

**TESTIMONY, HOUSE APPROPRIATIONS COMMITTEE
MARCH 8, 2021
SENATE BILL 2014**

**ERIC HARDMEYER – PRESIDENT & CEO
BANK OF NORTH DAKOTA**

Mr. Chairman and members of the Committee, I am Eric Hardmeyer, President and CEO of the Bank of North Dakota (BND). As you know, BND is the only state-owned bank in the nation. Our mission, established by legislative action in 1919, is to encourage and promote agriculture, commerce and industry in North Dakota. While our mission statement is short, the responsibilities of BND are large and extraordinary.

The Bank serves many roles in North Dakota. Most importantly, BND is a unique competitive tool that spurs economic development by assisting local financial institutions in delivering loans and loan programs in their communities. By law, BND serves as the state repository for revenues and as directed by the Legislature administers loan programs to schools and local communities. The Bank assists residents in securing higher education through its loan programs and spurs college saving through its college save program. And, as you know, BND is called upon to support state initiatives and provide a dividend of its profits to the general fund.

To provide you a preview of my testimony, today I am going to cover the following topics:

1. Lending activities undertaken this biennium.
2. BND's effort to create efficiency and streamline operations.
3. Perspective on BND's loan portfolio.
4. BND's financial position and the impact of disaster programs on BND.
5. Anticipated changes at BND before the 2023 Legislative session.
6. The budget for the 2021 biennium and proposed amendments.

Activities Since July 1, 2019

In December of 2019, BND posted annual profits of \$169 million, its' sixteenth consecutive year of record profits. Then, as we all know, life took a significant turn in March of 2020 due to the Covid-19 pandemic. As President of the Bank, I want to tell you why, even though 2020 had its challenges, I believe it is one of the most successful years in BND's 100-year history.

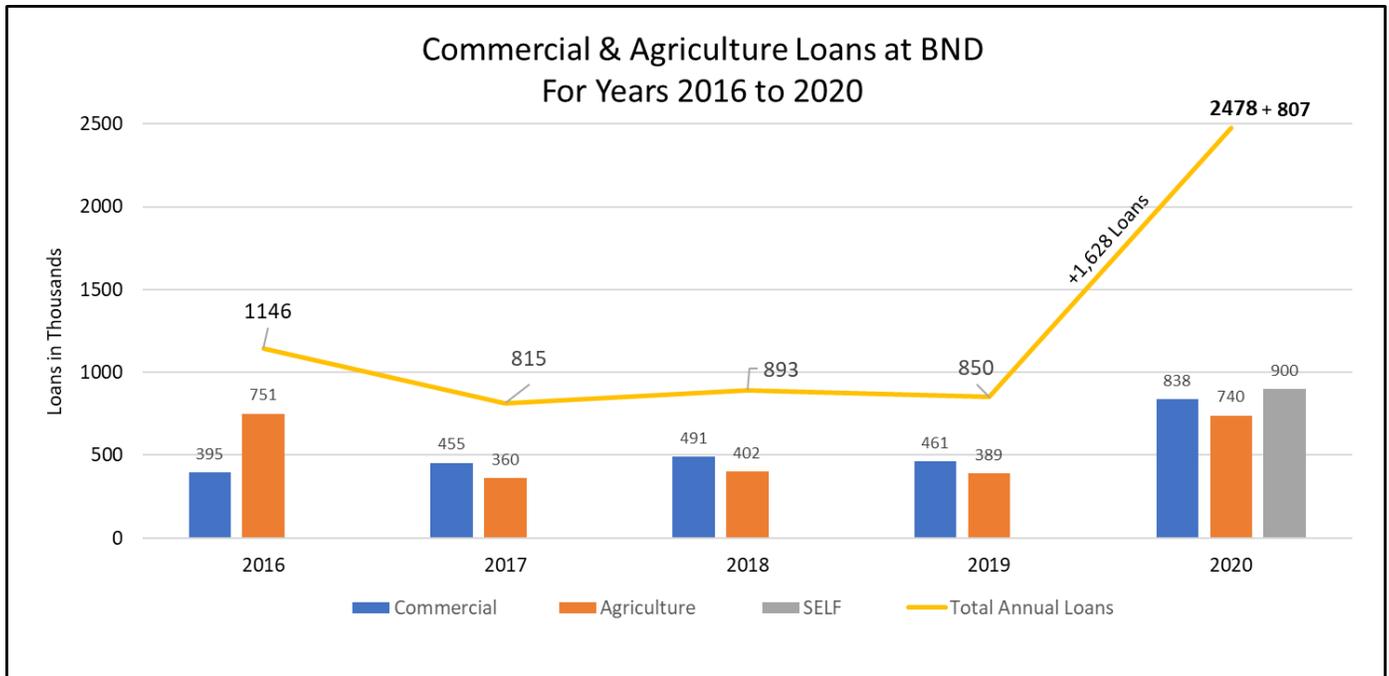
When the Covid-19 pandemic took hold, BND and its staff teamed with local financial institutions; state associations and the Small Business Administration to answer the call of distress coming from North Dakota residents.

By coordinating the communication and efforts of the local financial institutions, BND assisted nearly 20,000 small business in securing more than \$1.7 Billion in PPP loans. On a per capita basis, North Dakota was the largest recipient of PPP loans.

But we knew there was more to do; in working closely with local financial institutions, the Industrial Commission and Legislature, BND was able to utilize \$50 million of its capital and secure \$70 million in CARE's Act funding to create disaster programs to fill in the gaps. These programs served a broad variety of businesses and included:

- The Small Employer Loan Fund (SELF) utilized up to \$50 million in BND Capital to assist North Dakota businesses with an employee count of 10 full-time equivalents (FTE) or less. Loan funds provide a fixed interest rate of 1% to support working capital needs, recurring expenses and to replenish inventory or term out COVID-related bridge loans or credit card debt. There were 900 loans for \$30.4 million were distributed through the SELF program.
- The COVID-PACE Recovery I (CPR I) Loan Program supported the working capital needs of businesses in North Dakota. Modeled after the PACE programs, CPR I bought the interest rate on a loan down to 1%. Businesses of 500 or fewer employees could receive a loan in the amount of the lesser of six months of operating expenses plus interest, or \$5 million. For businesses over 500 employees, the maximum loan amount was \$10 million. There were 273 loans for \$337.5 million (\$217 million net to BND) were initiated through this program. To provide buydown funding, the Emergency Commission and Budget Section, allocated \$35 million of CARES Act funds.
- The COVID-PACE Recovery II (CPR II) Program was a unique program created to buy down the interest on existing debt as opposed to initiating a new loan. Businesses could apply for interest accrued for up to 10 months with a limit of \$50,000. To ensure the program supported the businesses most financially impacted, the program required at least a 20% year-over-year gross revenue loss between April 1, 2019 to September 30, 2019 and the same period in 2020. Once again, the Emergency Commission and Budget Section approved CARES's act funding of nearly \$35 million that was distributed to 807 businesses through Bank of North Dakota and local financial institutions.
- The state's ethanol producers and those producing related products accessed loans through the Ethanol Recovery Program to support working capital needs for North Dakota operations. The maximum loan amount was \$15 million. The fixed interest rate received a buydown to 1%. Four ethanol facilities received loans for a total of \$42.9 million (\$21.5 million net to BND).
- The extreme weather conditions in 2019 resulted in BND offering its second agriculture disaster program in 5-years. BND's fixed rate, Ag Disaster Relief program distributed 304 loans to Agriculture producers for \$144 million, in cooperation with local financial institutions.
- About 34% or 8,899 of BND's student loan borrowers received deferrals on six months of payments. In addition, student loan borrowers with a fixed interest rate were given a 1% reduction in their rate. This benefited 34,000 borrowers and will save \$6,400 in interest expense, on average, over the course of their loan.

The following chart provides some perspective on the loan volume of commercial and agriculture loans originated through BND in 2020.



We did all this with over 80% of our employees working remotely and without hiring additional full-time staff. Our employees deserve much credit, they understood our mission and that we are uniquely positioned to deliver those critical services and programs. They worked their tails off working nights and weekends. As an example, to handle the SELF loan volume, staff from all parts of the Bank were recruited and trained on how to input loans.

As pointed out in the chart above, commercial and agriculture loans increased by over 1,600 loans in 2020. This is a significant number of loans to be administered for at least the next decade. Later in testimony, BND is requesting to retain employees after transferring 16 to NDIT. Part of the reason for retaining employees is due to a proposed expansion of services. The other reason is to ensure BND can adequately service the increase in additional loan volume.

I also want to acknowledge the work of BND's Information Technology staff. Even before the pandemic, they had started moving staff to laptops, looking at the trends of remote work and created ways to ensure BND could operate in an emergency. When the call came to transition to remote work in March, it took less than 48 hours to transition staff. With education on Microsoft Team's there was no decline in productivity but instead an improved, efficient way of doing their jobs.

BND's effort to create efficiency and streamline operations

As I noted in my 2019 testimony, the 1919 legislature could not envision the business and technology of today. And, we cannot envision the marketplace in 2050 but we can properly structure and position the Bank to succeed and serve the state. Today, I want to provide four significant highlights related to BND's efficiency efforts.

1. Bank of North Dakota was the first state agency outside the cabinet agencies to volunteer to consolidate its Information Technology department with NDIT. The demands on IT for the maintenance of systems and cyber security grow every day. In looking to the future, BND's management believes the consolidated IT system offers advantages to BND.

This transition allows for expanded support and develops a structure that enhances existing bank operations. As a result of IT unification BND proposes to transfer 16 positions from BND to NDIT in the proposed biennial budget.

2. Today, BND offers local financial institutions a secondary market to which they can sell home mortgages. With a few exceptions, these loans are guaranteed in some way. BND also provides limited loan origination services to rural financial institutions as enabled by the Legislature.

The mission of the North Dakota Housing Finance Agency (NDHFA) is to make housing affordable and finance low to moderate income families in addition to supporting the availability of affordable rental housing. In 2020, BND initiated conversations to merge BND's loan servicing and origination services into NDHFA thereby reducing duplication of services. The result is an agreement to move forward with this consolidation in 2021.

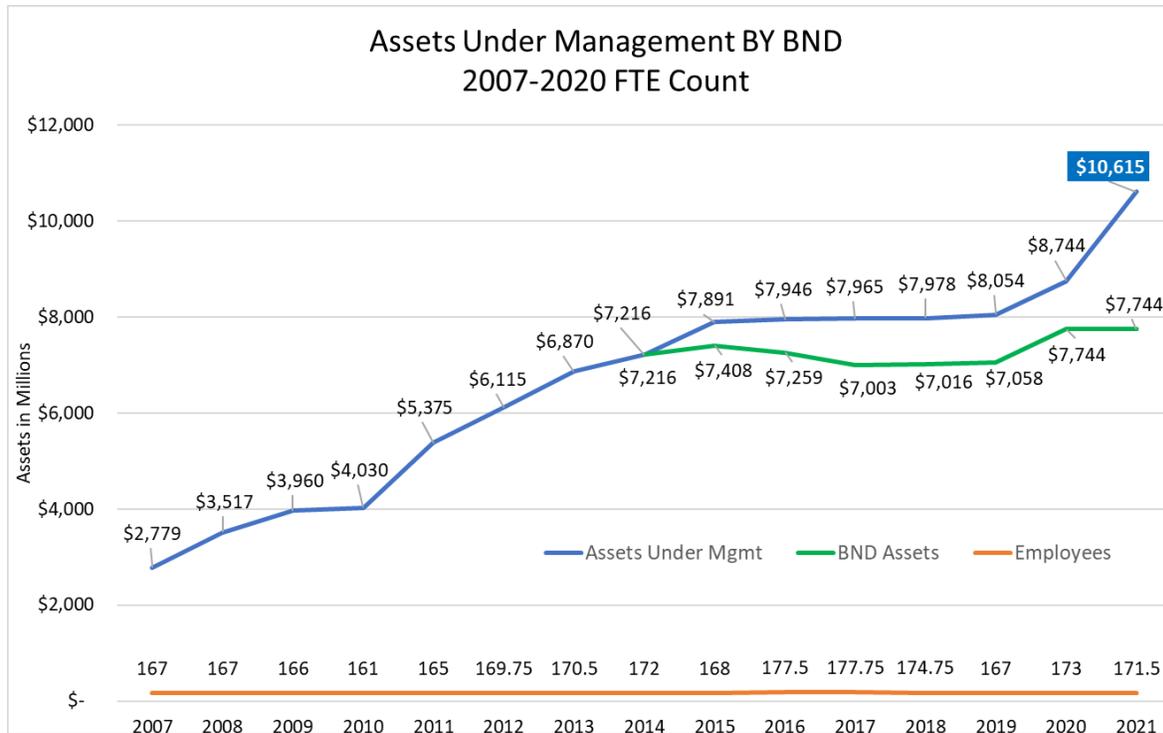
3. After exhausting private sector alternatives, the North Dakota financial services industry reached out to BND seeking help in the timely preparation of farm real estate and chattel collateral valuations; appraisal reviews for farm and commercial real estate loans and affirmation of real estate evaluations prepared by financial institutions for agriculture loans.

BND is positioned to address these valuation needs across the state, with extensive market knowledge, a high volume of loans and renewals from across North Dakota, and significant data on file for agricultural and commercial loans. These services will only be offered on loans that do not require a certified appraisal according to federal regulations. To provide this service, BND will need to add staff. Fees from the services provided will cover additional staffing costs and provide a profit.

4. Bank of North Dakota is leading an effort to streamline the application process for infrastructure programs. The intent is to create an on-line, one stop application for the Infrastructure Revolving Loan Fund, Public Finance Authority, State Water Commission and Health Department programs that provide low interest loans for infrastructure.

I would note in general that the efficient use of staff resources combined with technology has enabled us to grow the bank substantially while maintaining a stable number of employees. Our business practice includes a diligent requisition process to evaluate every vacancy. This practice allows us to operate in an efficient and forward-looking manner.

As a result of the oil boom, the assets under management at Bank of North Dakota grew from just under \$3 Billion in 2007 to \$8.7 Billion in 2020. Despite this significant growth, BND was able to maintain a level FTE count. The graph below demonstrates the change in assets per employees between 2007 and 2020. Since 2007 the assets per employee tripled from \$17 million to \$50 million.



I want to highlight an amendment adopted by the Senate to hold BND’s FTE count at 171.5. BND is transferring 16 positions to NDIT and the executive budget proposed to eliminate all those positions from BND. BND alerted the Industrial Commission and the Senate that retaining 6 positions was important for the following reasons:

- BND expects loan volume to increase in programs managed for the legislature including the Infrastructure Revolving Loan Fund, School Construction Loan Fund, Water projects and possibly a Long-Term Care loan program. As you can see in the blue box on the chart, assets under management are anticipated to grow to over \$10 Billion dollars.
- BND’s loan volume grew dramatically in the last year. These loans will remain on the balance sheet and require servicing for the life of the loans.
- BND will require staffing for its new valuation service that will launch in 2021.
- BND’s special assets division anticipates an increased workload in the 21-23 biennium.
- BND is initiating outreach to state agencies to determine what increased services they could require and how the Bank can best meet their needs.
- BND is currently filling six open FTE positions.

BND's Loan Portfolio

The Bank of North Dakota's \$4.7 billion loan portfolio consists of four types of loans. As noted in the chart, the commercial portfolio makes up nearly half the overall loan volume at BND.

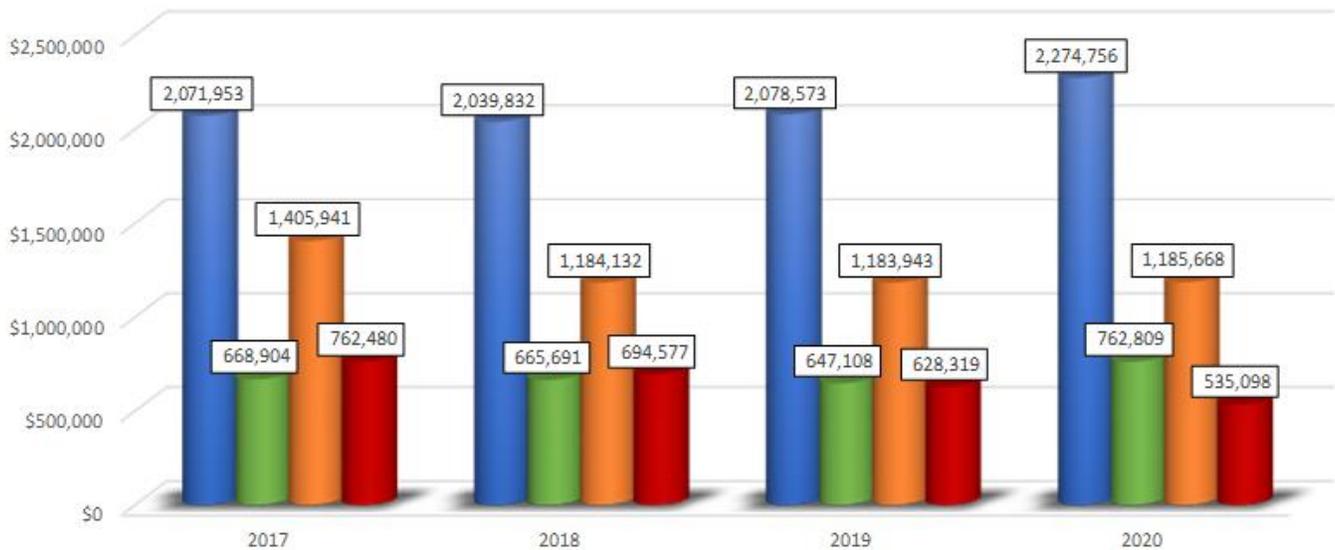
These participation loans with local financial institutions are the true economic impact of BND. North Dakota has the highest number of local financial institutions per capita in America. By participating with local banks, BND expands their lending capacity and assists in managing balance sheet risk. BND is welcomed as a valuable partner that will assist in delivering essential lending services at the local level, and not compete for customers. This makes BND very unique in a competitive financial environment.

The following chart provides an overview of how Bank of North Dakota's loan portfolio has evolved over the last four years. As discussed earlier, BND is shrinking its exposure to the residential mortgage market and hopes to transfer its position over to the Housing Finance Agency in 2021.

Consolidated Loan Portfolio

(In Thousands)

Commercial Farm Student Residential



BND’s PACE Programs

BND administers a number of economic development loan programs. A centerpiece of the economic development programming is the PACE (Partnership in Assisting Community Expansion) Program. PACE includes a number of sub-sector programs targeted to stimulate economic diversification. All buydown programs require a lead bank to initiate the loan. In addition, there is a requirement for the community where the business is locating to provide local matching funds to secure the state funds.

The following charts provide an overview of the number of PACE program loans over the last 5-years.

Program	2016	2017	2018	2019	2020
PACE	3	5	11	12	11
Flex	238	272	117	144	141
Ag Pace	39	40	64	66	67
A.F. House	17	18	3	4	7
Biofuels	4	6	10	7	6
Total Loans	301	341	205	233	232

The Legislature now appropriates BND’s earnings to fund the PACE buydown programs. The following chart summarizes the PACE buydown for the 2019-2021 biennium and the proposed buydown for the 2021-2023 biennium.

You will note an increased appropriation request for the agriculture buydown programs. If you recall, last session, the length of the buydown was extended for up to 10-years. The Senate adopted an amendment increasing the funding for the Beginning Farmer program to \$8,000,000. Also, the Agriculture PACE program appropriation was increased from \$4,000,000 to \$5,000,000

BND Buy Down Program	BND Capital Allocation: 2019-2021 Bien.	Actual Use July 2019 - December 2020	Remaining: 2019-2021 Bien.	Proposed PACE Program Need 2021-2023 Bien.
PACE	\$10,000,000	\$4,800,000	\$5,200,000	\$10,000,000
Flex Pace	\$16,000,000	\$15,000,000	\$1,000,000	\$16,000,000
Affordable Housing	\$0	\$0	\$0	
Bio-Fuels	\$1,000,000	\$1,000,000	\$0	\$1,000,000
Agriculture PACE	\$4,000,000	\$2,000,000	\$2,000,000	\$5,000,000
Beginning Farmer	\$6,000,000	\$5,500,000	\$500,000	\$8,000,000
Total	\$37,000,000	\$28,300,000	\$8,700,000	\$40,000,000
School Construction	5,000,000	4,000,000	1,000,000	1,000,000

An overview of BND’s financial position including the projected earnings and balance sheet

BND is a unique entity that is a state agency and a public bank that coordinates closely with the private sector. Over the last 15-years, BND grew from a \$2 billion bank to a \$7.7 billion bank today. The overall strength of North Dakota’s economy during that time was key to BND’s expansion. As state tax revenues and fees increased, these were deposited into BND and deployed into various assets such as loans, investments, or short-term securities.

Before I provide an overview, I want to define four banking terms that are important to understanding BND’s financials.

1. The first is the “banks assets”. The assets of the bank include any cash, securities (investments) and the loans held by the bank. Assets are what determines the size of the bank. In the case of BND, the current asset size is \$7.7 billion.
2. The second term is “bank capital”. The capital of the bank is the difference between the value of its assets and liabilities. You might think of this as the net worth of the bank.
3. The third term is “Capital Ratio”. The Capital Ratio considers the bank’s capital to assets ratio. It is a measure of capital (net worth) to ensure the bank can absorb a reasonable amount of loss. Capital is the last backstop of finances for a bank.
4. The fourth term is “earnings”. The earnings (income) are the net income of the bank after all expenses.

Bank of North Dakota Financial Position

As you will see in the chart below, BND assets (highlighted in gold) were about \$700 million higher than the three previous years. The reason for significant increase in asset size is because the \$1.2 billion in CARE’s Act funding was deposited at BND in March of 2020. As this federal money is spent down, it is anticipated BND will shrink back towards the \$7 billion mark as noted in the projection for 2021.

	Unaudited				
	2017	2018	2019	2020	2021
Assets	\$ 7,003	\$ 7,016	\$ 7,058	\$ 7,744	\$ 6,911
Net Loans	\$ 4,824	\$ 4,491	\$ 4,442	\$ 4,757	\$ 4,538
Deposits	\$ 4,615	\$ 4,770	\$ 5,089	\$ 5,795	\$ 4,535
Capital	\$ 825	\$ 862	\$ 939	\$ 913	\$ 893
Capital Ratio	12.05%	12.25%	13.30%	11.79%	12.92%
Income	\$ 145,284	\$ 158,508	\$ 169,049	\$ 141,201	\$ 126,700
ROE	18%	18%	18%	15%	14%

Bank of North Dakota Capital Position

As noted earlier, the capital of the bank is the difference between the value of its assets and liabilities or the net worth of the Bank. Rating agencies and bank examiners consider a bank's capital its most significant measure of financial strength. In the chart above, (highlighted in blue) you will see BND's capital position is \$913 million dollars for 2020.

Bank of North Dakota Capital Ratio Now I want to transition to the Bank's Capital Ratio. (highlighted in grey) The Bank of North Dakota places a priority on its capital ratio and capital (net worth) position. The Bank's ability to conduct its normal business and provide disaster assistance in times of crisis require a stronger capital position than a private sector bank. Currently, BND's capital ratio is 11.79% which compares to 10.12% for banks in North Dakota and 10.46% nationwide.

Here is why capital is important.

- Of the \$2 billion in loans put on the balance sheet in 2020, \$404 million originated from commercial and agriculture disaster programs. While North Dakota residents are known for their commitment to paying debts, the world, including North Dakota, is in an unprecedented economic situation.
- Of pressing concern to BND and banks across the state, is how the current economic situation is negatively impacting the hospitality industry, multi-family housing, office space and commercial real estate in general. The financial industry is not only concerned about how these industries may recover from the pandemic, but also to understand how they are probably changed forever. It is going to take a few years for the new business models to surface that will again drive the economy forward.
- In addition to the pandemic, BND evaluates the systemic issues in North Dakota's economy. Like everyone else, we watched the whipsaw in commodity prices and oil production in 2020. Having a strong capital position is imperative for BND to not only ride out the downturns but to ensure its ability to offer unique financial programs to aid in the economic recovery.
- BND is closely monitoring discussions regarding federal student loan forgiveness. If this gets traction with the new administration there may be substantial pressure at the state level to forgive some percentage of student loans held at the bank.
- Banks continue to be under pressure to increase regulatory required capital levels. BND is not federally regulated; however, we are examined by state regulators and hold an independent rating from Standards & Poor's of A+ with a stable outlook. Each of these entities assesses the strength of BND's capital ratios as a significant part of their exam.

A question that is sometimes asked is how BND establishes its benchmark for adequate capital. A variety of factors, including peer institution benchmarks, the substantial regulatory environment, the economic concerns in energy and agriculture, and the importance equity plays in BND providing mission-driven programs and responding to disasters. We also consider a variety of risk factors that are somewhat unique to our role as a significant correspondent bank to ND financial institutions.

Here is a brief breakdown at how that assessment looks today:

Regulatory Base Capital	6.25%
Strategic Risk	1.25%
-Development of Mission Driven Programs	
Market Risks	1.25%
-Unsecured Fed Funds Lines	
-Letters of Credit	
-Economic Factors	
Operational Risks	1.25%
-Wire Transfer Fraud	
-Data Breach	
Credit Risks	2.00%
-Derivative Counterparty	
-Reverse Repo Counterparty	
-Disaster Loan Portfolio	
-Student Loan Portfolio	
Total Capital Benchmark	12.00%

Bank of North Dakota Earnings (Income)

Highlighted in light green on the chart on page 8 are BND’s earnings. After earning \$169 million in 2019, BND’s profits dropped to \$141.2 million in 2020. Also impacting BND’s profits were additional contributions to its loan loss reserve fund in an effort to mitigate the credit concerns noted earlier in testimony.

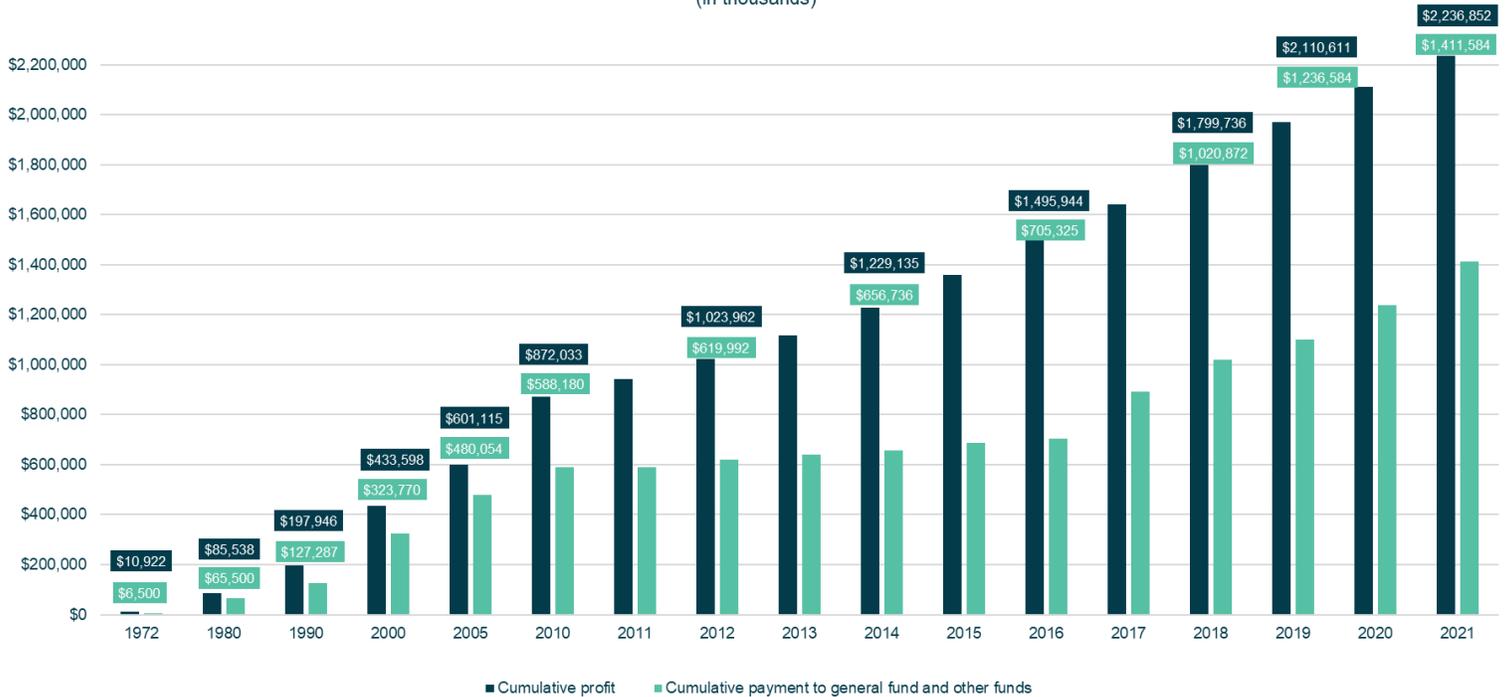
In the next biennium, it is anticipated earnings will drop as interest rates are projected to stay historically low, and deposits will decline subject to the spending of Cares Act Funding and the outlook for state revenues. The projection for the 2021-23 biennium is for BND to have approximately \$240 million in earnings.

As you know, the Legislature has come to rely on BND’s earnings as a dividend to help supplement the state’s general fund revenues. And, with record earnings, BND was able to provide significant contributions.

When looking at the historical perspective, the Legislature has relied on BND profits to provide support to the general fund and other special programs. BND has long advocated for a “dividend philosophy” that provides transfers to the state but also allows BND to retain earnings to maintain and grow capital. In line with the private sector we believe a dividend philosophy of fifty percent would be appropriate.

This dividend philosophy works well as it provides funding to the state for use supporting the general fund and other programs and also grows BND’s capital or net worth. The following chart shows the dividends provided to the state from BND’s earnings.

BND Profits and Payments to General Fund and Other Funds
(in thousands)

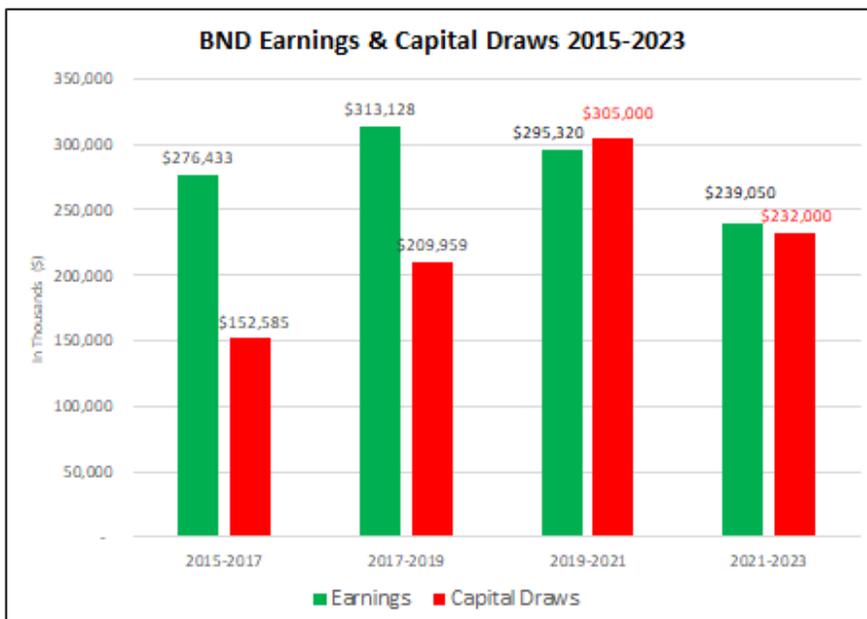


Dividend for 2019-2021 and Anticipated Dividend for 2021-2023

In the current biennium, (2019-2021) BND is anticipating profits of \$295 million with a total dividend appropriation of \$305 million or 103% of BND's two years of biennial profits. As noted in the chart below, BND earnings filled many gaps last session with remaining funding for SIRN and the NDUS deferred maintenance spilling over into the 21-23 biennium.

With the projected \$140,000,000 dividend to the general fund, \$40,000,000 to support PACE programs, \$3,000,000 to APUC and remaining transfers to the Infrastructure revolving loan fund this will once again take 100% of BND's projected 2-year profits.

BND Biennium Earnings & Capital Draws 2015-2023



Capital Draws

2019-2021

\$140,000,000	General Fund Transfer
\$ 37,000,000	Buy Down Programs
\$ 20,000,000*	NDUS Deferred Maintenance
\$ 20,000,000*	SIRN
\$ 15,000,000	ND Development Fund Transfer
\$ 15,000,000	LIFT Program
\$ 6,000,000*	Skilled Workforce
\$ 2,000,000	APUC Fund Transfer
<u>\$255,000,000</u>	Appropriated Capital Draws
<u>\$ 50,000,000*</u>	Small Employer Loan Fund (SELF)
\$305,000,000	Total Biennium Capital Draw

2021-2023—Anticipated Capital Draw

\$140,000,000	Anticipated for General Fund
\$ 40,000,000	Buy Down Programs
\$ 3,000,000	APUC Transfer
<u>\$ 52,000,000*</u>	IRLF Transfer (Remaining of \$100m)
\$235,000,000	

*Funds not totally Drawn



Current BND Capital Worksheet

February 26, 2021

2021 Legislation Impacting BND Capital					
House/Senate Bill No.	Latest Status	Agency/Borrower	Amount	Bill Description	Repayment
SB 2014	Passed Senate	Industrial Commission	\$180,000,000	NDIC Appropriation Bill includes BND capital transfer of \$140 million to General Fund. Additional transfer of \$40 million to various buydown loan funds.	NA
HB 1009	Passed House	Department of Agriculture	\$3,000,000	Transfer \$2.7 million to APUC and \$300k to the Ag Commissioner's operating fund for a soil health cover crop grant program.	NA
HB 1375	Passed House	Slate Board of Higher Ed	\$5,000,000	Tuition credit incentive program for students taking dual-credit courses while in high school.	NA
SB 2272	Passed Senate	Slate Board of Higher Ed	\$6,000,000	Skilled workforce loan repayment and scholarship program.	NA
		TOTAL CAPITAL IMPACT	\$194,000,000		
2021 Legislation Impacting State Agency Borrowing Authority From BND					
BND Direct Funding					
House/Senate Bill No.	Latest Status	Agency/Borrower	Amount	Bill Description	Repayment
HB 1020	Passed House	Slate Water Commission	\$75,000,000	Reauthorizes up to a \$75 million line of credit for funding water projects.	Resources Trust Fund/Other funds appropriated
HB 1087	Passed House	Reinsurance Association	\$25,000,000	Eliminates expiration date for line of credit authorized in 2019 session. Line of credit for member reimbursements.	Assessments against insurers
SB 2004	Passed Senate	Department of Health	\$25,000,000	Provide funds if needed for additional expenses for responding to the COVID-19 pandemic.	Legislative Appropriation/Deficiency Appropriation
SB 2012	Passed Senate	Department of Transportation	\$50,000,000	Contingent \$50 million loan, to match federal funds, for Highway 85 project, if bond proceeds are not allocated to the project.	Legislative Appropriation
		TOTAL AGENCY LOANS	\$175,000,000		
2021 Legislation Impacting BND Loan Programs From BND					
Other Funding Sources					
HB 1008	Passed House	Administered by BND	\$900,000	Transfer from Beginning Farmer Revolving Loan Fund to Public Service Commission to pay costs of rail rate complaint case.	Potentially from proceeds received from rail complaint case.
HB 1141	Passed House	Administered by BND	\$15,000,000	Transfer from SIF to the Innovation Loan Fund (LIFT).	NA
HB 1187	Passed House	Administered by BND	\$50,000,000	Transfer Rebuilders Loan Program and Small Employer Loan Fund to create a Rebuilders Permanent Loan Fund.	NA
HB 1215	Passed House	Administered by BND	\$25,000,000	Creates Park District Loan Fund. 10% of oil extraction taxes deposited into Outdoor Heritage Fund, not to exceed \$25 million are transferred to the Park District Loan Fund.	NA
HB 1380	Passed House	Administered by BND	\$40,000,000	Legacy earnings formula - \$40 million to IRLF.	NA
HB 1425	Passed House	Administered by BND	\$750,000,000	10% of Legacy fund fixed income investments targeted as 40% for infrastructure loans to political subdivisions and 60% for MATCH loan program.	NA
HB 1431	Passed House	Administered by BND	\$680,000,000	Public Finance Authority may issued up to \$680 million of bonds to be transferred to BND. \$50 million of bond proceeds to the infrastructure revolving loan fund and transfer of community water loan fund and RTF revolving loan fund to the water infrastructure revolving loan fund.	General Fund, Legacy Fund earnings or BND profits
HB 1475	Passed House	Administered by BND	\$5,000,000	Administer agriculture innovation fund for value-added agriculture businesses.	NA
SB 2014	Passed Senate	Administered by BND	\$100,000,000	Administer long term care loan fund.	NA
SB 2021	Passed Senate	Administered by BND	\$6,000,000	Transfer from Health Information Technology Loan Fund to Health Information Technology Operating Service Fund.	NA
SB 2230	Passed Senate	BND Loan Guarantee	\$25,000,000	Increases SIF loan guarantee from \$50 million to \$75 million.	NA
		TOTAL LOAN PROGRAMS	\$1,696,900,000		

Anticipated changes at BND before the 2023 Legislative session

In addition to planning for the tasks of the Bank, we also actively engage in succession planning. Our HR department consistently evaluates and surveys internal staff to determine their interest and ability to advance at the Bank. While talent is at a premium in every business or agency, it is essential to the current and future operations of BND.

In the end, our goal is to accomplish three things. One, provide products and services to the financial institutions in North Dakota. Two, serve as a steward of the revenues that pass-through BND. Three is to maximize the return on investment while meeting the mandate of our mission serving economic development, agriculture and industry.

In closing out my testimony, I want to take a moment to summarize some key points related to BND for your consideration during this legislative session.

1. The economic environment in the world and North Dakota carries more risk than it did two years ago. Specifically, there is pressure on the hospitality, restaurant and commercial real estate industry. The Bank anticipates additional stress in its portfolio and increased troubled assets over the next two years.
2. BND asks to maintain its FTE count at 171.5 because of the significant volume of agriculture and Covid-19 disaster relief loans added to its balance sheet, BND's launch of a valuation service, anticipated increase in use of legislative created revolving loan funds and providing services to state agencies.
3. It is essential for BND to maintain adequate capital ratios to participate with local financial institutions and their economic development efforts, to maintain the ability to offer disaster programs and ensure BND is positioned for "black swan" events.
4. In the current and next biennium, it is anticipated the dividend to the general fund combined with support of BND's economic development programs will utilize 100% of BND's profits. This leaves no earnings to retain for capital, essentially freezing the bank's capital in place for a total of four years.
5. BND requests close consultation with the Legislature before it considers any additional draws on earnings to support activities in the 2021-2023 biennium.

SENATE BILL 2014—SECTIONS

SECTION 8. TRANSFER-ENTITIES UNDER CONTROL OF THE INDUSTRIAL COMMISSION.

BND provides funding to the Industrial Commission each biennium for its operations including administrative and clerical costs.

SECTION 9. TRANSFER-BANK OF NORTH DAKOTA PROFITS TO GENERAL FUND.

This section addresses the transfer from BND to the General Fund for the 2021-2023 biennium in the amount of \$140,000,000.

SECTION 10. TRANSFER-BANK OF NORTH DAKOTA - PARTNERSHIP IN ASSISTING COMMUNITY EXPANSION.

The Bank of North Dakota shall transfer the sum of \$26,000,000, or so much of the sum as may be necessary, from the Bank's current earnings and undivided profits to the partnership in assisting community expansion fund during the biennium beginning July 1, 2021 and ending June 30, 2023.

SECTION 11. AGRICULTURE PARTNERSHIP IN ASSISTING COMMUNITY EXPANSION. The Bank of North Dakota shall transfer the sum of \$5,000,000, or so much of the sum as may be necessary, from the Bank's current earnings and undivided profits to the agriculture partnership in assisting community expansion fund during the biennium beginning July 1, 2021, and ending June 30, 2023

SECTION 12. TRANSFER - BIOFUELS PARTNERSHIP IN ASSISTING COMMUNITY EXPANSION. The Bank of North Dakota shall transfer the sum of \$1,000,000, or so much of the sum as may be necessary, from the Bank's current earnings and undivided profits to the biofuels partnership in assisting community expansion fund during the biennium beginning July 1, 2021, and ending June 30, 2023.

SECTION 13. TRANSFER - BEGINNING FARMER REVOLVING LOAN FUND. The Bank of North Dakota shall transfer the sum of \$8,000,000, or so much of the sum as may be necessary, from the Bank's current earnings and undivided profits to the beginning farmer revolving loan fund during the biennium beginning July 1, 2021, and ending June 30, 2023.

SECTION 16. AMENDMENT. Infrastructure Revolving Loan Fund. This section makes amendments to the existing infrastructure revolving loan fund administered by BND in Section 6-09-49. The amendment does the following:

- Amends the maximum term of the loan to 40-years or the useful life of the project for flood control and conveyance infrastructure; water supply infrastructure including rural water supply and general water management infrastructure. For all other projects, the maximum term of a loan is 30-years or the useful life of the project.
- Amends the definition of essential infrastructure to include terms used in Operation Prairie Dog from the 2019 session. Expands the definition to include: emergency service facilities, except for hospitals, political subdivision buildings and includes broadband projects.
- Increases the maximum outstanding loan amount to \$40m for political subdivisions.
- Requires the DOT to review and approve road and bridge projects.
- Requires the State Water Commission to review and approve water related projects.

Infrastructure Revolving Loan Fund Proposed Changes

Essential Infrastructure Definition--Existing Revolving Loan Fund

For purposes of this section, "essential infrastructure projects" means capital construction projects for the following:

- The Red River valley water supply project;
- New or replacement of existing water treatment plants;
- New or replacement of existing wastewater treatment plants;
- New or replacement of existing sewer lines and water lines; and
- New or replacement of existing storm water and transportation infrastructure, including curb and gutter construction.

Definition & Term	Proposed Policy Changes				
	Existing IRLF	HB1431	1431 H2O IRLF	SB2014	HB1425
Interest Rate	2%	2% to 3%	2%	2%	2%
Pol Subdivision Term	30 Years			30 Years	30 Years
Road and Bridge Term	30 Years			30 Years	30 Years
Maximum Term to Water Supply	30 Years		Not Specified	40 Years	30 Years
Maximum Loan to Political Sub	\$15,000,000			\$40,000,000	\$ 40,000,000
Maximum Loan to Road and Bridge	\$15,000,000			TBD	TBD
Maximum Loan to Flood Control	Not Supported		Not Specified	TBD	TBD
Proposed Appropriation		\$ 50,000,000	\$ 61,000,000	\$ -	\$ 300,000,000

Essential Infrastructure Definition Adopted in SB2014 and HB1425

Eligible infrastructure projects under this subsection are capital projects to construct new infrastructure or to replace infrastructure and which provide the fixed installations necessary for the function of a political subdivision and are in the interest of the public.

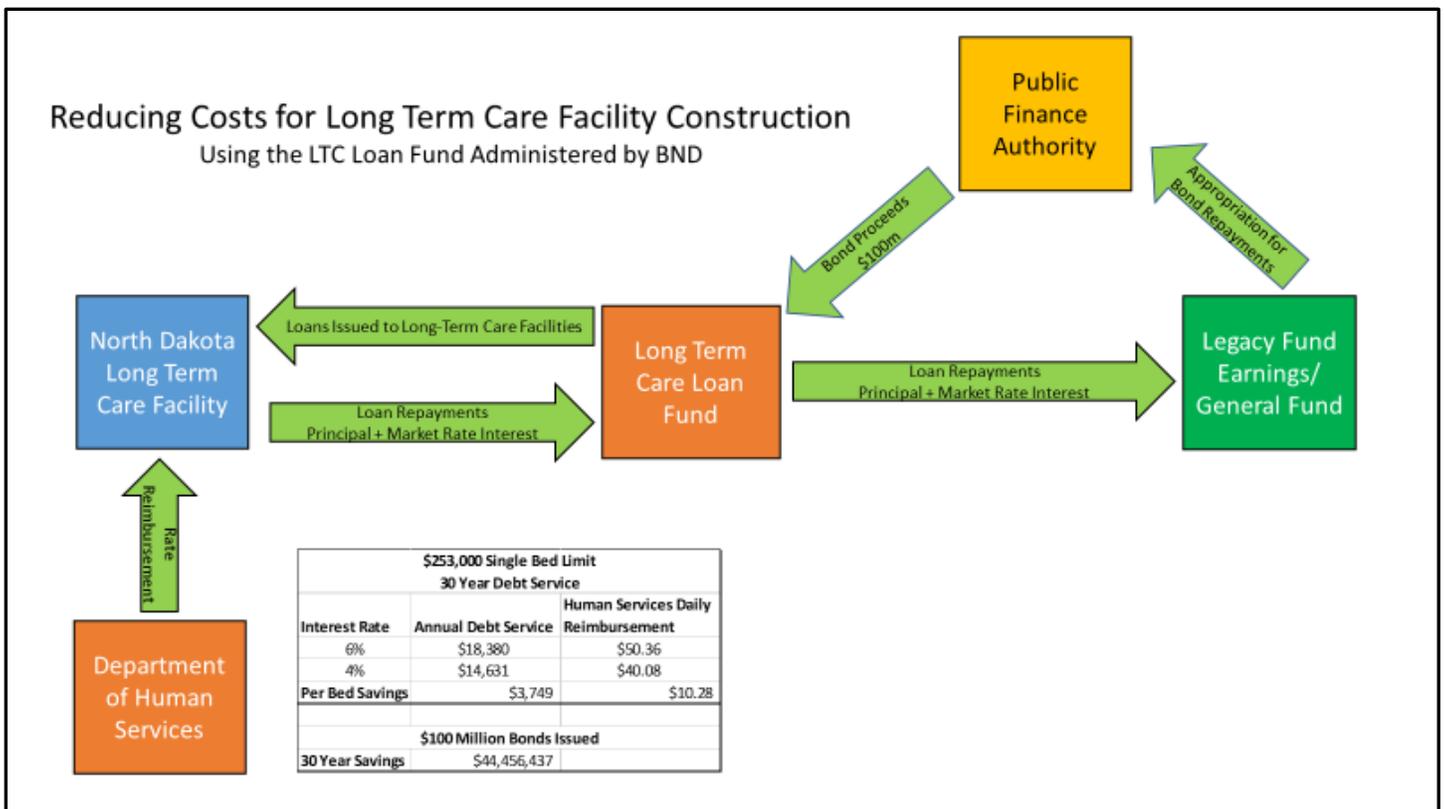
Capital construction projects include:

- Water treatment plants;
- Wastewater treatment plants;
- Sewer lines and waterlines, including lift stations and pumping stations;
- Water storage systems, including dams, water tanks, and water towers;
- Storm water infrastructure, including curb and gutter construction;
- Road and bridge infrastructure, including paved and unpaved roads and bridges;
- Airport infrastructure;
- Electricity transmission infrastructure;
- Natural gas transmission infrastructure;
- Communications infrastructure;
- Emergency services facilities, excluding hospitals;
- Essential political subdivision building and infrastructure; and
- The Red River valley water supply project

- Also includes the "Useful Life" in the definitions
- Enables DOT to set criteria and approve road and bridge projects
- Enables SWC to set criteria and approve water projects

SECTION 17. AMENDMENT. LONG-TERM CARE FACILITY FINANCING. As proposed by the Senate amendment, this is an initiative to reduce financing costs related to construction of Medicaid beds via Human Services reimbursement. As proposed, this amendment:

- Utilizes an existing loan program in 6-09-16 administered by BND with loans approved by Human Services.
- Proposes to provide \$100 million in bonding authority to Public Finance Authority. Bond proceeds are transferred to LTC Facility Loan Fund, administered by BND.
- Loan application is made to Human Services who reviews and approves loans. Loan is then made by Bank of North Dakota. (Similar to process used with SCALF loans between DPI and BND.)
- Loan payments are transferred back through the LTC Facility Loan Fund to the General Fund
- Amends the loan program parameters in Human Services code in 50-30 to unify loan language; removes threshold level of \$1 million per loan and eliminates the loan preference for conversion of facilities.



Anticipated Budget for the 2021-2023 Biennium

**SENATE BILL 2014, SECTION 1
APPROPRIATION
OPERATIONS**

BND is a special fund agency so expenses and employee salaries are funded by revenues generated by the Bank. In essence, the Legislature appropriates revenues of BND to these expenses. The Bank of North Dakota's 2021-23 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

Base Level Budget 2021-2023	\$62,847,799
2021-2023 Appropriation	<u>\$66,094,371</u>
Enhancement	\$ 3,246,572

CAPITAL ASSETS

Base Level Budget 2021-2023	\$1,510,000
2021-2023 Appropriation	<u>\$1,510,000</u>
Enhancement	\$ 0

OPERATIONS

Salaries, and benefits are projected to increase for the next biennium by approximately \$1.1 million as we anticipate additional expenses to fund healthcare, employee raises, and temporary staffing/overtime. We continue to see a very competitive employment market, which in turn puts pressure on our salary line item.

Operating expenses include data processing, training and development, supplies, postage, etc. Our proposed budget includes an additional \$1.5 million for additional IT related third-party service fees.

	Base Level Appropriation		Adjustments
Full-time equivalent positions	181.50	(10.00)	171.50

CAPITAL ASSETS

Moneys appropriated for capital assets consist of funds for replacement of our student loan system that will provide our student borrowers with a more current technology platform and allow for more efficient integration with existing internal systems.

Biennium-to-Date Actual Spending versus Budget

Bank of North Dakota
Biennium Appropriation Report
Eighteen Months Ended December 31, 2020

<u>Line Item</u>	<u>Total Approp.</u>	<u>Biennium-to-Date Expenditures</u>	<u>To-Date Budget</u>	<u>To-Date Variance</u>	<u>To-Date Unexpended</u>
Operating	\$ 62,847,799	\$ 40,891,573	\$ 41,920,901	\$ (3,513,308)	\$ 21,956,226
Cap. Assets	\$ 1,510,000	\$ 267,244	\$ 1,069,585	\$ (865,258)	\$ 1,242,756
Total	\$ 64,357,799	\$ 41,158,817	\$ 42,990,486	\$ (4,378,566)	\$ 23,198,982