

**Mill and Elevator Association
Budget 475
Senate Bill No. 2014**

	FTE Positions	General Fund	Other Funds	Total
2009-11 legislative appropriation	131.00	\$0	\$40,057,242	\$40,057,242
2007-09 legislative appropriation	<u>131.00</u>	<u>0</u>	<u>36,765,609</u>	<u>36,765,609</u>
2009-11 appropriation increase (decrease) to 2007-09 appropriation	0	\$0	\$3,291,633	\$3,291,633

Item Description

Mill and Elevator study - Section 11 of Senate Bill No. 2014 requires the Industrial Commission to obtain the services of a consultant to evaluate the Mill and Elevator 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 is to provide a summary report exclusive of proprietary information to the Budget Section on the results of the evaluation during the 2009-10 interim.

Transfer of Mill and Elevator profits to the agricultural fuel tax fund - Section 34 of Senate Bill No. 2018 creates a new section to North Dakota Century Code Chapter 54-18 to provide that within 30 days after the conclusion of each fiscal year, the Industrial Commission is to transfer 5 percent of the net income earned by the Mill and Elevator during that fiscal year to the agricultural fuel tax fund. The 2009 Legislative Assembly appropriated funds from the agricultural fuel tax fund for the Agricultural Products Utilization Commission.

Status/Result

The Industrial Commission contracted with Eide Bailly LLP, Certified Public Accountants, to complete the study. The completed study has been presented to the Industrial Commission and will be presented to the Legislative Management's Budget Section in June 2010.

The Mill and Elevator Association estimates its fiscal year 2010 income to be \$11.5 million. The mill anticipates transferring \$575,000 to the agricultural fuel tax fund for fiscal year 2010.

Transfer of Mill and Elevator profits to the general fund - Section 12 of Senate Bill No. 2014 creates a new section to Chapter 54-18 requiring the Industrial Commission to transfer to the state general fund 50 percent of the annual earnings and undivided profits of the Mill and Elevator after any transfers to other state agricultural-related programs. The money 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 - Section 12 of Senate Bill No. 2014 creates a new section to Chapter 54-18 which defines a gain-sharing program as 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 \$1 million and transfers will be made to the state general fund for that program year.

The Mill and Elevator Association estimates its fiscal year 2010 income to be \$11.5 million. After the transfer to the agricultural fuel tax fund, the mill anticipates transferring \$5,462,500 to the general fund for fiscal year 2010. The following table compares the Mill and Elevator assets, liabilities, and equity as of June 30, 2009, and March 31, 2010:

	June 2009	March 2010
Total assets	\$88,476,265	\$85,216,131
Total liabilities	\$43,930,717	\$32,042,560
Equity	\$44,545,548	\$53,173,571

The Industrial Commission approved a gain-sharing plan for the mill for fiscal year 2010 which includes the following criteria:

- All full-time employees on June 30, 2010, that worked a minimum of 1,000 hours during the program year are eligible.
- No payout of any bonuses if profit before gain-sharing expense accrual does not exceed \$1 million.
- No payout on the profit part of the plan if profit before gain-sharing expense accrual does not exceed \$2 million.
- Payout will be calculated as a percentage of earnings from July 1, 2009, to June 30, 2010.
- 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--a 4 percent potential payout relating to exceeding gain-sharing goals and an uncapped potential payout relating to profits.

For the year ending June 30, 2010, the goals are:

Part 1 - 4 percent bonus potential ¹	
Cwt per man-hour	29
Cost per cwt	\$1.75
Yield	76%
Safety record	150 points
Part 2 - Uncapped bonus potential ²	
Profits	
\$2 million	2% bonus payout
\$4.5 million	4.5% bonus payout
Each additional \$1 million	1% bonus payout
¹ Each goal is worth 1 percent. Payout begins at a profit level (before gain-sharing expense accrual) greater than \$1 million.	
² Payout begins at a profit level (before gain-sharing expense accrual) greater than \$2 million.	