

**Bank of North Dakota
Budget No. 471
House Bill No. 1014**

	FTE Positions	General Fund	Other Funds	Total
2019-21 legislative appropriation	181.50	\$0	\$64,357,799	\$64,357,799
2017-19 legislative appropriation	<u>181.50</u>	<u>1,000,000¹</u>	<u>59,299,204</u>	<u>60,299,204</u>
2019-21 appropriation increase (decrease) to 2017-19 appropriation	0.00	(\$1,000,000)	\$5,058,595	\$4,058,595

¹The 2017-19 appropriation includes a deficiency appropriation of \$1 million from the general fund approved by the Legislative Assembly in Senate Bill No. 2024 (2019) for interest payments on a loan associated with protest costs.

Item Description

Partnership in assisting community expansion - House Bill No. 1014 provides \$26 million for partnership in assisting community expansion (PACE), \$4 million for Ag PACE, and \$1 million for biofuels PACE from Bank of North Dakota profits.

Transfer of Bank of North Dakota profits - The 2019 Legislative Assembly provided the following transfers of Bank profits:

1. House Bill No. 1003 transfers \$20 million to institutions of higher education for capital building fund pools and campus network upgrades.
2. Section 9 of House Bill No. 1014 provides for a transfer of \$140 million to the general fund.
3. Section 10 of House Bill No. 1014 provides for a transfer of \$26 million to the PACE fund.
4. Section 11 of House Bill No. 1014 provides for a transfer of \$4 million to the Ag PACE fund.
5. Section 12 of House Bill No. 1014 provides for a transfer of \$1 million to the biofuels PACE fund.
6. Section 13 of House Bill No. 1014 provides for a transfer of \$6 million to the beginning farmer revolving loan fund.
7. Section 14 of House Bill No. 1014 provides for a transfer of \$15 million to the North Dakota development fund.

Status/Result

Of the \$26 million for PACE, the Bank designated \$16 million for flex PACE and \$10 million for PACE. In addition, approximately \$1.1 million of unspent 2017-19 biennium funding is available for flex PACE in the 2019-21 biennium.

The Bank did not designate any new funding for affordable housing PACE; however, unspent funds from the 2017-19 biennium available for buydowns in the 2019-21 biennium include approximately \$432,000 for affordable housing PACE.

1. The Bank has not made any transfers to the institutions of higher education. The transfers are anticipated to be made prior to the end of the biennium.
2. In October 2019 the Bank transferred \$35 million to the general fund. Of the remaining \$105 million, \$35 million is anticipated to be transferred in May 2020, October 2020, and March 2021.
3. Through March 2020 the Bank transferred \$10 million to the PACE fund, of which \$1 million was for PACE and \$9 million was for flex PACE.
4. Through March 2020 the Bank transferred \$1 million to the Ag PACE fund.
5. As of March 31, 2020, the Bank had not transferred any profits to the biofuels PACE fund.
6. Through March 2020 the Bank transferred \$2.75 million to the beginning farmer revolving loan fund.
7. The Bank transferred the entire \$15 million to the North Dakota development fund, as of March 31, 2020.

8. House Bill No. 1171 provides for transfers totaling \$6 million to the skilled workforce student loan repayment program fund and the skilled workforce scholarship fund.
9. House Bill No. 1333 transfers \$15 million to the innovation loan fund to support technology advancement.
10. House Bill No. 1435 provides for transfers totaling \$20 million to the SIRN fund.
11. Senate Bill No. 2009 provides for a transfer of \$2 million to the Agricultural Products Utilization Commission (APUC) fund.

8. The Bank has transferred \$100,000 to the skilled workforce student loan repayment program fund and \$100,000 to the skilled workforce scholarship fund, as of March 31, 2020.
9. Through March 2020 the Bank has transferred \$3.6 million to the innovation loan fund to support technology advancement.
10. As of March 31, 2020, the Bank had not transferred any profits to the SIRN fund.
11. The Bank transferred the entire \$2 million to the APUC fund as of March 31, 2020.

Estimated 2019-21 Bank of North Dakota capital structure

The following schedule shows an analysis of the Bank's estimated capital structure for the 2019-21 biennium:

June 30, 2019, capital	\$982,776,000 ¹
Estimated 2019-21 biennium profits	300,000,000 ²
Estimated 2019-21 biennium transfers	
Transfer to institutions of higher education	(20,000,000)
Transfer to general fund	(140,000,000)
Transfer to economic development-related programs	(37,000,000) ³
Transfer to North Dakota development fund	(15,000,000)
Transfer to skilled workforce funds	(6,000,000)
Transfer to innovation loan fund	(15,000,000)
Transfer to SIRN fund	(20,000,000)
Transfer to APUC fund	(2,000,000)
Estimated capital on June 30, 2021	\$1,027,776,000

¹Based on the Bank's quarterly regulatory filings, the tier one capital level was \$927,621,000 as of June 30, 2019, which reflects a tier one risk-based capital ratio of 21.22 percent compared to a benchmark of 8 percent.

²Actual fiscal year 2019 profits were \$176.3 million. The estimated 2019-21 biennium profits at the close of the 2019 legislative session totaled \$300 million.

³House Bill No. 1014 provides for the following transfers from Bank profits related to economic development:

- \$26 million to the PACE fund;
- \$4 million to the Ag PACE fund;
- \$1 million to the biofuels PACE fund; and
- \$6 million to the beginning farmer revolving loan fund.

Bank of North Dakota loans:

1. House Bill No. 1012 (2019) provides contingent authorization to DOT for a loan of up to \$50 million to match federal funds.

As of March 31, 2020, the Bank had not funded any of the loans or lines of credit. The funding that may be used during the 2019-21 biennium is unknown.

2. House Bill No. 1028 (2019) authorizes a line of credit of up to \$50 million to PERS for administering a self-insurance health plan.
3. House Bill No. 1106 (2019) authorizes a line of credit of up to \$25 million to RAND to reimburse insurers for eligible claims.
4. House Bill No. 1435 (2019) provides a line of credit of up to \$80 million to ITD for SIRN. House Bill No. 1435 was amended by House Bill No. 1014 and Senate Bill No. 2015.
5. Senate Bill No. 2001 (2019) authorizes a loan of up to \$35 million to the Governor to provide funding for the Theodore Roosevelt Presidential Library and Museum endowment fund.
6. Senate Bill No. 2019 (2019) provides contingent authorization to the Parks and Recreation Department for a loan of up to \$3 million for capital projects at the International Peace Garden.
7. Senate Bill No. 2020 (2019) continues the State Water Commission's (SWC) authority to access a line of credit of \$75 million.

Rebuilders loan program - The 2011 Legislative Assembly established a rebuilders loan program to provide loans to North Dakota residents affected by the 2011 flood event. The proceeds of the loans may be used to rebuild a flood-damaged home or purchase a new home in the disaster-impacted community. Eligible counties include Barnes, Benson, Burleigh, McHenry, Morton, Ramsey, Renville, Richland, and Ward.

The Legislative Assembly in Senate Bill No. 2132 (2013) provided an exemption to allow unexpended appropriations related to the rebuilders loan program for the 2011-13 biennium to continue into the 2013-15 biennium. The 2013 Legislative Assembly provided for a transfer of up to \$5 million from the Bank's current earnings and undivided profits to the rebuilders loan program and for payments from the rebuilders loan program of up to \$35 million to be transferred to replenish the Bank's profits. Payments in excess of \$35 million are to be deposited in the general fund. The Legislative Assembly provided a total of \$55 million for the rebuilders loan program, including \$35 million from Bank profits and \$20 million from the general fund.

Rebuilders home loan program - The 2019 Legislative Assembly established a rebuilders home loan program to provide loans to North Dakota residents affected by river flooding in the state due to ice jams in the winter and spring of 2019. The proceeds of the loans may be used to rebuild a flood-damaged home. Each eligible borrower may receive up to \$75,000. The loans have a fixed interest rate of 1 percent and have a term of up to 20 years. Payments on the loans are deferred for 24 months.

The 2019 Legislative Assembly provided for a transfer of up to \$3.75 million from the principal repayments under the rebuilders loan program, which were

Approximately \$52,000,000 of loans were authorized under the program, including \$32,255,000 from Bank profits and \$19,745,000 from the general fund. As of December 31, 2019, the outstanding balance of loans for the rebuilders loan program totaled \$24,910,000.

During calendar year 2018, \$3,394,000 was used to replenish the Bank's profits. During calendar year 2019, \$963,000 from the repayments was used to replenish the Bank's profits. The Bank withheld \$2,019,000 of repayments in calendar year 2019 for transfer to the rebuilders home loan program (see the **Rebuilders home loan program** section below). However, the Bank returned the \$2,019,000 in calendar year 2020 to replenish the Bank's profits because the funds were not needed for the rebuilders home loan program. An additional \$9,324,000 from the repayments will be used to replenish the Bank's profits before repayments to the general fund begin.

As of March 31, 2020, the Bank approved five loans for \$225,000. The Bank will transfer funding as needed from the rebuilders loan program to finance the loans. The first loan repayments will begin in December 2021.

designated to replenish the Bank's profits, to the newly created rebuilders home loan program. Any funds not committed to loans by September 30, 2020, must be returned to the Bank's profits.

Hedging strategies study - House Bill No. 1014 directs the Bank to study hedging strategies related to the volatility of oil prices and to report to the Appropriations Committees of the 67th Legislative Assembly.

Rail rate complaint case - Section 3 of Senate Bill No. 2008 (2019) provides for a transfer of up to \$900,000 from the beginning farmer revolving loan fund to the PSC to pay for costs associated with a rail rate complaint case. If any amount is spent, the PSC is to reimburse the beginning farmer revolving loan fund using amounts from damages or proceeds received, net of legal fees, from a successful outcome of a rail rate complaint case.

North Dakota financial center - In House Bill No. 1014 (2015), the Legislative Assembly provided contingent one-time funding of \$17 million from the Bank's assets for a financial center building project. The funding was available only if the Bank's profits for calendar year 2015 exceeded \$125 million. The contingency was met; however, the Bank did not start construction on the building because of the state's revenue shortfall during the 2015-17 biennium.

Section 22 of Senate Bill No. 2014 (2017) amends the 2015 Session Laws to extend the authorization for the financial center project through June 30, 2021. Section 28 of the bill prohibits the Bank from constructing the building until the 2019-21 biennium.

Agriculture disaster relief loans - In response to extreme weather conditions in 2019, the Bank created the ag disaster relief loan program and the livestock feed program. The ag disaster relief program assists farmers with debt refinancing and operating shortfalls. The Bank designated up to \$300 million for the program. Loans are limited to \$2 million and have a fixed interest rate of 3.5 percent. The livestock feed program provides loans for additional costs associated with feeding livestock. The loans have a fixed interest rate of 3.5 percent. Applications for both loan programs will be accepted through June 30, 2020.

The Bank is in the process of working with a commodity hedging consultant to assess the effectiveness of a hedging strategy for North Dakota.

The Bank had not transferred any funds from the beginning farmer revolving loan fund as of March 31, 2020, related to a rail rate complaint case.

As of March 31, 2020, the Bank has not started the project. The project has been put on hold while OMB completes a land and building assessment related to state-owned property.

As of March 31, 2020, the Bank approved 105 loans totaling \$52 million under the ag disaster relief loan program. Through March 2020, the Bank approved two loans totaling \$123,300 for the livestock feed program. The number of additional loans and the amount of the loans that may be approved for the programs is unknown.