

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

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ROLL NUMBER

DESCRIPTION

1014

2007 HOUSE APPROPRIATIONS

HB 1014

## 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1014

House Appropriations Committee  
Government Operations Division

Check here for Conference Committee

Hearing Date: 01/09/07

Recorder Job Number: 788, 789, 827

Committee Clerk Signature *Anya Voegeli*

Minutes:

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

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

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

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

**Chairman Carlson:** You buy them as an investment?

**Eric Hardmeyer:** Yes, we buy them as an asset and we buy them from North Dakota banks. We otherwise sell them to Countrywide or Fleet or somewhere else in the secondary market.

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

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

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

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

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

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

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

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

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

**Eric Hardmeyer:** That is correct.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Eric Hardmeyer:** Yes it is.

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

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

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

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

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

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

**Representative Kempenich:** It started out as a trigger.

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

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

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

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

**Representative Thoreson:** I tour it every morning if you go to [www.banknd.nd](http://www.banknd.nd) they have a webcam and view the progress.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Chairman Carlson:** And there is none in this budget?

**Jim Smith:** Not in this one.

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

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

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

**Eric Hardmeyer:** Yes that is correct.

Mr. Hardmeyer continued with his testimony.

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

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

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

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

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

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

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

Chairman Carlson read the Executive Budget Highlights.

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

**Eric Hardmeyer:** Not that I can think of.

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

**Eric Hardmeyer:** Not that I know of.

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

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

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

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

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

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

**Vance Taylor:** Yes.

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

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

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

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

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

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

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

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

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

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

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

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

Chairman Carlson requested a list of the projected projects.

Mr. Taylor continued with his testimony.

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

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

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

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

Mr. Taylor continued with his testimony.

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

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

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

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

Beginning recorder job number 789

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

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

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

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

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

**Representative Kempenich:** Are you increasing any FTEs?

**Karlene Fine:** Not in the Industrial Commission.

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

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

**John Dwyer:** That is correct.

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

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

Mr. Dwyer discussed the current projects in place.

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

**John Dwyer:** That is correct.

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

**John Dwyer:** I will let Sandy Tabor handle that.

Sandy Tabor discussed the Transmission Authority.

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

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

**Michael Anderson:** 1982.

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

**Michael Anderson:** The ratings are specific to the agency.

**Chairman Carlson:** This budget includes two new programs?

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

**Chairman Carlson:** But they are not new programs.

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

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

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

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

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

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

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

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

**Vice Chairman Carlisle:** Is that a consistent figure?

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

**Vice Chairman Carlisle:** How do you determine the percentage?

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

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

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

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

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

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

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

Discussion continued on this topic.

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

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

**Lynn Helms:** Yes.

**Representative Skarphol:** Does the new roof design change that?

**Lynn Helms:** The new roof will have some slope.



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

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

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

**Tammy Dolan (OMB):** The money will be allocated to all of the agencies that are eligible.

They would be evaluated against all of the other agencies.

**Chairman Carlson:** Who makes that decision?

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

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

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

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

**Lynn Helms:** That is correct.

Vice Chairman Carlisle requested a synopsis on the additional FTEs.

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

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

**Lynn Helms:** Yes.

Mr. Helms continued with his testimony.

**Representative Thoreson:** What is the definition of shallow gas?

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

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

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

**Vice Chairman Carlisle:** We need that bill number.

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

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

**Tim Porter:** That position has been vacant since 2001.

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

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

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

**Tim Porter:** Not yet.

**Representative Skarphol:** Will these be federally guaranteed loans then?

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

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

**Representative Skarphol:** Who qualifies?

**Tim Porter:** Qualified borrowers are investors in clean energy.

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

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

**Representative Skarphol:** Any political subdivision?

**Tim Porter:** Yes.

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

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

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

**Tim Porter:** There are no major changes.

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

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

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

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

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

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

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

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

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

Chairman Carlson closed the hearing.

## 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1014

House Appropriations Committee  
Government Operations Division

Check here for Conference Committee

Hearing Date: 1/19/07

Recorder Job Number: 1469

Committee Clerk Signature

*Kanya Voega*

Minutes:

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

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

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

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

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

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

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

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

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

**Eric Hardmeyer:** That is correct.

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

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

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

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

**Representative Kempenich:** You are working through IT correct?

**Kirby Martz:** We work very closely with IT.

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

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

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

**Eric Hardmeyer:** That is not all landscaping equipment.

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

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

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

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

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

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

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

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

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

**Chairman Carlson:** Can you break that down for me?

**Kirby Martz:** Yes

3. Increases funding for Information Technology Department rate increases.

**Representative Thoreson:** What does that all include?

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

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

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

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

**Representative Thoreson:** How much CPU time are you using?

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

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

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

