



Senate Appropriations Committee
Senate Bill No. 2014 Budget No. 475
North Dakota Mill & Elevator Association
January 13, 2021



Mr. Chairman and Senators:

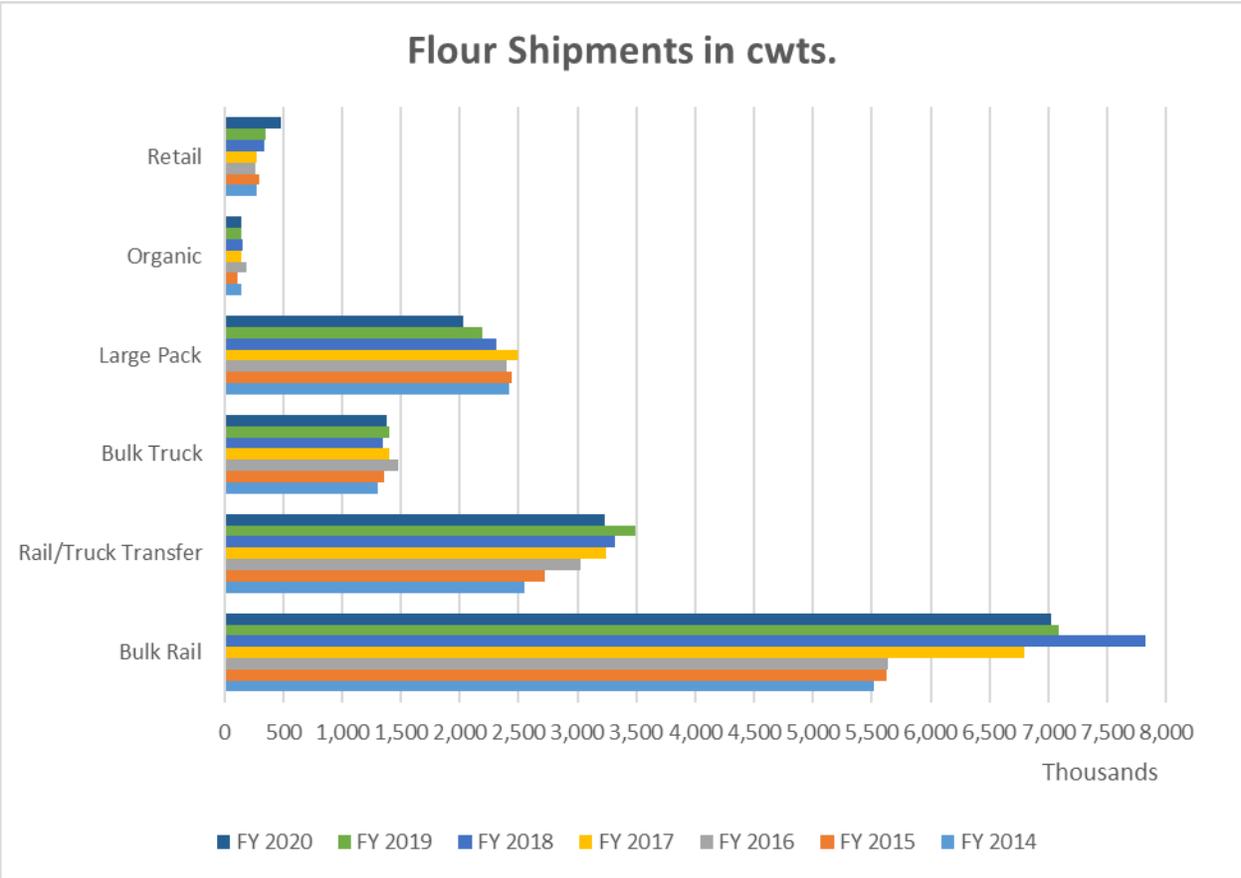
I am Vance Taylor, President and CEO, of the North Dakota Mill and Elevator. With me today is Cathy Dub, our CFO. The North Dakota Mill & Elevator Association operates under Chapter 54-18 of the North Dakota Century Code.

The North Dakota Mill and Elevator Association, located in Grand Forks, is presently the largest single site wheat flour mill and the 7th largest wheat milling company in the United States with sales over \$300 million per year.

Our milling complex presently includes 8 milling units with the capacity to produce 4,950,000 lbs. of finished product per day, a terminal elevator with total available storage of over 5,000,000 bu. of grain and a packaging center and warehouse capable of producing, storing and shipping large quantities of various sized bags of milled products. We process over 115,000 bu. of top quality North Dakota spring wheat and durum per day, adding value to approximately 34,000,000 bu. per year. A project is now underway that will increase our milling capacity by 22% by the third quarter of FY 2022. All facilities are located in Grand Forks.

The Mill normally operates 24 hours per day, 5 to 7 days per week. Our total current staffing is 156 full time employees.

Our milling units process about 92% spring wheat and 8% durum. Approximately 80% of our products are shipped in bulk trucks or railcars and 20% is shipped in bags or totes. The Mill produces conventional and organic products. At present organic products make up about 1% of our total shipments.



Projects and Business Growth

In 2001 we had milling capacity of 27,000 cwts of flour per day. Since that time we have completed multiple expansion projects listed below, including the start-up of our G Mill in FY 2017. These projects have grown our milling complex to a total of 49,500 cwts. of flour per day. Increasing our capacity has allowed us to service additional demand from current and new customers, as well as improve profitability and increase the number of bushels purchased from North Dakota farmers.

- 2001 Renovation and Expansion Project \$19.5 million
- 2005 Whole Wheat Mill Expansion Project \$1.7 million
- 2007 C Mill Addition \$6.3 million
- 2009 E Mill Addition \$2.4 million
- 2010 D Mill Expansion \$2.4 million
- 2013 K Mill Renovation and Expansion \$8.4 million.
- G Mill Addition and Flour Storage \$38.7 million
- High Speed Truck and Rail Wheat Unloading System \$9.3 million
- Phase II Shuttle Track & Grain Storage \$24.7 million.
- Terminal Receiving Scales & Conveyors \$8.5 million *(currently under construction).
- H and I Mill Additions \$23.5 million *(currently under construction).



Our need to expand has been driven by increasing demand from our current customers and the addition of new customers. The completion of these major expansion projects has been vitally important for the North Dakota Mill to continue to compete effectively and provide a more significant economic impact to the State. Our current H and I Mill Expansion Project will increase spring wheat capacity by 8,000 cwts. per day and durum capacity by 3,000 cwts. per day. This will result in an increase in North Dakota Mill's profitability and transfers to the General Fund and provide additional demand for North Dakota producers.

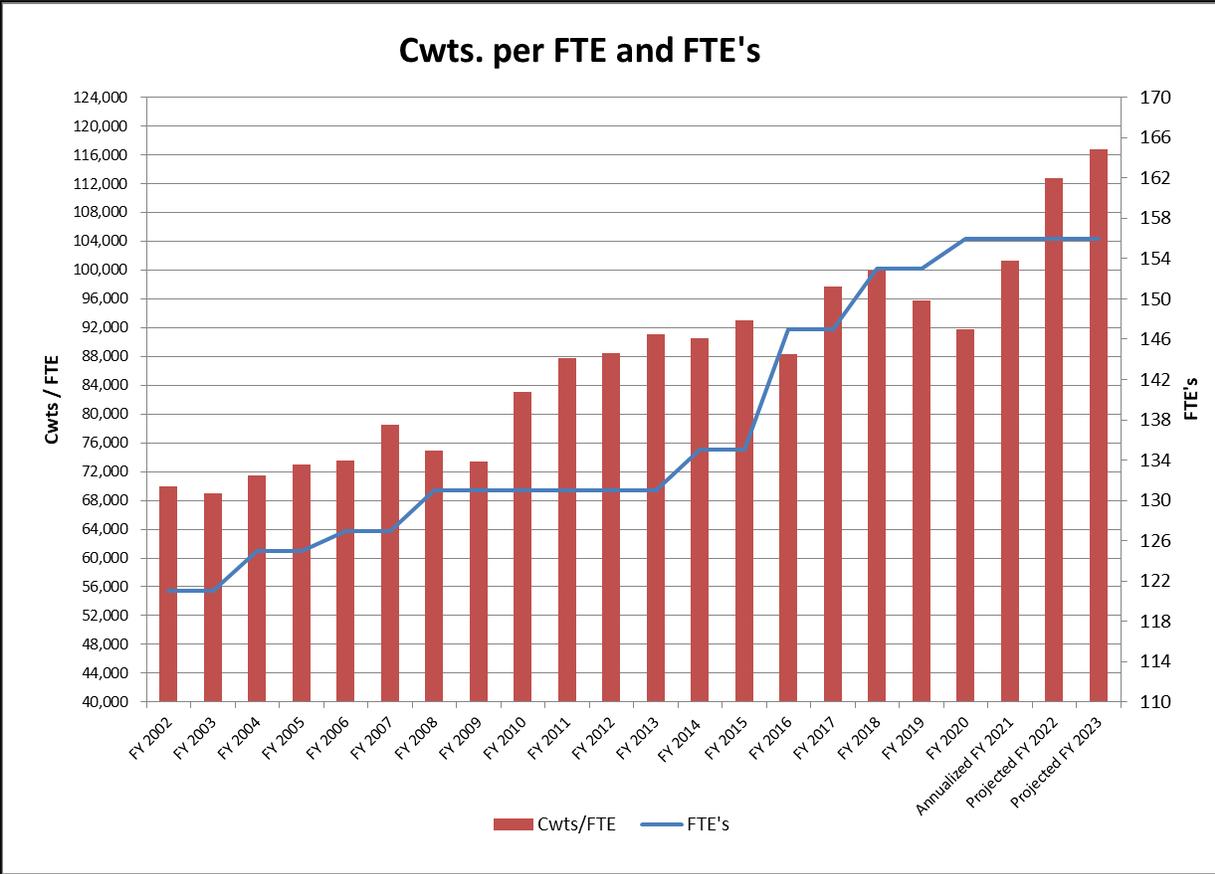
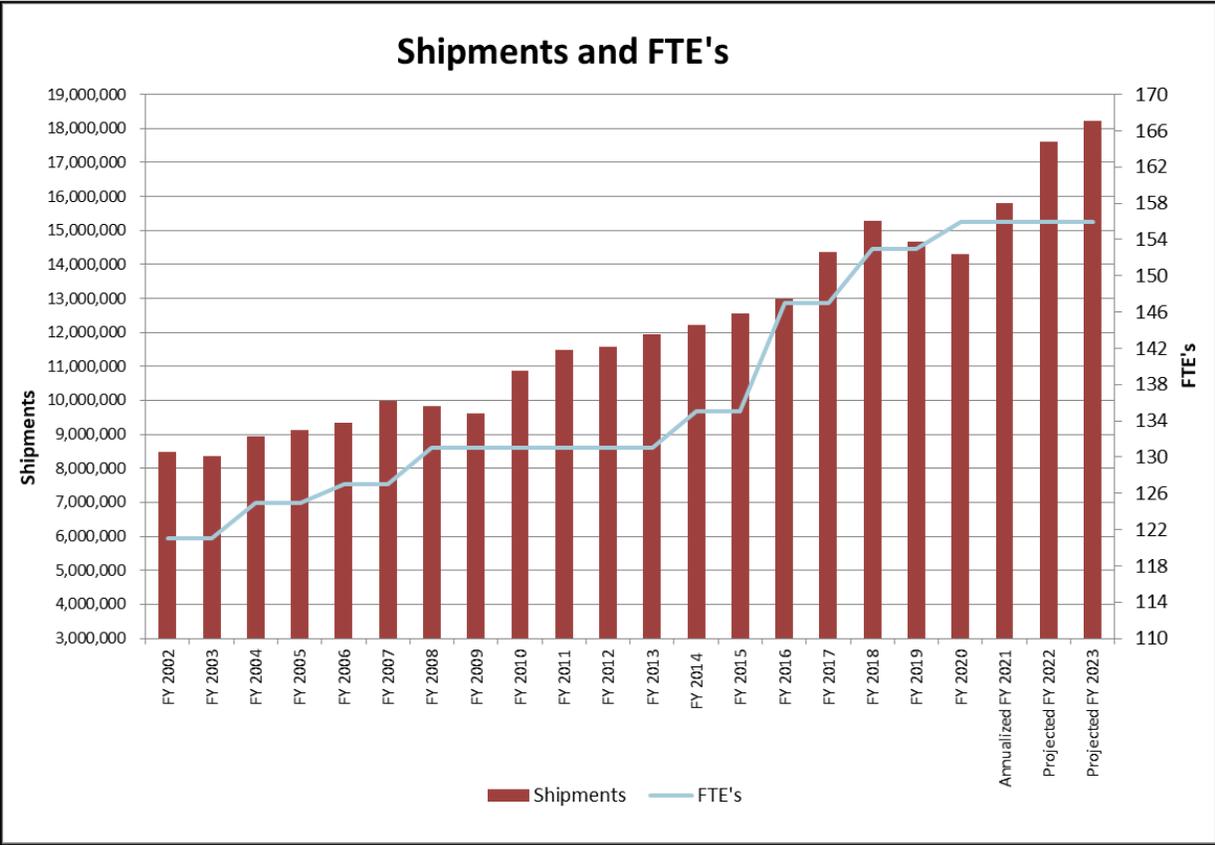
Potential Future Projects

- Increase Whole Wheat Milling Capacity \$3 million
- Millfeed Distribution and Storage System \$15 million

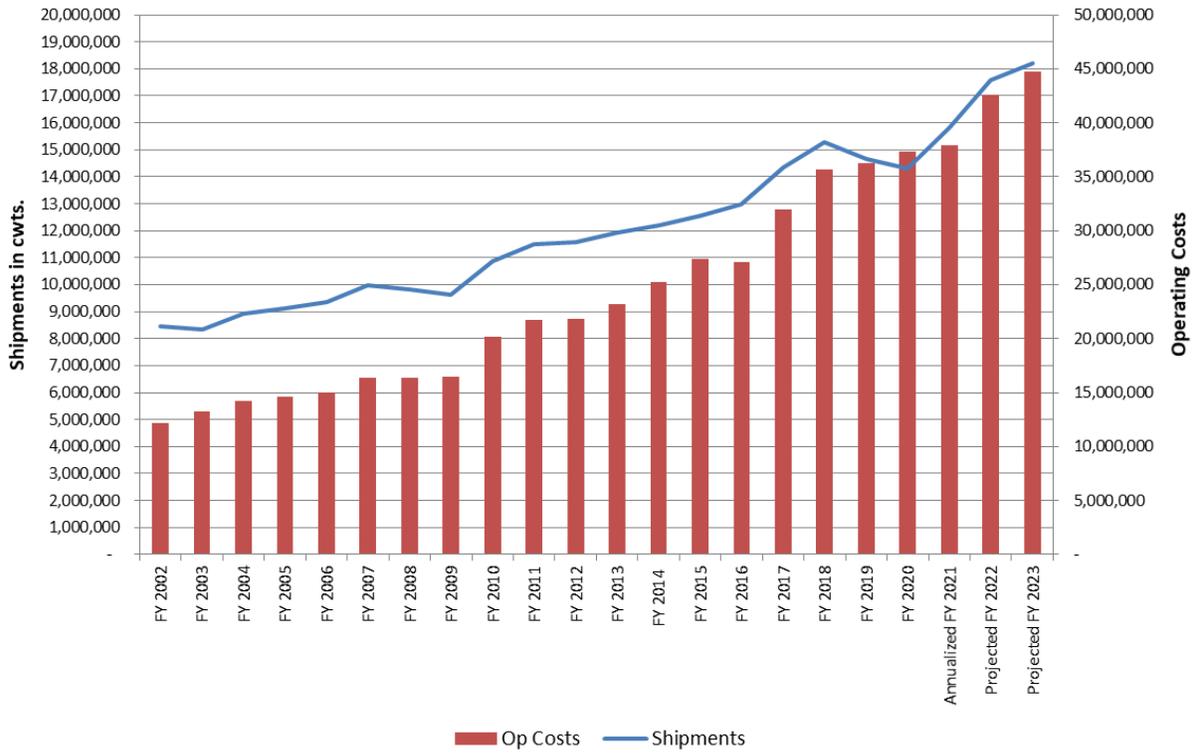


COVID 19 Issues

Our employees have made great efforts to continue to operate the plant through the Pandemic. Customer demand and shipment volumes dropped in March and April but recovered over the summer and now exceed pre pandemic levels. In conjunction with the Governor's Office, we made several donations to local food shelves to help the less fortunate during these difficult times. We continue to work closely with the ND Department of Health to take all precautions necessary to keep our employees safe and healthy.

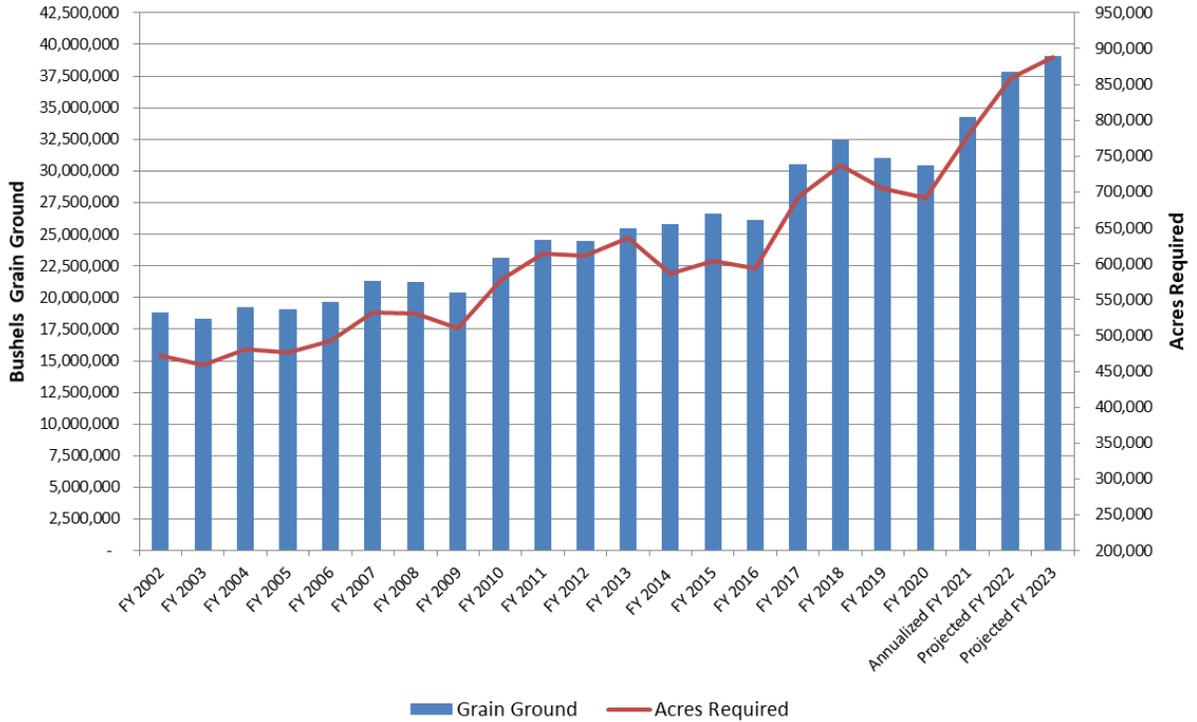


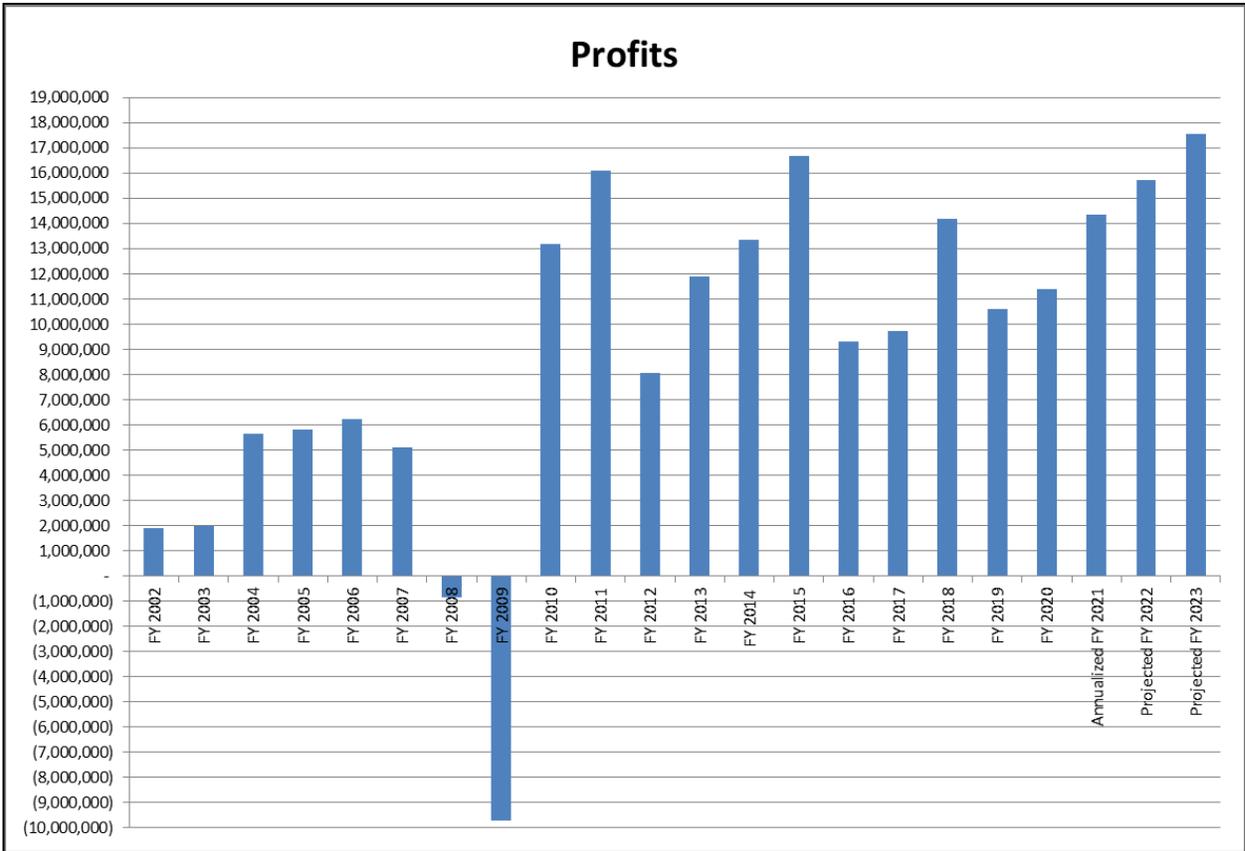
Shipments and Operating Costs



Bushels Ground and Acres Required

Based on the 10 year average of 44.0 bushels per acre





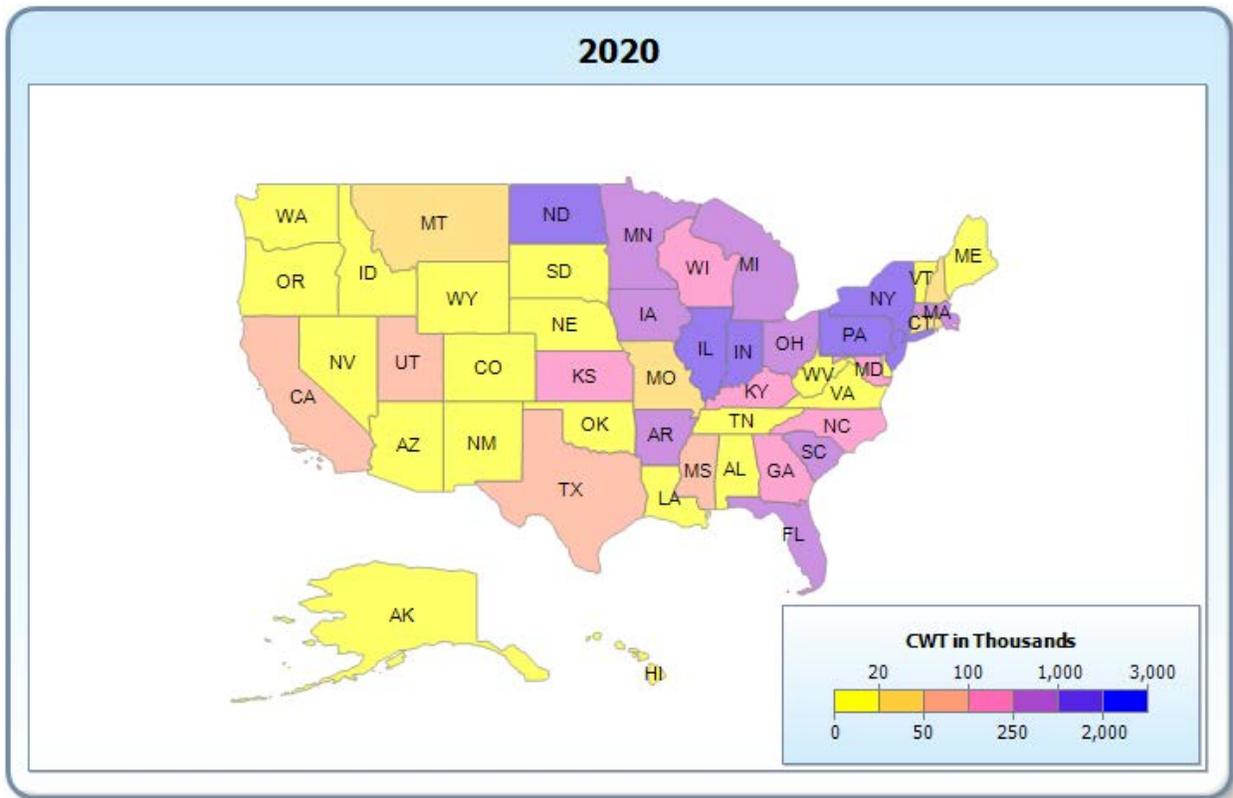
Markets and Competition

Our bulk and large package shipping area is diverse but more concentrated in the Ohio River Valley and on the East Coast. We also export product to the Caribbean Islands and Korea. Our customers include bakery flour distributors, retail distributors, large bakeries and pasta companies. Sales are made by our in-house sales staff and food brokers.

We compete with large milling companies such as Ardent Mills, ADM, Grain Craft, General Mills and others. The outstanding quality of our products is verified by our FSSC 22000 certification.

Going forward, we intend to continue to increase flour shipments using the additional production capacity of our new milling units; increase plant efficiency to minimize production costs; continue to aggressively market family flour and retail mixes; grow our organic flour business and investigate new markets, new products and extensions of current product lines.

We will continue to leverage our greatest asset – our dedicated employees, whose hard work has given us an excellent reputation for product quality and customer service in the market place.



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. During Fiscal Year 2020, the Mill generated \$216,595,000 in direct economic activity resulting in an additional \$502,500,000 in secondary economic activity. This results in a total economic impact to the region of more than \$719,095,000 during the last fiscal year.

Strategic Plan FY 2021

Working with the UND Office of Work Force Development, the North Dakota Mill management team has developed the following strategic objectives for Fiscal Year 2021:

- Promote and Support ND Agriculture, Commerce and Industry
- Identify and Respond to Emerging Issues in the Flour Milling Industry
- Maximize Profit Potential
- Grow our Customer Base
- Invest In and Protect 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 are received from the State.**

Per budget guidelines, the Mill reprioritized 5% of expenses within our submitted budget. The Mill's budget submission requested enhancements to the base level budget found in Senate Bill 2014 of \$4,334,570 to salaries and wages (including benefits), \$3,680,000 to operating expenses and \$290,000 to agriculture promotion for a total increase of \$8,304,570. After the Mill submitted the biennium budget for 2021-2023, the Industrial Commission approved the H & I Mill Capacity Increase. In order to budget for this increased capacity, the Mill requested an additional \$3,300,000 in the Governor's recommended budget for utilities, repairs and maintenance. This increase results in a total requested appropriation of \$88,599,394. This increase allows the Mill to continue to grow and meet customer demand for the flour produced at the Mill as well as to increase profits and transfers to Agricultural Product Utilization Fund (APUF) and the General Fund.

For biennium 2019-2021 the Mill's appropriation amount was \$46,447,824 for wages and benefits. The Mill experienced a decline in demand for flour during the onset of COVID-19, which reduced the run time of our mills. While the Mill had overtime, it was significantly less than budgeted. Demand for flour has increased above pre pandemic levels and we are expecting regular overtime levels going forward. For the 2021-23 biennium the Mill is requesting \$50,782,394 in salary and benefits.

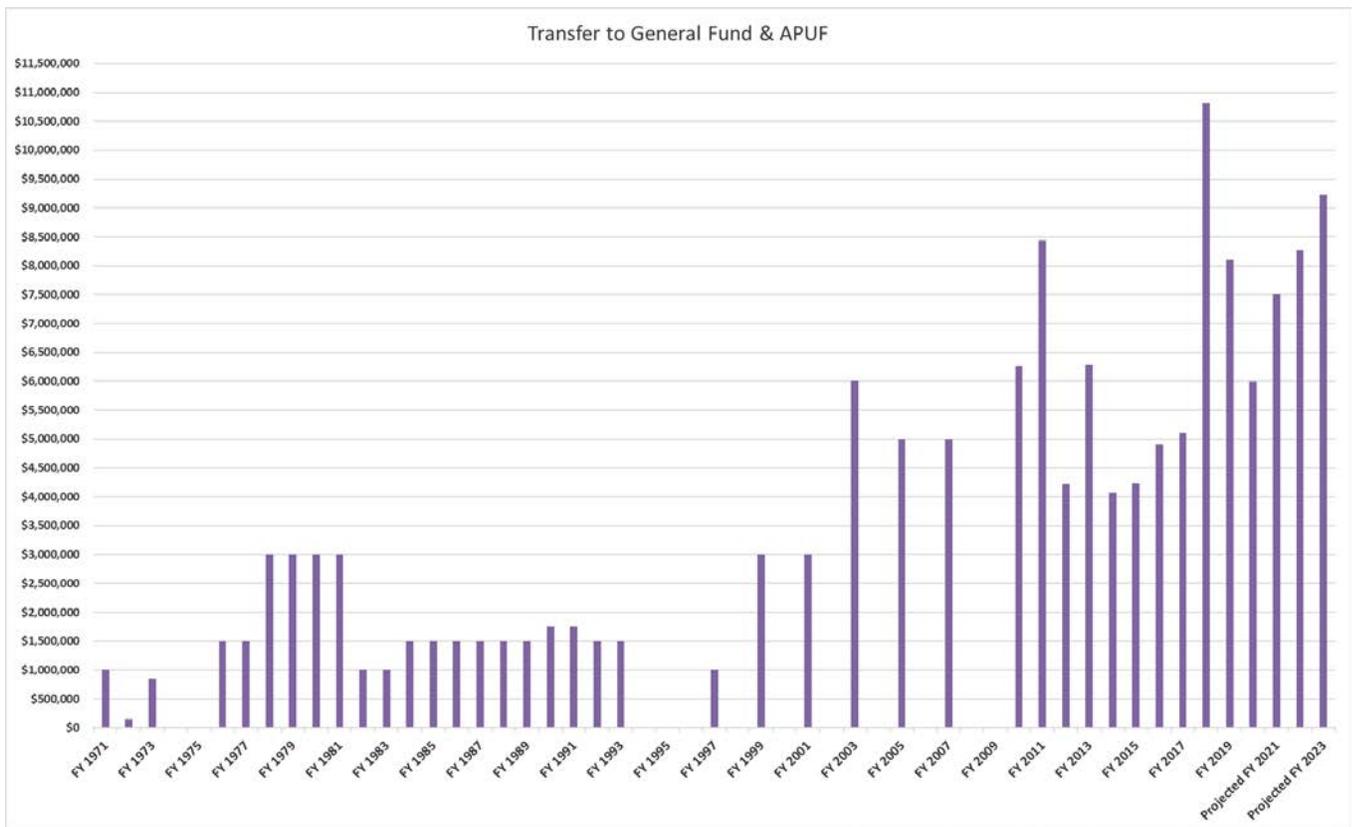
For biennium 2019-2021 the Mill's appropriation amount was \$11,767,000 for utilities. The largest portion of our utility bill is the electrical expense. The Mill experienced lower power costs than budgeted due to the reduced run time during the onset of the COVID-19 pandemic. The Western Area Power Administration (WAPA) supplies a significant portion of our electrical power. The remaining portion of our electrical power comes from Nodak Electric. The Mill is currently in the process of adding the H & I milling units which will increase power requirements. The Mill budgeted \$13,932,340 for utilities for the 2021-23 biennium.

For biennium 2019-2021 the Mill's appropriation amount was \$6,650,000 for maintenance and repairs. With our growth and expansion over the past several years, we have increased the amount of equipment at the Mill, which requires maintenance and repairs. We anticipate this expense to be \$10,045,680 in the 2021-23 biennium.

For biennium 2019-2021 the Mill's appropriation amount was \$2,850,000 for insurance. Property insurance rates have been rising dramatically, the Mill has seen its rates double in the last two fiscal years. Food safety issues, as well as the increase in buildings and equipment from the expansion, will drive up the cost of our property and liability insurance. The cost of property insurance is anticipated to continue increasing with all the natural disasters occurring in the world today. As the Mill has increased cwt. of production and sales, we have increased the volume of flour inventory carried. This has resulted in an increased cost for insurance for these higher inventory values. The Mill anticipates our insurance costs to be \$5,523,980 in the next biennium.

Four items, wages and benefits, utility expense, repair and maintenance expense, and insurance expense reflect the increase of \$10,214,570 (after reprioritization) in our requested appropriations or 88% of the request. The volume of production and sales at the Mill drives a large share of these expenses. We continue to work hard to keep our expenses down to increase our profitability and improve our returns. The Mill is currently on pace to have sales reaching 15,800,000 cwts in FY 2020, a 10.4% increase over the previous fiscal year. This represents grinding more than 35,000,000 bushels of spring wheat and durum.

The Mill currently transfers 5% of profits to the Agricultural Product Utilization Fund (APUF) and a portion of the remaining profits to the General Fund. In fiscal year 2020, the Mill transferred \$570,931 (5% of profits) to the APUF and \$5,423,840 (50% of remaining profits) to the General Fund. We respectfully request that the General Fund Transfer amount continue to be set at a maximum of 50% of the remaining profits. Transfers at a rate of above 50% does not allow for adequate reinvestment in this capital intensive industry. In the past eleven (11) years, due to business growth and increased profits, the Mill has transferred more money to the General Fund than it had transferred in the previous thirty seven (37) years (\$68,449,000 compared to \$57,500,000).



Thank you for your time and consideration of our budget request. I will be happy to answer any questions.