

1999 HOUSE FINANCE AND TAXATION
HB 1115

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1115

House Finance and Taxation Committee

Conference Committee

Hearing Date January 12, 1999

Tape Number	Side A	Side B	Meter #
1	x		46.6 to Side B
		X	0 - 30
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. BELTER Opened the hearing.

MIKE STROBEL, PRES. AND GENERAL MANAGER OF THE NORTH DAKOTA MILL

Testified in support of the bill. See attached written testimony.

REP. BELTER How long have you been contemplating this expansion?

MIKE STROBEL It first got into my mind when I was interviewed for the job in my first pass through the mill. We have been talking to the Industrial Commission as to what we can do and what we should do. Basically, we could come at you with five hundred projects that total a lot of money or one project with all of it involved. We visited with a number of agricultural leaders to see what they thought. We don't have final numbers as of yet.

REP. JACK DALRYMPLE Appeared before the committee to testify in support of the bill.

He stated he did serve on the committee involved with the analysis of expanding the mill. The Industrial Commission does have the constitutional authority to manage the mill and elevator. To some extent, this is primarily their decision. However, the bonding authority can only come to the legislature. The legislature has the constitutional right to appropriate all collections and resources. We do have a vested interest. There is a complete analysis of it, and the conclusion is that the money will be paid back in 5.7 years. That is primarily because of the technological advances that would be made. I don't think that North Dakota has ever had the level of expertise that we now have at the State Mill and Elevator.

REP. WARNER Asked if the economic conditions as they are, does this make it the optimum time for this renovation project, and what makes you think you can increase flour sales?

MIKE STROBLE Gave several reasons why this is a good time to update and renovate. He stated in order to have more flour sales, they need to expand because they can't handle the sales that are available now. If you consider what needs to be put into that mill just to keep it going, costs keep going up to keep that old mill going. There are certain areas of the industry that we are not as competitive as we should be and it does hurt us in the marketplace. That would be more and more exaggerated as time goes.

REP. WINRICH Gave his observation that the mill seemed to have expanded its operation over the years in the area of consumer products and smaller packages of flour, etc., would this expansion enable you to continue or expand that?

MIKE STROBLE, The small type of retail is kind of a non-issue, we have taken bread machine mixes up to 271% in the last two years, shipment has gone up 46% . We are now shipping small packages out to a 13 state area. That is still only 2% of our business. Where we need to compete

is across the Ohio valley, there are hundreds of flour mills to compete with, and to do this, you better be as efficient as you can be.

REP. WARNER I see from your testimony, that you anticipate paying this back within 6 years, but the bill says for the bond, not more than 20 years, that is about three times that, is there some discrepancy?

MIKE STROBLE Quite frankly, not a lot of thought as been put into how to fund the project. That hasn't been a big priority issue. Right now the bond rate is approximately 5.5%, the mill has approximately a ten million dollar cash position. He stated the mill makes between four to five million per year.

REP. GROSZ You are projecting 1.38 million hundred weight more in flour sales, is the market expanding that much or are we taking sales that are currently being made by non-government owned mills?

MIKE STROBLE Stated that between population increases and increases in per capita consumption, you will see about 150 pounds per person per year, it is going up approximately one pound per year. With that you need new capacity to come on line with that. Right now the industry is running at 92% of six day capacity. Will I go out and steal business from local mills to do that, No. Will I steal business from somebody's mills, Yes. I think that is the nice thing about the mill, we can add value and keep the money here. In the next ten years, a mill the size of Conagra, will be built by somebody.

REP. KROEBER Referred to the bonds would be paid back from revenue generated by the earnings of the association, so they apparently won't come under our bonding authority for the general fund?

MIKE STROBLE That is correct.

REP. RENNER Asked what the life expectancy of this upgrade.

MIKE STROBLE Stated something like twenty years.

REP. RENNER You are not proposing to pay for the project over the span of longer than five years, or less than twenty?

MIKE STROBLE Stated that was correct.

REP. RENNERFELDT Asked whether he knew how many new mills were built over the last five years.

MIKE STROBLE There are construction plans being announced virtually all the time. He mentioned several large mills who were expanding and who were not.

REP. SCHMIDT Asked, if you don't have a dike around the mill, is the mill in trouble?

MIKE STROBLE Not having the dike, didn't hurt us too bad last time, whoever picked the location did a good job. The mill is on pretty high ground. We didn't get water from the river side, we basically got flooded from the backside against the coulee.

RICHARD SCHLOSSER, NORTH DAKOTA FARMERS UNION, Testified in support of the bill. We have long been supporters of the North Dakota Mill & Elevator. What prompted me to testify here, is when Mr. Stroble said adding value to the wheat produced in North Dakota. I think that is basically the mission of the state mill and elevator. He spoke of being at a marketing disadvantage, I have attended several wheat commission meetings, there the wheat commission is concerned with through the wheat extraction process and whatever, competitors in the world market look at that as our wheat being a lesser quality basically because of what comes out through the extraction process. As Rep. Dalrymple pointed out in his testimony, right now is

a time limit of the issue, I do believe that we have management in place that has proven itself.

We are now generating profits at the mill and elevator. With a payback in five to six years, and certain efficiencies that will be realized through reduced amount of horsepower required, etc. for the technical aspects of the efficiencies, Mr. Schlosser felt this was the time to do this.

REP. GROSZ Stated that possibly by rennovating the state mill, possibly it would be taking business away from our local co-ops.

RICHARD SCHLOSSER Answered stating, I think you need to look at the volume of production in the state of North Dakota. In any given year, wheat produced in the state is going to be somewhere between 250 - 300 million bushels, value added profits are probably one percent or a very small percent, who have made a value added investment. More than likely, not all of the production is going to go into this value added cooperative, those value added processors within the state are going to handle a very small part of that. You are still looking at exporting fifty percent out of the state or country. We are looking at an increase of 2.7 million bushels of wheat.

With no further testimony, the hearing was closed.

COMMITTEE ACTION Tape #2, Side A, Meter #22.2

REP. NICHOLAS Made a motion for a DO PASS.

REP. RENNER Second the motion. MOTION CARRIED.

12 Yes 3 No 0 Absent

REP. NICHOLAS Was given the floor assignment.

Please type or use black pen to complete

Date 1-13-99

Roll call vote # 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. HB 1115

House HOUSE FINANCE & TAX Committee

Subcommittee on _____

Conference Committee

} Identify or check where appropriate

Legislative Council Amendment Number _____

Action Taken Do pass

Motion Made By Rep. Nicholas Seconded By Rep. Renner

Representatives	Yes	No	Representatives	Yes	No
BELTER	✓		WINRICH	✓	
RENNERFELDT	✓				
CLARK		✓			
FROELICH	✓				
GRANDE	✓				
GROSZ		✓			
HERBEL	✓				
KROEBER	✓				
MICKELSON		✓			
NICHOLAS	✓				
RENNER	✓				
SCHMIDT	✓				
WARNER	✓				
WIKENHEISER	✓				

Total 12 3
(Yes) (No)

Absent 0

Floor Assignment Rep. Nicholas

If the vote is on an amendment, briefly indicate intent:

DO NOT USE HIGHLIGHTER ON ANY FORMS

REPORT OF STANDING COMMITTEE (410)
January 14, 1999 9:10 a.m.

Module No: HR-08-0584
Carrier: Nicholas
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1115: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO PASS (12 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING). HB 1115 was placed on the Eleventh order on the calendar.

1999 SENATE FINANCE AND TAXATION

HB 1115

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1115

Senate Finance and Taxation Committee

Conference Committee

Hearing Date 2-9-99

Tape Number	Side A	Side B	Meter #
HB 1115	X		3585-END
		X	0-875
Committee Clerk Signature <i>Shula Wald</i>			

Minutes:

Sen Urlacher opened the hearing on 1115, A BILL RELATING TO THE ISSUANCE OF BONDS BY THE INDUSTRIAL COMMISSION FOR THE MILL & ELEVATOR ASSOCIATION.

Mike Strobel -President and General Mgr. of the ND Mill. Testimony submitted and attached.

Sen Urlacher - Will there be a reduction in man power?

Mike Strobel - 9 jobs would be eliminated, but those people would be used somewhere else in the business.

Sen Urlacher - Are there contracts for overseas delivery?

Mike Strobel - Not a lot. We do some in the Carribbean.

Sen Christmann - Project is about 18 million?

Mike Strobel - On page 6 of the big book, the explanation of each part has been broken down.

Sen Stenehjem - What does substantially below mean?

Mike Strobel - Depending on how much equity we want to put into the project, as far as the bond issue would go, I think the 18 million will come in if not under. We would be using our own crews and not bringing them in from another source. The bond issuance it self would be depend on how much of our reserves we want to put into it. 7 million and borrowing the rest. We have taken a hard look and since I arrived in 1996, we have increased sales almost 100 million hundred weight. Has grown about 10% a year.

Sen Stenehjem - My concerns are about railroads, double the size of operation that would be in Denver and Los Angeles, these are risky things.

Mike Strobel - These same risks will be there, whether we expand or not. We should keep the mill up to date to compete.

Sen Stenehjem - If the project was put just to up dating, what would the cost be?

Mike Strobel- Hard to say on the overall project, but if you take the mill that grinds the durum and spring wheat, the installation of this would be about \$700,000.

Karlene Fine - Executive Director of Industrial Commission. Testimony and an amendment attached to be placed on the bill.

Sen. Christmann - If we change, does this change Mikes testimony?

Karlene Fine - No.

Sen Christmann - How about bond repayment?

Karlene Fine - That's the way it was drafted and that's why I ask you to consider the amendment.

Sen Urlacher - Closed the hearing on 1115.

DISCUSSION BILL HAS A SHORT AMENDMENT REQUESTED BY INDUSTRIAL COMM. AMENDMENT REDUCES GENERAL FUND. BONDING PAID BACK FROM EARNINGS. COULD COME FROM ANY REVENUES AND IT WOULD AFFECT THE GEN. FUND. SCHOBINGER HAS SOME AMEND. DISCUSSION WAS 2-10-99 TAPE B 1600 - SEN CHRISTMANN , THE AMENDMENT REDUCES THE GENERAL FUND 4200 .THE BILL WOULD BE REQUIRED TO BE PAID BACK.

3-8-99 DISCUSSION TAPE #1 A. 2400-END- B SIDE 0 - 1255. TOLLEFSON

AMENDMENT FAILED. AMENDMENT ADOPTED FROM THE INDUSTRIAL COMMISSION OF ND. 98183.0102, TITLE .0200. VOICE VOTE TO APPROVE.

SEN. WARDNER MADE MOTION TO DO PASS AS AMENDED AND SEN. KROEPLIN, SECONDED. 4 Y 3 N 0 A. CARRIER WILL BE SEN. WARDNER.

3-10-99 DISCUSSION REFER TO APPROPRIATIONS CONSIDER TO RETURN 7-0-0- MOVED TO DO PASS AS AMENDED BY SEN. WARDNER AND SECONDED BY SEN. KROEPLIN. CARRIER WILL SEN. WARDNER. THE VOTE WAS 4-3-0.

MARCH 8, 1999

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1115

Page 1, line 12, remove "generated from"

Page 1, line 13, remove "earnings"

Re-number accordingly

Date: 3-8-99
Roll Call Vote #: (1)

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1115

Senate Senate Finance and Taxation Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken No Pass as Amend

Motion Made By Sen. Wardner Seconded By Sen. Kroeplin

Senators	Yes	No	Senators	Yes	No
SENATOR URLACHER		✓			
SENATOR CHRISTMANN		✓			
SENATOR SCHOBINGER	✓				
SENATOR STENEHJEM		✓			
SENATOR WARDNER		✓			
SENATOR KINNOIN		✓			
SENATOR KROEPLIN		✓			

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Date: 3-8-99
 Roll Call Vote #: 2

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 1115

Senate Senate Finance and Taxation Committee

Subcommittee on _____
 or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass as Amended

Motion Made By Sen. Wardner Seconded By Sen. Kroeplin

Senators	Yes	No	Senators	Yes	No
SENATOR URLACHER	✓				
SENATOR CHRISTMANN		✓			
SENATOR SCHOBINGER		✓			
SENATOR STENEHJEM		✓			
SENATOR WARDNER	✓				
SENATOR KINNOIN	✓				
SENATOR KROEPLIN	✓				

Total (Yes) 4 No 3

Absent _____

Floor Assignment Sen. Wardner

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
March 9, 1999 1:48 p.m.

Module No: SR-42-4357
Carrier: Wardner
Insert LC: 98183.0102 Title: .0200

REPORT OF STANDING COMMITTEE

HB 1115: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (4 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING). HB 1115 was placed on the Sixth order on the calendar.

Page 1, line 12, remove "generated from"

Page 1, line 13, remove "earnings"

Renumber accordingly

Date: 3-10-99
Roll Call Vote #: 2

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1115

Senate Senate Finance and Taxation Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass as amended - refer to approp.

Motion Made By Sen. Wardner Seconded By Sen. Kroeplin

Senators	Yes	No	Senators	Yes	No
SENATOR URLACHER	✓				
SENATOR CHRISTMANN		✓			
SENATOR SCHOBINGER		✓			
SENATOR STENEHJEM		✓			
SENATOR WARDNER	✓				
SENATOR KINNOIN	✓				
SENATOR KROEPLIN	✓				

Total (Yes) 4 No 3

Absent 0

Floor Assignment Sen Wardner

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1115: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (4 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING). HB 1115 was placed on the Sixth order on the calendar.

Page 1, line 12, remove "generated from"

Page 1, line 13, remove "earnings"

Renumber accordingly

1999 SENATE APPROPRIATIONS

HB 1115

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1115

Senate Appropriations Committee

Conference Committee

Hearing Date March 19, 1999

Tape Number	Side A	Side B	Meter #
1	X		4100-end
1		X	1-1805
3/30/99 1	X		4315-4479
Committee Clerk Signature <i>Kathleen C. Kottelerock</i>			

Minutes:

SENATOR NETHING: Opened the hearing on HB1115; A BILL FOR AN ACT TO CREATE AND ENACT TWO NEW SECTIONS TO CHAPTER 54-18 OF THE NORTH DAKOTA CENTURY CODE, RELATING TO THE ISSUANCE OF BONDS BY THE INDUSTRIAL COMMISSION FOR THE MILL AND ELEVATOR ASSOCIATION.

MIKE STROBEL: President and General Manager of the North Dakota Mill to testify in support of HB1115 (testimony attached (tape 1, side A, meter 4100-end).

SENATOR SOLBERG: Your midds and pelleting system. Are you talking pelleting the midds just as is, or do you add anything and what do you do with the screenings?

MIKE STROBEL: The standard of identify for middlings is milt, bran shorts and germs, ground up on a hammer mill with elevator screenings ground and added.

SENATOR SOLBERG: Do you put a protein content on also?

MIKE STROBEL: It has a standard analysis of protein.

SENATOR ROBINSON: What type of construction time period are we looking at?

MIKE STROBEL: The important thing at this time is we hit a window next winter which coincides with our slow period. If we get approval of the project, around May, and sign contracts, we'll get started on some projects right away. The milling equipment will be ordered in May or early June and will be delivered on sight in December, possibly January. Mike described the process. The entire project, May, June or July, 2000.

SENATOR ANDRIST: The challenge today, seems to be not to make something but, to sell it. Where are you on the marketing of your flour? Are you confident of the demand, price structure and profitability?

MIKE STROBEL: A lot of the flour is going to be used by our existing customers. They currently would like to buy more flour from us but, I can't produce it during the peak periods. August through Christmas, we ran all the flour we could possibly run. I was turning away business. Part of having increased sales in the Spring and January when it's typically the slow period for everybody, having more sales then depends on being able to supply the same customer during the August to December period. They are going to take care of the suppliers that took care of them when they really needed it. We are courting a number of customers that are showing some interest in doing business with us that we would basically be taking away from another one of the milling companies. We've built into our projections some substantial discounts for going out and buying into that business. For sometime, until they are convinced we have good quality flour, we're going to have to give them a better deal than their current supplier.

SENATOR ST. AUBYN: On your grain prices, you show a significant increase in durum and not that much of an increase in spring wheat. Why are you showing that, and is it reflected in your sales? What if your grain prices are significantly higher than this, what effect does that have on your profits?

MIKE STROBEL: The cost of you see for wheat is our best guess. We talked to many experts in the field for grain prices going forward. Basically this is a high bred of the five year backward average with a good guess on what might happen in the future. Our flour is sold on kind of a quote formula with our margin on top. High grain prices don't necessarily make us more money. Although milling companies make more money when the prices are moving up and down showing some volatility. Because, hopefully, we can buy better than our customers buy or we can gain their loyalty by steering them into buy now or wait and buy in a month.

SENATOR BOWMAN: Spring wheat growers are trying to put in a milling plant and using North Dakota spring wheat as a marketing tool. I'm not sure if it's dead in the water, but, if it is, is it because they can't compete with the State Mill, and if that's the case, if another private company would come in, how would that affect the payable of this new project?

MIKE STROBEL: In the last two years, two new flour mills have been built in the State. I've lost some business and replaced it, we're still having a record year. For the last three years, we've sold more hundred weight than we've ever sold. Some of the prices have been messed up a little in the Fargo area as they try to buy their way. All of our flour goes to the Ohio Valley and the East Coast. If three or four other flour mills want to be built in North Dakota and compete in that market with us, I'll help you. We'll see if there is anyway we can joint market our midds together. The people from Minot and Fairmont have been through our mill, we talk to them on the phone, and during the busy period last fall we sold flour back and forth to each other. We have a little different charge than if I were an ADM or ConAgra, I'm supposed to help

North Dakota industry in businesses and agriculture. We're out there doing everything we can. I am constantly finding bean customers for North Dakota.

SENATOR KRAUTER: As we look to the commitment the Mill is going to make to the General Fund and the repayment of these bonds, what are we doing to protect ourselves? I see hints of new/modern technology and what if through the construction process or through the vendors some of that doesn't meet the specs and we can't produce that type of flow through and our revenues are down, what do we do to protect ourselves?

MIKE STROBEL: You walked through all the bad things that can happen. I think we have to be very careful with the contract we sign. We aren't being very specific with the mill builders on how to build it, I'm basically saying the "B" mill needs to run 8,000 hundred weights a day; it needs to be able to get this kind of yield with this kind wheat; it needs to be able to run in this kind of manner; and we need to thoroughly define what that mill needs to do and what the performance ought to be. If they can't do that, then they are in breach of the contract. Obviously, that isn't helping us pay off the bills though. At some point, we have to say it's going to be ok, and they're going to do what they say they are going to be able to do. I've never seen a mill screwed up for a long period of time; if it doesn't perform the way it's supposed to, there is a way to fix it. My job in looking at the contract is to make sure they are contractually tied into, if it isn't right, you have to fix it. It's current technology.

SENATOR KRINGSTAD: What's the percentage of the raw product that's purchased in North Dakota? Do you purchase any out of State?

MIKE STROBEL: We do purchase a little out of State. Because of the location, right on the Red River in Grand Forks, there is a natural tendency for us to pull from a 150 mile radius around us. We have always bought some Minnesota wheat and will continue. We buy zero wheat out of Canada. We also buy occasionally out of Montana, that's usually some specific requirement that I can't buy locally, like zero vomitoxin, etc. We buy from almost every county out of the State. The bulk is from the Red River Valley straight down Highway 2, that's the way the freight rates work out the best.

SENATOR TALLACKSON: What is the mids pelleting used for?

MIKE STROBEL: Primarily cattle and hog feed.

SENATOR SOLBERG: The renovations will bring the capacity from 20,000 to 27,000?

MIKE STROBEL: About 26,000.

SENATOR LINDAAS: How did the flood effect the Mill?

MIKE STROBEL: We took precautions and received some flooding. We received some damage from the hydraulic pressure cracking the floors. All of the milling is on the upper floors.

Profitable, we had a phenomenal year, \$5M the year of the flood. The flood cost the Mill about \$900,000 in lost wages, business, hauling water, back hoes and etc.

SENATOR NETHING: Closed the hearing on HB1115.

SENATOR NETHING: Appointed a subcommittee; Senator St. Aubyn, Chair, Senator Nething, Senator Robinson.

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3/30/99 Tape 1, side A, Meter 4315-4479

SENATOR NETHING: Reopened the hearing on HB1115.

SENATOR ST. AUBYN: Explained the bill.

SENATOR NETHING: Called for the motion on HB1115.

SENATOR ST. AUBYN: Moved a Do Pass on HB1115.

SENATOR ROBINSON: Seconded the motion.

ROLL CALL: 13 YEAS; 0 NAYS; 1 ABSENT & NOT VOTING.

Absent & Not Voting: Senator Tallackson.

CARRIER: SENATOR WARDNER

SENATOR NETHING: Closed the hearing on HB1115.

Date: 3/30/99
 Roll Call Vote #: 1

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. HB 1115

Senate APPROPRIATIONS Committee

Subcommittee on _____
 or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken DO PASS

Motion Made By Senator St. Aubyn Seconded By Senator Robinson

Senators	Yes	No	Senators	Yes	No
Senator Nething, Chairman	✓				
Senator Naaden, Vice Chairman	✓				
Senator Solberg	✓				
Senator Lindaas	✓				
Senator Tallackson					
Senator Tomac	✓				
Senator Robinson	✓				
Senator Krauter	✓				
Senator St. Aubyn	✓				
Senator Grindberg	✓				
Senator Holmberg	✓				
Senator Kringstad	✓				
Senator Bowman	✓				
Senator Andrist	✓				

Total (Yes) 13 No 0

Absent 1

Floor Assignment Senator WARDNER

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
March 30, 1999 10:42 a.m.

Module No: SR-57-5962
Carrier: Wardner
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1115, as amended: Appropriations Committee (Sen. Nething, Chairman)
recommends **DO PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING).
HB 1115, as amended, was placed on the Fourteenth order on the calendar.

1999 TESTIMONY
HB 1115



**Legislative Committee Hearing
January 12, 1999
House Bill No. 1115
North Dakota Mill & Elevator Association**

Mr. Chairman and Representatives:

I am Mike Strobel, President and General Manager of the North Dakota Mill.

I am here in support of House Bill No. 1115 which would give the Industrial Commission authority to issue tax exempt industrial revenue bonds to fund the Mill's Proposed Upgrade and Expansion Project. The construction costs for the project would not exceed \$19.5 million and we anticipate it to be substantially below that. The bonds would be paid off entirely from Mill profits and the Mill should be able to service this debt while maintaining its contribution to the State General Fund.

The North Dakota Mill is proposing a Mill Upgrade and Expansion Project that we hope will be approved by the Industrial Commission this afternoon.

We anticipate the total cost of the Mill Upgrade and Expansion Project to be \$18 million. The project is paid back in 5.73 years with an average annual return on invested capital over 5 years of 20.19%.

Benefits of the project include:

Increased flour sales	1,384,000 cwts.
Increase in wheat purchased	2,733,000 bushels
Five year increase in operating cash flow	\$18.3 million
Five year increase in net income	\$11.1 million
Reduction in operating costs per cwt.	15%

MILL OPERATIONS ADVANTAGES OF THE MILL UPGRADE PROJECT

Section I: Elevator Renovation

- Replace undersized and obsolete conveying equipment
- Double the filling rate of the Mill wheat bins
- Increase number of Mill bins to allow for additional wheat blending for consistency
- Variable speed feeders added to the discharges of the Mill bins will provide precise rates of wheat to the cleaning systems

Section II: Wheat Cleaning Systems Upgrade

- Replaces obsolete equipment with energy efficient, multi-function, modern wheat cleaning systems
- The addition of a fourth wheat cleaning system specifically designed to clean Durum wheat will improve wheat quality to the Durum mill
- Speck counts in the semolina and farina will be reduced due to more thorough removal of weed seeds and buckwheat
- Reduce the % of scab damaged and high vomitoxin wheat on the mills
- Reduce the amount of air filter capacity and horsepower required to deliver clean wheat to the Mill
- Reduce manpower requirements by adding automation and monitoring devices

Section III: Addition of a Wheat Tempering Building

- Allow increased tempering of wheat to 24 hours to provide optimal conditioning of the wheat
- Use of automatic moisture application equipment will provide more consistent wheat tempering
- Use of Stainless Steel pre-tempering bins will reduce micro counts on finished product
- The existing "K" mill bins will be utilized by the "D" mill to provide a two-stage tempering system that is needed for improved extraction of semolina from the Durum wheat.
- The additional tempering storage will allow for quick changes between the processing of organic Durum wheat and conventional wheat without compromising the integrity of the organic certification of the wheat.
- The tempering systems for all of the mills will now be located in a common area making it easy for period checks of the equipment.

Section IV: A & B Mill Upgrade and Reflow of the D & K Mills

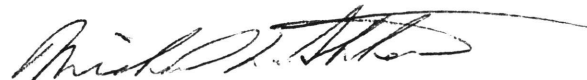
- Farina and Germ production will be maximized.
- Flour and Semolina extraction will be improved.
- Scales will be added to all mills and tied to a "yield management" system to allow for control and monitoring of Mill efficiency.
- Full automation with sensors and other monitoring devices will minimize downtime and eliminate many of the current sanitation problems.
- Swinging from Spring Wheat to Durum on the "B" mill will be quicker and more accurate with less loss from out of specification "transition" flour.
- Overall horsepower will increase for the mills, but energy consumption should remain relatively level due to more efficient motors and reduction in air requirements in the wheat cleaning systems.
- This project will make the North Dakota Mill once again a "state of the art milling facility."
- Reduced maintenance costs due to elimination of old, obsolete equipment.

Section V: Midds Pelleting System

- Pelleting our by-products will increase the density of this product and allow for increased weight to be put into railcars
- Increased weight in railcars will result in a substantial freight saving when shipping midds in a pelleted form
- The increased density will also allow more midds to be stored in existing load-out bins
- Utilizing the abandoned A & B mill temper bins for midds storage will increase the storage capacity of midds and allow for increased flexibility in loading trucks

Thank you for your time and consideration on this request. I will be happy to answer any questions.

Respectfully submitted,



Michael L. Strobel
President & General Manager

House Finance and Tax Committee - 1/12/99
House Bill 1115

State Mill Bonding points to ponder:

- What (in detail) is the renovation project for the State Mill?
- \$19.5 million in bonding for 20 years at the average rate of 5 percent equals almost \$30 million. How does the mill plan to pay that back and yet provide the general fund (shareholders) a return on their investment.
- If “push comes to shove” the taxpayers of North Dakota are liable for the bonds sold even though the statement on the bond says otherwise. State of North Dakota still is responsible ultimately for the payment of those bonds. How could bond holders foreclose on the State Mill?
- At least 7 mills have recently been built in North Dakota (with more on the drawing board). These are in many communities including Minot, Leeds, Cando, Carrington, Grand Forks, Fargo and others. Divide county has now announced that they may be building a mill in their area. These are owned and operated some by cooperatives and some by private companies. All of which are contributing to the (value-added concept) for North Dakota farmers. They all pay taxes to support local schools and government. The State Mill pays no taxes either local, state nor federal. Yet they compete with tax-paying mills in the state of North Dakota.
- The \$19.5 million in bonds for the mill and the \$52 million in bonds that has been proposed for the Grand Forks dike totals \$71.5 million in bonds for Grand Forks allow. With the downturn in North Dakota economy, we cannot afford the additional indebtedness.
- The other mills in the state will do the job for their stockholders (us the people), the farmers and the state. They will do it just fine.

Representative Ben Tollefson
District 38



**Legislative Committee Hearing
February 9, 1999
House Bill No. 1115
North Dakota Mill & Elevator Association**

Mr. Chairman and Senators:

I am Mike Strobel, President and General Manager of the North Dakota Mill.

I am here in support of House Bill No. 1115 which would give the Industrial Commission authority to issue tax exempt industrial revenue bonds to fund the Mill's Proposed Upgrade and Expansion Project. The construction costs for the project would not exceed \$19.5 million and we anticipate it to be substantially below that. The bonds would be paid off entirely from Mill profits and the Mill should be able to service this debt while maintaining its contribution to the State General Fund.

The North Dakota Mill has been discussing this project with the Industrial Commission for the past several months.

We anticipate the total cost of the Mill Upgrade and Expansion Project to be \$18 million. The project is paid back in 5.73 years with an average annual return on invested capital over 5 years of 20.19%.

Benefits of the project include:

Increased flour sales	1,384,000 cwts.
Increase in wheat purchased	2,733,000 bushels
Five year increase in operating cash flow	\$18.3 million
Five year increase in net income	\$11.1 million
Reduction in operating costs per cwt.	15%

3830

MILL OPERATIONS ADVANTAGES OF THE MILL UPGRADE PROJECT

Section I: Elevator Renovation

- Replace undersized and obsolete conveying equipment
- Double the filling rate of the Mill wheat bins
- Increase number of Mill bins to allow for additional wheat blending for consistency
- Variable speed feeders added to the discharges of the Mill bins will provide precise rates of wheat to the cleaning systems

Section II: Wheat Cleaning Systems Upgrade

- Replaces obsolete equipment with energy efficient, multi-function, modern wheat cleaning systems
- The addition of a fourth wheat cleaning system specifically designed to clean Durum wheat will improve wheat quality to the Durum mill
- Speck counts in the semolina and farina will be reduced due to more thorough removal of weed seeds and buckwheat
- Reduce the % of scab damaged and high vomitoxin wheat on the mills
- Reduce the amount of air filter capacity and horsepower required to deliver clean wheat to the Mill
- Reduce manpower requirements by adding automation and monitoring devices

Section III: Addition of a Wheat Tempering Building

- Allow increased tempering of wheat to 24 hours to provide optimal conditioning of the wheat
- Use of automatic moisture application equipment will provide more consistent wheat tempering
- Use of Stainless Steel pre-tempering bins will reduce micro counts on finished product
- The existing "K" mill bins will be utilized by the "D" mill to provide a two-stage tempering system that is needed for improved extraction of semolina from the Durum wheat.
- The additional tempering storage will allow for quick changes between the processing of organic Durum wheat and conventional wheat without compromising the integrity of the organic certification of the wheat.
- The tempering systems for all of the mills will now be located in a common area making it easy for period checks of the equipment.

Section IV: A & B Mill Upgrade and Reflow of the D & K Mills

- Farina and Germ production will be maximized. 4420
- Flour and Semolina extraction will be improved.
- Scales will be added to all mills and tied to a "yield management" system to allow for control and monitoring of Mill efficiency.
- Full automation with sensors and other monitoring devices will minimize downtime and eliminate many of the current sanitation problems.
- Swinging from Spring Wheat to Durum on the "B" mill will be quicker and more accurate with less loss from out of specification "transition" flour.
- Overall horsepower will increase for the mills, but energy consumption should remain relatively level due to more efficient motors and reduction in air requirements in the wheat cleaning systems.
- This project will make the North Dakota Mill once again a "state of the art milling facility."
- Reduced maintenance costs due to elimination of old, obsolete equipment. 4605

Section V: Midds Pelleting System 4810

- Pelleting our by-products will increase the density of this product and allow for increased weight to be put into railcars
- Increased weight in railcars will result in a substantial freight saving when shipping midds in a pelleted form
- The increased density will also allow more midds to be stored in existing load-out bins
- Utilizing the abandoned A & B mill temper bins for midds storage will increase the storage capacity of midds and allow for increased flexibility in loading trucks

Thank you for your time and consideration on this request. I will be happy to answer any questions.

Respectfully submitted,



Michael L. Strobel
President & General Manager



INDUSTRIAL COMMISSION OF NORTH DAKOTA

Edward T. Schafer
Governor

Heidi Heitkamp
Attorney General

Roger Johnson
Commissioner of Agriculture

Testimony for an Amendment to House Bill No. 1115
Karlene Fine
Executive Director and Secretary
Industrial Commission of North Dakota
February 9, 1999 – Senate Finance and Taxation Committee

Mr. Chairman and members of the Senate Finance and Taxation Committee, my name is Karlene Fine and I am Executive Director and Secretary for the Industrial Commission. I am here today to request an amendment to House Bill 1115.

Since this bill was drafted and passed by the House it has been pointed out that the wording on lines 12 and 13 "revenues generated from earnings of the association" could be construed to mean only interest earnings on the State Mill and Elevator Association's revenues. When the bill was drafted it was our intent that any revenues generated by the State Mill could be used for debt service. There would be no General Fund dollars utilized for debt service—just the State Mill's revenues including interest earnings or earnings from the sale of products.

Therefore I would request the following amendment:

Page 1, line 12 delete the words "generated from"

Page 1, line 13 delete the word "earnings".

The sentence would then read as follows:

The principal and interest on the bonds are payable only from revenues of the association.

Thank you for your consideration of this request. If you have any questions, I would be happy to try and answer them.



Senate Appropriations Committee Hearing on House Bill No. 1115
March 19, 1999
North Dakota Mill & Elevator Association

Mr. Chairman and Senators, I am Mike Strobel, President and General Manager of the North Dakota Mill.

I am here in support of House Bill No. 1115 which would give the Industrial Commission authority to issue tax exempt revenue bonds to fund the Mill's Proposed Upgrade and Expansion Project if the Commission should determine that bonding is the best method for financing the project. The construction costs for the project would not exceed \$19.5 million and we anticipate it to be substantially below that amount. The bonds would be paid off entirely from Mill profits and the Mill should be able to service this debt while maintaining a contribution to the State General Fund.

The North Dakota Mill has been discussing this project with the Industrial Commission for the past several months. The Mill has prepared bid packages and will be receiving bids in mid April. We anticipate the total cost of the Mill Upgrade and Expansion Project to be \$18 million. Based on that amount we estimate the project will be paid back in 5.73 years with an average annual return on invested capital over 5 years of 20.19%.

Benefits of the project include:

- | | |
|---|-------------------|
| • Increased flour sales | 1,384,000 cwts. |
| • Increase in wheat purchased | 2,733,000 bushels |
| • Five year increase in operating cash flow | \$18.3 million |
| • Five year increase in net income | \$11.1 million |
| • Reduction in operating costs per cwt. | 15% |

Assuming a yield of 33 bushels of wheat to the acre, increasing Mill production will result in an additional 82,800 acres of wheat being processed at the Mill.

The Mill proposes to finance this project using currently available cash and long-term debt. We have projected that 40% of the project cost could be funded from cash. The remaining 60% will be financed by external borrowing. In projecting our financial position, we made the assumption that the Mill will need to maintain a minimum of \$2,000,000 in cash and cash equivalents. This cash reserve is for any unforeseen contingencies that could arise. Dropping below this could result in the necessity of taking on additional debt in the form of tapping into our credit line. It was also assumed that 50% of the project costs will be paid in July 1999, 25% paid in December 1999, and the remaining 25% paid in April 2000. The long-term outlook for grain prices was provided in the Eide Bailly analysis. The near-term price used in our projection is our current price and our short-term outlook for prices over the next 12 months.

The financing for this project will be either a tax exempt bond issue or a loan from the Bank of North Dakota for \$10,925,000.

**North Dakota Mill
Financial Projections
Period Ending
Conventional Loan Financing - 4 year Term**

	June-99	June-00				June-01	June-02	June-03	June-04
		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr				
Cash & cash equivalents	11,385,000	1,280,000	8,000	5,000	3,544,000	2,359,000	3,139,000	4,582,000	7,234,000
Inventories:									
Grain	8,360,000	8,820,000	8,820,000	8,820,000	8,820,000	9,485,000	9,485,000	9,485,000	9,485,000
Finished products	1,495,000	1,521,000	1,521,000	1,521,000	1,746,000	1,816,000	1,887,000	1,893,746	1,900,306
Subtotal	9,855,000	10,341,000	10,341,000	10,341,000	10,566,000	11,301,000	11,372,000	11,378,746	11,385,306
Net Property, plant, & equipment	14,997,000	23,691,000	27,999,000	27,635,000	31,630,000	29,751,000	28,078,000	26,481,000	24,876,000
Equity	45,118,000	46,090,000	46,962,000	47,467,000	45,571,000	47,148,000	49,598,000	52,985,000	56,604,000
Sales Volume - cwt.	6,520,000	1,692,000	3,448,000	4,887,000	6,550,000	7,227,125	7,580,681	7,926,740	7,934,238
Sales	86,426,000	21,927,000	44,687,000	63,329,000	84,882,000	97,407,000	102,335,000	107,271,000	107,737,000
Net income	3,826,000	974,000	1,846,000	2,351,000	2,955,000	4,077,000	4,950,000	5,886,000	6,120,000
Transfer to General Fund	3,000,000	-	-	-	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Credit line	-	-	3,021,000	2,230,000	-				
Note payable	-	-	-	-	10,525,000	8,026,000	5,359,000	2,515,000	-
Period interest expense	-	-	16,000	12,000	117,000	611,000	443,000	265,000	76,000
Capital project expenditures	-	9,000,000	-	4,500,000	4,500,000				
Grain prices:									
Spring wheat	3.45	3.65	3.65	3.65	3.65	3.80	3.80	3.80	3.80
Durum	3.65	3.30	3.30	3.30	3.30	4.30	4.30	4.30	4.30

Long term debt - Note payable issued April 1, 2000:

Principal	10,925,000
Term in years	4
Interest rate	6.50%
Total interest expense	1,541,000

**North Dakota Mill
Financial Projections
Period Ending
Bond Financing - 5 Year Term**

	June-99	June-00				June-01	June-02	June-03	June-04
		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr				
Cash & cash equivalents	11,385,000	1,280,000	8,000	5,000	4,137,000	3,601,000	5,020,000	7,124,000	9,945,000
Inventories:									
Grain	8,360,000	8,820,000	8,820,000	8,820,000	8,820,000	9,485,000	9,485,000	9,485,000	9,485,000
Finished products	1,495,000	1,521,000	1,521,000	1,521,000	1,746,000	1,816,000	1,887,000	1,893,746	1,900,306
Subtotal	9,855,000	10,341,000	10,341,000	10,341,000	10,566,000	11,301,000	11,372,000	11,378,746	11,385,306
Net Property, plant, & equipment	14,997,000	23,691,000	27,999,000	27,635,000	31,630,000	29,751,000	28,078,000	26,481,000	24,876,000
Equity	45,118,000	46,090,000	46,962,000	47,467,000	45,604,000	47,338,000	49,890,000	53,317,000	56,912,000
Sales Volume - cwts.	6,520,000	1,692,000	3,448,000	4,887,000	6,550,000	7,227,125	7,580,681	7,926,740	7,934,238
Sales	86,426,000	21,927,000	44,687,000	63,329,000	84,882,000	97,407,000	102,335,000	107,271,000	107,737,000
Net income	3,826,000	974,000	1,846,000	2,351,000	2,988,000	4,234,000	5,052,000	5,927,000	6,095,000
Transfer to General Fund	3,000,000	-	-	-	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Credit line	-	-	3,021,000	2,230,000	-				
Note payable	-	-	-	-	12,475,000	10,300,000	7,890,000	5,375,000	2,750,000
Period interest expense	-	-	16,000	12,000	84,000	507,000	418,000	320,000	218,000
Capital project expenditures	-	9,000,000	-	4,500,000	4,500,000				
Grain prices:									
Spring wheat	3.45	3.65	3.65	3.65	3.65	3.80	3.80	3.80	3.80
Durum	3.65	3.30	3.30	3.30	3.30	4.30	4.30	4.30	4.30

Tax exempt bond issued April 1, 2000; matures June 2005

Total bond issue	12,475,000	
Available Funds	11,000,000	
Debt reserve fund	1,247,500	assumes the fund earns interest at rate on the bonds
Bond issue costs	227,500	
Term in years	5.2	
True interest cost (TIC)	4.89%	
Net interest expense	1,688,000	

HB 1115

CONTACT STATE LIBRARY TO BORROW A COPY OR
CONTACT MILL AND ELEVATOR OFFICES



PROPOSED MILL UPGRADE AND
EXPANSION PROJECT
JANUARY 12, 1999