

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1477

2005 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1477

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1477

House Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date 1-26-05

Tape Number	Side A	Side B	Meter #
4	xx		28.0--33.1
Committee Clerk Signature <i>Pam Neve</i>			

Minutes: **Chair Keiser:** Let's take out HB 1477. This is Rep. Thorpe's bill. This was the transfer bill.

Rep. Dosch: The intention is good. I think we do need to fund the ND Development Fund, but this bill will tie the hands of the Bank of ND. Not the right approach.

Rep. Ruby: Did they use up every biennium?

Chair Keiser: No.

Rep. Thorpe: I was not trying to rob the bank through this bill. I think this bill was trying to do something very positive. We were very fortunate in the past to have the funds from the bank. If we keep appropriating to general funds, we are not doing what the charter of the bank intended.

Chair Keiser: What are the committee wishes?

Rep. Ruby: I move a DO NOT PASS on HB 1477.

Rep. N. Johnson: I second.

VOTE: 10 - YES, 3 - NO, 1 - Absent. PASSED

Rep. N. Johnson will carry the bill.

FISCAL NOTE

Requested by Legislative Council
01/18/2005

Bill/Resolution No.: HB 1477

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 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.*

House Bill 1477 requires all Bank of North Dakota income over \$30 million be transferred to the North Dakota Development Fund. House Bill 1015 requires \$60 million (or \$30 million per year) be transferred to the General Fund.

Bank of North Dakota estimates profits for the 2005-07 biennium to be \$70 million. Further, we estimate Bank of North Dakota capital at the end of the 2003-05 biennium to be \$160 million.

House Bill 1015 also requires Bank of North Dakota to maintain a capital floor of at least \$150 million. There are two other bills-House Bill 1443 and House Bill 1153- which carry contingent transfers of \$10 million and \$6.5 million respectively. If all revenues are transferred from Bank of North Dakota, the Bank will only have the capacity to provide \$10 million for both contingent transfers.

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, 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.*

Name:	Eric Hardmeyer	Agency:	Bank Of North Dakota
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Phone Number: 328-5674

Date Prepared: 01/24/2005

Date: 1-26-05
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1477

House INDUSTRY, BUSINESS AND LABOR Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken

Do Not Pass

Motion Made By

Rep. Ruby

Seconded By

Rep. Vigasaa

Representatives	Yes	No	Representatives	Yes	No
G. Keiser-Chairman	X		Rep. B. Amerman		X
N. Johnson-Vice Chairman	X		Rep. T. Boe	X	
Rep. D. Clark	X		Rep. M. Ekstrom		X
Rep. D. Dietrich	X		Rep. E. Thorpe		X
Rep. M. Dosch	X				
Rep. G. Froseth	X				
Rep. J. Kasper	X				
Rep. D. Nottestad	X				
Rep. D. Ruby	X				
Rep. D. Vigasaa	X				

Total (Yes) 10 No 3

Absent

(1) Kasper

Floor Assignment

Rep N. Johnson

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

REPORT OF STANDING COMMITTEE (410)
January 27, 2005 7:40 a.m.

Module No: HR-18-1152
Carrier: N. Johnson
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1477: Industry, Business and Labor Committee (Rep. Keiser, Chairman)
recommends **DO NOT PASS** (10 YEAS, 3 NAYS, 1 ABSENT AND NOT VOTING).
HB 1477 was placed on the Eleventh order on the calendar.

2005 TESTIMONY

HB 1477

**TESTIMONY TO THE
HOUSE INDUSTRY, BUSINESS & LABOR COMMITTEE**

January 25, 2005

HOUSE BILL 1477

ED SATHER - BANK OF NORTH DAKOTA

The Bank of North Dakota opposes House Bill 1477. This bill requires BND to annually transfer all profits in excess of \$30 million to the North Dakota Development Fund. Of course, the first \$30 million will be transferred to the general fund as required by HB 1015. This then leaves the bank with no opportunity to grow the capital. Our goal is to increase capital to 8% and to maintain it at least that level.

As of year end 2004, Bank of North Dakota is capitalized at 7.75%. According to Federal Reserve regulations, to qualify as "well-capitalized", a financial institution must have at least 5% capital. A nation-wide comparison for banks of similar size is 8.16%, while the North Dakota average for all banks is 9.96%.

Below is a snapshot of key performance measures of the bank.

BND Financial Highlights (millions)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	Unaudited <u>2004</u>	Projected <u>2005</u>
Assets	\$2,107	\$1,974	\$1,953	\$2,015	\$2,000
Loans	\$1,276	\$1,330	\$1,392	\$1,456	\$1,506
Capital	\$ 170	\$ 149	\$ 153	\$ 153	\$ 160
Ratio	8.07%	7.55%	7.83%	7.75%	8.00%
Income	\$33.1	\$32.2	\$31.7	\$34.2	\$35.0
GF transfer	\$50.0	\$30.0	\$34.0	\$30.0	\$30.0
ROE	19.5%	21.6%	20.7%	22.4%	21.9%

Assets have remained fairly constant over the last four years, although loan volume has increased each year. The loan portfolio is diversified into four main categories: business, agriculture, student loans, and residential. The breakdown is as follows: business - \$480 million, agriculture - \$236 million, student loans - \$417 million, and residential - \$322 million. Additionally, over the last three years the Bank has sold over \$134 million in loans to the Student Loan Trust.

BND capital or equity has dropped from \$170 million in 2001 to current levels of \$153 million. This is attributed to the one time transfer of \$18 million to assist with the budget shortfall in the 2001-03 biennium. For the last five biennium's, the Bank has transferred to the general fund nearly \$270 million, making it the fifth largest source of revenue to the state.

Earnings have been consistent over the last four years, with BND achieving a record profit in 2004 of \$34.2 million (unaudited at this point). Earnings over the current biennium will be approximately \$67 million, allowing BND to grow capital by \$7 million after the general fund transfers.

The return on equity ratio, which averages over 21% for the last four years, represents the state's return on its investment in the Bank.

In November, 2004, Moody's Investor Service, a national rating agency, raised ND's issuer rating to Aa2 from Aa3. They cited as reasons: a history of conservative management, strong financial results, and a low debt burden. They also stated "the upgrade is based on a reassessment of benefits and potential risk from the operations of the Bank of North Dakota, the nation's only state-owned financial institution".