

**Bank of North Dakota
Budget No. 471
Senate Bill No. 2014**

	FTE Positions	General Fund	Other Funds	Total
2017-19 legislative appropriation	181.50	\$0	\$59,299,204	\$59,299,204
2015-17 legislative appropriation	<u>181.50</u>	<u>0</u>	<u>76,287,301¹</u>	<u>76,287,301</u>
2017-19 appropriation increase (decrease) to 2015-17 appropriation	0.00	\$0	(\$16,988,097)	(\$16,988,097)

¹The 2015-17 appropriation includes \$17,000,000 of one-time funding from other funds related to a financial center project. Excluding this amount the agency's ongoing other funds appropriation is \$59,287,301.

Item Description

Partnership in assisting community expansion - Senate Bill No. 2014 (2017) provides \$16 million for PACE, \$2 million for Ag PACE, and \$1 million for biofuels PACE from Bank of North Dakota profits.

Status/Result

Of the \$16 million for PACE, the Bank designated \$10 million for flex PACE and \$6 million for PACE. In addition, approximately \$240,000 of unspent 2015-17 biennium funding was available for flex PACE and \$5.1 million for PACE.

The Bank did not designate any new funding for affordable housing or Med PACE; however, unspent funds from the 2015-17 biennium available for buydowns in the 2017-19 biennium include approximately \$3.3 million for affordable housing and \$370,000 for Med PACE.

Transfer of Bank of North Dakota profits - Senate Bill No. 2014 includes the following transfers of Bank profits:

1. Section 9 provides for a transfer of \$140 million to the general fund.
2. Section 10 provides for a transfer of \$16 million to the PACE fund.
3. Section 11 provides for a transfer of \$2 million to the Ag PACE fund.
4. Section 12 provides for a transfer of \$1 million to the biofuels PACE fund.
5. Section 13 provides for a transfer of \$6 million to the beginning farmer revolving loan fund.
6. Section 14 provides for a transfer of \$6 million for interest rate buydowns on school construction loans.

1. In October 2017 the Bank transferred \$70 million to the general fund. The remaining \$70 million is anticipated to be transferred in October 2018.
2. Through March 2018 the Bank transferred \$2.75 million to the PACE fund. Of the \$2.75 million, \$2 million was for flex PACE and \$750,000 was for PACE.
3. As of March 31, 2018, the Bank had not transferred any profits to the Ag PACE fund.
4. Through March 2018 the Bank transferred \$100,000 to the Ag PACE fund.
5. The Bank had not transferred any profits to the beginning farmer revolving loan fund, as of March 31, 2018.
6. Through March 2018 the Bank transferred \$3,747,290 for the interest rate buydowns.

Estimated 2017-19 Bank of North Dakota capital structure

The following schedule shows an analysis of the Bank's estimated capital structure for the 2017-19 biennium:

June 30, 2017, capital	\$834,818,000 ¹
Estimated 2017-19 biennium profits	280,000,000 ²
Estimated 2017-19 biennium transfers (Senate Bill No. 2014)	
Transfer to general fund	(140,000,000)
Transfer to economic development-related programs	(25,000,000) ³
Transfer for interest rate buydowns on school construction loans	(6,000,000)
Estimated capital on June 30, 2019	\$943,818,000

¹The Bank's tier one capital level was \$824,936,000 as of June 30, 2017, which reflects a tier one risk-based capital ratio of 19.37 percent compared to a benchmark of at least 8 percent.

²Actual calendar year 2017 profits were \$145.3 million. The estimated 2017-19 biennium profits at the close of the 2017 legislative session totaled \$260 million.

³Senate Bill No. 2014 provides for the following transfers from Bank profits related to economic development:

- \$16 million to the PACE fund;
- \$2 million to the Ag PACE fund;
- \$1 million to the biofuels PACE fund; and
- \$6 million to the beginning farmer revolving loan fund.

Bank of North Dakota loans:

1. House Bill No. 1015 (2017) increases the Office of Management and Budget's temporary borrowing authority for general fund cashflow purposes from \$10 million to \$50 million.
2. House Bill No. 1020 (2017) authorizes the refinancing and consolidation of existing loans related to the Western Area Water Supply Authority.
3. House Bill No. 1020 amends North Dakota Century Code Section 61-02-79 relating to a line of credit for State Water Commission water supply projects. The Legislative Assembly decreased the line of credit from \$200 million to \$75 million and adjusted the interest rate from 1.75 to 1.5 percent over the 3-month London interbank offered rate. The State Water Commission may access the line of credit as needed.
4. House Bill No. 1024 (2017) authorizes the Adjutant General to borrow up to \$10 million related to unlawful activity associated with the construction of the Dakota Access Pipeline.

1. The Office of Management and Budget has not requested any funds from the Bank for temporary borrowing authority, as of March 31, 2018.
2. The outstanding balance of the new loan after the consolidation and refinancing was \$85,318,567 on March 31, 2018.
3. Through March 2018 the State Water Commission had not accessed the line of credit and does not anticipate accessing the line of credit during the 2017-19 biennium.
4. As of March 31, 2018, the outstanding balance of the loan issued to the Adjutant General is \$10 million.

5. House Bill No. 1178 (2017) authorizes borrowing authority of \$15 million for the Information Technology Department related to a statewide interoperable radio network.
6. Senate Bill No. 2021 (2017) authorizes a total of \$375,000 of borrowing authority for various state agencies related to the expenses of implementing a new electronic payment processing system.
7. Senate Bill No. 2134 (2017) authorizes the Department of Trust Lands to borrow up to \$87 million related to mineral revenue repayments.
8. Senate Bill No. 2174 (2017) authorizes the Adjutant General to borrow up to \$11 million related to unlawful activity associated with the construction of the Dakota Access Pipeline.

Breeding stock rebuilding and feed cost loan programs - The Bank implemented two loan programs during the summer of 2017 to assist farmers during severe drought conditions. The breeding stock rebuilding loan program provides up to \$500,000 of financing to farmers for the purchase of cattle, and the feed cost loan program provides up to \$100,000 of financing to farmers for the purchase of feed for cattle. Applications for the loan programs must be submitted by June 30, 2018.

Rebuilders loan program - The Legislative Assembly in 2011 established a rebuilders loan program to provide loans to North Dakota residents affected by the 2011 flood event. The proceeds of the loans may be used to rebuild a flood-damaged home or purchase a new home in the disaster-impacted community. Eligible counties include Barnes, Benson, Burleigh, McHenry, Morton, Ramsey, Renville, Richland, and Ward.

The Legislative Assembly in 2013 Senate Bill No. 2132 provided an exemption to allow unexpended appropriations related to the rebuilders loan program for the 2011-13 biennium to continue into the 2013-15 biennium. The Legislative Assembly in 2013 provided for a transfer of up to \$5 million from the Bank's current earnings and undivided profits to the rebuilders loan program and for payments from the rebuilders loan program of up to \$35 million to be transferred to replenish the Bank's profits. Payments in excess of \$35 million are to be deposited in the general fund. The Legislative Assembly provided a total of \$55 million for the rebuilders loan program, including \$35 million from Bank profits and \$20 million from the general fund.

5. The Information Technology Department has not borrowed any funds for the statewide interoperable radio network, as of March 31, 2018.
6. None of the agencies have borrowed funds for implementing a new electronic payment processing system through March 2018. The agencies do not plan to implement the new electronic payment processing system; therefore, the borrowing authority will not be needed in the 2017-19 biennium.
7. As of March 31, 2018, the Department of Trust Lands has not borrowed any funds for mineral revenue repayments. The estimated timing of any potential mineral revenue repayments is unknown. As a result, the Department of Trust Lands has not determined if the borrowing authority will be needed in the 2017-19 biennium.
8. The outstanding balance of the loan issued to the Adjutant General totals \$2,236,721, as of March 31, 2018.

Through March 2018 the Bank issued one loan for the breeding stock rebuilding loan program and two loans for the feed cost loan program.

Approximately \$52,000,000 of loans were authorized under the program, including \$32,255,000 from Bank profits and \$19,745,000 from the general fund. As of December 31, 2017, the outstanding balance of loans for the rebuilders loan program totaled \$31,567,000.

During calendar year 2016, \$3,895,000 was used to replenish the Bank's profits. During calendar year 2017, \$3,792,000 from the repayments was used to replenish the Bank's profits. An additional \$13,682,000 from the repayments will be used to replenish the Bank's profits before repayments to the general fund begin.

Federal student loans - Pursuant to the federal Health Care and Education Reconciliation Act of 2010, the federal Department of Education assumed the responsibility for the origination and administration of federally insured student loans. Prior to the Act, banks originated and administered the loans. Banks are able to continue the administration of outstanding loans after the Act, but are not able to originate new federal student loans.

Student loan default policy changes - Sections 17 and 18 of Senate Bill No. 2014 limit the percentage of fees that the Bank can charge on defaulted student loans and allow the Bank to suspend a recreational license when the licensee's student loans are in default.

Dynamic revenue modeling - Senate Bill No. 2044 (2017) directs the Bank to conduct dynamic revenue analysis of certain tax incentives during the 2017-18 interim and of certain bills during the 2019 legislative session.

Rail rate complaint case - Section 4 of 2017 House Bill No. 1008 provides for a transfer of up to \$900,000 from the Bank beginning farmer revolving loan fund to the Public Service Commission to pay for costs associated with a rail rate complaint case. If any amount is spent, the Public Service Commission is to reimburse the beginning farmer revolving loan fund using amounts from damages or proceeds received, net of legal fees, from a successful outcome of a rail rate complaint case.

North Dakota financial center - In 2015 House Bill No. 1014, the Legislative Assembly provided contingent one-time funding of \$17 million from the Bank's assets for a financial center building project. The funding was available only if the Bank's profits for calendar year 2015 exceeded \$125 million. The contingency was met; however, the Bank did not start construction on the building because of the state's revenue shortfall during the 2015-17 biennium.

Section 22 of Senate Bill No. 2014 amends 2015 Session Laws to extend the authorization for the financial center project through June 30, 2021. Section 28 of the bill prohibits the Bank from constructing the building until the 2019-21 biennium.

As of December 31, 2017, the Bank had approximately \$247.8 million of federal student loans, a decrease of \$507.1 million compared to the highest amount (\$754.9 million) in December 2010. As of March 31, 2018, the Bank sold the remaining \$247.8 million of federal student loans resulting in a profit of approximately \$3.2 million.

The Bank implemented the policy change related to the fees in July 2017. Although the new limit of 18 percent was less than the previous limit of 20 percent, the Bank has collected an additional \$22,400 in fees during the first 9 months of fiscal year 2018 through March 2018 compared to the collections in the first 9 months of fiscal year 2017. The additional fee collections are related to an increase in student loan defaults.

The Bank is in the process of developing policies and procedures related to the suspension of recreational licenses. No recreational licenses have been suspended by the Bank related to defaulted student loans.

The Bank purchased economic modeling software from Regional Economic Models, Inc. The initial cost of the software was \$136,000 with ongoing annual maintenance costs of \$28,000 (\$56,000 for the 2017-19 biennium). In addition the Bank contracted with FTI Consulting, Inc. for advisory services related to the dynamic revenue analysis for a cost of \$36,000 plus travel expenses. The Bank anticipates completing the analyses for five tax incentives during the 2017-18 interim and for five bills during the 2019 legislative session.

The Bank had not transferred any funds from the beginning farmer revolving loan fund as of March 31, 2018, related to a rail rate complaint case.

The Bank anticipates proceeding with the project during the 2019-21 biennium. Any potential changes in the cost of the project, originally \$17 million, are unknown at this time.