

Testimony before House Appropriations
January 12, 2023
Todd Steinwand, President
Bank of North Dakota

Mr. Chairman and members of the Committee. I am Todd Steinwand, President and CEO of the Bank of North Dakota which is overseen by the North Dakota Industrial Commission. Thank you for the opportunity to present our proposed 2023-2025 budget. Today, I will present a short overview of BND and its organizational structure and accomplishments of the Bank before identifying our challenges, proposed budget and capital requests.

BND Mission and Economic Impact

The mission of BND to deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota has not changed in 104 years. What has evolved is how we meet the directive of not competing with private sector financial institutions but instead supporting them as an agile partner that creates financial solutions to current and emerging trends. Let me state this right up front. As America's only bank owned by a state, BND is a partnership with local financial institutions. BND currently has over \$5.0 Billion of state revenues loaned to support farmers, ranchers, students, and main street business in North Dakota.

Bank of North Dakota, in its founding documents was directed to not compete but to support and enhance North Dakota's private sector financial institutions. Because of BND's coordination and support of the private sector, North Dakota has the highest number of banks per capita than any other state in America. While locally owned small and mid-sized banks and credit unions (those under \$10 billion in assets) account for only 29 percent of deposits nationally in North Dakota, local financial institutions account for 83 percent of the market.

(Note: ilsr.org/rule/bank0of-north-dakota-2/)

In addition to the \$5.0B in loan participations, BND provides a variety of services such as bank borrowing lines, check clearing, treasury and trust services and letters of credit. Local financial institutions also serve as the "distribution point" for BND's economic development programs such as the PACE programs and disaster relief programs.

BND Economic Impact

If you recall, in the 2017 legislative session, BND was directed to develop the ability to conduct “dynamic fiscal impact modeling”. This was accomplished through the purchase of the Regional Economic Modeling software (REMI) and by retaining Scotty Nystrom of FTI consulting as the person to run the model. Over the years, BND has conducted REMI analysis on various economic development incentives and proposed projects.

Over the years, I’ve repeatedly said that BND’s greatest impact on North Dakota is our ability to participate in loans with local financial institutions. As noted earlier, today the loan portfolio exceeds \$5.0B. To really understand the economic impact, BND utilized the REMI model to evaluate its impact from 2011 to 2020. It shows a total economic impact of \$18.5B in that decade. Further, REMI is able to break out the impact by region using the eight designated economic development regions in the state.

Legislatively Directed Programs

Another area BND, in partnership with the legislature, is able to impact communities is through the Legislatively directed programs. In the last 10 years, the number of revolving loan funds and other programs BND administrates has reached 23 programs with \$904 million in assets. These programs provide a low, fixed rate, longer-term loan to political subdivisions and program participants to build infrastructure or schools or to support specific economic development initiatives of the state.

After the 2019 session, BND implemented new loan programs for the Clean Sustainable Energy Authority (CSEA); Agriculture Development and Diversification Fund (ADD); and established the Permanent Rebuilders Loan Fund. In addition, BND merged assets into the State Water Commission Water Infrastructure Loan Fund. BND also administers loans for the LIFT fund in coordination with the Department of Commerce.

Overall, assets in the legislative directed programs have grown 131% since 2016 from \$391 million to \$904 million.

Financial Highlights

As noted earlier, BND continues to grow its assets and loan portfolio. In 2018, bank assets were \$7.0B. Today, bank assets are \$10.2B, a 46% increase in assets while the total number of approved FTEs has declined by 4.4%. BND is able to utilize technology and implement various efficiencies but as noted in the current budget request, the bank is reaching the size where it requires additional employees. Since 2018, BND assets are up by 45%; deposits are up 74% and loan volume has grown by 17%.

Net income at BND continues to grow due to strong loan demand and growing diversification of the state's economy. For the 2021-2023 biennium, BND is projected to earn around \$350 million with an estimate of \$393 million for the 2023-2025 biennium. It is anticipated the asset size of the bank will decrease to \$9.5B as the infusion of federal funds from COVID and AARPA run off.

Over the last four biennium's BND has earned net income of \$1.2B with capital contributions to the state's general fund and other programs totaling \$851 million. This accounts for 70% of BND's net income over the last 8-years. BND's request for the 2023-2025 biennium is to retain a significant portion of its capital to enable the bank to continue meeting its mission. The goal is to achieve \$1.5B in capital by the end of 2026.

One of the key metrics evaluated by regulators and S&P is the relative strength of the bank's capital. Capital is the difference between a bank's assets and liabilities and represents the net worth of the bank or the value of its equity to investors. In this case, the equity held on behalf of the Legislature and the state of North Dakota. Banks are required to maintain adequate capital reserves enabling it to handle a certain amount of losses before being at risk of being insolvent.

Capital also determines acceptable levels of lending concentration and leads into the capacity of the Bank to lend to the public and private sector. For instance, last session the Legislature had BND extend a \$250 million line of credit for the Clean Sustainable Energy Authority loan program. BND also issued letters of credit to support large, economic development projects in the state. Without a strong capital position, these types of activities are difficult if not impossible.

2023-2025 Budget Request

Entering the 2023-2025 biennium, the key challenges for Bank of North Dakota include the capital constraints, which we already touched on, and retention and recruitment of employees. As noted earlier, for a \$10B institution, BND runs lean and relies on technology and automation to enable its efficiency. However, running the systems of such a complex bank require smart, qualified people.

Today, 62% of BND's employees are below the salary midpoint as raises over the last three biennia were kept low with one biennium being a zero percent increase. At the Bank, the salary challenge is coming to light with an increased turnover rate from 7% in 2020 to 11.5% today. The assets per employee increased from \$40 million in 2013 to \$63 million today with earnings increasing from \$553,000 per employee to over \$1.17 million today.

To keep the bank functioning at a high capacity serving the financial institutions, state agencies and communities across the state, requires us to compete with the private sector financial institutions. While BND will never be able to offer stock options or some of the other perks of the private sector, it is essential that salaries at BND become more equitable and keep pace with inflation.

Today, you will see BND's budget request a proposed increase of 12 FTE's for the 2023-2025 biennium BND with a corresponding budget increase of \$2.5 million. This estimate was prepared in late summer. Due to the growth of the loan portfolio, it is our expectation to increase this request. We are currently completing our due diligence and will work with the subcommittee on a specific request for FTE's. Let me reiterate that BND is managed as a business and employees will only be hired if needed and layered in over the biennium. Specific requests to date include:

- 2 for the Lending Division due to loan volume growth
- 2 for Credit Administration due to increased complexity and volume of loans
- 1 for Business Development for a University / Student Development Coordinator
- 7 for the Collateral Valuation Division to account for anticipated growth

Of the additional funding:

- \$895,000 is for continuation of the 2021-2023 legislative salary increases along with additional costs related to employee turnover and recruitment.
- \$750,000 is proposed for equity increases
- \$804,000 for IT related enhancements
- \$406,000 for vendor inflation adjustments

The proposal by BND compared to HB1014 as pre-filed increases by 4 FTE's and includes the Governor's proposed 6%/4% salary increase.

Program Request for BND Capital

Each session, BND provides a request to the Legislature for an appropriation for program costs. The following are the 2023-2025 requests:

- \$60 million for the various PACE buydown programs. This represents an increase of \$20 million from the previous biennium due to demand.
- \$5 million for the Agriculture Product Utilization Commission. (APUC)
- \$1.5 million to transition funding for the ND Small Business Development Center from the Department of Commerce to Bank of North Dakota.

Thank you for the opportunity to testify today on BND's proposed budget for the 2023-2025 biennium. I am happy to take any questions.




**America's Only Bank - Owned by a State
Serving North Dakota for 104 years**

House Bill 1014

- BND Overview
- Financial Highlights
- Challenges
- 23-25 Proposed Budget
- Capital Requests
- Appendix – FTE Request Detail



Mission: To deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota



BND partners with local financial institutions to “participate” in loans and who serve as the distribution channel for BND programs.

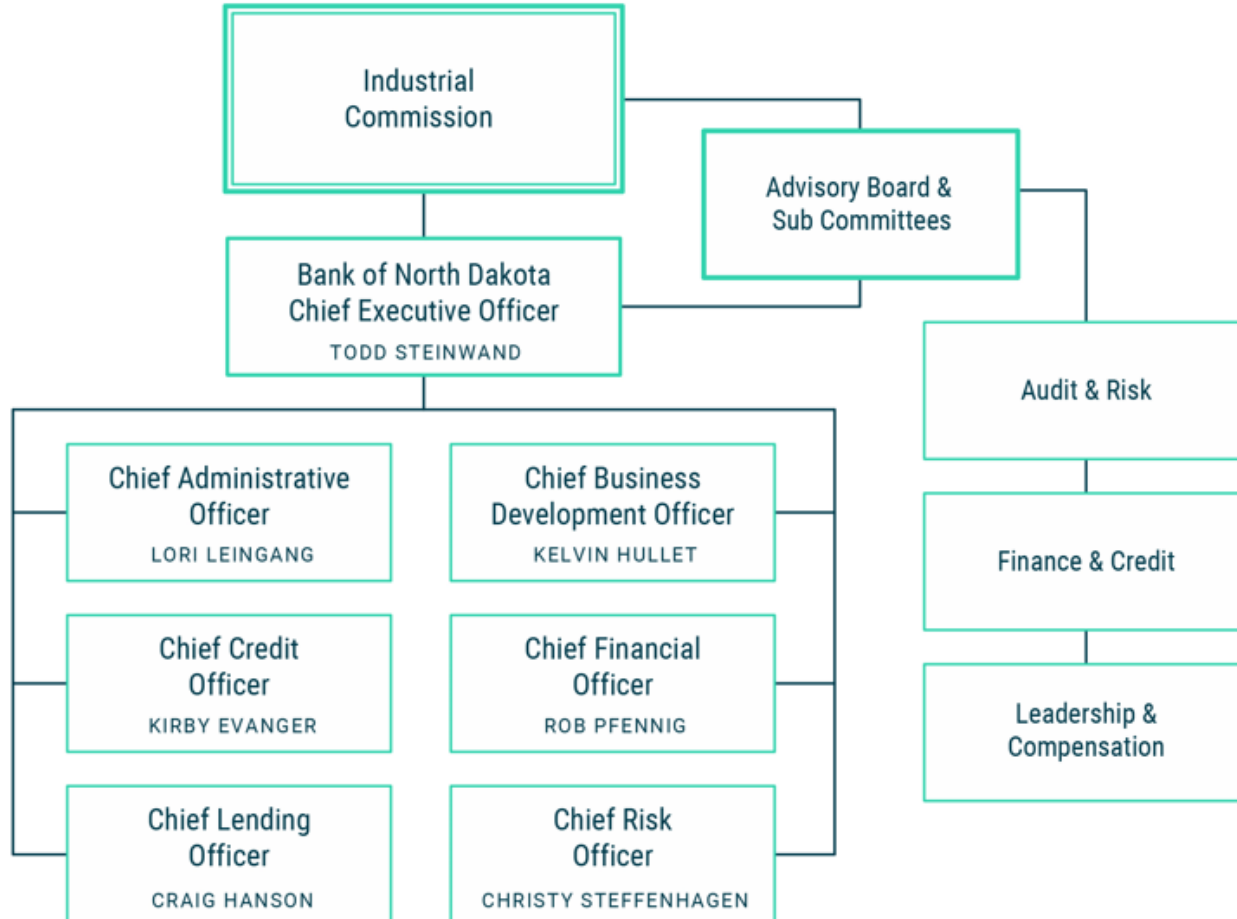
BND is an agile partner that creates financial solutions to current and emerging economic needs.

BND 
Bank of North Dakota



BND Organizational Structure

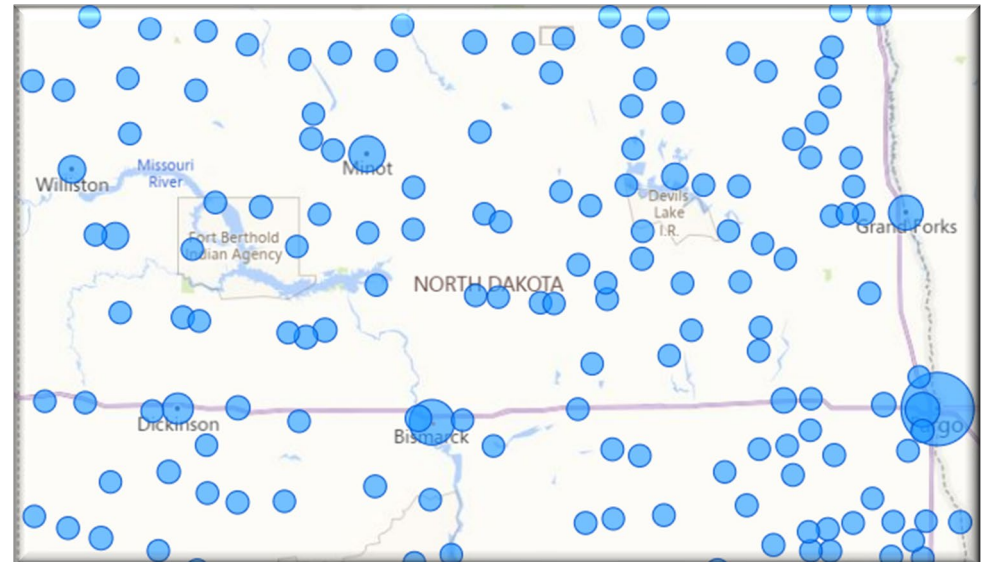
ND Century Code 6-09



BND is a Banker's Bank "Public-Private Partnership"

- North Dakota is #1 in the Nation for the most bank's per capita
- BND provides:
 - Loan participations
 - Special loan programs
 - Bank stock loans
 - Letters of credit
 - Bank borrowing lines
 - Check clearing
 - Treasury services
 - Trust services

BND Loan Activity by Location In ND



Investing in North Dakota

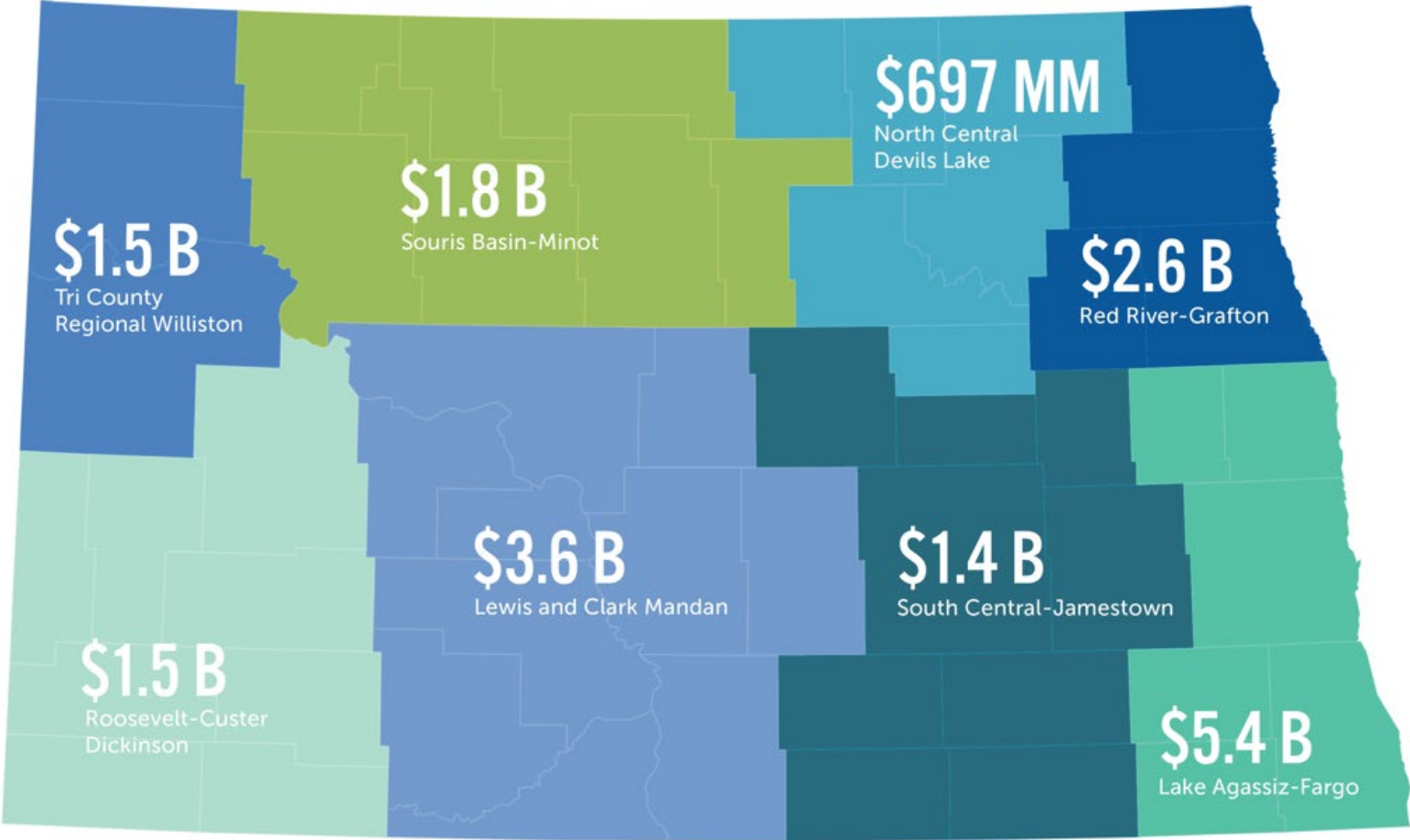
“As America’s only Bank owned by a State, BND, in partnership with local financial institutions, currently has over \$5.0 billion of state revenues loaned to support Farmers, Ranchers, Students, and Main Street Businesses in North Dakota.”



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Economic Impact

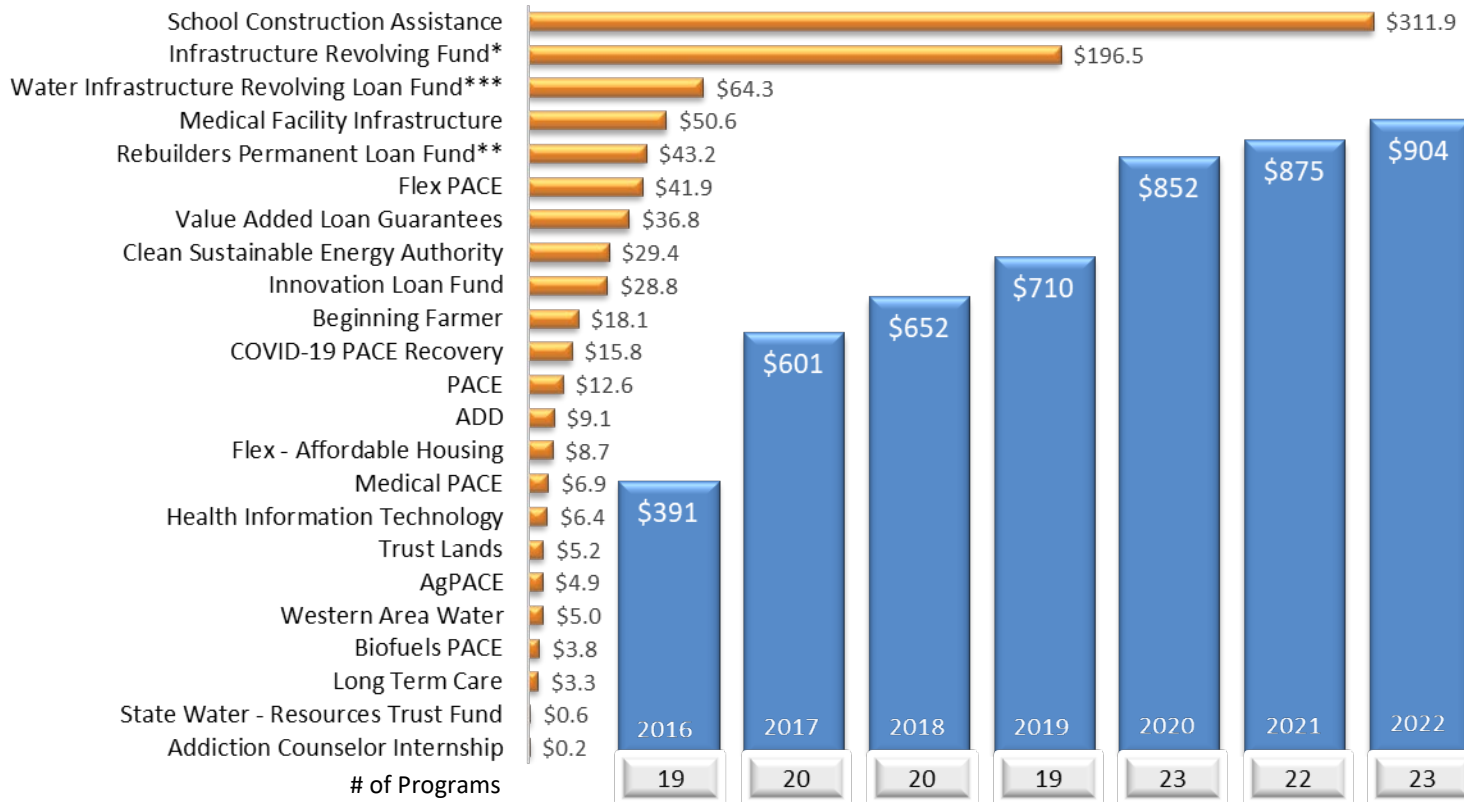
BND Economic Impact by Regional Council 2011-2020 = \$18.5 billion



Legislatively Directed Loan Programs

BND administers 23 programs and \$904 million in assets for the Legislature

\$ in millions



- BND administers \$904 million in net assets for legislatively directed loan programs. These programs serve a wide range of purposes, including school construction, water projects, general and medical infrastructure, and disaster recovery.
- *Infrastructure Revolving Fund includes \$52 million to be transferred from BND's capital.
- ** HB 1187 created The Rebuilders Permanent Loan Fund (RPLF) during the 67th Legislative Session. This permanent revolving loan fund was established by transferring \$50 million in loans and cash from the Small Employer Loan Fund (SELF) created by BND during the Covid 19 pandemic to the RPLF.
- ***The Water Infrastructure Revolving Loan Fund was created by HB 1431. The Fund combined previously reported Community Water and State Water – Revolving Loan Fund.

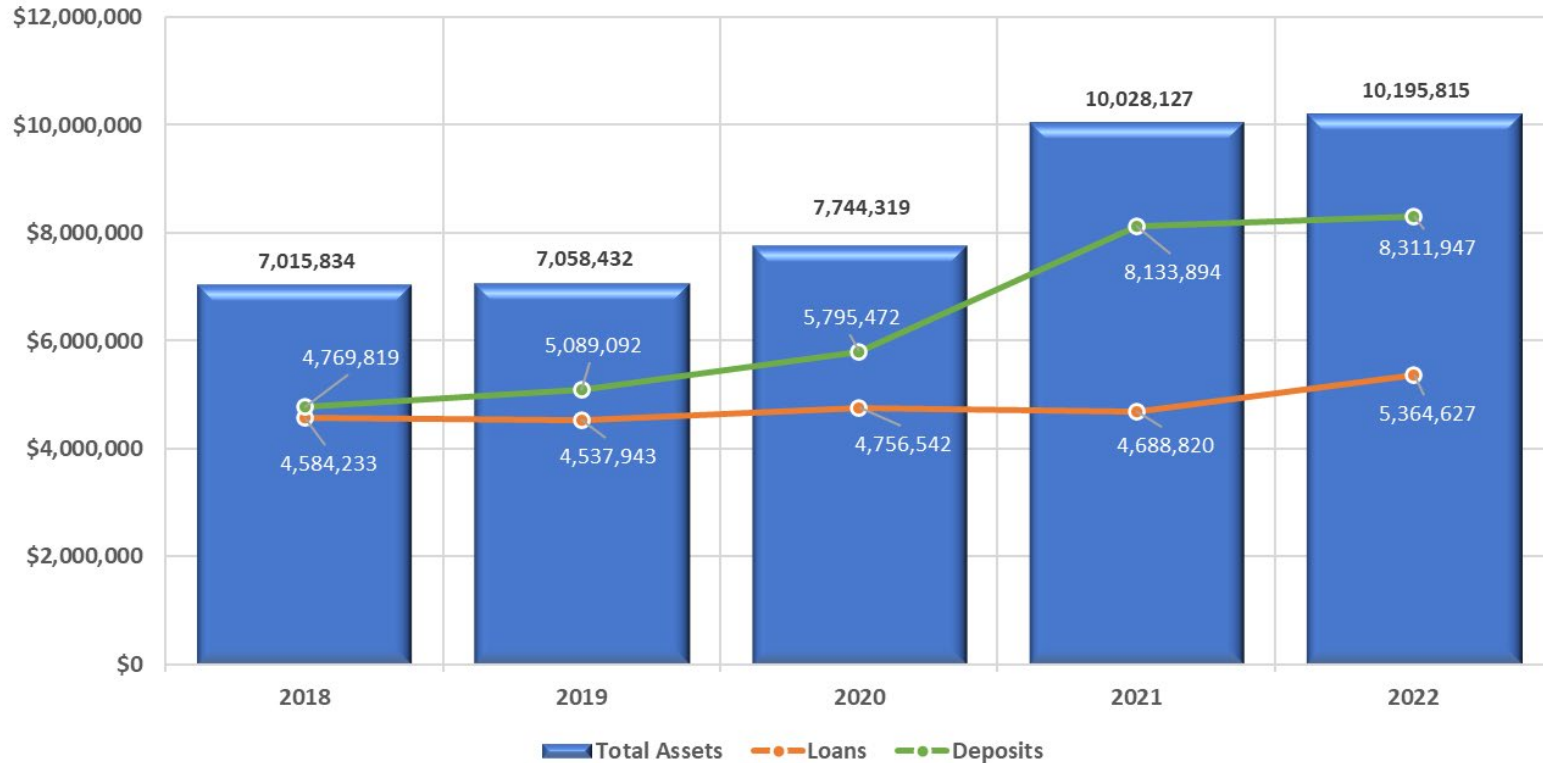


Key Accomplishments

- Bank assets have grown from \$7.0 billion in 2018 to \$10.2 billion in 2022, a 46% increase while the total number of approved FTE's declined by 4.4%.
- In 2022, BND originated and renewed over \$2.0 billion in loans.
- Assets in the legislative directed programs have grown 131% since 2016 from \$391 million to \$904 million in 2022.
- Our Treasury Department settled 3,400 customer trades for a total number of bond holdings for customers of 14,500. This is a 9% increase from the beginning of the year, and a 44% increase since 2020. When combined with BND's own portfolio, over \$15 billion worth of bonds are held at BND, which far exceeds previous highs.
- Under Legislative direction, BND implemented new administered loan programs for Clean Sustainable Energy Authority, Agriculture Diversification and Development Fund, established a Permanent Rebuilders Loan Fund and as well as merged the BND-Water Infrastructure Loan Fund into the State Water Commission's Water Infrastructure Loan Fund.
- BND played an integral role in the financing structure of the sale of Coal Creek station through our lending department. The use of the Match program, and access to funding from the Legacy Fund provided in HB 1425 was essential to the transaction's success.
- BND continues to administer the various revolving loan funds and disbursed loans for LIFT in coordination with the Department of Commerce.
- No findings on the Bank's 2021 FASB audit.

Financial Highlights

\$ in thousands



- *Assets up 45%*
- *Deposits up 74%*
- *Loans up 17%*

Financial Highlights

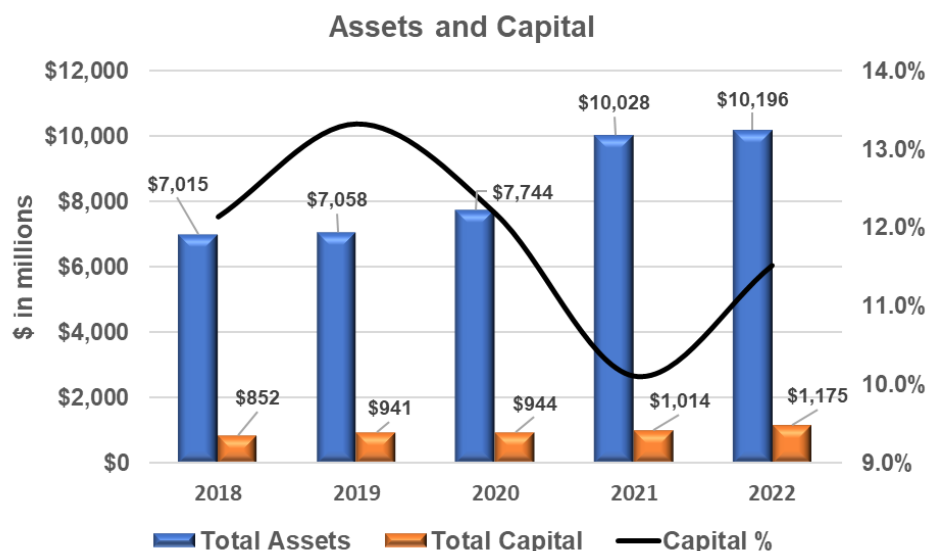
\$ in thousands	Biennium				
	15-17 Actual	17-19 Actual	19-21 Actual	21-23 Projected	23-25 Estimate
Net Income	\$ 276,433	\$ 313,128	\$ 293,328	\$ 350,000	\$ 393,000
Average Assets	\$ 7,320,396	\$ 6,763,586	\$ 7,599,883	\$ 9,782,626	\$ 9,500,000
Capital	\$ 824,966	\$ 927,264	\$ 956,850	\$ 1,123,576	\$ 1,450,000
Capital Contributions to General Fund	\$ 100,000	\$ 140,000	\$ 140,000	\$ 140,000	\$ -
Capital Contributions Other	\$ 48,589	\$ 70,830	\$ 123,742	\$ 88,204	\$ 66,500
Total Capital Contributions %	54%	67%	90%	65%	17%

Note: to date BND has not made any contributions to the General Fund for the 21-23 biennium
21-23 includes \$20mm additional for PACE

- Net income of \$1.2 billion over the last four biennium's
- Capital contributions of \$851 million or 70% of net income over the last four biennium's
- From 2010 to 2016 no capital contributions were requested from the General Fund, allowing the Bank to build capital which increased lending capacity
- 2017 special session approved a one-time capital contribution to the general fund of \$100 million
- Goal of achieving \$1.5 billion in capital by the end of 2026

A Strong Capital Position is Critical

- What is Bank Capital?
 - Asset minus Liabilities = Capital
 - Profits that are retained at the Bank by the legislative body
 - Internal target of 12%
- Banks are required to have adequate Capital reserves to handle a certain amount of losses before being at risk of becoming insolvent
- Capital determines acceptable levels of lending concentration i.e., diversification
 - Lower levels of capital effect lending ability
 - Lines of credit for state programs and state agencies
 - Letters of credit to support large projects
- BND is participating in much larger transactions
 - The average commercial loan size in 2017 was \$1.3 million; today the average loan is \$2.4 million, an 84% increase

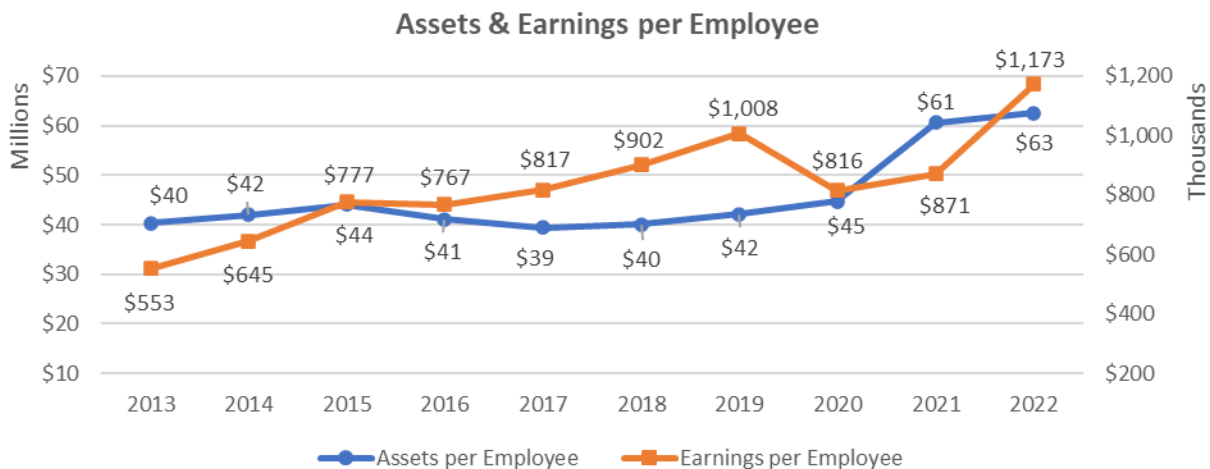


Goal of achieving \$1.5 billion in capital by the end of 2026



Challenges

- Capital Constraints
 - Effects lending ability i.e., Lines of Credit to State Agencies and Others
- Retention and Recruitment
 - Lack of meaningful equity raises over the last three biennium's
 - 62% of BND employees are below the salary midpoint
 - BND's turnover rate has increased from 7.0% in 2020 and 9.0% in 2021 to an annualized rate of 11.4% in 2022



\$1.17 million of earnings per FTE



23-25 Budget Request

BND is a special fund agency. All expenses, including employee salaries are funded by revenues generated by the Bank.

	Budget 21-23	Original Proposed Budget 23-25	Adjust Paygrades on 5 FTEs Requested	Governor Proposed 6%/4%	Increase Health Ins.	Revised Proposed 23-25 Budget	Proposed Increase vs. Current Biennium
Operations	\$67,306,546	\$72,853,914	(\$239,589)	\$1,458,290	\$960,550	\$75,033,165	\$7,726,619
Capital Assets	\$1,510,000	\$1,510,000	-	-	-	\$1,510,000	-
Total	\$68,816,548	\$74,363,914	(\$239,589)	\$1,458,290	\$960,550	\$76,543,165	\$7,726,619

• See appendix for FTE detail

- \$2,452,855 for 12 additional FTE’s (for the biennium-layered in over time)
 - 2 - Lending due to loan volume growth
 - 2 - Credit Administration due to the increased complexity and volume of loans
 - 1 - Business Development for a University/Student Development Coordinator
 - 7 - Collateral Valuation growth
- \$894,924 - accounts for the continuation of the 21-23 legislative salary increases along with additional costs related to employee turnover and recruitment
- \$750,000 - equity increases given current market challenges
- \$804,000 - major IT related enhancements
- \$406,000 - vendor inflation adjustments





HB 1014 Pre-Filed Compared to BND Request

	Governor's Proposed Budget	BND Proposed Budget 23-25	Difference
Operations	\$74,395,765	\$75,033,165	\$637,400
Capital Assets	\$1,510,000	\$1,510,000	-
Total	\$75,905,765	\$76,543,165	\$637,400
FTEs	181	185	4

- \$637,400 - related to 4 additional FTEs in BND's request, this includes benefits and the proposed 6%/4% salary increase



Requests Effecting BND Capital

- \$20.0 million additional for PACE programs for current 21-23 biennium
- No General Fund contributions for the 23-25 biennium
- \$1.5 million to support ND Small Business Development Center
- \$5.0 million for Agriculture Product Utilization Commission
- \$60.0 million for PACE Programs (as detailed below)

Program	Budget 21-23	Proposed Budget 23-25	Proposed Increase
PACE/Flex PACE	\$26,000,000	\$39,000,000	\$13,000,000
Ag PACE	\$5,000,000	\$5,000,000	-
Biofuels PACE	\$1,000,000	\$1,000,000	-
Beginning Farmer	\$8,000,000	\$15,000,000	\$7,000,000
Total	\$40,000,000	\$60,000,000	\$20,000,000

Thank You!



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Appendix – FTE Request

# of FTE's	Service Area	Job Title	Estimated Timing	Paygrade	Annual Salary Midpoint	Biennium Request
2	Lending	Loan Servicing Associate Lead/Sr/Supervisor	7/1/2023	B05	\$ 67,829	\$ 135,658
		Loan Operations Supervisor/Manager	7/1/2023	B06	\$ 78,260	\$ 156,520
1	Business Dev.	University/Student Development Coordinator	1/1/2024	B05	\$ 67,829	\$ 101,743
2	Underwriting	Credit Analyst III	7/1/2023	B06	\$ 78,260	\$ 156,520
		Credit Analyst II	7/1/2024	B05	\$ 67,829	\$ 67,829
7	Collateral Valuation	Commercial Valuation Supervisor	7/1/2023	B08	\$ 106,433	\$ 212,866
		Agricultural Valuation Supervisor	7/1/2023	B08	\$ 106,433	\$ 212,866
		Collateral Valuation Analyst IV	10/1/2023	B07	\$ 92,872	\$ 162,526
		Collateral Valuation Analyst IV	10/1/2023	B07	\$ 92,872	\$ 162,526
		Collateral Valuation Analyst IV	10/1/2023	B07	\$ 92,872	\$ 162,526
		Collateral Valuation Analyst III	1/1/2024	B06	\$ 78,260	\$ 117,390
		Collateral Valuation Analyst III	1/1/2024	B06	\$ 78,260	\$ 117,390
12	Total					\$ 1,766,360
					Benefit Costs	\$ 686,495
					Total Salaries and Benefits	\$ 2,452,855

