

FISCAL NOTE
Requested by Legislative Council
01/05/2019

Bill/Resolution No.: HB 1141

- 1 A. **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.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

This bill would amend Section 54-44.3-20 of the North Dakota Century Code to exempt officers and employees of the Bank of North Dakota from the state classified system.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

This bill would not have a direct fiscal impact. However, it would remove 149 current employees from the unified system of human resources management that is established under state law to ensure open competitive selection, protection from arbitrary personnel actions, equitable pay policies and practices, and consistent employment conditions. As a result, the Bank would need to develop, implement and administer alternative methods for ensuring equitable compensation and employment practices.

It is unknown what impact this change could have on total compensation paid by the Bank.

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.*

- 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.*

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

Name: Lisa Kudelka, Interim CPO

Agency: OMB-HRMS

Telephone: 701-328-1638

Date Prepared: 01/08/2019

2019 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1141

2019 HOUSE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee

Fort Union Room, State Capitol

HB 1141

2/7/2019

32387

☐ Subcommittee

☐ Conference Committee

Committee Clerk Signature Carmen Hart

Explanation or reason for introduction of bill/resolution:

Relating to exceptions to classified service

Minutes:

Attachment 1

Chairman Kasper opened the hearing on HB 1141.

Rep. George Keiser appeared in support of HB 1141. All of our state employees are in a classified position with some exceptions. As banks around the state open new branches, one of the very lucrative hunting grounds for them is the Bank of ND. We spend a great deal of money training these individuals and they get picked off, and we start over. We are at a point where the Bank of ND is taking a significant hit with the institutional memory and the abilities within their workforce. We are asking in the bill to add officers and employees of the Bank of ND to be not in the classified system. Like those other exceptions, salaries can be developed for those individuals.

Vice Chair Steiner: Any estimate of what this will cost us?

Rep. Keiser: That is an appropriate question to ask the bank which deals with this.

Rep. B. Koppelman: Could that argument be used on any of our agencies?

Rep. Keiser: Obviously, they could. We have made these other exceptions because they have demonstrated the problem.

Eric Hardmeyer, President of Bank of North Dakota, appeared in support. Attachment 1. (4:34-9:44)

Rep. Schneider: Any resistance from your staff?

Mr. Hardmeyer: Overall, I have not heard any negative comments. The fact is that 28 of our employees are already unclassified. They understand our process for discipline, raises, and I think they are generally very supportive of everything we can do to make the Bank of ND a little bit more nimble and flexible working with the salary structure.

Rep. Laning: What goes into your efficiency ratio as far as how that is determined?

Mr. Hardmeyer: That is a standard ratio. It is our overhead cost as a percentage of revenue. It takes our expenses over our revenue and calculates 15% revenue. Anything under 50% is considered to be excellent, and we are well under that at 15%.

Rep. C. Johnson: If this bill passes, are you going to be able to maintain that efficiency rating, or will it go up or down?

Mr. Hardmeyer: We don't see this as a material impact to the expense side of things. We would anticipate our efficiency ratio will continue well below the industry norm.

Rep. Rohr: Between 2011-12 and 14-15, you have some significant drops. Was that attrition?

Mr. Hardmeyer: Some of that is a timing issue. We got out of the Federal student loan business which had a significant impact on the bank. While there are certain things we no longer do, the Bank of ND has taken on additional programs including school construction and infrastructure financing. Therefore, our number of FTEs flow up and down.

Rep. Hoverson: You compete with private banks for talent. Do you also compete for business with private banks for consumers, and would this bill increase that ability?

Mr. Hardmeyer: We partner with the private sector rather than compete with the private sector. We keep that in mind at all times.

Rep. Schauer: Could you give me an example how going unclassified would allow you to be nimble and flexible and to be able to better track more talent?

Mr. Hardmeyer: We have an individual here that came from a bank in Bismarck that is now head of our credit administration area. He set up the credit administration in two banks in Bismarck. One of his frustrations is his ability to structure the underwriting team the way he needed to in terms of different classification systems and was unable to be successful in that process through HRMS even though he had set this up exactly the way he did in the private sector.

Vice Chair Steiner: Supposedly we pay less than the private sector, but we have a super retirement plan. That model is not working at your bank?

Mr. Hardmeyer: We have a nice benefit package, but when you look at the Bank of ND and compare it to other financial institutions, there are things that they have in their industry that we do not have. BND does not have a gain share program, stock options, or ability to buy in to the organization. On the salary side, we are treading water. A two-year no pay increase for state workers is harmful.

Vice Chair Steiner closed the hearing.

Rep. Laning made a motion for a DO PASS.

Rep. Schauer seconded the motion.

A roll call vote was taken. 11-3, 0 absent.

Rep. Schauer will carry the bill.

Date: 2-7-19
Roll Call Vote #: 1

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1141

House Government and Veterans Affairs Committee

☐ Subcommittee

Amendment LC# or Description: _____

Recommendation: ☐ Adopt Amendment
☒ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar
Other Actions: ☐ Reconsider ☐ _____

Motion Made By Rep. Laning Seconded By Rep. Schauer

Representatives	Yes	No	Representatives	Yes	No
Chairman Jim Kasper	X		Rep. Pamela Anderson	X	
Vice Chair Vicky Steiner	X		Rep. Mary Schneider	X	
Rep. Jeff Hoverson	X				
Rep. Craig Johnson	X				
Rep. Daniel Johnston		X			
Rep. Karen Karls	X				
Rep. Ben Koppelman		X			
Rep. Vernon Laning	X				
Rep. Scott Louser	X				
Rep. Karen Rohr		X			
Rep. Austen Schauer	X				
Rep. Steve Vetter	X				

Total (Yes) 11 No 3

Absent 0

Floor Assignment Rep. Schauer

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

REPORT OF STANDING COMMITTEE

HB 1141: Government and Veterans Affairs Committee (Rep. Kasper, Chairman)
recommends **DO PASS** (11 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING).
HB 1141 was placed on the Eleventh order on the calendar.

2019 SENATE GOVERNMENT AND VETERANS AFFAIRS

HB 1141

2019 SENATE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee Sheyenne River Room, State Capitol

HB1141
3/15/2019
33790

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Pam Dever

Explanation or reason for introduction of bill/resolution:

Relating to exceptions to classified service.

Minutes:

Att #1 – Rep Longmuir; Att #2-Eric Hardmeyer;

Chairman Davison: Let's open the hearing on HB1141.

Rep. Donald Longmuir, Dist 2: I introduce and support this bill. (see att #1) (1.00-2.49) This bill will help the BND retain and recruit good employees. Any questions?

Eric Hardmeyer, Pres. & CEO, Bank of N.D.: (see att # 2) I am here in support of this bill. We are celebrating 100 years. Lori Leingang is here with me to explain, also. We grew from \$2.8 Billion asset to \$7.4 Billion assets in 2015. Today, we are about \$7 Billion assets. We have 175 employees. We are the only bank of its kind. We just want to take BND out of the classification system.

Lori Leingang, BND-Human Resources: I deal with HR at the BND. I have been there 12 years and have been in Human Resources for 20 years total. Lori explained the last pages in att #2. The Mill and the Dept. of Commerce are exempt and want the same exemption. The exemption gives us more flexibility in how we manage the budget. This concept has been approved and supported by our advisory board and the N.D. Industrial Commission. (13.57)

Sen. Erin Oban: What is the difference between classified and unclassified? (14.42)

Lori: Classified are those that are managed with in the HRMS process for classification and job structure. Unclassified is left up to the agency to do that. Our current 28 unclassified jobs, we establish a job description for them. If we have changes in a job classification, we would go through an HRMS process for them. It would be approved or denied. (15.35) I like the current form of the bill.

Chairman Davison: Any more in favor? Agency? Against? Close the hearing. (16.38)

Sen. Kristin Roers: Move a DO PASS.

Sen. Shawn Vedaa: I second.

Chair Davison: Roll: YES - 7, NO – 0, -0-a.b. PASSED. Sen. Meyer will carry the bill.

REPORT OF STANDING COMMITTEE

HB 1141: Government and Veterans Affairs Committee (Sen. Davison, Chairman)
recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING).
HB 1141 was placed on the Fourteenth order on the calendar.

2019 TESTIMONY

HB 1141

#1
HB 1141
2-7-19

**Testimony to the House Government & Veterans Affairs Committee
House Bill 1141
February 7, 2019**

**Eric Hardmeyer - President
Bank of North Dakota**

Mr. Chairman and members of the Government & Veterans Affairs Committee, my name is Eric Hardmeyer and I am the President and CEO at the Bank of North Dakota (BND). I am here to testify in support of HB1141.

This bill removes 153.5 of BND's authorized FTE's from the state classified service. The remaining 28 authorized FTE's were previously removed from the classified service by state personnel board action in 1985, 1986, 1994 and 1995. The positions that are currently unclassified are those in higher-level management and other positions that were removed due to their specific nature at BND.

BND is seeking to exempt itself from the state classification system for the following reasons:

1. BND is run as a business vs. a state agency and we compete with financial institutions for talent. The removal of these additional positions from the classified service will allow us to be more proactive vs. reactive to market changes in our industry. For example, in the past 5 years, 32 new hires came from the financial industry, while conversely, 13 employees that departed BND for employment with other financial institutions. While every state agency needs talented people, BND is charged with managing billions of dollars requiring specialized skills. With increased competition for talent, we need the ability to be flexible and responsive to what is needed to run our business.
2. When opportunities are found that increase efficiency and enhance service to customers, BND is currently hampered with an administrative process that takes a great deal of time and effort. If we were able to make these business decisions internally by utilizing one salary structure, we could make adjustments more efficiently.

The current process to reclassify positions adds time and complexity.

Here is an example of a recent concern:

#1
HB 1141
2-7-19

- Approximately 150 hours were invested by various BND employees over the past 3 years to request reclassification and an additional level for our credit analyst positions. These jobs perform a critical role in the determination of strength in our loan portfolio and are also in high demand in the financial institution industry. As a bottom-line driven organization, this time equates to more than \$6,000 using a conservative estimate. After all the time and effort put in by our chief credit officer, credit manager, and HR staff, this request was ultimately denied. This puts us at a disadvantage when trying to compete with other financial institutions for talent.
- 3. Our succession process has identified that 45% of our current staff intend to retire in the next 1-7 years. When analyzed further, 56% of upper management are included in those numbers. In the past five years, 15 employee who have departed BND were an integral part of our succession plan. This change provides the ability to be flexible with training employees for future positions through job progression, so they are ready when retirements occur in the future.
- 4. Other agencies exempt from the classified service include the ND Mill and Elevator and Department of Commerce. BND is similar to these entities in that we provide value to the state through direct transfer of our earnings to the general fund and by providing financial support through various loan programs.

History

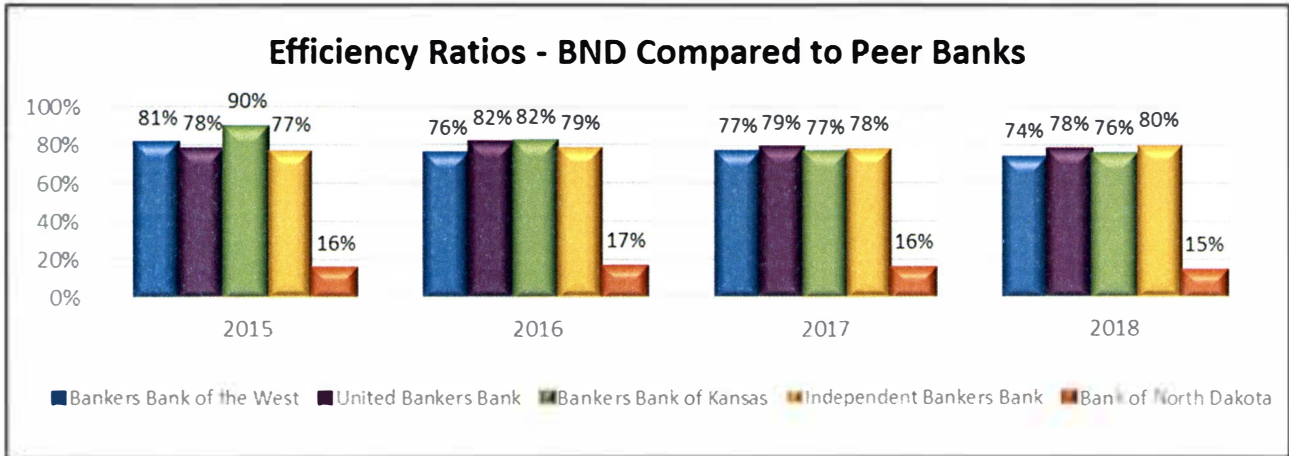
BND has been an organization of transformation for many years. We take pride in our ability to reinvent ourselves to meet the needs of the state, while always keeping true to our mission "To deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota." A notable reorganization occurred in 2014, three outward-facing service market segments were identified: financial institutions, economic development and education. We continue to review our structure and adjust to ensure we are meeting our customers' needs within this market-based approach.

In addition to the external customer focus, we also reorganized internally to create three new divisions: business development, credit administration and risk management. This reflected a switch from a reactionary organization to one that is forward-looking and proactive in our approach to providing the most customer value. During this time of transition and change, we did not increase the number of FTE's

#1
HB 1141
2-7-19

and no employees were terminated. Many employees transitioned into new roles that reflect the new direction and structure.

In the 2017 ND Legislative session, BND was directed to conduct a study regarding potential efficiencies in operations and report to the appropriations committee of the sixty-sixth legislative assembly. Some of the data from that report reflect key measurements for BND as a financial institution and are shared below.

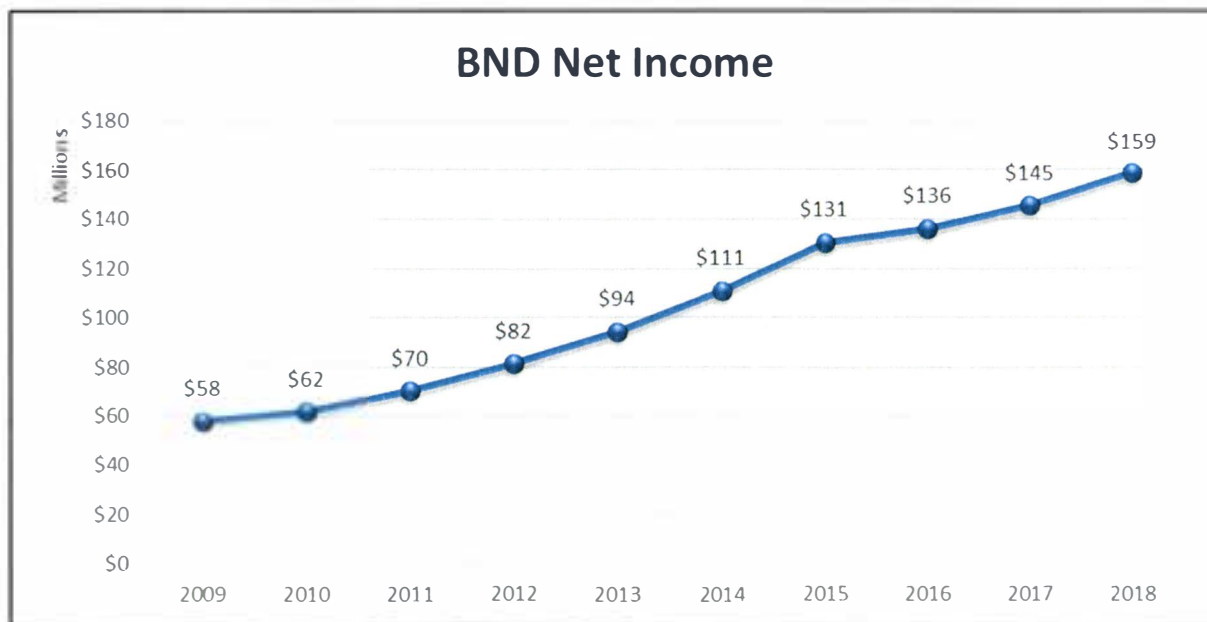


The bank efficiency ratio measures a bank's overhead costs as a percentage of its revenue. According to *Investing Answers*, it is a "quick and easy measure of a bank's ability to turn resources into revenue"; the lower the ratio, the better (50% is generally regarded as the maximum optimal ratio). For purposes of this analysis, BND utilized four banks from the Midwest region for comparison. As you can see on the graph, the lowest efficiency ratio in 2018 is 74% at Bankers Bank of the West in Denver. BND's efficiency ratio is at 15% in 2018.

#1
HB 1141
2-7-19

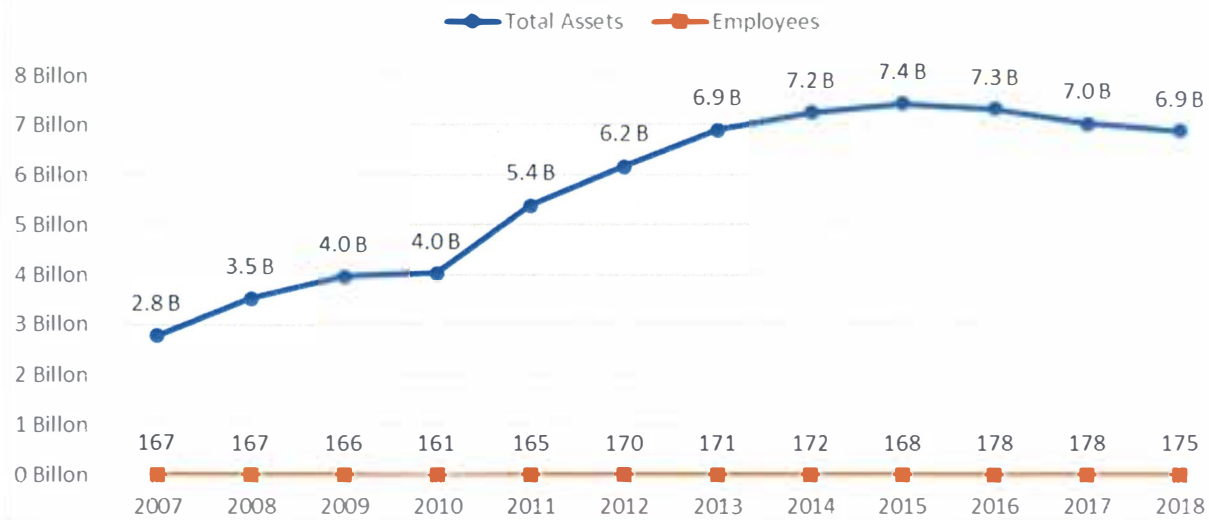
Over the last decade, the Bank of North Dakota experienced a period of dynamic growth along with the growth of the oil industry and strong agriculture commodity prices. The bank grew from about \$4 billion in assets topping out at just over \$8 billion in 2015 before shrinking back to just over \$7 billion at the end of 2018. While total assets increased 100%, the FTE count only increased by 5%.

BND Financial Summary					
In Thousands					
	2015	2016	2017	Unaudited 2018	Projected 2019
Assets	\$ 7,408	\$ 7,295	\$ 7,003	\$ 7,040	\$ 6,948
Net Loans	\$ 4,340	\$ 4,711	\$ 4,824	\$ 4,515	\$ 4,446
Deposits	\$ 5,802	\$ 4,887	\$ 4,615	\$ 4,790	\$ 4,477
Capital	\$ 749	\$ 876	\$ 825	\$ 862	\$ 849
C/A Ratio	10.02%	12.01%	12.05%	12.24%	12.22%
Income	\$ 130,654	\$ 136,155	\$ 145,284	\$ 158,508	\$ 163,492
Transfer	\$ 28,600	\$ 19,989	\$ 186,932	\$ 128,615	\$ 165,900
% Transfer	22%	15%	129%	81%	101%
ROE	17%	16%	18%	18%	19%



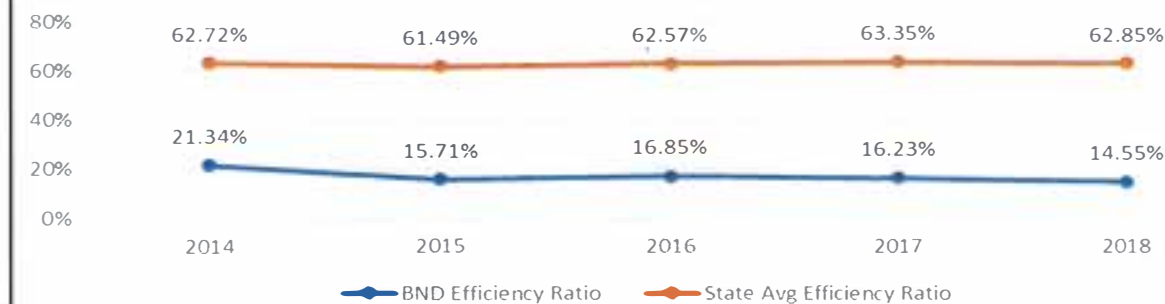
#1
HB 1141
2-7-19

Total Assets & Actual FTE Employees At BND



BND also compares itself against community banks in North Dakota. As you can see below, the efficiency ratio for North Dakota community banks has maintained around 62% over the last five years. In that same time period, BND's efficiency ratio dropped from 21.34% to 14.55%.

Efficiency Ratio - BND Compared to Banks in ND



My point in sharing these graphs is to demonstrate to you that we operate and compare ourselves to private sector financial institutions, not other state agencies.

There are some key questions to be answered:

What happens if this change is approved?

Our first step is to develop a structure for our unclassified employees based on research and analysis of similar positions in our industry. We currently manage this process for the 28 positions previously

1
HB 1141
2-7-19

removed from the classified service. We have competent and experienced HR staff who could put a less complicated and more responsive classification structure in place for all employees at BND that is consistent with the banking industry.

Will BND employees lose their rights regarding disciplinary actions, grievance process, etc. if they are removed from the classified service?

Employees will continue to have the right to a fair and equitable progressive disciplinary process we practice today. Going to an unclassified structure, employees will no longer have the right to appeal employment decisions that result in suspension without pay, demotion, or dismissal.

How does this change impact the salary structure at BND?

As a financial institution, BND will establish a salary structure for all positions to meet the Bank's unique needs. BND consistently maintains salary survey data to identify what is required to recruit and retain talent to run the bank. We are experienced at managing within our budget, and the flexibility gained through our own internal process would give the Bank the necessary tools to work best in this competitive industry.

Does this change impact Legislative Oversight?

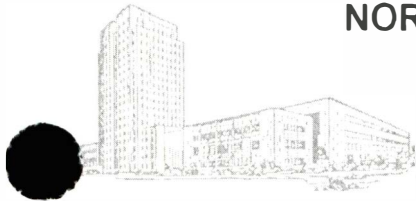
BND will continue adhering to its approved FTE allocation and associated budget process. This change does not impede the Legislators ability to provide oversight to BND as a state agency.

In conclusion, I want to convey to you that this concept was approved and is supported by the BND Advisory Board and North Dakota Industrial Commission. BND's ability to produce consistent profits, address state needs, and serve these needs is directly tied to the talent level at the Bank, and the passage of HB1141 would position the Bank to continue to serve those needs.

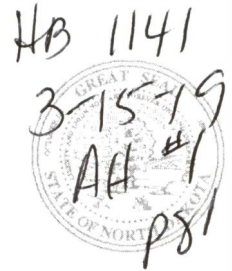
I strongly encourage the committee to issue a "Do Pass" recommendation on HB1141. We appreciate your consideration and I would be glad to answer any questions.

Thank you.

NORTH DAKOTA HOUSE OF REPRESENTATIVES



STATE CAPITOL
600 EAST BOULEVARD
BISMARCK, ND 58505-0360



Representative Donald W. Longmuir

District 2
P.O. Box 1191
Stanley, ND 58784-1191
C: 701-629-1632
dlongmuir@nd.gov

COMMITTEES:

Education
Political Subdivisions

March 15, 2019

Chairman Davison and members of the Senate Government & Veterans Affairs, Thank you for giving me the opportunity to appear before you. My name is Donald Longmuir and I represent District 2 which consists of Burke County, Divide County, Williams County with the exception of most of the City of Williston, and a portion of Mountrail County. I am here this morning to introduce and strongly support HB1141.

The Bank of North Dakota is a unique operation and the only one in the United States. Many states have come to North Dakota to see how the bank works and are envious of the fantastic things that BND is able to accomplish.

BND receives no general funds. In fact, BND is a revenue generator for the State of North Dakota to the tune of about \$150 million a biennium. But this successful operation is in jeopardy because of competition for their talented staff by other financial institutions. These financial institutions recognize talent and are willing to pay for this talent. HB1141 will help BND to retain and attract the talent needed to continually be a revenue generator for the State.

HB1141 does not increase BND budget or increase the number of FTE's at the bank, is moving BND employees to an unclassified employee status. Currently BND has 28 unclassified positions. This would put BND in the same status and the North Dakota Mill and Elevator. HB1141 will benefit the State of North Dakota by retaining and attracting talented employees. I urge a do pass on HB1141.

Thank you for your time and consideration and I would stand for any questions

Testimony to the Senate Government & Veterans Affairs Committee
House Bill 1141
March 15, 2019

HB1141
3-15-19
Att #2
pg 1

Eric Hardmeyer - President
Bank of North Dakota

Mr. Chairman and members of the Government & Veterans Affairs Committee, my name is Eric Hardmeyer and I am the President and CEO at the Bank of North Dakota (BND). I am here to testify in support of HB1141.

This bill removes 153.5 of BND's authorized FTE's from the state classified service. The remaining 28 authorized FTE's were previously removed from the classified service by state personnel board action in 1985, 1986, 1994 and 1995. The positions that are currently unclassified are those in higher-level management and other positions that were removed due to their specific nature at BND.

History

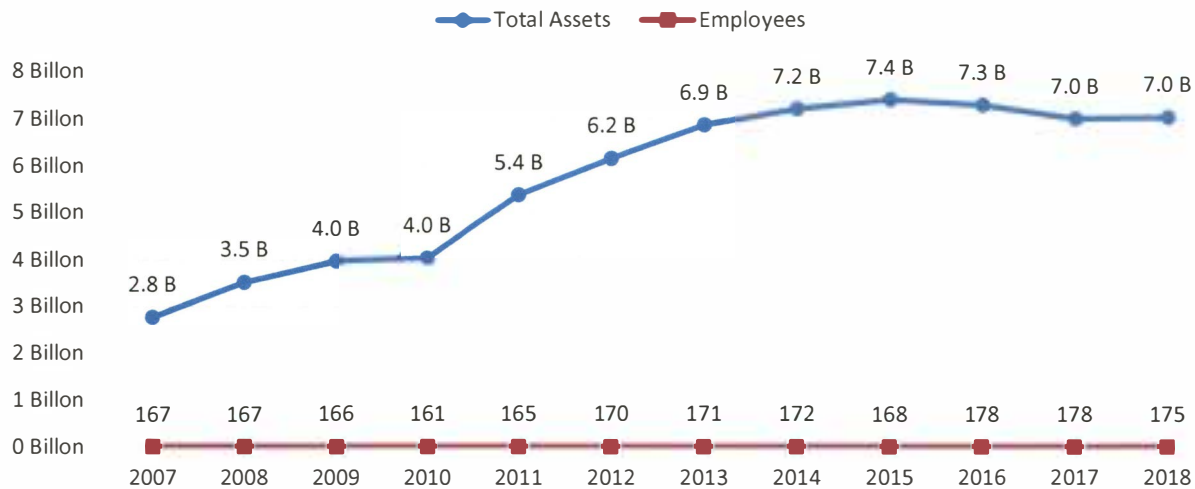
BND has been an organization of transformation for many years. We take pride in our ability to reinvent ourselves to meet the needs of the state, while always keeping true to our mission "To deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota." A notable reorganization occurred in 2014, where three outward-facing service market segments were identified: financial institutions, economic development and education. We continue to review our structure and adjust to ensure we are meeting our customers' needs within this market-based approach.

In addition to the external customer focus, we also reorganized internally to create three new divisions: business development, credit administration and risk management. This reflected a switch from a reactionary organization to one that is forward-looking and proactive in our approach to providing the most customer value. During this time of transition and change, we did not increase the number of FTE's and no employees were terminated. Many employees transitioned into new roles that reflect the new direction and structure.

Over the last decade, the Bank of North Dakota experienced a period of dynamic growth along with the growth of the oil industry and strong agriculture commodity prices. The bank grew from about \$2.8

billion in assets topping out at just over \$7.4 billion in 2015 before shrinking back to just over \$7 billion at the end of 2018. While total assets increased 150%, the FTE count only increased by 5%.

Total Assets & Actual FTE Employees At BND



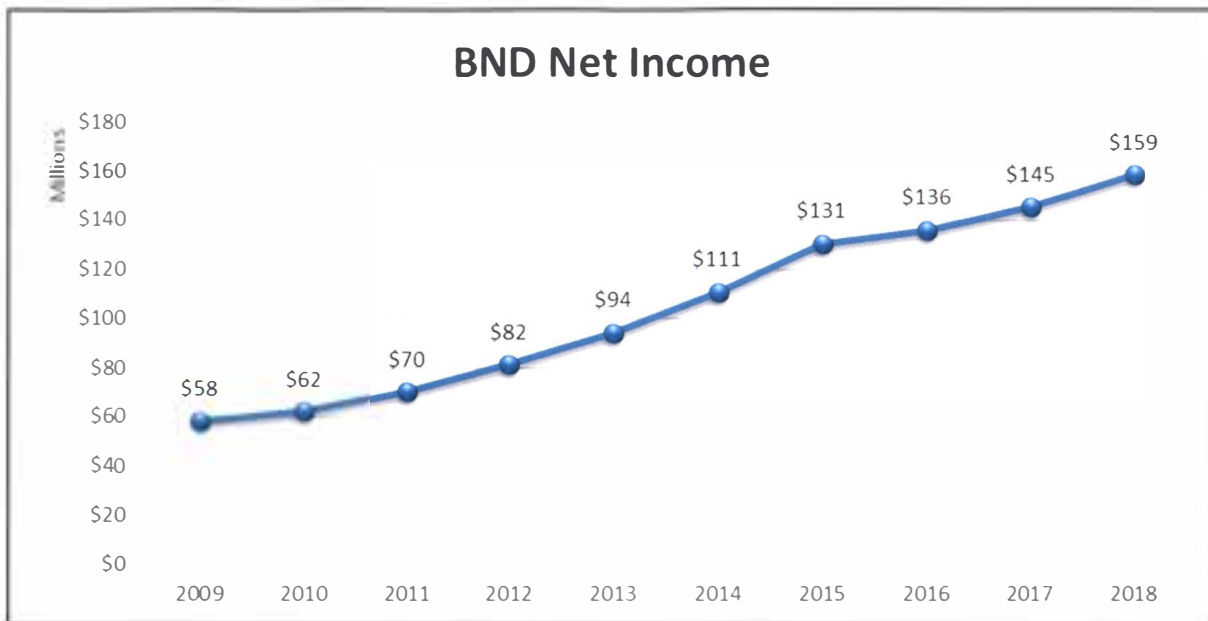
BND Financial Summary

Earnings have been strong with BND achieving record profits each of the last fifteen years. The 2018 budget anticipated earnings of \$148 million but actual earnings came in above projections at \$158.5 million. In the next biennium, we believe earnings may level off or could be reduced slightly subject to the state revenues and a rising interest rate environment. The projection for the 2019-21 biennium is for BND to have approximately \$300 million in earnings.

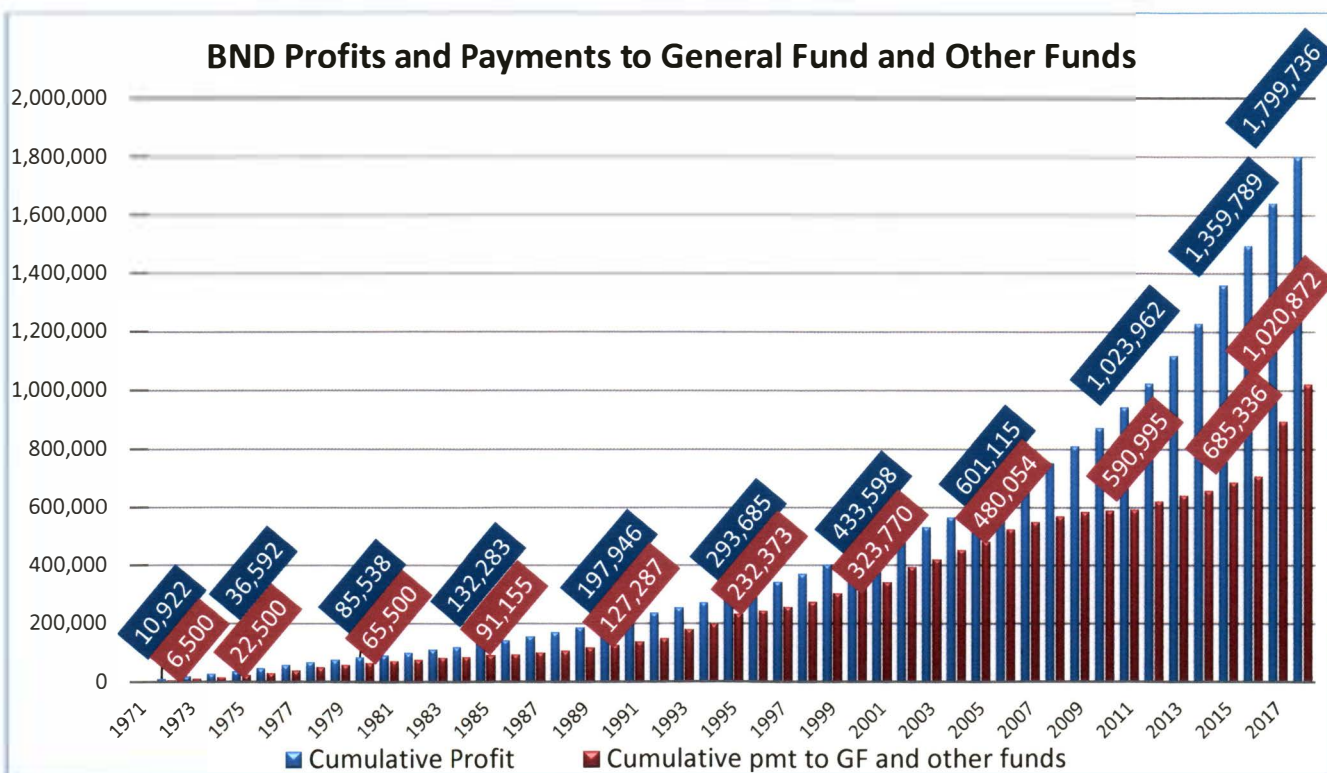
BND Financial Summary In Thousands					
	2015	2016	2017	2018	Projected 2019
Assets	\$ 7,408	\$ 7,295	\$ 7,003	\$ 7,016	\$ 6,948
Net Loans	\$ 4,340	\$ 4,711	\$ 4,824	\$ 4,491	\$ 4,446
Deposits	\$ 5,802	\$ 4,887	\$ 4,615	\$ 4,770	\$ 4,477
Capital	\$ 749	\$ 876	\$ 825	\$ 862	\$ 849
C/A Ratio	10.02%	12.01%	12.05%	12.28%	12.22%
Income	\$ 130,654	\$ 136,155	\$ 145,284	\$ 158,508	\$ 163,492
Transfer	\$ 28,600	\$ 19,989	\$ 186,932	\$ 128,615	\$ 165,900
% Transfer	22%	15%	129%	81%	101%
ROE	17%	16%	18%	18%	19%

HB 1141
3-15-19
AA #2
pg 2

HB 1141
3-15-19
AH #2
pg 3



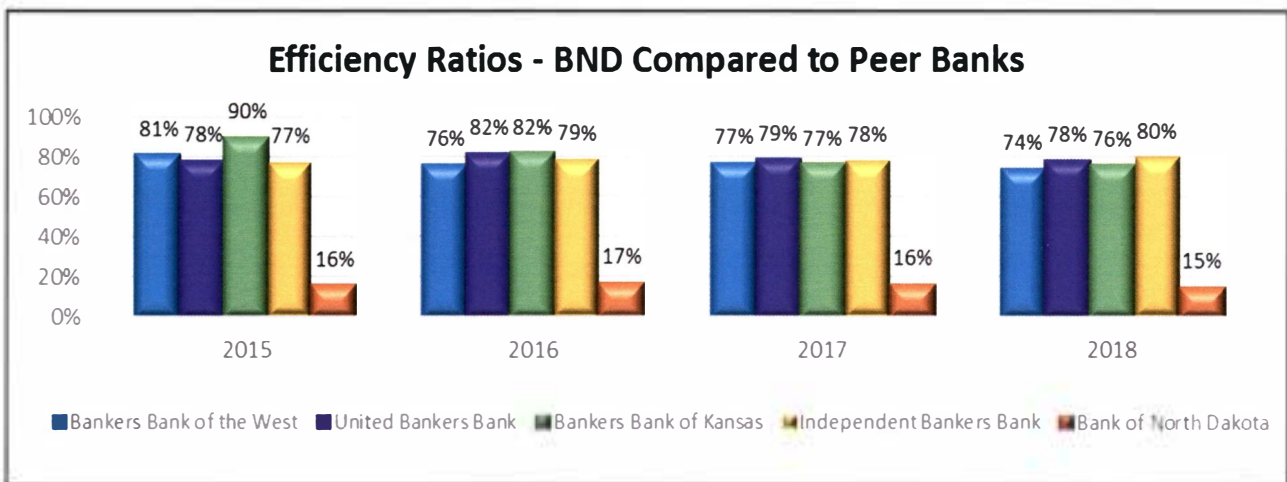
When the legislature requests a dividend or transfer from the Bank of North Dakota to enhance general fund revenues, it comes from the earnings BND has retained as a portion of its capital. Since 2015, the legislature has appropriated \$240 million of BND's retained earnings to the general fund. As you may recall, the first \$100 million was appropriated during the 2015 special session to cover a projected budget shortfall. In its history, BND has provided over \$1 billion of its retained earnings to the general fund/state programs.



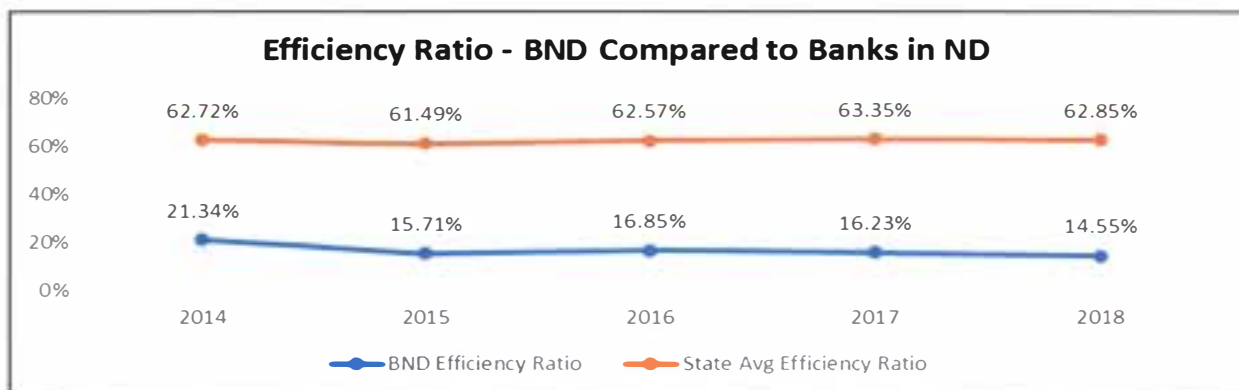
HB 1141
3-15-19
AH# 2
pg 4

In the 2017 ND Legislative session, BND was directed to conduct a study regarding potential efficiencies in operations and report to the appropriations committee of the sixty-sixth legislative assembly. Some of the data from that report reflect key measurements for BND as a financial institution and are shared below.

The bank efficiency ratio measures a bank's overhead costs as a percentage of its revenue. According to *Investing Answers*, it is a "quick and easy measure of a bank's ability to turn resources into revenue"; the lower the ratio, the better (50% is generally regarded as the maximum optimal ratio). For purposes of this analysis, BND utilized four banks from the Midwest region for comparison. As you can see on the graph, the lowest efficiency ratio in 2018 is 74% at Bankers Bank of the West in Denver. BND's efficiency ratio is at 15% in 2018.



BND also compares itself against community banks in North Dakota. As you can see below, the efficiency ratio for North Dakota community banks has maintained around 62% over the last five years. In that same time period, BND's efficiency ratio dropped from 21.34% to 14.55%.



My point in sharing these graphs is to demonstrate to you that we operate and compare ourselves to private sector financial institutions, not other state agencies. We are also relied upon heavily to provide funding back to the state in the form of general fund transfers and funding of loan programs.

HB 1141
3-15-19
AH #2
pg 5

BND is seeking to exempt itself from the state classification system for the following reasons:

1. BND is run as a business vs. a state agency and we compete with financial institutions for talent. The removal of these additional positions from the classified service will allow us to be more proactive vs. reactive to market changes in our industry. For example, in the past 5 years, 32 new hires came from the financial industry, while conversely, 13 employees departed BND for employment with other financial institutions. While every state agency needs talented people, BND is charged with managing billions of dollars requiring specialized skills. With increased competition for talent, we need the ability to be flexible and responsive to what is needed to run our business.
2. When opportunities are identified that increase efficiency and enhance service to customers, BND is currently hampered with an administrative process that takes a great deal of time and effort. If we were able to make these business decisions internally by utilizing one salary structure, we could make adjustments more efficiently.

The current process to reclassify positions adds time and complexity. Here is an example of a recent concern:

- Approximately 150 hours were invested by various BND employees over the past 3 years to request reclassification and an additional level for our credit analyst positions. These jobs perform a critical role in the determination of strength in our loan portfolio and are also in high demand in the financial institution industry. As a bottom-line driven organization, this time equates to more than \$6,000 using a conservative estimate. After all the time and effort put in by our chief credit officer, credit manager, and HR staff, this request was ultimately denied. This puts us at a disadvantage when trying to compete with other financial institutions for talent.
3. Our succession process has identified that 45% of our current staff intend to retire in the next 1-7 years. When analyzed further, 56% of upper management are included in those numbers. In the past five years, 15 employee who have departed BND were an integral part of our

succession plan. This change provides flexibility in training employees for future positions through job progression, so they are ready when retirements occur in the future.

4. Other agencies exempt from the classified service include the ND Mill and Elevator and Department of Commerce. BND is similar to these entities in that we provide value to the state through direct transfer of our earnings to the general fund and by providing financial support through various loan programs.

There are some key questions to be answered:

What happens if this change is approved?

Our first step is to develop a structure for our unclassified employees based on research and analysis of similar positions in our industry. We currently manage this process for the 28 positions previously removed from the classified service. We have competent and experienced HR staff who could put a less complicated and more responsive classification structure in place for all employees at BND that is consistent with the banking industry.

Will BND employees lose their rights regarding disciplinary actions, grievance process, etc. if they are removed from the classified service?

Employees will continue to have the right to a fair and equitable progressive disciplinary process that is currently in place at BND. We follow HR best practices and employment laws related to performance management and disciplinary actions and seek advice from the attorney general's office when needed. This would continue for all employees. Going to an unclassified structure, employees will no longer have the right to appeal to HRMS employment decisions that result in suspension without pay, demotion, or dismissal.

How does this change impact the salary structure at BND?

As a financial institution, BND will establish a salary structure for all positions to meet the Bank's unique needs. BND consistently maintains salary survey data to identify what is required to recruit and retain talent to run the bank. We are experienced at managing within our budget, and the flexibility gained through our own internal process would give the Bank the necessary tools to work best in this competitive industry.

HB 1141
3-15-19
AH #2
pg 6

HB 1141
3-15-19
AH #2
pg 7

Does this change affect BND's budget and FTE allocation?

BND will continue adhering to its approved FTE allocation and associated budget process. This change does not impede the Legislators ability to provide oversight to BND as a state agency.

In conclusion, I want to convey to you that this concept was approved and is supported by the BND Advisory Board and North Dakota Industrial Commission. BND's ability to produce consistent profits, address state needs, and serve these needs is directly tied to the talent level at the Bank, and the passage of HB 1141 would position the Bank to continue to serve those needs.

I strongly encourage the committee to issue a "Do Pass" recommendation on HB1141. We appreciate your consideration and I would be glad to answer any questions.

Thank you.