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Salvatore Rickford  
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10/16/63  
Date

2003 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1447

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10/16/03  
Date

# 2003 HOUSE STANDING COMMITTEE MINUTES

## BILL/RESOLUTION NO. HB 1447

House Government and Veterans Affairs Committee

☐ Conference Committee

Hearing Date 1-31-03

Tape Number	Side A	Side B	Meter #
2	x		13.8-52.9
Committee Clerk Signature <i>[Signature]</i>			

Minutes: Chairman Klein: called the hearing to order on HB 1447. All committee members were present.

Representative Boucher: appeared in support of HB 1447. Its a brief bill, with some significant sums of money. We talk about some changes in policy. I have some pretty strong feelings about the BND, its a state owned and operated bank. I believe it is appropriate for the Bank of ND to operate for the people of ND. The Bank of ND has been very good to the people of ND. We all know that the bank has contributed a large amount of money to the general fund. People will make the argument that is very appropriate, because it is, the bank belongs to the people of ND. The only concern that I have is our budgetary situation that currently exists and I don't care how you plug in the numbers, into the current 2001-2003 budget cycle. Without the profits and resources of the Bank of ND I would have to declare that the state of ND would be fiscally insolvent. If you plug in the profits of \$60,000,000, and the transfer of the undivided profits of \$25,000,000, if you plug in the \$9,000,000 of the student loan trust fund, and if you consider the

Page 2

House Government and Veterans Affairs Committee

Bill/Resolution Number HB 1447

Hearing Date 1-31-03

fact that we had a carry over, one could make the argument that about \$140,000,000 of money that will be available during this budget cycle has come from that institution. I think that makes the case that without that bank we would be perhaps be fiscally insolvent here as we speak today. I believe it is time to get back to the original mission of the Bank of ND. And that is to acknowledge that is indeed and was created and chartered for the purpose of investment, to make businesses and agriculture grow in the state. I feel that there is one over-riding and defining issue that we all struggle with in the state of ND today, because I feel this is the hub of all the other concerns that we talk about. The issue is simple to identify, it is people and population. I will say population is the most defining issue at the time. We need to sustain it and to grow it. The solution to addressing our population issues is be put in terms of investments. If we are going to grow our population we have to provide the agricultural resources to the businesses, and the business community, we have to put a deep fiscal investment into the state of N.D. and a deep social and personal investment along with it. We have to think and be creative and look for better ways to make this work. I'm suggesting at looking at the profits of the bank at this time. This bill is very upfront and says we should use the first \$15,000,000 of annual profits of the Bank of ND programs providing capital in the form of loans and equity positions for agricultural and other businesses. Indeed it is the peoples money. In terms of bi-annual this of course would be \$30,000,000.

Eric Hardmeyer, President of Bank of North Dakota: I'm not here to testify for or against, but I'm here to answer any questions you may have, I do have information to hand out to you (SEE ATTACHED TESTIMONY). There will be significant losses in venture capital. Offset by some of the successful projects. 75%-80% of businesses that start up nation wide fail. Those are

Page 3

House Government and Veterans Affairs Committee  
Bill/Resolution Number HB 1447

Hearing Date 1-31-03

the facts, yes there are going to be losses, but yes, there will be successes. How do you measure success?

Representative Sitte: is it constitutional for a government of the state to own part of a private business?

Eric Hardmeyer: As far as the development fund is concerned they are set up as a separate entity, in terms of the Bank of ND you are getting into an area that would not be very comfortable, of the Bank of ND taking ownership. I'm not sure, I'm not sure were are equipped to do that.

No further testimony.

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1447

House Government and Veterans Affairs Committee

☐ Conference Committee

Hearing Date 2-06-03

Tape Number	Side A	Side B	Meter #
2	x		32.9-43.9
Committee Clerk Signature <i>Joseph R. Rente</i>			

Minutes: Chairman Klein: called the hearing to order. All committee members were present.

Representative Grande: made a motion to **DO NOT PASS** HB 1447.

Representative Tieman: **SECOND** the motion.

**VOTE: 11 YES 3 NO 0 ABSENT.**

Motion passed.

Representative Meier: will carry the bill to the floor.

*La Costa Richard*  
Operator's Signature

*10/6/03*  
Date

**FISCAL NOTE**  
Requested by Legislative Council  
01/21/2003

Bill/Resolution No.: HB 1447

**1A. State fiscal effect:** Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				\$1,500,000		\$1,500,000
Expenditures				\$450,000		
Appropriations						

**1B. County, city, and school district fiscal effect:** Identify the fiscal effect on the appropriate political subdivision.

2001-2003 Biennium			2003-2005 Biennium			2005-2007 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

**2. Narrative:** Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

See the answers to questions 3A, B, and C.

**3. State fiscal effect detail:** For information shown under state fiscal effect in 1A, please:

**A. Revenues:** Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.

The revenue was calculated by assuming \$15,000,000 in loans would be made at an average interest rate of 5%. This would generate \$750,000 in annual income, or \$1,500,000 for the 2003-05 and 2005-07 bienniums. If interest rates rise BND will be able to increase interest income by the amount of the interest rate increase.

**B. Expenditures:** Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.

The expenditure is to recognize the possibility of a loan defaulting. We have calculated a 3% loan loss reserve requirement on the \$15,000,000 in loans made, which calculates out to be \$450,000.000. There is no FTE's needed for this bill nor were any other additional operating expenses anticipated. This will be a one-time expenditure.

**C. Appropriations:** Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

There is no appropriation needed in relation to this House Bill. However, it is important to identify Senate Bill No. 2015, which has two separate transfers from the Bank. The first transfer is for \$60,000,000. This transfer can utilize \$15,000,000 in undivided profits and the remaining \$45,000,000 must come from the biennium profits of the Bank. The second transfer is a contingency transfer for \$25,000,000. This transfer would only occur if there is a revenue shortfall for the state. It is also important to point out that statute requires that the Bank's capital cannot fall below \$140,000,000. Based on this information, House Bill No. 1447 would be in conflict with Senate Bill No. 2015.

Name:	Eric Hardmeyer	Agency:	Bank of North Dakota
Phone Number:	328-5674	Date Prepared:	01/23/2003

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Richard Costa  
Operator's Signature

10/16/03  
Date



Roll Call Vote #: Date: 2-6-03

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1447

House GOVERNMENT AND VETERANS AFFAIRS Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken DNP

Motion Made By Rep. Grande Seconded By Rep. Tieman

Representatives	Yes	No	Representatives	Yes	No
Chairman M.M. Klein	X		B. Amerman		X
Vice Chairman B.B. Grande	X		L. Potter		X
W.R. Devlin	X		C. Williams	A	
C.B. Haas	X		L. Winrich		A
J. Kasper	X				
L.R. Klemin	X				
L. Meier	X				
M. Sitte	X				
W.W. Tieman	X				
R.H. Wikenheiser	X				

Total (Yes) 11 No 3

Absent 0

Floor Assignment Rep. Meier

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

REPORT OF STANDING COMMITTEE (410)  
February 6, 2003 11:44 a.m.

Module No: HR-23-1824  
Carrier: Meier  
Insert LC: . Title: .

**REPORT OF STANDING COMMITTEE**  
**HB 1447: Government and Veterans Affairs Committee (Rep. M. Klein, Chairman)**  
recommends **DO NOT PASS** (11 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING).  
HB 1447 was placed on the Eleventh order on the calendar.

(2) DESK, (3) COMM

Page No. 1

HR-23-1824

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Richard Costa  
Operator's Signature

10/16/03  
Date

2003 TESTIMONY

HB 1447

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Salvatore Riccardi  
Operator's Signature

10/16/03  
Date

**BANK OF NORTH DAKOTA  
HOUSE BILL 1447**

Below is the last four years of income and the projection for 2003:

**BND Income (millions)**

				Unaudited	Projected
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
	\$30.5	\$32.6	\$33.1	\$32.2	\$31.0

Income over the last 4 years has been steady with growth in each of the three previous years. Although 2002 numbers are unaudited at this point, income is down from 2001 by \$900,000 due to lower interest margins resulting from the current low interest rate environment. However, actual net income for 2002 was \$800,000 higher than budget, this is attributed to increased fee income and tight expense control. Net income for 2003 is projected to decrease to \$31.0 million as we continue to see shrinking margins in this low-rate environment.

**BND Total Assets and Capital (millions)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	Unaudited <u>2002</u>
Assets	\$1,609	\$1,687	\$1,808	\$2,107	\$1,975
Capital	\$ 140	\$ 139	\$ 153	\$ 170	\$ 149
Ratio	8.7%	8.24%	8.46%	8.07%	7.55%

Assets over the past 4 years have shown growth with the exception of 2002, which showed a decrease of \$132 million. This decrease is due mainly to deposit maturation. At the end of 2002, BND booked a \$22 million liability which reflects the estimated transfer to the general fund for the projected shortfall. If in fact BND is required to contribute the full \$25 million to fund the general fund shortfall, and total assets of BND remain in the \$2 billion level, BND's capital ratio would fall to 7.3%. According to Bank Commissioner, Tim Karsky, a nation-wide comparison for banks of similar size is 8.16%. The North Dakota average for all banks is 10.04%.

**BND's Total Loan Portfolio (millions)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	Unaudited <u>2002</u>
	\$835	\$1,056	\$1,158	\$1,272	\$1,330

Loan growth has increased steadily over the past 5 years. In 2002 loan growth was \$58 million despite selling over \$65 million of student loans to the Student loan trust. The bank has experienced widespread growth, with the business and residential portfolios showing the greatest increase. BND has averaged financing 200 business and industrial projects per year, or more than 1000 projects over the last 5 years, creating thousands of new jobs in North Dakota.