

Testimony before Senate Appropriations
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Bank of North Dakota

Mr. Chairman and members of the Committee. I am Todd Steinwand, President and CEO of the Bank of North Dakota which is overseen by the North Dakota Industrial Commission. Thank you for the opportunity to present our proposed 2023-2025 budget. Today, I will present a short overview of BND and its organizational structure and accomplishments of the Bank before identifying our challenges, proposed budget and capital requests.

BND Mission and Economic Impact

The mission of BND to deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota has not changed in 104 years. What has evolved is how we meet the directive of not competing with private sector financial institutions but instead supporting them as an agile partner that creates financial solutions to current and emerging trends. Let me state this right up front. As America's only bank owned by a state, BND is a partnership with local financial institutions. BND currently has over \$5.4 Billion of state revenues loaned to support farmers, ranchers, students and main street business in North Dakota.

Bank of North Dakota, in its founding documents was directed to not compete but to support and enhance North Dakota's private sector financial institutions. Because of BND's coordination and support of the private sector, North Dakota has the highest number of banks per capita than any other state in America. While locally owned small and mid-sized banks and credit unions (those under \$10 billion in assets) account for only 29 percent of deposits nationally in North Dakota, local financial institutions account for 83 percent of the market.

(Note: ilsr.org/rule/bank0of-north-dakota-2/)

In addition to the \$5.4B in loan participations, BND provides a variety of services such as bank borrowing lines, check clearing, treasury and trust services and letters of credit. Local financial institutions also serve as the "distribution point" for BND's economic development programs such as the PACE programs and disaster relief programs.

BND Economic Impact

If you recall, in the 2017 legislative session, BND was directed to develop the ability to conduct “dynamic fiscal impact modeling”. This was accomplished through the purchase of the Regional Economic Modeling software (REMI) and by retaining Scott Nystrom of FTI Consulting as the person to run the model. Over the years, BND has conducted REMI analysis on various economic development incentives and proposed projects.

Over the years, I’ve repeatedly said that BND’s greatest impact on North Dakota is our ability to participate in loans with local financial institutions. As noted earlier, today the loan portfolio exceeds \$5.0B. To really understand the economic impact, BND utilized the REMI model to evaluate its impact from 2011 to 2020. It shows a total economic impact of \$18.5B in that decade. Further, REMI is able to break out the impact by region using the eight designated economic development regions in the state.

Legislatively Directed Programs

Another area BND, in partnership with the legislature, is able to impact communities is through the Legislatively directed programs. In the last 10 years, the number of revolving loan funds and other programs BND administrates has reached 23 programs with \$904 million in assets. These programs provide a low, fixed rate, longer-term loan to political subdivisions and program participants to build infrastructure or schools or to support specific economic development initiatives of the state.

After the 2019 session, BND implemented new loan programs for the Clean Sustainable Energy Authority (CSEA); Agriculture Development and Diversification Fund (ADD); and established the Permanent Rebuilders Loan Fund. In addition, BND merged assets into the State Water Commission Water Infrastructure Loan Fund. BND also administers loans for the LIFT fund in coordination with the Department of Commerce.

Overall, assets in the legislative directed programs have grown 131% since 2016 from \$391 million to \$904 million.

BND Organizational Structure

As you know, BND is the only bank owned by a state in America. The governance board for the Bank as identified by statute is the Industrial Commission. In addition, BND has an advisory board comprised of local bank representatives and others with knowledge of North Dakota's economy which meets monthly. Recently, the advisory board, with approval of the industrial commission reorganized to better reflect governance of a \$10B bank.

The Advisory Board now functions with three committees including: audit & risk; finance & credit and leadership & compensation. These committees reflect the complexity of the bank enabling board members to conduct deeper dives into the various issues impacting BND. The final component of governance is the executive committee, comprised of 8 members which provides day-to-day oversight of bank operations.

Financial Highlights

As noted earlier, BND continues to grow its assets and loan portfolio. In 2018, bank assets were \$7.0B. Today, bank assets are \$10.2B, a 46% increase in assets while the total number of approved FTEs has declined by 4.4%. BND is able to utilize technology and implement various efficiencies but as noted in the current budget request, the bank is reaching the size where it requires additional employees. Since 2018, BND assets are up by 45%; deposits are up 74% and loan volume has grown by 17%.

Net income at BND continues to grow due to strong loan demand and growing diversification of the state's economy. For the 2021-2023 biennium, BND is projected to earn around \$350 million with an estimate of \$393 million for the 2023-2025 biennium. It is anticipated the asset size of the bank will decrease to \$9.5B as the infusion of federal funds from COVID and AARPA run off.

Over the last four biennium's BND has earned net income of \$1.2B with capital contributions to the state's general fund and other programs totaling \$851 million. This accounts for 70% of BND's net income over the last 8-years. BND's request for the 2023-2025 biennium is to retain a significant portion of its capital to enable the bank to continue meeting its mission. The goal is to achieve \$1.5B in capital by the end of 2026.

One of the key metrics evaluated by regulators and S & P is the relative strength of the bank's capital. Capital is the difference between a bank's assets and liabilities and represents the net worth of the bank or the value of its equity to investors. In this case, the equity held on behalf of the Legislature and the state of North Dakota. Banks are required to maintain adequate capital reserves enabling it to handle a certain amount of losses before being at risk of being insolvent.

Capital also determines acceptable levels of lending concentration and leads into the capacity of the Bank to lend to the public and private sector. For instance, last session the Legislature had BND extend a \$250 million line of credit for the Clean Sustainable Energy Authority loan program. BND also issued letters of credit to support large, economic development projects in the state. Without a strong capital position, these types of activities are difficult if not impossible. **2023-2025 Budget Request**

Entering the 2023-2025 biennium, the key challenges for Bank of North Dakota include the capital constraints, which we already touched on, and retention and recruitment of employees. As noted earlier, for a \$10B institution, BND runs lean and relies on technology and automation to enable its efficiency. However, running the systems of such a complex bank require smart, qualified people.

Today, 62% of BND's employees are below the salary midpoint as raises over the last three biennia were kept low with one biennium being a zero percent increase. At the Bank, the salary challenge is coming to light with an increased turnover rate from 7% in 2020 to 11.4% today. The assets per employee increased from \$40 million in 2013 to \$62 million today with earnings increasing from \$553,000 per employee to over \$1.2 million today.

To keep the bank functioning at a high capacity serving the financial institutions, state agencies and communities across the state, requires us to compete with the private sector financial institutions for talent. While BND will never be able to offer stock options or some of the other perks of the private sector, it is essential that salaries at BND become more equitable and keep pace with inflation.

Today, you will see BND's budget request a proposed increase of 14 FTE's for the 2023-2025 biennium with a corresponding budget increase of \$3.6 million. Let me reiterate that BND

is managed as a business and employees will only be hired if needed and layered in over the biennium. Specific requests to date include:

- 6 for the Lending Division due to loan volume growth
- 2 for Credit Administration due to increased complexity and volume of loans
- 1 for Accounting/Treasury for a Staff Accountant
- 5 for the Collateral Valuation Division to account for anticipated growth

Of the additional funding:

- \$281,000 is for continuation of the 2021-2023 legislative salary increases along with additional costs related to employee turnover and recruitment.
- \$804,000 for IT related enhancements
- \$883,000 for health insurance increases

The proposals by BND compared to HB1014 as pre-filed increases by 6 FTE's and includes the proposed 4%/4% salary increase.

Program Request for BND Capital

Each session, BND provides a request to the Legislature for an appropriation for program costs. The following are the 2023-2025 requests:

- \$60 million for the various PACE buydown programs. This represents an increase of \$20 million from the previous biennium due to demand.
- \$3 million for the Agriculture Product Utilization Commission. (APUC)
- \$1.5 million to transition funding for the ND Small Business Development Center from the Department of Commerce to Bank of North Dakota.

Thank you for the opportunity to testify today on BND's proposed budget for the 2023-2025 biennium. I am happy to take any questions.