



Senate Appropriations Committee
Engrossed House Bill No. 1014 Budget No. 475
North Dakota Mill & Elevator Association
March 1, 2023



Mr. Chairman and Senators:

I am Vance Taylor, President and CEO, of the North Dakota Mill and Elevator. With me today is Cathy Dub, our CFO. The North Dakota Mill & Elevator Association operates under Chapter 54-18 of the North Dakota Century Code.

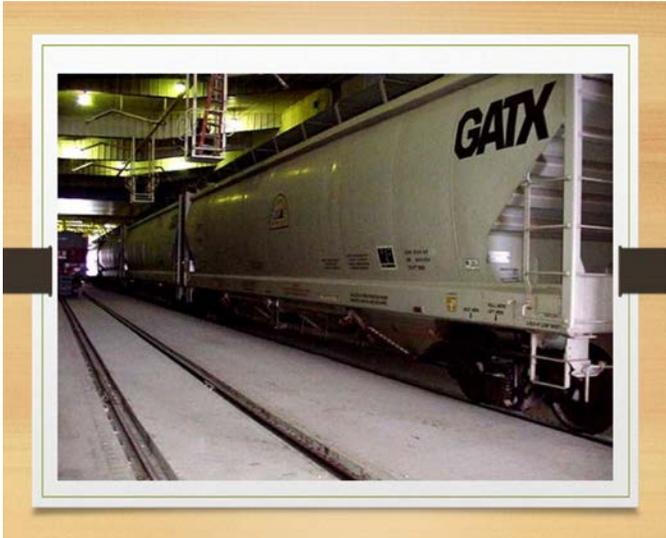
The North Dakota Mill and Elevator Association, located in Grand Forks, is presently the largest single site wheat flour mill and the 8th largest wheat milling company in the United States with sales over \$450 million per year.

Our milling complex presently includes 10 milling units with the capacity to produce 6,050,000 lbs. of finished product per day, a terminal elevator with total available storage of over 5,000,000 bu. of grain and a packaging center and warehouse capable of producing, storing, and shipping large quantities of various sized bags of milled products. We process over 130,000 bu. of top-quality North Dakota spring wheat and durum per day, adding value to approximately 42,000,000 bu. per year. A Midds Storage and Handling Facility is currently under construction and is scheduled to be completed in February 2024. All facilities are located in Grand Forks.

The Mill normally operates 24 hours per day, 5 to 7 days per week. Our total current staffing is 156 full time employees.

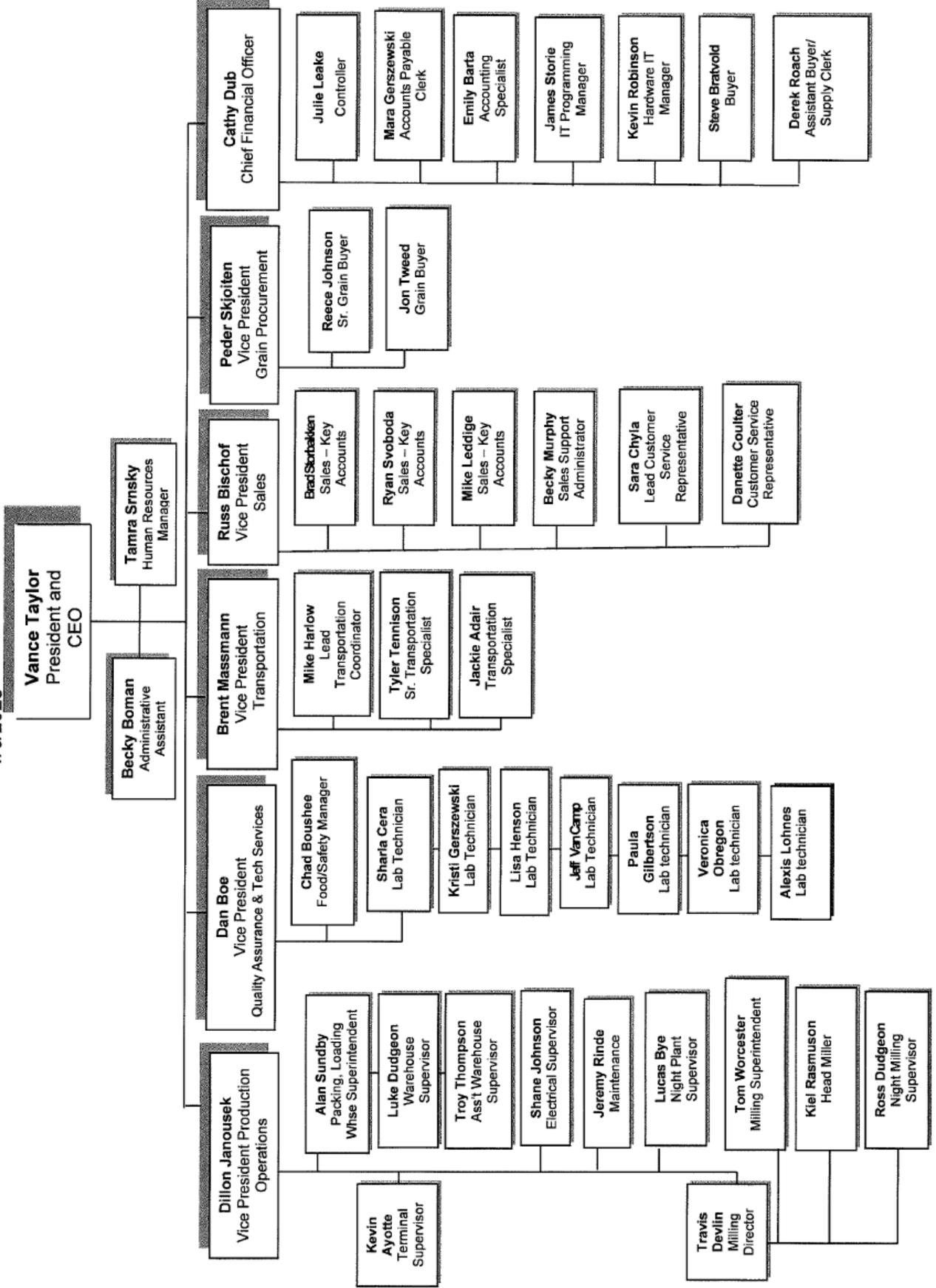
Our milling units process about 90% spring wheat and 10% durum. Approximately 80% of our products are shipped in bulk trucks or railcars and 20% is shipped in bags or totes.

The Mill produces conventional and organic products. At present organic products make up about 1% of our total shipments.

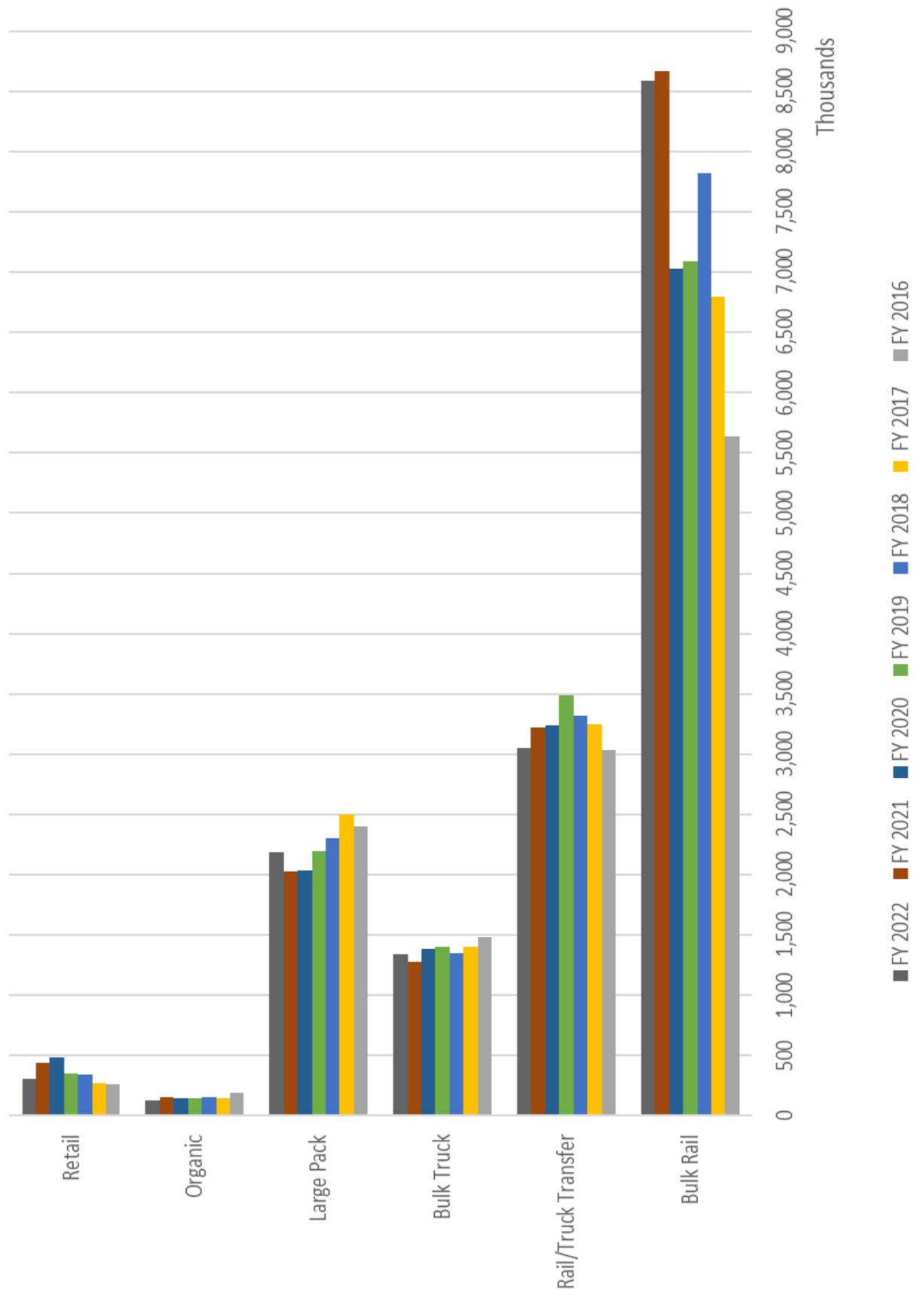


NORTH DAKOTA MILL ORGANIZATION CHART

1/6/2023



Flour Shipments in cwts.



Projects and Business Growth

In 2001 we had milling capacity of 27,000 cwts of flour per day. Since that time, we have completed multiple expansion projects, including the start-up of our G Mill in FY 2017, and the H & I Mill additions and conversion of the D Mill in FY 2022. These projects have grown our milling complex to a total of 60,500 cwts. of flour per day. Increasing our capacity has allowed us to service additional demand from current and new customers, as well as improve profitability and increase the number of bushels purchased from North Dakota farmers.

- 2013 K Mill Renovation and Expansion \$8.4 million
- G Mill Addition and Flour Storage \$38.7 million
- High Speed Truck and Rail Wheat Unloading System \$9.3 million
- Phase II Shuttle Track & Grain Storage \$24.7 million
- Terminal Receiving Scales & Conveyors \$8.5 million
- 2 Automated Flour Packing Systems \$4.7 million
- H and I Mill Additions & D Mill Conversion \$24.475 million
- Midds Storage & Handling Facility Phase I \$34.0 million (Currently under construction)

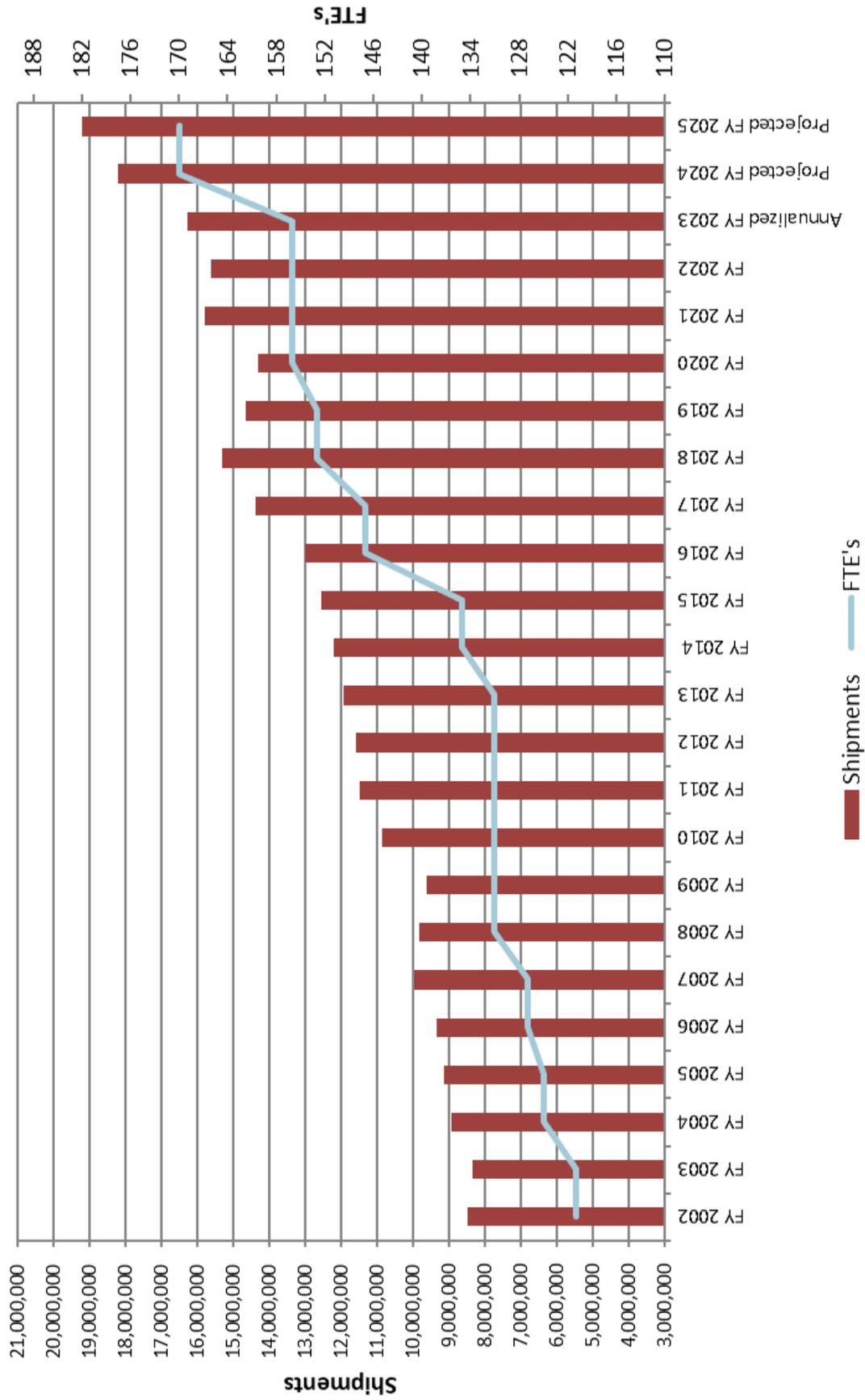
Our need to expand has been driven by increasing demand from our current customers and the addition of new customers. The completion of these major expansion projects has been vitally important for the North Dakota Mill to continue to compete effectively and provide a more significant economic impact to the State.



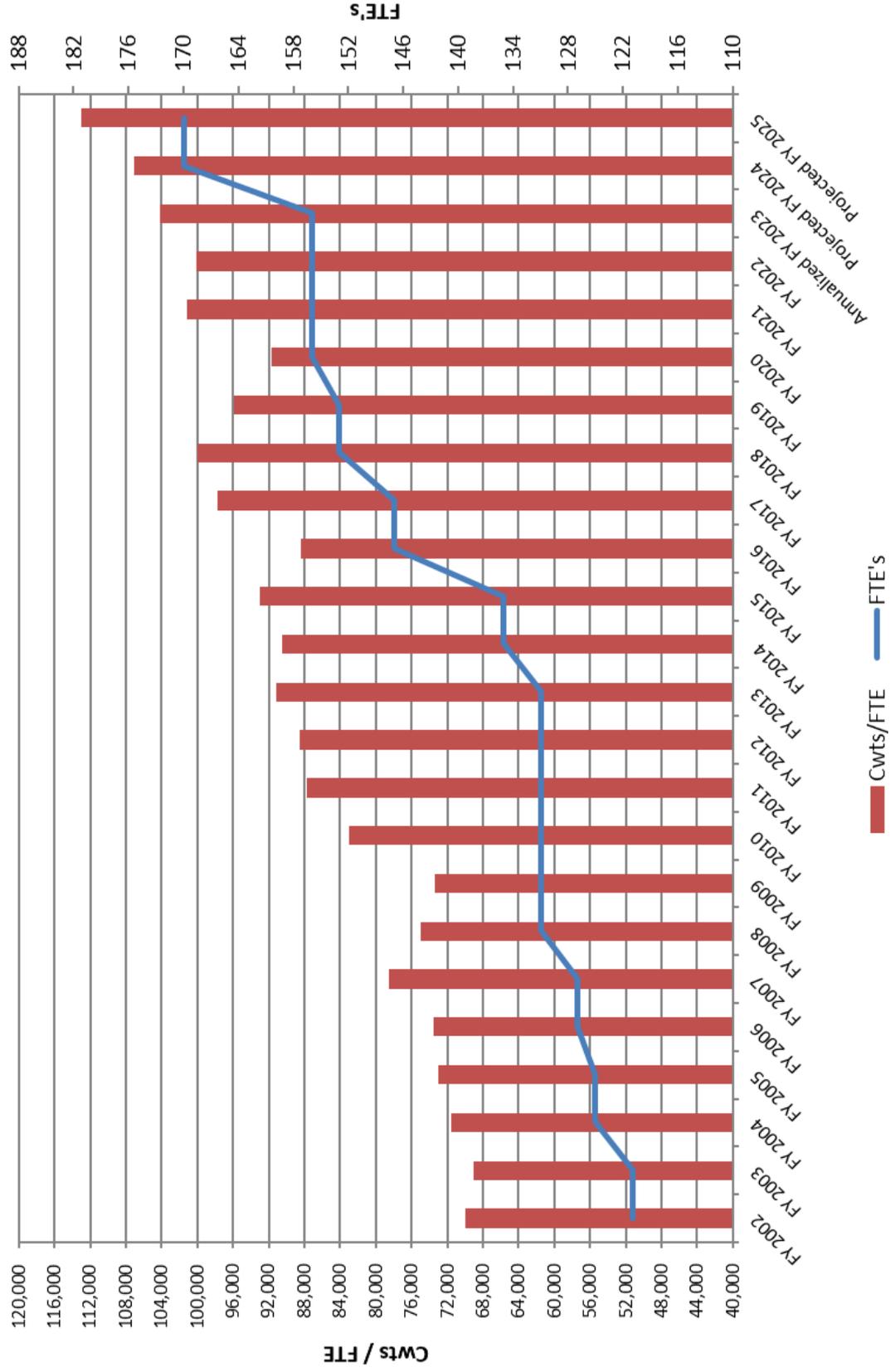
Potential Future Projects

- Midds Storage & Handling Facility Phase II \$8.0 million
- Midds Storage & Handling Facility Phase III \$7.0 million
- Durum Truck Loadout Bins \$4.0 million
- Increase Whole Wheat Milling Capacity \$3 million

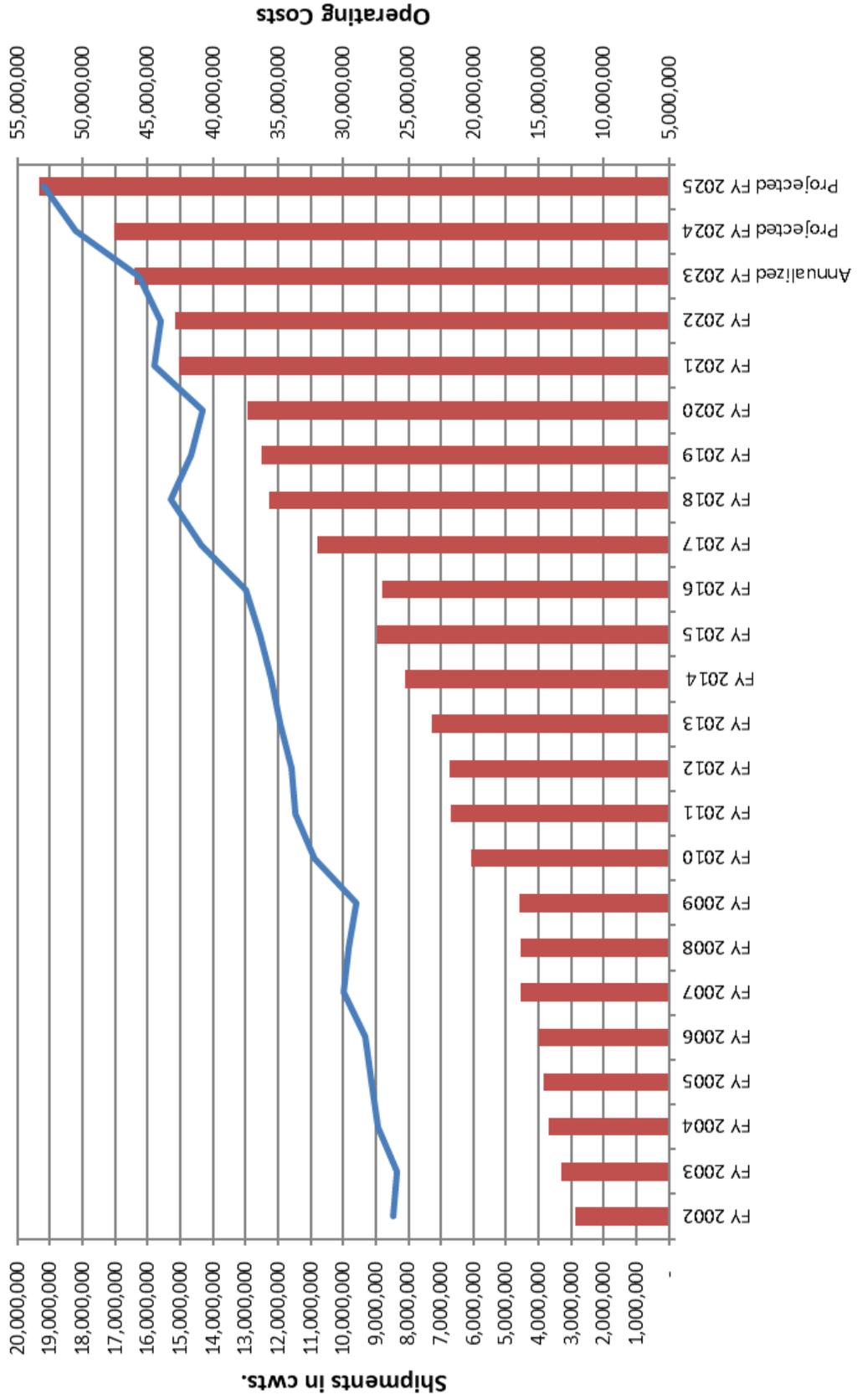
Shipments and FTE's



Cwts. per FTE and FTE's

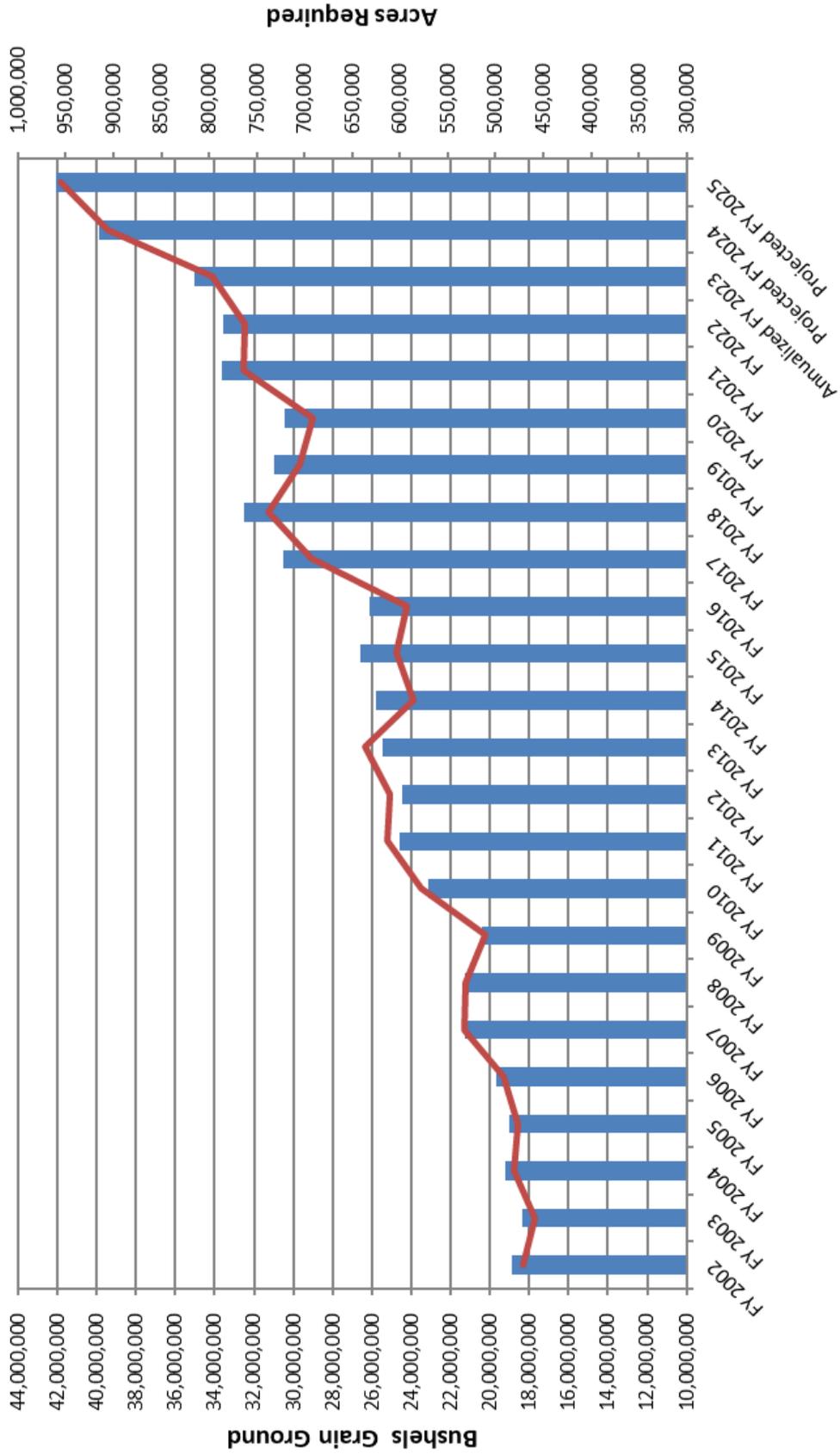


Shipments and Operating Costs

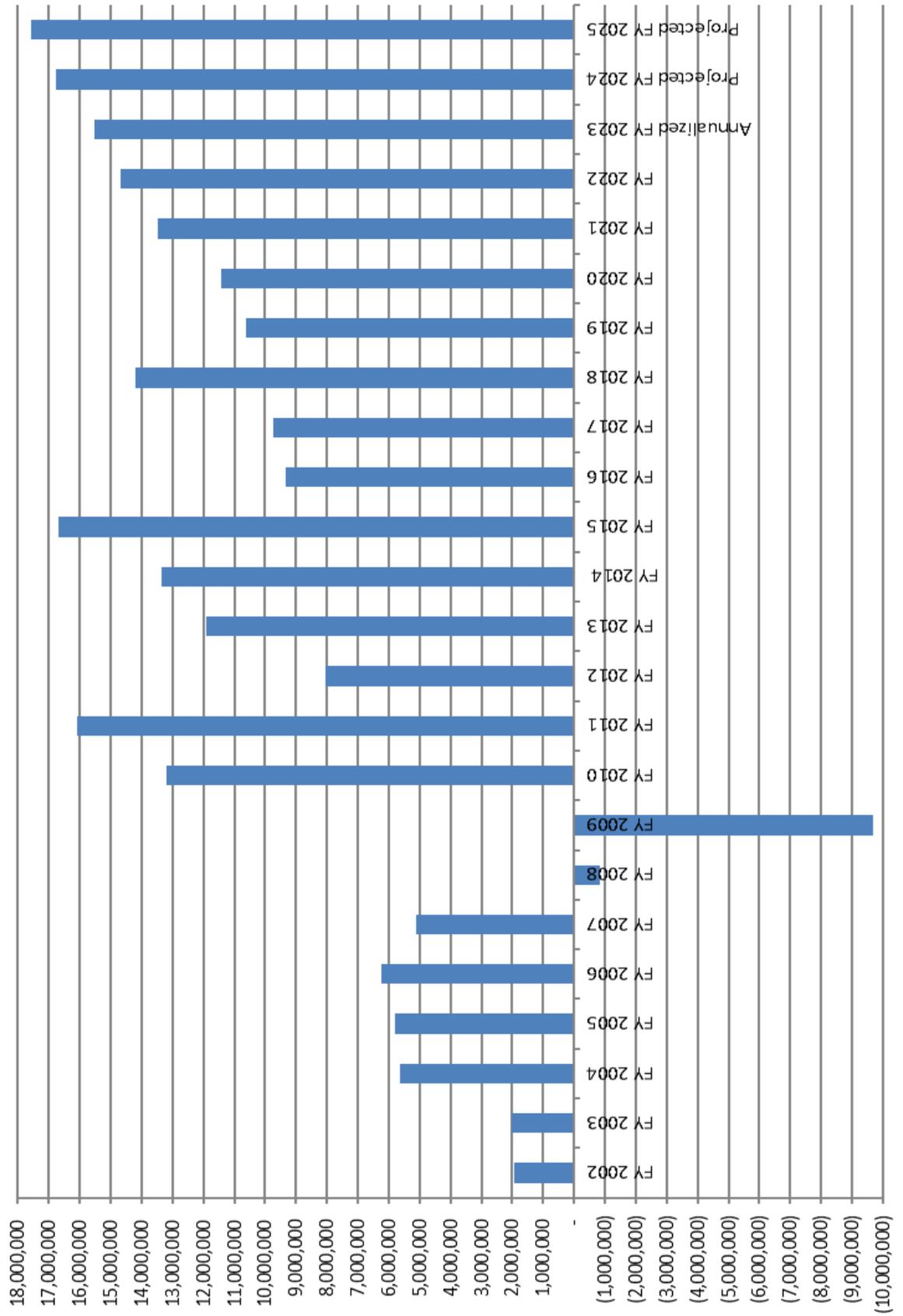


Bushels Ground and Acres Required

Based on the 10 year average of 44.0 bushels per acre



Profits



Markets and Competition

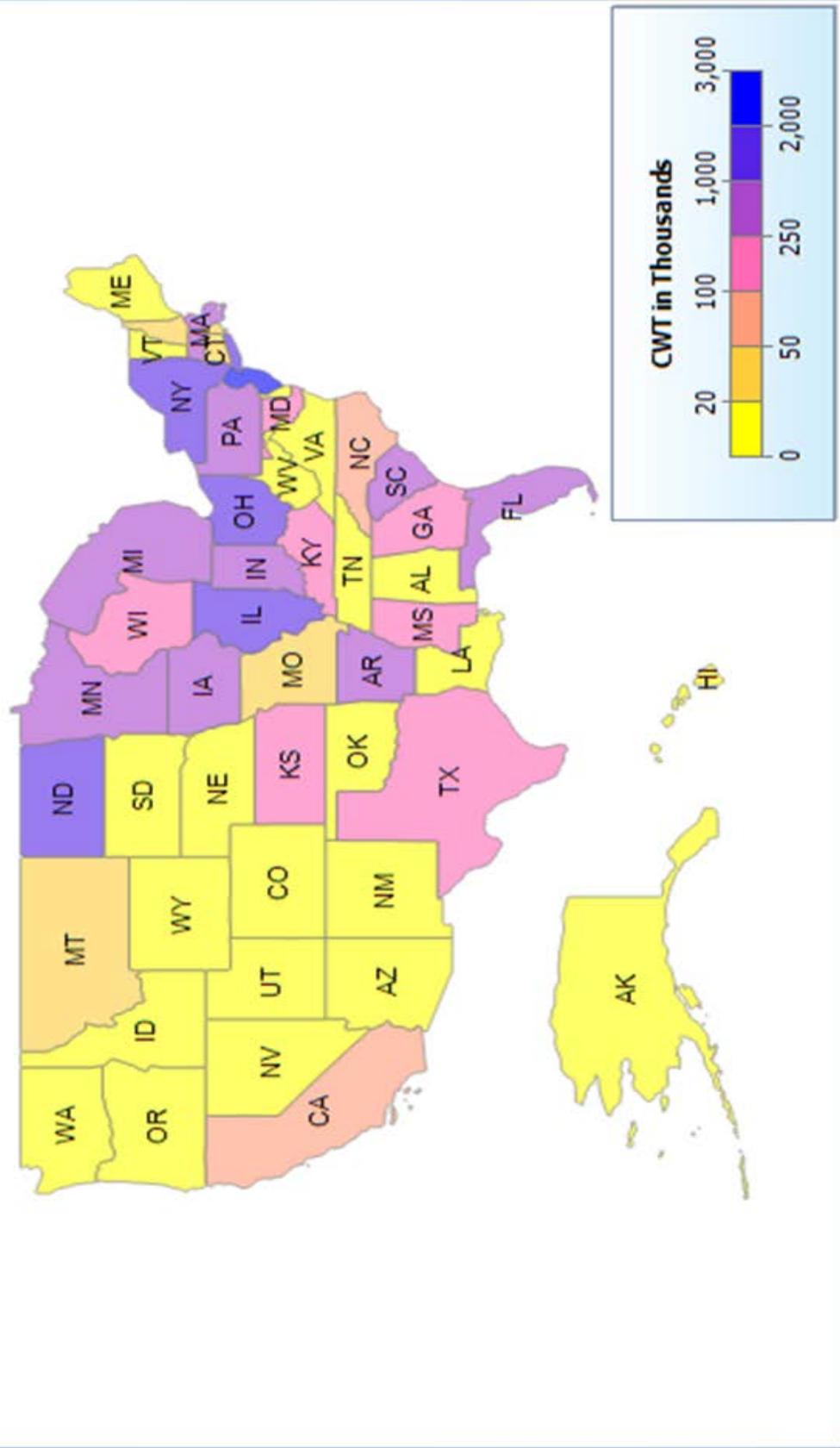
Our bulk and large package shipping area is diverse but more concentrated in the Ohio River Valley and on the East Coast. We also export product to the Caribbean Islands and Korea. Our customers include bakery flour distributors, retail distributors, large bakeries, and pasta companies. Sales are made by our in-house sales staff and food brokers.

We compete with large milling companies such as Ardent Mills, ADM, Grain Craft, General Mills and others. The outstanding quality of our products is verified by our FSSC 22000 certification.

Going forward, we intend to continue to increase flour shipments using the additional production capacity of our new milling units; increase plant efficiency to minimize production costs; continue to aggressively market family flour and retail mixes; grow our organic flour business and investigate new markets, new products, and extensions of current product lines.

We will continue to leverage our greatest asset – our dedicated employees, whose hard work has given us an excellent reputation for product quality and customer service in the marketplace.

2022



Economic Impact

A North Dakota State University study stated that for every dollar in direct economic activity from wheat processing, another \$2.32 was generated in secondary economic activity. During Fiscal Year 2022, the Mill generated \$366,421,000 in direct economic activity resulting in an additional \$850,097,000 in secondary economic activity. This results in a total economic impact to the region of more than \$1,216,518,000 during the last fiscal year.

Strategic Plan FY 2023

Working with the UND Office of Work Force Development, the North Dakota Mill management team has developed the following strategic objectives for Fiscal Year 2023:

- Promote and Support ND Agriculture, Commerce, and Industry
- Identify and Respond to Emerging Issues in the Flour Milling Industry
- Maximize Profit Potential
- Grow our Customer Base
- Invest In and Protect Our Employees

Budget Request

All operating funds are generated internally at the Mill. Short or long-term needs are met by borrowing from the Bank of North Dakota. **No funds are received from the State.**

The Mill currently transfers 5% of profits to the Agricultural Product Utilization Fund (APUF) and 50% of the remaining profits to the General Fund. In fiscal year

2022, the Mill transferred \$733,889 (5% of profits) to the APUF and \$6,971,950 (50% of remaining profits) to the General Fund. We respectfully request that the General Fund Transfer amount be reduced to 10% of profits for the 2023-2025 biennium as agreed upon in the House. In the past seven fiscal years, the Mill has invested \$123.3 million in capital projects. The Mill currently has another \$41.3 million in projects in progress with two additional phases of the Midds Storage & Handling Facility that have not been approved at this time. Those phases are estimated to be an additional \$15 million. Due to the significant amount of capital investment made and the rapidly rising interest rates, the Mill is requesting to keep more profits to help paydown debt at a more rapid pace.

Our budget request is for \$100,185,097. This is a \$11,807,888 increase over the last biennium budget. The increase represents increases in wages and benefits, operating expenses, and an additional 14 FTE's.

For biennium 2021-2023 the Mill's appropriation amount was \$50,560,209 for wages and benefits. The Mill included 3.25% wage increases in the appropriation requested for biennium 2023-2025 to match the contract we have with our labor union. Our budget request included overtime and shift differential that would allow continuous 24/7 running of the mills. The Mill also requested 14 additional FTEs for the biennium.

Three (3) of the positions are to add a 2nd Shift Grain Mixing crew. The increased production capacity requires an additional 25,000 bushels of wheat to be mixed and transferred to the mills daily to ensure continuous 24/7 running of the mills. These positions added \$475,578 to the salary and benefits expense.

Three (3) employees are being requested due to the additional equipment to maintain. A mechanic, electrician and an equipment oiler are needed to assist in maintaining the equipment that has been added to the facility through our capital investments. These positions added \$560,422 to salary and benefits.

Three (3) employees are needed to run the Midds Storage & Handling facility upon completion to allow for loading by-product 24 hours per day. These positions added \$468,246 to salary and benefits.

Five (5) employees are needed to convert our Milling Department from a 3-shift operation to a 4-shift operation. This will reduce overtime within the department and help us to recruit and maintain quality employees in the Milling Department. The new 4th shift will consist of 3 Millers, 1 Assistant Miller, and 1 Grain Cleaner. These positions added \$863,086 to salary and benefits.

For the 2023-25 biennium the Mill is requesting \$56,793,444 in salary and benefits. The Mill would need additional funds added to our salary and benefits appropriations to account for increased health insurance costs as well as any wage increases that are granted greater than 3.25%.

In order to reach 18MM cwts. of production and sales NDM will need additional funding for inflationary factors and business growth. We have seen costs rise substantially in many of our expense categories. The Mill has used a 9% inflationary factor for all operating expense categories due to the current

economic conditions. The Mill has increased some categories more than the 9% inflationary factor due to business growth and other factors.

For biennium 2021-23 the Mill's appropriation amount was \$13,932,340 for utilities. In the first year of the current biennium the Mill spend \$4,712,056 on utilities. The largest portion of our utility bill is the electrical expense. The Western Area Power Administration (WAPA) supplies a significant portion of our electrical power. WAPA has announced an increase in power rates of over 15% beginning January 1, 2023. The remaining portion of our electrical power comes from Nodak Electric. In addition to rising power prices, natural gas and propane prices continue to be volatile. The 2023-2025 biennium will be the first full biennium with the H & I milling units which will increase power requirements. The Mill is also in the process of constructing a new Midds Storage & Handling Facility which will also require additional power. The Mill budgeted \$16,004,550 for utilities for the 2023-25 biennium.

For biennium 2021-2023 the Mill's appropriation amount was \$10,045,680 for maintenance and repairs. With our growth and expansion over the past several years, we have increased the amount of equipment at the Mill, which requires maintenance and repairs. We anticipate this expense to be \$10,682,000 in the 2023-2025 biennium.

For biennium 2021-2023 the Mill's appropriation amount was \$5,523,980 for insurance. Property insurance rates have begun to stabilize; however, inflation has increased the value of property that we are covering. Food safety issues, as well as the increase in buildings and equipment from the expansion, will drive up

the cost of our property and liability insurance. The cost of property insurance is anticipated to remain high with all the natural disasters occurring in the world today. As the Mill has increased cwts. of production and sales, we have increased the volume of flour inventory carried. This has resulted in an increased cost for insurance for these higher inventory values. The Mill anticipates our insurance costs to be \$5,720,000 in the next biennium.

For the 2023-25 biennium the Mill is requesting \$42,391,653 in operating expenses. This represents a 15.1% increase from the 2021-23 biennium appropriations. The volume of production and sales at the Mill drives a large share of these expenses. We continue to work hard to keep our expenses down to increase our profitability and improve our returns. The Mill is currently on pace to have sales reaching 16,300,000 cwts in FY 2023, a 4.5% increase over the previous fiscal year. This represents grinding more than 37,500,000 bushels of spring wheat and durum.

Thank you for your time and consideration of our budget request. I will be happy to answer any questions.

Transfer to General Fund & APUF

