

**Bank of North Dakota
Budget No. 471
House Bill Nos. 1003 and 1014**

	FTE Positions	General Fund	Other Funds	Total
2023-25 legislative appropriation	187.00	\$0	\$77,077,067	\$77,077,067 ¹
2021-23 legislative appropriation	<u>173.00</u>	<u>27,500,000</u>	<u>769,816,548</u>	<u>797,316,548</u>
2023-25 appropriation increase (decrease) to 2021-23 appropriation	14.00	(\$27,500,000)	(\$692,739,481)	(\$720,239,481)

¹The 2023-25 legislative appropriation does not include any transfers of appropriation authority from the Office of Management and Budget funding pools for targeted market equity adjustments, retirement contribution increases, or new and vacant FTE positions.

Item Description

Full-time equivalent changes - The Legislative Assembly authorized 187 FTE positions for the Bank of North Dakota for the 2023-25 biennium, an increase of 14 FTE positions from the 2021-23 biennium authorized level of 173 FTE positions. The Legislative Assembly authorized 1 FTE credit underwriter IV position, 1 FTE agricultural valuation supervisor position, 1 FTE credit underwriter III position, 1 FTE commercial valuation supervisor position, 1 FTE collateral valuation III position, 1 FTE collateral valuation analyst IV position, 1 FTE collateral valuation IV position, 1 FTE loan operations supervisor position, 1 FTE loan servicing supervisor position, 1 FTE business banking associate I position, 1 FTE loan servicing associate II position, 1 FTE loan servicing associate III position, 1 FTE business banking associate II position, and 1 FTE staff accountant III position.

Targeted market equity - The Legislative Assembly appropriated \$82.5 million, including \$45.1 million from the general fund and \$37.4 million from other funds, to the Office of Management and Budget for a targeted market equity pool to be distributed to state agencies.

New and vacant FTE funding pool - The Legislative Assembly reduced the 2023-25 biennium other funds appropriation authority for the Bank by \$5,429,985 for the new and vacant FTE funding pool, of which \$3,106,682 is for new FTE positions and \$2,323,303 is for vacant FTE position savings.

One-time funding - The Legislative Assembly provided \$804,278 of one-time funding from the Bank's operating fund for information technology projects and \$5.5 million of one-time funding from the economic diversification fund for grants to institutions under the control of the State Board of Higher Education.

Status/Result

As of March 2024, the Bank of North Dakota had not filled any of the 14 new FTE positions. The Bank anticipates filling 9 FTE positions later in 2024. The Bank has not determined when the other 5 FTE positions may be filled but will evaluate the need for positions based on banking operations.

The Bank received \$677,186 of other funds authority for targeted market equity increases which were provided to 46 employees.

Through January 2024, the Bank had not received any funding from the new and vacant FTE funding pool and reported estimated vacant FTE position savings of \$285,970 related to an average of seven vacancies, ranging from four to nine vacancies, for the first 7 months of the 2023-25 biennium. Although the Bank reported vacancy savings of \$285,970, the Bank used \$1,045,580 for accrued leave payouts (\$171,656), position reclassifications (\$353,743), and additional salary increases (\$520,181).

Of the \$804,278 for information technology projects, the Bank spent \$421,773 through March 2024 and anticipates spending the remaining \$382,505 by the end of the biennium. Through March 2024, the Bank has awarded and distributed \$2,698,060 of the \$5,500,000 for economic diversification grants.

Estimated 2023-25 Bank of North Dakota capital structure

The following schedule shows an analysis of the Bank's estimated capital structure for the 2023-25 biennium:

June 30, 2023, capital	\$1,196,692,000 ¹
Estimated 2023-25 biennium profits	393,000,000 ²
Estimated 2023-25 biennium transfers	
Transfer to general fund	(140,000,000)
Transfer to economic development-related programs	(61,500,000) ³
Transfer to State Board of Higher Education for dual-credit tuition scholarships	(1,500,000)
Transfer to skilled workforce student loan repayment fund	(3,400,000)
Transfer to skilled workforce scholarship fund	(3,400,000)
Transfer to statewide interoperable radio network fund	(20,000,000)
Transfer to Agricultural Products Utilization Commission fund	(3,000,000)
Transfer to the Housing Finance Agency for matching funds related to a federal grant ⁴	(1,280,000)
Estimated capital on June 30, 2025	\$1,355,612,000

¹Based on the Bank's quarterly regulatory filings, the tier one capital level was \$1,113,422,000 as of June 30, 2023, which reflects a tier one risk-based capital ratio of 16.78 percent compared to a benchmark of 8 percent.

²Actual fiscal year 2023 profits were \$194 million. The estimated 2023-25 biennium profits at the close of the 2023 regular legislative session was also \$393 million.

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

- \$39 million to the partnership in assisting community expansion (PACE) fund;
- \$5 million to the Ag PACE fund;
- \$1 million to the biofuels PACE fund;
- \$15 million to the beginning farmer revolving loan fund; and
- \$1.5 million to the University of North Dakota for the North Dakota small business development center.

⁴In April 2024, the Bank transferred \$1.28 million to the Housing Finance Agency to provide matching funds for a federal grant of \$3.82 million from the Federal Home Loan Bank to support affordable housing programs.

Transfer of Bank of North Dakota profits - The 2023 Legislative Assembly provided the following transfers of Bank profits:

1. Section 11 of House Bill No. 1014 provides for a transfer of \$140 million to the general fund.
2. Section 12 of House Bill No. 1014 provides for transfers of \$39 million to the PACE fund, \$5 million to the Ag PACE fund, \$1 million to the biofuels PACE fund, \$15 million to the beginning farmer revolving loan fund, and \$1.5 million to the University of North Dakota for the North Dakota small business development center.

1. Of the \$140 million, the entire \$140 million is anticipated to be transferred in June 2025.
2. Of the \$39 million for the PACE fund, the Bank designated \$18 million for PACE, \$20 million for flex PACE, and \$1 million for affordable housing PACE. Through March 2024 the Bank transferred \$12 million to the PACE fund, \$2 million to the Ag PACE fund, \$500,000 to the biofuels PACE fund, \$1 million to the beginning farmer revolving loan fund, and \$1.5 million to the University of North Dakota for the North Dakota small business development center.

3. Section 7 of House Bill No. 1003 provides for a transfer of \$1.5 million to the North Dakota University System for dual-credit tuition scholarships.
4. Section 8 of House Bill No. 1003 provides for a transfer of \$3.4 million to the skilled workforce student loan repayment program fund.
5. Section 9 of House Bill No. 1003 provides for a transfer of \$3.4 million to the skilled workforce scholarship fund.
6. Section 2 of House Bill No. 1242 (2023) provides for a transfer of \$20 million to the statewide interoperable radio network fund.
7. Section 10 of Senate Bill No. 2009 (2023) provides for a transfer of \$3 million to the Agricultural Products Utilization Commission fund.

Bank of North Dakota loans:

1. House Bill No. 1012 (2023) authorizes a contingent loan of up to \$50 million to the Department of Transportation to match additional federal funds that become available for the US Highway 85 project.
2. House Bill No. 1012 provides a contingent loan of up to \$28.5 million to the Department of Transportation for matching funds from Minnesota or other sources for northern Red River Valley transportation projects.
3. House Bill No. 1014 increases the line of credit for the clean sustainable energy fund by \$140 million, from \$250 million to \$390 million.
4. House Bill No. 1199 (2023) authorizes a line of credit of up to \$68,276,228 to the Department of Career and Technical Education for a statewide area and career center initiative grant program.
5. Senate Bill No. 2008 (2023) provides a line of credit of up to \$900,000 to pay any costs associated with a rail rate complaint case.
6. Senate Bill No. 2018 (2023) authorizes a line of credit of up to \$20 million to the State Historical Society for the construction of a military museum and related expansion projects.
7. Senate Bill No. 2019 (2023) provides a line of credit of up to \$70 million to the Parks and Recreation Department to support activities related to the Theodore Roosevelt Presidential Library project.
8. Senate Bill No. 2020 (2023) Continues the Department of Water Resources' authority to access a line of credit and increases the line of credit from \$50 million to \$100 million.
9. Senate Bill No. 2397 (2023) provides a line of credit of \$100 million to the Department of Water Resources for a transfer to the water infrastructure revolving loan fund.

Rebuilders permanent loan program - The 2011 Legislative Assembly established a rebuilders loan program to provide loans to North Dakota residents affected by a 2011 flood event and authorized a total of \$55 million for the program, including \$35 million from Bank profits and \$20 million from the general fund. Loan payments are used to replenish the Bank's profits, and any payments exceeding \$35 million are deposited in the general fund.

3. Through March 2024, the Bank transferred \$400,000 to the North Dakota University System for dual-credit tuition scholarships.
4. The Bank transferred \$200,000 to the skilled workforce student loan repayment program fund through March 2024.
5. The Bank transferred \$600,000 to the skilled workforce scholarship fund through March 2024.
6. Through March 2024, the Bank did not transfer any funding to the statewide interoperable radio network fund.
7. Through March 2024, the Bank transferred \$3 million to the Agricultural Products Utilization Commission fund.

The status of the loans as of March 31, 2024, is as follows:

1. The Department of Transportation has not accessed the line of credit for the US Highway 85 project.
2. The Department of Transportation has not accessed the line of credit for the Red River Valley transportation projects.
3. The Bank has approved \$140 million for the clean sustainable energy fund with \$15 million outstanding.
4. The Department of Career and Technical Education accessed \$9,959,586 for the statewide area and career center initiative grant program, which was subsequently repaid.
5. No funding has been requested by the Public Service Commission for a rail rate complaint case.
6. The Bank approved \$4.2 million for the State Historical Society for the military museum project.
7. No funding has been requested by the Parks and Recreation Department for the Theodore Roosevelt Presidential Library project.
8. The Department of Water Resources has accessed \$10 million of the line of credit.
9. The Bank approved \$100 million for the transfer to the water infrastructure revolving loan fund, but no funding has been transferred.

The Bank authorized approximately \$52,000,000 of loans under the rebuilders loan program, including \$32,255,000 from Bank profits and \$19,745,000 from the general fund and approximately \$480,000 of loans under the rebuilders home loan program. The Bank also authorized approximately \$30,374,000 of loans under the small employer 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 and authorized up to \$3.75 million from the principal repayments under the rebuilders loan program, which were designated to replenish the Bank's profits, for the rebuilders home loan program.

During the 2019-21 biennium, the Bank created a small employer loan program to provide loans to small businesses for operating expenses in response to the COVID-19 pandemic and provided \$50 million from the Bank's capital for the program.

The 2021 Legislative Assembly created a rebuilders permanent loan program to provide loans to those impacted by disasters in the state and to consolidate the rebuilders loan program, the rebuilders home loan program, and the small employer loan program under the newly created rebuilders permanent loan fund. The Legislative Assembly also authorized the Bank to transfer the unused portion of the Bank's capital (\$19.6 million) under the small employer loan program to the rebuilders permanent loan fund in the amounts and at the times determined by the Bank. Repayments from the various programs are deposited in the rebuilders permanent loan fund with a portion of the repayments transferred to the general fund related to the rebuilders loan program.

Employee recruitment and retention incentive program study - House Bill No. 1014 required the Bank and the Industrial Commission to study the feasibility and desirability of creating an employee recruitment and retention incentive program for the Bank. The Industrial Commission was required to provide a report on the study to the Legislative Management by March 31, 2024.

As of March 31, 2024, the outstanding balance of loans from the rebuilders permanent loan program totaled \$30,863,670. During calendar year 2022, \$2,149,343 from the repayments was used to replenish the Bank's profits and \$649,322 was transferred to the general fund. During calendar year 2023, \$2,432,884 from the repayments was transferred to the general fund. Through 2029, an additional \$12,542,929 from the repayments will be repaid to the general fund.

As of March 31, 2024, the Bank had not approved any new loans under the rebuilders permanent loan fund, and the Bank had not transferred any of the \$19.6 million from the Bank's capital to the fund.

In March 2024, the Bank submitted the report to the interim Workforce Committee for presentation at a future meeting. In the report, the Bank recommended variable compensation for Bank employees based on a percentage of each employee's regular pay to be paid out over a 3-year period. The Bank estimates the increase in compensation would decrease profits by less than 2 percent per year, or approximately \$1.7 million per year (\$3.4 million per biennium).