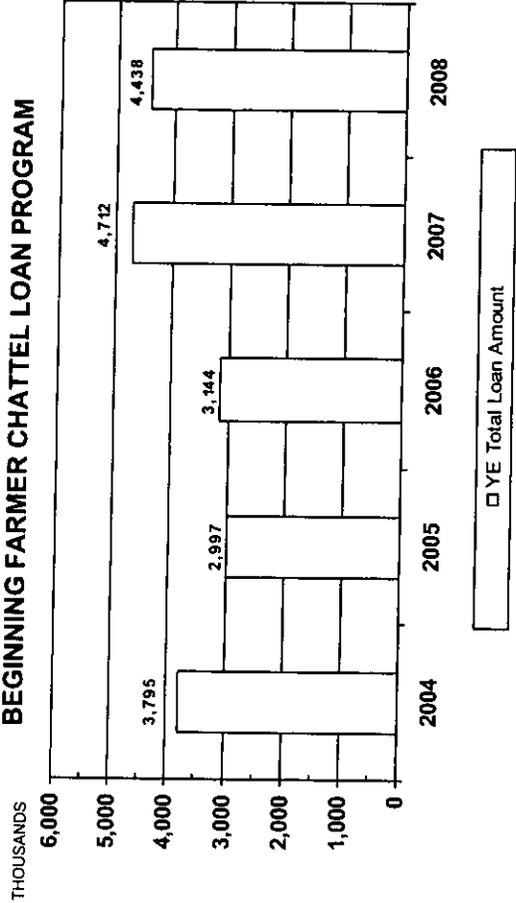
□ YE BND Loan Amount

2007-2009 Biennium Beginning Farmer Buydown Fund

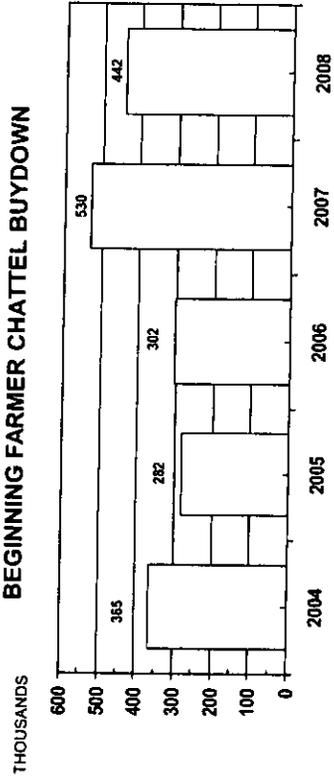
Total Available Funds	\$1,687,019*
Buydown - RE Committed Loans	272,184
Buydown & Loan Amount - Chattel Committed Loans	237,216
Remaining Buydown Funds	\$1,177,619

* Cash balance after consideration for possible draws of \$800,000 PSC, \$1 million Invest, and \$1 million Biomass Fund. (An additional \$1 million may be transferred from Beginning Farmer Revolving Fund for the Biomass Project.)

BEGINNING FARMER CHATTEL LOAN PROGRAM



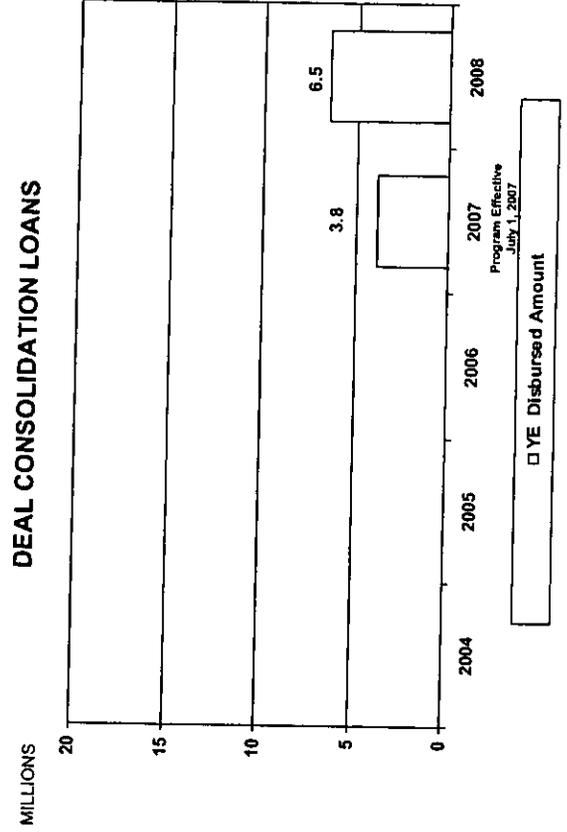
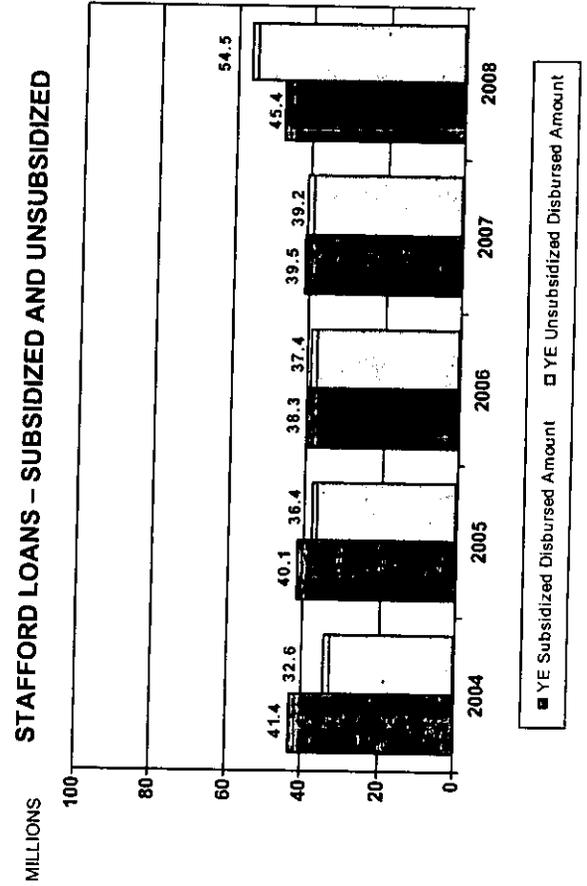
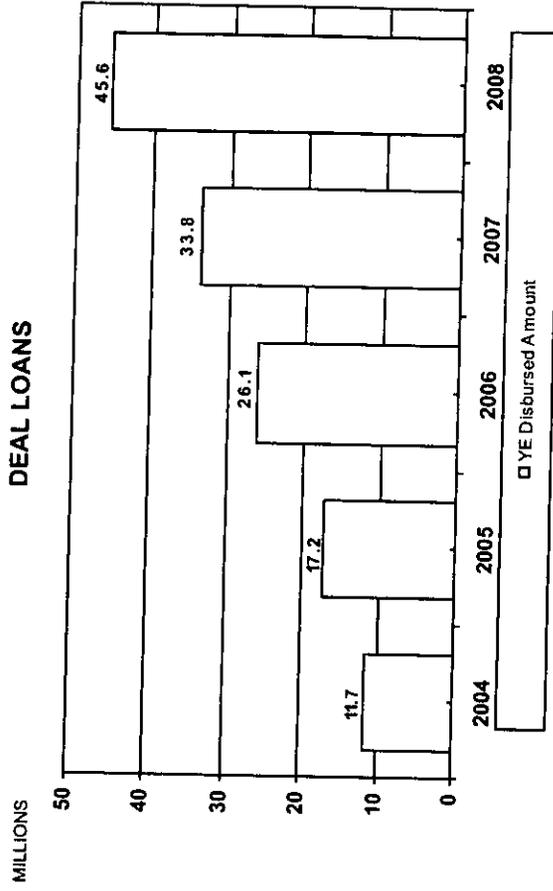
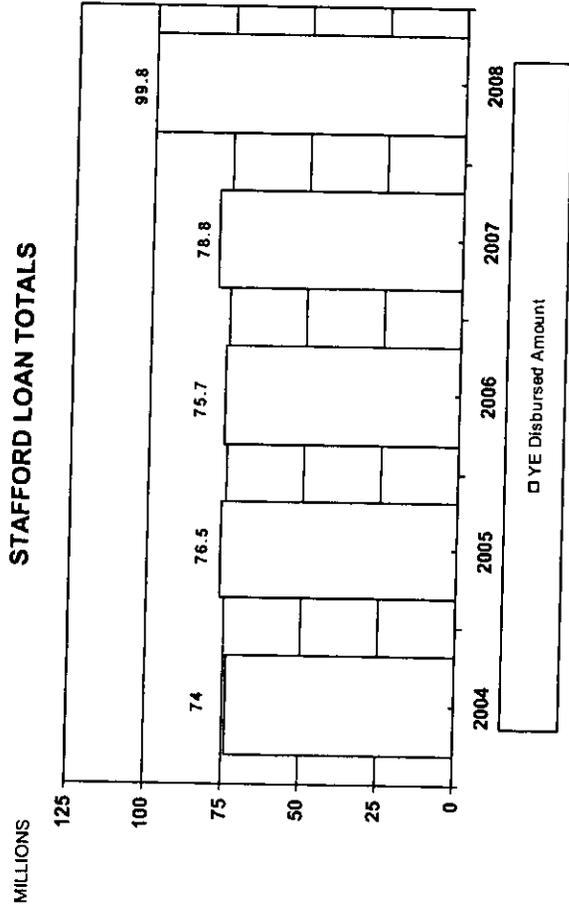
BEGINNING FARMER CHATTEL BUYDOWN



A total of 62 Beginning Farmer Chattel Loans were funded in 2008 in comparison to 73 in 2007.

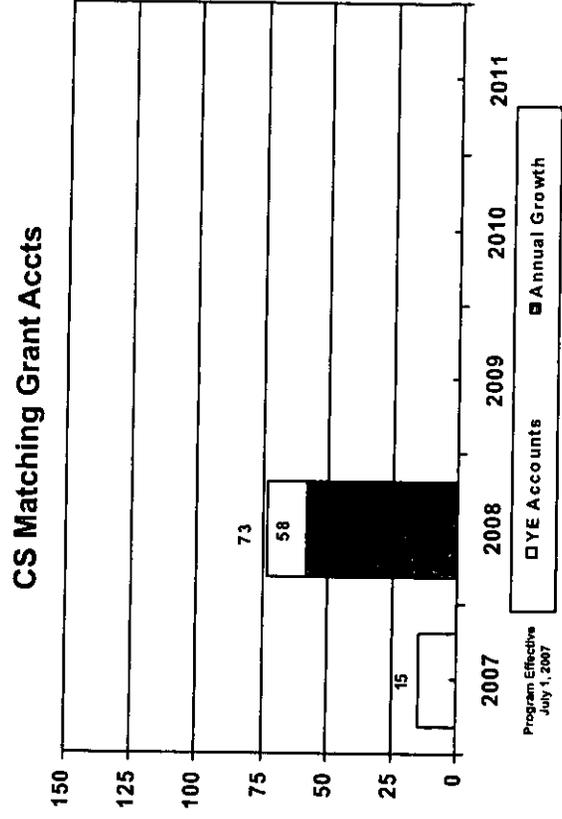
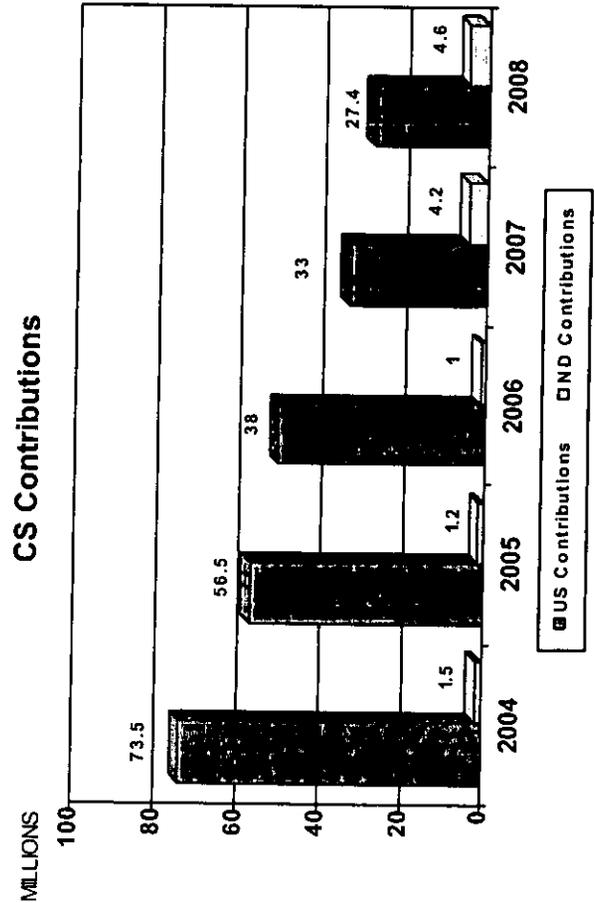
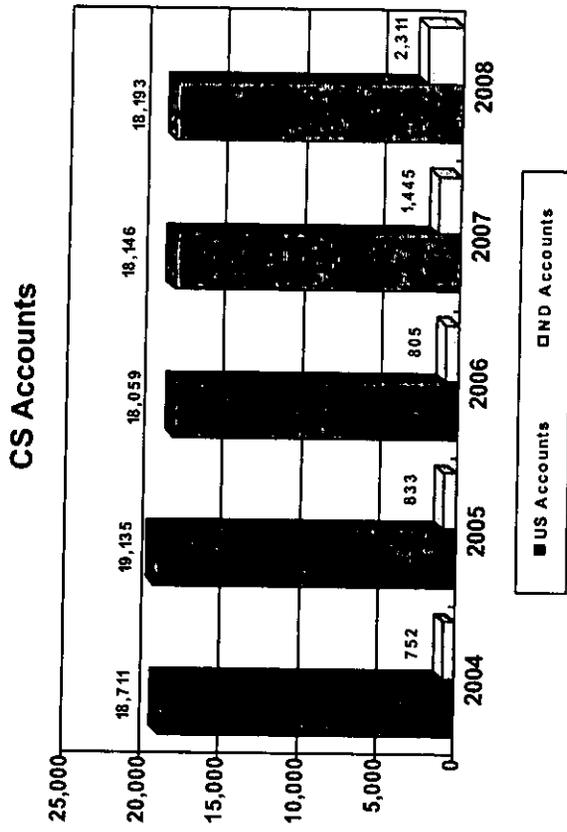
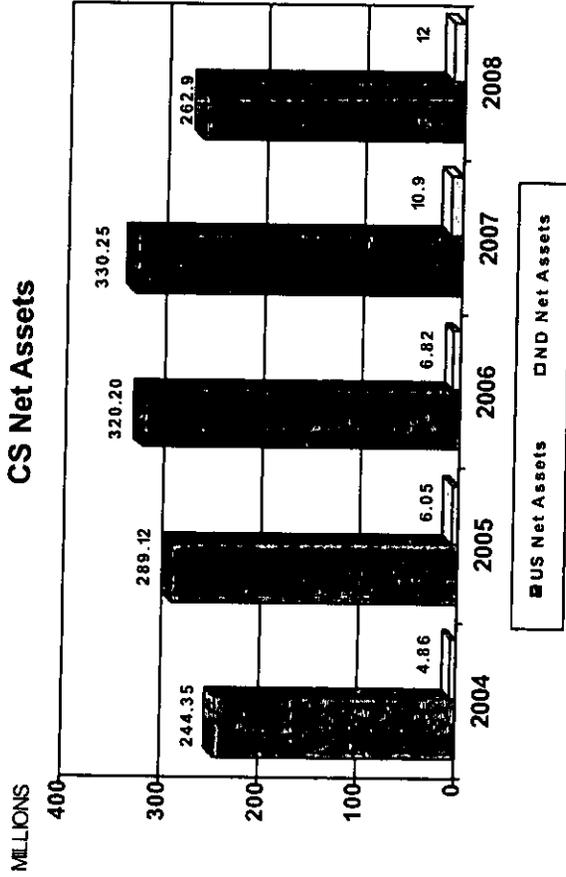
□ YE Total Loan Amount

STUDENT LOAN PROGRAM HIGHLIGHTS 2004 - 2008



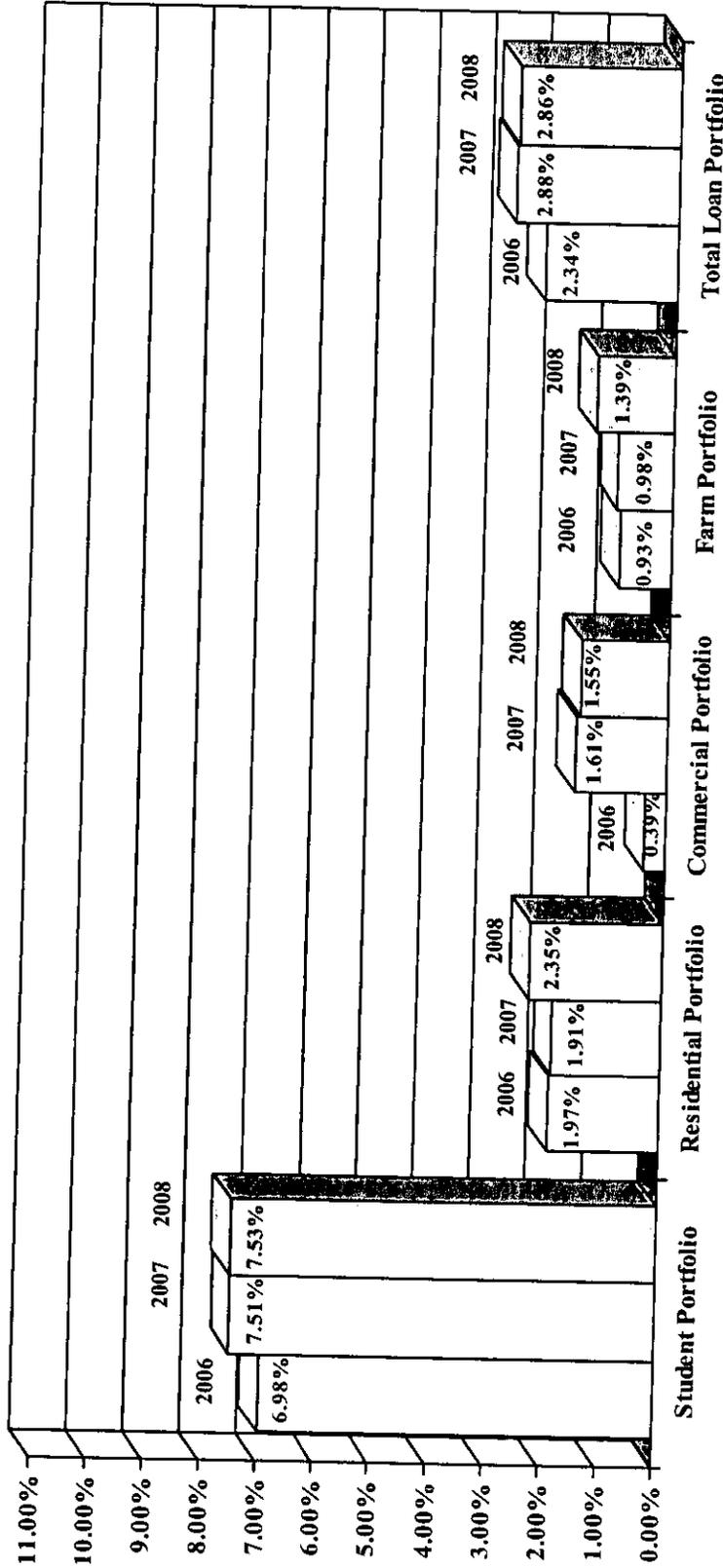
COLLEGE SAVE PROGRAM HIGHLIGHTS

2004 - 2008



BND LOAN DELINQUENCY REPORT

FOURTH QUARTER 2006-2008



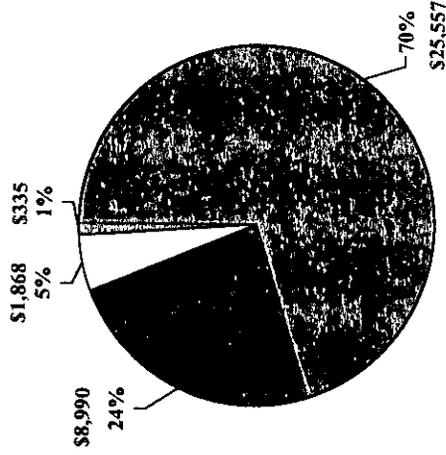
Commentary

Student Loan Portfolio: Student loan delinquencies were 7.53% of which 5.38% were delinquent over 90 days. Overall delinquency rates are slightly higher than previous years based on overall economic conditions. The number of borrowers actually being paid as a "default claim" remains very low. Student loans are unsecured with the majority being federally guaranteed. **Residential Portfolio:** Residential delinquencies were 2.35% of which 0.32% were delinquent over 90 days. FHA delinquencies are lower than the industry average of 4.66%. Nearly all residential delinquencies represent federally guaranteed loans. **Commercial Portfolio:** Commercial delinquencies were 1.55% of which 0.29% were delinquent over 90 days. Delinquencies are slightly lower than last year and still below the industry average of 2.84%. **Farm Portfolio:** Farm delinquencies were 1.39% of which 0.16% were delinquent over 90 days. Delinquencies are above the industry average of 0.60%. **Total BND Owned Loan Portfolio:** December 31, 2008 overall delinquencies were 2.86% of which 1.26% is delinquent over 90 days.

BND ALLOWANCE FOR LOAN LOSS QUARTERLY RECAP AS OF DECEMBER 31, 2008

(IN THOUSANDS)

MONTH	YEAR	ALLOWANCE FOR LOAN LOSS	LOAN PORTFOLIO	% ALLOWANCE	NORTH DAKOTA AVERAGE
December	2008	\$36,750	\$2,618,402	1.40%	*TBD
September	2008	\$36,570	\$2,514,275	1.45%	1.36%
June	2008	\$35,180	\$2,317,768	1.52%	1.40%
March	2008	\$33,586	\$2,183,125	1.54%	1.51%
December	2007	\$32,874	\$2,005,004	1.64%	1.43%



Total Allowance = \$36,750

Commercial
 Farm
 Residential/Student
 Other Factors

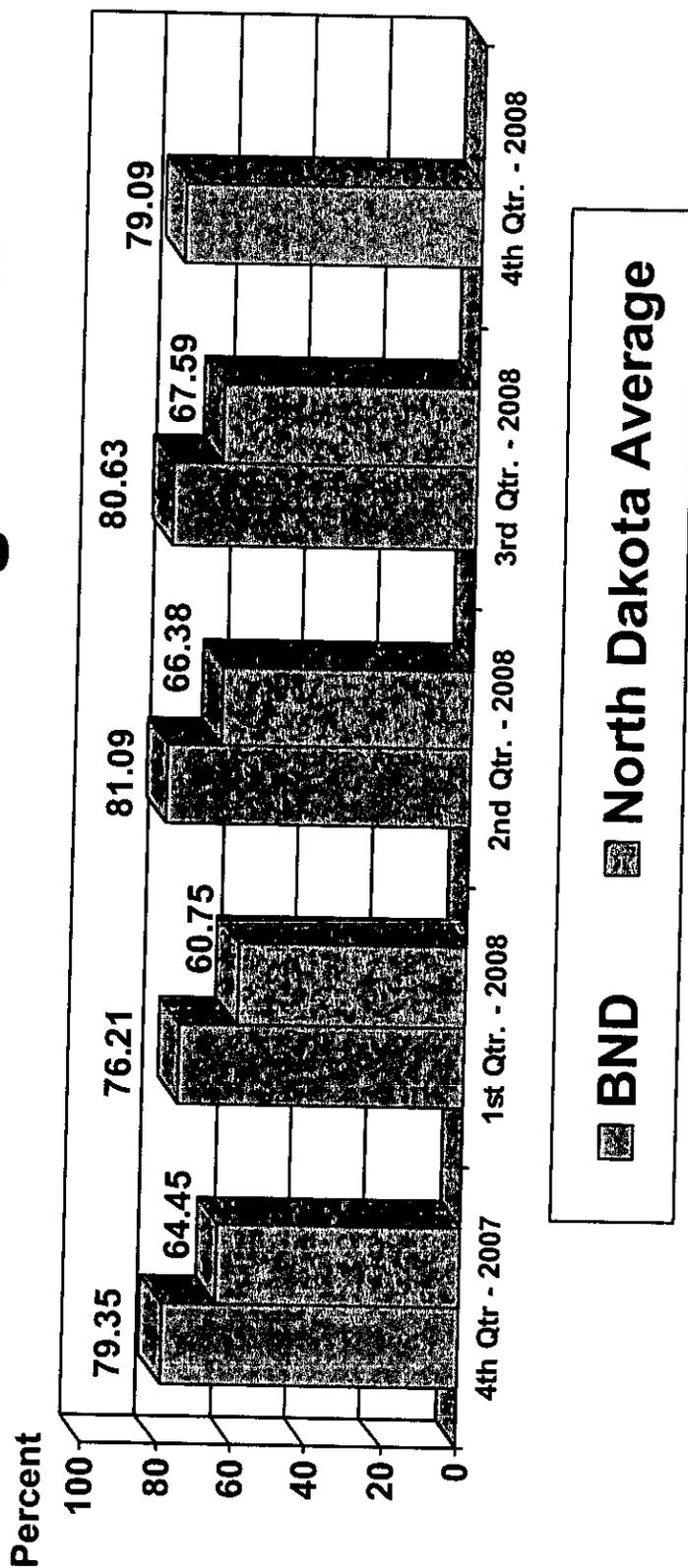
Commentary

The adequacy of the allowance for loan loss is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. As of December 31, 2008, BND's total allowance as a percentage of total loans is 1.40% which is in line with the most recently posted North Dakota average of 1.36%. BND's total allowance as a percentage of non-guaranteed loans (\$1,383MM) is 2.66%; significantly better than the North Dakota average. Commercial loans require 70% of allowance needs followed by Farm loans requiring 24%, and Residential and Student Loans requiring 5%.

The North Dakota average is obtained from the Federal Financial Institutions Examination Council who tabulates input from over 100 insured banks in North Dakota. The December 31, 2008 average has not yet been determined as the Council tabulates and publishes this data approximately 60 days after the completion of each calendar quarter.

BANK OF NORTH DAKOTA

Net Loans to Earning Assets



Net loans to earning assets is a ratio used to measure liquidity. BND has established a maximum net loans to earning assets of 90%. As shown above, BND is within this limit. Net loans to assets is 67.59% as of September 30, 2008 for all insured commercial banks in state. The North Dakota average is obtained from the Federal Financial Institutions Examination Council (FFIEC) who tabulates input from over 100 insured commercial banks in North Dakota. Note: The December 31, 2008 North Dakota average has not yet been determined as the FFIEC publishes this data approximately 60 days after the completion of each calendar quarter.

Disaster Assistance

Need: Farmers and Ranchers that have been impacted by recent weather-related events

Action:

- Bank of North Dakota Farm Disaster Relief Loan Program (Industrial Commission approved 4/16/09)
- AgPACE Program policies amended if funding available (Additional funding of General Fund dollars for AgPACE – **Legislative Action**) Amend policies (Industrial Commission action)

Why two programs –

Farm Disaster Relief Loan Program is effective for calendar year 2009 and will be used to restructure and refinance farm debt with low cost rates for those farmers and ranchers that provide evidence of a financial loss as a result of the weather-related events.

AgPACE will be used to provide new loans to those farmers and livestock producers that suffered extraordinary losses directly as a result of the weather-related events in the winter and spring of 2009. This could be used for livestock replacement, structural damages, etc.

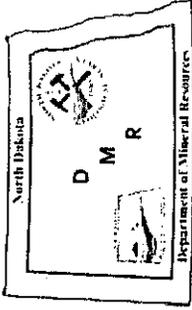
Farm Disaster Relief Loan Program Provisions adopted by the Industrial Commission:

Applicant:	Any North Dakota farmer/rancher
Funding Limit:	BND Maximum Participation Amount of \$500,000. BND will participate up to a maximum of 75% of the loan.
Lead Lender:	Any financial institution
Use of Proceeds:	Refinance term debt or amortize operating carryover.
Interest Rate:	Fixed at 4.75% for 5 years or variable at prime minus .5% (currently 2.75%).
Loan Terms:	Up to a 10-year amortization with 5 year balloon on chattels. Up to a 25 year amortization with 5 year balloon on real estate.
Collateral:	Maximum loan to value ratio of 75% on chattels. Maximum loan to value ratio of 75% on real estate.
Eligibility:	Applicant must have farming or ranching operations in North Dakota and provide evidence of a financial loss.

AgPACE proposed provisions for disaster designated loans:

Applicant:	Any North Dakota farmer or livestock producer
<u>Buydown</u> Limit:	\$20,000 per borrower (will <u>not</u> apply to AgPACE lifetime cap) (1:5 ratio of buydown funds to loan proceeds)
Lead Lender:	Any financial institution
Use of Proceeds:	Livestock replacement, repair of structural damages, replacement of equipment and related farm/ranch facilities such as corrals, fencing, etc.
Interest Rate:	Interest rate reduction of a maximum of 5% below the yield rate with a minimum rate of 1%.
Loan Amount:	Is not limited, but generally the maximum benefit would be for a loan of \$125,000 or less.
Loan terms:	Generally 5 to 7 years
Eligibility:	Applicant must have farming or ranching operations in North Dakota and provide evidence of a financial loss

Attachment C
2/25/09
Ind. Comm. Overview



Senate Bill 2014 Overview

February 25, 2009

House Appropriations

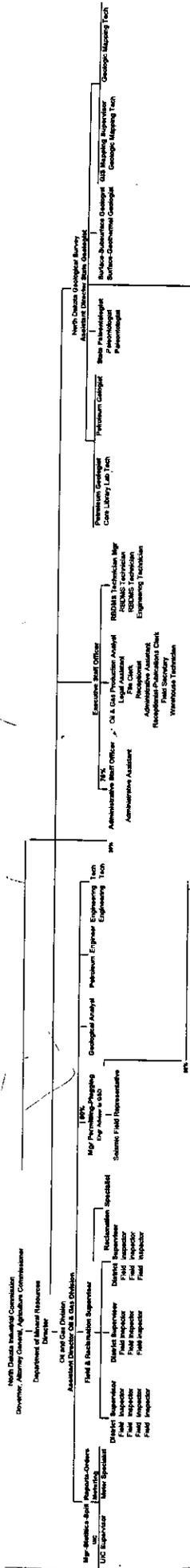
Lynn D. Helms, Director

Department of Mineral Resources

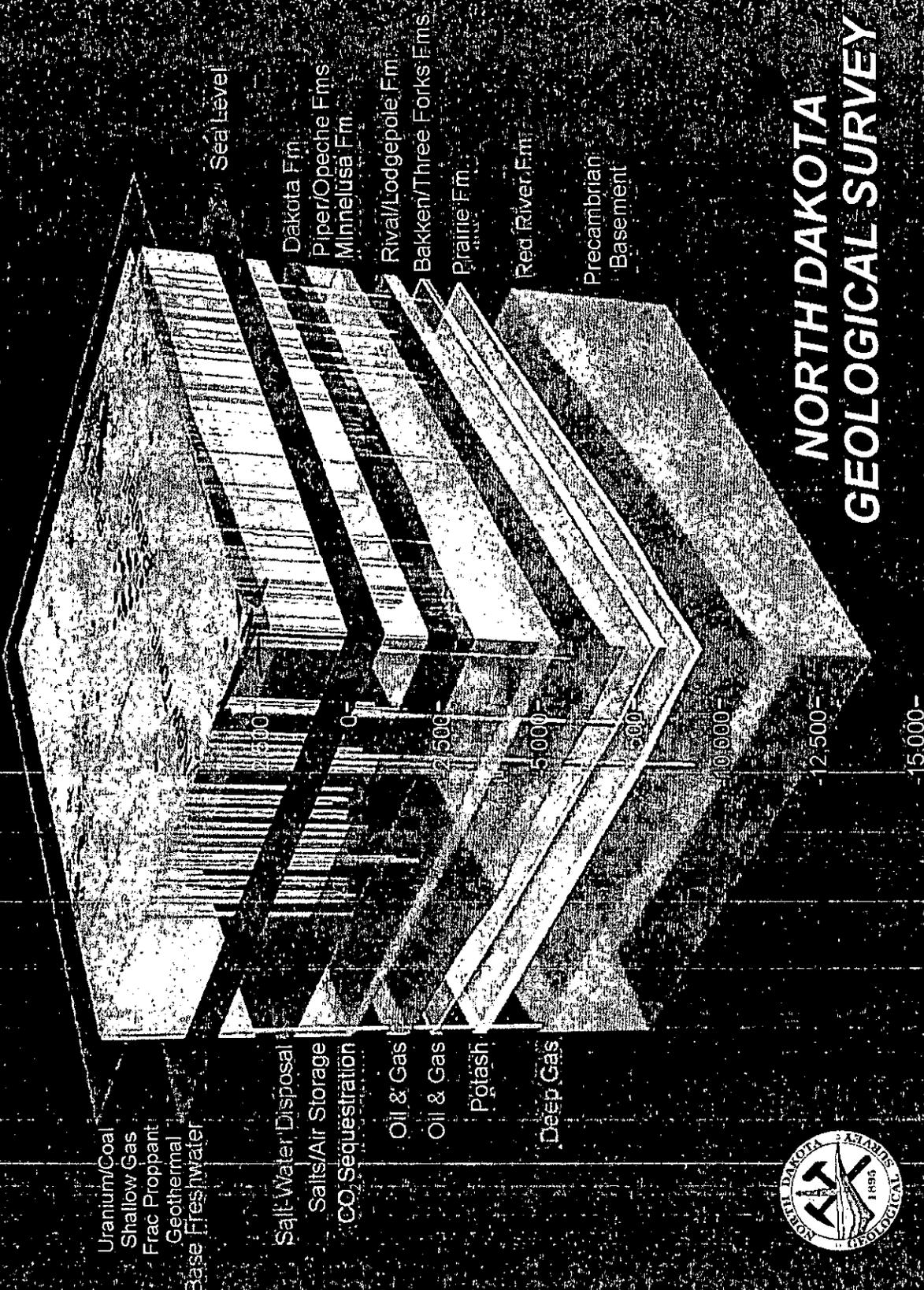
North Dakota Industrial Commission

*Notes were
passed along with
reports in 2009 testimony
March 21*





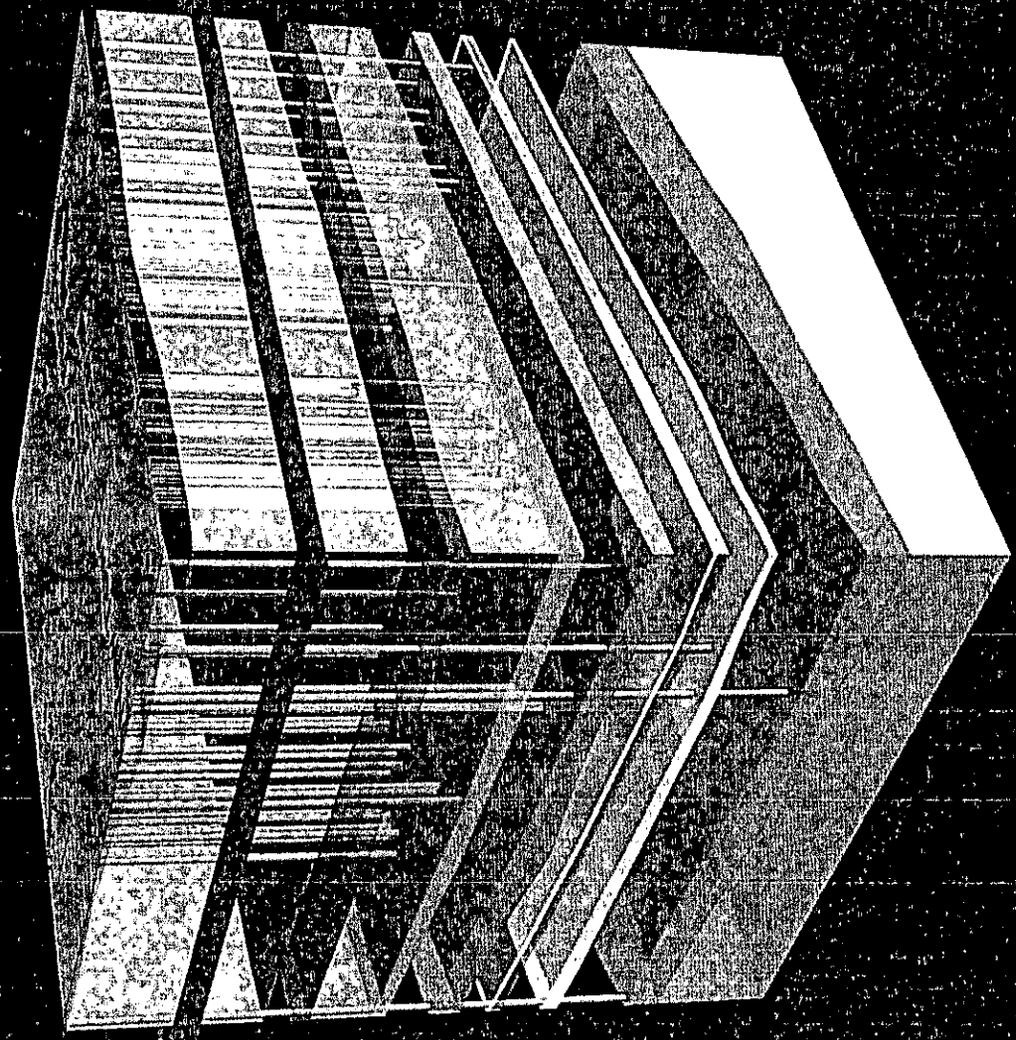
Three-Dimensional Geologic Model of the Parshall Area



**NORTH DAKOTA
GEOLOGICAL SURVEY**

Fossils
Uranium
Coal
Shallow Gas
Frac Proppant
Geothermal

Sea Level





Uranium Deposits in Southwestern North Dakota

Edward C. Murphy
2007



Introduction

The purpose of this report is to describe the uranium deposits in southwestern North Dakota. The deposits are located in the Beulah, Fairfield, Killedeer, and Hentlinger counties. The deposits are of the type known as "roll-front" deposits, which are formed by the migration of uranium from the surrounding rocks into the fractures and faults of the host rock.

Geology

The geology of the area is characterized by the presence of the Fort Union Formation, which is a thick sequence of sandstone and siltstone. The uranium deposits are located in the upper part of the Fort Union Formation, where they are associated with roll-front structures. The roll-front structures are formed by the migration of uranium from the surrounding rocks into the fractures and faults of the host rock.

Uranium Deposits

The uranium deposits in southwestern North Dakota are of the type known as "roll-front" deposits. These deposits are formed by the migration of uranium from the surrounding rocks into the fractures and faults of the host rock. The deposits are located in the Beulah, Fairfield, Killedeer, and Hentlinger counties. The deposits are of the type known as "roll-front" deposits, which are formed by the migration of uranium from the surrounding rocks into the fractures and faults of the host rock.

Beulah

The Beulah uranium deposit is located in the northern part of Beulah County. It is a roll-front deposit that is associated with a fault. The deposit is composed of uranium-bearing sandstone and siltstone. The deposit is estimated to contain approximately 1 million pounds of uranium.

Fairfield

The Fairfield uranium deposit is located in the northern part of Fairfield County. It is a roll-front deposit that is associated with a fault. The deposit is composed of uranium-bearing sandstone and siltstone. The deposit is estimated to contain approximately 1 million pounds of uranium.

Belfield

The Belfield uranium deposit is located in the northern part of Killedeer County. It is a roll-front deposit that is associated with a fault. The deposit is composed of uranium-bearing sandstone and siltstone. The deposit is estimated to contain approximately 1 million pounds of uranium.

Dickinson

The Dickinson uranium deposit is located in the northern part of Hentlinger County. It is a roll-front deposit that is associated with a fault. The deposit is composed of uranium-bearing sandstone and siltstone. The deposit is estimated to contain approximately 1 million pounds of uranium.

Amfison

The Amfison uranium deposit is located in the northern part of Hentlinger County. It is a roll-front deposit that is associated with a fault. The deposit is composed of uranium-bearing sandstone and siltstone. The deposit is estimated to contain approximately 1 million pounds of uranium.

Bowman

The Bowman uranium deposit is located in the northern part of Hentlinger County. It is a roll-front deposit that is associated with a fault. The deposit is composed of uranium-bearing sandstone and siltstone. The deposit is estimated to contain approximately 1 million pounds of uranium.

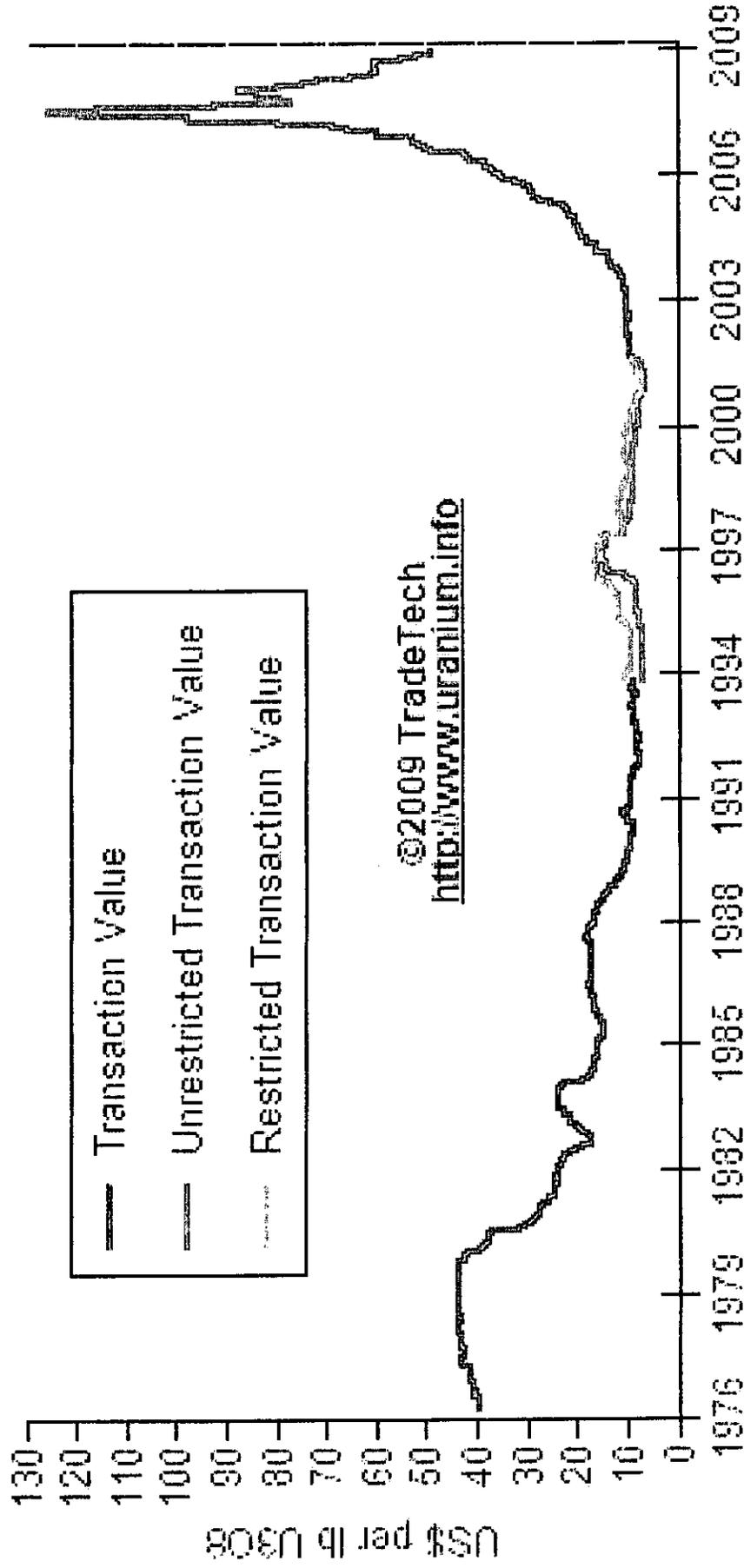
Hentlinger

The Hentlinger uranium deposit is located in the northern part of Hentlinger County. It is a roll-front deposit that is associated with a fault. The deposit is composed of uranium-bearing sandstone and siltstone. The deposit is estimated to contain approximately 1 million pounds of uranium.

References

Murphy, E. C., 2007, Uranium Deposits in Southwestern North Dakota, Geologic Investigations No. 41, North Dakota Geological Survey.

Nuclear



What About ND?

- Oil & Gas
- Coal
- Nuclear
- Geothermal

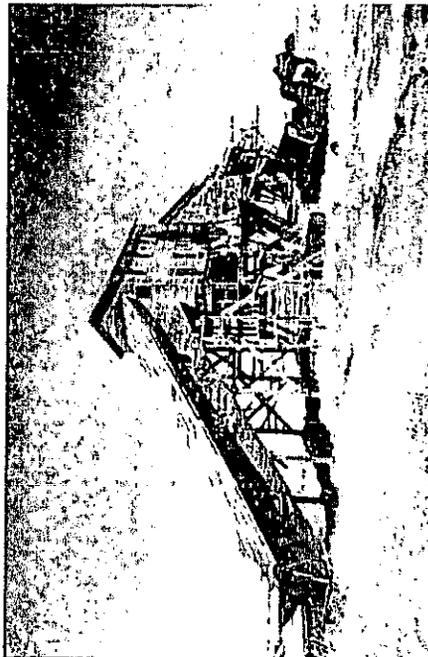
1.3 Trillion Tons of Coal in North Dakota

25 Billion Tons of Mineable Lignite

THE LIGNITE RESOURCES OF NORTH DAKOTA

by

Edward C. Murphy, Ned W. Krueger, Gerard E. Goven,
Quentin L. Vandal, Kimberly C. Jacobs, and Michele L. Gutenkuns



REPORT OF INVESTIGATION NO. 105
North Dakota Geological Survey
Edward C. Murphy, State Geologist
Lynn D. Helms, Director Dept. of Mineral Resources
2006

THE LIGNITE RESERVES OF NORTH DAKOTA

by

Edward C. Murphy



REPORT OF INVESTIGATION NO. 104
North Dakota Geological Survey
Edward C. Murphy, State Geologist
Lynn D. Helms, Director Dept. of Mineral Resources
2006

Coal

- **North Dakota produces about 82,000 tons of coal per day**

North Dakota's coal fired power plants, synthetic natural gas plant, and Leonardite plant consume all 82,000 tons

North Dakota's coal fired power plants produce 77 thousand MWh of electricity, the synthetic natural gas plant produces 160 million cubic feet of natural gas, and the Leonardite plant about 27 tons each day

North Dakota consumes 30 thousand MWh of coal generated electricity, no synthetic natural gas, and no Leonardite

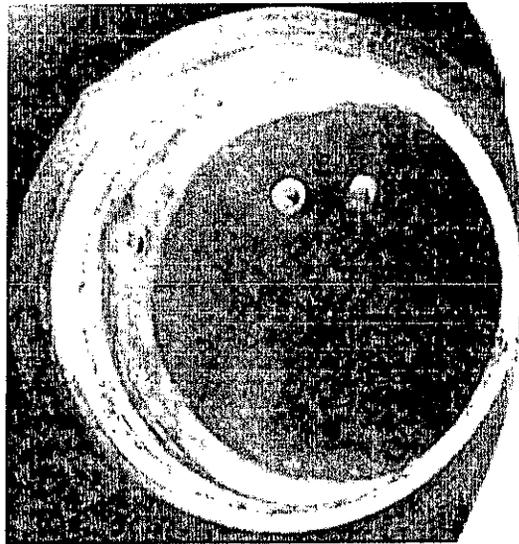
SHALLOW GAS AND COALBED METHANE PROJECTS

The Geological Survey proposes to expand the Shallow Gas Project into western North Dakota. We detected methane in 19% of the monitoring wells that we tested (326 out of 1,726 wells) from 2006 to 2008. The two highest methane readings came from two, adjacent 400 - 500 foot-deep wells screened in coal-bearing rocks in Mercer County. That is why we want to expand the project into western North Dakota.

There have only been 12 coalbed methane wells drilled in North Dakota and none of the results has been promising. However, none of these wells fully evaluated the resource and many were located in an area that may have low methane potential. By canvassing existing NDSWC monitoring wells and farmwells in western North Dakota, we hope to be able to point companies towards areas of higher methane potential.



The Geological Survey tested 1,700 NDSWC monitoring wells for methane in 18 counties in eastern and central North Dakota from 2006-2008.



Methane bubbling to the surface in a two-inch NDSWC monitoring well.



Counties that have been monitored for shallow gas are in gray and the western counties that we are proposing to study are in tan. Monitoring wells that contained methane are indicated with red dots, black dots are wells that contained no detectable methane.

FRAC PROPPANT EVALUATION PROJECT

A typical horizontal Bakken or Three Forks oil well requires 1,000 tons of proppant when the well is undergoing fracture stimulation. Fracture fluids consist of a gel and rounded, small diameter proppant. Typically, the proppant is rounded grains of quartz sand or a spherical ceramic. In 2008, hundreds of thousands of tons of sand and ceramic proppant were imported into North Dakota.

A variety of sand and clay is located at or near the surface throughout North Dakota. This study will evaluate a number of these deposits to determine suitability as proppant sand or as a source for ceramic proppant.



Claystone from the Golden Valley Formation (dark brown on the map) may be well-suited for the manufacture of certain types of ceramic proppants.



A sand dune in south-central ND. Dune sand is well sorted and may have potential as a frac sand.



The locations of some of the sand (in yellow) and clay (green, brown, and purple) deposits we are planning to evaluate for suitability as a proppant in horizontal Bakken and Three Forks wells. Glacial lake clays are shown in light green, glacial till in green, bedrock claystone deposits in tan, shales in purple, and claystone with good ceramic properties are in brown.

What About ND?

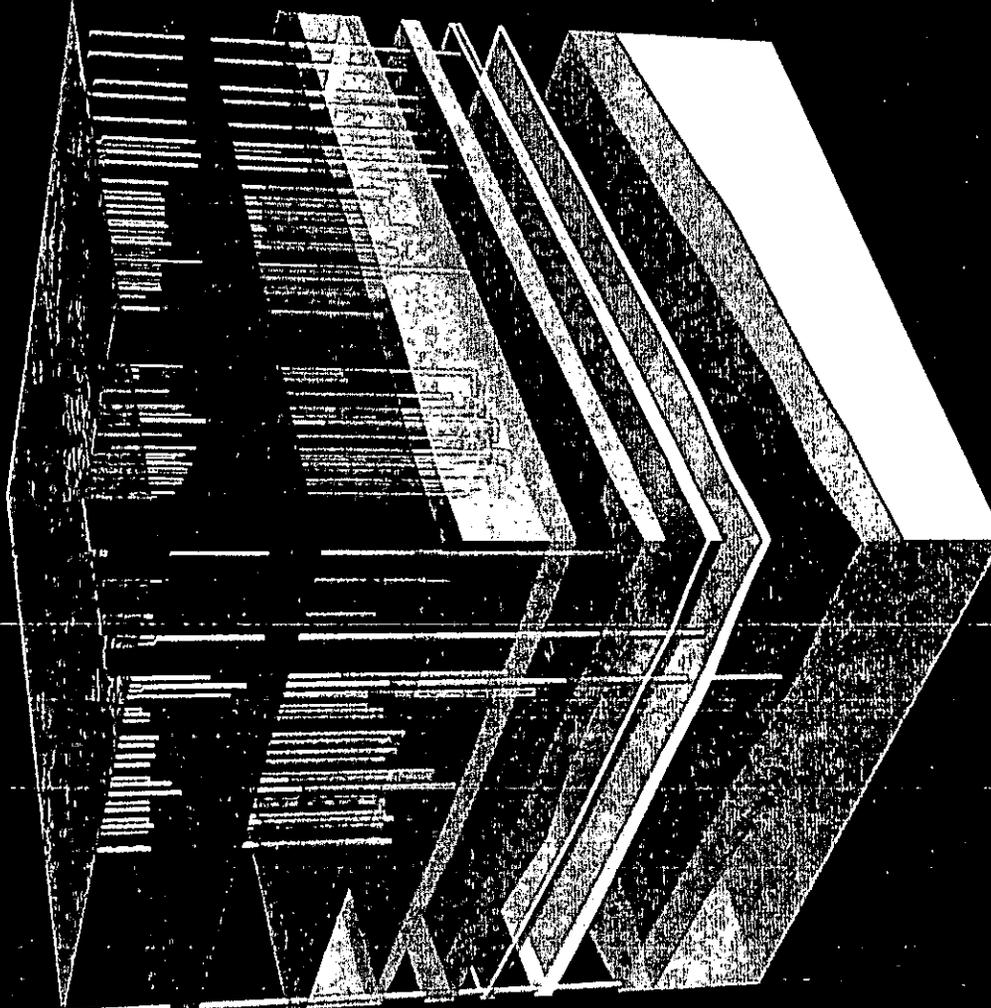
- Oil & Gas
- Coal
- Nuclear
- Geothermal

Geothermal

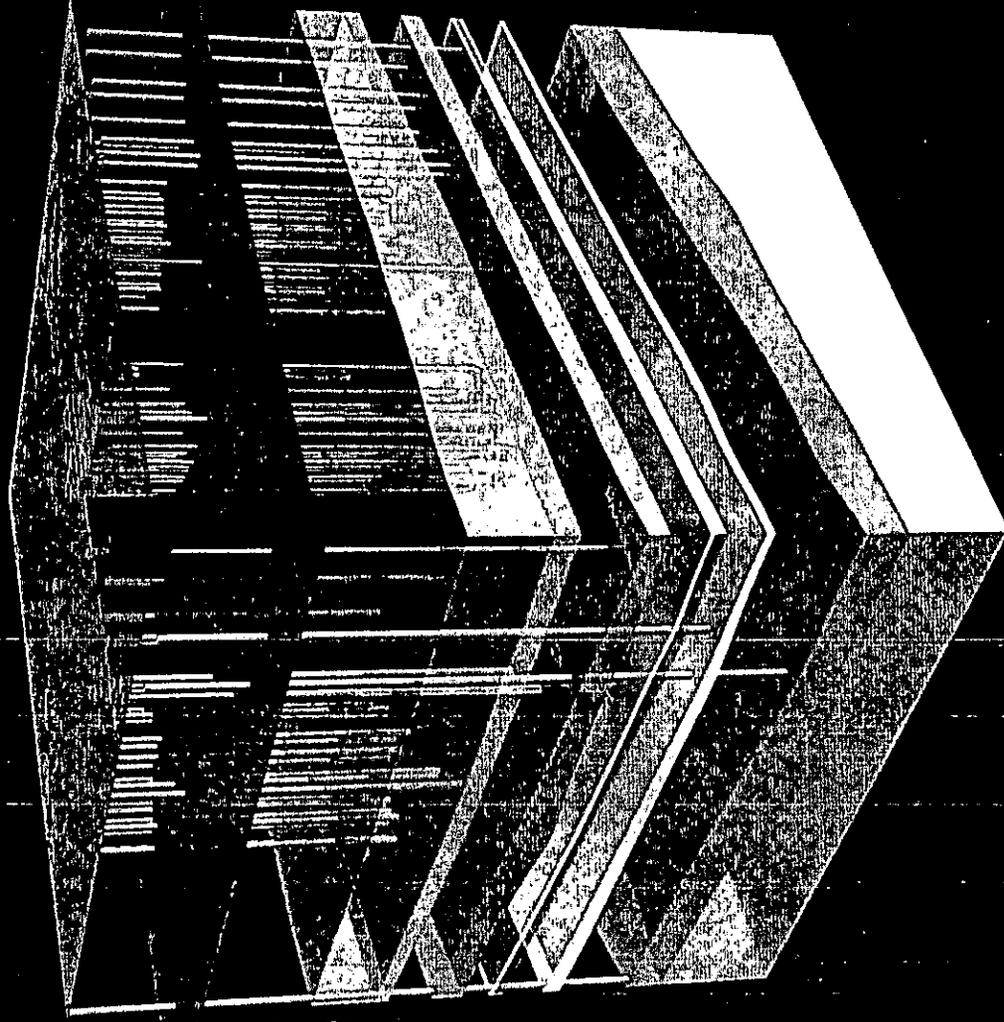
- **Ground loops are regulated to prevent ground water contamination**
- **Geothermal installation creates high paying jobs**
- **75% of the energy is free**
- **Residential systems payout in 5-7 years and Commercial systems in 3-5 years**
- **North Dakota has almost unlimited potential for ground loop source geothermal produces 88 thousand MWh of geothermal energy**

Sea Level

Dakota Fm.



Salt-Water Disposal



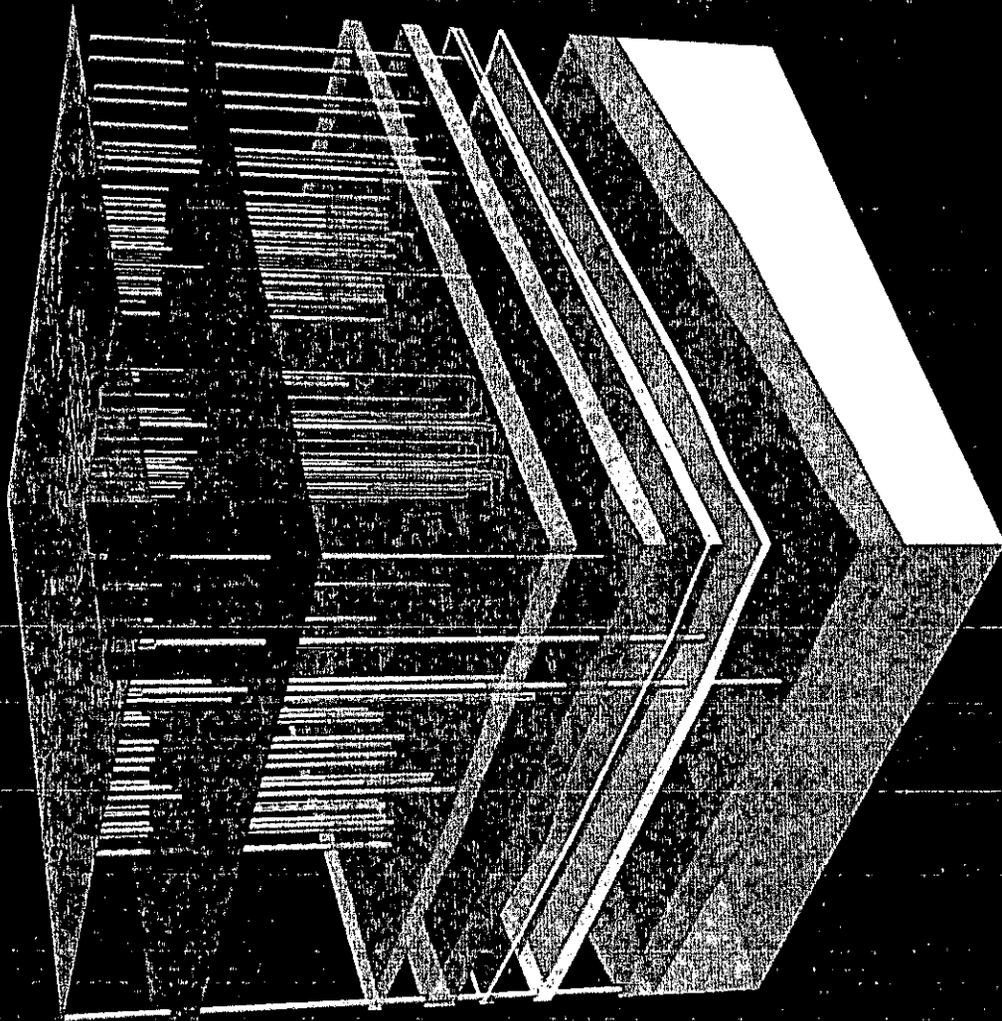
Sea Level

Piper/Opeche Fms.

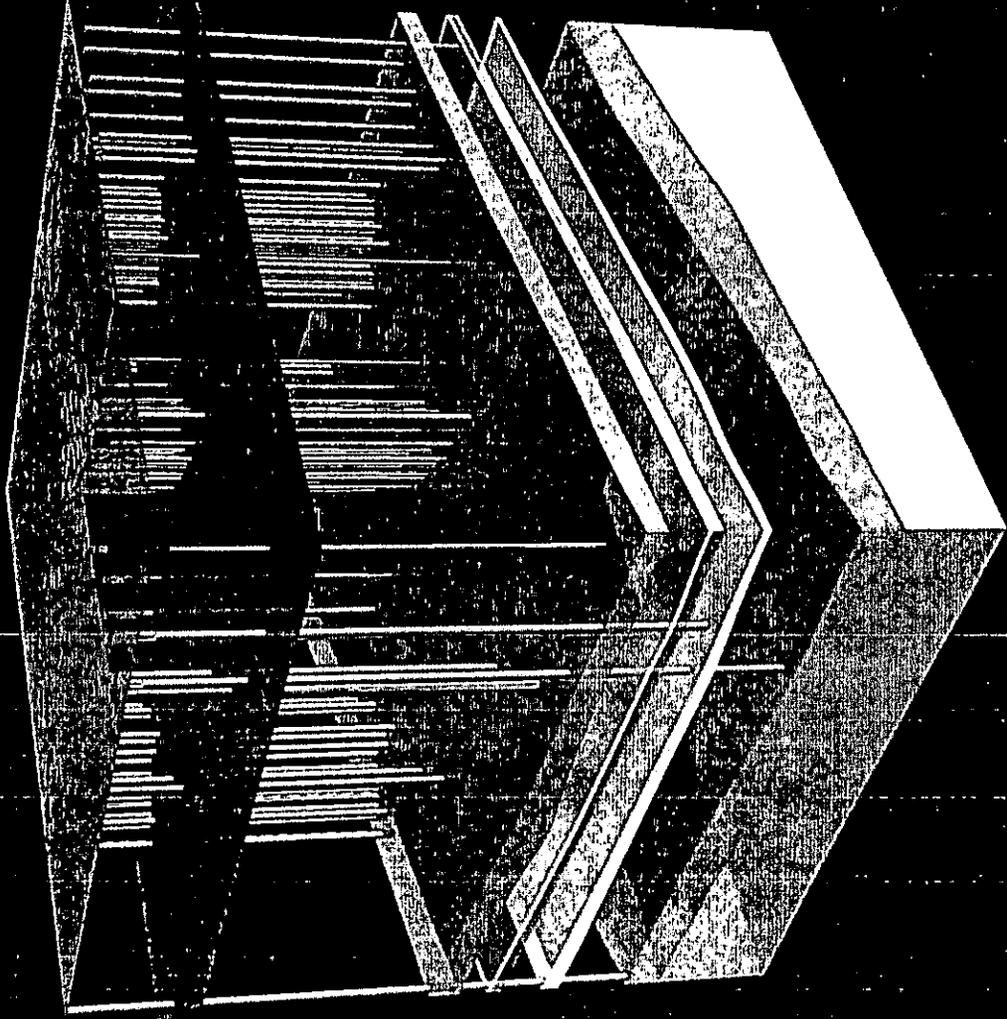
Salts/Air Storage

Sea Level

Minnelusa Fm.



CO₂ Sequestration



Sea Level

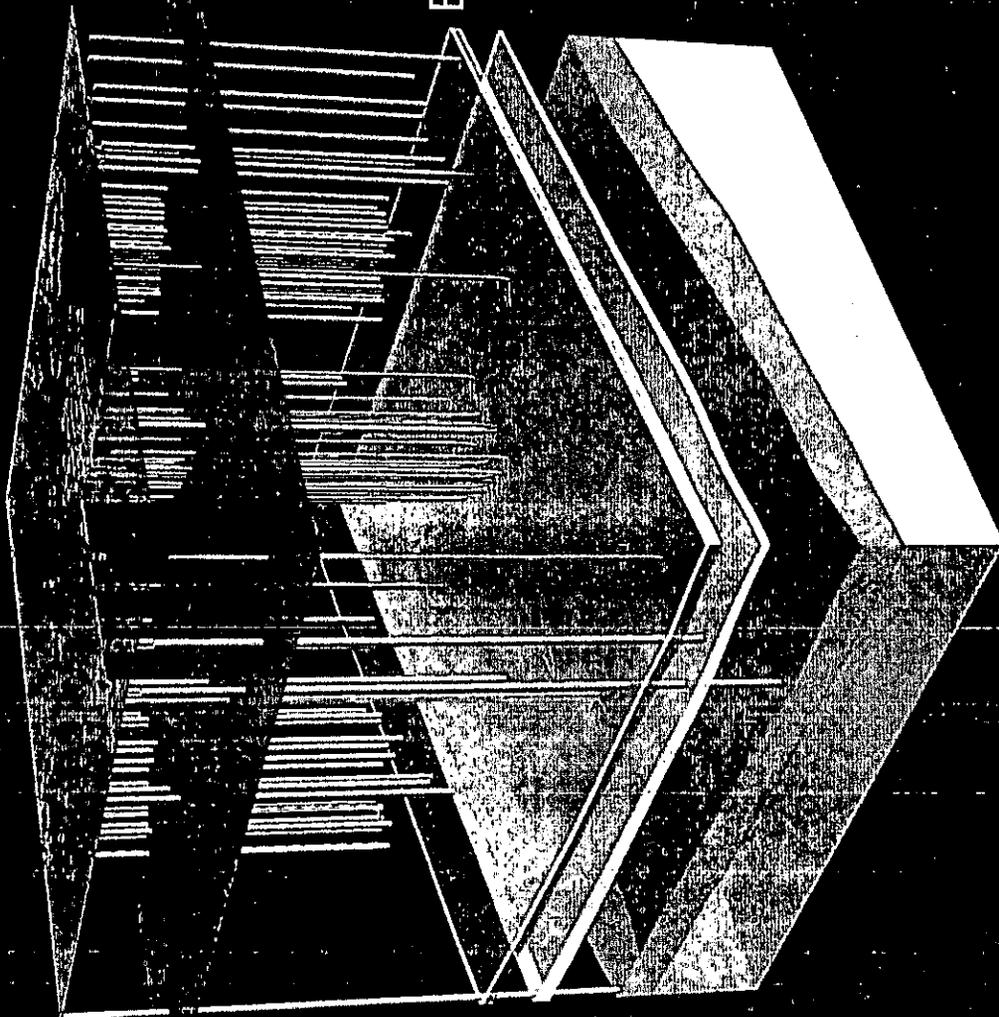
Riva/Lodgepole Fm.

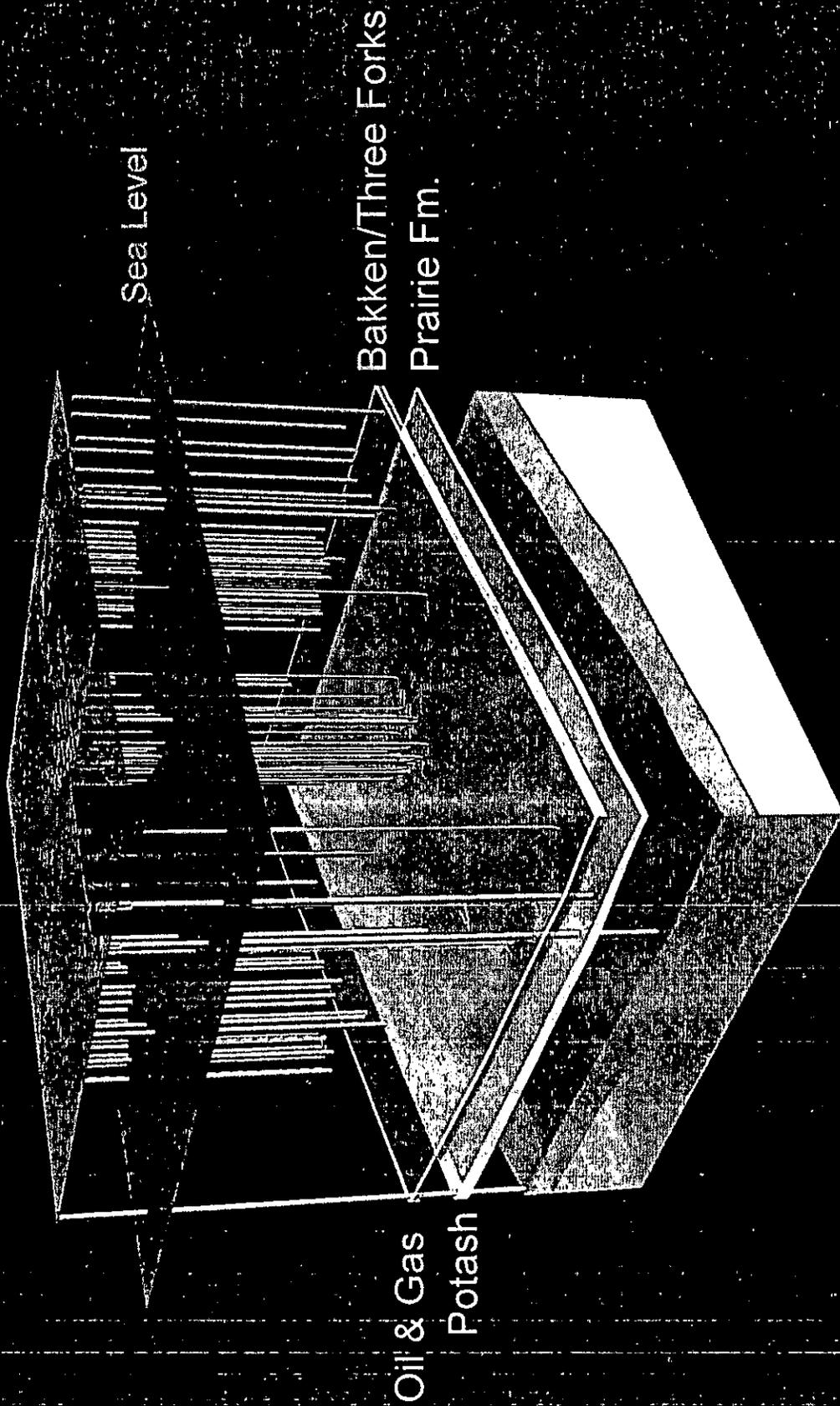
Oil & Gas

Sea Level

Bakken/Three Forks

Oil & Gas

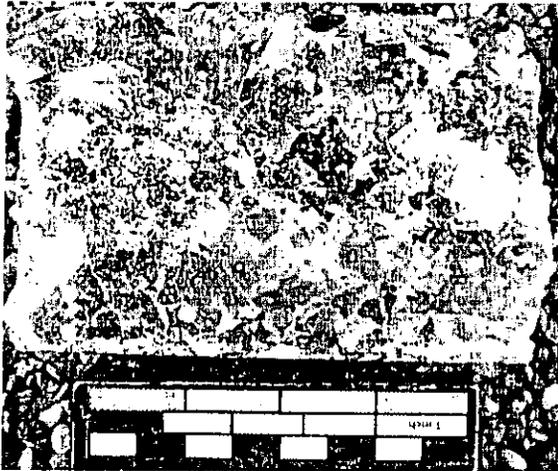




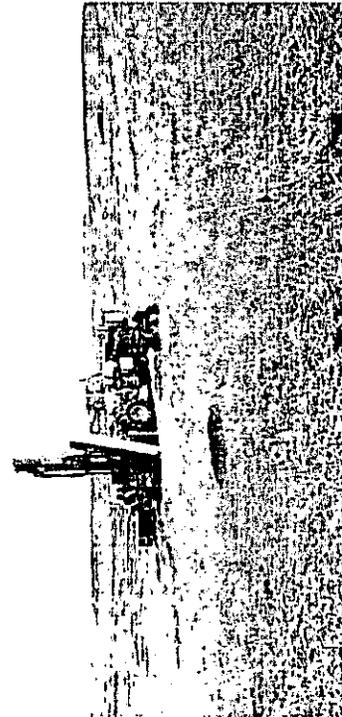
MINERAL GEOLOGIST CONTINGENCY POSITION

We have received a number of enquires from the mineral industry in the past 18 months as the price increased for a variety of elements and minerals. Chief among these enquiries has been uranium and potash. Uranium was mined in North Dakota in the 1960s. It was heavily explored for in the 1970s, but has been of little interest for the last 30 years until the price for uranium oxide reached an all time high in June of 2007. Companies have also expressed interest in associated elements molybdenum and germanium. If a company submits a permit to do in situ leach uranium mining, we are contemplating mining uranium in southwestern North Dakota. We are aware of three companies that are

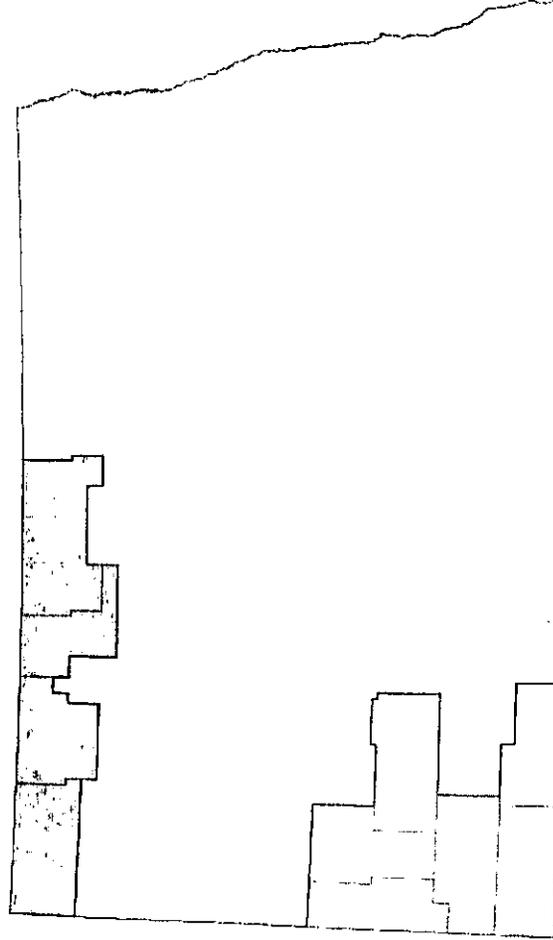
Potash or potassium salts are primarily used in the production of fertilizer. Potash exploration took place in northwest North Dakota in the 1970s. Since the beginning of 2007, the price of potash has risen from \$190 to \$1,050 per ton based on a low supply and increasing demand. Due to the increased workload, we will need a geologist to oversee potash exploration and production if we receive a permit from either of the two companies that we know are actively pursuing potash exploitation.



Potash core from a depth of 9,000 feet in Burke County.



Formation Resources drilling for uranium, molybdenum, and germanium under a subsurface mineral permit in Billings County during the fall of 2008.

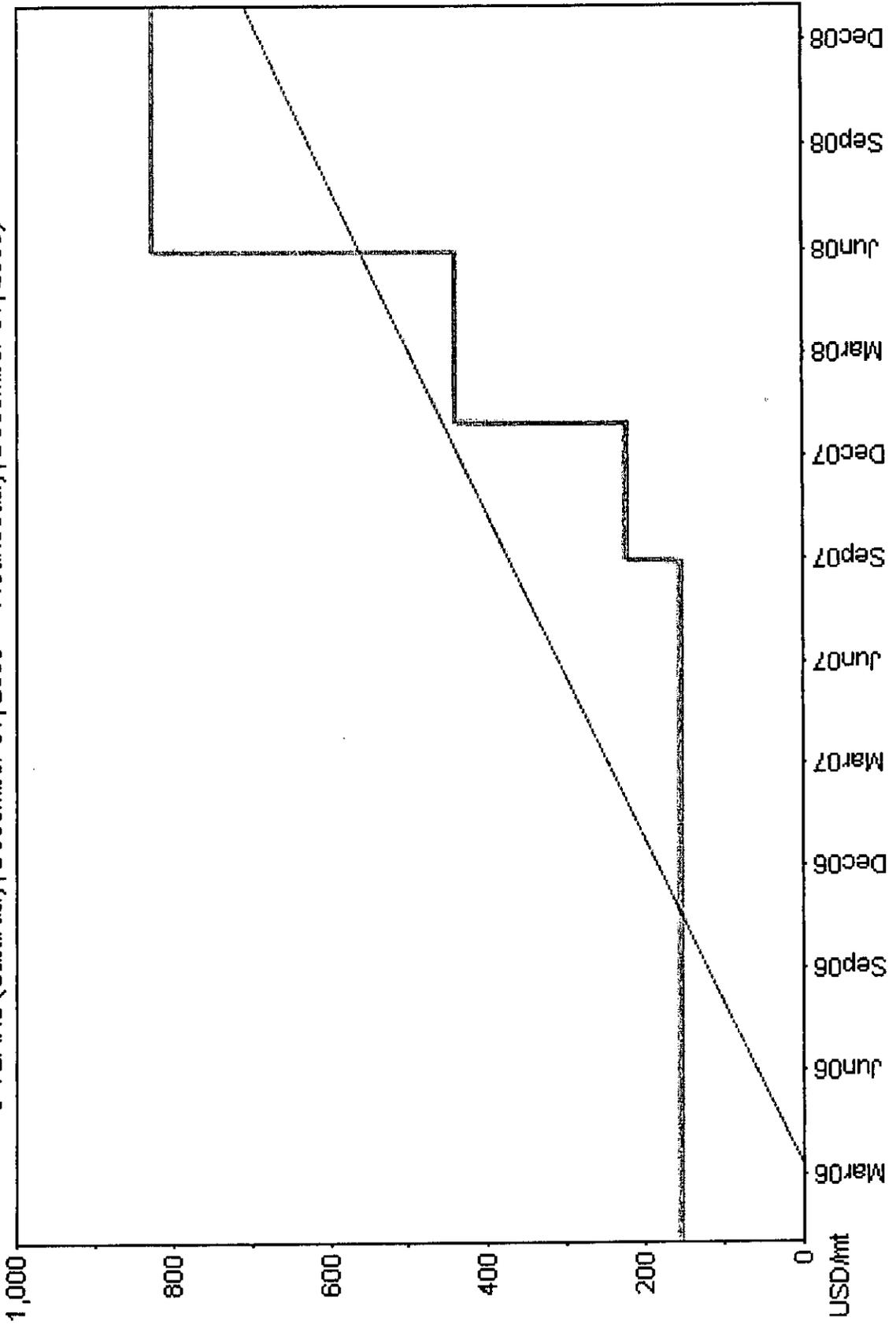


Counties that contain uranium deposits are in yellow and those that contain the shallowest potash deposits are in blue.

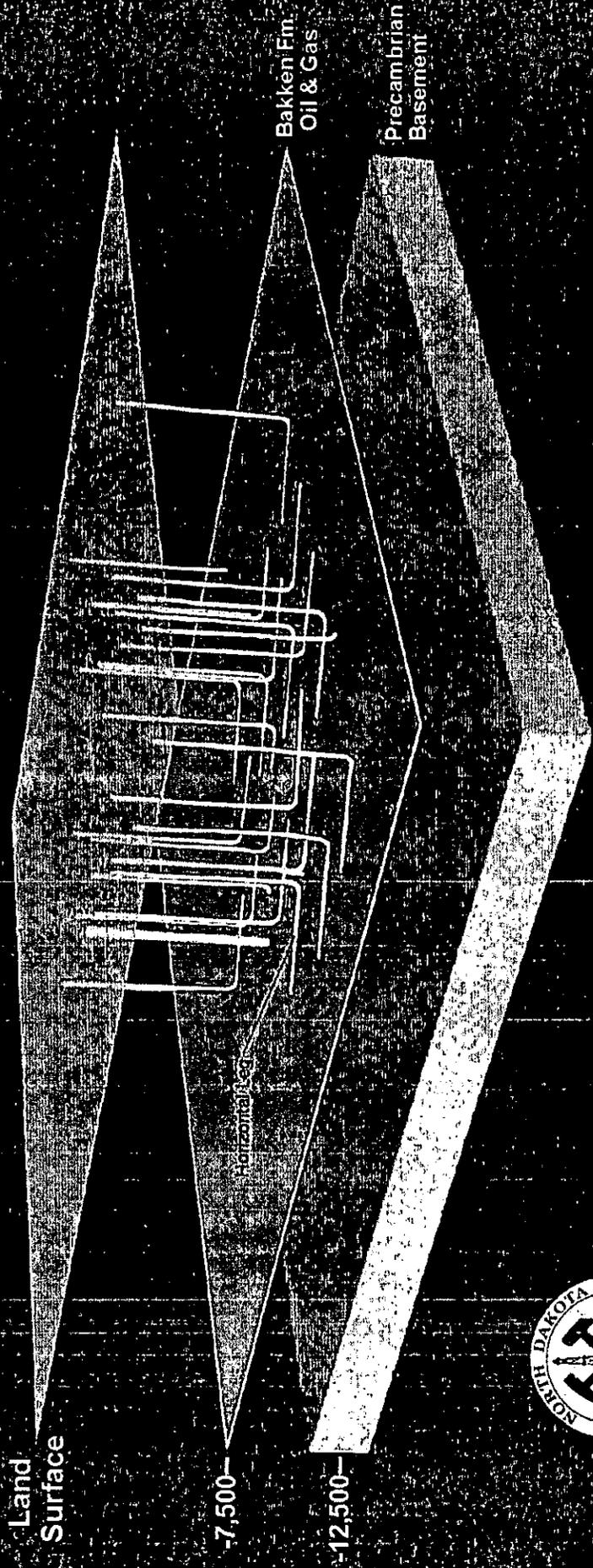
Potash

Potash (USD/mt)

3 YEARS (Saturday, December 31, 2005 - Wednesday, December 31, 2008)



Three Dimensional Geologic Model of the Parshall Area



**NORTH DAKOTA
GEOLOGICAL SURVEY**



Asia – “the lurching giant”

Year	Population (billion)	People/		Vehicles (million)
		Household	% Urban	
1980	2.3	4.7	23	1
2000	3.0	3.5	38	15
2015	3.7	3.0	50	500

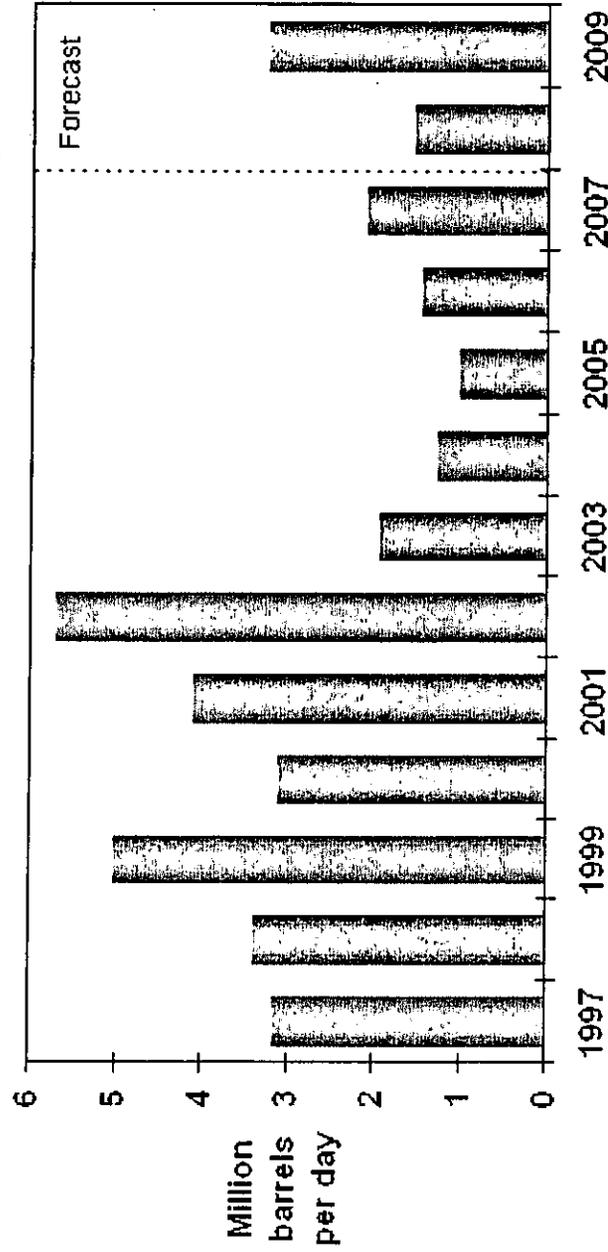
uses 90% of the world's fertilizer
20% of the world's pesticides
emits 1/3 of the world's carbon dioxide

If the rest of the world achieves zero consumption growth,
but Asia achieves even the lowest G7 consumption levels,
total world consumption will more than double

To reach US electricity consumption levels China will have to
build one Coal Creek station per week for 31 years

A world that consumes 86 million barrels of oil every day with only 2-3 million barrels per day surplus capacity is like an average North Dakotan (\$34,850 annual income with \$2.78 in their pocket and nothing in the bank)

OPEC Surplus Crude Oil Production Capacity

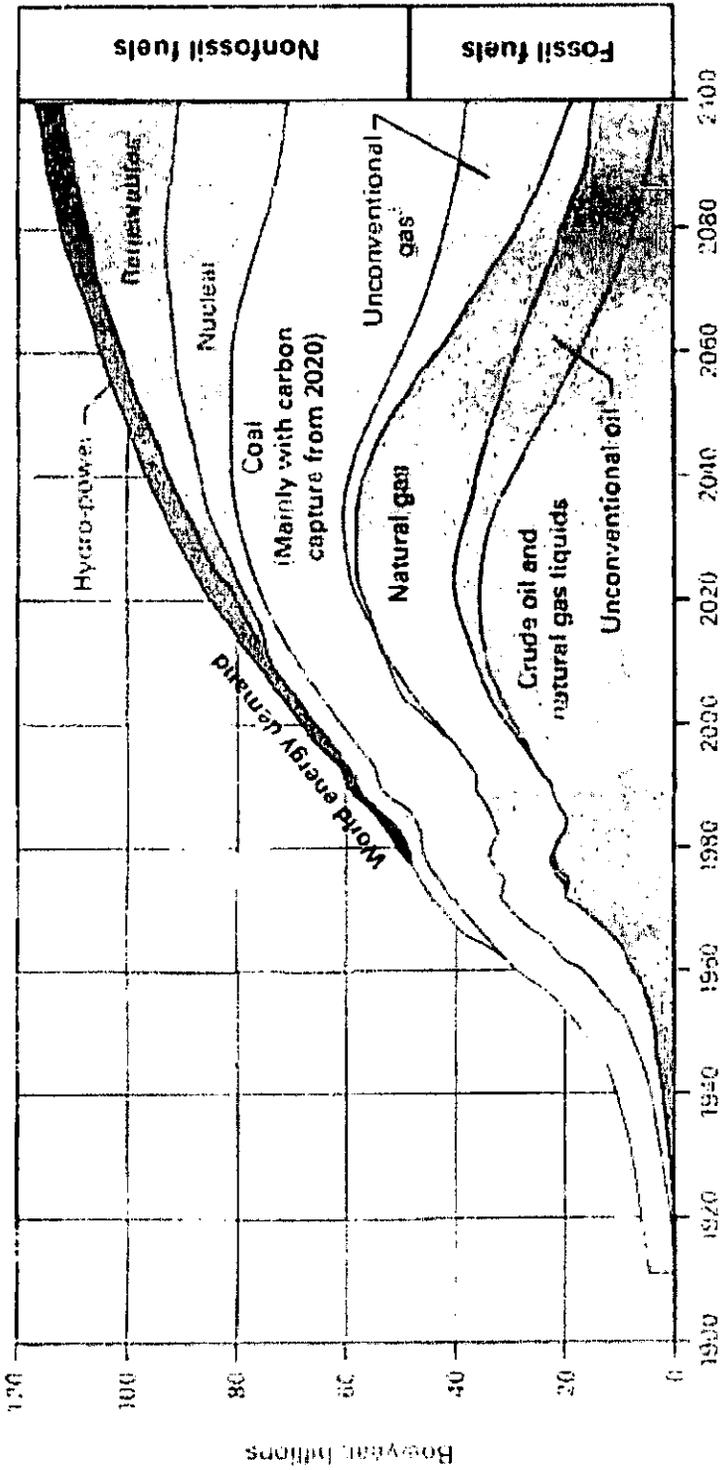


Note: Shaded area represents 1997-2007 average (2.9 million barrels per day)



Short-Term Energy Outlook, October 2008

FUTURE FOSSIL FUEL SUPPLY PROFILES BASED ON 2008 PRICES¹



¹ The supply curves are based on the assumption that the world will continue to use fossil fuels as the primary source of energy. The supply of fossil fuels is based on the assumption that the world will continue to use fossil fuels as the primary source of energy. The supply of fossil fuels is based on the assumption that the world will continue to use fossil fuels as the primary source of energy.

Conventional - 3.3 billion barrels = 150 years down, 100 to go

Heavy - 4.4 billion barrels = 35 years down, 140 to go

Bitumen and Tar - 3.3 billion barrels = 15 years down, 170 to go

Coal to liquids - 1 billion barrels = 80 to 100 years worth

Renewable - the only way to sustain our lifestyle indefinitely

What About ND?

- Oil & Gas
- Coal
- Nuclear
- Geothermal

Oil & Gas

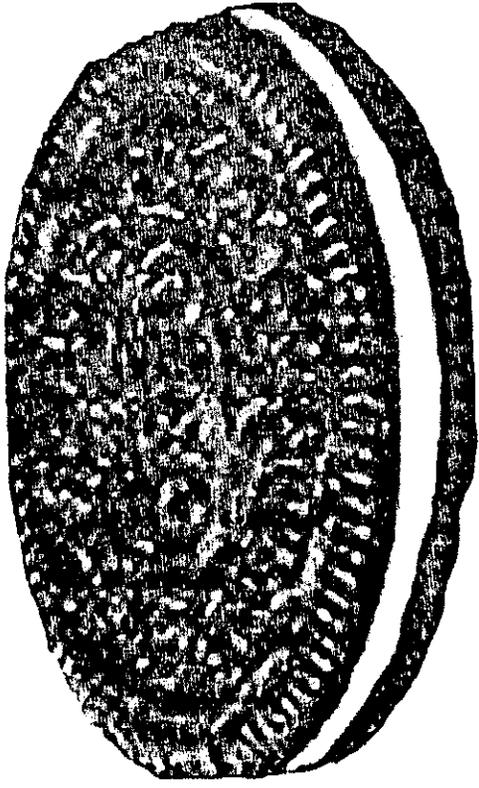
- Oil and gas pay over \$300 million in taxes each year to support counties, cities, schools, etc. in North Dakota**
- Petroleum production directly employs about 6,500 citizens in high paying jobs and supports another 10,000 jobs**
- North Dakota has over a 100 year supply of crude oil**

Oil & Gas

- North Dakota produces 8.6 million gallons of oil and 270 million cubic feet of natural gas per day
- North Dakota's one refinery processes 2.4 million gallons of crude oil and our 12 natural gas plants process 170 million cubic feet of natural gas per day
- North Dakota consumes 2.4 million gallons of refined petroleum products and 150 million cubic feet of natural gas per day

BAKKEN FORMATION

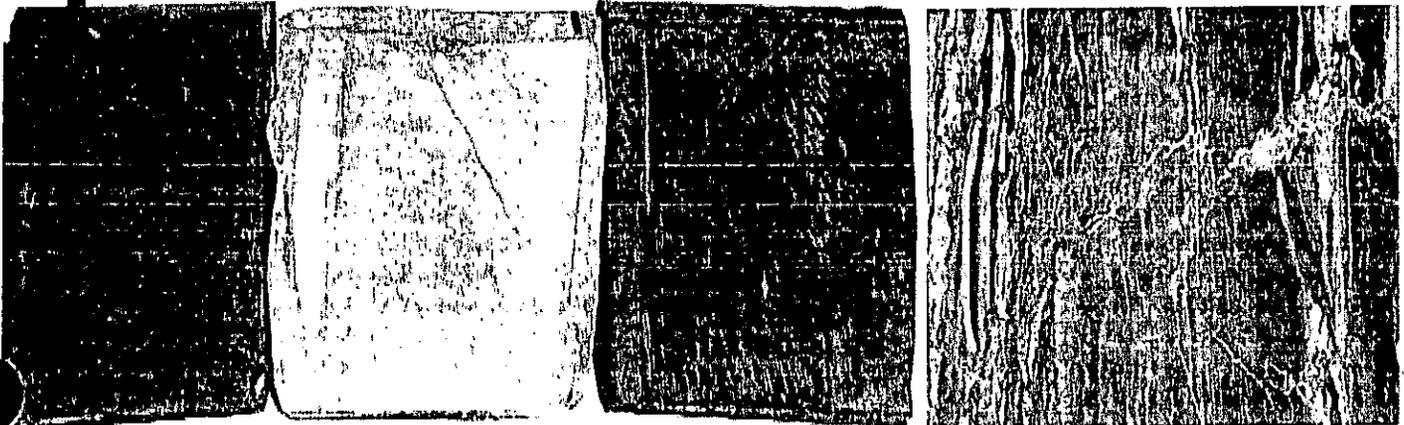
Upper shale member

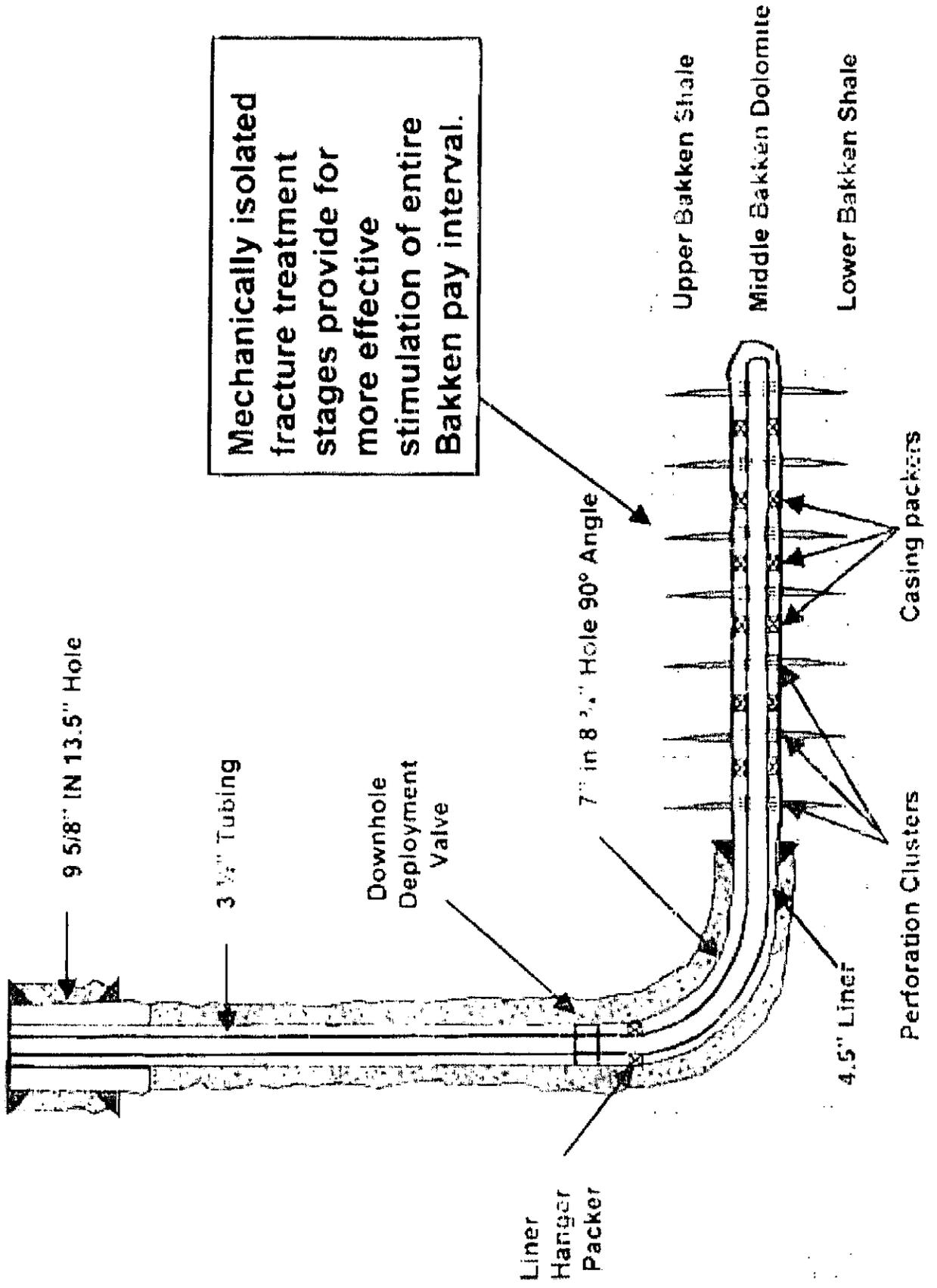


Middle member

Lower shale member

THREE FORKS FORMATION

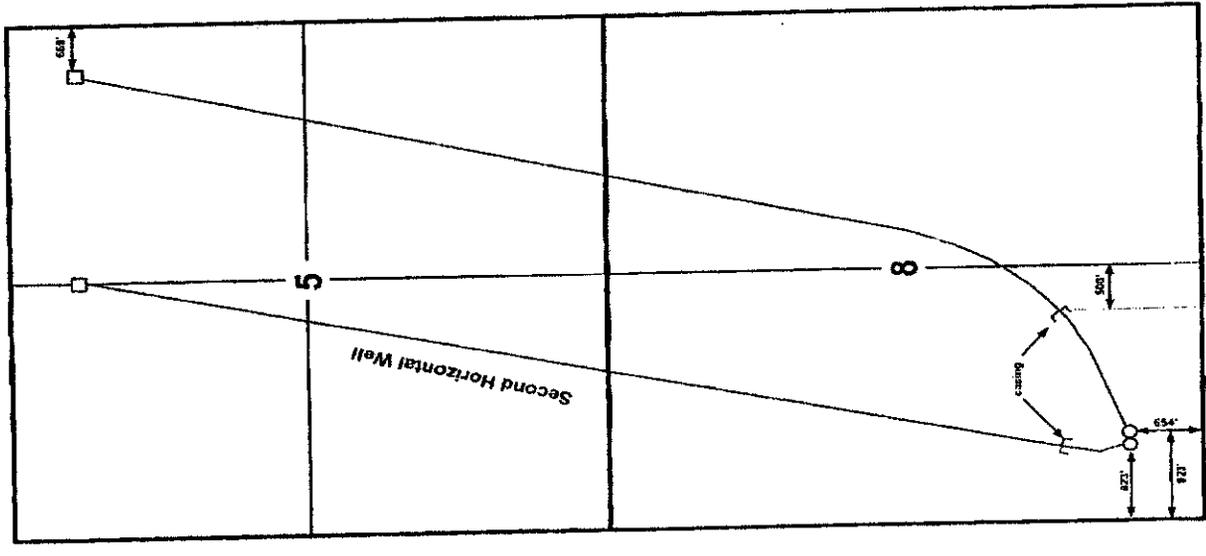
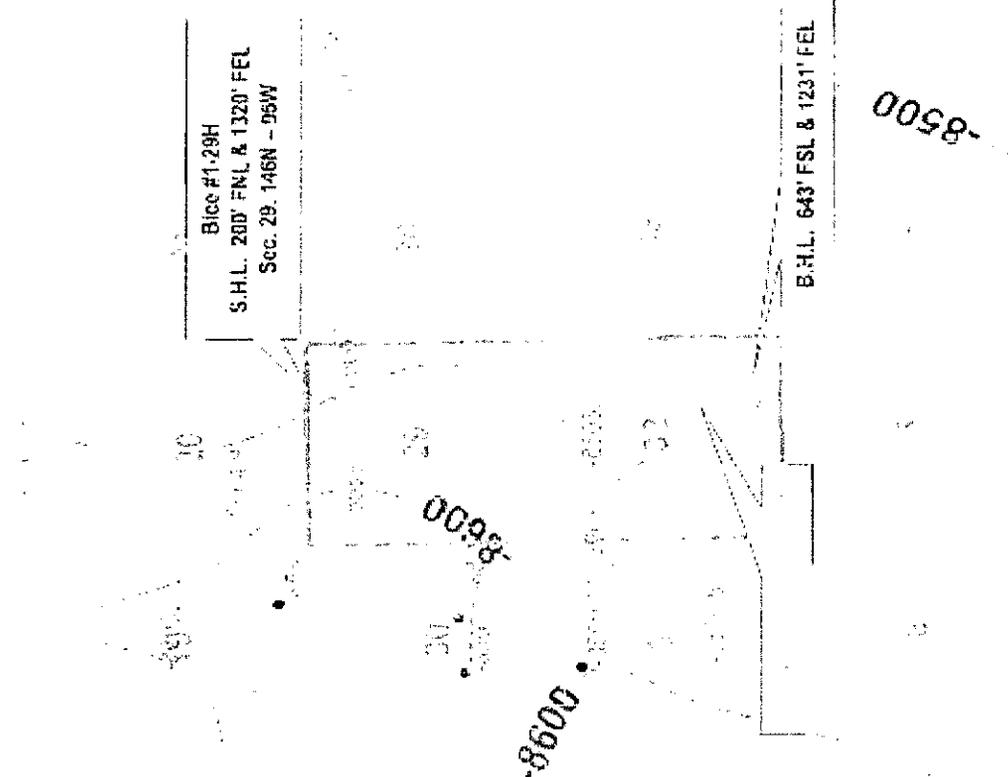




Proposed Increased Density Well

Section 29 & 32, T146N-R95W

Dunn County, ND



INDUSTRIAL COMMISSION
 STATE OF NORTH DAKOTA
 DATE 5/3/07 CASE NO. 9520
 Introduced By Marathon
 Exhibit E-1
 Identified By Daniels



Case No. 9520
 Exhibit E-1
 Wellbore Plan View Diagram
 Application Allowing A Second Horizontal
 Well For Drilling On A Spacing Unit
 Sections 5 and 8, T146N-R94W
 Dunn County, North Dakota
 May 23, 2007

Structure Map - Top Three Forks Formation

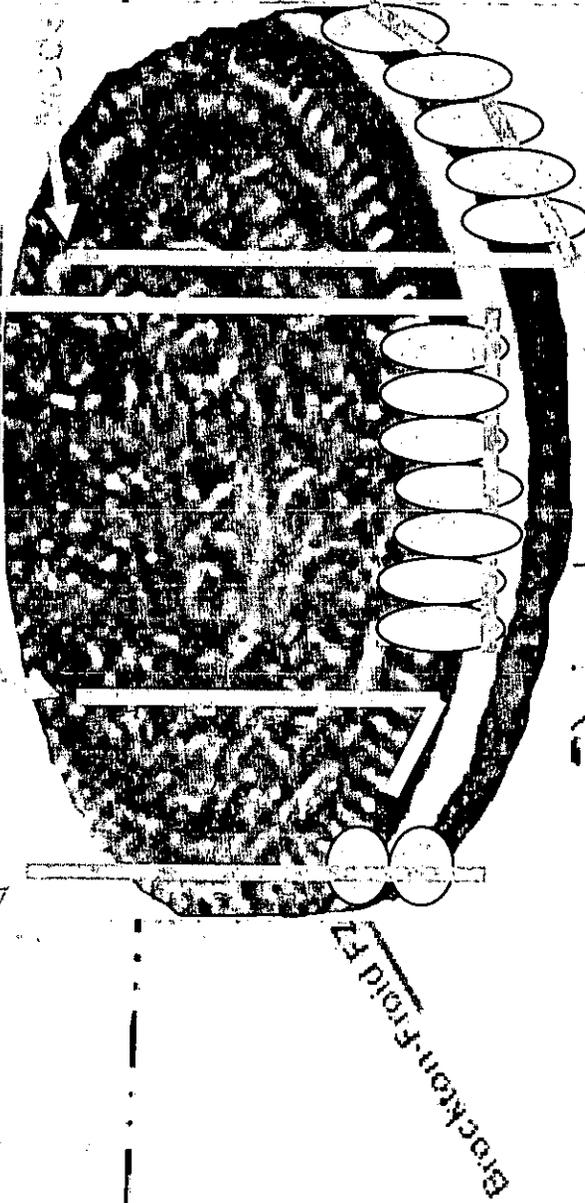
SASKATCHEWAN

Traditional Vertical Well

WILLISTON BASIN

43,455 square miles

MANITOBA



NORTH DAKOTA

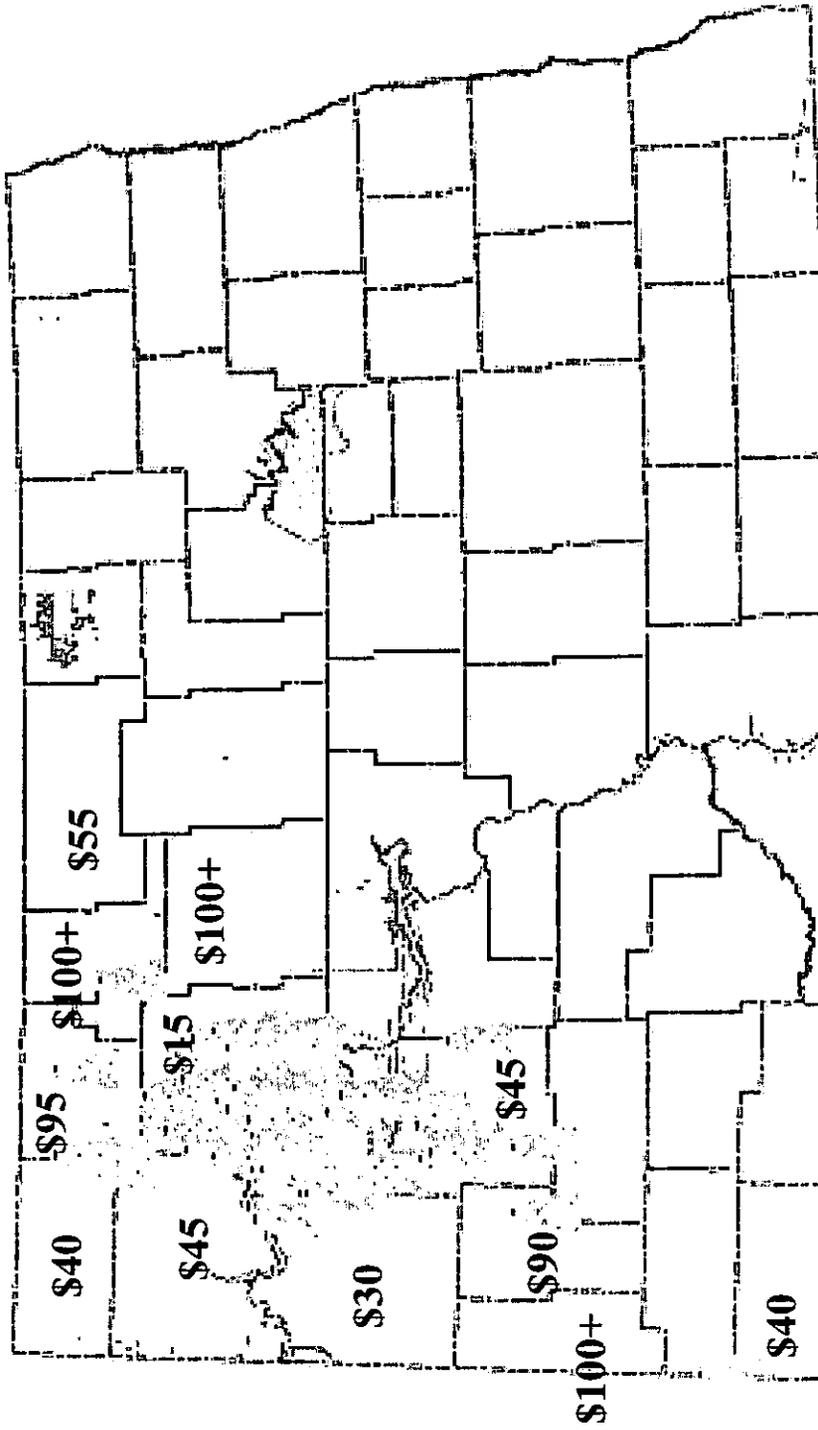
SOUTH DAKOTA

Cedar Cr Ant

Billings Ant

MONTANA

WYOMING



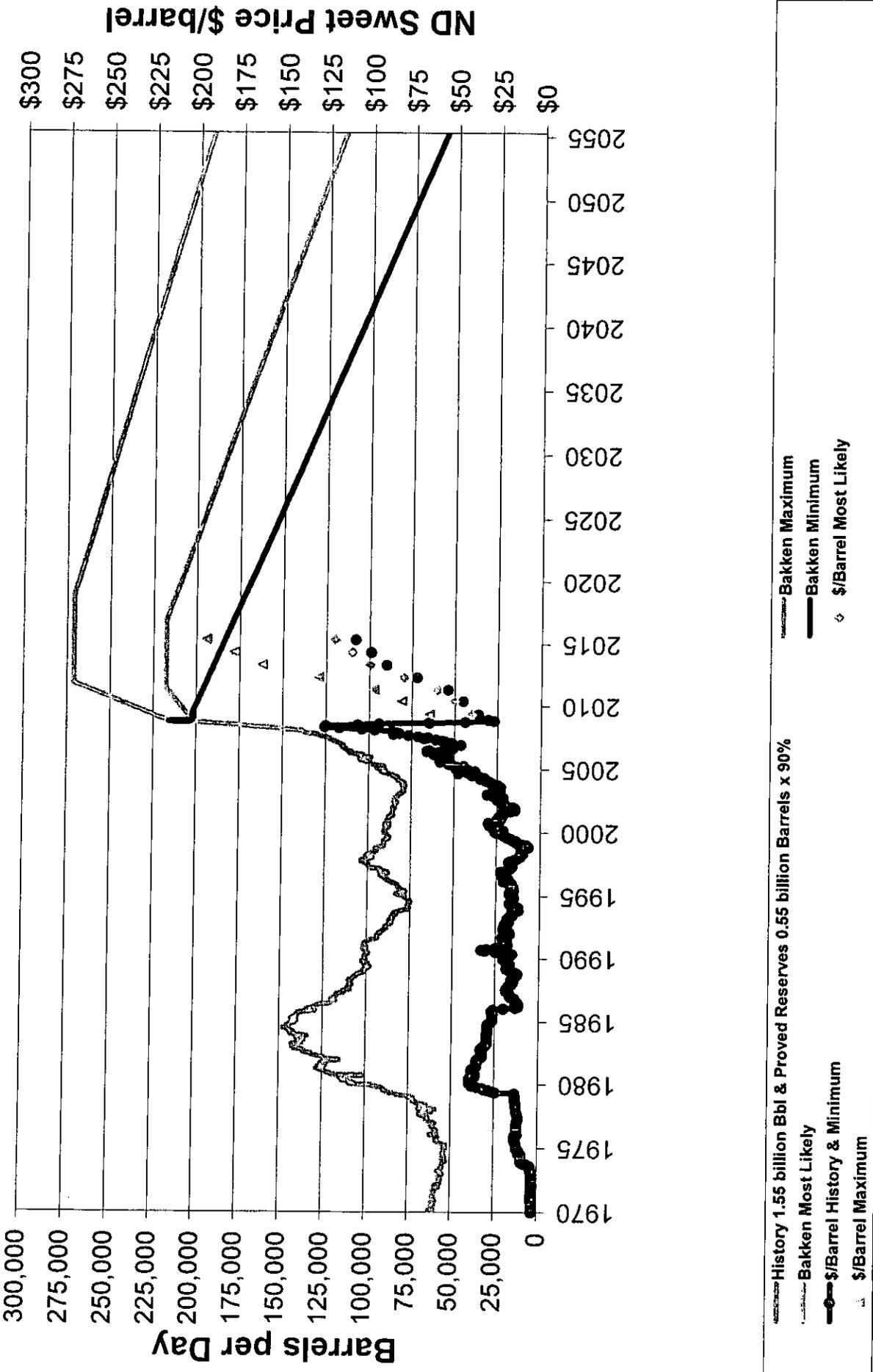
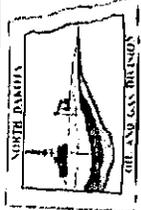
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Scale



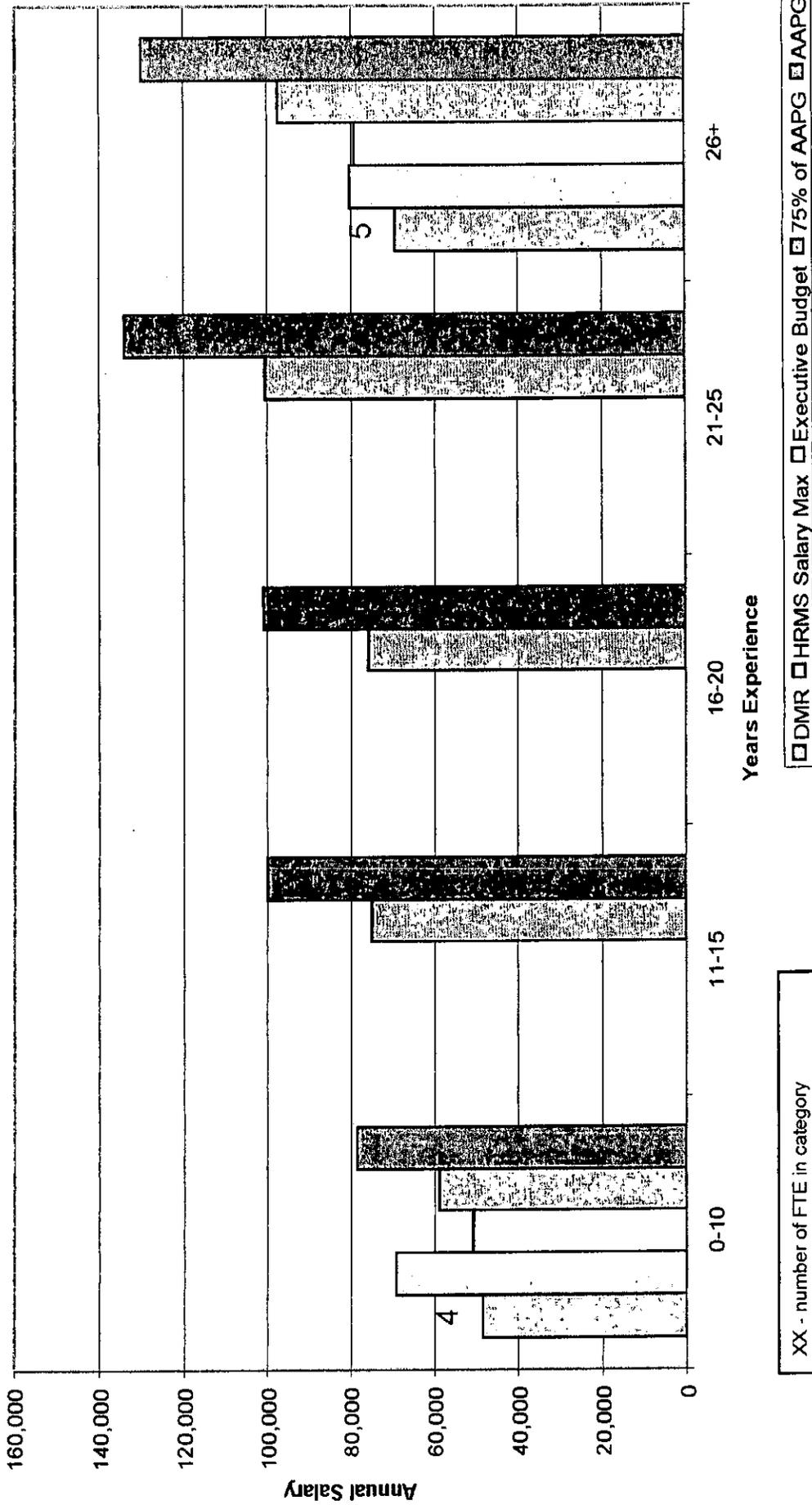
This map is for the use of the [illegible] and is not to be used for any other purpose. The [illegible] is not responsible for any errors or omissions in this map. The [illegible] is not responsible for any damages or losses resulting from the use of this map.

North Dakota Oil Production and Price



- History 1.55 billion Bbl & Proved Reserves 0.55 billion Barrels x 90%
- Bakken Most Likely
- \$/Barrel History & Minimum
- \$/Barrel Maximum
- Bakken Maximum
- Bakken Minimum
- \$/Barrel Most Likely

DMR Geologists vs Market - American Association of Petroleum Geologists (AAPG) 2008



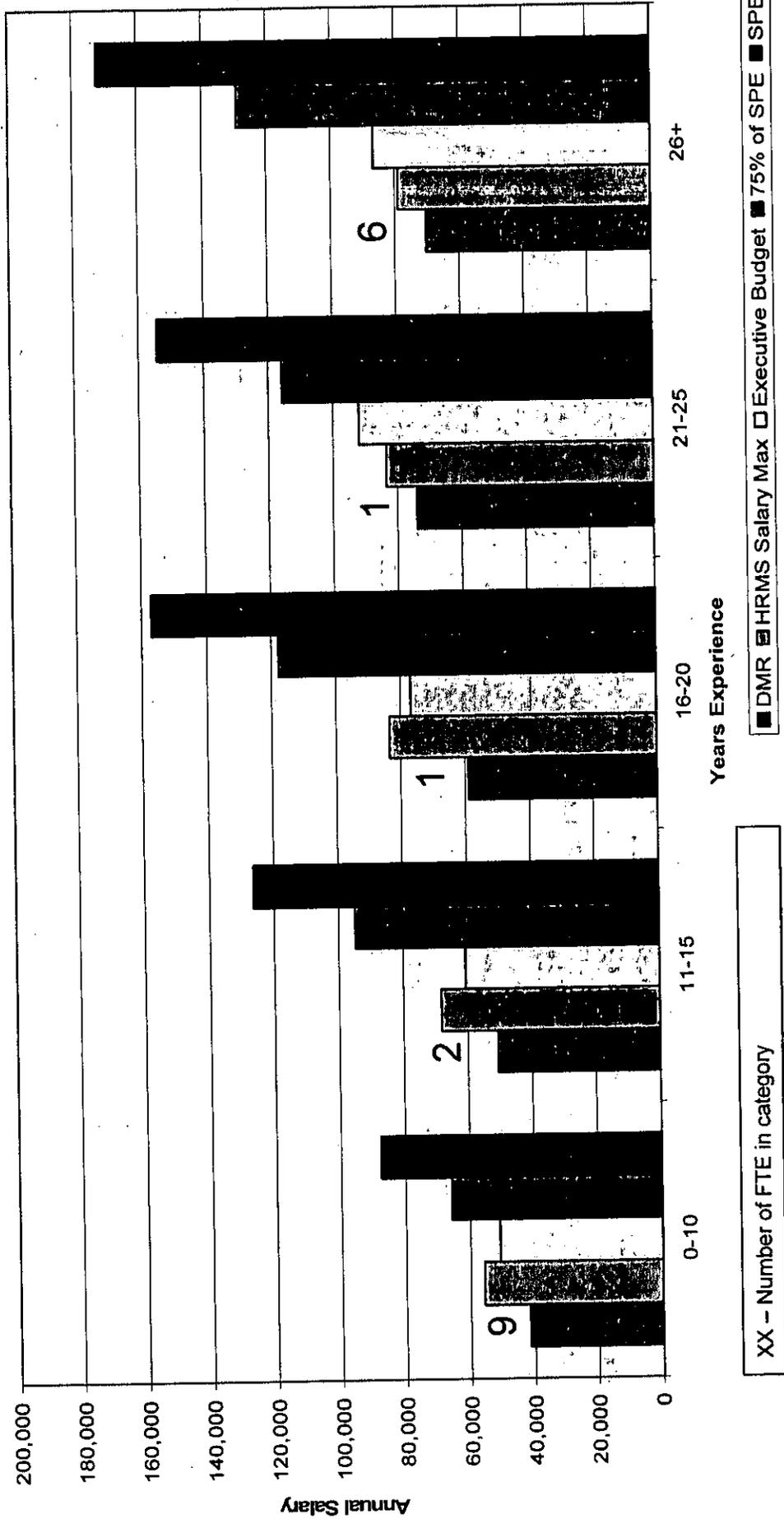
Current Geologist salaries at the DMR average 57% of equivalent experience in industry.

Executive Budget Salaries average 63% of industry.

HRMS Salary Maximums average 73% of industry.

Analysis shows that 75% of industry, combined with ND benefits package, is needed for hiring and retention.

DMR Engineers vs Market - Society of Petroleum Engineers (SPE) 2008

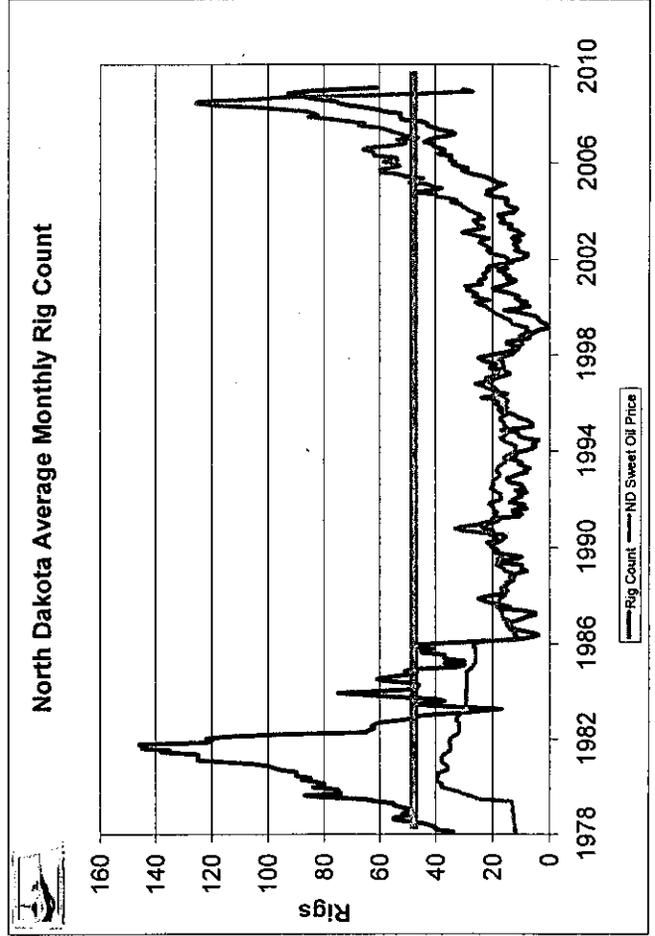
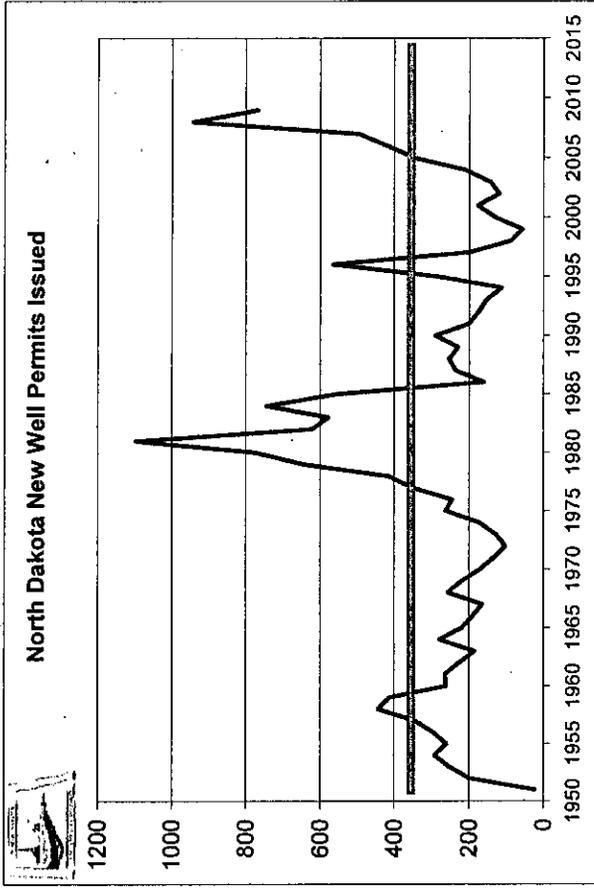
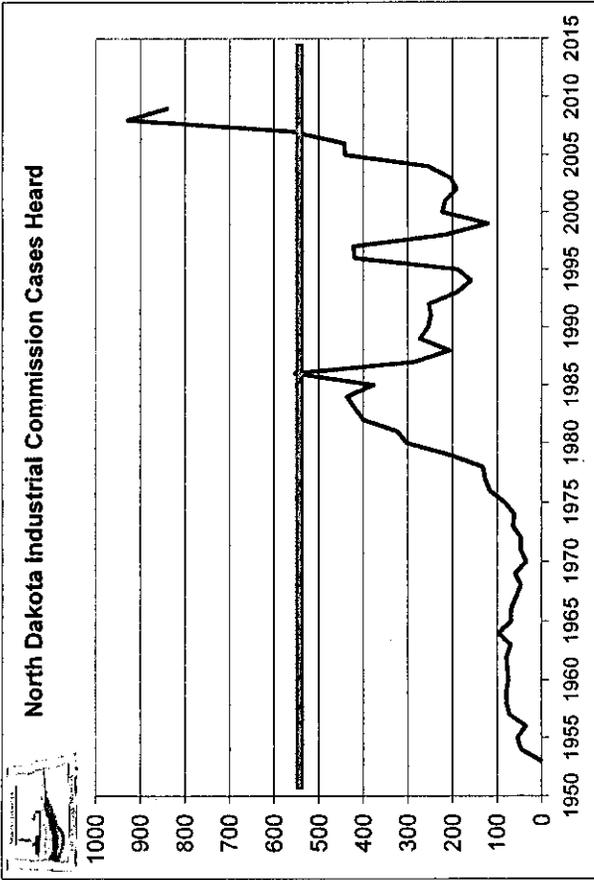


Current Engineer salaries at DMR average 43% of equivalent experience in industry

Executive Budget Salaries average 55% of industry

HRMS Salary maximums average 56% of industry

Analysis shows that 75% of industry, combined with ND benefits package, is needed for hiring and retention.



SB 2014

Industrial Commission
 Dept Mineral Resources

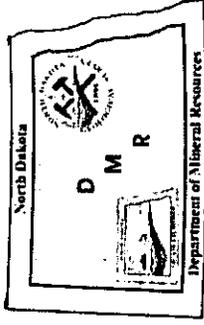
Motor Pool Costs July 2007-Dec 2008

Oil & Gas				
Mo/Yr	Mileage	Rate	Cost	
Jul-07	41,904	0.35	14,666.40	
Aug-07	38,019	0.37	14,067.03	
Sep-07	40,009	0.37	14,803.33	
Oct-07	46,443	0.33	15,326.19	
Nov-07	40,342	0.33	13,312.86	
Dec-07	31,572	0.33	10,418.76	
Jan-08	37,836	0.33	12,485.88	
Feb-08	36,942	0.33	12,190.86	
Mar-08	36,831	0.33	12,154.23	
Apr-08	34,745	0.33	11,465.85	
May-08	35,484	0.40	14,193.60	
Jun-08	37,239	0.40	14,895.60	
Jul-08	38,534	0.40	15,413.60	
Aug-08	32,554	0.40	13,021.60	
Sep-08	36,604	0.40	14,641.60	
Oct-08	37,399	0.40	14,959.60	
Nov-08	25,911	0.40	10,364.40	
Dec-08	31,359	0.45	14,111.55	
Average	36,652	0.37		

Oil & Gas average Rate is .37/mile x
 36,652 average mo. Miles = \$13,561.24

Geo Survey									
Mo/Yr	Mileage	Rate	Mileage	Rate	Mileage	Rate	Mileage	Rate	Cost
Jul-07	3879	0.38	690	0.26	1139	0.46	2177.36		
Aug-07	3823	0.37	2231	0.27	1892	0.48	2925.04		
Sep-07	3961	0.37	705	0.27	967	0.48	2120.08		
Oct-07	647	0.37	2618	0.27			946.25		
Nov-07	1063	0.33					350.79		
Dec-07	1153	0.33	165	0.27			425.04		
Jan-08	1128	0.33			414	0.46	562.68		
Feb-08	777	0.33					256.41		
Mar-08	801	0.33					264.33		
Apr-08	40	0.33	1340	0.27	595	0.45	642.75		
May-08	1622	0.4	900	0.30	1094	0.50	1465.8		
Jun-08	2539	0.4	807	0.30	1401	0.50	1958.2		
Jul-08	2278	0.4	1215	0.30	1139	0.50	1845.2		
Aug-08	4087	0.4	935	0.29	931	0.51	2380.76		
Sep-08	5647	0.4	1207	0.29			2608.83		
Oct-08	11346	0.4	1169	0.29	601	0.51	5183.92		
Nov-08	8828	0.45	159	0.31			4021.89		
Dec-08	8724	0.45	1387	0.31			4355.77		
Average	3,464	0.38	1,109	0.29	1,017	0.49			

Survey average Rate is .386/mile x
 5590 average mo. Miles = \$2,157.74



*Meeting prep to
you chair up
Held Feb 25, 2009
with testimony*

Senate Bill 2014

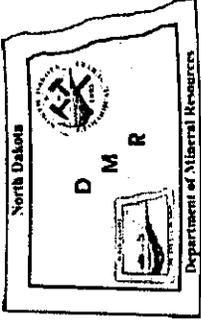
March 2, 2009

House Appropriations, Government Operations

Lynn D. Helms, Director

Department of Mineral Resources

North Dakota Industrial Commission



SERVICES PROVIDED

The Department of Mineral Resources (DMR) through the Oil & Gas Division (OGD) is responsible for regulating all facets of petroleum production by enforcing statutes, rules, and orders 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, as well as federal and other state agencies; identifies, collects, and displays important fossils of North Dakota; disseminates educational geologic material to the general public; and efficiently administers regulatory programs for coal exploration, mineral exploration, geothermal energy production, and paleontology assessment.

Page 2 is a map illustrating the Department of Mineral Resources locations around the state.

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.

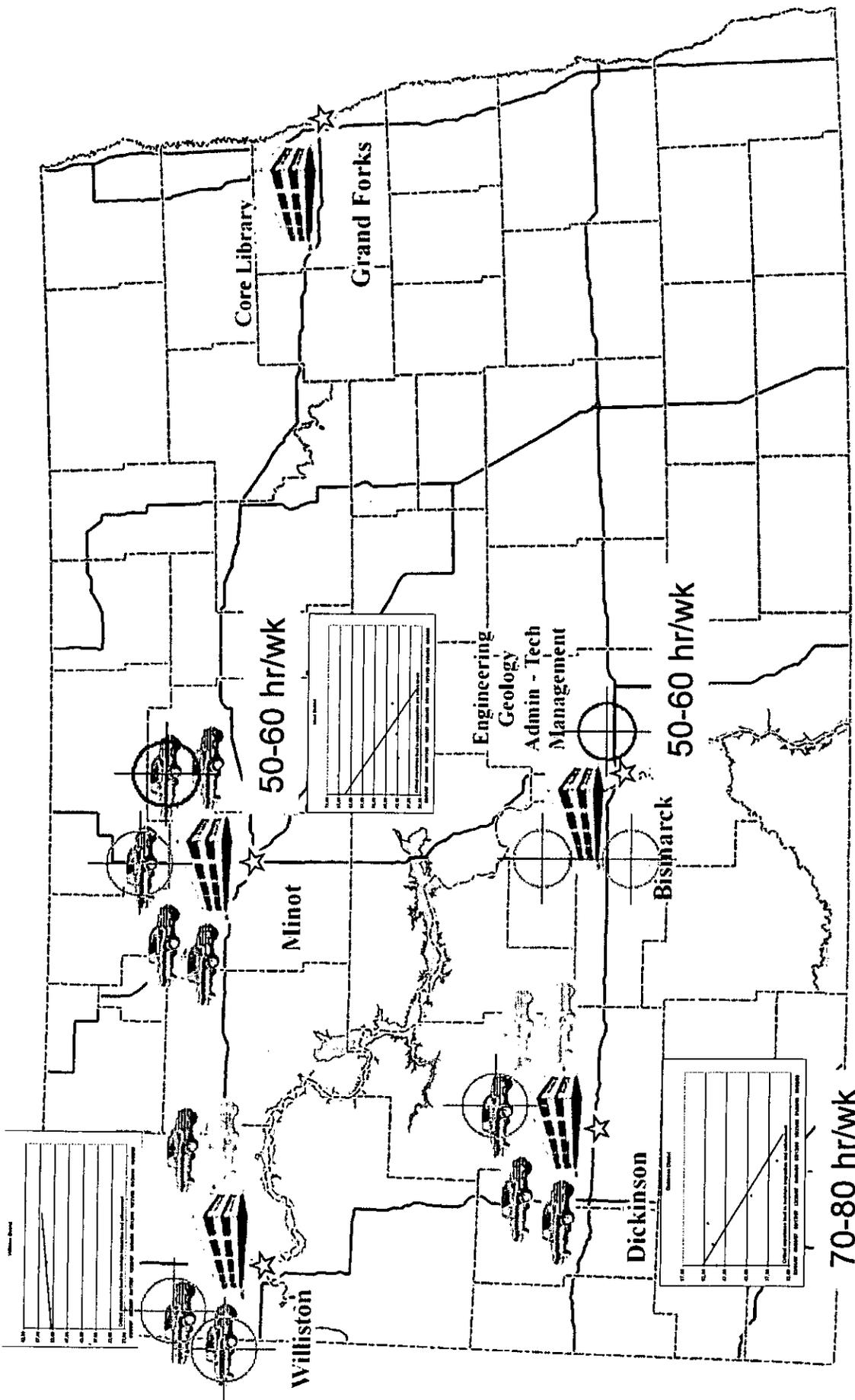
To provide the services contained in our statutory missions the DMR maintains a technical staff trained in engineering; geology; field enforcement; and data acquisition, compilation, and analysis. The Bismarck staff also includes clerical and support persons who compile, store, and process coal, geological, 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, cities and counties), industry, royalty owners, and the public via maps, publications, and agency web sites.

Pages 3 & 4 are graphs of agency performance measures. Agencies manage what they measure and the DMR is doing an excellent job of fulfilling our statutory missions.

Department of Mineral Resources

Service Locations

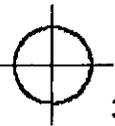
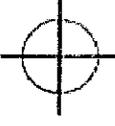
55-65 hr/wk

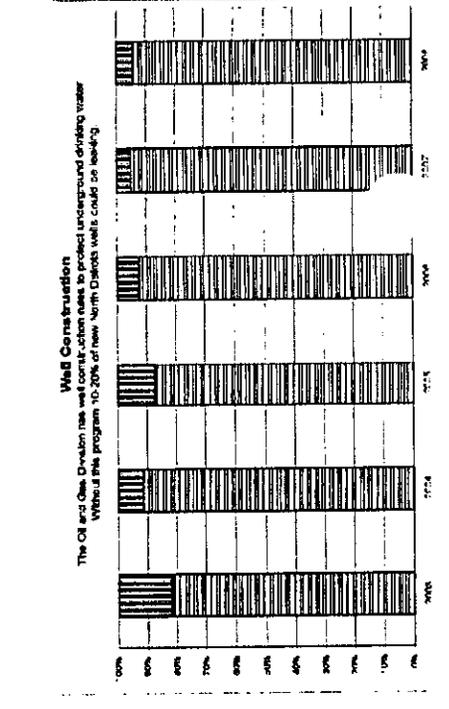
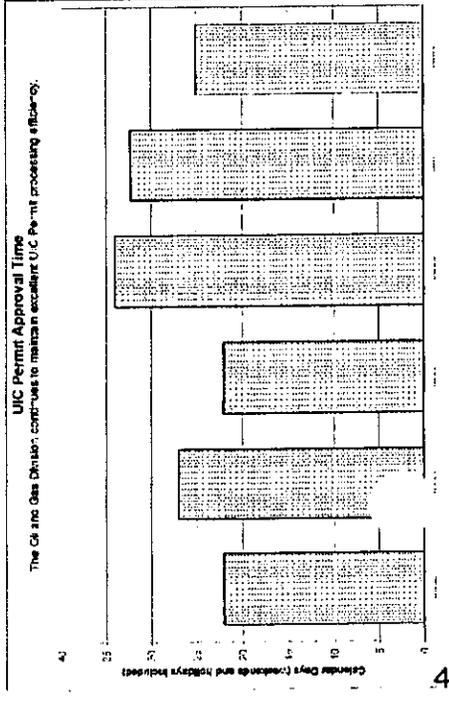
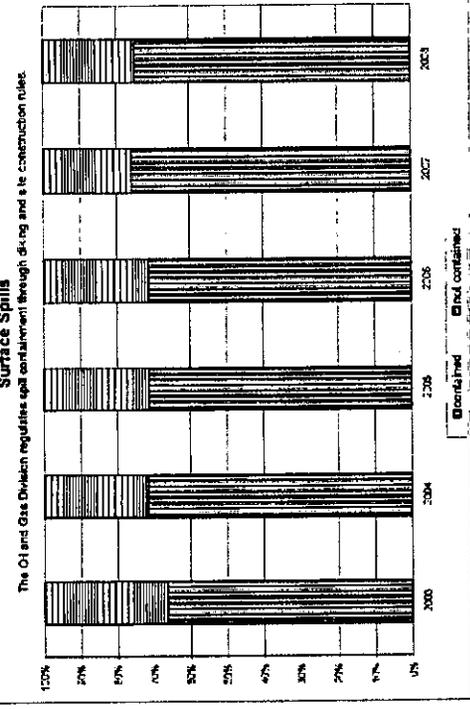
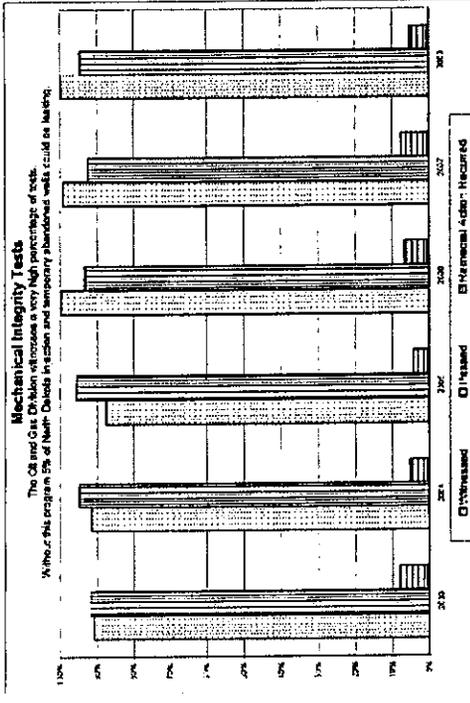
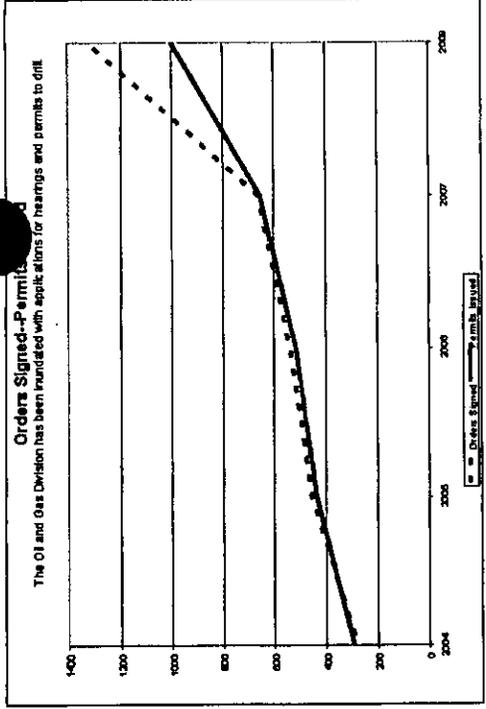
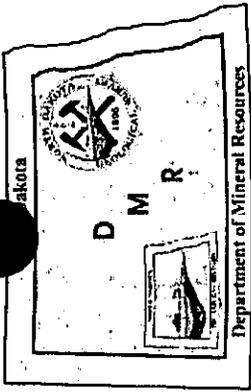
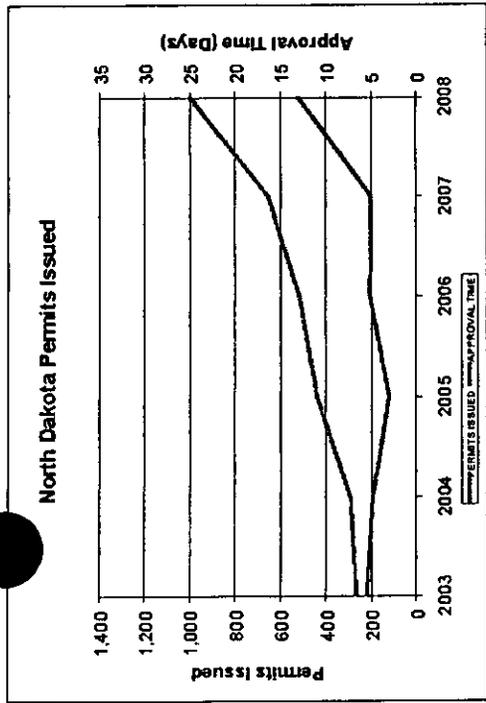


50-60 hr/wk

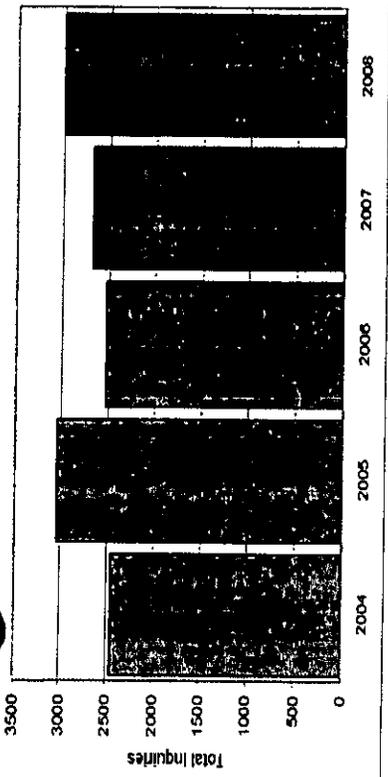
50-60 hr/wk

70-80 hr/wk

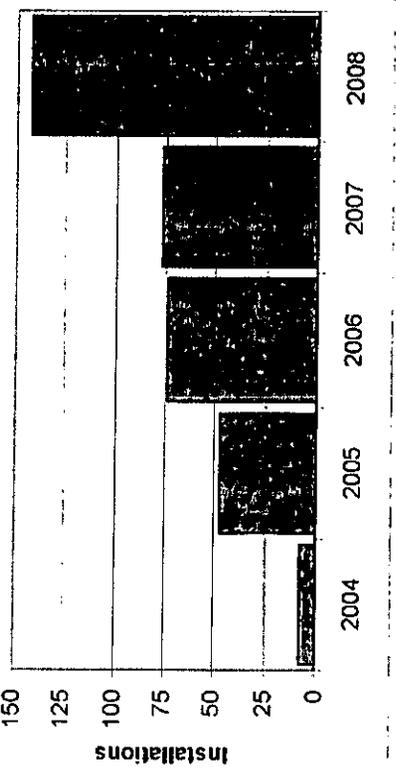
Industry job offer – retention bonus  Industry job offer – retention bonus  Industry job offer – retention bonus – Rule of 85 this biennium



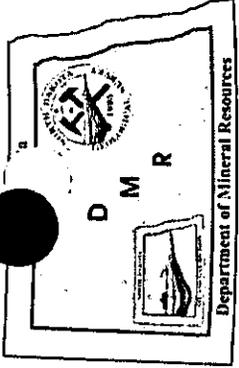
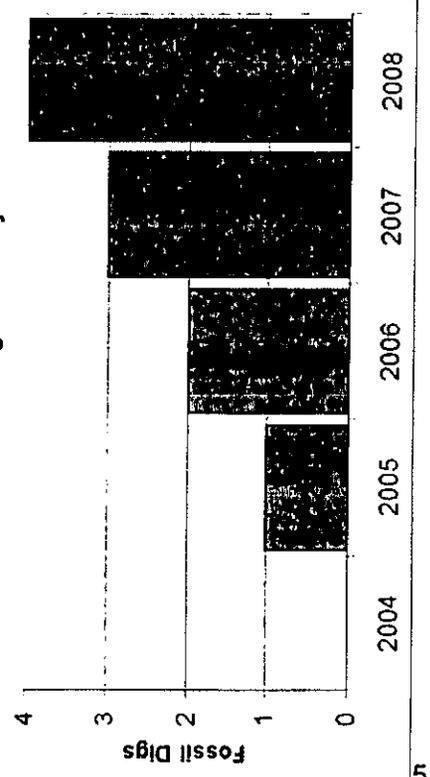
PUBLIC INQUIRIES
North Dakota Geological Survey



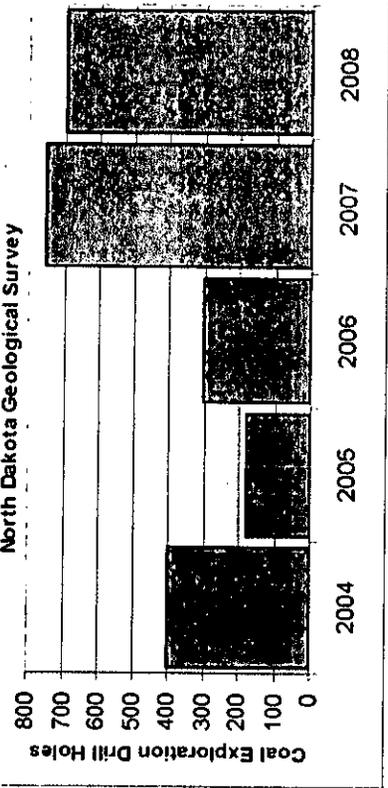
GEOHERMAL FACILITIES
North Dakota Geological Survey



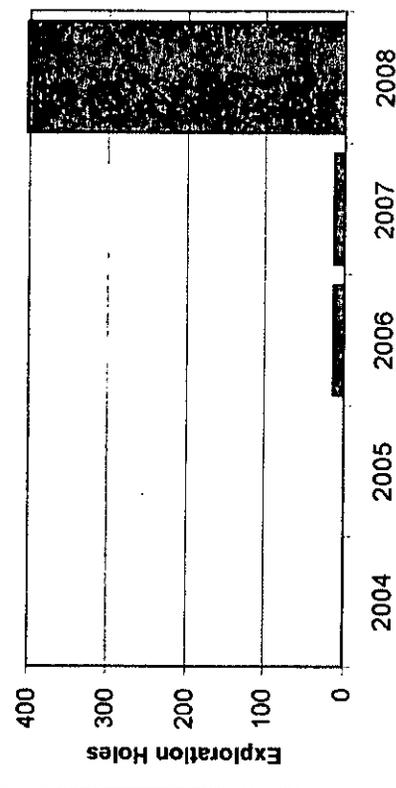
PUBLIC FOSSIL DIGS
North Dakota Geological Survey



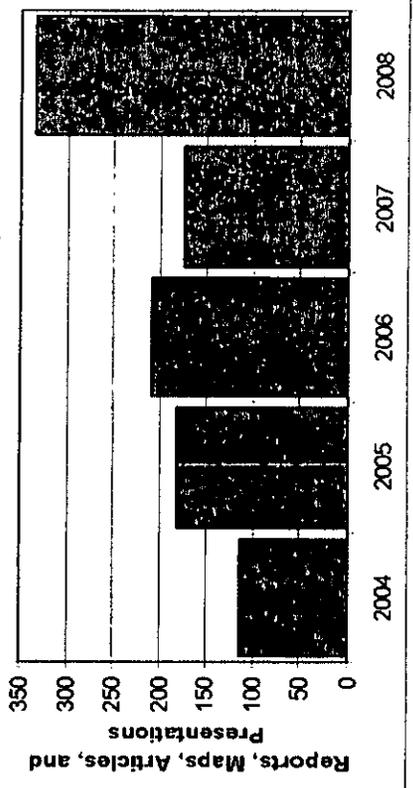
COAL EXPLORATION DRILL
North Dakota Geological Survey

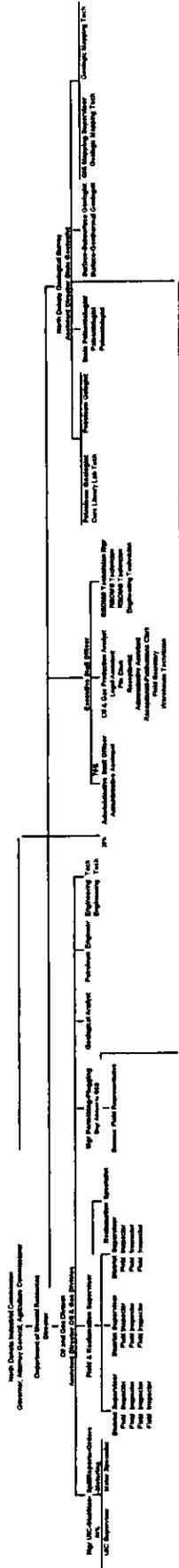
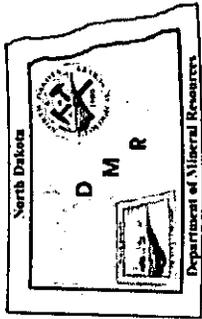


SUBSURFACE MINERAL EXPLORATION HOLES
North Dakota Geological Survey



PRODUCTIVITY
North Dakota Geological Survey





PROGRAMS

Change in activity versus 2 years ago

- Bonding +10 to +100%
- Core Library +185%
- Field Inspection rigs +100% & wells +15%
- Geology -- inquiries and publications +59%
- Hearings, dockets, and Industrial Commission orders +100%
- Paleontology +100%
- Permitting -- oil and gas +115%, coal exploration +67%, subsurface minerals +2,400%, geothermal +175%
- Production accounting +65 to +2,400%
- Reclamation +15%
- Underground injection +10%
- +100%

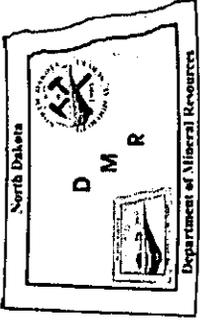
All agency programs have 2 or less FTE assigned to each function area. All programs are operating at maximum capacity with the current FTE count.

PETROLEUM ENGINEER AND ENGINEERING TECH 4 POSITIONS

2008 activity levels have generated a back log of directional drilling surveys, completion reports, open hole logs, and cement bond logs to be inventoried and entered into our database.

With one additional engineer and engineering technician on staff we expect to quickly process the back log and be able to keep up when drilling activity returns with higher oil prices in 2010 -2011.

We are utilizing all advertising methods available to us as well as recruitment bonuses in an attempt to fill the vacant field inspector positions.



EXPLANATION OF PROGRAM COSTS

The DMR base budget request is 78% Salaries and Wages, 22% Operating Expenses, and <1% Capital Equipment.

Guidelines from other entities such as DOT mileage rates, ITD charges, and office rent dictate 75% of our Operating budget.

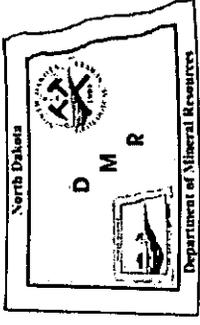
Federal Funds have not kept pace with program cost increases.

Operating Expenses for our agency were reduced in order to meet OMB guidelines:

Due to increases in DOT motor pool mileage rates, and Office/Warehouse Rent - achieving a "no increase" budget would require us to close our field offices in Dickinson, Minot, and Williston, reduce OGD field inspections and GSD field mapping 15-30%, and reduce Paleontology field work 50%.

Optional funding included in the Executive Budget Recommendation will permit us to restore these services.

Capital Equipment requests for our agency were reduced to meet OMB guidelines.



EXPLANATION OF PROGRAM COSTS

Optional funding requests included in the Executive Budget Recommendation and passed by the Senate are prioritized as follows:

- P1-L20 Restore funding cuts - **\$362,424**
- P1-L19 Change funding source for 2007-2009 contingency Field Inspector and Engineering Tech from Special to General Funds - **\$287,224**
- P1-L19 External (Market) Equity salary funds - **\$554,960 = 55% of SPE and 63% of AAPG**
- P1-L19 Increase OGD File Clerk from 0.81 to 1.00 FTE - **\$28,310**
- P1-L19 Reclassify GSD Core Library Lab Tech to Engineering Tech due to geothermal field inspection work - **\$21,350**
- P1-L19 New FTE (Engineering Technician) for OGD - **\$108,135**
- P1-L19 New FTE (Petroleum Engineer) for OGD - **\$175,463**
- P1-L21 New microscope equipment for GSD - **\$37,400**
- P1-L20 New field equipment for paleontology "public digs" GSD - **\$10,100**
- P4-L15 Frac proppant investigation GSD - **\$62,000**
- P4-L15 CBM / shallow gas investigation GSD - **\$31,150**
- P5-L20-29 Three contingency FTE - **\$479,244**
 - one Petroleum Engineer and one Engineering Tech for OGD if rig count exceeds 100
 - one Geologist for GSD if a subsurface mineral application is filed

Optional funding requests not included in the Executive Budget Recommendation added by the Senate are as follows:

- P1-L19 New FTE (Subsurface Geologist-Petroleum) for GSD - **\$174,396**

Optional funding requests not included in the Executive Budget Recommendation are prioritized as follows:

- P1-L19 External (Market) Equity salary funds for OGD and GSD - **\$1,553,482**
- P4-L10 Transfer from General Fund to the Fossil Excavation and Restoration Fund - **\$100,000**

Competitive salaries for employee hiring and retention are our number one issue.

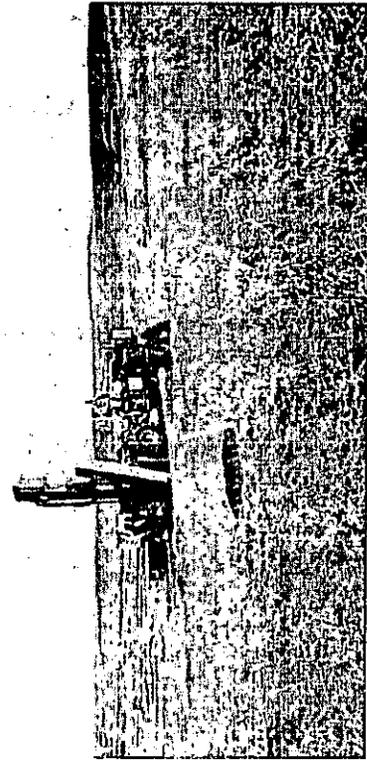
MINERAL GEOLOGIST CONTINGENCY POSITION

In the past 18 months, we have received a number of inquiries from the mineral industry as the price increased for a variety of elements and minerals. Chief among these has been uranium and potash. Uranium was mined in North Dakota in the 1960s. It was heavily explored for in the 1970s, but has been of little interest for the last 30 years until the price for uranium oxide reached an all time high in June of 2007. Companies have also expressed interest in associated elements, molybdenum and germanium. If a company submits a permit to do in situ leach uranium mining, we will need a geologist dedicated full-time to that project. We are aware of three companies that are contemplating mining uranium in southwestern North Dakota.

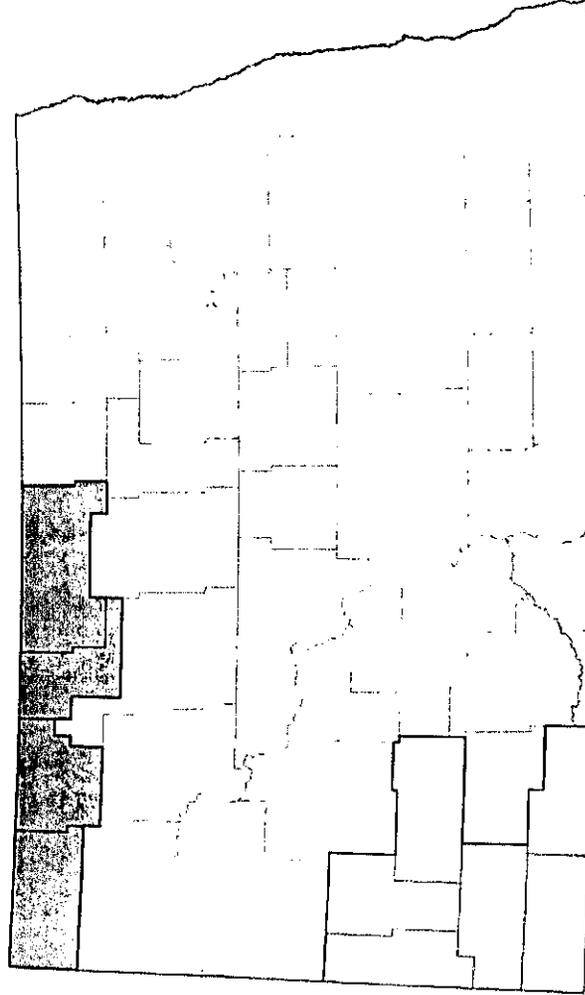
Potash or potassium salts are primarily used in the production of fertilizer. Potash exploration took place in northwestern North Dakota in the 1970s. Since the beginning of 2007, the price of potash has risen from \$190 to \$1,050 per ton based on a low supply and increasing demand. Due to the increased workload, we will need a geologist to oversee potash exploration and production if we receive a permit from either of the two companies that we know are actively pursuing potash exploration and production.



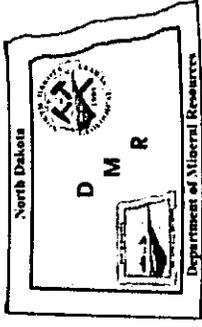
Potash core from a depth of 9,000 feet in Burke County.



Formation Resources drilling for uranium, molybdenum, and germanium under a subsurface mineral permit in Billings County during the fall of 2008.



Counties that contain uranium deposits are in yellow and those that contain the shallowest potash deposits are in blue.



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.

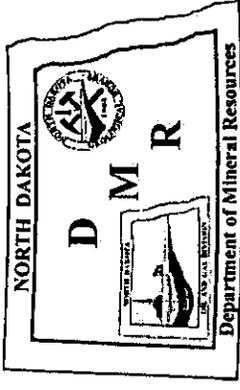
Monies in this fund are appropriated to maintain the base station used by ten local engineering firms and the federal government.

Equipment repairs and replacement are highly variable making a revolving fund the most efficient way to manage demand.

54-17.4-13. Geologic Data Preservation Fund

Monies deposited into this fund are donations from industry, grants from the federal government, or appropriated monies earmarked for this fund. Monies in this fund may be used to defray the expenses of preserving geologic data compiled by the commission and disseminating the data to county, state, and federal departments and agencies and members of the general public.

A revolving fund is necessary to be able to capture state, federal, and industry funds as they become available.



2009-20011 BIENNIUM

In the 2007-2009 biennium we have experienced extreme highs and lows in oil and gas prices due to demand increases in Asia and supply constraints caused by unrest in Venezuela, Iraq, Iran, and Nigeria followed by the economic collapse.

World supply and demand balance is expected to return by mid 2009 and be more stable through the 2009-20011 biennium.

Fortunately most of North Dakota's production comes from EOR projects and horizontal wells. Both yield long term, stable production. Three oil price and production scenarios are presented on the facing page.

The workload of the Oil and Gas Division has increased substantially with almost all available well bores returned to production; drilling rig count exceeding 95 and then dropping back to the low 80's (over 95% of the wells are horizontal drilled and 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; interest in subsurface mineral production; fossil excavation, collection, and restoration; and publication of surface and subsurface studies.

Future critical issues are as follows:

- 1) retention of experienced personnel through more competitive salaries, benefits, and professional development as the number of less experienced personnel in industry increases
- 2) implementation of electronic reporting and permitting and,
- 3) reduced federal funding for mandated programs.

Senator Wardner,

I am providing information for SB 2014.

- 1) The funding approved by the Senate in SB2014 for DMR does not include any market funds for the vacant, new, or 2007-2009 contingency positions. This will make it almost impossible to fill those positions as long as industry has 45 or more rigs running. This additional need is \$287,728 salaries plus \$33,089 benefits.

Vacant Petroleum Engineer Field Inspector Williston - \$37,738 salary plus benefits
Vacant Petroleum Engineer Field Inspector Dickinson - \$37,738 salary plus benefits
Vacant Petroleum Engineer Field Inspector Dickinson - \$37,738 salary plus benefits
2007-2009 Contingency Petroleum Engineer Field Inspector - \$37,738 salary plus benefits
2007-2009 Contingency Engineering Technician - \$35,568 salary plus benefits
New Petroleum Engineer - \$37,768 salary plus benefits
New Engineering Technician - \$35,568 salary plus benefits
New Geologist 1 - \$27,902 salary plus benefits

- 2) In addition, as we discussed, I don't think we have to match industry salaries. We can retain the critical DMR employees by paying at least what the Job Service annual survey publishes for their positions which is less than or equal to 75% of the national engineer and geologist market. To reach the figures in the Job Service survey will require an additional \$133,936 salary plus \$15,403 benefits.

The total needed in addition to funds approved by the Senate is \$421,664 salaries and \$48,492 benefits.

The needed DMR grand totals are \$7,122,914 salaries, \$63,796 temporary salaries, and \$2,256,616 benefits.

The needed Industrial Commission grand total salaries and wages is \$10,422,461.

Sincerely,

Lynn D. Helms

Director
North Dakota Industrial Commission
Department of Mineral Resources
Phone (701) 328-8020
Fax (701) 328-8022

Department of Mineral Resources

Object Code	Expenditures		2009-11		Change from 07-09		Change from 07-09	
	2005-2007 Biennium	Expenditures thru Dec. 31, 2008	2009-11 Recommendation	07-09 Appropriation	09 Appropriation	Geo III FTE Subsurf.	07-09 Appropriation	
511000 Salaries	4,236,749	3,794,163	6,701,250	5,101,710	1,599,540	129,072	1,728,612	
512000 Temporary	33,455	16,926	63,796	65,184	-1,388	0	-1,388	
516000 Benefits	1,335,099	1,188,767	2,208,125	1,706,961	501,164	42,185	543,349	
510000 Salaries and Benefits	5,605,303	4,999,856	8,973,171	6,873,855	2,099,316	171,257	2,270,573	
7591 General Fund	5,247,275	4,652,562	8,311,758	6,358,880	1,952,878	171,257	2,124,135	
7592 Federal Fund	259,675	139,643	238,284	276,475	-38,191	0	-38,191	
7593 Special Fund	98,353	207,651	423,129	238,500	184,629	0	184,629	
Total	5,605,303	4,999,856	8,973,171	6,873,855	2,099,316	171,257	2,270,573	
Operating Fees & Services								
521000 Travel	568,489	387,117	1,141,460	762,503	378,957	12,000	390,957	
531000 IT-Software/Supplies	36,794	34,442	38,325	27,800	10,525	900	11,425	
532000 Professional Supplies	27,832	12,245	31,000	31,000	0	0	0	
533000 Food & Clothing	2,409	1,720	3,350	2,150	1,200	0	1,200	
534000 Bldg, Grnds, Veh Maints	8,121	7,772	11,000	11,000	0	0	0	
535000 Misc. Supplies	40,560	17,405	37,400	19,865	17,535	1,500	19,035	
536000 Office Supplies	15,751	15,293	16,500	16,000	500	500	1,000	
541000 Postage	21,767	19,271	19,500	15,000	4,500	0	4,500	
542000 Printing	21,957	11,789	33,000	33,000	0	0	0	
551000 IT Equip Under \$5000	72,666	23,990	115,920	102,520	13,400	2,000	15,400	
552000 Other Equip Under \$5000	18,417	0	21,040	7,800	13,240	0	13,240	
553000 Office Equip - Under \$5,000	4,664	6,006	2,600	2,600	0	0	0	
561000 Utilities	8,950	6,093	12,000	12,000	0	0	0	
571000 Insurance	13,524	10,370	16,200	16,200	0	0	0	
581000 Lease/Rent - Equip.	1,739	5,293	5,530	4,195	1,335	0	1,335	
582000 Leaser/Rent-Bldg/land	488,599	405,418	545,655	516,751	28,904	0	28,904	
591000 Repairs	33,386	25,268	39,500	39,500	0	0	0	
601000 IT Data Processing	109,451	86,626	136,143	127,368	8,775	1,663	10,438	
602000 IT-Telephone	63,622	51,428	106,564	98,813	7,751	845	8,596	
603000 IT-Contractual Services	28,529	15,361	37,700	32,500	5,200	0	5,200	
611000 Professional Dev	11,691	7,539	22,500	16,500	6,000	500	6,500	

621000 Operating Fees & Services	60,222	53,782	56,300	66,300	10,000	10,000	0	10,000
623000 Professional Services	9,300	2,788	22,500	50,000	27,500	27,500	0	27,500
625000 Medical,Dental & Optical	1,984	1,473	5,891	5,891	0	0	0	0
TOTAL	1,670,424	1,208,489	1,979,756	2,515,078	535,322	535,322	19,908	555,230

7591 General Fund	1,580,414	908,059	1,933,256	2,407,038	473,782	473,782	19,908	493,690
7592 Federal Fund	177	0	0	0	0	0	0	0
7593 Special Fund	89,833	2,288	46,500	108,040	61,540	61,540	0	61,540
TOTAL	1,670,424	910,347	1,979,756	2,515,078	535,322	535,322	19,908	555,230

Capital Assets

684000 Extraordinary Repairs	0	229,569	230,000	0	-230,000	-230,000	0	-230,000
691000 Equip \$5000+	22,705	7,657	8,000	20,000	12,000	12,000	0	12,000
693000 IT-Equip \$5000+	21,715	0	18,500	18,000	-500	-500	0	-500
Total	44,420	237,226	256,500	38,000	-218,500	-218,500	0	-218,500

General Fund	44,420	237,226	256,500	38,000	-218,500	-218,500	0	-218,500
Federal Fund	0	0	0	0	0	0	0	0
Special Fund	0	0	0	0	0	0	0	0
TOTAL	44,420	237,226	256,500	38,000	-218,500	-218,500	0	-218,500

Transfer Out

Grants-Fossil Excavation	0	250,000	250,000	0	(250,000)	(250,000)	0	(250,000)
TOTAL	0	250,000	250,000	0	(250,000)	(250,000)	0	(250,000)

3991 General Fund	0	250,000	250,000	0	(250,000)	(250,000)	-	(250,000)
General Fund	6,872,109	5,797,847	8,548,636	10,756,796	1,958,160	1,958,160	191,165	2,149,325
Federal Fund	259,852	139,643	276,475	238,284	-38,191	-38,191	0	-38,191
Special Fund	188,186	209,939	285,000	531,169	246,169	246,169	0	246,169
TOTAL	7,320,147	6,147,429	9,110,111	11,526,249	2,166,138	2,166,138	191,165	2,357,303

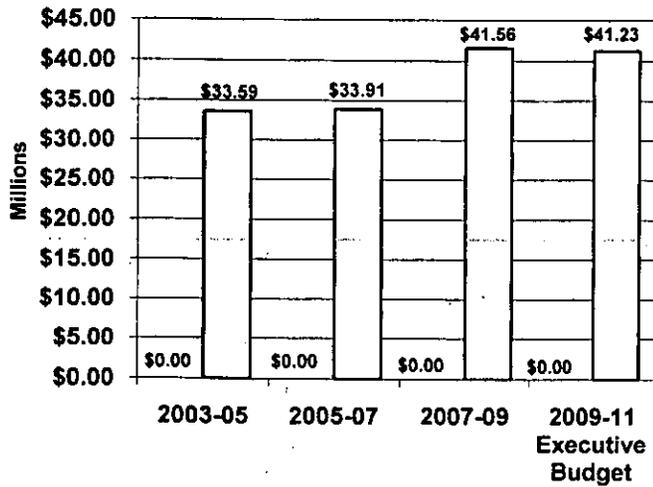
Reporting Level Total	7,320,147	6,147,429	9,110,111	11,526,249	2,166,138	2,166,138	191,165	2,607,303
FTE Employees	46.62	0.00	50.62	57.81	7.19	7.19	1.00	8.19

Department 473 - Housing Finance Agency
 Senate Bill No. 2014

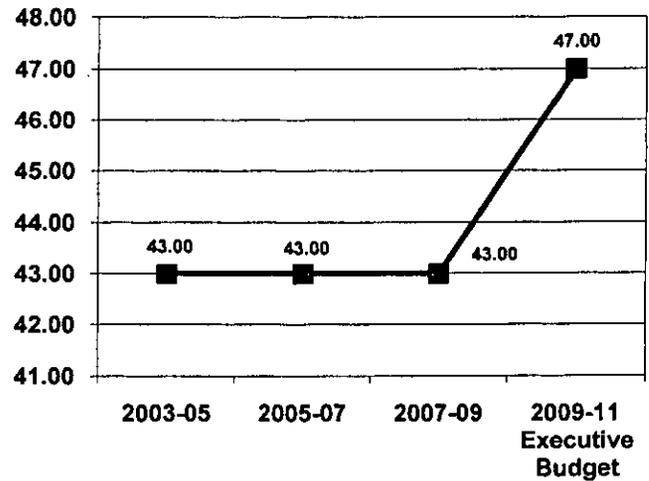
	FTE Positions	General Fund	Other Funds	Total
2009-11 Executive Budget	47.00	\$0	\$41,232,188	\$41,232,188
2007-09 Legislative Appropriations	43.00	0	41,564,176	41,564,176 ¹
Increase (Decrease)	4.00	\$0	(\$331,988)	(\$331,988)

¹The 2007-09 appropriation amounts include \$34,886 of other funds for the agency's share of the \$10 million funding pool appropriated to the Office of Management and Budget for special market equity adjustments for classified employees.

Agency Funding



FTE Positions



■ General Fund □ Other Funds

First House Action

Attached is a summary of first house changes.

Executive Budget Highlights
 (With First House Changes in Bold)

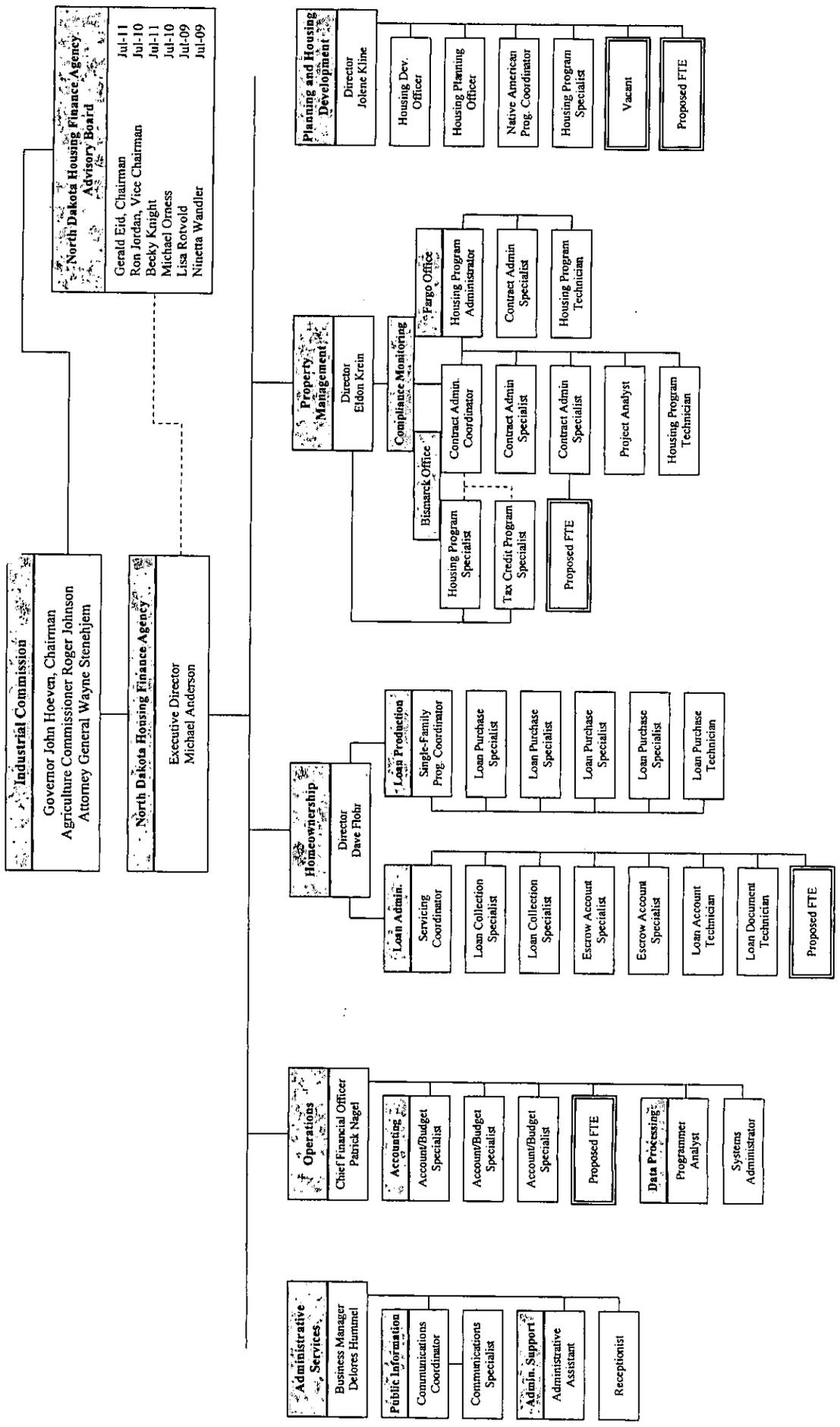
	General Fund	Other Funds	Total
1. Provides funding to address salary equity issues (\$109,656) and related second-year salary increases (\$5,483)		\$115,139	\$115,139
2. Provides one-time funding for relocation and furnishing expenses		\$248,000	\$248,000
3. Increases funding for program utilization		\$2,302,810	\$2,302,810
4. Increases funding for program outreach		\$383,127	\$383,127
5. Provides funding for 4 FTE program growth and outreach positions		\$533,120	\$533,120
6. Decreases federal funds received for Housing and Urban Development grants		(\$1,692,440)	(\$1,692,440)
7. Reduces the reserve for loan losses from \$6 million to \$3 million		(\$3,000,000)	(\$3,000,000)

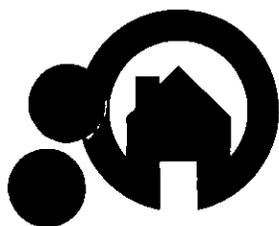
Continuing Appropriations

No continuing appropriations for this agency.

Major Related Legislation

major legislation is under consideration affecting this agency.





North Dakota
Housing Finance Agency

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INDUSTRIAL COMMISSION
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SB 2014

March 2, 2009

North Dakota Housing Finance Agency
Division of the State Industrial Commission
Testimony of Michael Anderson, Executive Director
House Appropriations Committee (Government Operations Division)

Chairman Delzer, members of the Government Operations Division of the House Appropriations Committee, I am Mike Anderson, Executive Director of the North Dakota Housing Finance Agency. Thank you for the opportunity to provide you a little background on the Agency and an overview our proposed 2009-2011 biennium budget contained in SB 2014.

North Dakota Housing was created in 1980 by initiated measure which authorized the Industrial Commission to act as a housing finance agency and to create a mortgage purchase program and certain other housing programs. Our mission is to make housing more affordable for North Dakota's low and moderate income residents and to assist developing communities address their unmet housing needs and alleviate a housing shortage.

Over the years we have developed and offered 1) first and second mortgage loan purchase and grant programs to assist with the purchase of single family homes and the requisite down payment requirements mostly for first time buyers; 2) loans and grants for the rehabilitation of both single family and multi-family properties; 3) grants and technical assistance initiatives to assist rural communities and the special needs populations, and 4) grants and technical assistance for housing counseling and homebuyer education. In addition, we administer a federal tax incentive program targeted to the development and preservation of affordable multi-family housing.

Nearly all of the programs involve partnerships with other entities in their delivery to program beneficiaries. These partnerships include lenders, realtors, homebuilders, property developers, non-profit agencies, and other state and federal housing agencies.

Some of our most notable accomplishments to date include 1) purchased more than **32,600 FirstHome loans totaling \$2.07 billions**; 2) since 1986 allocated **\$27 million of federal tax credits that has resulted in over \$387 million of private investment** in the new construction or rehabilitation of approximately 5,300 affordable rental units; and 3) utilized more than **\$4.9 million of our own reserves** to fund grants for housing rehab accessibility, homeless, Native American and rural community technical assistance, and homebuyer education incentives.

Attachment A contains a brief description of all the Agency's programs.



The Agency's programs and operations are administered under close scrutiny from a six-member Advisory Board, comprised of housing industry representatives that meet monthly and provide recommendations to the Industrial Commission. In addition, the Agency utilizes a senior management team made up of the Agency's executive staff and four division directors. This team oversees the day to day operations of the Agency in a manner of a profit-motivated business with an eye on customer service and our mantra to successfully house North Dakotans.

This business approach is essential as the Agency has operated solely on the revenues generated from the administration of its various housing programs. To date, we have not received a General Fund appropriation.

Funding for our programs is derived primarily from revenue bonds, federal funds, or agency and bond indenture assets. Total bonds issued to date are \$3,194,233,909. The bond issues contain provisions for the associated administrative costs or administrative fees are assessed participants as appropriate. An example of the latter is the application and processing fees charged to multi-family developers of Low Income Housing Tax Credit projects.

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 December 31, 2008, assets of these various bond funds were approximately \$1.038 billion and liabilities totaled \$952 million. Agency costs for administering these bond financed programs are accrued on a monthly basis and received from the Trustees.

Subsection 5 of Section 1 of SB 2014 covers the total proposed expenditures for the Agency of \$41,232,188 for the 2009-11 biennium. This represents a .7 percent decrease from our current budget.

Attachment B is a worksheet showing the Agency's 2005-07 actual expenditures, the 2007-09 appropriation and estimated expenditures, the proposed 2009-11 biennium budget, and variances between the current and proposed budget. The most significant variances are the following:

Rentals/Leases – Building/Land - This is increasing by \$229,120. The Agency is moving its Bismarck office to a larger facility. The increase is a reflection of both an increase in square footage and the per square foot costs.

Other Equipment Under \$5,000 - This is increasing by \$248,000. This is a one-time expenditure for replacing and/or purchasing additional office furniture and equipment for the new office space.

Operating Fees and Services - This is decreasing by \$2,029,460 and is due primarily to two items. The first is a reduction in a **provision for loan loss reserve** from \$6 million to \$3 million. The reserve covers loan losses on loans funded with agency funds. We are not anticipating the volume of agency funded loans this biennium that we did previously. Also, the performance of existing loans has been good such that we are able to reduce the level of coverage.

The other significant variance under Operating Fees and Services is an anticipated increase in our **servicing release premium expense** by \$950,000. We are anticipating a corresponding increase in FirstHome loan purchase activity.

Interest Expense - This is increasing by \$600,000. We are projecting an increased utilization of our Bank of North Dakota line of credit. This expense would be offset by a corresponding increase in interest income from the loans purchased utilizing the line of credit.

Grants, Benefits & Claims - This is decreasing by \$1,095,440 and is due to a projected decrease in our HUD rental assistance budget authority. Decreases like this happen when projects opt out of the program.

Attachment C is the Agency's vacant FTE report. We currently have one vacant (unfilled) position. It is assigned to the Planning and Housing Development Division and is expected to be filled in May or June of 2009.

The proposed budget is requesting an increase in authorized FTE's from 43 to 47. This is the first time the Agency has requested additional FTE authority since the 2003-05 biennium. The need for the increase is precipitated by the continued growth of the Agency's traditional programs coupled with new programming that is straining the capacity of our existing staff. Many of the new programs are to advance the Agency's priority of assisting with rural housing development, an effort that we began in 2006.

The first FTE will be assigned to the Planning and Housing Development Division. The primary assignment for this Division is the rural community outreach just mentioned. The new FTE's primary responsibility will be to ease demands this activity has placed on the two staff currently working on this initiative. Through regional roundtables sponsored by our Statewide Technical Assistance Team (STAT) initiative we have had contact with more than 130 communities 59 of which have completed or are in the process of completing housing demand analysis. Upon completion of these analyses, staff participates in the development and implementation of the community's housing strategy.

One of the new FTE's will be assigned to the Homeownership Division. The FirstHome and North Dakota Roots programs together have experienced, during each of the past two calendar years, a 43 percent increase in volume (540 loans) as compared to the previous five-year average. These loans have to be reviewed for compliance and credit quality before they can be purchased. During this same time period, the Division's outstanding mortgage loan portfolio has grown by 2,068 loans or nearly twenty percent. National statistics for average number of loans per servicing personnel is 1,200. We currently have 6.5 FTE's dedicated to servicing 11,400 loans for an average of 1,750.

The third FTE will be assigned to the Property Management Division which provides compliance monitoring of affordable multi-family projects across the state. In the past two calendar years, we realized a net increase of 14 projects (539 units) bringing the Division's total portfolio to 298 projects or 7,791 units. We are also anticipating during the 2009-11 biennium an additional 16 to 18 projects will be added, resulting in more than 500 additional units. All of the aforementioned new projects were created under the LIHTC program. At the beginning of the current biennium the Division's 10 monitoring staff were responsible for an average of 27.5 projects. The Division has operated at its current staffing level for the last three biennium's.

The final FTE will be assigned to Operations. FTEs assigned to this Division were cut from seven to six at the close of the 2003-05 biennium. Growth and expansion of the Agency's programs has added significantly to the administrative and accounting workloads, justifying the need to return the staffing level to its pre-2003-05 biennium level.

The 2009-2011 biennium budget, as with past budgets, includes a provision which appropriates any additional or unanticipated funds that may become available to the Agency during the biennium (see Section 4 of SB 2014). 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 the Agency with flexibility to react to new and unforeseen housing challenges and the resources necessary to meet those challenges.

Going forward, our priorities will remain similar to what we have been working on during the past couple of years. That would be the housing priorities we adopted in 2006 and are:

- Expanding new housing for developing communities (rural outreach).
- Housing for the aging population.
- Our aging housing stock
- Native Americans
- The Homeless

We are far from solving these housing issues, so that work will continue. However, since the Housing Priorities report is more than two years old, we plan to re-evaluate them and update the report as appropriate this year following the legislative session.

The Agency is facing new and increasing challenges as we look forward. There is none more important right now than having to contend with the current financial crisis and dysfunctional capital markets. Today, finding investors for our FirstHome program bonds and the federal tax credits under the LIHTC program at reasonable prices has become nearly an insurmountable task.

Bond issues that are getting done elsewhere these days are at cost levels that would be unrealistic for North Dakota unless we deeply subsidized the issue. That would put a strain on our reserves. We are aware that Congress and the White House are currently working on another housing stimulus with one of the priorities getting HFA bond programs active again. We are working with our finance team and financial advisor exploring other ways of raising capital to keep the FirstHome program active in the interim.

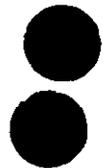
The LIHTC have diminished in value, due to a lack of investors and an oversupply of credits, such that they cannot generate enough equity to get the low income multi-family projects done. Fortunately, the America Reinvestment and Recovery Act is providing a temporary fix through the Tax Credit Assessment Program. The program will provide grants to qualifying projects to fill the gap left by the market devaluation of the credits.

Also challenging us, as well as all affordable housing advocates in North Dakota, is a growing affordability gap. The increasing cost of housing is outpacing income growth. This is clearly demonstrated in the recently published **State of Affordable Housing in North Dakota** report (a copy is attached to the back of my testimony). The report was sponsored in part by the Agency. Demands for housing units in many areas of our state and increasing construction costs is pushing housing costs for both single family and rental housing out of reach for low, moderate, and fixed income households. And, unfortunately when you consider the impact of inflation on flat line federal budgets, traditional resources for housing are shrinking.



North Dakota Housing's financial reserves have always been utilized to provide credit enhancement for our bond issuance activities. I intend to put our financial reserves to work in developing and expanding housing programs to meet North Dakota's housing challenges through direct funding and leveraging. However, this must be accomplished in a manner that will preserve our current bond rating of Aa1 and issuer rating of A2 from Moody's.

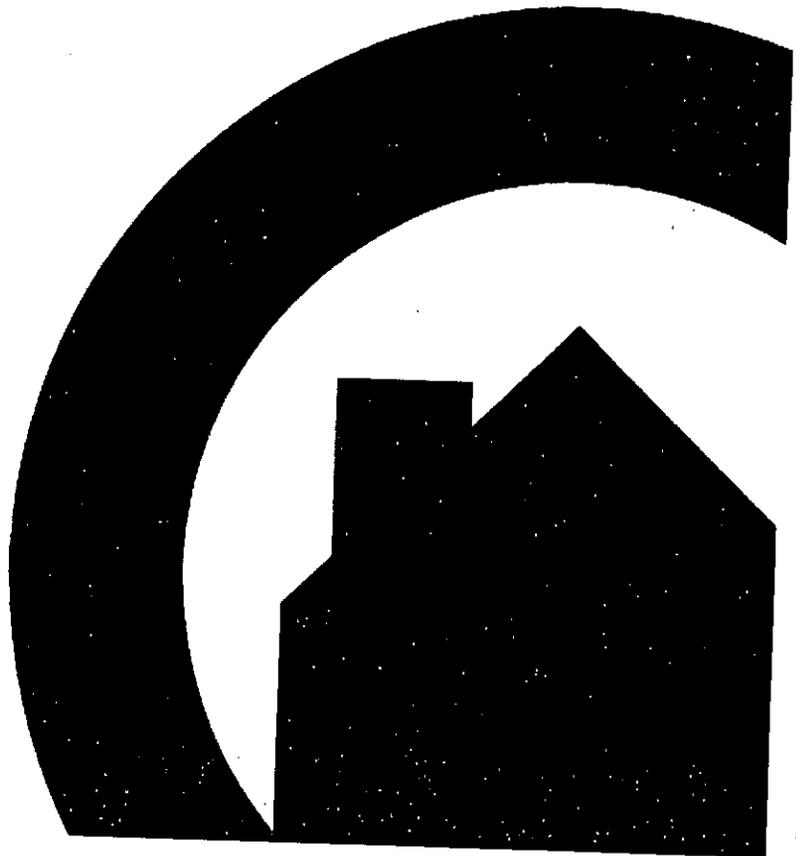
Thank you for time. I will be glad to answer any questions.



Attachment A

North Dakota Housing Finance Agency

Program Summary and '07-'08 Accomplishments



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 PROGRAMS

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 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 loan.

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 and honorably discharged veterans that are not first-time buyers may qualify for NDHFA's 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-interest rate mortgage loans.

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.

HomeSmart

HomeSmart is a grant program administered by the Agency that encourages first-time buyers to attend classes that prepare them for successful homeownership.

2007-08 AGENCY ACCOMPLISHMENTS

The North Dakota Housing Finance Agency's (NDHFA) focus is responding to the issues our citizenry faces in obtaining decent, safe and affordable housing. These challenges currently include a growing affordability gap and shortages, both driven by economic success and energy expansion; maintaining the livability of the state's aging housing stock; aligning appropriate housing with our growing special needs populations; and the escalating cost of construction coupled with shrinking capital for investment.

HOMEOWNERSHIP DIVISION

NDHFA's homeownership programs experienced strong demand in 2007, setting a record of 1,733 FirstHome mortgages purchased. Interest continued to be strong in early 2008;

and the NDHFA was able to reach a milestone in August of that year, \$2 billion worth of loans purchased.

Unfortunately, escalation of the crisis surrounding the mortgage and

financial markets resulted in the NDHFA ending the year on a much quieter note.

Housing Financed	History to Date		2007		2008	
	Units	Value	Units	Value	Units	Value
First-time Homebuyers	32,630	\$2.07B	1,733	\$175M	1,656	\$172.6M
Special Needs Households	142	\$14.9M	63	\$6.8M	57	\$5.8M
New & Returning Residents	246	\$32M	115	\$12M	85	\$11.2M

Additional Highlights:

The flagship FirstHome™ program added a 40-year mortgage option, and began offering reduced private mortgage insurance premiums that include job loss protection.

The HomeAccess program was expanded to include single-parent households, households with elderly members 65 and over and honorably discharged veterans. Following the Northwood tornado, the program temporarily included the affected households.

Six Northwood families were publicly recognized in July 2008 for their determination to make the community their home again. Using NDHFA programs, the households financed the rehabilitation or replacement of damaged homes.

NDHFA was authorized to purchase \$1 million worth of CommunityWorks North Dakota mortgages and assumed servicing of 250 of its loans. With the additional capital and outsourcing of loan servicing, the non-profit will be able to put more focus on lending.

PLANNING AND HOUSING DEVELOPMENT DIVISION

Housing has become a permanent chapter in North Dakota's economic development handbook with the Agency's Planning and Housing Development Division staff regularly invited to participate in community development discussions.

The Statewide Technical Assistance Team (STAT) headed by the Agency has also co-hosted more than a dozen housing roundtables with 433 individuals representing 134 communities participating. STAT members are heavily involved in local housing strategy development, working with both non- and for-profit organizations statewide.

2007-08 AGENCY ACCOMPLISHMENTS (continued)

PLANNING AND HOUSING DEVELOPMENT DIVISION (continued)

Additional Highlights:

Williston became the first community in North Dakota to successfully complete a housing market survey using NDHFA's grant dollars. Armed with data that identified local needs, the community has successfully spurred development including pre-construction activity on a 51-unit affordable rental property that received a tax credit allocation from the Agency.

Housing Development	History to Date		2007		2008*	
	Units	Value	Units	Value	Units	Value
New Produced	3,791	\$24.7M	179	\$1.6M	251	\$5.6M
Rehab of Existing	6,143	\$8.2M	678	\$1.5M	244	\$4M

*Helping HAND program year ends in April 2009.

The Stanley Community Housing Corp. was the first property owner in the state to tap into NDHFA's new Rural Housing Rehab Loan program. Prior to learning about the resource, the nonprofit searched for an affordable option for three years.

In June 2008, the Agency issued its first Guarantee Certificates to The Bank of Tioga for three construction loans. The homes have been completed and are currently being marketed.

As part of its pledge to help with disaster recovery in the Community of Northwood, NDHFA provided a construction loan guarantee and a forward commitment of tax credits for a 16-unit rental property that was completed in October 2008.

The Agency doubled its commitment to helping low-income families with disabilities improve their homes accessibility. Rehab Accessibility Program grants totaling \$100,000 yearly will enable these households to remain in familiar surroundings.

Homeless Technical Assistance Grants provided more than \$50,000 worth of assistance to nine targeted communities for the development and implementation of local plans to end long-term homelessness. Using this information, the ND Interagency Council on Homelessness was able to complete and formally adopt a statewide 10-year plan in October 2008.

PROPERTY MANAGEMENT DIVISION

The NDHFA's Rental Division was formally split in early 2007. It is now known as the Property Management Division, and the staff strictly serves as the administrator of subsidized rental programs for low-income, elderly or disabled households.

Housing Administration	2007		2008	
	Units	Projects	Units	Projects
Rental Assistance	7529	291	7795	297

The Division continues to receive high marks from the US Department of Housing and Urban Development (HUD) for its Contact Administration activities. The most recently completed on-site review and audit produced a "Superior" rating.

HOMEOWNERSHIP DIVISION PROGRAMS (continued)

North Dakota Roots

The North Dakota Roots homeownership incentive program provides new and returning state residents 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 out-of-pocket cash requirements.

PLANNING AND HOUSING DEVELOPMENT DIVISION PROGRAMS

Construction Loan Guarantee

The Construction Loan Guarantee program provides loan guarantees to lenders on construction loans for affordable single-family housing in rural communities.

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.

Neighborhood Stabilization Program

The Neighborhood Stabilization Program (NSP) will provide funds to purchase foreclosed or abandoned homes and to rehabilitate, resell, or redevelop these homes in order to stabilize neighborhoods and stem the decline of house values.

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 PROGRAMS (continued)

Rural Community Housing Development

Through the Rural Community Housing Development program, low-cost financing is available for predevelopment soft costs like land acquisition and site development.

Rural Housing Rehabilitation Loan

The Rural Housing Rehabilitation Loan program provides a low-cost, revolving fund for the rehabilitation of existing housing stock located in areas with less than 20,000 population.

PROPERTY MANAGEMENT DIVISION PROGRAMS

Affordable Housing Disposition Program (AHDP)

The Resolution Trust Corporation properties sold under the Affordable Housing Disposition Program in North Dakota are monitored by NDHFA.

Contract Administration

NDHFA administers contracts for HUD project-based Section 8 housing developments located throughout North Dakota.

Low Income Housing Tax Credit

The Agency's Property Management Division, acting as a compliance specialist, administers IRS regulations and requirements for local tax credit properties.

Moderate Rehabilitation

NDHFA determines applicant eligibility for the HUD Section 8 Moderate Rehabilitation properties, provides regulatory oversight of the properties and distributes HUD rental assistance funds.



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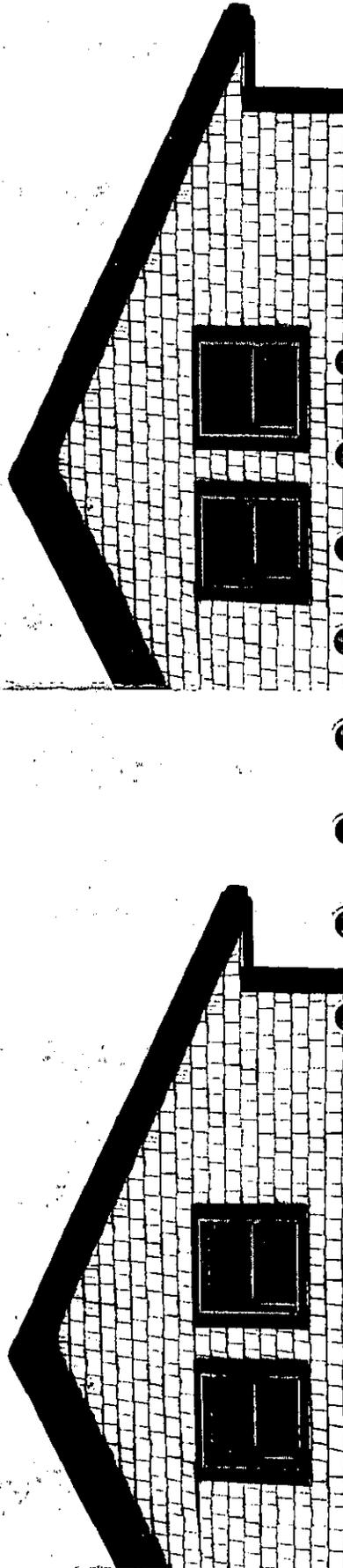
Feb-09

Expenditures	2007-09 Expenditures		2007-09 Expenditures (Estimate)	2007-09 Appropriation	2009-11 Recommendation	Change from 07-09 Appropriation
	2005-07 Expenditures	through 12/31/08 (actual)				
511000 SALARIES - PERMANENT	2,786,043	2,536,157	3,439,813.30	3,453,221	4,405,274	952,053
511900 SALARY BUDGET ADJUSTMENT	10,051		1,727.72		109,656	109,656
514000 OVERTIME	955,584	1,728		20,000	20,000	
516000 FRINGE BENEFITS	10,695	891,710	1,193,213.26	1,258,377	1,695,317	436,940
510000 SALARIES AND BENEFITS	3,762,373	3,429,595	4,634,754	4,731,598	6,230,247	1,498,649
521000 TRAVEL	159,418	119,541	162,487.43	189,600	221,170	31,570
531000 SUPPLIES - IT SOFTWARE	17,460	14,294	17,812.04	18,950	26,000	7,050
536000 OFFICE SUPPLIES	72,205	58,013	84,601.65	72,820	71,270	(1,550)
541000 POSTAGE	101,686	67,419	88,556.41	124,120	126,580	2,460
551000 IT EQUIP UNDER \$5,000	25,255	23,717	35,917.35	36,000	44,100	8,100
552000 OTHER EQUIP UNDER \$5,000	1,220	2,326	3,925.92	4,000	252,000	248,000
571000 INSURANCE	5,835	5,150	5,150.43	6,448	3,826	(2,622)
581000 RENTALS/LEASES-EQUIP & OTHER	10,692	4,914	5,925.05	11,430	3,170	(8,260)
582000 RENTALS/LEASES - BLDG/LAND	219,860	176,393	235,470.00	232,880	462,000	229,120
601000 IT - DATA PROCESSING	86,454	67,058	88,748.50	87,000	100,800	13,800
602000 IT-COMMUNICATIONS	53,595	50,589	67,227.25	77,130	85,310	8,180
603000 IT CONTRACTUAL SERVICES AND RE	43,590	38,833	49,661.37	48,130	59,000	10,870
611000 PROFESSIONAL DEVELOPMENT	95,734	74,658	104,657.57	123,120	148,180	25,060
621000 OPERATING FEES AND SERVICES	1,982,531	2,777,150	4,332,163.09	7,229,401	5,199,941	(2,029,460)
623000 FEES - PROFESSIONAL SERVICES	156,122	170,662	190,007.78	201,630	324,115	122,485
641000 INTEREST EXPENSE	135,305	749,357	919,656.30	950,119	1,550,119	600,000
520000 OPERATING EXPENSES	3,166,962	4,400,074	6,391,968	9,412,778	8,677,581	(735,197)
632000 OTHER EXPENSES	66,927	11,251	11,251	100,000	100,000	
HFA CONTINGENCY	66,927	11,251	11,251	100,000	100,000	
712000 GRANTS, BENEFITS & CLAIMS	25,596,861	19,189,012	25,661,212	27,319,800	26,224,360	(1,095,440)
712000 GRANTS	25,596,861	19,189,012	25,661,212	27,319,800	26,224,360	(1,095,440)
TOTAL EXPENDITURES	32,593,123	27,029,933	36,699,186	41,564,176	41,232,188	(331,988)

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 Vacant FTE's
 Feb-09

Position No.	FTE	Position Description	Date Vacated	Number of Months Vacant, January 2009	Date Expected to Be Filled	Current Status	General Fund	Special Funds	Salary and Fringe Included in the 2009-11 Executive Budget
55	1.00	Housing Program Admin II	never filled	n/a	Jun-09	Unfilled			150,563 Position created with 03-05 Biennium budget, never filled

STATE OF AFFORDABLE
HOUSING IN NORTH DAKOTA



2008 REPORT

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Housing Finance Agency

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North Dakota
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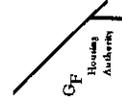
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Authority



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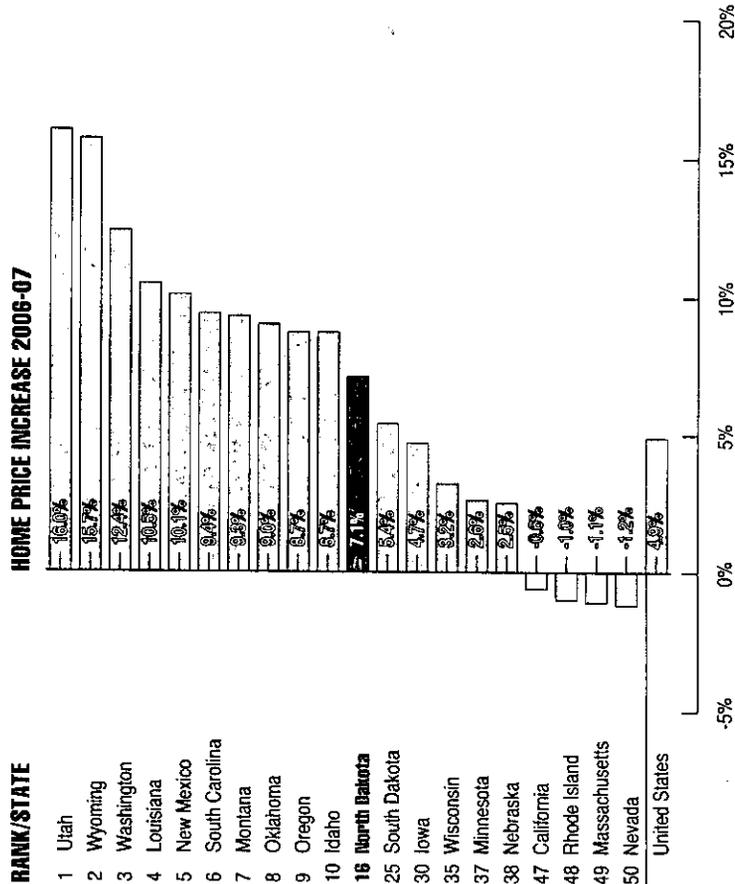
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NORTH DAKOTA: HOME PRICES VS. OTHER STATES

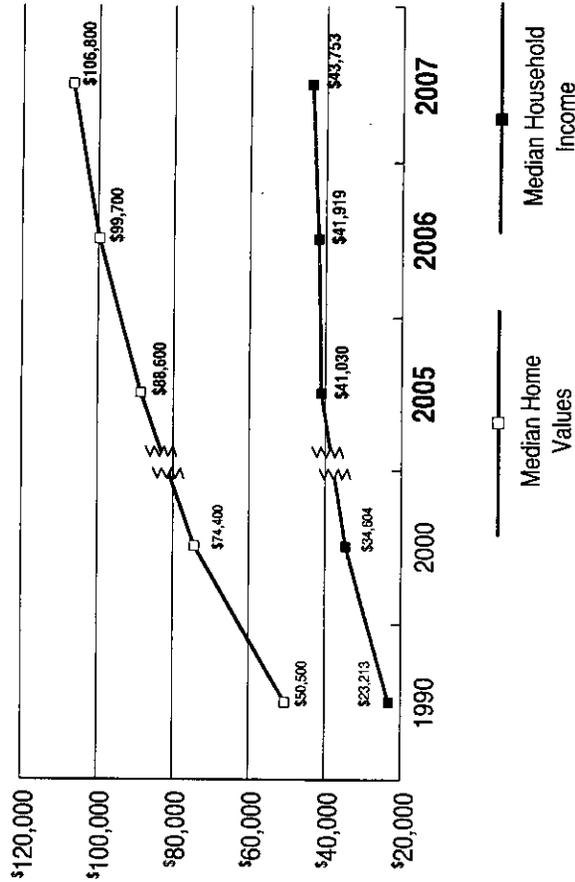
At 7.1 percent, North Dakota experienced the nation's 16th highest home price increase between 2006 and 2007. The western third of the U.S. led the way for the nation, with Utah, Wyoming, Washington, New Mexico, Montana, Oregon and Idaho all in the top ten for percentage growth.



Source: American Community Survey, U.S. Census Bureau

MEDIAN HOME VALUES VS. MEDIAN INCOME

Median home values rose 20.5 percent between 2005 and 2007, while median household income grew 6.6 percent. From 2000 to 2005, the two numbers rose fairly evenly, 19.1 percent for median home value and 18.6 percent for median household income.



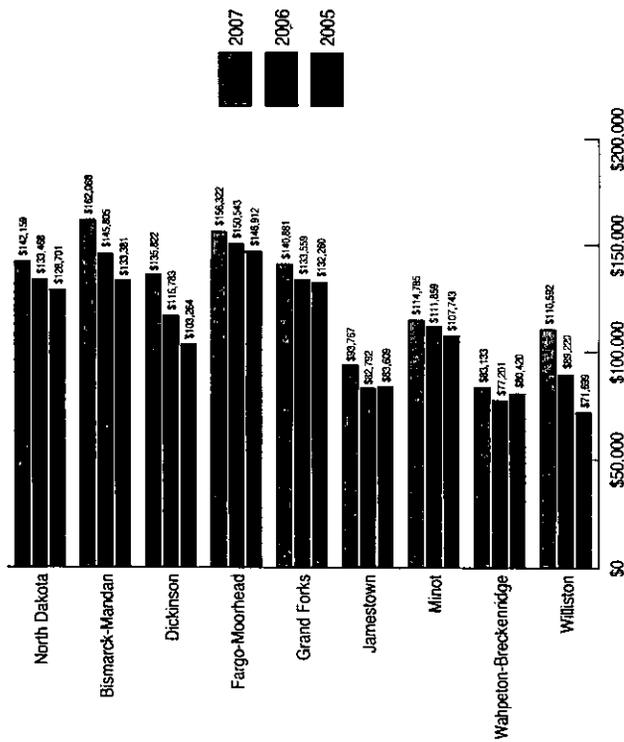
Sources: American Community Survey, U.S. Census Bureau
Decennial Census, U.S. Census Bureau

AVERAGE HOME SALE PRICES BY CITY

The percentage increases in the western cities – Williston, Dickinson and Bismarck-Mandan – is substantially higher in 2006 and 2007 than in the state's other cities, where growth is steadier and less extreme.

The average home sale price in Williston rose by 24 percent in both 2006 and 2007. In those same years, the average price in the Dickinson area rose 13 percent and 16 percent, respectively. Fargo, meanwhile, experienced more moderate growth, with 2.5 percent in 2006 and 3.8 percent in 2007.

In the state overall, the average home sale price rose 3.7 percent in 2006 and 6.5 percent in 2007.



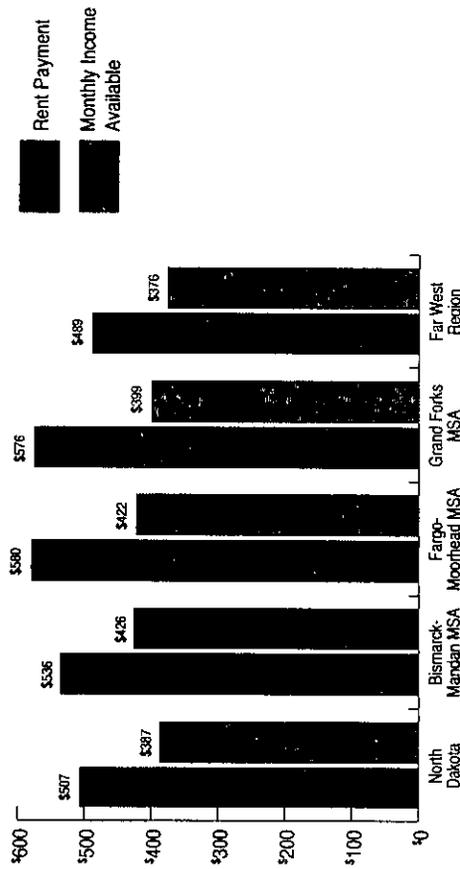
Source: Multiple Listing Service, North Dakota Association of Realtors

RENTAL AFFORDABILITY (CASHIER)

Rental and wage data indicate that entry-level workers in North Dakota have a difficult time renting a two-bedroom apartment on their own.

Disparities exist throughout the state between a cashier's median wage and the income needed to afford the rent on a two-bedroom apartment. However, the greatest disparity exists in the Grand Forks MSA, where a cashier's median wage is only 69 percent of the amount needed to afford rent on a two-bedroom apartment.

The graphs below assume a household can afford to spend 30 percent of its income on housing.



Notes:

- Assumes individual allocates 30% of gross income to housing costs.
- Rent cost represents a two-bedroom rental unit, using HUD's Fair Market Rent.
- The Far West Region includes the western North Dakota counties of Adams, Billings, Bowman, Divide, Dunn, Golden Valley, Hettinger, McKenzie, Slope, Stark and Williams. It contains the cities of Dickinson, Williston, Watford City, Crosby, Tioga, Bowman and Hettinger.

Sources:
 Fair Market Rent: U.S. Department of Housing & Urban Development (HUD), 2007
 Monthly Wage: Occupational Employment Survey, Job Service North Dakota, 2007

HOUSING AFFORDABILITY BY OCCUPATIONS

Many households with a single wage earner have difficulty affording the payment on an average priced home in their community. Many of the occupations included here can afford the rent on a two-bedroom apartment, but only when a second wage earner is included in the household.

Disparities exist throughout the state and vary between occupations. Similar details for selected areas of the state are presented in the Appendices.

	SINGLE INCOME		DUAL INCOME	
	MEDIAN MONTHLY WAGE	MONTHLY AMOUNT AVAILABLE TO SPEND ON HOUSING	MONTHLY WAGE WITH 2ND EARNER	MONTHLY AMOUNT AVAILABLE TO SPEND ON HOUSING
Carpenter	\$2,607	\$782	\$4,432	\$1,530
Cheer	\$1,331	\$399	\$2,263	\$679
Child Care Worker	\$1,433	\$430	\$2,437	\$731
Dental Assistant	\$2,489	\$747	\$4,231	\$1,269
Heavy Truck Driver	\$3,872	\$862	\$4,883	\$1,465
Police Officer	\$3,448	\$1,034	\$5,861	\$1,758
Retail Salesperson	\$1,574	\$472	\$2,676	\$803
Sales Representative	\$1,087	\$326	\$1,848	\$554

Fair Market Rent on 2-Bedroom Apartment: \$507
Monthly Payment on an Average Sale Price Home: \$1,067

Notes:

- Assumes the wage of the second earner in the household is 70% of the primary earner's wage.
- Rent cost represents a two-bedroom rental unit, using HUD's Fair Market Rent.
- Assumes 5% down payment, 6.5% interest rate on a 30-year, fixed-rate mortgage, plus allocation of 25% of the monthly payment to property taxes, insurance and other costs such as PMI. Also assumes an individual allocates 30% of gross income to housing costs.

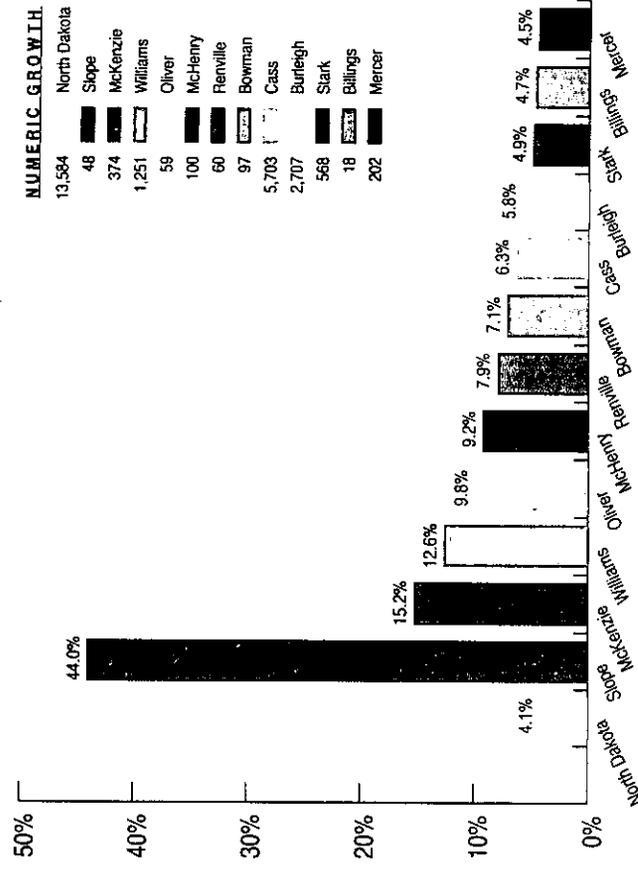
Sources:

Average Home Sales Price: North Dakota Realtors Association, MLS Listings, 2007
Fair Market Rent: U.S. Department of Housing & Urban Development (HUD), 2007
Wages: Occupational Employment Survey, Job Service North Dakota, 2007
Social Security Benefit: Social Security Administration, Average Retired Worker Benefit, September 2008

EMPLOYMENT GROWTH

Employment in North Dakota grew 4.1 percent from 2005 to 2007, which translated to 13,584 new jobs being added to the state's economy. The largest employment increases came in the central and western parts of the state, as Slope, McKenzie, Williams, Oliver and McHenry were all among the fastest-growing. The employment surge in those parts of the state followed the growth in the energy industry.

Numerically, Cass County grew the most during that time period with 5,703 new jobs, followed by Burleigh County with 2,707 new jobs and Williams County with 1,251 new jobs.



Source: Quarterly Census of Employment & Wages, Job Service North Dakota, 2007

EMPLOYMENT GROWTH AND HOUSING AFFORDABILITY BY INDUSTRY

The average employee in every industry is able to afford the rent on a 2-bedroom apartment, with the exception of employees in Accommodation and Food Service. Home affordability is another matter, with employees in only four industries – Mining, Management, Finance and Insurance, and Wholesale Trade – able to afford an average sale price home.

	Q1 2006 Employment	Q1 2008 Employment	Numeric Change	Percent Change	Average Monthly Wages	Monthly Amount Available to Spend on Housing	Can Afford to Rent a 2-BR Apt	Can Afford to Buy an Avg. Sale Price Home
All Industries	326,103	340,910	14,807	4.5%	\$2,825	\$848	YES	NO
Accommodation and Food Services	27,103	29,222	2,119	7.8%	\$945	\$283	NO	NO
Health Care and Social Assistance	49,957	51,854	1,897	3.8%	\$2,973	\$892	YES	NO
Administrative and Waste Services	12,149	12,880	731	6.0%	\$1,850	\$555	YES	NO
Management of Companies and Enterprises	3,683	4,318	635	17.2%	\$5,811	\$1,743	YES	YES
Professional and Technical Services	12,339	13,305	966	7.8%	\$3,311	\$993	YES	NO
Finance and Insurance	15,394	16,447	1,053	6.8%	\$3,939	\$1,181	YES	YES
Transportation and Warehousing	10,965	11,808	843	7.7%	\$3,263	\$979	YES	NO
Retail Trade	42,318	42,920	602	1.4%	\$1,846	\$554	YES	NO
Wholesale Trade	18,641	19,241	600	3.2%	\$3,917	\$1,175	YES	YES
Manufacturing	25,981	26,602	621	2.4%	\$3,532	\$1,060	YES	NO
Construction	15,825	17,858	2,033	12.8%	\$3,137	\$941	YES	NO
Mining	4,209	5,641	1,432	34.0%	\$6,309	\$1,893	YES	YES

Fair Market Rent on 2-Bedroom Apartment: \$507
Monthly Payment on an Average Sale Price Home: \$1,067

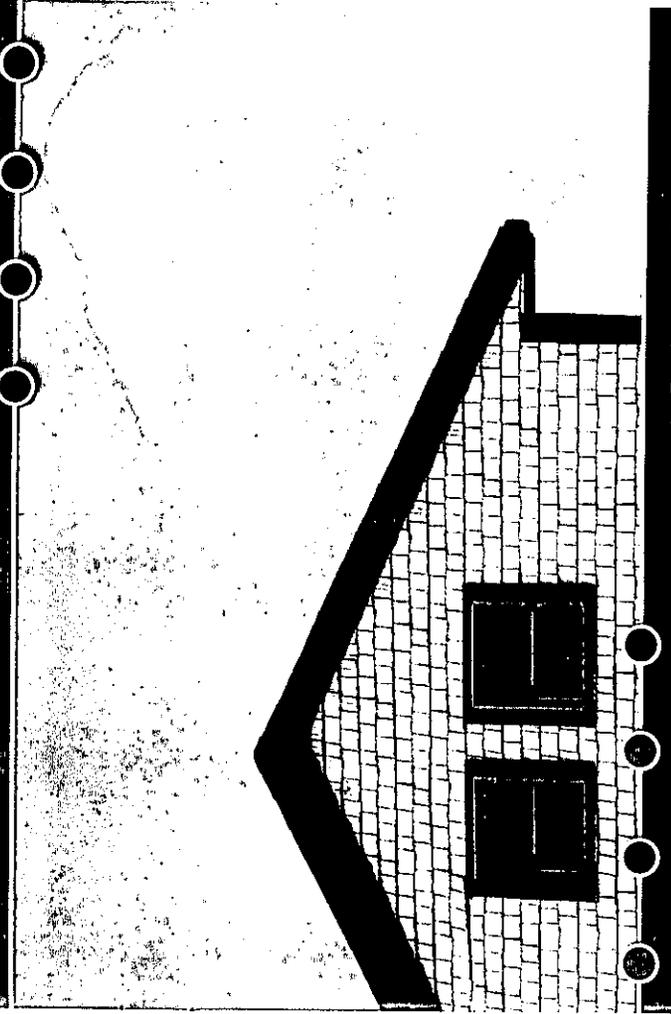
Notes:

- Rent cost represents a two-bedroom rental unit, using HUD's Fair Market Rent.
- Assumes 5% down payment, 6.5% interest rate on a 30-year, fixed-rate mortgage, plus allocation of 25% of the monthly payment to property taxes, insurance and other costs such as PMI. Also assumes an individual allocates 30% of gross income to housing costs.

Sources:

Average Home Sales Price: North Dakota Realtors Association, MLS Listings, 2007
Fair Market Rent: U.S. Department of Housing & Urban Development (HUD), 2007
Employment: Quarterly Census of Employment & Wages, Job Service North Dakota, Qtr 1 2006 & Qtr 1 2008
Wages: Quarterly Census of Employment & Wages, Job Service North Dakota, Qtr 1 2008

STATE OF AFFORDABLE HOUSING IN NORTH DAKOTA



APPENDICES

HOUSING AFFORDABILITY BY OCCUPATIONS

	SINGLE INCOME		DUAL INCOME	
	MEDIAN MONTHLY WAGE	MONTHLY AMOUNT AVAILABLE TO SPEND ON HOUSING	MONTHLY WAGE WITH 2ND EARNER	MONTHLY AMOUNT AVAILABLE TO SPEND ON HOUSING
Carpenter	\$2,427	\$728	\$4,125	\$1,238
Cashier	\$1,406	\$422	\$2,390	\$717
Child Care Worker	\$1,463	\$439	\$2,487	\$746
Dental Assistant	\$2,603	\$781	\$4,426	\$1,328
Heavy Truck Driver	\$2,525	\$758	\$4,293	\$1,288
Police Officer	\$3,467	\$1,040	\$5,893	\$1,768
Retail Salesperson	\$1,624	\$487	\$2,761	\$828

Fair Market Rent on 2-Bedroom Apartment: \$536
Monthly Payment on an Average Sale Price Home: \$1,216

Notes:

- Assumes the wage of the second earner in the household is 70% of the primary earner's wage.
- Rent cost represents a two-bedroom rental unit, using HUD's Fair Market Rent.
- Assumes 5% down payment, 6.5% interest rate on a 30-year, fixed-rate mortgage, plus allocation of 25% of the monthly payment to property taxes, insurance and other costs such as PMI. Also assumes an individual allocates 30% of gross income to housing costs.
- Wage represents the entire metropolitan statistical area (MSA) of which the county is a part.

Sources:

Average Home Sales Price: North Dakota Realtors Association, MLS Listings, 2007
Fair Market Rent: U.S. Department of Housing & Urban Development (HUD), 2007
Wages: Occupational Employment Survey, Job Service North Dakota, 2007

HOUSING AFFORDABILITY BY OCCUPATIONS

	SINGLE INCOME		DUAL INCOME	
	MEDIAN MONTHLY WAGE	MONTHLY AMOUNT AVAILABLE TO SPEND ON HOUSING	MONTHLY WAGE WITH 2ND EARNER	MONTHLY AMOUNT AVAILABLE TO SPEND ON HOUSING
Carpenter	\$2,616	\$785	\$4,447	\$1,334
Cashier	\$1,420	\$426	\$2,413	\$724
Child Care Worker	\$1,394	\$418	\$2,369	\$711
Dental Assistant	\$2,775	\$833	\$4,718	\$1,415
Heavy Truck Driver	\$2,926	\$878	\$4,974	\$1,492
Police Officer	\$4,053	\$1,216	\$6,889	\$2,067
Retail Salesperson	\$1,657	\$497	\$2,817	\$845

Fair Market Rent on 2-Bedroom Apartment: \$580
Monthly Payment on an Average Sale Price Home: \$1,173

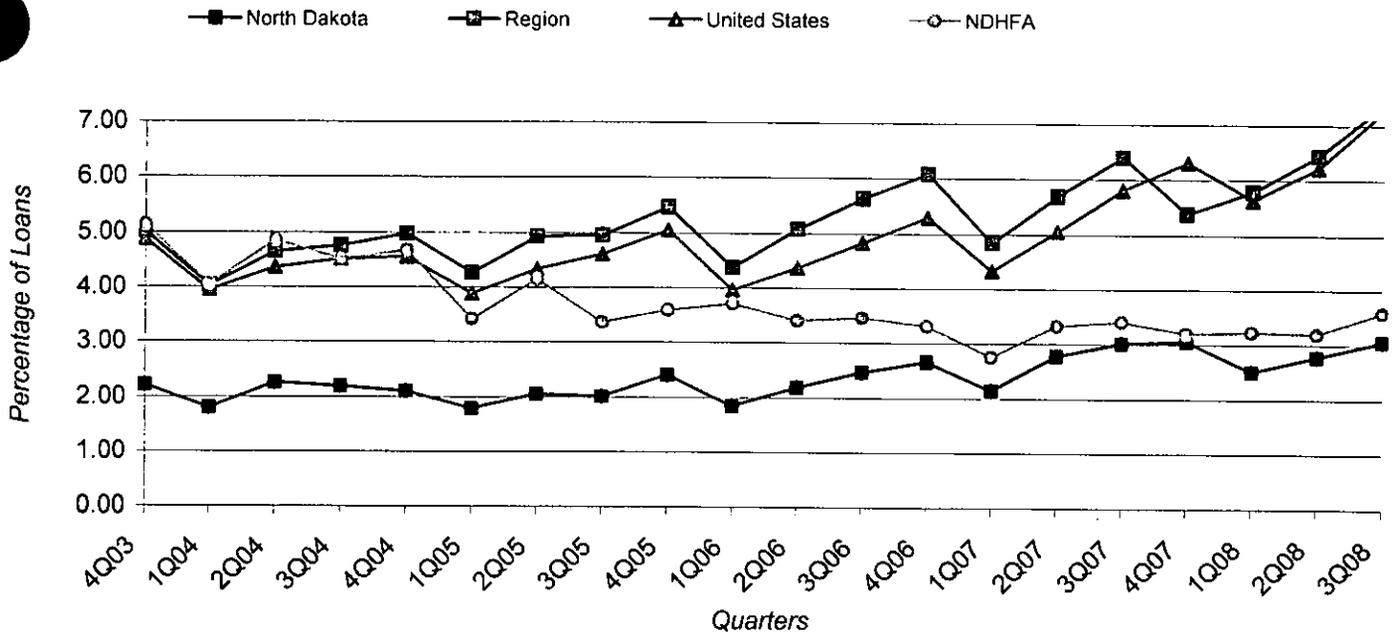
Notes:

- Assumes the wage of the second earner in the household is 70% of the primary earner's wage.
- Rent cost represents a two-bedroom rental unit, using HUD's Fair Market Rent.
- Assumes 5% down payment, 6.5% interest rate on a 30-year, fixed-rate mortgage, plus allocation of 25% of the monthly payment to property taxes, insurance and other costs such as PMI. Also assumes an individual allocates 30% of gross income to housing costs.
- Wage represents the entire metropolitan statistical area (MSA) of which the county is a part.

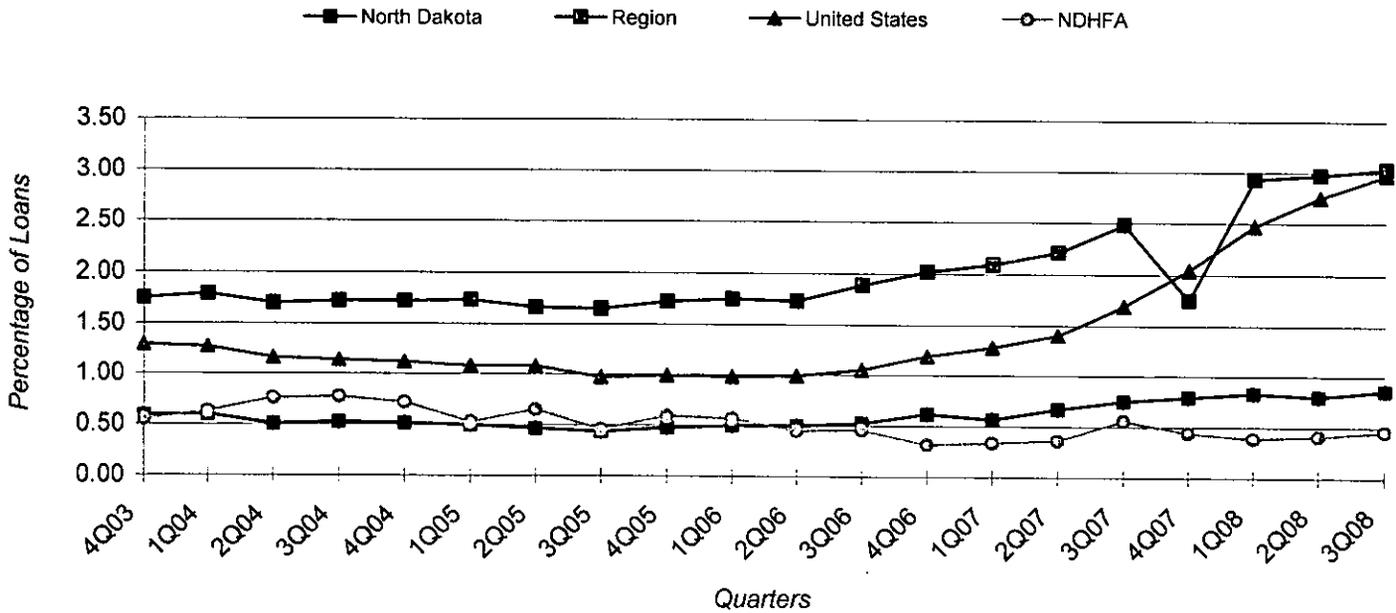
Sources:

Average Home Sales Price: North Dakota Realtors Association, MLS Listings, 2007
Fair Market Rent: U.S. Department of Housing & Urban Development (HUD), 2007
Wages: Occupational Employment Survey, Job Service North Dakota, 2007

Delinquency - All Loans - NDHFA Serviced



Foreclosure - All Loans - NDHFA Serviced



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Mortgage delinquencies up for 8th straight quarter

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CHICAGO (AP) — The number of people who were late making their mortgage payments shot up 53 percent in the fourth quarter of 2008 from the same period in 2007, according to data provided by TransUnion LLC.

The credit reporting agency said its database shows delinquencies — or the percentage of mortgage holders at least 60 days behind on payments, considered a precursor to foreclosure — jumped to 4.58 percent nationally, from 2.99 percent for the 2007 fourth quarter.

That was 16 percent above the 3.96 percent rate seen in the third quarter, TransUnion said, and marked the eighth straight quarter that delinquency rates rose.

"It's about what we were expecting," said Keith Carson, senior consultant in TransUnion's financial services group. But while not unexpected, the huge jump from last year was still "alarming," Carson said.

TransUnion, best known for its consumer credit rating data, projects delinquency rates could reach as high as 8 percent by the end of the year. The company isn't predicting that the climate will improve until the middle of 2010.

The states that have shown the highest delinquency and foreclosure rates remain the same. Florida is on top, with a 9.52 percent rate for the fourth quarter, while Nevada is second with 9.01 percent. Arizona came in at 6.93 percent and California right behind at 6.88 percent. Carson said there is a glut of homes in those states, which is combining with increasing economic woes and declining home values to keep the rates high.

North Dakota, at 1.21 percent, remains the state with the lowest delinquency rate.

The figures are culled from TransUnion Trend Data, which consists of 27 million consumer records randomly sampled each month from the credit reporting agency's national consumer credit database.

While the government has launched efforts to stem foreclosures, those moves are not yet reflected in data, Carson said. Banks are also trying to work with consumers to reduce problematic mortgages, but falling home prices are feeding the problem, he said. "We do know from everything we've found out in the last year is that the primary driver on mortgage defaults is negative equity," he said. When homeowners owe more on their mortgages than the houses are worth, data show a higher likelihood that consumers will simply walk away, he said.

California is the state with the highest average mortgage debt per borrower, at \$356,421. West Virginia has the lowest, at \$96,243.

Lenders are trying to address some negative equity issues with refinancing, but Carson said data shows the rate of redefault on modified mortgages "has been very high, primarily because of negative equity."

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NORTH DAKOTA HOUSING FINANCE AGENCY

American Reinvestment and Recovery Act Housing Funding Summary

March 9, 2009

Low Income Housing Tax Credit (LIHTC) Equity Gap Program ARRA will provide grants through HUD directly to state housing tax credit allocating agencies, in North Dakota's case NDHFA, to fill the financing gap caused by the collapse of the tax credit market. NDHFA anticipates receiving \$4,860,574 upon filing a plan for allocating the funds. These funds are intended to fill the gap when the project has an investment commitment from a syndicator, but still has a financing gap. The funds will be available after HUD publishes its guidelines which is not expected before late March.

LIHTC Exchange Program ARRA will allow tax credit allocating agencies to exchange up to 40% of its 2009 credit authority plus 100% of any 2008 unused credits or returned credits for cash at 85 cents on the dollar. The "grant" dollars will come from the Treasury and must be used to provide equity for LIHTC eligible projects. The program is intended to provide the equity for shovel ready projects that have not been able to secure an investment commitment from a syndicator. The full amount of North Dakota's grant cannot be determined until 1) regulations are published (no timeframe has been advanced to date); and 2) our plan for determining and exchanging eligible credits is established. Based on our estimate of the maximum credits that would be available for exchange, the maximum grant we could receive would be \$25 to \$26 million. Although, since some of these credits are allocated to projects that would be eligible for the aforementioned Equity Gap Program, we expect the exchange grant would be much less than the maximum.

Public Housing Capital Fund ARRA will provide funds for capital improvements to Low Income Public Housing projects under HUD Section 8 through an amendment to the Annual Contribution Contracts. Eligible recipients are the public housing agencies who own the projects. Fifteen North Dakota PHA's are projected to get a total of \$3,433,512.

Homeless Prevention Fund ARRA will provide funding for homeless prevention activities including rental assistance, mediation, credit counseling, security and utility deposits, moving cost assistance, and case management. Our understanding is the ND Department of Commerce (DOC) is expected to receive \$2,582,637 who will in turn allocate the funds to emergency shelters and local homeless coalitions.

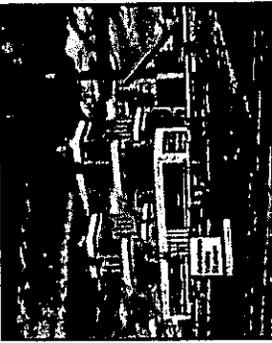
Community Development Block Grant ARRA funds will be used to create suitable living environments, provide decent affordable housing and create economic opportunities primarily for the low and moderate income. Eligible recipients are state and local governments who submit eligible action plans to HUD. It appears four grants totaling \$1,687,407 are available in North Dakota including three entitlement communities and DOC.

Project Based Rental Assistance ARRA will provide funding for rental subsidies for contract renewals under the HUD Section 8 project based assistance program. It appears North Dakota is eligible for \$2,925,706 to fund the renewal of 39 project contracts.

Native American Housing Block Grants ARRA funds can be used for new construction, acquisition, rehabilitation, and infrastructure development. Funds will be distributed by the current Indian Housing Block Grant formula. Eligible tribes must complete an amendment to its 2008 Indian Housing Plan. It appears four North Dakota tribes will receive a total of \$7,844,841.

Weatherization Program ARRA is providing an additional \$5 billions through this existing program through the Department of Energy. The North Dakota program is administered by DOC Division of Community Services. We have heard preliminary numbers of \$25 to \$30 million dollars being available for North Dakota. We have not seen any details or guidelines to date.

CARBON CAPTURE AND SEQUESTRATION PROJECTS



Antelope Valley Station near Beulah, ND.

Currently, the lignite industry is focused on reducing the amount of carbon dioxide emissions both from new and existing plants.

The NDIC has invested \$2.7 million in the engineering phase of a CO2 capture project at the existing Antelope Valley Station and another \$3.1 million in Phases II and III carbon sequestration projects of the Plains CO2 Reduction (PCOR) Partnership. The state dollars are matched by money from the industry and other government sources.

Basin Electric Power Cooperative, the owner and operator of the Antelope Valley Station, has also received a \$300 million loan from the United States Department of Agriculture for the first commercial scale carbon sequestration project at an existing coal-fired power plant. Basin Electric plans to capture 3,000 tons of carbon each day at AVS.

The CO2 from AVS will be used for enhanced oil recovery in the oil fields of western North Dakota as part of PCOR's Phase III long-term sequestration project. The U.S. Department of Energy has given PCOR \$67 million to help complete the Phase III project.

MEETINGS AND GRANT ROUNDS

Typically, two grant rounds are held annually. Deadlines for grant rounds are April and October and the Lignite Research Council typically meets in May and November to evaluate grant applications and make recommendations regarding funding to the North Dakota Industrial Commission. Special dates may be established by the NDIC.

Lignite Research, Development and Marketing Program

**North Dakota
Industrial Commission**
Governor John Hoeven
Attorney General Wayne Stenehjem
Agriculture Commissioner Roger Johnson



Development and Marketing Program

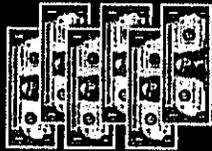
Karlene Fine | 701.328.3722
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jeffburgess@lignite.com

Research and development hold the key to expanding lignite's economic benefits.

North Dakota's Lignite Research, Development and Marketing Program is a partnership between the public and private sector that concentrates on near term, practical R&D projects that provide the opportunity to preserve and enhance development of our state's abundant lignite reserves.

For every state dollar invested in R&D, a total of six dollars is invested by other sources, including the lignite industry. Since 1987, the Industrial Commission has invested more than \$60 million in lignite research funds. Total industry investment for the 150-plus projects is in excess of \$570 million.

State funding for Lignite R&D has been approved by voters through constitutional amendments and from the Legislature. Approximately 10 cents per ton from the North Dakota coal severance tax provides the state with \$3 million each year for the R&D Program.

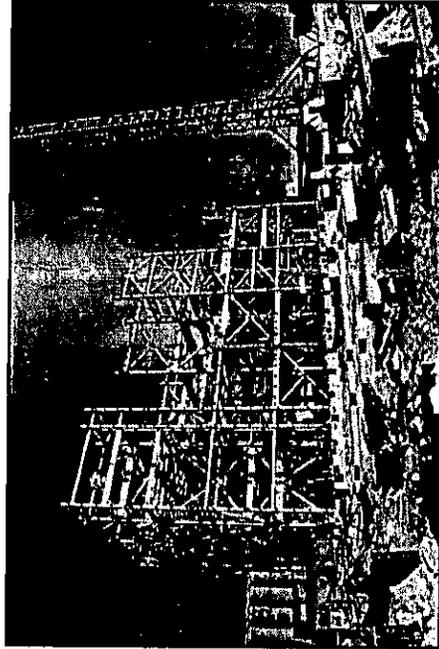


Mercury

Technologies to control mercury emissions from lignite-based power plants have been advanced through \$30 million in R&D projects at all of North Dakota's coal-conversion facilities. Of this total, \$3 million came from the Industrial Commission and \$27 million from other sources.

Fly Ash

\$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.



Great River Energy's Spiritwood Station near Jamestown, ND, under construction.

SMALL RESEARCH PROJECTS PRODUCE BIG RESULTS

Many state-sponsored R&D projects have led to significant progress in the North Dakota lignite industry including:

Coal Beneficiation

Two small research projects, which included \$400,000 from the state, led to big results at the Coal Creek Station, when it was chosen by the U.S. Department of Energy to participate in the first round of its Clean Coal Power Initiative (2003). After the continuous operation of a prototype coal dryer, Great River Energy's Coal Creek Station is proceeding with the first ever, full-scale demonstration of the innovative technology by building additional coal dryers. By drying lignite, Coal Creek Station can burn the coal more efficiently and reduce greenhouse gas emissions while producing the same amount of electricity.

Also, the coal beneficiation process developed by using waste heat to dry lignite has led, in part, to the construction of the \$337 million Spiritwood Station near Jamestown that will use beneficiated coal from the Falkirk Mine. Approximately 400 construction jobs and 16 long-term operations jobs are connected with the plant. The plant is expected to use 600,000 tons of beneficiated lignite annually from the Falkirk Mine near Underwood.

LIGNITE VISION 21 PROGRAM

Expanding the lignite industry through the Lignite Vision 21 Program is another example of how the state-industry partnership is advancing the lignite industry. Currently, three LV 21 projects are under contract with the NDE, which has made a commitment of up to \$10 million in matching demonstration project funds for interested applicants.

LIGNITE VISION 21 PROGRAM

The projects are:

- Great River Energy's Spiritwood Energy Power Plant
- Great Northern Project Development's South Heart Project
- American Lignite Energy's Coal-to-Liquids Plant

ANALYSIS OF THE LIGNITE RESEARCH FUND FOR THE 2007-09 AND 2009-11 BIENNIUMS (REFLECTING LEGISLATIVE ACTION AS OF CROSSOVER)

	2007-09 Biennium	2009-11 Biennium
Beginning balance		\$4,260,160
Add estimated revenues		\$11,800,728
Separate two-cent coal severance tax	1,200,000	1,200,000
Fifty percent of coal severance taxes deposited in the coal development trust fund (result of passage of measure No. 3 in June 1990)	3,375,000	3,375,000
Twenty percent of coal severance taxes deposited in the coal development trust fund (committed to clean coal projects) (result of passage of constitutional amendment passed by voters in June 1994)	1,350,000	1,350,000
Investment income on Dakota Gasification Company ammonia plant and Red Trail	2,000,000	3,374,860
Three and one-half percent of the general fund share of coal conversion tax (2007 HB 1093)	1,750,000 ¹	0
Five percent of the general fund share of coal conversion tax (2007 HB 1093)	0	2,500,000 ²
Revenue bonds/short term loan	0	3,900,000
Interest income & Return of funds	902,500	100,000
Total estimated revenues	10,577,500	15,799,860
Total available	22,378,228	20,060,020
Less estimated expenditures and transfers ^{3,4}		
Administration	400,000	400,000
Lignite feasibility studies (nonmatching grants)	760,000	1,000,000
Small research grants	2,159,300	1,296,300
Lignite marketing	2,000,000	1,600,000
Lignite litigation	100,000 ⁵	400,000
Demonstration projects	12,698,768	15,275,000
Total estimated expenditures and transfers	18,118,068 ⁶	19,971,300 ⁶
Estimated ending balance	\$4,260,160	\$ 88,720

¹House Bill No. 1093 (2007) provides that 3.5 percent of the general fund share of coal conversion taxes be allocated to the lignite research fund for the period beginning July 1, 2007, and ending June 30, 2009. After June 30, 2009, 5 percent of the general fund share of coal conversion taxes is to be allocated to the lignite research fund through July 31, 2018.

²Pursuant to North Dakota Century Code (NDCC) Section 54-17.5-04, the Industrial Commission may issue revenue bonds or borrow short-term funds from the Bank of North Dakota.

³The Industrial Commission has a policy stating that 18 percent of lignite research fund income will be used for small research projects, 56 percent for large demonstration research projects, 21 percent for marketing projects, and 5 percent for administration. The commission has further directed that no single large demonstration project can receive more than 37.5 percent of available funds.

⁴The Industrial Commission has waived the fund allocation policy and has committed \$22,000,000 through the 2009-11 biennium with \$1,360,750 to be spent during the 2003-05 biennium, \$2,243,391 during the 2005-07 biennium, \$7,475,000 during the 2007-2009 biennium and \$10,920,859 during the 2009-11 biennium for the Lignite Vision 21 Project. The object of the Lignite Vision 21 program is to construct new lignite-fired power plants in North Dakota. (These numbers are net of

those funds expended and then subsequently returned when projects did not proceed.)

⁵Lignite litigation - House Bill No. 1093 (2007) provides that \$500,000 of the amount allocated to the lignite research fund in Section 1 of the bill is to be used to pay for fees associated with lignite litigation that may be brought by the state to protect and promote the continued development of lignite resources. Activities associated with the litigation have been initiated with \$100,00 anticipated to be spent during the 2007-2009 biennium and \$400,000 during the 2009-2011 biennium.

⁶The 2007 Legislative Assembly appropriated \$19,410,600 for lignite research grants; however, the Industrial Commission anticipates spending \$18,118,068 for lignite research grants during the 2007-09 biennium. The executive budget recommendation for the 2009-11 biennium is \$19,971,300.

Fund history

North Dakota Century Code Section 57-61-01.5(2) and Article X, Section 21, of the Constitution of North Dakota provide for 70 percent of the taxes collected and deposited in the coal development trust fund to be deposited in the lignite research fund. The remaining 30 percent of the funds deposited in the coal development trust fund are to be held in trust and administered by the Board of University and School Lands, which has the authority to invest the funds, and may, as provided by law, lend money from the fund to political subdivisions.

SB 2014
Lignite R&D Program Funding
Testimony of John Dwyer
Before the
House Appropriations Committee
Government Operations Division

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 6 indirect jobs/28,000 total direct/indirect/one out of every 12 jobs in the state is tied to the lignite industry

B. Annual Economic Contribution to North Dakota

- \$1 billion in direct expenditures / each dollar spent multiplies into three dollars for our economy for a total of \$2.8 billion
- \$850 million in personal income
- \$100 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 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 – developing CO₂ capture and sequestration technologies is critical
- Implementation of Regional Haze Rules will continue to require improved 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 and 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, Development and Demonstration 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 advertising flights (concentrated in targeted 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
- Development and implementation of successful marketing plan helps preserve and enhance lignite markets
 - Messages include affordability, reliability, increasingly cleaner and energy security

B. **Research Projects for existing facilities (See pages 10 to 14) – What are the benefits?**

- Combustion, gasification & environmental research projects help provide technologies that increase efficiencies, reduce emissions, and increase use of combustion byproducts (EERC)
 - Examples are:
 - \$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
 - \$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 \$337 million power plant at Spiritwood near Jamestown. The plant will be fueled with beneficiated lignite
 - \$3 million in state money was leveraged for total of \$30 million used for research and demonstration projects to develop cost-effective mercury control technologies for lignite-based plants
 - \$3.1 million in state money has been leveraged for a total of \$158 million used to demonstrate the technical and economic feasibility of *storing* CO₂ in terrestrial and geological formations (EERC PCOR)
 - \$2.7 million in state money invested in \$5.4 million FEED study to determine the economic feasibility of *capturing* CO₂ from the flue gas of the Antelope Valley Station

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?**
 - ALE Coal-to-liquid fuels (CTL) Plant (30,000 bpd gasoline) would mean (estimated):
 - 700 direct jobs
 - 12 million more tons of coal
 - \$5 billion capital cost
 - GNPD Coal-to-synthetic natural gas plant (100 million cfpd) would mean (estimated):
 - 250 direct jobs
 - \$14 million more in annual tax revenue
 - 4.8 million more tons of coal
 - \$2.5 billion capital cost
 - GRE Spiritwood 99-megawatt power plant would mean (estimated):
 - 43 operating jobs (24 direct power plant and 19 for transportation of beneficiated coal)
 - 700,000 more tons of coal
 - \$337 million capital cost
 - One new green-field 500-megawatt power plant would mean (estimated):
 - 200 direct jobs
 - \$ 140 million more business volume
 - \$6 million more annual tax revenue
 - 3 million more tons of coal
 - \$1.5 billion capital cost
- **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?

- Three LV21P participants under contract with NDIC
 - **GRE Spiritwood 99-MW power plant**
 - Construction groundbreaking Nov. 2007
 - Earthwork complete
 - More than 300 construction workers onsite
 - On schedule for commercial operation by mid-2010
 - **Great Northern Project Development (GNPD) – Stark County – coal-to-synthetic natural gas plant**
 - Submitted small mine permit applications to PSC and NDDH in October
 - Submit large mine & plant permit applications in 3rd Qtr. '09
 - 12-month FEED study to begin in 1st Qtr. '09
 - Commercial operation 2014???
 - **ALE (NACCO/GRE/Headwaters/Falkirk) Coal-to-Liquid Fuels**
 - “Go/No Go” decision to proceed with 3-year front-end engineering and design study by December 31, 2009
 - Construction and commissioning ~ 3 years
 - Commercial operation 2015???

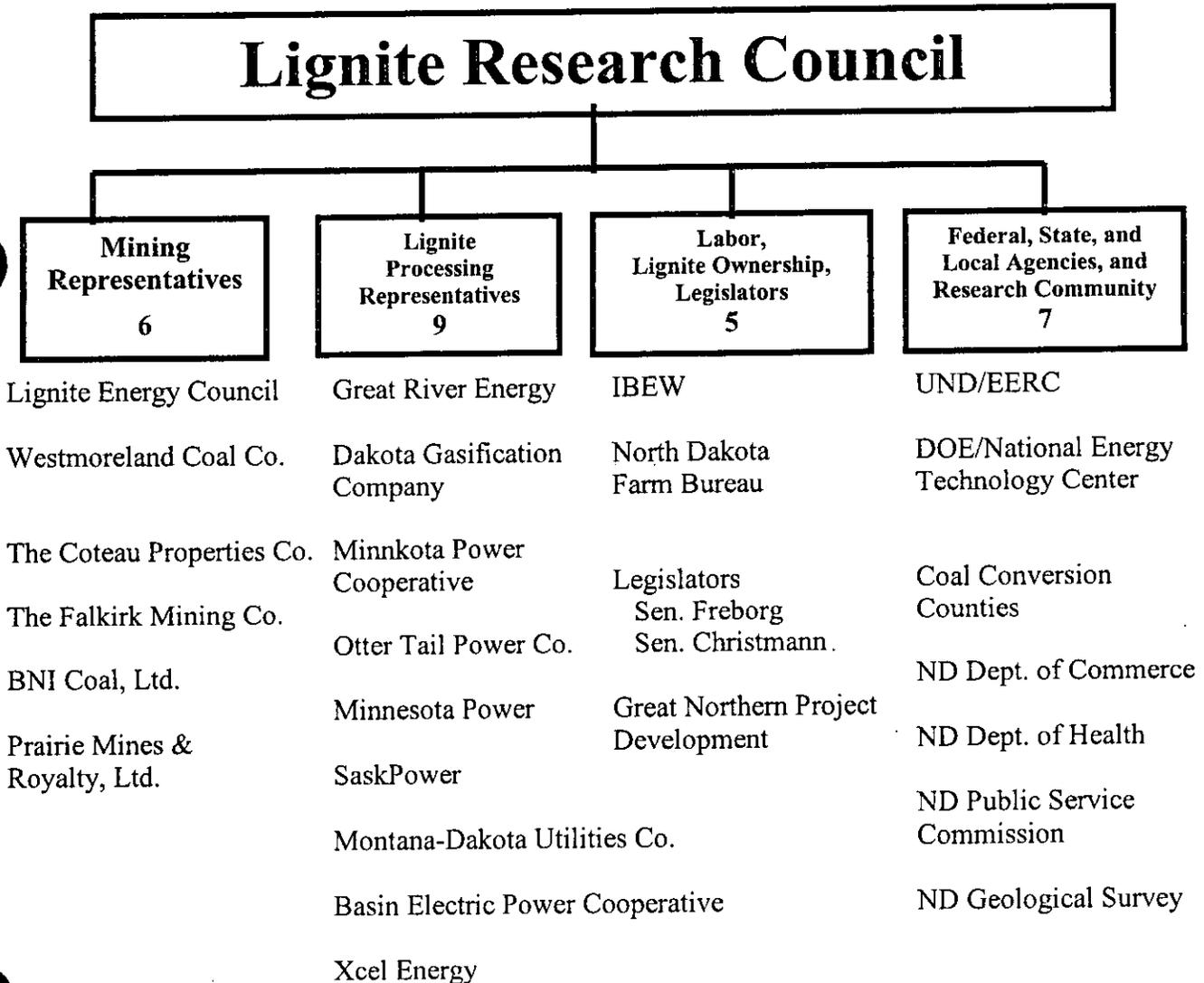
V. How is North Dakota's R&D Program administered?

A. Partnership between the private and public sectors

B. Roles of Industrial Commission & Lignite Research Council

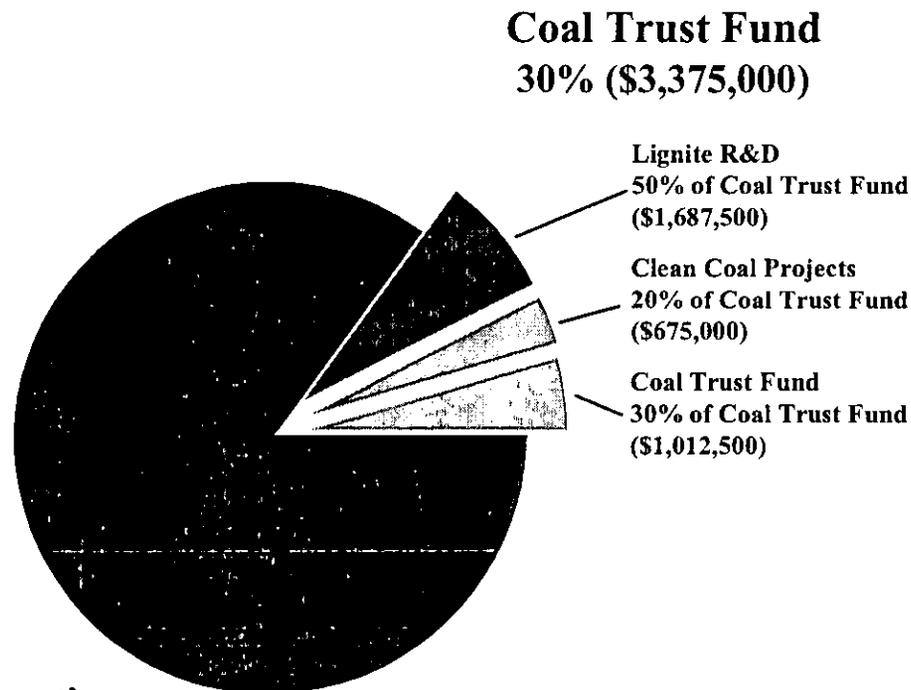
- Industrial Commission
 - Administers research, development, and marketing program
 - Approves or disapproves research and development projects and activities
 - Accepts and distributes funds and enters into contracts

- 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



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 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	600,000
Coal Conversion tax	<u>1,250,000</u>
Total Annual R&D Revenue	<u>\$4,212,500</u>
	x 2
Total Estimated Biennium Revenue	<u>\$8,425,000</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 2009-2011 biennium is estimated to be \$3.3 million.

VII. How was \$19.4 million R&D appropriation allocated in present biennium (2007 to 2009)?

	<u>Amount (\$)</u>
Appropriated	\$19,410,600
Expended (Estimated)	
Research Activities	(\$2,159,300)
Demonstration	(\$13,458,768)
Marketing	(\$2,000,000)
Litigation	(\$100,000)
Administration	(\$400,000)
Subtotal	<u>(\$18,118,068)</u>
Balance (Appropriated less expended funds)	\$1,292,532

VIII. Future commitments for Lignite Vision 21 Program (Demonstration Projects)

- A. The NDIC has made formal commitments to three projects under the Lignite Vision 21 Program. Outstanding commitments for these three projects for subsequent biennia are dependent on start-up of construction for the Spiritwood, ALE CTL and GNPD Coal-to-synthetic natural gas projects.**

	<u>NDIC Commitments</u>
Outstanding NDIC commitments for these LV21 projects are:	
• ALE Coal-to-Liquid Fuels Project	\$ 8,650,000
• GRE Spiritwood Project (Beneficiated coal/lignite-based electricity/renewable energy)	\$ 75,000
• Great Northern Project Development/South Heart	<u>\$ 3,800,000</u>
Expected NDIC Commitments ('09 to '11 Biennium)	<u>\$12,525,000</u>

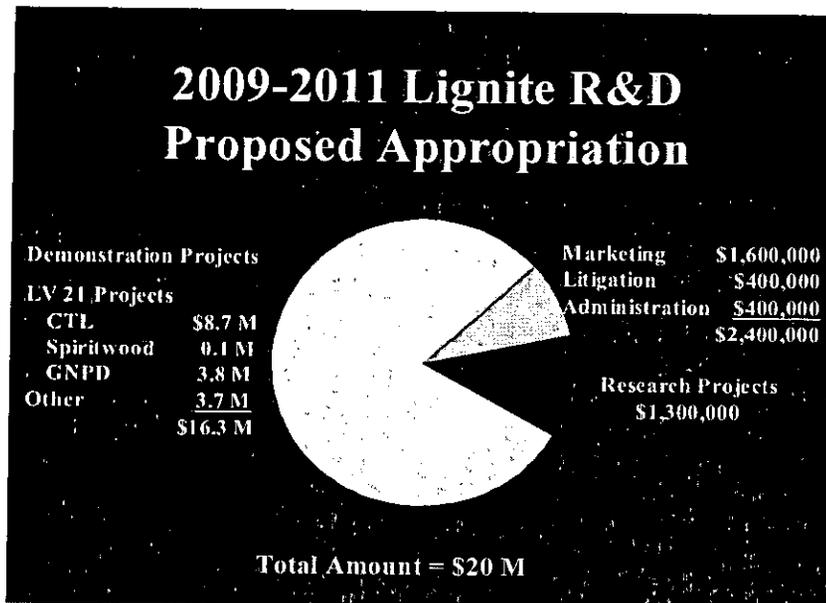
IX. What is proposed for 2009 - 2011 Biennium for lignite R&D program?

- A. Governor's Industrial Commission budget of \$19.97 million consists of:**

Research Activities	\$ 1,296,300
Demonstration Projects	\$16,275,000
Marketing	\$ 1,600,000
Litigation	\$ 400,000
Administration	<u>\$ 400,000</u>
	\$19,971,300

X. What is proposed for 2009 - 2011 Biennium for lignite R&D program? (Cont.)

A. How will \$19,971,300 be allocated in 2009 to 2011 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 gasoline, diesel 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 2007 - 2009 Research Projects

FY01-XXXVII-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.

FY04-LRC-L-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-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.

FY05-LI-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-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-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-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-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-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-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-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-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-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.

FY06-LVI-147: "Implementation of Lignite Regional Energy Marketing Plan": Program Funding: \$2,400,000; Total Project Costs: \$4,800,000. Objective: Improve and maintain 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.

FY07-LIX-150: "Review of North Dakota Regulations, Standards, and Practices Related to the Use of Coal Combustion Products": Program Funding: \$12,000; Total Project Costs: \$36,000. Objective: Assess activities, laws, regulations, policies, guidelines, and use practices applicable in North Dakota pertaining to coal combustion products (CCPs) by working with industry, state agencies, and other stakeholders to identify any impediments or changes that could be made to improve CCP use.

FY07-LIX-151: "Upgrade and Refurbishment of a Bench-Scale Entrained-Flow Slagging Gasifier": Program Funding: \$129,000; Total Project Costs: \$354,000. Objective: To help overcome the challenges of utilizing lignite coal with commercially available gasification systems, a bench-scale entrained-flow slagging gasifier will be built by upgrading and refurbishing an existing bench-scale gasifier, which will be used for syngas production, cleanup, and separation testing.

FY07-LXI-152: "Effects of Aging on Treated Activated Carbons": Program Funding: \$40,000; Total Project Costs: \$120,870. Objective: EERC proposes to evaluate the effects of storage on activated carbons (ACs) by evaluating the aging effects that might alter the physical or chemical properties of the ACs, which could impact the mercury capture efficiency.

FY08-LXII-159: "Demonstration of Coal Combustion Products for Green Roadbuilding in Medora, North Dakota": Program Funding: \$125,000; Total Project Costs: \$377,725. Objective: Demonstrate environmentally sustainable (green) roadbuilding using multiple coal combustion product (CCP) utilization application and, in the process, educate North Dakota industry, state agencies, and the public about environmentally sustainable construction.

FY08-LXII-160: "Center for Air Toxic Metals Program Affiliates Membership for the North Dakota Industrial Commission (NDIC)": Program Funding: \$45,000; Total Project Costs: \$270,000. Objective: Develop information on the behavior of air toxic substances that allows for the prediction of the fate of air toxic metals, the enhancement of existing control technologies, the identification of new control technologies, the optimization of utilization and disposal of residuals, and pollution prevention.

FY08-LXIV-163: "Coal Ash Behavior in Reducing Environments (CABRE III)": Program Funding: \$150,000; Total Project Costs: \$2,401,174. Objective: Conduct research and demonstrate fuel ash-related problems that affect gasification performance and provide more reliable evaluation tools for gasifier design engineers and operators to assess coal requirements and optimize operating conditions.

FY08-LXIV-164: "Partnership for CO₂ Capture": Program Funding: \$300,000; Total Project Costs: \$3,410,000. Objective: Conduct pilot-scale demonstration testing of selected CO₂ separation and capture technologies for fossil fuel- and biomass-fired systems. The technologies may include solvent scrubbing, oxygen-fired combustion, and gas separation membranes.

Summary of 2007 - 2009 Demonstration Projects (Matching Funds)

FY05-LIII-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-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-146: "Lignite Vision 21 Feasibility Project - Phase III": Program Funding: \$1,310,443; Total Project Costs: \$2,620,866. Objective: This is Phase III of IV for developing a 500 MW lignite-fired power plant and its associated surface mine in western North Dakota.

FY06-LVII-148: "Lignite Vision 21 Project Coal-to-Liquids Plant McLean County, North Dakota": Program Funding: \$1,700,000; Total Project Costs: \$8,300,000. Objective: Conduct feasibility studies for coal-to-liquid fuels plant located in McLean County, North Dakota.

FY07-LVIII-149: "Spiritwood Energy Power Plant": Program Funding: \$2,000,000; Total Project Costs: \$157,000,000. Objective: Construct and operate a beneficiated lignite-fired combined heat and power plant near Spiritwood that would provide steam for a new ethanol plant and an expanded malting facility, while producing 35-50 MW of electric power.

FY07-LXI-153: "Phase III - Mercury Control Technologies for Utilities Burning Lignite Coal: Full-Scale Evaluation of Long-Term Balance-of-Plant Effects Resulting from Activated Carbon Injection": Program Funding: \$300,000,000; Total Project Costs: \$902,604. Objective: EERC proposes to conduct a year long, full-scale test of activated carbon injection upstream of an electrostatic precipitator at SaskPower Poplar River Unit 2 to determine long-term effectiveness for mercury removal and to further evaluate balance of plant impacts.

FY07-LXI-154: "Development of Biomimetic Membranes for Near-Zero PC Power Plant Emissions": Program Funding: \$260,000; Total Project Costs: \$5,832,241. Objective: Evaluate and demonstrate the ability of a contained liquid membrane permeator to capture CO₂ from Blue gas produced during the combustion of lignite.

FY07-LXI-155: "Activated Carbon Production from North Dakota Lignite - Phase IIA": Program Funding: \$290,348; Total Project Costs: \$858,517. Objective: The project is designed to: 1) establish the technical feasibility of manufacturing high-quality mercury sorbents from North Dakota lignite using a pilot multiple-hearth furnace for producing activated carbons (ACs); and, 2) examine the effectiveness of pretreatment of the produced ACs to generate the enhanced carbons for mercury control in a variety of coal-derived flue gas environments.

FY07-LXI-156: "Impacts of Lignite Properties on Powerspan's NOx Oxidation System": Program Funding: \$260,420; Total Project Costs: \$610,985. Objective: Demonstrate the Powerspan system's ability to reduce nitrogen oxides and other pollutants from the flue gas of lignite combusted in the Milton R. Young Station Unit 1 boiler.

FY07-LXI-157: "North Dakota Partnership in the Canadian Clean Power Coalition Phase III": Program Funding: \$130,000; Total Project Costs: \$260,000. Objective: To support the development of advanced coal utilization technologies including gasification, oxy-fuel combustion, and various carbon removal technologies that can be applied to conventional coal power plants.

FY07-LXI-158: "Demonstration of WRI's Pre-Combustion Mercury Removal Process for Lignite-Fired Power Plants": Program Funding: \$188,000; Total Project Costs: \$595,000. Objective: To develop and demonstrate pre-combustion mercury removal of raw coal by thermal treatment.

FY08-LXII-161: "Lignite Vision 21 Feasibility Project Phase IV – Engineering, Business Development and Design": Program Funding: \$7,328,807; Total Project Costs: \$28,300,000. Objective: Conduct Pre-FEED (front-end engineering and design) and FEED studies showing the feasibility of constructing a coal gasification project making pipeline quality synthetic natural gas from lignite.

FY08-LXIII-162: "Plains CO2 Reduction Partnership - Phase III": Program Funding: \$2,400,000; Total Project Costs: \$136,231,052. Objective: Demonstrate technical and economic technologies to store CO2 in geologic formations in the region. One demonstration project will be conducted in western North Dakota and the other demonstration project will be conducted in British Columbia.

FY09-LXV-165: "CO2 Capture Demonstration Project": Program Funding: \$2,700,000; Total Project Costs: \$5,400,000. Objective: Conduct a Front End Engineering and Design study involving the application of Powerspan's technology to remove 90% of the carbon dioxide from a 120 MW flue gas slipstream of Unit 1 of the Antelope Valley Station.

FY09-LXV-166: "Long-term Assessment of Selective Catalytic Reduction Reactor Slip Stream Performance of Utilities Burning Lignite Coal": Program Funding: \$200,000; Total Project Costs: \$1,050,000. Objective: Conduct testing of selective catalytic reduction technology to remove nitrogen oxides from the flue gas of SaskPower's Poplar River Station Unit 1, which burns Fort Union Lignite.

Summary of 2007 - 2009 R&D Projects (Non-Matching Funds)

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.

"Lignite Gasification Technologies Summary Report": Program Funding: \$50,000 from LV21P Phase V Project; Objective: Compile various lignite gasification research, development and demonstration project information into a summary report.

Summary of 2007 - 2009 Marketing Projects (Matching Funds)

FY06-LVI-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.

ADVANCED POWER SYSTEM EDUCATION INITIATIVE: APSEI

Introduction

APSEI combines the need for upgrading steam production facilities with the needs to educate the next generation of energy experts and to advance technologies that utilize North Dakota resources. Its goal therefore is to develop the human resources which will not only invent the technologies, but will also operate and maintain the commercial systems which utilize it.

Mission

APSEI will provide an integrated education, research, and demonstration platform focused on developing sound advanced technology applications for utilizing lignite, biomass, and other fuel sources in energy systems through a multidisciplinary approach in partnership with academic, federal, state, and industry partners.

The mission will be accomplished through a coordinated effort that builds on the strengths of faculty and students in the North Dakota University System, lignite industry, renewable fuel industry, technology vendors, and government.

GOALS AND OBJECTIVES

The primary goal of APSEI is to develop the work force and the technologies required to make near zero emissions energy production a reality.

BUDGET

APSEI is seeking a \$1,000,000 appropriation which will be used for the following program components. Please note that this appropriation will be used to leverage matching or greater funds from a variety of public and private sources to further the program goals.

\$200,000	Management and Coordination
\$100,000	Education and Outreach
\$400,000	Scoping Plan
\$200,000	Fuel Properties Analysis and Characterization
\$100,000	Preliminary Design

ADVANCED POWER SYSTEM EDUCATION INITIATIVE (APSED)

Phase Ia. APSEI Partnership and Concept Development

The goal is to develop a system that provides steam and electricity for the campus while providing an educational platform for the next generation of energy experts ranging from the bachelors to doctoral levels. This phase is aimed at determining the feasibility of utilizing lignite combined with other North Dakota fuel resources to produce steam and possibly electricity for the UND campus utilizing state-of-the-art technologies. The work to be conducted as part of Phase Ia includes:

Platform 1 - Outreach and Partnership Development – Collaborations and partnerships will be established with industry and government to identify technically feasible energy generation and emission control options that utilize ND fuel resources; to conduct education and outreach programs involving faculty and students; and to identify funding options for subsequent detailed design and construction of the facility. A key component will be to engage an engineering firm to assist with the feasibility study.

Platform 2 – Advanced Science, Engineering, and Business Research – Matching technology options with ND lignite and other fuel resource characteristic is critical to the system reliability and efficiency. This platform will involve identifying and compiling ND lignite and other fuel resource characteristics, conducting bench scale testing, and performing computer simulations all aimed at providing insights into optimum technology options. This information will be used to develop preliminary options for efficient, reliable, clean, and affordable power systems.

Platform 3 - Demonstration and Testing/Steam and Electricity Production – Perform a scoping study consisting of the preliminary design, broad cost estimate, and economic analysis for the integrated system technology options that will provide steam and electricity for UND.

Phase Ia. APSEI Partnership and Concept Development

Platform 1. Collaborations/Partnerships	Cost
Management/Coordination	\$ 100,000
Education/Outreach	\$ 50,000
Scoping Plan	<u>\$ 100,000</u>
Subtotal Platform 1	\$ 250,000
Platform 2. Advanced Science, Education, and Business Research	
Fuel Properties Analysis/Characterization	\$ 100,000
Laboratory Testing	\$ 100,000
Pilot Testing	\$ -
Computer Modeling/Simulations	<u>\$ 100,000</u>
Subtotal Platform 2	\$ 300,000
Platform 3. Demonstration and Testing/Steam and Electricity Production	
Preliminary Design	\$ 350,000
Scope Definition Document	\$ -
Preliminary Economic Analysis	\$ 100,000
Project Definition Document	\$ -
Environmental Impact Statement	<u>\$ -</u>
Subtotal Platform 3	\$ 450,000
Total Cost Phase Ia.	\$ 1,000,000

WHITE PAPER: ADVANCED POWER SYSTEMS EDUCATION INITIATIVE

INTRODUCTION

The Advanced Power Systems Education Initiative (APSEI) combines the need for upgrading steam production facilities with the needs to educate the next generation of energy experts and to advance technologies that utilize North Dakota resources. The Advanced Power Systems Education Initiative is aimed at developing globally unique capabilities that address our impending energy challenges.

APSEI was conceived because of needs for energy sector education:

- The current generation of energy experts is retiring and the existing educational infrastructure is insufficient to prepare the next generation.
- There is a need for integrated power system platforms to provide realistic and meaningful educational settings as well as to conduct innovative research, development, and demonstration programs focused on facilitating the invention and commercialization of new technologies.

and because of needs and opportunities for energy sector technology development:

- The entire energy sector is at a cross-roads and an energy revolution is required to determine appropriate paths towards a more secure, efficient, and reliable clean energy in the future.
- There is a clear need to reduce overall carbon emissions.
- Current energy systems for producing steam and electricity including institutional district heating, industrial systems, and electric utility scale systems, are aging and in need of upgrading/replacement. An unprecedented opportunity exists to make these upgrades and replacements with systems that provide more resource flexibility with near zero emissions.

VISION

Recently, the International Energy Agency (2008) described these challenges in the following statement:

"...the future of human prosperity depends on how successfully we tackle the two central energy challenges facing us today: securing the supply of reliable and affordable energy; and effecting a rapid transformation to a low-carbon, efficient and environmentally benign system of energy supply."

The vision is to develop a globally unique education and technology development platform capable of utilizing North Dakota resources to produce energy with near zero emissions.

MISSION

The APSEI will provide an integrated education, research, and demonstration platform focused on developing scientifically sound advanced technology applications for utilizing lignite, biomass, and other fuel sources in energy systems through a multidisciplinary approach in partnership with academic, federal, state, and industry partners.

The mission will be accomplished through a coordinated effort that builds on the strengths of faculty and students in the North Dakota University System, lignite industry, renewable fuel industry, technology vendors, and government.

GOALS AND OBJECTIVES

The primary goal is to develop the work force and the technologies required to make near zero emissions energy production a reality. To meet the goal, the following objectives have been identified:

- Develop a globally unique technology demonstration platform allowing for continuous operation to produce steam and electricity and to test emerging energy production, emissions control, on-line measurement, and process control technologies.
- Develop a forum involving faculty, students, national laboratories, industry, and federal and state government to identify and prioritize education, research, development, and commercialization efforts that overcome barriers associated with utilization of North Dakota resources.
- Conduct multiscale basic fundamental and applied research activities ranging from laboratory to full scale demonstrations that provide a platform to educate the next generation of energy experts while advancing science and engineering.

SCOPE

When fully implemented the APSEI will consist of three separate platforms each designed to contribute to the overall mission. The organization of the APSEI platforms and activities to be conducted are illustrated in Figure 1 and are described briefly as follows:

- **Platform 1. Outreach and Partnership Development:** The outreach and partnership development platform will be aimed at identifying key technical and economic barriers to the development of secure, affordable, and reliable energy

production technologies while minimizing and ultimately eliminating carbon emissions. The approach is to develop key linkages between basic energy science, faculty-student research, and academic education with the energy industry's need for advanced highly efficient and affordable technologies.

- **Platform 2. Advanced Energy Science, Engineering, and Business Education and Research:** Academic-industry-government teams will conduct research ranging from fundamental science to technology demonstration aimed at solving technical challenges. The information derived from the experimental and modeling efforts will be used to evaluate the technical and economic viability of the energy technologies.
- **Platform 3. Demonstration and Testing/Steam and Electricity Production:** The platform consists two integrate energy systems. One is a base system that provides a continuous source of steam and power for users as well as operational and environmental data for education and research. The second is a demonstration and testing system that will be used to support new technologies. The base system will provide a clean and uninterrupted source of steam and electricity as well as the critical infrastructure and stability required to support the demonstration and testing system. The overall platform will be used to educate and train the next generation of energy experts and to advance new energy innovations developed by faculty, students, and post-doctoral associates in cooperation with industry and government.

Once established with the appropriate infrastructure in place the APSEI will be self-sustaining through research and demonstration grants and contracts from industry and government entities.

SCHEDULE AND STRATEGY

To fully implement the Advanced Power Systems Education Initiative a phased approach is planned. During each phase activities will be conducted in each of the initiative platforms. The phases will include:

- **Phase I. Establishment of the APSEI**

Phase Ia. APSEI Partnership and Concept Development

This phase is aimed at establishing the APSEI and initiating work in all three Platforms in the APSEI that involves collaboration of industry and government with faculty and students. The efforts include:

Platform 1 - Outreach and Partnership Development – Develop of a detailed plan for the establishment of the APSEI, establish partnerships with industry and

government entities, conduct education and outreach, and continued preparation and submittal of proposals for support of the overall APSEI mission.

Platform 2 – Advanced Science, Engineering, and Business Research – Identify and compile ND fuel resource characteristics that provide insight into optimum technology options. This information will be used to develop preliminary options for efficient, reliable, clean, and affordable power systems.

Platform 3 - Demonstration and Testing/Steam and Electricity Production – Perform a scoping study consisting of the preliminary design, broad cost estimate, and economic analysis for the integrated system.

Phase Ib. APSEI Concept Technical and Economic Viability

Platform 1 - Outreach and Partnership Development – Form partnerships with industry, government, and academic groups interested in efficient and clean energy production that utilize ND resources. Develop outreach and education programs for industry, general public, and K-12 students.

Platform 2 – Advanced Science, Engineering, and Business Research – Develop forums that provide opportunities for faculty, students, industry, and government to identify key barriers to efficient and clean energy production that utilize ND resources. This information will provide the basis for defining near-, medium-, and long-term research priorities aimed at solving problems. Perform research involving faculty and student along with industry and government partners to identify best technology options for the base system and testing and demonstration system as part of Platform 3. Conduct pilot scale testing to determine feasibility of technology options.

Platform 3 - Demonstration and Testing/Steam and Electricity Production – Oversee the project proposal and project execution plan for the facility. This will include specifying the exact scope of work for the project, a firm cost estimate, and an environmental impact statement. It will also include defining the contracting strategy to be followed, the logistics requirements, and the project schedule. Utilization of industry professionals and students as part of the project management team overseeing the engineering contractor will provide unique educational opportunities.

- **Phase II. Implementation of Education and Research Programs**

Phase IIa. Integrate Education and Research with Systems Design

In this phase, detailed design and equipment procurement activities will be performed. The initial portfolio of demonstration-scale technologies to use the

center will also be defined and planned. Utilization of industry professionals and students as part of the project management team overseeing the engineering contractor will provide unique educational opportunities.

Phase IIb. Systems Construction and Startup

This phase involves the construction and startup of the Platform 3 Systems. Faculty and students will work closely with engineers and managers through all phases of the construction, and startup of the demonstration platform. This provides the faculty and students to participant in the design, construction, and startup of the advanced power system.

- **Phase III. Full Implementation APSEI program: Education, Research, and Demonstration of Advanced Power Systems**

This phase will be aimed at utilizing the integrated platforms to train the next generation of energy experts combined with research and demonstration of emerging advanced power system technologies.

To get started, obtaining funding for the first phase of the initiative is the most critical because no current APSEI infrastructure exists. Once established through Phase I, funding for Phase II and III will be attracted from government and industry partners. The key deliverables and cost for the Phase I efforts are summarized in Table 1. The cost of Phase Ia to establish the APSEI and complete the scoping plan is \$1,000,000. The cost of Phase Ib for concept technical and economic viability is \$4,000,000. Details for the Phase II and III efforts in terms of cost and schedule are not included.

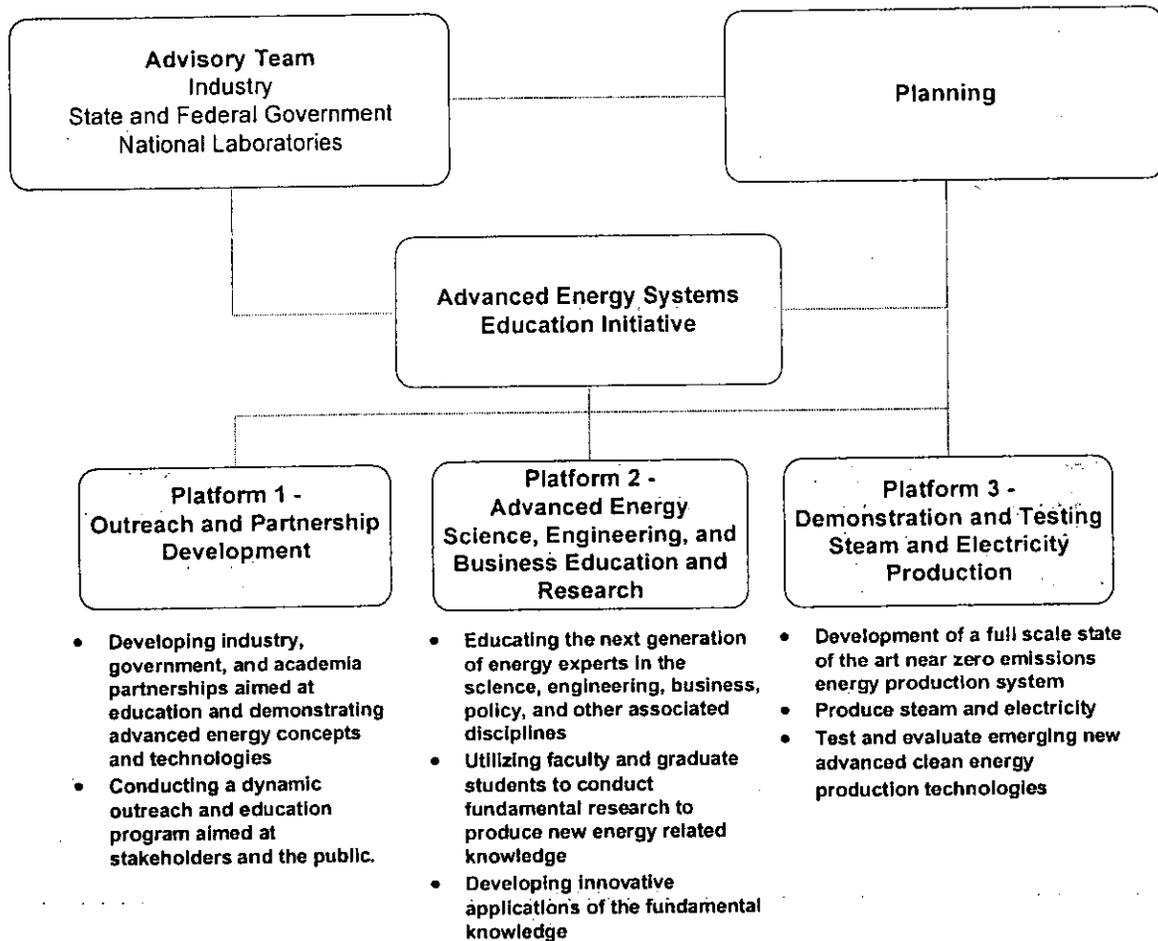


Figure 1. Organizational Chart for the Advanced Power Systems Education Initiative.

Table 1. Phase I Deliverables and Costs

	Cost
Platform 1 - Collaborations/Partnerships	
Management/Coordination	\$ 200,000
Education/Outreach	\$ 100,000
Scoping Plan	<u>\$ 400,000</u>
Subtotal Platform 1	\$ 700,000
Platform 2 - Advanced Science, Engineering, and Business Research	
Fuel Properties Analysis/Characterization	\$ 200,000
Laboratory Testing	\$ 500,000
Pilot Testing	\$ 800,000
Computer Modeling/Simulations	<u>\$ 300,000</u>
Subtotal Platform 2	\$ 1,800,000
Platform 3 - Demonstration and Testing/Steam and Electricity Production	
Preliminary Design	\$ 1,200,000
Scope Definition Document	\$ 200,000
Preliminary Economic Analysis	\$ 300,000
Project Definition Document	\$ 700,000
Environmental Impact Statement	<u>\$ 100,000</u>
Subtotal Platform 3	\$ 2,500,000
Total Cost	\$ 5,000,000

ID	Task Name	2009				2010				2011				
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1	PHASE 1. Establishment of the APSEI													
2	PHASE 1a. APSEI Partnership and Concept Development													
3	Phase 1b. APSEI Concept Technical and Economic Viability													
4	Platform 1. Collaborations and Partnerships													
5	Task 1.1 Management/Coordination													
6	Task 1.2 Education and Outreach													
7	Task 1.3 Scoping Plan													
8	Platform 2. Advanced Science, Engineering, and Business Research													
9	Task 2.1 Fuel Properties Analysis													
10	Task 2.2 Laboratory Testing													
11	Task 2.3 Pilot Testing													
12	Task 2.4 Computer Modeling/Simulations													
13	Platform 3. Demonstration and Testing/Steam and Electricity Production													
14	Task 3.1 Preliminary Design													
15	Task 3.2 Scope Definition													
16	Task 3.3 Preliminary Economic Analysis													
17	Task 3.4 Project Definition Document													
18	Task 3.5 Environmental Impact													

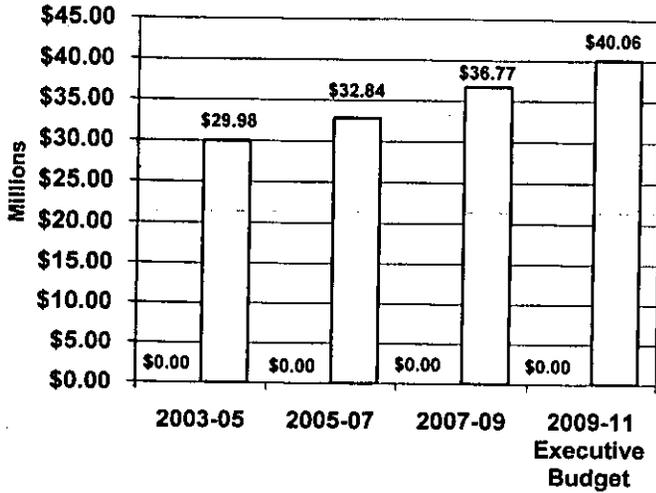
Figure 2. Schedule for Phase I of the Advanced Power Systems Education Initiative.

**Department 475 - Mill and Elevator Association
 Senate Bill No. 2014**

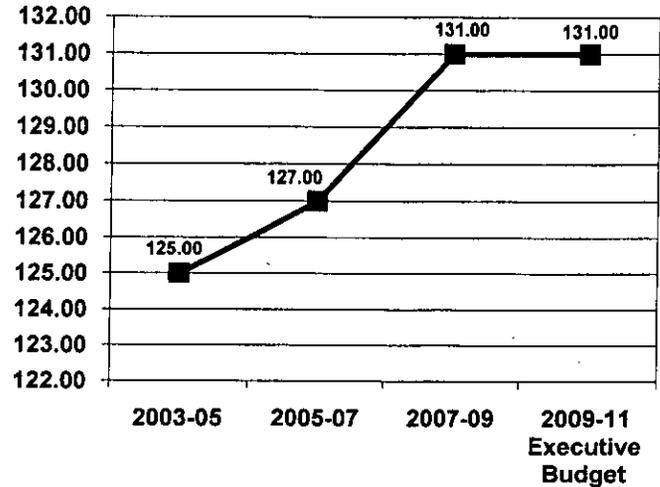
	FTE Positions	General Fund	Other Funds	Total
2009-11 Executive Budget	131.00	\$0	\$40,057,242	\$40,057,242
2007-09 Legislative Appropriations	131.00	0	36,765,609	36,765,609 ¹
Increase (Decrease)	0.00	\$0	\$3,291,633	\$3,291,633

¹The 2007-09 appropriation amounts do not include \$4 million of additional special funds authority for increased interest expense associated with the mill's line of credit with the Bank of North Dakota, resulting from Emergency Commission action during the 2007-09 biennium.

Agency Funding



FTE Positions



■ General Fund □ Other Funds

First House Action

Attached is a summary of first house changes.

**Executive Budget Highlights
 (With First House Changes in Bold)**

	General Fund	Other Funds	Total
1. Increases funding for operating expenses		\$2,915,959	\$2,915,959
2. Decreases funding for interest expense		(\$2,170,613)	(\$2,170,613)

Other Sections in Bill

Section 9 provides for a \$2.5 million transfer from the Mill and Elevator to the general fund for the 2009-11 biennium. The Senate removed this section.

Section 13 repeals Section 16 of Chapter 14 of the 2007 Session Laws relating to the Mill and Elevator transfer of \$5 million to the general fund for the 2007-09 biennium.

Continuing Appropriations

No continuing appropriations for this agency.

Major Related Legislation

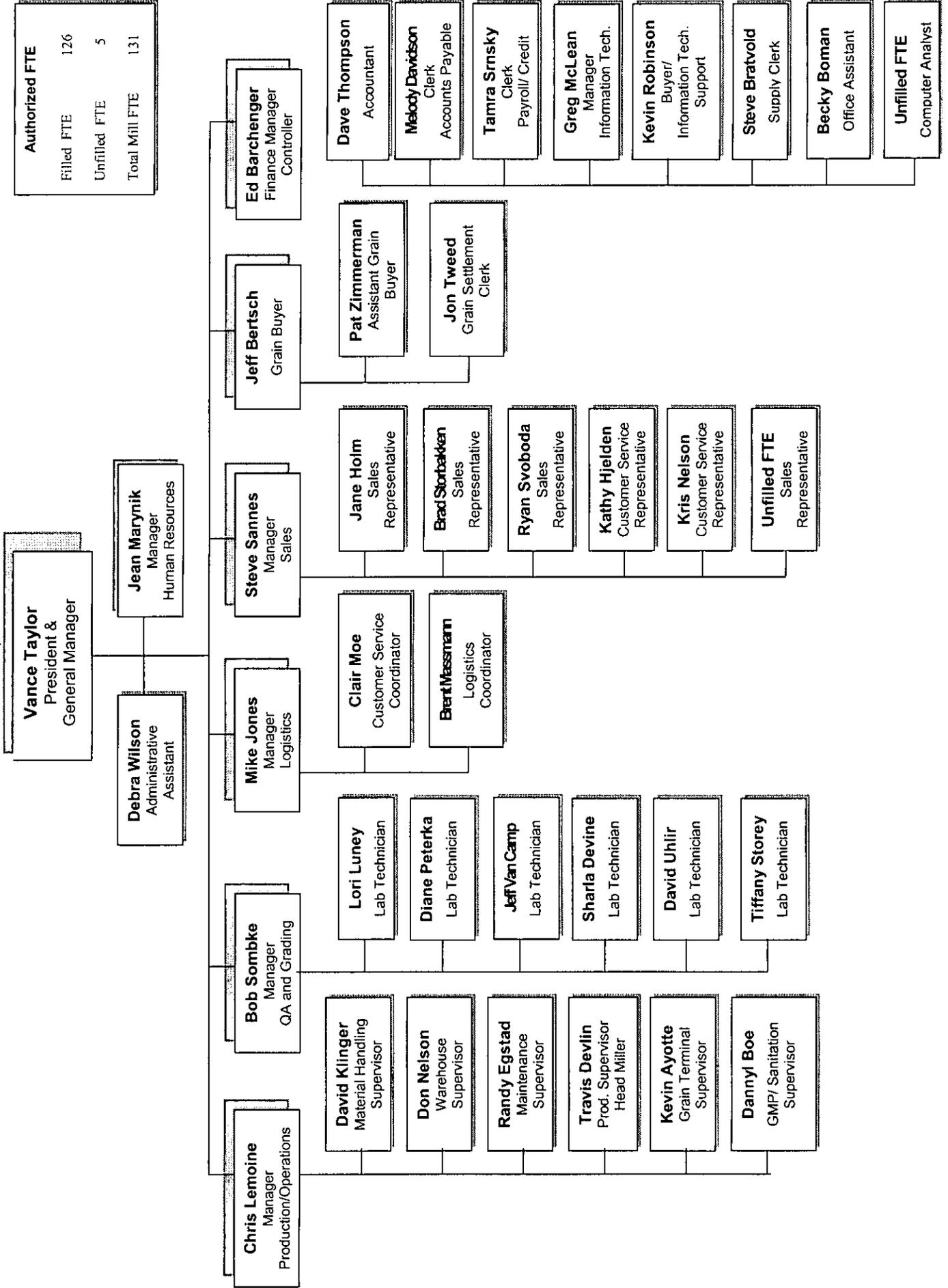
No major legislation is under consideration affecting this agency.

ATTACH:1

NORTH DAKOTA MILLS ORGANIZATION CHART

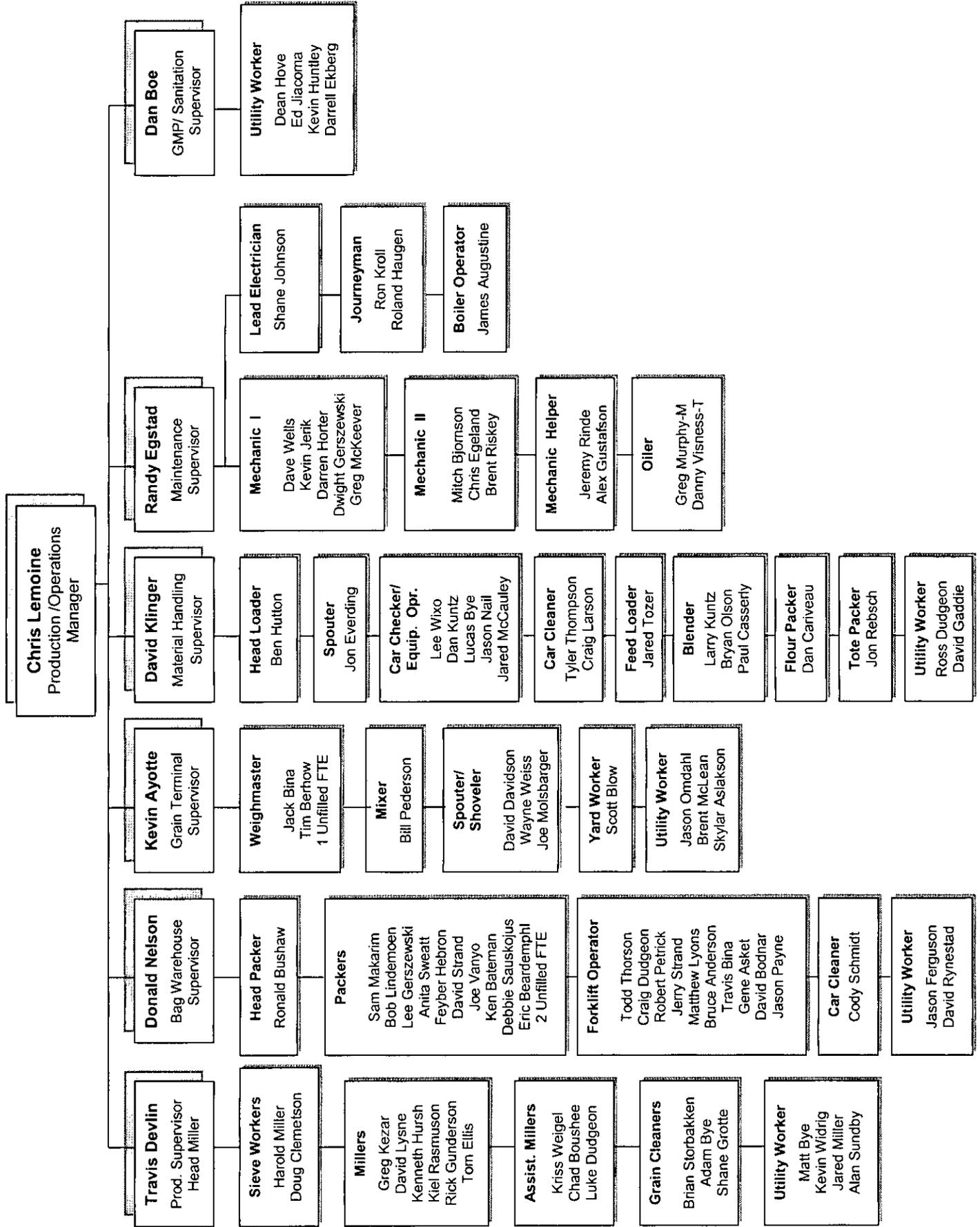
March 5, 2009

Authorized FTE			
Filled FTE	126		
Unfilled FTE	5		
Total Mill FTE	131		



NORTH DAKOTA MILL PRODUCTION ORGANIZATIONAL CHART

March 5, 2009





House Appropriations Committee Hearing

March 2, 2009

**Engrossed Senate Bill No. 2014 Budget No. 475
North Dakota Mill and Elevator Association**

Mr. Chairman and Members of the Committee:

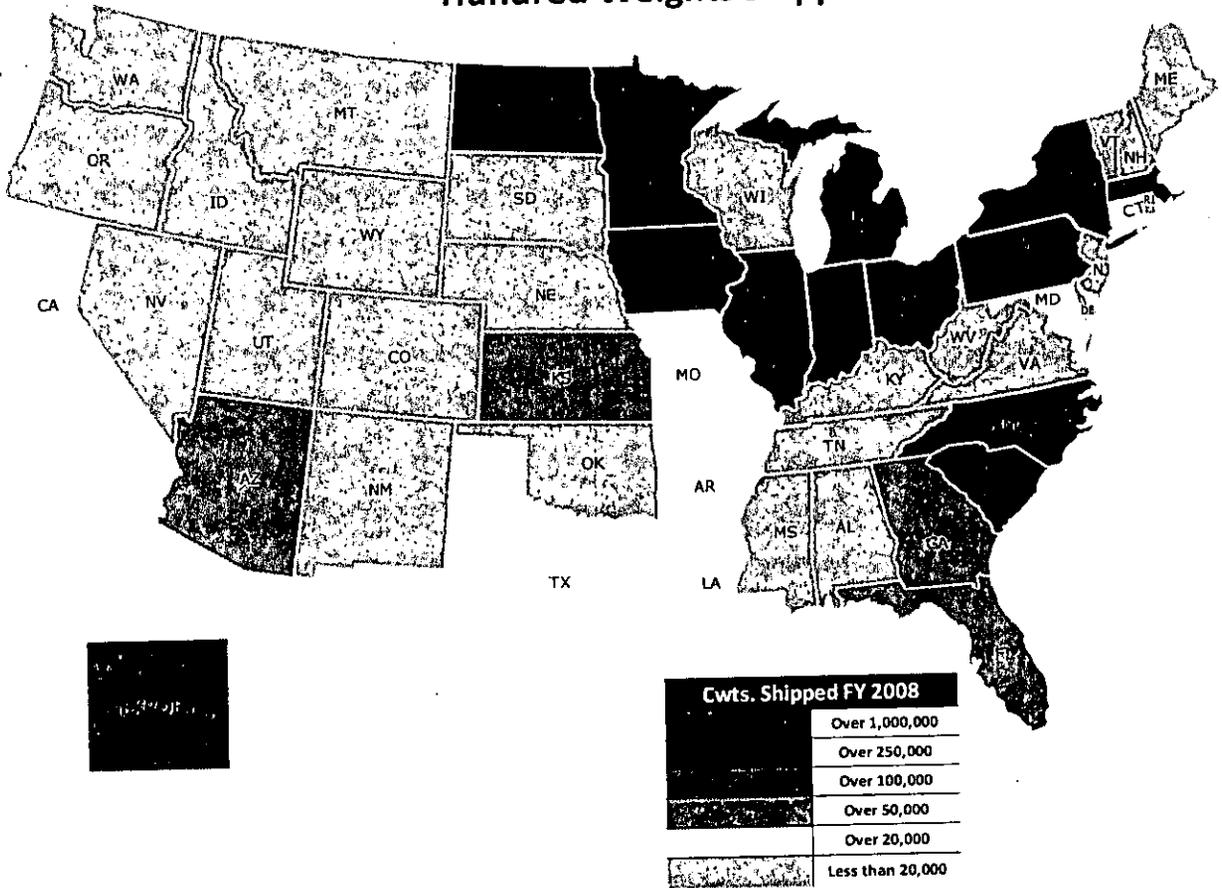
I am Vance Taylor, President and General Manager of the North Dakota Mill and Elevator. With me today is Ed Barchenger, our Controller and Finance Manager.

As you know, during the second half of FY 08 and on into the first half of FY 09 the State Mill experienced significant losses due to unprecedented fluctuations in the grain markets and ineffective spring wheat hedging. Going forward, we are working hard to recover from this event and to push the business back towards the level profits that we are all used to seeing.

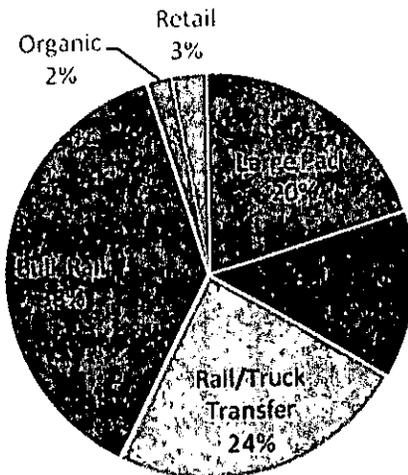
We are presently working with Dr. Bill Wilson, Professor at North Dakota State University's Department of Agribusiness & Applied Economics, to revise our hedging policies to better manage risk. We have also retained the consulting and accounting firm of EideBailly to review our grain accounting practices and to assist us with forecasting. These efforts, as well as the continued work of our dedicated employees to leverage our superior quality and customer service, and the more stable grain markets we are experiencing this year, are improving results going into the second half of FY 09.

The State Mill continues to be the largest single site wheat flour mill in the U.S. with the capacity to produce over 3.4 million pounds of flour per day and sales of over \$265 million in FY 08. We now process over 78,000 bushels per day of top quality North Dakota spring wheat and durum, adding value to approximately 22 million bushels per year. The Mill operates 24 hours per day, 5 – 7 days per week, and flour is shipped to markets across the U.S. and around the world. We have 131 authorized employees and all facilities are located in Grand Forks.

Hundred Weights Shipped FY 2008



Flour Shipments Categories FY 2008



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 fiscal year, the Mill produced \$244,987,000 in direct economic activity, resulting in an additional \$568,370,000 in secondary economic activity. This results in a total economic impact to the region of more than \$813,357,000 over the last year.

Strategic Plan 2009

Working with the UND Office of Work Force Development, The State Mill management team has developed the following strategic objectives for fiscal year 2009.

- Promote and Support ND Agriculture, Commerce and Industry
- Identify and Respond to Emerging Issues in the Flour Milling Industry
- Increase Profitability
- Grow our Customer Base
- Invest in our Employees

Budget Request

All operating funds are generated internally at the Mill. 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 \$40,057,242. This is a \$3,291,633 increase over the 2007 - 2009 biennium budget or an increase of \$5,462,246 if we exclude interest expense from the last biennium budget. This increase represents increases in both wages and benefits and other operating expenses.

In November a request was approved by the Emergency Commission and affirmed in December by the Budget Section to increase our interest expense line item by \$4,000,000.

After discussions with the Office of Management and Budget, it was decided that interest expense would no longer be budgeted. Our interest expense is directly correlated to the price of wheat. It is very difficult to accurately forecast the price of wheat and durum for the next biennium. The 2007-2009 biennium interest expense was budgeted at \$2,170,613, which was an increase from the \$892,636 actual interest expense for the 2005-2007 biennium.

Wages and benefits increase \$2,546,287 over the current budget. The Mill is in the final 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. Contract negotiations will begin this spring on a new agreement. The Union represents approximately 65% of the employees at the Mill.

Operating expenses excluding wages and benefits and interest expense increased \$2,890,959. Utilities expense increased \$1,110,697 over the current budget. The Western Area Power Administration supplies a significant portion of our electrical power. They informed us that on January 1, 2009, our electrical rates will increase by 20%. They also indicated that similar increases could be forthcoming in the next couple of years. The remaining portion of our electrical power comes from Nodak Electric who informed us in October that we should expect a 10%-12% increase this year and that wholesale energy prices will increase 13% in 2009.

Repairs expense increased \$582,000 over the current budget. Increases in the number of rail cars leased and as the milling equipment purchased fiscal year 2001 begins to get older higher maintenance costs will drive this expense higher.

Miscellaneous supplies expense increased by \$234,100. 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. One alternative the Mill is investigating is the use of heat treatment instead of methyl bromide.

Insurance expense increased by \$687,684. In addition to insurance rates increasing, the significantly higher wheat prices have driven up our grain and flour inventory values. This has resulted in our increasing our insurance coverage for these higher inventory values.

Five items, wages and benefits, utility expense, repair expense, insurance, and miscellaneous supplies expense increased \$5,160,768 in our requested appropriations. A large share of these expenses is driven by the volume of production and sales at the Mill, as well as large rate increases (electrical costs).

Reengrossed Senate Bill 2014 does not include a transfer to the General Fund in the 2009-2011 biennium. The Governor's Executive Budget had included a transfer of \$2.5 million for the 2009-2011 biennium but that transfer was removed by the Senate. This amount of transfer is down from the \$5 million transfer authorized by the 2007 Legislature for the current biennium (2007-2009), which is repealed in Section 13 of the Reengrossed SB 2014.

Thank you for your time and consideration of our budget request. I will be happy to answer any questions.

4-21-09
 Conf of Comm
 #1

Senate Bill 2014 - North Dakota Mill Transfer Formulas

	2009-2011 Biennium		2007-2009 Biennium	Annualized
	Projected FY2011	Projected FY2010	Projected FY2009	Growth Rate
Current Method				
Annual Earnings	\$5,097,774	\$4,872,408	-\$7,681,285	
Proposed Earnings Transfers	\$2,500,000		\$0	
Net Assets @ \$2.5MM transfer	\$54,067,753	\$51,469,979	\$46,597,571	8.02%
Proposed Earnings Transfers	\$5,000,000		\$0	
Net Assets @ \$5.0MM transfer	\$51,567,753	\$51,469,979	\$46,597,571	5.33%

House Proposed Method Stable Wheat Prices				
Spring wheat prices	\$ 7.00	\$ 7.00		
Annual Operating "Expenses"	\$179,623,513	\$177,068,632	\$214,143,382	
25% of operating expenses	\$44,905,878	\$44,267,158	\$53,535,846	
Annual Earnings	\$5,097,774	\$4,872,408	-\$7,681,285	
75% of Earnings Transfers	\$3,823,331	\$3,654,306	\$0	
	\$1,274,444	\$1,218,102	-\$7,681,285	
Net Assets/Formula Method	\$49,090,117	\$47,815,673	\$46,597,571	2.67%
	Transfer	Transfer	No Transfer	

House Proposed Method Increasing Wheat Prices				
Spring wheat prices	\$ 9.50	\$ 8.50		
Annual Operating "Expenses"	\$229,623,513	\$207,068,632	\$214,143,382	
25% of operating expenses	\$57,405,878	\$51,767,158	\$53,535,846	
Annual Earnings	\$5,097,774	\$4,872,408	-\$7,681,285	
75% of Earnings Transfers	\$0	\$0	\$0	
	\$5,097,774	\$4,872,408	-\$7,681,285	
Net Assets/Formula Method	\$56,567,753	\$51,469,979	\$46,597,571	10.70%
	No Transfer	No Transfer	No Transfer	

Alternative Formula Based Method				
Annual Earnings	\$5,097,774	\$4,872,408	-\$7,681,285	
Transfer 50% of Earnings	\$2,548,887	\$2,436,204	\$0	
Net Assets/50% Method	\$51,582,662	\$49,033,775	\$46,597,571	5.35%

North Dakota Mill
Operating, Repair Expenses and Examples of Capital Projects

	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004
Budgeted and expensed yearly					
Repairs & Maintenance	1,100,594	996,251	859,294	896,725	797,861
Operating Supplies	751,087	734,471	662,969	650,933	831,284
Total Repairs & Supplies	<u>1,851,681</u>	<u>1,730,722</u>	<u>1,522,263</u>	<u>1,547,659</u>	<u>1,629,145</u>

Examples of Capital Projects

Capitalized and depreciated over time

Whole Wheat Mill Upgrade					1,700,000
C - Mill Addition				5,700,000	
Buhler Pack Line			850,000		
Durum/WW Mill Color Sorter		245,000			
Warehouse Expansion	1,900,000				

**NORTH DAKOTA MILL
GAIN SHARING PROGRAM
Fiscal 2008-2009**

- Eligibility – all full-time employees on June 30, 2009 that worked a minimum of 1,000 hours during the program year are eligible.
- No pay out of any bonuses if profit before gain sharing expense accrual does not exceed 1.0 million dollars.
- No payout on the profit part of the plan if profit before gain sharing expense accrual does not exceed 2.0 million dollars.
- Pay out will be calculated as a percent of earnings from July 1, 2008 to June 30, 2009.
- Goal numbers were set to reflect current realities for the new plan year.
- Goal numbers were set by the General Manager and the Union Negotiating Committee and are attainable with effort.

The plan consists of two independent parts. 4% potential payout is from exceeding gain sharing goals and an uncapped potential payout is from profits.

For the year ending June 30, 2009 the goals are as follows:

Gain Sharing 1st Part - 4% Bonus Potential*

Goals

Cwt./man-hour	(includes all hours)	28.0
Cost per cwt. (before gain sharing exp.)		\$1.72
Yield		76.0%
Safety Record		150 Points

*4% bonus potential if all numbers are met or exceeded. Each goal is worth 1% of the 4%.

Gain Sharing 2nd Part - Uncapped Bonus Potential

Profits (before gain sharing expense accrual):

2.0 million	= 2.0% bonus pay out
4.5 million	= 4.5% bonus pay out

Each additional 1.0 million in profits = 1.0% additional bonus payout.

NOTE: The 1st Part of the gain sharing goals begin to payout at a profit (before gain sharing expense accrual) level greater than \$1.0 million. The 2nd Part of the Gain sharing Goals begin to payout at a profit (before gain sharing expense accrual) level greater than \$2.0 million.

EXAMPLE #1:

The mill makes \$1.5 million profit (before gain sharing expense accrual) and we exceed the goal for cwt./man-hour and cost/cwt. but not the safety record or yield. The total bonus received would be 2% for goals + 0% for profit = 2.0%.

EXAMPLE #2:

The mill makes \$2.5 million profit (before gain sharing expense accrual) and we exceed the goal for cwt./man-hour, cost/cwt., and the safety record but not the yield. The total bonus received would be 3% for goals + 2.5% for profit = 5.5%.

Suggested Language

Section 17

Transfer of North Dakota mill and elevator profits to state funds. The industrial commission shall transfer to state funds a total of fifty percent of the annual earnings and undivided profits of the North Dakota Mill and elevator association. The moneys must be transferred in the amounts and at the times requested by the director of the office of management and budget.

Gain Sharing Program. For the purpose of this section, "gain sharing program" means a program approved annually by the industrial commission with provisions that promote profitability, productivity and safety. Any gain sharing program approved by the industrial commission must include provisions that insure that no payouts will occur unless mill and elevator profits exceed one million dollars for that program year.

**North Dakota Mill
Projected Income Statement**

	FY 2005	FY 2006	FY 2007	FY 2008	Elite Bailly Study FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
OPERATING REVENUES									
Net sales	\$ 101,027,776	\$ 107,320,650	\$ 131,951,349	\$ 241,877,638	\$ 206,462,097	\$ 181,941,041	\$ 184,721,287	\$ 188,408,140	\$ 199,378,991
Total operating revenues	101,027,776	107,320,650	131,951,349	241,877,638	206,462,097	181,941,041	184,721,287	188,408,140	199,378,991
OPERATING EXPENSES									
Material cost	80,054,042	85,717,907	109,953,723	224,303,666	195,233,206	159,075,000	160,893,000	163,620,000	172,710,000
Manufacturing	12,498,283	12,816,918	13,980,705	13,651,592	13,774,620	14,022,828	14,750,412	15,600,436	17,125,812
Selling expense	1,001,422	1,006,459	1,070,031	1,075,614	1,118,639	1,163,384	1,209,919	1,258,316	1,308,649
General and administrative	1,161,047	1,228,385	1,366,565	1,625,115	1,690,120	1,757,724	1,828,033	1,901,155	1,977,201
Total operating expenses	94,714,794	100,769,669	126,371,024	240,655,987	211,816,584	176,018,936	178,681,365	182,379,907	193,121,662
OPERATING INCOME	6,312,982	6,550,981	5,580,325	1,221,651	(5,354,487)	5,922,105	6,039,922	6,028,233	6,257,329
NONOPERATING REVENUES (EXPENSES)									
Interest income	29,234	36,101	25,357	28,014	33,210	15,000	10,000	10,000	10,000
Interest expense	(205,919)	(345,234)	(547,402)	(2,170,613)	(2,316,584)	(1,049,418)	(912,148)	(723,641)	(723,210)
Miscellaneous income	33,191	59,266	105,303	143,538	61,440	38,383	12,500	12,500	12,500
Gain on sale of capital assets	22,526	(26,117)	-	4,400	-	-	-	-	-
Other expense	(385,857)	(49,437)	(49,118)	(48,597)	(68,611)	(13,661)	(12,500)	(12,500)	(12,500)
Total nonoperating expenses	(506,825)	(325,421)	(465,860)	(2,043,258)	(2,290,545)	(1,009,696)	(902,148)	(713,641)	(713,210)
Income before transfers	5,806,157	6,225,560	5,114,465	(821,607)	(7,645,032)	4,912,408	5,137,774	5,314,593	5,544,119
Transfer to state general fund	(5,000,000)	-	(5,000,000)	-	-	-	-	-	(5,000,000)
Transfer to Industrial Commission	(28,782)	(33,193)	(33,193)	(36,254)	(36,254)	(40,000)	(40,000)	(42,000)	(42,000)
Transfer to Department of Commerce	-	(200,000)	-	-	-	-	-	-	-
Change in net assets	777,375	5,992,367	81,272	(857,861)	(7,681,286)	4,872,408	5,097,774	5,272,593	502,119
TOTAL NET ASSETS - BEGINNING	48,285,703	49,063,078	55,055,445	55,136,717	54,278,856	46,597,570	51,469,978	56,567,751	61,840,344
TOTAL NET ASSETS - ENDING	\$ 49,063,078	\$ 55,055,445	\$ 55,136,717	\$ 54,278,856	\$ 46,597,570	\$ 51,469,978	\$ 56,567,751	\$ 61,840,344	\$ 62,342,463

**North Dakota Mill
Projected Balance Sheet**

	Eide Bailly Study					Projections			
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	\$ 26,648	\$ 77,856	\$ -	\$ 3,737	\$ 500,000	\$ 321,059	\$ 809,562	\$ 570,488	\$ 894,273
Notes receivable	519,227	295,100	-	-	-	-	-	-	-
Receivables, net	17,185,867	20,017,847	26,243,207	46,488,383	26,709,385	28,166,383	28,594,484	29,163,376	30,859,887
Inventories, net	11,709,781	9,603,215	15,517,070	57,980,530	19,020,080	24,466,190	20,651,600	21,551,600	22,451,600
Prepaid expense	433,107	452,149	555,022	1,030,365	679,179	679,179	679,179	679,179	679,179
Total current assets	29,874,630	30,446,167	42,315,299	105,503,015	46,908,644	53,632,810	50,734,825	51,964,643	54,884,939
NONCURRENT ASSETS									
Patronage capital credits	87,051	112,397	198,513	234,805	234,805	234,805	234,805	234,805	234,805
Other assets	13,150	13,150	13,150	13,150	13,150	13,150	13,150	13,150	13,150
Capital assets, net	29,631,416	34,193,250	35,519,571	36,130,096	37,811,932	36,811,932	36,611,932	37,078,599	37,211,932
Total noncurrent assets	29,731,617	34,318,797	35,731,234	36,378,051	38,059,887	37,059,887	36,859,887	37,326,554	37,459,887
Total assets	\$ 59,606,247	\$ 64,764,964	\$ 78,046,533	\$ 141,881,066	\$ 84,968,531	\$ 90,692,697	\$ 87,594,712	\$ 89,291,196	\$ 92,344,826
LIABILITIES									
CURRENT LIABILITIES									
Accounts payable and other liabilities	2,921,004	4,468,186	3,749,431	8,048,413	7,658,371	8,658,371	8,158,371	7,658,371	7,158,371
Notes payable	7,000,000	4,600,000	17,000,000	71,925,733	30,057,505	29,909,263	22,213,504	19,137,396	22,188,907
Total current liabilities	9,921,004	9,068,186	22,257,096	79,974,146	37,715,876	38,567,634	30,371,875	26,795,767	29,347,278
NONCURRENT LIABILITIES									
Compensated absences	622,165	641,333	652,720	655,084	655,085	655,085	655,085	655,085	655,085
Note payable	-	-	-	6,972,980	-	-	-	-	-
Total noncurrent liabilities	622,165	641,333	652,720	7,628,064	655,085	655,085	655,085	655,085	655,085
Total liabilities	\$ 10,543,169	\$ 9,709,519	22,909,816	87,602,210	38,370,961	39,222,719	31,026,960	27,450,852	30,002,363
NET ASSETS									
Invested in capital assets, net of related del	29,637,401	34,199,235	35,513,586	36,124,111	37,811,932	36,811,932	36,611,932	37,078,599	37,211,932
Unrestricted	19,425,677	20,856,210	19,623,131	18,154,745	8,785,638	14,688,046	19,955,819	24,761,745	25,130,531
Total net assets	\$ 49,063,078	\$ 55,055,445	\$ 55,136,717	\$ 54,278,856	\$ 46,597,570	\$ 51,469,978	\$ 56,567,751	\$ 61,840,344	\$ 62,342,463
Return on Average Net Assets		12.0%	9.3%	-1.5%	-15.2%	10.0%	9.5%	9.0%	8.9%

North Dakota Mill Four Year Projections

In the development of the four year projection the following assumptions were used:

1. Spring wheat price for the period was projected to be \$7.00 per bushel. The durum price was projected to be \$8.00 per bushel. This assumption is the same that was used in the Eide Bailly study.
2. The inflation rate is projected to be 4.0% annually for the four year period.
3. The interest expense paid by the mill is based on a 3.5% interest rate. Currently the mill is paying 2.425% on the operating line.
4. The sales margin on flour sold is based on the past five year average. Due to the existing economic conditions the sales margin was reduced from the five year average by approximately 10% in the first year of the projection and increases about 3.0% annually over the four year period.
5. The sales volume sold in hundredweights is based on historical sales volumes and adjusted for the downturn in the economy. This volume increases by approximately 1.0%-1.5% in the second and third year of the four projection and in the final year returns to historical/normal levels.

ND State Mill
2007/08 Hedging Analysis Phase I
Executive Summary
Nov 24 2008
By Dr. William W Wilson

Introduction: This project evaluates circumstances that led to hedging losses during 2007/08, and to identify alternative strategies and managerial controls to militate against like occurrences in the future. Phase I of this project documents what happened in the market, what happened in NDSME's trading and documents how other companies were impacted by these events.

External Factors Impacting Markets: The crop year for 2007/08 had a number of characteristics that have not been experienced before and taken together resulted in hedging losses to the NDSME. Indeed, traditional hedging strategies that have been used for many years and by many companies, simply were not as effective as in the past.

The most important factors impacting these results were:

- **Short squeeze:** Trading of the March 2008 contract has been interpreted as a "short squeeze"—i.e. where there are extreme shortages of physical stocks, and traders try to accumulate and control both the physical stocks and futures positions. This occurs rarely (the last recognized short squeeze in wheat was 1989). The impact of a short squeeze is to result in an increase in cash and futures, price inversions and ultimately result in losses to short hedgers (i.e. as the NDSME).

The adverse impacts of this short squeeze were unprecedented. It is not uncommon for inter-month prices to invert during a marketing year, but typically these would be in the area of 10-20 cents/bushel (c/b). In 2007/08, the inversion increased from these types of values to +300c/b (i.e., March 2008 exceeding May 2008 by 300c/b) for much of the trading period, and at the extreme went to +700c/b. These levels were unprecedented and ultimately were key to the extent of losses accrued during subsequent periods;

- The position of the NDSME during this period was long about 390 contracts, which represented less than 10% of the open interest. This indicates there were many other hedgers and traders that experienced difficulties in liquidating or rolling-over hedges;
- Besides the NDSME, many other firms have reported substantial hedge losses during this period. These include, as examples, the Canadian Wheat Board (though they have not yet declared the losses, insinuations from trade

reports suggested they were extremely adversely impacted by the short squeeze in March 2008 futures); General Mills reported hedge losses of \$111 million; ConAgra reported \$33 million in hedge losses; net income of many food companies declined; VeraSun filed bankruptcy, ultimately attributed to hedge losses of \$464 million; and numerous North Dakota elevators will be reporting losses related to rolling over hedges during March 2008;

- Supplies of HRS were severely reduced to record low levels. This resulted in a reduction in domestic demands, and several of the larger importers increased their level of purchases and accelerated them earlier in the market year;
- Futures prices, the traditional tool used for managing risk, were much more volatile (by a factor of 3-4 times) than typical, intermarket spreads escalated from near nil to record high differentials; and intermonth spreads and basis increased to record high levels. These resulted in an extreme inversion in the market that provided substantial incentives for nearby sales and shipments, relative to more deferred periods;
- Trading of the MGEX futures resulted in greater open contracts than normal, long commercials extended their holdings during the period January-April 2008, and long speculators held larger than normal positions. Deliverable stocks declined during the period following November when typically they would increase. These ultimately meant that there was very strong demand for immediate term shipping, relative to deliverable stocks;
- Finally, hedges and strategies used in the past to manage risks were not as effective as traditionally. Measures of hedging effectiveness indicate that for most crops and most time periods, hedging would reduce 80-90% of the underlying cash price risk. However, during the 2007/08 crop year, hedges would only have eliminated 37% of the risk. These results indicate that the traditional relationship between cash and futures deteriorated, and, the hedges were not as effective as traditionally.

Implications for NDSME These market factors had very important implications for the NDSME.

ND Mill as a Hedger. Review of hedging documents indicates that it operates as a typical milling company. Sometimes it is a long-hedger (hedging to off-set forward priced flour sales) and sometimes as a short-hedger (hedging of inventories which are in excess of forward sales). In fact, the mill pursues both of these simultaneously, as would be expected since it is both buying wheat that has not yet been sold as flour; and it is selling flour for future periods for which it does not yet of the wheat.

Rolling over hedges: Crucial in hedging decisions is in which forward month to place a hedge. Generally, hedges should be placed in the month in which the anticipated cash transaction (in this case flour sales) would be made. This is clear and a routine part of business at the Mill.

An alternative is to hedge in a nearby month, and then, prior to the beginning of the following month, roll-over the hedge (i.e. liquidating the nearby positions, and selling a deferred position). This is called a roll-over and is a common practice in hedging. Thus, a choice is whether to hedge in a nearby position with the intention to roll-over at a later time; or to hedge directly in a deferred futures months. So long as inter-month spreads do not change, the financial impacts of each choice are exactly the same. However, if the inter-month spreads change, the results differ by the amount of the change in the intermonth spread.

As noted above, in the past, the Mill has pursued both strategies simultaneously depending if it is hedging flour sales or wheat purchases, and where and as appropriate. Also, in the past, if there was a need to roll-over a hedge, the financial repercussions were relatively minor. The peculiarity in 2007/08 was that the financial repercussions of rolling-over were far greater and a result of the short squeeze as described above.

Peculiar circumstances in 2007/08 A number of factors caused the losses during the 2007/08 crop year, some of which are identified below. Of noteworthy importance was the accelerated rate of purchases during December-February. This resulted in an increase in inventories during a period in which sales are more typically declining.

Second was the unexpected decrease in flour demand for the period from February through late spring. There were a multitude of reasons for these including: 1) reduced sales to restaurants (an important element of demand for the Mill), in response to the recession in the United States; 2) reduction in demand in response to high prices and 3) reduction in demand due to lost sales to HRW flour. These had the impact of the NDSME being hedged with a large futures position in the March 2008 futures during the January-February period.

For an elevator or trading firm operating in a market typified by that in early 2008, they would normally choose to sell physical inventories of cash grains during that period (due to the rapid increase in basis and inter-month spreads), and then liquidate their hedges. This differs from strategies pursued by the Mill for varying reasons. Amongst these were: 1) concerns about having sufficient HRS to meet their customers demands; 2) limitations on wheat sourcing options; 3) and that there was extensive farmer selling. Thus, the NDSME chose to retain their physical inventory, as well as their hedges, and ultimately rolled-over hedges into deferred months. This differs sharply from what an elevator or trading would do. Customers of elevators were seeking supplies of cash grains

for more nearby shipment, whereas the Mill was concerned of wheat supplies for anticipated deferred flour shipments.

Summary of Factors Causing Hedge Losses: Two factors ultimately caused the hedge losses that are now being reported by the NDSME. These are: 1) accelerated purchases concurrent with unexpected changes in demand; and 2) changes in inter-month spreads resulting in premiums for nearby physical shipments, and penalties for hedges that had to be rolled-over.

Taken together, these had the impact of the NDSME having a large hedge position in the nearby month (March 2008) which ultimately had to be rolled-over. These hedges were rolled over at severe market inverses, and accrued as a cost on inventories (i.e. the roll-over cost results in an added cost inventories that are accrued when that wheat is sold). Ultimately, these roll-over costs are not accrued until later months when flour is produced from that wheat. Some of these roll-over costs were in the 300 cents/bushel range, though, others were rolled-over at greater losses. Even if the hedges had been made directly in the deferred months, there would have been losses, but they would have been less.

Prospective Future Issues There are a number of issues that are important and are mentioned at this point (though, they are subject of Phase II of this project). These include:

- *Risky Markets:* It is important that these markets (cash, futures and spreads) have evolved to be very risky. They were very risky during 2007/08, and it is expected they will continue to be comparably risky in the next 3-5 years.

Thus, scrutiny over alternative hedging practices and management, and contractual relations etc will be expected to escalate in the coming years. Second, the stakes associated with slight deviations from hedging plans can result in much greater losses than traditionally. This was very apparent in 2007/08 in which hedging of what appeared to be excess inventories and was a common practice. However, the costs associated with rolling over the hedges were unprecedented, and ultimately was the source of the large hedging losses that accrued.

- *Specific hedging recommendations and practices and management guidance:*

The 2nd Phase of this project will identify specific recommendations regarding hedging. Amongst others, these include 1) alternative inventory strategies; 2) hedging strategies including the best allocation of hedges across months; 3) prospective use of option spreads as a way to protect from losses related to lost sales; 4) alternative flour sales mechanisms to mitigate against sales that are lost (minimal) or switched.

- *Hedge policy and communication:* The current hedging policy of the ND Mill was reviewed and discussed with management. Given the changes in the underlying cash and futures markets, as well as the competitive environment in which the Mill operates, it may be warranted to add some items to this document. In Phase II some specific suggestions will be made for a revision to the hedge policy. This would likely include: 1) appropriate reporting mechanisms to management and to the Board (e.g., quarterly and the level of detail that would be appropriate); 2) steps that should be initiated to prevent or minimize future hedge losses related to roll-overs; 3) consideration of retaining an outside advisor to guide, at a high level, hedging strategies, 4) amongst others.

**ND State Mill and Elevator
Hedging and Risk Strategy, Management and Reporting**

Executive Summary

The NDSME has executed hedging strategies for many years without difficulty with exception of 2008. The purpose of this project was to identify the factors that contributed to the increased risk in wheat purchasing, develop a hedging policy and risk document for the Mill and identify some strategies that should be pursued for the organization of future risk management.

Risk and Risk Management There are numerous mechanisms available for managing risks in wheat purchasing and flour sales. This is important as the changes in the commodity market has resulted in an escalation of risk (volatility) which is expected to persist for several years into the future. This will result in greater risk in futures, basis, and both inter-month and intermarket spreads all of which impact the Mill.

For this reason, the challenge for managing risk will be greater and ultimately means careful management and controls will be important. It is expected that adhering to the hedging policy along with its control and reporting mechanisms will allow the Mill to minimize its exposure to risks.

Flour milling and hedging There are two purposes of hedging at the NDSME. One is to offset risks of forward flour (fixed price) sales. This involves selling flour forward at a fixed price, and offsetting this temporarily by long futures positions in the month concurrent with the planned wheat purchase. Typically, this is not so risky. The volume is known, the timing is known and the primary risk is that of the basis and the slight chance the buyer may want to defer or shift flour purchases.

The other is hedging of long-inventories. The Mill routinely buys wheat and at some times of the year, the rate of purchases exceeds the rate of sales and as a result, inventories accumulate. This is desirable for several reasons. First, there has been a tendency for the basis in recent years to be at relatively sharp discounts at or around harvest, and sharp increases during the immediate post-harvest period. This makes a very opportunistic situation for the Mill to accumulate long-cash positions during this period, and offsetting them with short futures. Second, accumulating inventories is very strategic, and provides the Mill an advantage in competing with customers in following periods. However, risks and alternatives with this strategy are more complex and have to be managed carefully.

Overview of the Hedging and Risk Policy Document The hedging and risk policy at the Mill has been defined. It includes:

Objective of Risk Management: The objective of risk management is to reduce the exposure to losses using appropriate mechanisms for transactions being consummated. It is anticipated that a multitude of mechanisms will be pursued simultaneously recognizing that the goal is to manage risk as a fairly risk averse enterprise.

Internal Organization for Risk Management: This section defines 1) targeted and approved strategies and mechanisms; 2) it defines an overall strategy that encompasses contract type, hedge ratios and cash trading guidelines; 3) defines an organizational structure for managing risk; and 4) identifies several reports that can be used internally for reporting risk exposure, and control.

Reporting to the Industrial Commission: Three roles for the Industrial Commission are identified as elements of the hedging policy and risk management protocols.

First, the Industrial Commission should approve the document describing the hedging and risk management strategy. Ultimately, this would then become an element of standard operating procedure at the Mill. Second, the Industrial Commission should convey expectations that risk management at the Mill conforms to this policy.

The third role would be to review varying measures of risk positions on a regular basis. This is not overly critical as if the above two roles are adhered to, the Industrial Commission should be assured that the Mill is conforming to the policy. A set of measures about risk positions will be created and reported to the Industrial Commission on a regular basis. It is envisioned this would involve:

- » **Hedge ratios (aggregate) should be reported.** Reporting these would retain autonomy to the Mill, but provide some indication to the Industrial Commission about the extent that the Mill is fully hedged;
- » **Management discussion on its exposure to risk.** Management should provide a qualified discussion on its risk position and management strategy as appropriate.

The motive for this risk reporting is that a hedging and risk policy is what guides managerial decisions. This should be approved by the Industrial Commission and should guide routine decision making. Internally, varying measures are derived and reported and used for internal controls. Then, the Industrial Commission receives summary measures of these, which along with managerial discussion of risk, as appropriate, should provide some assurance about risk management at the Mill.

Recommendations: The challenges of risk management will not go away but will continue in the coming years. This project has 1) provided a summary to the Mill and the Industrial Commission of the major factors that caused the heightened risk

environment during 2008; and 2) developed a comprehensive hedging policy and risk strategy statement that should improve the control and management of risk.

In addition to these, we believe there are other recommendations to be evaluated and adopted over times, as appropriate. These were highlighted and include recommendations on:

Grain Marketing Software: The Mill should explore amongst alternatives with respect to needs and demands of the Mill.

Retain outside expert: The Mill should review its current use of grain marketing consultants and retain those which would be most valuable to supplement the internal functions of the Mill.

Durum and Millfeeds: Both of these are risky, are important elements of the Mill's activities, and given neither has a futures market, the risk implications of these crops are important. These should be investigated.

Decision Models on Hedging: Given the changes in the market regarding storage and seasonal basis changes, it is expected that an appropriate strategy in the future would be to be more aggressive in accumulating cash grains early in the marketing season. This is manageable, but decisions with respect to greater inventories are a bit more complex. Several recommendations and analytical tools were suggested that could help in managing these decisions.

Alternatives for Reporting Financial Exposure to Risk: There are several methodologies that can be used to measure the financial exposure to risks associated with different hedging and risk management strategies. These are fairly sophisticated and in the future it is expected these will become more routine in managing, reporting and controls of risk in this industry. Examples were provided (including a prototypical "Value at Risk" model and analysis). The Mill should explore ways in which to adopt these in their risk analysis, reporting and controls.

North Dakota Mill
2007-2009 Budget vs Expenditures and 2009-2011 Recommendation

	2007-2009 Appropriations	Expense Thru Jan 31, 2009	Remaining Budget	2009-2011 Recommendation	Increase / (Decrease)
Salaries & Wages (incl. shift diff)	10,285,933	7,781,778	2,504,155	11,332,490	1,046,557
Salaries - Gainsharing, Bonus	2,068,000	0	2,068,000	2,246,296	178,296
Temporary Salaries	429,600	60,754	368,846	473,000	43,400
Overtime	2,888,904	1,460,982	1,427,922	3,327,624	438,720
Fringe Benefits	4,380,600	3,136,529	1,244,071	5,219,914	839,314
Salaries, Wages, & Benefits	20,053,037	12,440,043	7,612,994	22,599,324	2,546,287
Travel	542,400	271,638	270,762	601,500	59,100
Supplies-IT Software	97,300	51,981	45,319	102,165	4,865
Supply/Material-Professional	309,956	160,203	149,753	322,400	12,444
Miscellaneous Supplies	1,560,656	1,230,910	329,746	1,794,756	234,100
Office Supplies	77,500	40,232	37,268	134,400	56,900
Postage	101,300	55,642	45,658	105,500	4,200
IT Equip under \$5,000	71,848	49,993	21,855	101,048	29,200
Utilities	5,104,839	2,968,952	2,135,887	6,215,536	1,110,697
Insurance	1,003,316	985,698	17,618	1,691,000	687,684
Repairs	4,411,664	3,355,215	1,056,449	4,993,664	582,000
IT-Communications	195,000	116,286	78,714	204,750	9,750
Contractual Services	103,650	55,965	47,685	131,650	28,000
Professional Development	164,349	150,131	14,218	201,749	37,400
Operating Fees & Services	170,000	124,304	45,696	186,550	16,550
Interest Expense*	6,170,613	3,729,001	2,441,612	0	(6,170,613)
Fees-Professional Services	178,181	86,211	91,970	196,250	18,069
Operating Expenses	20,262,572	13,432,362	6,830,210	16,982,918	(3,279,654)
Ag Promotion	150,000	95,173	54,827	150,000	0
Contingency	300,000	0	300,000	325,000	25,000
Total Expenditures	40,765,609	25,967,578	14,798,031	40,057,242	(708,367)

* Includes the additional \$4,000,000 approved by the Emergency Commission

North Dakota Mill & Elevator Strategic Plan 2009

Facilitated by the University of North Dakota Office of Professional Services

Strategic Issue 1

Promote and Support North Dakota Agriculture, Commerce and Industry

- A. Develop and Market New Agricultural Products
- B. Increase State Mill Demand for Conventional and Organic Wheat
- C. Work and communicate with North Dakota Legislators, Dakota Pride Cooperative, North Dakota Trade Office, Northern Crops Institute, North Dakota Wheat Commission, Partnering North Dakota Elevators and other Agricultural Organizations
- D. Identify and Target New Export Opportunities

Strategic Issue 2

Identify and Respond to Emerging Issues in the Flour Mill Industry

- A. Cope with Higher and More Volatile Grain Prices
- B. Develop a Strategy to Mitigate Higher Transportation Costs
- C. Develop a Strategy to Minimize Higher Interest Costs
- D. Manage Inventory Levels to Minimize Costs
- E. Address Customer Issues
- F. Focus and Rapidly React to Current Critical Operational Issues

Strategic Issue 3

Increase Profitability

- A. Increase Gross Margins
- B. Minimize Plant Costs
- C. Minimize Freight Costs
- D. Upgrade Technology
- E. Improve Infrastructure
- F. Explore Expansion Opportunities

Strategic Issue 4

Grow our Customer Base

- A. Maintain a Consistent High Quality Product
- B. Continue to Improve our High Level of Customer Service
- C. Continue to Grow to Meet the Needs of our Existing Customers
- D. Identify and Target New Customers & Markets
- E. Maintain our ISO 9001 2000 Certification
- F. Review and Revise Marketing Strategies as Necessary

Strategic Issue 5

Invest in our Employees

- A. Promote Workplace Safety
- B. Improve the Retention of our Workforce
- C. Recruit Quality People
- D. Enhance Workplace Communication
- E. Improve Job Performance through Training

U.S. flour exports in '08 fall 31% as Canada accounts for 48%

WASHINGTON — Exports of wheat flour from the United States in 2008 plummeted 31% from 2007, based on data provided by the Foreign Trade Division of the Census Bureau in the U.S. Department of Commerce. The drop was especially disappointing

ahead of the modern low in U.S. flour exports of 3,418,000 cwts in 2006. That nadir was reached in a steady fall from the recent peak shipments of 17,752,000 cwts in 1999. Even the latter was well below U.S. exports of 37,442,000 cwts in 1983 when the

shipments to neighboring Canada. Shipments to Canada in 2008 totaled 2,355,000 cwts, up 31% from 1,997,000 in 2007 and more than double the outgo to that country of 1,039,000 in 2006. In 2007, U.S. flour exports to Canada accounted for 15% of total shipments. At that reduced share, Canada was still the largest destination.

As has also been the case in recent years, America's neighbor to the south, Mexico, was second to Canada as the ranking destination for U.S. flour exports. But unlike Canada, shipments to Mexico decreased. The total moved to Mexico in 2008 was 695,000 cwts, down 33% from 1,039,000 in 2007 and compared with 804,000 in 2006. Mexico's share of total U.S. flour trade in 2008 was 14%, against 15% in the previous year.

The third ranking destination in 2008 was Taiwan, at 632,000 cwts, against 288,000 in 2007. No other country accounted for U.S. flour exports of as much as 500,000 cwts. Next in

ranking were Kenya with 298,000 cwts and Iraq at 237,000.

Among the major factors accounting for the decrease in 2008 from 2007 was the lack of shipments for Palestinian refugees. In 2007, U.S. flour exports totaled 1,143,000 cwts to Israel, Gaza and the West Bank, combined. Also absent in 2008 were 2007 shipments totaling 800,000 cwts to Somalia and Ethiopia. MNH



since it tended to reverse the 109% gain in 2007 over 2006. The latter increase had ended seven straight years of decreases in U.S. foreign flour shipments.

U.S. wheat flour exports in 2008 amounted to 4,918,000 cwts, down 2,125,000 from the outgo of 7,143,000 in the previous year. While down from 2007, the shipments in 2008 were still well

American government entered into a single year's competitive response to the European Union's export flour subsidies.

The all-time peak in U.S. flour exports occurred in the immediate post-World War II years when relief shipments to war-ravaged Europe brought the outgo above 100 million cwts.

Accounting for a startling 48% of total U.S. flour exports were



INDUSTRIAL COMMISSION OF NORTH DAKOTA
OIL AND GAS RESEARCH COUNCIL

Governor
John Hoeven
Attorney General
Wayne Stenehjem
Agriculture Commissioner
Roger Johnson

Oil and Gas Research Program
North Dakota Century Code 54-17.6

The Oil and Gas Research Program was established in 2003 as a state/industry partnership. The Program is funded by two percent of the State's share of the oil and gas production tax and oil extraction tax, up to \$3 million a biennium. The mission of the Program is to promote the oil and gas industry through research and education.

The law states that the Oil and Gas Research Program shall:

- Promote efficient, economic and environmentally sound exploration, development and use of North Dakota's oil and gas resources.
- Preserve and create jobs involved in the exploration, production and utilization of North Dakota's oil and gas resources.
- Ensure economic stability, growth and opportunity in the oil and gas industry.
- Encourage and promote the use of new technologies and ideas that will have a positive economic and environmental impact on oil and gas exploration, development and production in North Dakota.
- Promote public awareness of the benefits and opportunities provided by the North Dakota oil and gas industry.

Since the Program was implemented the Commission has approved funding of 38 projects totaling \$4,217,273. The Oil and Gas Research Program is structured similar to the Lignite Research, Development and Marketing Program and the Renewable Energy Program. There is a multi-tiered review and approval process before a project is funded. Here is how it works.

- Applications are received by the application deadlines and the initial review process is conducted at the staff level. They determine whether the application meets the Program criteria.
- If the application meets the criteria then it is forwarded to independent technical reviewers with expertise in the area of the application. For example if the application deals with research for a technology to enhance drilling operations, the application would be reviewed by individuals that are actively working in the industry and with expertise in the mechanics of drilling. If the application dealt more in the area of geology, then we would seek expertise in that field. The technical reviewer comments are then given to the applicant so the applicant has an opportunity to respond to the comments. The reviews and responses are then forwarded to the Oil and Gas Research Council along with the application and the Technical Advisor's recommendation and an opportunity is given to the applicant to make a presentation to the Council.

Ron Anderson, Chairman
Ed Murphy
John Berger

Ryan Kopseng, Vice Chairman
Lynn Helms
Bob Mau
Robert Harms

Wayne Biberdorf
Anthony Duletski
Ron Ness



- If the application is approved by the Council it is then forwarded to the Industrial Commission for consideration.

The Industrial Commission Administrative Office provides the administrative support for the Council and maintains the financial records of the Program. Dave Fischer, Fischer Oil and Gas, has been retained as a consultant to provide technical support for the Oil and Gas Research Program.

The Oil and Gas Research Program has been set up to direct 77% of its funds for research and 10% for education with the remaining funds used for the Pipeline Authority (10%) and for administration (3%) of the program.

Examples of work that has been done through this Program in the Research area are:

- Surface Tiltmeter Study of a Bakken Fracture Stimulation
- Hydraulic Fracturing & Microseismic Monitoring Project
- Plains CO2 Reduction Partnership
- Preliminary Engineering Feasibility Study for a Refinery
- Purpose Fit Portable Multi-Phase Production Measurement
- Determination of the Uniqueness of Reserves and Productivity from the Middle Bakken and the Three Forks Sanish Zones

Examples in the Education area include:

- Petroleum Safety and Technology Center
- Teacher Seminars
- Education for Oilfield Fire Safety
- Contribution of Petroleum Industry to the State's Economy (developing a baseline of information)
- Oil and Gas Education Program in the Schools

Information on all the projects funded by the Program is available on the Industrial Commission website. The dollars invested by the State in these projects is also matched so that every dollar provided by the Program is leveraged. As with the other Industrial Commission administered research programs the Commission believes having a partner in the project leads to projects being conducted that have a value to the industry and State and is not just research for research sake.

ANALYSIS OF THE OIL AND GAS RESEARCH FUND

N.D.C.C. 57-51.1

Continuing Appropriation

	<u>2007-2009 Biennium</u>	<u>2009-2011 Biennium</u>
Beginning Balance	\$ 526,952 ¹	\$ 559,552
Add transfers and estimated revenues ²		
Transfer from State Treasurer from oil and gas taxes	\$3,000,000	\$6,000,000 ⁵
Estimated applicant contributions	\$ 1,600	\$ 2,000
Estimated Interest Income	\$ 61,000	\$ 60,000
Total Available	<u>\$3,589,552</u>	<u>\$6,621,552</u>
Less estimated expenditures and commitments ³		
Estimated Project Expenditures & Commitments	\$2,800,000	\$5,720,000
Administrative and Technical Services Costs	\$ 55,000	\$ 100,000
Transfer to the North Dakota Pipeline Authority	\$ 175,000	\$ 300,000 ⁶
Total estimated expenditures	<u>\$3,030,000</u>	<u>\$6,120,000</u>
Estimated ending balance	<u>\$ 559,552⁴</u>	\$ 501,552

⁽¹⁾ The Oil and Gas Research Program/Fund was authorized by the 2003 Legislature. During the 2003-2005 biennium \$50,000 was made available for the Program. That amount was increased in the 2005 Legislature to \$1,300,000 and then it was again increased in 2007 to \$3,000,000. Legislation has passed the Senate (SB 2051) to increase the amount to \$6,000,000. The source of funding for the Oil and Gas Research Fund is two percent of the state's share of the oil and gas gross production tax and oil extraction tax revenues. During the 2003-2007 biennia expenditures totaled \$825,948.

⁽²⁾ Revenues reflect the transfer of \$3,000,000 from the State Treasurer. Estimated interest income includes actual interest income of \$49,313 through December, 2008 and an estimate of the interest income through June 30, 2009. Estimated applicant contributions reflect actual applicant contributions of \$1,400 through December, 2008 with an estimate for the remainder of the biennium.

⁽³⁾ Since 2003 through March 1, 2009 the Commission has committed funding for 38 projects totaling \$4,217,273 of OGRP funding. Total project costs are \$185,675,571. This includes thirteen projects approved during the 2007-2009 biennium with funding to be provided during the 2007-2009 and subsequent biennia. Actual project payment through December, 2008 total \$1,764,925 with an estimate for the remainder of the biennium. Actual administrative and technical services costs through December, 2008 total \$8,085 with an estimate for the remainder of the biennium.

⁽⁴⁾ This funding is needed for payments of approved projects that will be completed in subsequent biennia.

⁽⁵⁾ Five million of this amount was included in the Governor's Executive Budget. The Senate increased the amount to \$6,000,000.

⁽⁶⁾ This amount is determined by the Industrial Commission based on a recommendation from the Oil and Gas Research Council. If the Council should recommend that the amount be 10% of the funding approved by the Legislature then this amount would be increased to \$600,000.

Projects Funded through the Oil and Gas Research Fund (OGRF) 2007-2009 Biennium

Project Title	Applicant	Amount Awarded	Total Project Cost	% Funded by OGRF	Project Description
Preliminary Engineering Feasibility Study - Refinery	Northwest Refining	\$40,000	\$80,000	50%	This preliminary feasibility engineering study is to explore all of the factors involved in the development, construction, and operation of a 50,000 bbl/day oil refinery in the Williston area.
Hydraulic Fracturing & Microseismic Monitoring Project - Bakken Consortium	Headington & Bakken Consortium	\$750,000	\$14,000,000	5%	The purpose of this project includes the drilling of three parallel horizontal wells (two producing wells and one monitoring well) into the middle member of the Bakken Formation within a single 640-acre spacing unit. Substantial geological, engineering, and geophysical data acquired by this project should allow for the better understanding of 5% completion effectiveness and oil recovery in the Bakken Formation.
Surface Microseismic Study of a Bakken Simultaneous Fracture	Marathon Oil Company	\$207,550	\$415,000	50%	Conduct a surface microseismic study of a simultaneous hydraulic fracture stimulation on two newly drilled, closely spaced North Dakota Bakken horizontal wells. This study is to understand the mechanics of a simultaneous fracture stimulation in the Bakken between two parallel horizontal wells drilled in the same 1280 acre drilling and spacing unit and compare the results to a microseismic study of a single well stimulation.
Plains CO2 Reduction Partnership - Phase III	Energy & Environmental Research Center	\$500,000	\$135,731,052	0.40%	Phase III of the PCOR Partnership will include, among other tasks, commercial-scale field demonstration projects that focus on injecting CO2 into geologic formations.
Geomechanical Study of Bakken Formation in the Nesson Anticline	University of North Dakota	\$377,967	\$100,000	27%	Determine the in-situ stress field of the targeted formation for better design of horizontal wells and hydraulic fracturing; measure geomechanical properties; develop local geomechanical laboratory capacities; establish lab facilities to teach lab classes for courses that include geomechanics components
Purpose-Fit Portable Multi-Phase Production Measurement System	Ward Williston Oil Company	\$98,000	\$196,000	12%	Create and use a purpose-built portable production measurement system to measure flow rates from pumping wells involved in conventional and enhanced recovery operations.

Host six informal town hall meetings to provide information and allow the public to have conversations about oil and gas development in western ND. Provide a "frequently asked" questions informational 50% document.

To bring focus on engaging in a continuous dialogue about the key issues relating to oil and gas development with neighbors, policy makers and the general public. 38%

To estimate the contribution of the petroleum industry to the ND economy, measured by indicators such as employment, income, additional gross receipts in various sectors of the state economy, and revenues from selected state taxes. This is an update of a previous study. 50%

To develop a redesign of horizontal drilling tools by including the use of a miniature gyroscope in the drilling assemblage. 17%

To provide funding for two-part time positions for the start-up and operations for a one-year program to train individuals interested in careers in driving, with a focus on providing a skilled and safe workforce for the oil industry. 9%

To investigate the recycling of water flowed-back after Bakken fracture stimulation and assess the technical and economic potential of such 42% recycling.

To determine if the Middle Bakken and Three Forks production are separate and distinct reservoirs. If the two intervals are separate and distinct, producible reserves per spacing unit would greatly increase 8% with proper development.

ND Association of Oil & Gas Producing Counties

\$10,000

\$20,000

50%

ND Petroleum Council

\$50,000

\$133,000

38%

ND Petroleum Council

\$13,000

\$26,000

50%

Laserlith Corporation

\$200,000

\$1,207,000

17%

Fort Berthold Community College Energy & Environmental Research Center

\$11,900

\$137,106

9%

\$25,000

\$60,000

42%

Determination of the Uniqueness of Reserves and Productivity from the Middle Bakken and the Three Forks Sanish Zones

Continental Resources, Inc.

\$600,000

\$7,395,000

8%

Attachment #1

Skarphol, Bob J.

From: -Info-Oil & Gas Division
Sent: Tuesday, April 07, 2009 2:08 PM
To: Holly Dahl
Cc: Skarphol, Bob J.
Subject: RE: Non-payment of royalties due

Holly,

In reference to the first paragraph below, Mr. Perry has no basis for not making payment because your brothers have not signed a division order.

Section 47-16-39.3 of the ND Century Code states in part: "*Royalty payments may not be withheld because an interest owner has not executed a division order.*"

In your reference to ND Century Code Section 47-16-39.1, if you read further in this section, you will see that jurisdiction in these matters falls under the District Court for the county in which the lands reside. This section also states in part: "*The prevailing party in any proceeding brought pursuant to this section is entitled to recover any court costs and reasonable attorney's fees.*"

In reference to your comment on a statement by Representative Skarphol, I am not aware of any statute in ND that would allow royalty owners to shut a well in due to non-payment of royalties. I would assume he was either miss-quoted or one of his statements has been taken out of context.

Representative Skarphol has been included as a recipient of this e-mail.

A Lindholm
Information Technology Administrator
NDIC Department of Mineral Resources
600 E Boulevard Ave Dept 405
Bismarck ND 58505-0840
(701) 328-8020

From: Holly Dahl [mailto:ndgrl51@yahoo.com]
Sent: Tuesday, April 07, 2009 1:26 PM
To: -Info-Oil & Gas Division
Subject: Non-payment of royalties due

Dear Sir:

I am writing in regard to the Washburn 44-36H, File # 17309, API # 3305302894, DTD 20031; being operated by Conoco-Phillips. This well was started the second week of June, 2008 and to date only the land owner has received (about 4 weeks ago) a check supposedly on the royalties. The other two siblings have received nothing but a run around by a Mr. Mark Perry, 1-918-661-4440, of Conoco Phillips. He stated over the phone to me that he hadn't received any Division Order papers from the two brothers (Dale & Chris Washburn) but he had the papers on their sister (Denise Grantier). This phone call was about 7 weeks ago. Mr Perry then laughed when he asked me if I would give my husband's social security number out to him over the phone. I told him he would have to talk to my husband. Dale gave this to him the very next day. Then he called Dale's sister and said she would be getting the full amount and the brothers would have \$6,000 held out of their checks because (CP) didn't have their SS numbers. Then he called Denise back in a couple days and said he couldn't find Division Papers. Mr. Perry also said he had the checks on his desk. To date, neither Dale or Denise have received a check let alone Division Order Papers of any kind.

-according to ND Century Code 47-16-39.1 ---- if the operator under an oil and gas lease fails to pay oil and gas royalties to the mineral owner within 150 days after oil or gas is produced under the lease marketed and cancellation of the lease is not sought, the operator shall pay interest on the unpaid royalties at the rate of eighteen percent per annum until paid, ----

--Does this family have to retain a lawyer and additional expenses to make this company own up to ND laws?

--I heard that Rep. Skarpol said in Tioga yesterday that the owners may close in a well til payments are paid. So then the owners of the minerals and land then loose additional monies while waiting for nonpayments??

We would appreciate any help the Commission can give us to straighten out this matter. Please forward this e-mail on to Rep. Skarpol too.

Holly Washburn

Attachment D
2/25/09

Ind. Comm. Overview

North Dakota Rigs



Rigs by County

Rigs by Operator for State

County	Rigs	Operator	Rigs
BILLINGS	1	ANSCHUTZ EXPLORATION CORPORATION	1
BURKE	2	BURLINGTON RESOURCES OIL & GAS COMPANY LP	6
DIVIDE	1	CONTINENTAL RESOURCES, INC.	5
DUNN	14	ENCORE OPERATING, L.P.	2
MCKENZIE	8	EOG RESOURCES, INC.	11
MOUNTRAIL	30	FIDELITY EXPLORATION & PRODUCTION COMPANY	1
SLOPE	1	HESS CORPORATION	5
WARD	1	KODIAK OIL & GAS (USA) INC.	2
WILLIAMS	3	MARATHON OIL COMPANY	4
		MUREX PETROLEUM CORPORATION	1
		NEWFIELD PRODUCTION COMPANY	1
		OASIS PETROLEUM NORTH AMERICA LLC	1
		PDC CORPORATION	1
		PEAK NORTH DAKOTA, LLC	1
		SINCLAIR OIL AND GAS COMPANY	1
		SLAWSON EXPLORATION COMPANY, INC.	1
		ST MARY LAND & EXPLORATION COMPANY	1
		TRACKER RESOURCE DEVELOPMENT II, LLC	1
		WHITING OIL AND GAS CORPORATION	7
		WINDSOR ENERGY GROUP, L.L.C.	1
		XTO ENERGY INC.	5
		ZENERGY OPERATING COMPANY, LLC	1
		ZENERGY, INC	1

Total Rigs = >> 61



INDUSTRIAL COMMISSION OF NORTH DAKOTA
NORTH DAKOTA PIPELINE AUTHORITY

Governor
John Hoeven
Attorney General
Wayne Stenehjem
Agriculture Commissioner
Roger Johnson

North Dakota Pipeline Authority
North Dakota Century Code 54-17.7

The North Dakota Pipeline Authority was created by the North Dakota Legislative Assembly in 2007. The statutory mission of the Pipeline Authority is "to diversify and expand the North Dakota economy by facilitating development of pipeline facilities to support the production, transportation, and utilization of North Dakota energy-related commodities, thereby increasing employment, stimulating economic activity, augmenting sources of tax revenue, fostering economic stability and improving the State's economy." As established by the Legislature the Pipeline Authority is a builder of last resort, meaning private business would have the first opportunity invest in and/or build additional needed pipeline infrastructure.

By law the Pipeline Authority membership is comprised of the members of the North Dakota Industrial Commission. The Industrial Commission has authorized the expenditure of up to \$300,000 during the 2007-2009 biennium for the Pipeline Authority with funding being made available from the Oil and Gas Research Fund. The Industrial Commission has named Justin Kringstad, a consultant, as Director of the Authority. He works closely with Lynn Helms, Director of the Department of Mineral Resources, Ron Ness, President of the North Dakota Petroleum Council and Karlene Fine, Executive Director of the Industrial Commission. The Pipeline Authority has no other staff and receives no direct General Fund appropriation. The Director of the Pipeline Authority reports to the Industrial Commission and the Oil and Gas Research Council on a regular basis.

Over the past 21 months the Authority has issued three "white papers":

Williston Basin Crude Oil Transportation Dynamics Report – September 12, 2007

North Dakota's Natural Gas Production Jumps but Infrastructure Lags – December 20, 2007

Pipelines and Refined Products Report – April 22, 2008

Copies of these white papers are available on the Pipeline Authority website at

<https://www.dmr.nd.gov/pipeline/>

In addition the Authority issued an annual report which is also available on the website.

In September, 2008 the Authority began issuing a quarterly newsletter. These newsletters are available on the Pipeline Authority website. The website will be updated on a regular basis so you should add this website to your "favorites". We are hopeful that this website will be a good tool for keeping policy makers, citizens and industry informed of what is happening with the development of pipelines in North Dakota.



ANALYSIS OF THE PIPELINE AUTHORITY FUND

N.D.C.C. 54-17.7-11

Continuing Appropriation

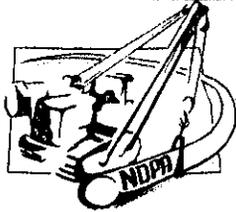
	<u>2007-2009 Biennium</u>	<u>2009-2011 Biennium</u>
Beginning Balance	\$115,715 ¹	\$ 27,365
Add transfers and estimated revenues ²		
Transfer from Oil and Gas Research Fund	\$ 175,000	\$ 300,000 ⁴
Estimated Interest Income	\$ 6,400	\$ 5,000
Total Available	<u>\$297,115</u>	<u>\$332,365</u>
Less estimated expenditures and commitments ³		
Study Commitments	\$ 89,750	\$ 110,000
Administrative Costs	\$ 25,000	\$ 45,000
Consultant Costs	\$ 155,000	\$ 175,000
Total estimated expenditures	<u>\$269,750</u>	<u>\$330,000</u>
Estimated ending balance	<u>\$ 27,365</u>	\$ 2,365

⁽¹⁾ The Pipeline Authority and the Pipeline Authority Fund were authorized by the 2007 Legislature and became effective in April, 2007. The Industrial Commission, based upon a recommendation of the Oil and Gas Research Council (OGRC), authorized the transfer of \$125,000 in May of 2007 from the Oil and Gas Research Fund. One month of costs were expended prior to July 1, 2007.

⁽²⁾ Revenues reflect a transfer of \$175,000 in September, 2007 from the Oil and Gas Research Fund. (Total transfer from the Oil and Gas Research Fund has been \$300,000.) Estimated interest income includes actual interest income of \$5,086 through November, 2008 and an estimate of the interest income through June 30, 2009.

⁽³⁾ As of January 28, 2009 the Commission has committed to fund one study totaling \$89,750. Actual administrative costs through November, 2008 total \$13,928 with an estimate for the remainder of the biennium. Actual consultant costs through November, 2008 total \$112,351 with an estimate for the remainder of the biennium.

⁽⁴⁾ The amount to be transferred from the Oil and Gas Research Fund for the Pipeline Authority will depend on the amount of funding made available in the Oil and Gas Research Fund. For the 2007-2009 biennium the transfer to the Pipeline Authority was 10% of the funds in the Oil and Gas Research Fund or \$300,000. If funding for the Oil and Gas Research Fund is increased to \$6,000,000 and the Oil and Gas Research Council and Industrial Commission determines that the level of funding for the Pipeline Authority should remain at the 10% level then the transfer would be increased to \$600,000. There is no statutory requirement regarding the funding to be made available to the Pipeline Authority. It is at the discretion of the Industrial Commission based on funding available from the Oil and Gas Research Fund.



INDUSTRIAL COMMISSION OF NORTH DAKOTA
NORTH DAKOTA PIPELINE AUTHORITY

Governor **John Hoeven**
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Agriculture Commissioner **Roger Johnson**
Director **Justin J. Kringstad**

The Pipeline Publication

Keeping North Dakota Connected

Volume 1 Issue 2

Greetings

Greetings from the North Dakota Pipeline Authority! This newsletter is the second in a series of quarterly publications designed to keep North Dakota policy makers and involved parties informed on current issues in the pipeline industry.

Pipeline Authority Recommends Keystone Study

The NDPA is currently receiving proposals for a study that will investigate the feasibility of a third party pipeline company interconnecting with either TransCanada's Keystone or Keystone XL pipelines. The goals of the study are to determine whether the pipeline system can be economically constructed and operated, the timeline of such a project, and a proposed route. The study is scheduled to be completed by the end of March 2009.

Pipeline Authority Participates in Town Hall Meetings

The NDPA recently spoke to approximately 450 people in a series of town hall meetings throughout Western North Dakota. The meetings were part of the North Dakota Petroleum Council's "Oil Can!" initiative and were designed to allow for open communication between industry representatives and interested parties, such as landowners, policy makers, media, and the general public. Meeting presentations can be found on the ND Petroleum Council website www.ndoil.org.

Pecan Pipeline Plans to Carry Bakken Gas to Alliance Pipeline

For the first time, Alliance Pipeline will move North Dakota's Bakken gas to markets in the Chicago, IL area. Pecan Pipeline has proposed the Prairie Rose Pipeline, a 12 inch, 75 mile pipeline that will run from Mountrail County to a connection point with Alliance near Towner, ND. What makes this project unique is that the Bakken gas will not have to undergo the traditional gas processing before being injected into the Alliance system. The natural gas liquids (NGL), such as propane and butane, will be removed from the gas stream at a processing facility near Chicago, IL and then sold to area markets.

In order for Alliance to accept the Bakken gas with its NGL, the Federal Energy Regulatory Commission (FERC) had to approve a revision to Alliance's gas specifications that would waive previous restrictions to such shipments. The NDPA intervened by submitting a letter of support to FERC for Alliance's gas specifications waiver. President of Pecan North Dakota, Ray L. Ingle said the following in an Alliance news release, "We appreciate the support of the FERC, the State of North Dakota and other entities in helping to advance this important project."

Additionally, Pecan Pipeline has filed with FERC and the North Dakota Public Service Commission to be considered a gas gathering system and not a transmission pipeline. The NDPA has also intervened in this matter by submitting a letter of support to FERC, and at the time of publication, no rulings have been made by either FERC or the Public Service Commission.

The Prairie Rose Pipeline is scheduled to be completed during the summer of 2009. Plans are to transport 20-40 million cubic feet per day (MMCFD) in 2009 and increase to 80 MMCFD in 2010.

Williston Basin Plans Two Expansions for December

Williston Basin Interstate Pipeline Co. has two pipeline expansion projects scheduled to be completed this month. The first project to be completed is the "Sheyenne Expansion," which will increase natural gas deliveries by 10 million cubic feet per day (MMCFD) to Eastern ND. The second expansion, scheduled to be completed this month, is the "Bakken Expansion." The "Bakken Expansion" will occur by making a connection to the Northern Border Pipeline at Ft. Buford, ND. The expansion has an initial design capacity of 32 MMCFD and could be expanded further to 60 MMCFD. Additionally, Williston Basin is actively marketing to obtain shipper support for their "Bakken Pipeline." The proposed pipeline would deliver Bakken gas containing natural gas liquids to Alliance Pipeline with an initial capacity of 100 MMCFD and could be expanded to 200 MMCFD.

New Website Under Construction

The NDPA is currently constructing a new and improved website in order to better provide for industry and public needs. The new site will include current news, projects, maps, publications, production and capacity information, as well as a new GIS based information map service.

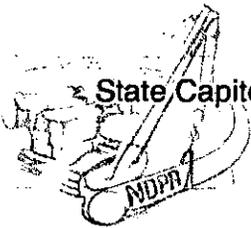
The new site, www.pipeline.nd.gov, scheduled to be launched early 2009.

Crude Oil Expansion to the South

In September, True Co.'s Butte Pipeline system added an estimated 12,000 barrels per day (BOPD) of capacity to its existing 92,000 BOPD system. The Butte Pipeline carries crude oil from Eastern Montana and Western North Dakota to Guernsey, WY for further transportation to regional refiners. The system expansion was obtained by implementing drag reducing chemicals into the pipelines in order to reduce friction and increase product flow.

North Dakota Statistics

September Average Daily Oil Production	188,246 BOPD
September Average Daily Gas Production	257.8 MMCFD
September Wells Producing	4,193
September Wells Spudded	73
Active ND Rig Count – Dec. 5, 2008	91



ND Pipeline Authority
State Capitol 14th Floor • 600 E. Boulevard Ave. Dept. 405 • Bismarck, ND 58505-0840
Phone: (701) 220-6227 • Fax: (701) 328-2820
E-mail: jjkringstad@gmail.com • www.nd.gov/ndic/pipeline.htm

State Capitol, 14th Floor
600 E. Boulevard Ave. Dept. 405
Bismarck, ND 58505-0840



North Dakota Pipeline Authority

PLUS BALANCE FORMULA

$$H = \frac{V}{A + C_c}$$

V = Volume of cement slurry used in cu. ft.

H = Height of balanced cement column in ft.

A = Annular volume between tubing or drill pipe, and open hole or casing in cu. ft. per linear foot.

C_c = Capacity of tubing, drill pipe or casing in cu. ft. per linear foot.

PROBLEM

Balance 100 cu. ft. cement plug in 7" O.D. 26 lb. casing with 2½" EUE tubing at 7500 ft. Determine: (1) depth to top of plug if 16.3 lb. per gal. retarded cement slurry is used, (2) amount of water to run behind cement to balance if 10 bbls. of water is run ahead, (3) amount of mud to pump to balance the plug.

V = 100 cu. ft. slurry

A = 0.1697 cu. ft./Lin. ft.

C_c = 0.0325 cu. ft./Lin. ft.

↙ Annular Tables
2½" Tubing and
7" 26 lb. Casing

↙ Capacity Tables
2½" Tubing

$$H = \frac{100}{0.1697 + 0.0325} = \frac{100}{0.2022} = 495 \text{ ft.}$$

Depth of top of plug = 7500 - 495 = 7005 ft.

The ten barrels of water will fill:

$$\frac{10 \text{ bbls}}{0.0302 \text{ bbl./ft.}} = 331 \text{ ft.}$$

↙ Annular Tables
2½" Tubing and
7" 26 lb. Casing

The amount of water to follow the cement to balance the 10 bbls. of water ahead of the cement in the annulus is:

$$331 \text{ ft.} \times 0.0058 \text{ bbl./ft.} = 1.92 \text{ bbls.}$$

↙ Capacity Tables
2½" Tubing

The amount of mud to pump to balance plug in the well is:

$$7500 - (495 + 331) = 6674 \text{ ft. of mud}$$

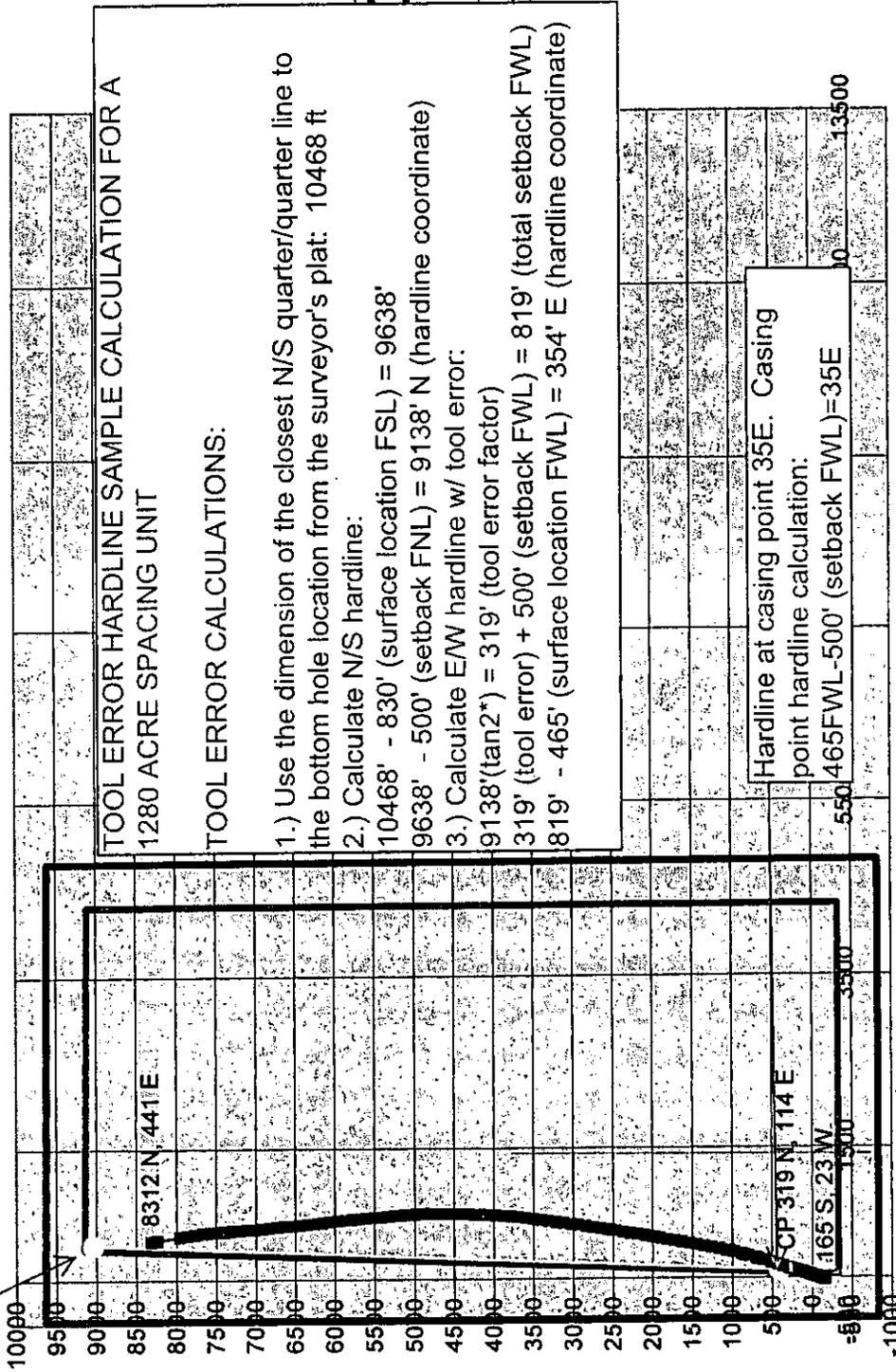
$$6674 \text{ ft.} \times 0.0058 \text{ bbls./ft.} = 38.71 \text{ bbls.}$$

↙ Capacity Tables
2½" Tubing

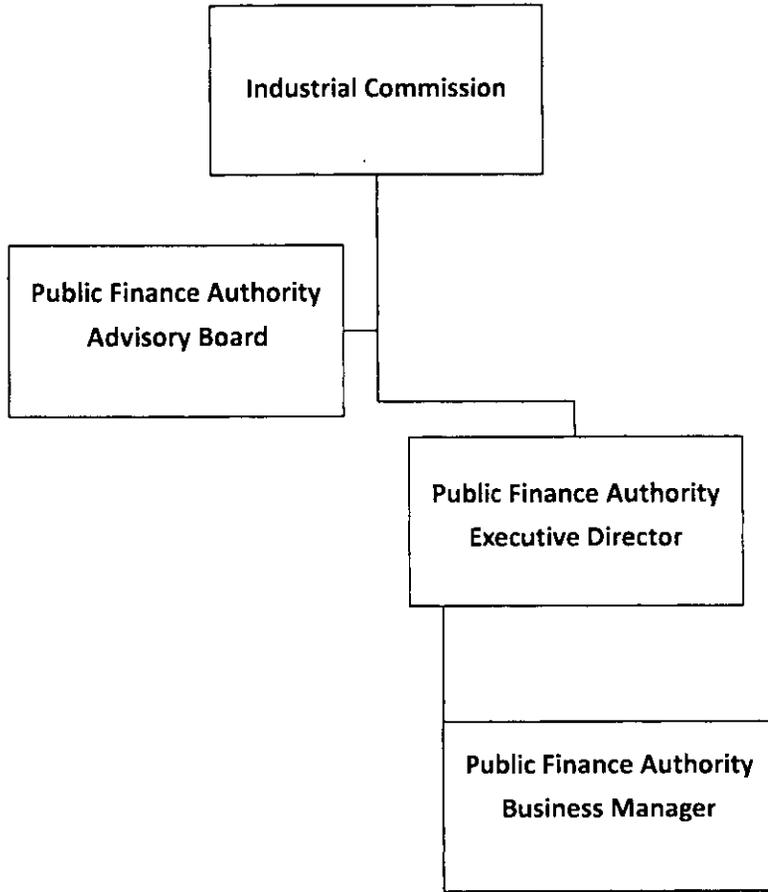
To set a balanced cement plug of 16.3 lb. per gal. slurry in this well, pump 10 bbls. water, 100 cu. ft. of cement slurry, 1.92 bbls. water, and 38.71 bbls. of mud.

#16908 MARLIN 14-12H SWSW 12-146-95 830 FSL 465 FWL

TD HARDLINE w/
Tool Error 9138N &
354E



**Organizational Chart
North Dakota Public Finance Authority**



North Dakota Public Finance Authority
Prepared March 4, 2009 for House Appropriations - Government Operations Division

Object Code	Description	Expenditures Through December 31, 2008	2007-2009 Appropriation	2009-2011 Recommendation	Change from 07-09 Appropriation
511000	Salaries-Permanent	151,002.86	\$ 262,638.00	\$ 294,572.00	\$ 31,934.00
511900	Salary Budget Adjustment	\$ -	\$ -	\$ 5,100.00	\$ 5,100.00
516000	Fringe Benefits	46,375.02	\$ 93,580.00	\$ 110,600.00	\$ 17,020.00
599110	Salary Increase	\$ -	\$ -	\$ 24,776.00	\$ 24,776.00
599160	Benefit Increase	\$ -	\$ -	\$ 3,985.00	\$ 3,985.00
	Total Salary and Benefits	\$ 197,377.88	\$ 356,218.00	\$ 439,033.00	\$ 82,815.00
521000	Travel	2,645.68	\$ 12,000.00	\$ 12,000.00	\$ -
531000	IT-Software/Supplies	229.22	\$ 3,600.00	\$ 3,600.00	\$ -
532000	Professional Supplies	800.00	\$ 4,000.00	\$ 4,000.00	\$ -
535000	Misc. Supplies	0.00	\$ 1,000.00	\$ 1,000.00	\$ -
536000	Office Supplies	1,723.53	\$ 5,000.00	\$ 5,000.00	\$ -
541000	Postage	331.34	\$ 2,000.00	\$ 2,000.00	\$ -
542000	Printing	150.00	\$ 1,500.00	\$ 1,000.00	\$ (500.00)
551000	It - Equip - Under \$5,000	3,053.97	\$ 8,000.00	\$ 8,000.00	\$ -
553000	Office Equip - Under \$5,000	0.00	\$ 1,643.00	\$ 1,000.00	\$ (643.00)
571000	Insurance	435.82	\$ 500.00	\$ 1,000.00	\$ 500.00
581000	Lease/Rent - Equip.	0.00	\$ 2,000.00	\$ 2,000.00	\$ -
582000	Lease/Rent-Bldg/land	0.00	\$ 24,000.00	\$ 24,000.00	\$ -
601000	IT-Data Processing	2,750.38	\$ 7,200.00	\$ 7,200.00	\$ -
602000	IT-Telecommunications-ISD	4,582.40	\$ 9,500.00	\$ 10,000.00	\$ 500.00
603000	IT-Contractual Services	1,547.64	\$ 2,200.00	\$ 2,200.00	\$ -
611000	Professional Dev	4,290.00	\$ 17,800.00	\$ 16,800.00	\$ (1,000.00)
621000	Operating Fees & Services	0.00	\$ 20,000.00	\$ 16,000.00	\$ (4,000.00)
623000	Professional Services	32,892.86	\$ 100,000.00	\$ 100,000.00	\$ -
691000	Equip over \$5000	0.00	\$ -	\$ 11,000.00	\$ 11,000.00
693000	IT - Equip./Software -over \$5,000	0.00	\$ 8,000.00	\$ -	\$ (8,000.00)
	Total Operating Expenditures	\$ 55,432.84	\$ 229,943.00	\$ 227,800.00	\$ (2,143.00)
	Total Budget	\$ 252,810.72	\$ 586,161.00	\$ 666,833.00	\$ 80,672.00

Re-engrossed Senate Bill 2014
House Appropriations Government Operations 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 2009-2011 biennium in the amount of \$666,833. The requested biennial appropriation is \$80,672 more than the current biennial appropriation. This increase reflects the recommended salary adjustments (\$82,815) outlined in the Executive Budget. Some minor adjustments have been made within several operating lines 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 May 2008, the Public Finance Authority closed its second loan under this program with an agricultural processor in Fargo. The Public Finance Authority continues to develop programs as needs arise for financing municipal, economic development, agriculture, and energy projects in North Dakota. For example, the Public Finance Authority 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 2007-2009 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 2009-2011 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 2008 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, 2008, 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 \$12,665,000. 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, \$126,696,900 of federal capitalization grants under the Clean Water SRF Program have been appropriated and awarded to the State through federal fiscal year 2008. Through December 31, 2008, 184 loans totaling \$276,633,916 have been approved under the Clean Water SRF Program. The Health Department's Clean Water Intended Use Plan for 2009 includes approximately \$90,000,000 of potential projects.

Federal capitalization grants for the Drinking Water SRF Program were first appropriated to the State in 1997. Since that time, \$99,939,100 of federal capitalization grants under the Drinking Water SRF Program have been appropriated and awarded to the State through federal fiscal year 2008. Through December 31, 2008, 114 loans totaling \$221,164,621 have been approved under the Drinking Water SRF Program. The Health Department's Drinking Water Intended Use Plan for 2009 includes approximately \$275,000,000 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 for most 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. Current Program limits are \$2,000,000 per project and \$20,000,000 cumulative for the 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 two loans under this program in the amount of \$3,360,000.

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

Industrial Commission of North Dakota

John Hoeven
Governor
Chairman

Wayne Stenehjem
Attorney General

Roger Johnson
Agriculture Commissioner

Advisory Committee

Robert Frantsvog
Minot

Wade Williams
Jamestown

Brian Walters
Fargo

Staff

Tim C. Porter
Executive Director

DeAnn Ament
Business Manager

NORTH DAKOTA
PUBLIC FINANCE AUTHORITY

2008 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.

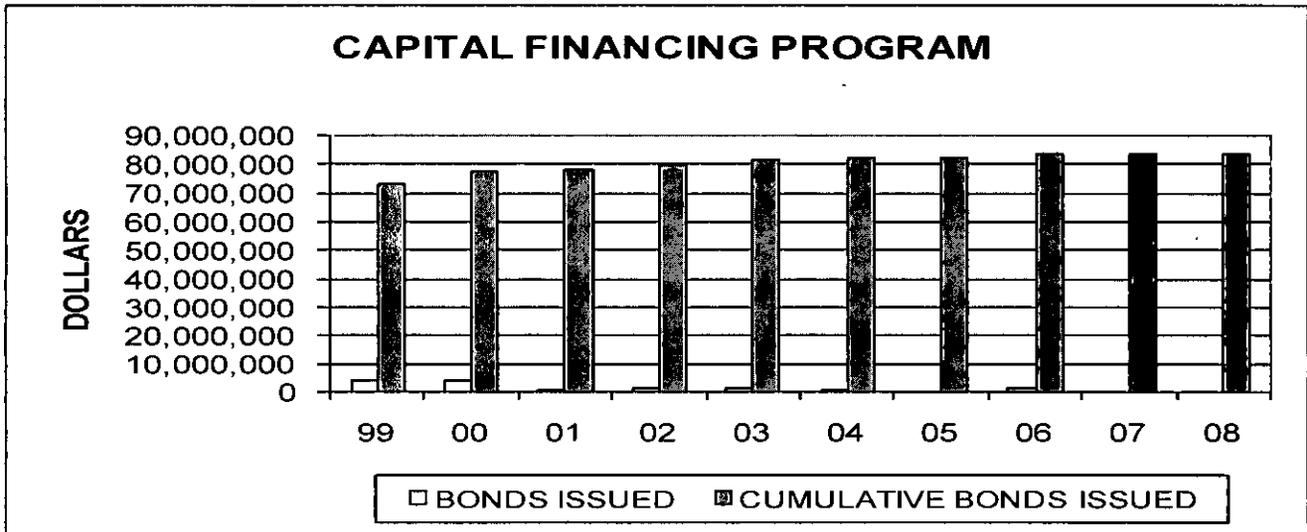
Vision Statement

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.

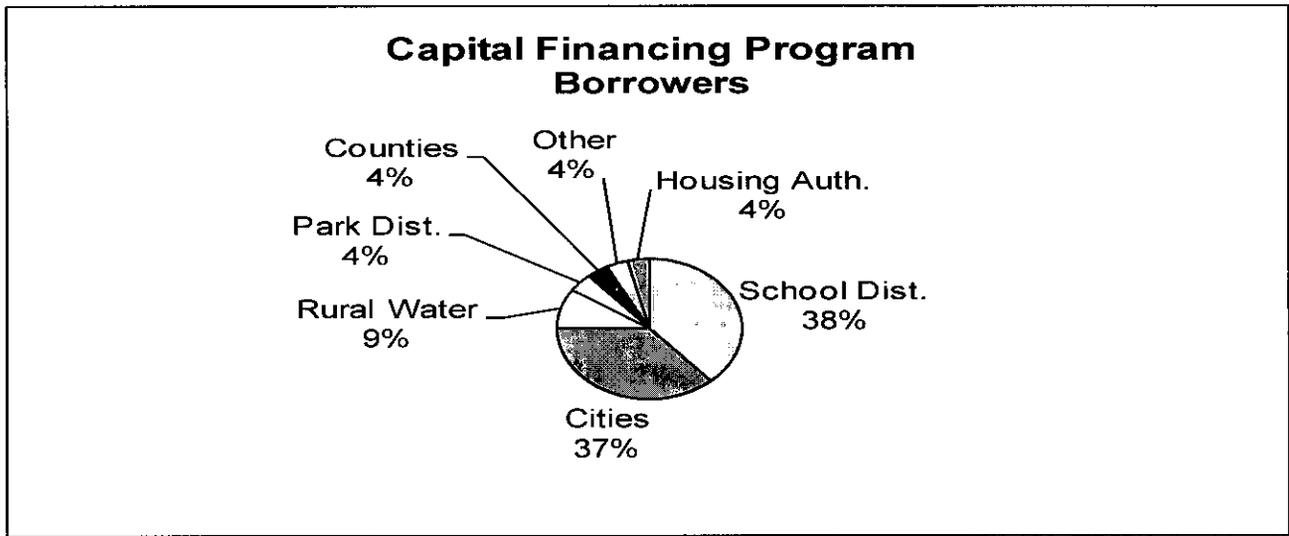
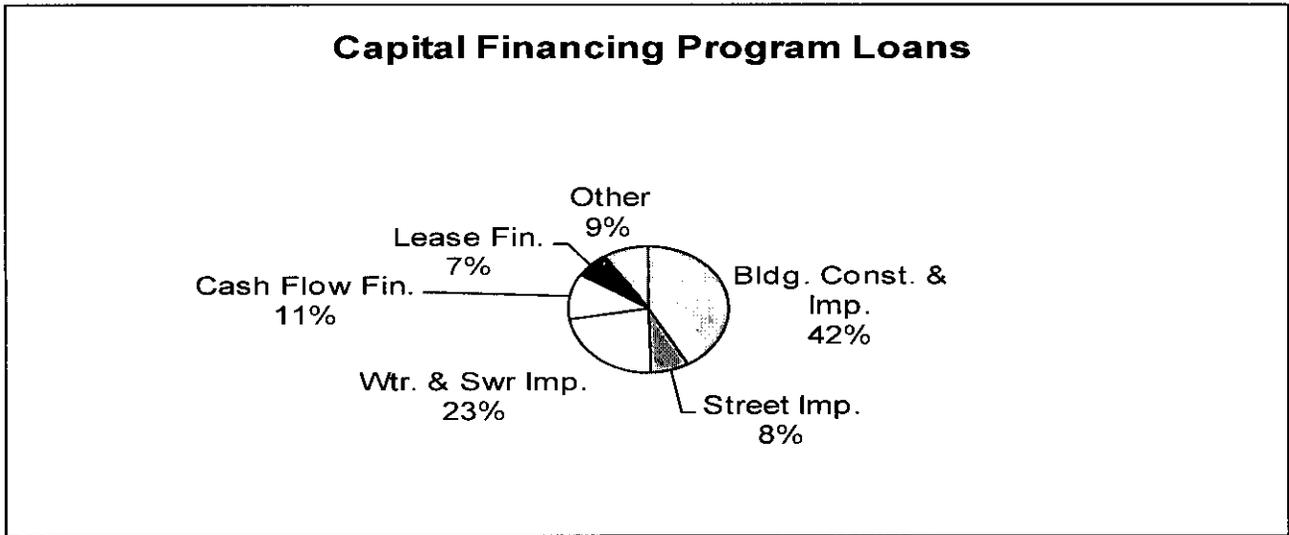
The PFA did not issue CFP Bonds in 2008.

The total outstanding amount of CFP Reserve Notes at December 31, 2008, was \$2,257,510, and the total outstanding amount of CFP Reserve Fund Letters of Credit at December 31, 2008, 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, 2008, 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 \$12,665,000

Part E of Attachment 1 beginning on page 1-4 of this Report contains a complete list, as of December 31, 2008, 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, 2008, 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.



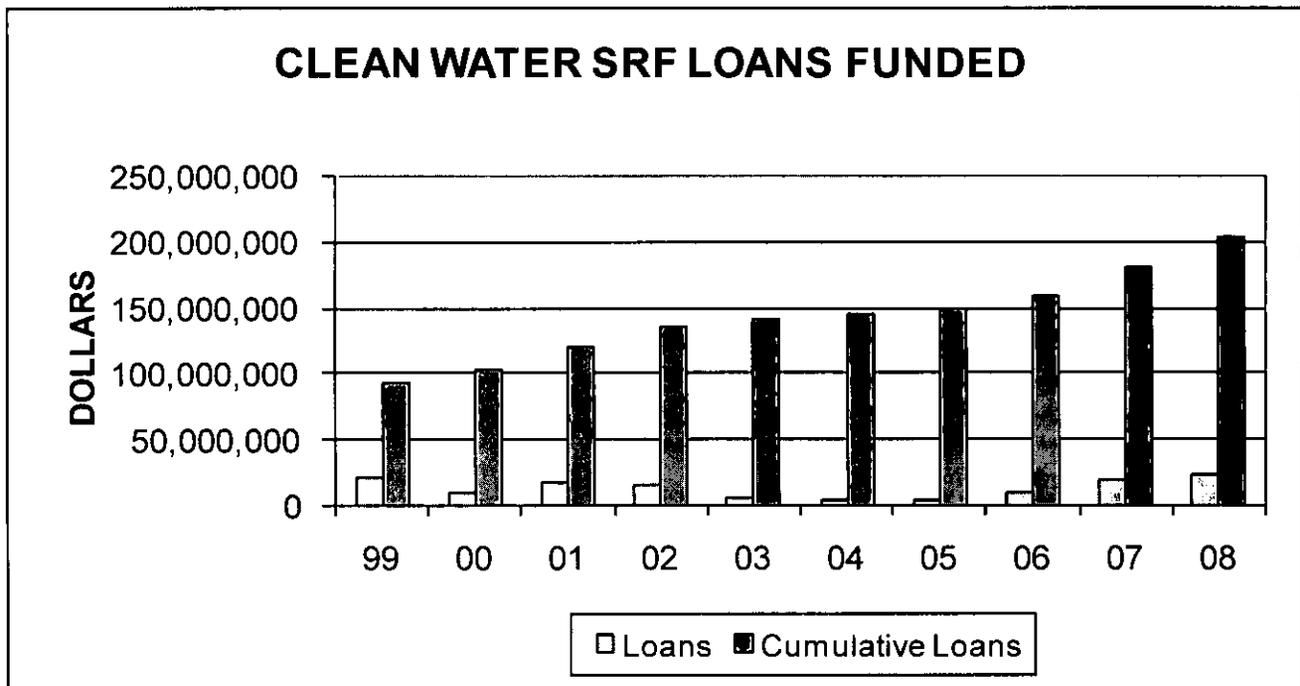
STATE REVOLVING FUND PROGRAM

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.

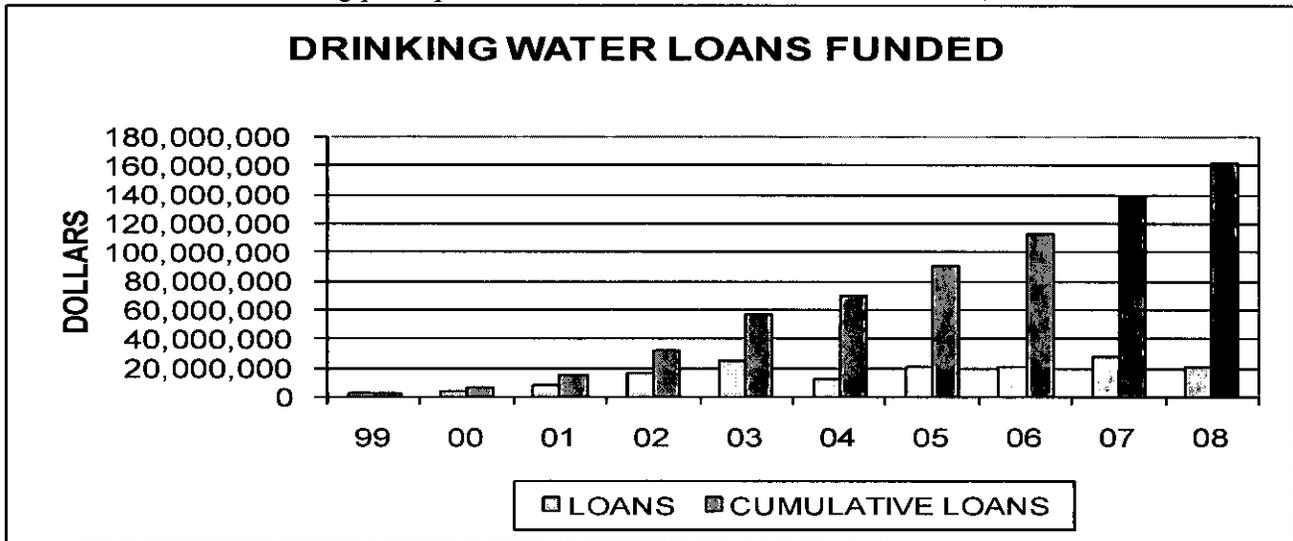
In 2001, Moody's Investors Service, Inc. upgraded the North Dakota SRF Program from "Aa2" to "Aaa", Moody's highest rating,

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 2008 tax-exempt SRF Program loans was 2.5%; one taxable loan was booked at 3.5%. The interest rate for Drinking Water Loans in excess of \$5 million is 75% of the current market rate.

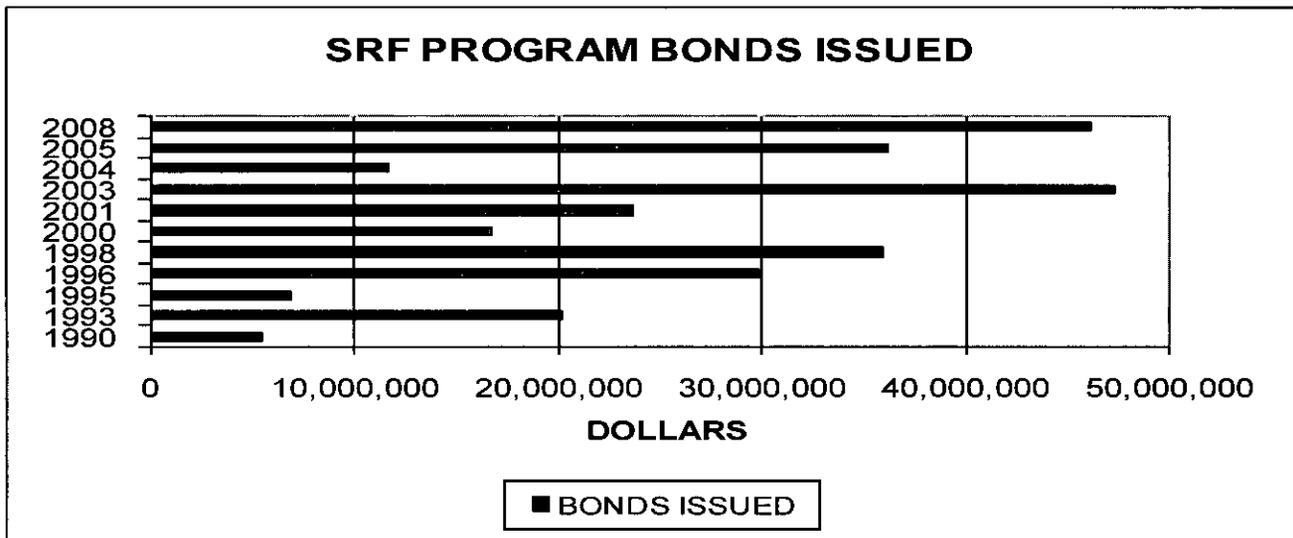
The PFA approved \$69,112,000 of Clean Water SRF Program loans to 9 political subdivisions in 2008. Subpart 17 of Part F of Attachment 1 on page 1-14 of this Report contains a list of all approved Clean Water SRF Program loans for 2008, including the approved amount, the funded amount, and the outstanding principal amount of each loan as of December 31, 2008.



The PFA approved \$46,650,923 of Drinking Water SRF Program loans to 13 political subdivisions in 2008. Subpart 10 of Part G of Attachment 1 on page 1-18 of this Report contains a list of loans made under the Drinking Water SRF Program during 2008, including the approved amount, the funded amount and the outstanding principal amount of each loan as of December 31, 2008.



The total amount of SRF Program Bonds issued under the PFA's SRF Program Master Trust Indenture is \$280,325,000. This total includes \$68,915,000 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, 2008, the total amount of SRF Program Bonds outstanding was \$155,605,000, and the total outstanding amount of SRF Program loans was \$263,181,171. The total amount on deposit in the SRF Program Reserve Fund as of December 31, 2008, was \$16,929,001, 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 (IDBP) 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 2007 Legislature renewed 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.

The PFA issued \$2,000,000 of IDBP Bonds in 2008. The proceeds of the 2008 IDBP Bonds were used to make a loan to North Dakota Natural Beef, LLC.

Part H of Attachment 1 beginning on page 1-19 of this Report contains a complete list, as of December 31, 2008, of all loans made by the PFA with proceeds of IDBP Bonds issued under the IDBP General Bond Resolution, including the name of each borrower, the original amount of each loan, and the outstanding principal of each loan.

Part H of Attachment 2 on page 2-4 of this Report contains a complete list, as of December 31, 2008, of all series of Industrial Development Program Bonds issued under the IDBP General Bond Resolution, including the original dollar amount and the outstanding principal amount of each series of IDBP Bonds.

The outstanding amount of Reserve Fund Letters of Credit at December 31, 2008 was \$534,395. 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 2009-2011 biennium is \$498,500.

BIENNIAL DEBT SERVICE REQUIREMENTS

The debt service requirement for the outstanding CFP Bonds for the 2009-2011 biennium is \$4,249,506, and the debt service requirement for the outstanding SRF Program Bonds for the 2009-2011 biennium is \$33,738,222. The outstanding IDBP debt service requirement for 2009-2011 is \$526,488.

The aggregate debt service requirement for all outstanding PFA Bonds for the 2009-2011 biennium is \$39,012,716.

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY
LOANS MADE 1977 THROUGH 2008**

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	Trail 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
Ashley PSD
Beulah
Beulah PSD
Center PSD
Edgeley
Edinburg
Edmore
Enderlin
Finley
Gackle
Garrison
Glen Ullin
Grand Forks Park District
Halliday
Harwood
Hazelton

Hazen
Hazen PSD
Hebron
Hettinger
Hope
Hunter
Linton
Lisbon
Mandan
Mayville
Medina
Mott
Napoleon
New Rockford
New Rockford Park District
Park River
Portland

Richardson PSD
Rock Lake
Rolla
Scranton
Sherwood Fire Protection District
Stanley
Stanton
Strasburg
Streeter
Thompson
West Fargo PSD
Wilton
Wishek
Zap

Subpart 3**\$11,600,000 1983 Series A Bonds****Borrower**

Anamoose
Antler
Binford
Bismarck Rural Fire District
Bowbells PSD
Carrington
Cass Richland Drainage District
Casselton
Crosby
Dodge
Edgeley PSD
Elgin PSD
Enderlin
Finley
Flasher PSD
Gladstone

Grafton PSD
Gwinner
Hankinson Rural Fire District
Horace
Killdeer
Lakota PSD
Larimore
Leonard
Linton
Mandan
Manning PSD
Mapleton
Medina
Michigan PSD
Milnor
New England

New Leipzig
Osnabrock
Pembina
Pingree PSD
Rhame
Richardton
Rolette
Stanley
Strasburg
Towner
Velva
Westhope
Wildrose
Zap PSD

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	45,000
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	335,000
Greater Richland Education Communications Consortium	250,000	0
Cass County	400,000	0
	7,015,000	380,000

Borrower**Subpart 3**

1992

**Original
Loan
Amount****Outstanding
Loan
Amount**

Mandan PSD	\$ 2,500,000	\$ 480,000
New England	75,000	0
Cavalier	75,000	0
Lidgerwood	75,000	0
Kindred PSD	1,545,000	369,000
Edinburg	120,000	20,000
Milnor	205,000	0
West Fargo PSD	2,500,000	600,000
Lisbon PSD	800,000	195,000
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	0
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>1,664,000</u>

Subpart 4

1993

Lake Metigoshe Recreation Service District	150,000	0
Glenburn PSD	880,000	280,000
Fargo PSD	1,975,000	0
Fargo PSD	525,000	0
Thompson PSD	900,000	265,000
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
McVile	230,000	0
Milnor	195,000	0
Emerado PSD	60,000	0
Grand Forks PSD	2,000,000	595,000
Burleigh County Housing Authority	325,000	0
	<u>7,905,000</u>	<u>1,140,000</u>

Borrower**Subpart 5****1994****Original
Loan
Amount****Outstanding
Loan
Amount**

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	59,628
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	0
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>59,628</u>

Subpart 6**1995**

Burleigh County Housing Authority	1,600,000	0
Traill County Water Resource District	100,000	0
Mooreton	170,000	30,000
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>30,000</u>

Borrower**Original
Loan
Amount****Outstanding
Loan
Amount****Subpart 7****1996**

Minot	\$ 500,000	\$ 0
Rolette County Housing	500,000	0
Dunseith	100,000	0
Garrison	120,000	30,000
Hazelton	140,000	0
Walcott-Colfax District	70,000	10,000
Burleigh Water Users	1,585,000	0
Marion PSD	120,000	0
Garrison PSD	230,000	0
	<u>3,365,000</u>	<u>40,000</u>

Subpart 8**1997**

Cavalier	540,000	20,000
Burleigh Rural Water Users	3,350,000	0
New Town PSD	300,000	0
North Valley Water Association	1,400,000	0
South Central Water Users District	350,000	0
Grafton PSD	4,500,000	0
Richardton	205,000	0
Aggasiz Water Users	375,000	150,000
Sims PSD	50,000	0
West Fargo PSD	1,000,000	0
Wahpeton	1,600,000	910,000
Garrison	125,000	0
McVille	1,550,000	880,000
	<u>15,345,000</u>	<u>1,960,000</u>

Subpart 9**1998**

Gackle	295,000	215,000
Lidgerwood	120,000	70,000
Prairie Rose	175,000	0
Surrey	100,000	0
Hettinger Park District	200,000	80,000
Maple River Water Resource District	55,000	0
Milnor	400,000	165,000
Grandin	165,000	105,000
West Fargo PSD	1,000,000	0
Sims PSD	50,000	0
Park River	450,000	300,000
	<u>3,010,000</u>	<u>935,000</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	15,000
Drayton		70,000	0
Max		50,000	5,000
Surrey		100,000	0
West Fargo PSD		1,000,000	0
Sims PSD		100,000	0
Tri-County Water District		1,710,000	1,350,000
Tri-County Water District		285,000	225,000
		<u>4,530,000</u>	<u>1,595,000</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>550,000</u>
Subpart 13	2002		
McVille		215,000	180,000
Southeast Water Users District		700,000	580,000
Bismarck Rural Fire District		185,000	150,000
Kulm		150,000	115,000
Fessenden-Bowdon PSD		350,000	150,000
		<u>1,600,000</u>	<u>1,175,000</u>
Subpart 14	2003		
Langdon Rural Water District		<u>1,495,000</u>	<u>1,310,000</u>
Subpart 15	2004		
Traill Rural Water		300,000	260,000
Surrey		500,000	325,000
Mercer County Housing		80,000	0
		<u>880,000</u>	<u>585,000</u>
Subpart 16	2006		
Rolette County Housing Authority		235,000	225,000
Belcourt Public School District		1,045,000	870,000
Enderlin		105,000	85,000
		<u>1,385,000</u>	<u>1,180,000</u>
Total Capital Financing Program Loans		<u>\$ 84,538,016</u>	<u>\$ 12,603,628</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	1,095,000
Minot	879,386	879,386	0
	<u>4,930,945</u>	<u>4,930,945</u>	<u>1,095,000</u>
Subpart 2	1993		
Fargo	7,770,000	7,770,000	2,645,000
Jamestown	1,581,406	1,581,406	540,000
Minot	665,000	665,000	190,000
Northwood	1,150,000	1,150,000	365,000
Wahpeton	1,062,366	1,062,366	357,366
West Fargo	175,000	175,000	50,000
Lake Metigoshe	296,263	296,263	81,263
New Town	132,050	132,050	0
Jamestown	1,289,702	1,289,702	515,000
Williston	252,835	252,835	20,000
	<u>14,374,622</u>	<u>14,374,622</u>	<u>4,763,629</u>
Subpart 3	1994		
Minot	443,522	443,522	0
Burlington	165,037	165,037	60,000
Devils Lake	1,076,423	1,076,423	435,000
Grafton	410,000	410,000	115,000
Casselton	112,000	112,000	10,000
	<u>2,206,982</u>	<u>2,206,982</u>	<u>620,000</u>
Subpart 4	1995		
Fargo	2,850,429	2,850,429	1,395,429
Max	74,912	74,912	26,250
Cooperstown	55,000	55,000	0
Northwood	225,837	225,837	85,000
Colfax	36,297	36,297	0
Edmore	62,256	62,256	21,833
Ellendale	196,826	196,826	0
Minot	400,000	400,000	0
Williston	291,881	291,881	40,000



Borrower

**Approved
Loan
Amount**

**Funded
Loan
Amount**

**Outstanding
Loan
Amount**

Subpart 4 Cont.

1995

Lisbon	\$ 100,000	\$ 100,000	\$ 0
Napoleon	133,851	133,851	75,000
Park River	498,279	498,279	215,000
Carrington	835,000	835,000	365,000
Mott	211,157	211,157	80,000
Harvey	478,556	478,556	220,000
Beach	226,241	226,241	0
Williston	328,581	328,581	50,000
Buffalo	38,248	38,248	5,100
Hettinger	156,001	156,001	80,000
Davenport	176,339	176,339	70,000
Ellendale	220,990	220,990	0
Cando	113,006	113,006	20,000
Cooperstown	300,000	300,000	65,000
	<u>8,009,687</u>	<u>8,009,687</u>	<u>2,813,612</u>

Subpart 5

1996

Jamestown	16,300,000	16,300,000	7,505,000
Cooperstown	1,174,952	1,174,952	540,000
Park River	72,312	72,312	14,700
Portland	82,368	82,368	32,952
Medina	67,255	67,255	5,000
Mayville	105,433	105,433	0
Manvel	478,416	478,416	220,000
Oriska	21,531	21,531	0
Bottineau	100,000	100,000	30,000
Arthur	132,963	132,963	75,000
Cando	254,052	254,052	120,000
Kindred	124,498	124,498	64,498
Page	47,738	47,738	19,096
Argusville	213,061	213,061	95,000
Bottineau	104,500	104,500	0
Grand Forks	13,700,000	13,700,000	7,690,000
Bank of North Dakota	1,101,444	1,101,444	66,000
	<u>34,080,523</u>	<u>34,080,523</u>	<u>16,477,246</u>

Subpart 6

1997

Grand Forks	3,940,000	3,940,000	2,205,000
Casselton	1,589,652	1,589,652	810,000
Christine	385,273	385,273	210,000
Mapleton	152,864	152,864	45,000





Borrower

**Approved
Loan
Amount**

**Funded
Loan
Amount**

**Outstanding
Loan
Amount**

Subpart 6 Cont.

1997

Horace	\$ 225,330	\$ 225,330	\$ 115,000
Carrington	805,000	805,000	410,000
Mandan	5,191,929	5,191,929	3,165,000
Berthold	82,875	82,875	37,775
Cooperstown	123,067	123,067	70,000
Jamestown	2,277,487	2,277,487	1,155,000
Lakota	1,933,969	1,933,969	1,020,000
Minnewauken	218,000	218,000	73,000
	<u>16,925,446</u>	<u>16,925,446</u>	<u>9,315,775</u>

Subpart 7

1998

Granville	42,000	42,000	3,500
Enderlin	342,373	342,373	180,000
Wishek	140,704	140,704	90,000
Fargo	1,482,337	1,482,337	832,337
Gwinner	258,711	258,711	160,000
Southeast Cass	214,000	214,000	114,000
Casselton	108,261	108,261	60,000
Sanborn	76,195	76,195	25,000
Frontier	98,603	98,603	50,000
Abercrombie	300,875	300,875	165,875
Grandin	97,042	97,042	50,000
Taylor	59,872	59,872	20,000
Fargo	10,723,277	10,723,277	6,805,000
Grand Forks	2,650,804	2,650,804	1,350,000
	<u>16,595,054</u>	<u>16,595,054</u>	<u>9,905,712</u>

Subpart 8

1999

Fargo	210,000	210,000	120,000
Gackle	118,020	118,020	65,000
Hillsboro	360,000	360,000	20,000
Kindred	1,113,522	1,113,522	680,000
Wimbledon	74,738	74,738	48,000
Jamestown	747,990	747,990	350,000
Lisbon	87,025	87,025	54,000
Stanley	102,413	102,413	11,000
Buffalo	213,667	213,667	129,000
Buxton	77,000	77,000	8,000
Hankinson	88,000	88,000	54,000
Jamestown	454,641	454,641	210,000
	<u>3,647,016</u>	<u>3,647,016</u>	<u>1,749,000</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	\$ 12,000
Hankinson		84,999	84,999	55,000
Fargo		1,816,295	1,816,295	1,195,000
Lidgerwood		89,405	89,405	59,000
Enderlin		1,189,549	1,189,549	775,000
Hunter		158,395	158,395	97,000
Cogswell		81,960	81,960	50,000
Mayville		1,075,000	1,075,000	755,000
Ward County Water Resource District		797,375	797,375	525,000
Emerado		406,207	406,207	215,000
		<u>5,719,249</u>	<u>5,719,249</u>	<u>3,738,000</u>

Subpart 10	2001			
Jamestown		370,120	370,120	215,000
Mayville		1,169,393	1,169,393	825,000
Forman		135,172	135,172	92,000
Lisbon		716,436	716,436	470,000
Amenia		141,489	141,489	93,000
Grand Forks		13,781,500	13,781,500	9,715,000
Kulm		678,640	621,211	442,571
Tower City		503,123	503,123	350,000
Lake Metigoshe		485,400	485,400	367,000
Williston		1,124,000	1,124,000	790,000
Rolette		102,000	102,000	72,000
Hebron		122,890	122,890	88,000
Hankinson		1,457,760	1,457,760	1,025,000
Harvey		69,281	69,281	49,200
Oakes		106,076	106,076	68,000
		<u>20,963,280</u>	<u>20,905,851</u>	<u>14,661,771</u>

Subpart 11	2002			
Sanborn		30,694	30,694	22,600
Williston		1,190,559	1,190,559	900,000
Grand Forks		1,580,755	1,580,755	1,155,000
Grand Forks		2,274,164	2,274,164	1,550,000
Grand Forks		6,686,156	6,522,307	4,784,307
Linton		95,770	95,770	72,000
Mayville		3,073,811	3,073,811	2,307,000
Morton County Water Resource District		258,000	258,000	196,000

<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	60,000
Wahpeton		374,065	374,065	300,000
		<u>15,731,169</u>	<u>15,567,320</u>	<u>11,346,907</u>
Subpart 12	2003			
Hunter		41,930	41,930	33,300
Oakes		746,350	746,350	584,000
Harvey		244,615	244,615	205,000
Hankinson		133,790	133,790	106,700
Mantador		50,000	50,000	39,600
Litchville		236,381	236,381	192,000
Courtenay		49,444	49,444	38,500
Jamestown		1,309,568	1,309,568	1,140,000
		<u>2,812,078</u>	<u>2,812,078</u>	<u>2,339,100</u>
Subpart 13	2004			
Oakes		601,500	601,500	505,000
Portland		291,164	291,164	240,000
Lidgerwood		84,416	84,416	70,000
Lincoln		397,944	397,944	295,000
Hillsboro		186,336	186,336	0
Warwick		32,775	32,775	29,000
West River Water and Sewer		338,007	338,007	281,000
		<u>1,932,142</u>	<u>1,932,142</u>	<u>1,420,000</u>
Subpart 14	2005			
Mapleton		335,000	335,000	291,000
Hazen		276,120	276,120	240,000
Enderlin		184,307	184,307	158,000
Rutland		180,841	180,841	159,000
Grand Forks		4,500,000	4,500,000	3,960,000
		<u>5,476,268</u>	<u>5,476,268</u>	<u>4,808,000</u>
Subpart 15	2006			
Jamestown		1,475,346	1,475,346	1,344,000
Rice Lake Recreation Service District		2,813,537	2,813,537	2,529,537
Fargo		2,631,739	2,631,739	2,360,000
Gackle		77,824	77,824	71,800
Tower City		121,502	121,502	111,000
BND		2,398,556	1,136,058	938,398
Portland		30,236	30,236	28,000
Wyndmere		188,146	188,146	175,000
Oakes		950,000	950,000	890,000
		<u>10,686,886</u>	<u>9,424,388</u>	<u>8,447,735</u>

<u>Borrower</u>	<u>Approved Loan Amount</u>	<u>Funded Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 16	2007		
Bismarck	20,000,000	18,377,149	17,577,149
Southeast Cass Water Resource District	850,000	738,299	668,299
Lakota	414,948	414,948	390,000
Leonard	255,000	255,000	245,000
Argusville	634,606	634,606	610,000
Mayville	403,255	342,267	317,267
McVille	81,677	81,677	77,677
Jamestown	1,467,998	1,467,998	1,393,000
Hope	757,963	757,963	724,963
Portland	46,937	46,937	45,000
Cass Rural Water District	17,944,000	13,177,826	13,177,826
Willow City	148,174	148,174	141,174
Oakes	410,000	240,529	225,529
Nome	16,011	16,011	15,200
	<u>43,430,569</u>	<u>36,699,384</u>	<u>35,608,084</u>
Subpart 17	2008		
Lisbon	1,260,000	1,055,551	1,055,551
Harvey	355,000	165,198	150,198
Hunter	175,000	99,832	99,832
Fargo	63,725,000	1,139,418	1,139,418
Flasher	130,000	103,264	103,264
Hankinson	100,000	90,016	90,016
Ellendale	792,000	252,785	252,785
Fargo	1,640,000	77,700	77,700
Watford City	935,000	697,704	697,704
	<u>69,112,000</u>	<u>3,681,468</u>	<u>3,666,468</u>
Total	\$ <u>276,633,916</u>	\$ <u>202,988,423</u>	\$ <u>132,776,039</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	\$ 200,000
Park River	261,000	261,000	125,000
New Rockford	281,102	281,102	155,000
Sawyer	136,000	136,000	61,000
Walsh Rural Water District	3,000,000	3,000,000	1,975,000
Tioga	44,004	44,004	4,400
Williston	3,901,331	3,901,331	2,750,000
St. John	399,388	399,388	261,000
	<u>8,368,540</u>	<u>8,368,540</u>	<u>5,531,400</u>
Subpart 2	2000		
Grand Forks	13,200,000	10,949,659	6,949,659
Lisbon	912,115	912,115	590,000
Stutsman Rural Water Users	666,168	666,168	440,000
State Water Commission	1,500,000	1,500,000	975,000
Cooperstown	300,000	300,000	199,000
Harwood	866,514	866,514	615,000
Mayville	1,025,000	1,025,000	720,000
	<u>18,469,797</u>	<u>16,219,456</u>	<u>10,488,659</u>
Subpart 3	2001		
Hankinson	405,000	405,000	270,000
Finley	2,479,994	2,479,994	1,748,400
Enderlin	195,000	195,000	120,000
Valley City	1,444,139	1,444,139	1,015,000
Grand Forks	10,050,000	10,050,000	7,075,000
Oxbow	475,657	475,657	335,000
Lisbon	460,381	460,381	325,000
Nome	22,465	22,465	0
Southeast Water Users	60,000	60,000	42,000
	<u>15,592,636</u>	<u>15,592,636</u>	<u>10,930,400</u>

<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	305,000
Harvey	427,076	427,076	320,000
Grafton	285,616	285,616	220,000
Mandan	4,197,565	4,197,565	3,105,000
Ramsey County WRD	3,482,000	3,482,000	2,716,000
Enderlin	87,500	87,500	66,000
Linton	563,063	563,063	420,000
Cleveland	206,406	206,406	140,000
Langdon	522,796	522,796	385,000
Drayton	132,362	132,362	68,000
Larimore	1,991,805	1,991,805	1,470,000
Wahpeton	1,890,000	1,890,000	1,603,000
Grafton	1,150,000	1,067,897	871,897
	<u>15,349,711</u>	<u>15,267,608</u>	<u>11,689,897</u>
Subpart 5	2003		
Southeast Water District	1,446,906	1,446,906	1,085,000
Grand Forks - Traill Water District	3,991,780	3,991,780	2,995,000
North Valley Water District	4,138,000	4,138,000	3,150,000
Williston	3,693,344	3,693,344	2,940,000
Barnes Rural Water District	816,000	816,000	650,000
Argusville	360,718	360,718	300,000
Casselton	1,272,000	1,272,000	1,030,000
Aneta	171,340	171,340	141,300
Stutsman Rural Water District	201,651	201,651	169,000
	<u>16,091,739</u>	<u>16,091,739</u>	<u>12,460,300</u>
Subpart 6	2004		
Oakes	147,652	147,652	122,000
Cass Rural Water District	1,890,923	1,890,923	1,590,000
Leeds	179,000	179,000	150,000
Hazen	1,000,000	1,000,000	840,000
Tioga	418,727	418,727	363,000
Lincoln	307,681	307,681	254,000
Lincoln	447,000	447,000	349,500
Abercrombie	244,002	244,002	203,000
Lisbon	410,000	410,000	362,000
Williston	5,000,000	5,000,000	0
Harvey	676,556	676,556	585,000
Noonan	39,602	39,602	35,000
Williams County Rural Water	1,500,000	1,500,000	1,330,000
Williston	18,000,000	17,593,143	16,255,000
Jamestown	2,534,604	2,534,604	2,205,000
	<u>32,795,747</u>	<u>32,388,890</u>	<u>24,643,500</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	188,000
Park River	746,100	746,100	679,000
Mapleton	83,754	83,754	72,000
Bottineau	750,000	750,000	650,000
Southeast Water Users District	2,000,000	774,702	709,702
	<u>3,797,158</u>	<u>2,571,860</u>	<u>2,298,702</u>

Subpart 8	2006		
Walcott	159,112	159,112	144,000
Stutsman Rural Water District	1,164,020	1,164,020	1,047,000
Wildrose	52,291	52,291	46,000
Velva	1,616,123	1,616,123	1,345,000
Cooperstown	320,000	294,634	255,634
Riverdale	1,245,125	762,138	621,138
Pick City	224,260	211,926	192,926
Braddock	16,610	16,610	14,300
Center	358,800	328,070	299,070
Page	95,975	95,975	88,000
Harvey	91,581	91,581	83,000
Hillsboro	1,151,563	1,151,563	1,080,000
Washburn	1,977,000	1,858,802	1,698,802
Southeast Water Users District	4,655,000	4,655,000	4,287,000
Portal	50,000	50,000	46,000
Park River	517,600	490,671	469,671
Central Plains Water District	1,700,000	1,619,467	1,482,467
Columbus	57,000	57,000	47,000
Southeast Water Users District	210,000	181,290	165,290
	<u>15,662,060</u>	<u>14,856,273</u>	<u>13,412,298</u>

Subpart 9	2007		
McLean-Sheridan Rural Water	519,104	519,104	498,104
Walsh Rural Water District	2,021,400	1,239,218	1,158,218
North Prairie Water District	5,600,000	5,281,754	5,181,754
Mayville	324,341	324,341	299,341
Southeast Water Users District	5,418,000	5,418,000	5,007,000
South Central Regional Water	8,000,000	7,965,243	7,645,243
Jamestown	2,388,000	1,967,858	1,872,858
Devils Lake	4,000,000	3,774,706	3,619,706
North Valley Water District	2,617,000	2,473,052	2,368,052
Christine	219,015	201,509	201,509
Grand Forks Traill Water District	1,200,000	1,200,000	1,150,000
All Seasons Water Users District	211,950	211,950	203,000
	<u>32,518,810</u>	<u>30,576,735</u>	<u>29,204,785</u>

<u>Borrower</u>	<u>Approved Loan Amount</u>	<u>Funded Loan Amount</u>	<u>Outstanding Loan Amount</u>
Subpart 10	2008		
Southeast Water Users District	595,000	595,000	572,000
Hazelton	261,000	150,861	150,861
Lisbon	1,165,000	620,901	620,901
Mapleton	1,155,000	733,511	733,511
Mandan	4,511,900	452,663	452,663
Fargo	2,500,000	1,819,029	1,819,029
Cass Rural Water District	4,213,000	301,848	301,848
Fargo	29,240,000	2,889,186	2,889,186
Tri-County Water District	300,000	195,800	195,800
Lakota	200,000	74,605	74,605
Crosby	2,361,275	89,029	89,029
Hankinson	95,000	82,704	82,704
Hannaford	53,748	53,748	53,748
South Central Regional Water	4,000,000	53,620	53,620
Ray	1,715,000	319,355	319,355
Parshall	1,487,500	52,900	52,900
Mandan	8,600,000	1,254,239	1,254,239
Leeds	65,000	29,192	29,192
	<u>62,518,423</u>	<u>9,768,191</u>	<u>9,745,191</u>
Total	\$ <u>221,164,621</u>	\$ <u>161,701,928</u>	\$ <u>130,405,132</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>1,289,583</u>
Subpart 2	2008		
ND Natural Beef, LLC		<u>2,000,000</u>	<u>1,979,583</u>
Total		\$ <u>3,360,000</u>	\$ <u>3,269,167</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	60,000
Sims PSD		100,000	0
		<u>217,000</u>	<u>60,000</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
Traill County Rural Water Users		50,000	0
St. John		85,000	45,500
		<u>335,000</u>	<u>45,500</u>
Subpart 12	2004		
Solen PSD		200,000	0
New Town PSD		60,000	13,000
		<u>260,000</u>	<u>13,000</u>
Subpart 13	2005		
Enderlin		92,000	0
Columbus		57,000	0
Solen PSD		200,000	0
Gackle		75,000	31,500
Portal		185,000	0
Surrey Township		42,500	17,800
		<u>651,500</u>	<u>49,300</u>
Subpart 14	2006		
Solen PSD		<u>200,000</u>	<u>0</u>
Subpart 15	2007		
Emerado		<u>186,288</u>	<u>170,168</u>

Borrower

Subpart 16

2008

**Original
Loan
Amount**

**Outstanding
Loan
Amount**

Sterling PSD	100,000	100,000
Cass Rural Water District	330,000	330,000
Watford City	405,000	405,000
Casselton	475,000	475,000
	<u>1,310,000</u>	<u>1,310,000</u>

Total Direct Loans

\$ 5,445,898 \$ 1,676,468

**NORTH DAKOTA PUBLIC FINANCE AUTHORITY
BONDS ISSUED 1977 THROUGH 2008**

Part A**1977 General Bond Resolution**

	<u>Initial Bond Amount</u>	<u>Outstanding Bond Amount</u>
1977 Series A	\$ 15,000,000	\$ 0
1979 Series A	16,590,000	0
1983 Series A	11,680,000	0
Subtotal	<u>43,270,000</u>	<u>0</u>

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	1,410,000	0
Subtotal	<u>13,060,000</u>	<u>0</u>

Part D**Government Assistance Program**

1990 Series A	765,000	0
1990 Series B	1,241,704	0
Subtotal	<u>2,006,704</u>	<u>0</u>

Part E**Taxable Insured Water System Refunding Bonds**

1999 Series A	8,875,000	2,110,000
1999 Series B	1,410,000	1,410,000
Subtotal	<u>10,285,000</u>	<u>3,520,000</u>

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 Serues 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	0
1992 Series J	2,500,000	0
1992 Series K	535,000	0
1993 Series A	150,000	0
1993 Series B	880,000	280,000
1993 Series C	1,975,000	0
1993 Series D	1,465,000	265,000
1993 Series E	505,000	0
1993 Series F	2,930,000	595,000
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	30,000
1995 Series C	380,000	0
1996 Series A	500,000	0
1996 Series B	930,000	40,000
1996 Series C	1,585,000	0
1996 Series D	350,000	0
1997 Series A	540,000	20,000

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	0
1997 Series E	4,705,000	0
1997 Series F	375,000	150,000
1997 Series G	1,050,000	0
1997 Series H	3,275,000	1,790,000
1998 Series A	945,000	365,000
1998 Series B	6,685,000	2,015,000
1998 Series C	565,000	270,000
1998 Series D	1,050,000	0
1998 Series E	450,000	300,000
1999 Series A	1,075,000	0
1999 Series B	260,000	20,000
1999 Series C	100,000	10,000
1999 Series D	1,100,000	0
1999 Series E	1,710,000	1,350,000
1999 Series F	285,000	225,000
2000 Series A	1,115,000	0
2000 Series B	3,100,000	0
2001 Series A	735,000	550,000
2002 Series A	1,700,000	1,275,000
2003 Series A	1,495,000	1,310,000
2004 Series A	880,000	625,000
2006 Series A	1,385,000	1,180,000
Subtotal	<u>83,570,000</u>	<u>12,665,000</u>

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	0
1996 Series A	³	29,845,000	300,000
1998 Series A	^{5,6}	35,965,000	7,410,000
2000 Series A	⁴	16,725,000	1,385,000
2001 Series A		23,725,000	17,400,000
2003 Series A		26,795,000	21,615,000
2003 Series B		20,455,000	17,115,000
2004 Series A		11,790,000	11,510,000
2005 Series A		36,210,000	32,770,000
2008 Series A		46,100,000	46,100,000
Subtotal		<u>280,325,000</u>	<u>155,605,000</u>

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.

⁶ A portion of the proceeds of the 2008 Series A SRF Bonds was used to defease and refund 1998 Series A SRF Bonds.

Part H

Industrial Development Bond Program

	Initial Bond Amount	Outstanding Bond Amount
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2006 Series A	1,360,000	1,310,000
2008 Series A	<u>2,000,000</u>	<u>2,000,000</u>
	3,360,000	3,310,000
 Total All Bonds	 \$ <u>471,166,704</u>	 \$ <u>175,100,000</u>

a

The American Recovery and Reinvestment Tax Act of 2009 (ARRTA) includes provisions to aid local governments. There are two new tax-credit bonds called Recovery Zone Economic Development Bonds (RZEDBs) and Recovery Zone Facility Bonds (RZFBs). These are temporary bonds – issuance must be done in 2009 and 2010. Guidance from Treasury has been very limited. At this time it appears that each State will receive a minimum allocation. What is being proposed today is a provision that puts a mechanism in place should North Dakota political subdivisions wish to issue these tax-credit bonds.

Recovery Zone Economic Development Bonds

Permitted Issuers – Political Subdivisions – primarily cities and counties

Eligible Projects –

- Expenditures for public infrastructure and other public facilities that promote development or other economic activity;
- Expenditures for job training and educational programs

Key Elements –

- Provides (1) issuers a direct federal subsidy of 45% of interest or (2) bondholders a tax credit of 45% of interest
- Minimum allocation for North Dakota is \$90,000,000

Recovery Zone Facility Bonds

Permitted Issuers – Political Subdivisions – primarily cities and counties

Eligible Projects –

- Private use depreciable property (i.e. equipment, buildings). Typically the bonds would be issued by the city or county and proceeds loaned (or the project leased or sold) to a for-profit company.

Key Elements –

- These bonds will be tax exempt where in the past they would have been taxable.
- The bond-financed property may be privately owned and operated for purposes not limited to those of traditional exempt facility or small issue activity tax-exempt bonds.
- Minimum allocation for North Dakota is \$135,000,000



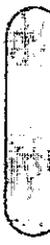
PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2014

Page 1, line 8, after "transfers;" insert "to provide for federal fiscal stimulus bond allocations;"

Page 10, after line 18, insert:

"SECTION 20. FEDERAL FISCAL STIMULUS BOND ALLOCATIONS - RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS - RECOVERY ZONE FACILITY BONDS. Any bond allocations made available to this state under the federal American Recovery and Reinvestment Act of 2009 for the national recovery zone economic development bond limitation and the national recovery zone facility bond limitation shall be reallocated by this state as provided therein and as may be provided in any guidance issued thereunder by the secretary of the treasury or the internal revenue service. Any such reallocation shall be made by the governor, or may be delegated by the governor to the industrial commission or the public finance authority."

Renumber accordingly



Funding for Renewable Energy and Biomass Research Programs:

2007 Legislative Session

- Renewable Energy Development Program established. Funding authorized during the 2007 session was \$3,000,000 from the General Fund and \$17,000,000 from special funds. (We were not able to access any special funds during the 2007-2009 biennium.)
- Biomass Incentive and Research Program established. Funding authorized during the 2007 session was \$1,000,000 from the Beginning Farmer Revolving Loan Fund and \$1,000,000 from Biofuel PACE.

During the 2007-2009 biennium the Industrial Commission has approved State funding of \$2,475,309 for 11 projects for the Renewable Energy Development Program and funding of \$800,000 for 1 project under the Biomass Incentive and Research Program. These dollars were leveraged with other funds and the total projects costs were in excess of \$10,000,000. There is one more grant round during the 2007-2009 biennium

2009 Legislative Session

- Industrial Commission introduced SB 2129 which combines the Renewable Energy Program and the Biomass Program into one program. Both Senate and House have approved SB 2129 with some amendments.
- Governor Hoeven proposes in the Executive Budget \$5 million General Fund for the Renewable Energy/Biomass Program.
- Senate passes SB 2014 with the funding level at \$5 million using General Fund dollars.
- House amends SB 2014 and reduces funding level for Renewable Energy Program to \$3,000,000 and states that the funding is to come from the federal stimulus dollars.

The House members have stated that the \$3 million should come from the Federal Energy Stimulus and Efficiency monies that the Department of Commerce is receiving. However, this is problematic for the Renewable Energy/Biomass Program. The Renewable Energy Program was established to participate in research, demonstration, commercialization and education for renewable energy projects. The Federal law regarding the Energy Stimulus and Efficiency dollars specifically excludes funding for research, development, demonstration and commercialization. The only area of the State's Renewable Energy Program that might be eligible for the Federal energy and efficiency dollars is the education (promotion) component. This is a small part of what the Renewable Energy Program does.

Arguments for a \$5 million appropriation:

- Under the Obama administration we do believe there will be more dollars from the federal government that could be matched with state and private dollars for projects here in North Dakota. North Dakota entities wishing to access federal dollars often need to show that the State is also supportive of their research and it would be helpful to have dollars available to support those North Dakota entities.
- This program is still in its infancy and as it matures more quality projects will be brought for consideration.
- There are opportunities for the renewable energy projects to work with the traditional energy sources. One project utilizing biomass and lignite has already been approved and we are hopeful of more coming forward.





INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Agriculture Commissioner

**House Appropriations Government Operations Division
March 2, 2009**

**Renewable Energy Program
North Dakota Century Code 54-63
and
Biomass Incentive and Research Program
North Dakota Century Code 54-17-38**

The Renewable Energy Program (REP) and the Biomass Incentive Research Program were authorized by the 2007 Legislative Assembly. Since the Programs were authorized the Commission has established policies for the programs and has held five REP grant rounds and three Biomass grant rounds. Since implementation 26 project applications have been received for both programs with the total funding requested of \$6,856,278. Eighteen of these applications were or will be presented to the Renewable Energy Council with eleven applications being forwarded to the Industrial Commission for consideration. Two applications are currently pending action by the Renewable Energy Council.

The Renewable Energy Program was structured similar to the Lignite Research, Development and Marketing Program and the Oil and Gas Research Program. There is a multi-tiered review and approval process before a project is funded. Here is how it works.

- Applications are received by the application deadlines and the initial review process is conducted at the staff level. As directed by the Legislature, the Department of Commerce provides technical assistance to the Industrial Commission and their staff completes the first review of the applications. They determine whether the application meets the Program criteria.
- If the application meets the criteria then it is forwarded to independent technical reviewers with expertise in the area of the application. For example if the application deals with biodiesel processing, it will be reviewed by experts in the field of biodiesel operations. The technical reviewer comments are then given to the applicant so the applicant has an opportunity to respond to the comments. The reviews, applicants' responses and a recommendation from the Department of Commerce staff are then forwarded to the Renewable Energy Council along with the application and an opportunity is given to the applicant to make a presentation to the Council.

- If the application is approved by the Council it is then forwarded to the Industrial Commission for consideration.

The Commission has approved the funding of eleven projects for both programs and two projects are pending Renewable Energy Council and Industrial Commission consideration. The total amount of Renewable Energy Program funding committed to the ten approved projects as of March 1, 2009 is \$1,888,073. An additional \$800,000 has been approved under the Biomass Incentive Research Program for a total of \$2,688,073 for the two programs. Each of these projects has match funding which means that the Renewable Energy Program funding has been leveraged to result in projects totaling over \$8.7 million.

Examples of work that is being done through the Renewable Energy Development Program include:

- A feasibility study of a biomass supply for an industrial park.
- An E85 Blending Facility.
- Development of economically sustainable distributed power from biomass gasification.
- Developing a biomaterials industry in North Dakota.
- Renewable Electrolytic Nitrogen Fertilizer Production.
- Wind technician training program.
- Small wind turbine training center.

In the inside back pocket of the binder you will find a brochure listing the projects that have received funding.

This is only a sample of the innovative ideas North Dakotans have to advance Renewable Energy in our state. We have found there is no shortage of ideas which make their way to us as proposals.

ANALYSIS OF THE RENEWABLE ENERGY DEVELOPMENT FUND

N.D.C.C. 54-63-04

Continuing Appropriation

	<u>2007-2009 Biennium¹</u>	<u>2009-2011 Biennium</u>
Beginning Balance	\$ 0	\$ 15,000
Add estimated revenues ²		
General Fund Appropriation	\$3,000,000	\$5,000,000 ⁴
Interest Income	\$ 82,500	\$ 80,000
Applicant contribution	\$ 2,500	\$ 3,000
Total Available	<u>\$3,085,000</u>	<u>\$5,098,000</u>
Less estimated project expenditures and commitments		
Project Commitments ³	\$3,000,000	\$4,975,000
Administrative Costs	\$ 70,000	\$ 115,000
Total estimated expenditures	<u>\$3,070,000</u>	<u>\$5,065,000</u>
Estimated ending balance	<u>\$ 15,000</u>	<u>\$ 8,000</u>

⁽¹⁾ This report reflects General Fund dollars. The 2007 Legislature also appropriated \$17,000,000 of spending authority from special funds. However, as of January 28, 2009 we have been unable to access any special funds to be used under this program.

⁽²⁾ Revenues reflect actual income of \$64,403 through November 30, 2008 and estimated revenues for the remainder of the biennium.

⁽³⁾ As of January 28, 2009 the Commission has committed to fund \$1,888,073 for 10 projects with 2 project applications in the review process that total \$775,000 and one additional grant round scheduled for May 1, 2009. A list of the 10 projects approved is attached.

⁽⁴⁾ Senate Bill 2014 (2009 Session) includes funding from the General Fund totaling \$5,000,000.

Projects Funded by the Renewable Energy Development Fund (REDF)

Project Title	Applicant	Amount Awarded	Total Project Cost	% Funded by REDF	Project Description
Blue Flint E85 Blending Facility	Blue Flint, LLC	\$50,000	\$115,815	43%	BFE will install facilities that allow for in-line blending of E85 at their facility.
Feasibility Study of a Biomass Supply for the Spiritwood Industrial Park	Great River Energy along with 5 co-applicants	\$109,000	\$474,000	23%	GRE will perform a technical evaluation of the prospects for integrating a biomass supply into Spiritwood Station. GRE proposes to co-fire up to 10% biomass in Spiritwood Station, Jamestown.
ComPAKER Small Wind Turbine Training Center	ComPAKco, LLC	\$72,275	\$144,550	50%	This project will develop a mechanical device which would increase the density of biomass in order to transport and utilize. This project will expand the scope of activities related to developing a small wind turbine training center.
Renewable Electrolytic Nitrogen Fertilizer Production Development of Economically Sustainable Distributed Power from Biomass Gasification for ND	EERC	\$50,000	\$100,000	50%	This project will optimize processes for producing nitrogen fertilizers using biomass gasification-derived synthesis gas (biosyngas).
Abundant Energy: A Proposal for Wind Power Development & Technical Education	EERC	\$200,000	\$404,255	49%	The EERC will demonstrate biomass gasification to educated potential North Dakota users.
Fischer-Tropsch Fuels Development	Lake Region State College	\$50,000	\$100,000	50%	This project will site and erect an operating 1.65 MW wind turbine and design and implement a wind turbine technician training program.
Renewable Oil Refinery	EERC	\$500,000	\$3,299,900	12%	This project will prepare pilot-scale testing equipment and perform testing in the areas of Fischer-Tropsch (FT) liquid production, catalyst development, catalyst testing, product upgrade, and process simulation.
Promoting Ethanol Fuels in ND	EERC American Lung Assc., ND Ethanol Producers Assc.	\$189,034	\$899,820	21%	This project will provide a complete, ready-for-bid design of a pilot-scale renewable oil refinery capable of producing diesel fuel, jet fuel, and naphtha.
		\$500,000	\$1,000,000	50%	This project will implement a strong education and promotion campaign to build ND consumer awareness of the benefits of ethanol and move consumers to increase ethanol usage.
		\$167,764	\$335,527	50%	

Projects Funded by the Renewable Energy Development Fund (REDF)

Project Title	Applicant	Amount Awarded	Total Project Cost	% Funded by REDF	Project Description
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A front-end engineering and design study for a pilot scale plant demonstrating the commercial potential of technology to produce materials and fuel from biomass feedstock. Initial efforts will focus on technical and economic requirements for commercializing technology to produce bio-based cellulose nanowhiskers.

*Developing a Biomaterials Industry in ND
 North Agricultural Experiment Station, NDSU \$800,000 \$1,792,998 45%

*While qualified for the Biomass Incentive and Research Programs, funds from the REDF will be expended first.

ANALYSIS OF THE BIOMASS INCENTIVE AND RESEARCH FUND

N.D.C.C. 54-17-39

	<u>2007-2009 Biennium¹</u>
Beginning Balance	\$ 0
Add transfers and estimated revenues ²	
Transfer from the Biofuel PACE Fund	\$ 30,000
Estimated transfer from Biofuel PACE Fund	\$ 800,000
Interest Income	\$ 440
Applicant contribution	\$ 100
Total Available	<u>\$ 830,540</u>
Less estimated project expenditures and commitments	
Project Commitments ³	\$ 830,000
Administrative Costs	\$ 300
Total estimated expenditures	<u>\$ 830,300</u>
Estimated ending balance	<u>\$ 240⁴</u>

⁽¹⁾ The Biomass Incentive and Research Fund (BIRF) is a special fund. It is not a continuing appropriation. The funding for BIRF will expire on June 30, 2009 unless extended by the Legislature. Senate Bill 2129 proposes to combine the Renewable Energy Fund and BIRF into the Renewable Energy Fund. The 2007 Legislature authorized that the Industrial Commission may transfer up to \$1,000,000 from the Beginning Farmer Revolving Loan Fund and up to \$1,000,000 from the Biofuel Partnership in Assisting Community Expansion Fund to BIRF.

⁽²⁾ Revenues reflect a transfer of \$30,000 for the Organic Agriculture Initiatives and Programs made in September 2007 and an estimated transfer of \$800,000 for the one Biomass Project received and approved during the current biennium. Also included under revenues is the actual interest income of \$353 through November 30, 2008 and projected revenues for the remainder of the biennium.

⁽³⁾ As of March 1, 2009 the Commission has committed to fund \$800,000 for one project and one additional grant round scheduled for May 1, 2009. The attached list provides information on the one project approved and funded. At this time the Industrial Commission has directed that this Project be funded out of the Renewable Energy Fund until such time as all the Renewable Energy Fund dollars are committed.

⁽⁴⁾ If Senate Bill 2129 is passed the Biomass Incentive and Research Fund will be consolidated into the Renewable Energy Development Fund and the goals of this Biomass Program will be met with funding from the Renewable Energy Development Fund. SB 2014 includes a provision that any remaining funds in the Biomass Fund will be transferred to the Renewable Energy Development Fund.

1

SECTION __. APPROPRIATION - FEDERAL FISCAL STIMULUS FUNDS. There is appropriated from federal fiscal stimulus funds made available to the state under the federal American Recovery and Reinvestment Act of 2009, not otherwise appropriated, the sum of \$4,000,000, or so much of the sum as may be necessary, to the industrial commission for the renewable energy development program for the period beginning with the effective date of this Act and ending June 30, 2011.

SECTION __. CONTINGENT APPROPRIATION. If federal funds appropriated under section __ of this Act are not available to provide the sum of \$4,000,000, there is appropriated out of moneys in the general fund in the state treasury, not otherwise appropriated, the sum of \$4,000,000, or so much of the sum as may be necessary, to the industrial commission for the renewable energy development program for the period beginning with the effective date of this Act and ending June 30, 2011.

Fischer-Tropsch Fuels Development Energy & Environmental Research Center (EERC)

This project will prepare pilot-scale testing equipment and perform testing in the areas of Fischer-Tropsch (FT) liquid production, catalyst development, catalyst testing, product upgrade, and process simulation. Biomass-derived syngases will be used for the testing. The FT pilot system will be combined with existing EERC gasifiers to provide the capabilities to allow testing of current and newly developed catalysts with syngas from various fuels and at conditions of varied temperature, pressure, and gas composition. The catalyst development and production work will supply catalyst options for varied end use applications, including use in smaller-scale, distributed fuel production systems. The development of FT technologies to produce liquid transportation fuels from biomass, waste and coal will provide a new industry for North Dakota as well as helping to provide energy security not only for the state but for the entire country.

The grant award of \$189,034 consisted of approximately 21% of the total project cost. A final report is due September 30, 2009.

Renewable Oil Refinery

Energy & Environmental Research Center (EERC)

This project will provide a complete, ready-for-bid design of a pilot-scale renewable oil refinery capable of producing diesel fuel, jet fuel, and naphtha. By utilizing crumbe, it can provide a sustainable market for crops suited for areas of North Dakota with a shorter growing season, and conditions, and suboptimal soil.

The grant award of \$500,000 consisted of 50% of the total project cost.

Biomass Program

North Dakota's Biomass and Incentive Research Program (BIR) was established by the Legislature in 2007. The law provides that the Industrial Commission may implement this Program and may transfer up to \$2,000,000 from other Industrial Commission agricultural programs. The Industrial Commission is to consult with the Renewable Energy Council (REC). The Dept. of Commerce provides technical assistance on the management of this program.

The mission of the Biomass Incentive and Research Program is to promote the growth of North Dakota's biomass industry efforts through research and development.

Developing a Biomaterials Industry in ND

North Agricultural Experiment Station, North Dakota State University

This project will complete a front end engineering and design (FEED) study for a pilot scale plant to demonstrate the commercial potential of technology to produce materials and fuel from biomass feedstock. Initial efforts will be focused on technical and economic requirements for commercializing technology to produce bio-based cellulose nanowhiskers.

The grant award of \$800,000 consisted of approximately 45% of the total cost of the project. The remaining funds were derived from other

sources. The final report is due June 30, 2009. Since it's inception in 2007, the Renewable Energy

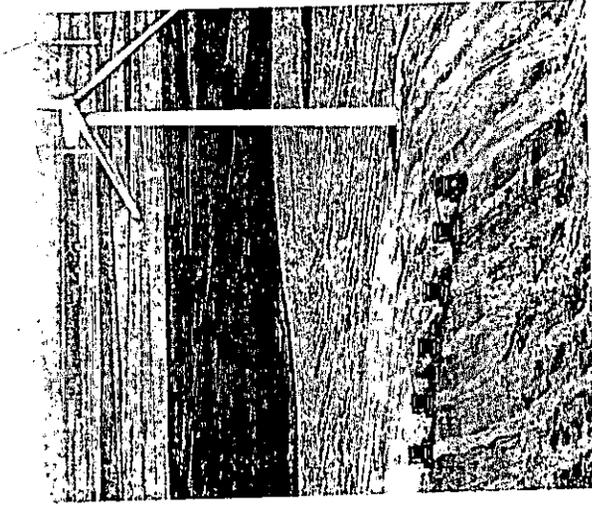
In the Future...

Program and Biomass Program combined have received requests for \$6,081,278. Of those requests, \$2,188,073 have been successful. For ease of administration, the Renewable Energy Council would like to combine the two programs into one.

For More Information

Call the Industrial Commission at 701-328-3722 or visit us on the web:

www.nd.gov/ndic/renew-infopage.htm



Renewable Energy Program

North Dakota Industrial Commission

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Competitive Grants Program

Renewable Energy Program

The North Dakota's Renewable Energy Program (REP) was established by the Legislature in 2007. The law provides that the Industrial Commission shall consult with the Renewable Energy Council (REC). The REC is made up of six individuals including the Commerce Commissioner, who serves as chairman, and representatives from the following five industries—agriculture, biomass, biodiesel, wind and ethanol. The Department of Commerce provides technical assistance on the management of this program.

The mission of the Renewable Energy Council (REC) is to promote the growth of North Dakota's renewable energy industries through research, development, marketing, and education.

Blue Flint Ethanol E85 Blending Facility

Blue Flint Ethanol, LLC (BFE)

BFE will install facilities that allow for in-line blending of E85 at their facility. BFE will market E85 to retail fuel stations in the state. It is believed that the consistent availability of an E85 product that is blended into the truck as opposed to splash or tank blended will grow retail market use of this product.

The grant award of \$50,000 consisted of approximately 43% of the total cost of the project. The final report has been received with a final follow-up report.

Feasibility Study of a Biomass Supply for the Spiritwood Industrial Park

Great River Energy (GRE) along with: Great Plains Institute, North Dakota Association of Rural Electric Cooperatives, North Dakota Department of Agriculture, North Dakota Farmers Union, North Dakota Natural Resources Trust.

This project will perform a detailed technical evaluation of the prospects for integrating a biomass supply into Spiritwood Station, part of the new Spiritwood Industrial Park in Jamestown, North Dakota. GRE proposes to co-fire up to 10% biomass in Spiritwood Station.

If successful, this project could demonstrate a new model of renewable energy production, provide added value to agricultural producers and rural communities, and offer a replicable example for other coal-fired power plants in North Dakota.

The grant award of \$109,000 consisted of approximately 23% of the total project cost. A final report is due June 30, 2009.

CompAKER

CompPAKco, LLC

This project will develop a mechanical device which would increase the density of biomass in order to transport and utilize it efficiently. The unique design and use of supplemental binder material in the proposed CompAKER will result in less power requirements and a lower cost than pellet making machines currently available. The produced biomass "PAK" is uniform in size and shape and can be handled and transported much more efficiently than the raw biomass and further will allow the "PAK" to be easily integrated into both conventional combustion and biomass gasification systems.

The grant award of \$72,275 consisted of 50% of the total project cost. A final report is due June 30, 2010 with a final follow-up report due June 30, 2011.

Small Wind Turbine Training Center

Energy & Environmental Research Center (EERC)

The small wind turbine training center will consist of two small wind turbines less than 20 kW in size. Once constructed, the facility will provide educational opportunities to a wide range of participants including grade school through college-level students and the general public. Qualified staff will lead facilitated discussions for groups wishing to tour the site for at least two years following the commencement of turbine operation. The facility will allow the EERC to provide technical training workshops related to the installation, operation, and maintenance of small wind turbines. As part of the agreement, the EERC will provide at least 3 planned technical workshops or educational events during the contract period.

The grant award of \$50,000 consisted of 50% of the total project cost. A final report is due September 30, 2009.

Renewable Electrolytic Nitrogen Fertilizer Production

Energy & Environmental Research Center (EERC)

This project will optimize processes for producing nitrogen fertilizers using biomass gasification-derived synthesis gas (biosyngas), nitrogen extracted from air and electricity. As the processes have been demonstrated to operate with low-cost biosyngas rather than high-cost hydrogen derived from natural gas, they offer the potential for lower-cost and smaller-scale fertilizer production. Commercialization of the processes would enable regionally produced fertilizer to compete economically with imports and simultaneously develop a new fertilizer production industry.

The grant award of \$200,000 consisted of approximately 49% of the total project cost. A final report is due August 31, 2009.

Development of Economically Sustainable Distributed Power from Biomass Gasification for ND

Energy & Environmental Research Center (EERC)

The EERC will demonstrate biomass gasification in an effort to educate potential users. The project will use an existing 50-kW gasification system in Grand Forks and will demonstrate long-term operation of the system for heat and power at the existing facility and short-term testing of additional biomass fuels for interested parties. The project will make potential North Dakota gasification users aware of the environmental and economic benefits of installing and operating a gasification system to replace a portion or all their current energy consumption. The project will include long- and short-term demonstration tasks, development of educational materials, and reporting.

The grant award of \$50,000 consisted of 50% of the total project cost. A final report is due September 30, 2009.

Abundant Energy: A Proposal for Wind Power Development & Technical Education

Lake Region State College

This project will site and erect an operating 1.65 MW wind turbine and design and implement a wind turbine training technician program that will be authorized by the North Dakota State Board of Higher Education. Additionally, Lake Region proposes to utilize the wind turbine to provide most of the electricity required by the campus.

The grant award of \$500,000 consisted of approximately 12% of the total project cost. A final report is due December 31, 2011.



INDUSTRIAL COMMISSION OF NORTH DAKOTA
NORTH DAKOTA TRANSMISSION AUTHORITY

Governor
John Hoeven
Attorney General
Wayne Stenehjem
Agriculture Commissioner
Roger Johnson

NORTH DAKOTA TRANSMISSION AUTHORITY
Section 17-05-05 North Dakota Century Code

The North Dakota Transmission Authority was created by the North Dakota Legislative Assembly in 2005. Since its inception the Authority's mission has been to facilitate the development of transmission infrastructure in North Dakota. The Authority was established to serve as a catalyst for new investment in transmission by facilitating, financing, developing and/or acquiring transmission to accommodate new lignite and wind energy development. The Authority is a builder of last resort, meaning private business would have the first opportunity to invest in and/or build additional needed transmission.

By statute the Authority membership is comprised of the members of the Industrial Commission. In late 2006 the Authority named Sandi Tabor as its acting director. Ms. Tabor works closely with the Executive Director of the NDIC, Ms. Karlene Fine. The Authority has no other staff and receives no direct General Fund appropriation. Funding for the Authority comes from the Lignite Research, Development and Marketing Program.

The powers of the Authority include: 1) make grants or loans or borrow money; 2) to issue up to \$800 million in revenue bonds; 3) enter into lease-sale contracts; 4) own, lease, rent and dispose of transmission facilities; 5) enter into contracts to construct, maintain and operate transmission facilities; 6) investigate, plan prioritize and propose transmission corridors; and 7) participate in regional transmission organizations.

A significant element of the Authority's mission is to solicit ideas from interested parties regarding solutions to transmission constraint issues in North Dakota. The Authority's discussions have included outreach to independent transmission companies that build transmission infrastructure, to companies interested in developing lignite projects under the Lignite Vision 21 program and to wind developers.

The Authority's work has also focused on interaction with members of Midwest Independent System Operator (MISO), the Organization of MISO (OMS) and other regional and state planning and permitting authorities to ensure transmission policies developed will be favorable to any new ND projects (coal or wind) that may come before these groups. Most recently Ms. Tabor has been involved in the MISO Regional Generational Outlet Study. This Study is evaluating the impact of state specific renewable portfolio standards on MISO operations, specifically focusing on wind development. Ms. Tabor also represents the Governor's office in a five-state study (ND, SD, MN, IA, and WI) regarding how to upgrade and/or construct new transmission in the region. This group consists of representatives from the Governors and the Public Service Commissions of the five states. This group will be focusing on *where transmission should be located* and *how construction costs should be allocated*. The timeline for the group includes an initial report to the respective state Governors in June 2009.



One of the dynamics impacting transmission development in North Dakota is the existence of two system operators in the state (Western Area Power Administration and MISO). The Authority continues to facilitate discussions that bring the parties together to address the challenge of building new transmission in North Dakota. The Authority also continues to work with wind developers in finding solutions to the transmission constraints we face in North Dakota.

The Transmission Authority coordinates its activities with the Public Service Commission and the Department of Commerce.

A copy of the Transmission Authority's annual report is available on the Industrial Commission website at <http://www.nd.gov/ndic/> under publications.