

Industrial Commission of North Dakota

Biennial Report
July 1, 2015 to June 30, 2017



Governor Doug Burgum, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

**North Dakota Industrial Commission
2015-2017 Biennial Report**

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INDUSTRIAL COMMISSION OF NORTH DAKOTA

Administration

State Capitol 14th Floor, 600 E Boulevard Avenue Dept 405, Bismarck, ND 58505-0840
Phone: 701-328-3722 Fax: 701-328-2820 www.nd.gov/ndic

Bank of North Dakota

Inside Mailing Address: State Capitol, 600 E Boulevard Avenue, Bismarck, ND 58505
Physical Address: 1200 Memorial Highway, Bismarck, ND 58506
Phone: 701-328-5700 Fax: 701-328-5632 www.banknd.nd.gov/

Building Authority

State Capitol 14th Floor, 600 E Boulevard Avenue Dept 405, Bismarck, ND 58505-0840
Phone: 701-328-3722 Fax: 701-328-2820 www.nd.gov/ndic/ba-info.htm

Department of Mineral Resources

Inside Mailing Address: State Capitol, 600 E Boulevard Avenue Dept, Bismarck, ND 58505
Physical Address: 1016 E Calgary, Bismarck, ND 58501 www.dmr.nd.gov/

Geological Survey

Maps & Publication Orders: ndgsmaps@nd.gov
Phone: 701-328-8000 Fax: 701-328-8010 www.dmr.nd.gov/ndgs/

Oil and Gas Division

Phone: 701-328-8020 Fax: 701-328-8022 www.dmr.nd.gov/oilgas/

Housing Finance Agency

Inside Mailing Address: State Capitol, 600 E Boulevard Avenue, Bismarck, ND 58505
Physical Address: 2624 Vermont Avenue, Bismarck, ND 58501
Phone: 701-328-8080 Fax: 701-328-8090 www.ndhfa.org/

Lignite Research, Development & Marketing Program

State Capitol 14th Floor, 600 E Boulevard Avenue Dept 405, Bismarck, ND 58505-0840
Phone: 701-328-3722 Fax: 701-328-2820 www.nd.gov/ndic/lrc-infopage.htm

Mill & Elevator

PO Box 13078, Grand Forks ND 58208-3078
Phone: 701-795-7000 Fax: 701-795-7272 www.ndmill.com/

Oil and Gas Research Program

State Capitol 14th Floor, 600 E Boulevard Avenue Dept 405, Bismarck, ND 58505-0840
Phone: 701-425-1237 Fax: 701-328-2820 www.dmr.nd.gov/ogr/

Pipeline Authority

State Capitol 14th Floor, 600 E Boulevard Avenue Dept 405, Bismarck, ND 58505-0840
Phone: 701-220-6227 Fax: 701-328-2820 www.dmr.nd.gov/pipeline/

Public Finance Authority

Inside Mailing Address: State Capitol, 600 E Boulevard Avenue, Bismarck, ND 58505
Physical Address: 1200 Memorial Highway, Bismarck, ND 58506
Phone: 701-328-7100 Fax: 701-328-7130 www.nd.gov/pfa/

Renewable Energy Program

State Capitol 14th Floor, 600 E Boulevard Avenue Dept 405, Bismarck, ND 58505-0840
Phone: 701-328-3722 Fax: 701-328-2820 www.nd.gov/ndic/renew-infopage.htm

Student Loan Trust

State Capitol 14th Floor, 600 E Boulevard Avenue Dept 405, Bismarck, ND 58505-0840
Phone: 701-328-3722 Fax: 701-328-2820 www.mystudentloanonline.nd.gov/

Transmission Authority

State Capitol 14th Floor, 600 E Boulevard Avenue Dept 405, Bismarck, ND 58505-0840
Phone: 701-258-7117 Fax: 701-328-2820

Industrial Commission of North Dakota

History

The Legislature created the Industrial Commission of North Dakota (“Industrial Commission” “Commission”) in 1919 to conduct and manage, on behalf of the State, certain utilities, industries, enterprises and business projects established by state law. Through the years the Industrial Commission has been given and had removed various responsibilities.

Organizational Structure

The Industrial Commission of North Dakota is made up of the Governor, Attorney General and Agriculture Commissioner. During the 2015-2017 biennium Governor Jack Dalrymple (through December 14, 2016), Governor Doug Burgum (beginning December 15, 2016), Attorney General Wayne Stenehjem and Agriculture Commissioner Goehring served on the Commission. The Governor serves as Chairman of the Commission and the Governor plus one member is a quorum for the transaction of business. The Attorney General serves as general counsel. The Commission meets generally on at least a monthly basis to take action on items presented by the Commission agencies. The Industrial Commission met 26 times during the 2015-2017 biennium. The Industrial Commission Administrative Office has two full-time employees—the Executive Director and Secretary, Karlene Fine and Administrative Assistant, Shirley Campbell. Their offices are located on the 14th Floor of the State Capitol, 600 East Boulevard, Bismarck, North Dakota and they can be reached at the address and phone numbers listed on the back of this report. Consultants or part-time employees were hired during the biennium to assist with additional duties on an as needed basis.

Statutory Responsibilities

As the management authority for all utilities, industries, enterprises, and business projects owned, administered, and operated by the State, the Commission has under its jurisdiction the Bank of North Dakota, the North Dakota Mill and Elevator Association, the North Dakota Housing Finance Agency, the Public Finance Authority, the North Dakota Student Loan Trust, the North Dakota Building Authority, the North Dakota Transmission Authority, the North Dakota Pipeline Authority and the Outdoor Heritage Fund. In addition to the business entities, the Commission also has regulatory responsibilities through the Department of Mineral Resources which consists of the North Dakota Oil and Gas Division and the North Dakota Geological Survey. The Commission also provides research grants through the Lignite Research, Development and Marketing Program, the Oil and Gas Research Program and the Renewable Energy Development Fund/Program. The statutory reference for the Industrial Commission is found in Chapter 54-17, North Dakota Century Code. Oversight of the Western Area Water Supply Authority industrial sales was added to the Commission’s responsibility - see Chapter 61-40.

Major Programs and Activities

The programs and activities of the Industrial Commission are carried out through the agencies and programs that are overseen by the Commission. The following pages of this biennial report summarize these various programs and agencies. In addition, the Industrial Commission has oversight of the Farm Finance Agency. The Farm Finance Agency issued no bonds during the 2015-2017 biennium. There was no usage of the Agency as other programs offered by the Bank of North Dakota were a better source of financing for North Dakota farmers and ranchers. The Legislature has also directed that the Industrial Commission have oversight of the following Programs/Funds: Beginning Farmer Revolving Loan Fund, Community Water Facility Loan Fund, Ag PACE Fund, PACE Fund, Guaranteed Student Loan Program, Infrastructure

Revolving Loan Fund, Rebuilders Loan Fund, Housing Incentive Fund, and Medical Facility infrastructure Loan Program. A brief summary of each of these Programs/Funds along with the most recent balance sheets is listed at the back of this biennial report or with the audit of the Commission agency that administers the fund. (Copies of the complete audits of these Programs/Funds are available from the Industrial Commission or from the State Auditor.) Other than the Housing Incentive Fund, the Programs and Funds are administered by the Bank of North Dakota.

Key Legislation Passed During 2017 Legislative Session Related to the Industrial Commission

A number of bills were passed during the 2017 legislative session as it relates to the Commission agencies and programs. (See each of the agency/program comments regarding legislation that impacted the agency or program.) The primary bill for the Commission in regards to its appropriation and the appropriations of the agencies under its jurisdiction was Senate Bill 2014.

Key Responsibilities Added To or Deleted from Industrial Commission during the Biennium

Additional responsibilities were added to the Industrial Commission agencies/programs and thus to the oversight of the Commission by the 2017 Legislative Assembly. Those responsibilities have been noted in the summaries by the agencies on the following pages.

Major Accomplishments and Activities

The Industrial Commission accomplishments and activities are reflected in the information provided by each of the Industrial Commission agencies/programs.

Trends in Direction for the Industrial Commission/Short and Long Range Plans and Goals

The Commission activities are carried out through the Commission agencies and programs and are reflected under each agency/program. The Commission will continue to seek out technology and practices that will fulfill the missions for each research program as established by the Legislature, the regulation of oil and gas development as directed under the law, maintaining and growing the State's vital lignite industries, the development of infrastructure for oil and gas, renewable energy and lignite resources and the funding of projects that enhance conservation practices as per the Legislature's directives. In addition, the Commission through its agencies will work to promote economic development and serve as the State's bank through the Bank of North Dakota, assist with the financing of public infrastructure for political subdivisions, work to meet the affordable housing needs throughout the state and add value to North Dakota wheat and durum through the North Dakota Mill.

Resources and Publications Available from the Industrial Commission

Additional information about the Industrial Commission is available at:

Industrial Commission of North Dakota
State Capitol – 14th Floor, 600 East Boulevard
Bismarck, North Dakota 58505
701-328-3722 or 701-328-3726
www.nd.gov/ndic/

The following condensed financial statements are the most recent audited statements of the Industrial Commission. Included in these financial statements are the Industrial Commission Administrative Office, the North Dakota Lignite Research, Development and Marketing Program which includes the funding for the Transmission Authority, Renewable Energy Development Fund, Oil and Gas Research Fund, Pipeline Authority Fund and the Department of Mineral Resources which includes the North Dakota Geological Survey and the North Dakota Oil and Gas Division.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>Revenues and Other Sources:</u>		
Charges for Sales and Services	\$ 539,253	\$ 733,493
Permits and Fees	674,210	643,173
Donations	500	310,000
Fines	302,740	207,904
Refund of Prior Biennium Expenditure	275,000	
Federal Revenue	7,350	105,350
Interest and Investment Earnings	21,268	17,253
Dakota Gasification Company Loan Revenue	74,760	
Miscellaneous Revenue	5,971	27,897
Transfers In	18,649,615	32,586,565
Total Revenues and Other Sources	<u>\$ 20,550,667</u>	<u>\$ 34,631,635</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 9,083,700	\$ 8,067,256
Grants	10,559,997	8,116,887
Professional Services	3,042,443	961,909
Travel	847,019	739,763
Rentals/Leases – Buildings	361,172	724,678
Data Processing/Communications	199,519	177,839
Supplies	190,357	147,037
Equipment	74,162	145,786
Equipment under \$5000	385,142	124,408
Operating Fees and Services	114,608	75,540
Professional Development	117,671	53,389
Miscellaneous Operating Expenses	162,521	143,519
Transfers Out	58,766	448,000
Total Expenditures and Other Uses	<u>\$ 25,197,077</u>	<u>\$ 19,926,011</u>

Statement of Appropriations

For The Biennium Ended June 30, 2015

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 17,873,876	\$ 293,849	\$ 18,167,725	\$ 16,660,723	\$ 1,507,002
Accrued Leave Payments	347,696		347,696	23,688	324,008
Operating Expenses	5,930,576	106,151	6,036,727	4,740,390	1,296,337
Capital Assets	5,800		5,800	2,673	3,127
Grants	19,500,000		19,500,000	5,155,860	14,344,140
Totals	<u>\$ 43,657,948</u>	<u>\$ 400,000</u>	<u>\$ 44,057,948</u>	<u>\$ 26,583,334</u>	<u>\$ 17,474,614</u>
Expenditures by Source:					
General Fund	\$ 22,494,125	\$ 400,000	\$ 22,894,125	\$ 20,775,219	\$ 2,118,906
Other Funds	21,163,823		21,163,823	5,808,115	15,355,708
Totals	<u>\$ 43,657,948</u>	<u>\$ 400,000</u>	<u>\$ 44,057,948</u>	<u>\$ 26,583,334</u>	<u>\$ 17,474,614</u>

Appropriation Adjustments:

The increase to the Salaries and Benefits line item and Operating Expenses line item was a supplemental appropriation made by the 2013 Legislative Assembly under section 6 of House Bill 1015. These adjustments were approved by the Emergency Commission. The funds are for rental assistance and temporary salary increases in areas affected by energy development.

Expenditures Without Appropriations Of Specific Amounts:

Fossil Excavation and Restoration Fund has a continuing appropriation authorized by NDCC section 54-17.4-09.1 (\$19,907 of expenditures for this biennium).

Renewable Energy Development Fund has a continuing appropriation authorized by NDCC section 54-63-04 (\$2,266,304 of expenditures for this biennium).

Oil and Gas Research Fund has a continuing appropriation authorized by NDCC section 57-51.1-07.3 (\$9,465,780 of expenditures for this biennium).

Carbon Dioxide Storage Facility Administrative Fund has a continuing appropriation authorized by NDCC section 38-22-14 (\$57,293 of expenditures for this biennium).

Pipeline Authority Administrative Fund has a continuing appropriation authorized by NDCC section 54-17.7-11 (\$214,810 of expenditures for this biennium).

North Dakota Outdoor Heritage Fund has a continuing appropriation authorized by NDCC section 54-17.8-02 (\$2,476,720 of expenditures for this biennium).

Cash Bond Fund has a continuing appropriation authorized by NDCC section 38-08-04.11 (\$73,329 of expenditures for this biennium).

Cartographic Products Fund has a continuing appropriation authorized by NDCC section 54-17.4-10 (\$93 of expenditures this biennium).

Global Positioning System Community-base Station Fund has a continuing appropriation authorized by NDCC section 54-17.4-12 (\$450 of expenditures this biennium).

Oil and Gas Reservoir Data Fund has a continuing appropriation authorized by NDCC section 38-08-04.6 (\$758,993 of expenditures for this biennium).

Geo Data Preservation Fund has a continuing appropriation authorized by NDCC section (\$77,628 of expenditures for this biennium).

Geo Mineral Coal Exploration Fund has a continuing appropriation authorized by NDCC section 38-21-01 (\$134 of expenditures for this biennium).

Abandoned Oil and Gas Reclamation Fund has a continuing appropriation authorized by NDCC section 38-08-04.5 (\$2,150,437 of expenditures for this biennium).

Bank of North Dakota

History

Bank of North Dakota ('BND', 'the Bank') was formed by the North Dakota State Legislature on February 25, 1919. Chapter 6-09 of the North Dakota Century Code (NDCC) defines the purpose and powers of BND as well as the role of the ND Industrial Commission in the operation of the Bank.

BND's mission today is the same as when the Bank was formed, "*To Deliver Quality, Sound Financial Services that Promote Agriculture, Commerce and Industry in North Dakota.*"

Organizational Structure

BND President, Eric Hardmeyer, reports to the ND Industrial Commission. The BND Advisory Board, appointed by the ND Governor as described in 6-09-02.1, also provides oversight of the Bank.

Reporting directly to BND President Hardmeyer are: (BND Organizational Chart attached).

Senior VP of Business Development – Todd Steinwand
Senior VP of Accounting and Treasury – Tim Porter
Senior VP of Technology and Operations – Joe Herslip
Senior VP of Human Resources and Communications – Lori Leingang
Senior VP of Credit Administration – Kirby Evanger
Senior VP of Risk Management – Jeff Weiler

Bank of North Dakota employs approximately 180 people.

Statutory/Constitutional Responsibilities

Bank of North Dakota's purpose, powers and responsibilities are defined in NDCC 6-09.

Major Programs and Activities

Operations Programs:

- Check clearing/Image cash letters
- Automated clearinghouse
- Wire transfers
- Pass-thru reserve
- Direct cash management

Customer Service Programs:

- Financial institutions coin and currency services
- Foreign currency and drafts
- Checking and savings accounts

Lending Services Programs:

- Business startup (Beginning Entrepreneur and New Venture Capital)
- Economic development incentive (PACE, Flex PACE, Affordable Housing Flex PACE, Match)
- Value-added equity and irrigation (Ag PACE)
- Beginning Farmer – Real estate and Chattel
- Bank Stock financing
- Commercial loans (Loan Participations, Business Development, Export Enhancement)
- Farm loans (Family Farm, Farm Operating, Established Farmer Real Estate, Biofuels PACE, Livestock Waste Management System)
- Residential loans (Rural Mortgage Loans, Rebuilders Loan Program)
- Special loans – (Community Water Facility, Health Information Technology, Medical Facility Infrastructure, Infrastructure Revolving Loan Fund, School Construction Assistance Revolving Loan Fund)

BND's loan portfolio as of December 31, 2016 is well diversified and as a percentage of the entire portfolio is comprised as follows: student loans 29%, commercial loans 42%, residential loans 15%, and agricultural loans 14%.

Student Loan Services Programs:

- Federal loans made prior to 7/1/2010 still being serviced by BND:
 - Subsidized/Unsubsidized Stafford Loan
 - Parent Loan for Undergraduate Students (PLUS)
 - Parent Loan for Graduate Students (Grad PLUS)
 - Consolidation Loan
- ND State –Sponsored Student Loan Program
 - DEAL
 - DEAL One Loan
 - DEAL Consolidation Loan
- Administer and act as Trustee for College SAVE, North Dakota's 529 Plan

Treasury Services:

- Investments
- Bond accounting and safekeeping
- Corporate trust

Key Legislation Passed During the 2016 Special ND Legislative Assembly Impacting BND

- **SB 2379 - Legislation Impacting BND Retained Earnings**
BND will provide \$100 million from undivided profits to reduce the budget shortfall caused by a reduction in state revenues.

Key Legislation Passed During the 2017 ND Legislative Assembly Impacting BND

- **HB 1015 – OMB Appropriation**
Section 20 – Increased authority to borrow from BND during budget shortfalls from \$10 million to \$50 million.
- **HB 1018 – Double Ditch Historic Site Repairs**
Sections 6 & 7 – State Historical Society may obtain a loan from the Bank of North Dakota in an amount not to exceed \$1,250,000, however additional funding contained in HB 1018 and HB 1019 reduces loan exposure to \$250,000.
- **HB 1020- State Water Commission Appropriation**
Section 9 – Increased BND exposure to Western Area Water Supply Authority from \$63 million to \$88 million.
Section 19 – BND to administer \$26.5 million Infrastructure Revolving Loan Fund and receive .50% administrative fee.
Section 20 – Established Line of Credit of \$75 million with BND.
- **HB 1024 – Adjutant General Appropriation**
Section 3 – Borrowing authority of \$10 million from BND granted through 6-30-19 for expenses related to unlawful activity associated with the construction of the Dakota Access Pipeline.
Section 7 & 8 – Describes source of repayment on total of all loans associated with Dakota Access Pipeline protest.
- **HB 1178 – Statewide Interoperable Radio Network**
Section 7 – Provides NDITD with authority to borrow from BND \$15 million for a term not to exceed 6 years to defray expenses of statewide interoperable radio network with repayment from funds available in radio network fund.
- **SB 2014 – Industrial Commission Appropriation**
Section 9 – BND Capital transfer to OMB of \$140 million during 2017-2019 biennium.
Section 10 – BND Capital transfer of \$16 million to PACE Fund.
Section 11 - BND Capital transfer of \$2 million to AG PACE Fund.
Section 12 - BND Capital transfer of \$1 million to Biofuels PACE Fund.
Section 13 - BND Capital transfer of \$6 million to Beginning Farmer Rev. Fund.
Section 14 - BND Capital transfer of \$6 million to School Construction Loan Interest Rate Buydowns.
Section 17 - BND may charge collection costs up to 18% of the outstanding loan balance back to delinquent student loan borrowers.

Section 18 - BND may request the suspension of recreational licenses for nonpayment of defaulted state guaranteed student loans.

Section 28 - BND may not construct the ND Financial Center until after 6/30/2019.

Section 31 - BND must conduct an efficiency study during 2017-2018 interim and report results to 2019 legislature.

- **SB 2021 – ND ITD Appropriation**
Section 10 – 11 – Provides authority to borrow up to \$375,000 from BND for costs associated with implementing a new electronic payment processing system.
- **SB 2044 – Dynamic Fiscal Impact Software**
BND authorized to purchase software to conduct dynamic revenue analysis of economic development tax incentives.
- **SB 2134 – Department of Trust Lands loan authorization**
Provides Department of Trust Lands authority to borrow up to \$87 million from BND to cover reimbursement of mineral revenue payments relating to ownership of mineral rights under Lake Sakakawea.
- **SB 2174 – Appropriation to the Adjutant General**
Provides Adjutant General authority to borrow \$11 million to cover law enforcement costs associated with Dakota Access Pipeline and establishes the sources of repayment.
- **SB 2178 – Infrastructure Revolving Loan Fund**
Redefines qualifying projects to include repair and replacement projects.
- **SB 2272 – School Construction Revolving Loan Fund**
Section 13 – Enables BND to consolidate \$123 million of existing school construction loans into the revolving loan fund and consolidates the existing \$150 million Department of Trust Land school loans into the same fund. Also transfers \$75 million from Foundation Aid Stabilization Fund into revolving loan fund. The revolving loan fund is administered by BND.
- **SB 2311 – Letter of Credit to cover unemployment insurance liability**
BND shall provide a letter of credit to a city in NW North Dakota to cover unemployment insurance liability in association with City's airport project. The fee cannot exceed ¾% of total amount of letter.

- **SB 2014 and SB 2379 (2016 Special Legislative Session) – 2016 - 2017 Legislation Impacting BND Earnings and Undivided Profit Transfers**
The bills noted had an aggregate of \$271 million in BND earnings and undivided profit transfers to the ND General Fund and for various loan program interest rate buydown programs.

Key Responsibilities Added to or Deleted from BND during the Biennium July 1, 2015 through June 30, 2017

- In response to 2015 legislation, developed and administered the Infrastructure Revolving Loan Fund with \$50 million funded from the Strategic Investment and Improvements Fund and \$100 million from BND earnings and undivided profits.

Major Accomplishments and Activities

- Increased business activity in 2016 led to a thirteenth consecutive year of record profits. BND earned profits of \$136 million with its asset base of \$7.3 billion in 2016.
- In November 2017, Standard and Poor's Financial Services affirmed BND's credit rating at A+ with a stable outlook.
- BND developed the Farm Financial Stability program in 2015 to help over 300 farmers dealing with financial stress by providing \$155 million in loans.
- BND developed new entrepreneurial programs to facilitate new business growth and a more diverse ND economy.
- BND developed infrastructure funding programs to provide low interest rate loans to ND communities with critical needs.
- BND reorganized the business banking area to provide independence in loan underwriting and ability for business bankers to work more closely with clients. Added locations in Fargo, Grand Forks and Minot to have closer proximity to clients and communities.
- BND DEAL student loan portfolio surpassed \$1 billion in outstanding loans. The introduction of the DEAL One portfolio for ND residents contributed to the vibrant growth of this portfolio.
- In response to lower state tax revenues during the 2015-2017 biennium and at the request of the legislature, BND provided \$100 million of its undivided profits to the general fund to help balance the budget.
- BND's college savings plan has seen continued growth in the number of accounts opened reaching a new high of nearly 33,000 accounts during the 2015-17 biennium or a 17.9% increase. Thanks to the growth in the College SAVE's grant programs, (North Dakota Matching Grant based on family income and the Children FIRST grant for North Dakota newborns) College SAVE ND assets reached an all-time high of \$128 million at the end of the 15-17 biennium.
- Treasury Services provided additional liquidity to its correspondent bank partners through Pledging Services (\$2.2 billion), Letters of Credit (\$279 million), Repurchase Agreements (\$100 million), and secured and unsecured Fed Funds lines (\$679 million).

Trends in Direction for BND/Short and Long-Range Plans and Goals

Bank of North Dakota's mission continues to be, *"To Deliver Quality, Sound Financial Services that Promote Agriculture, Commerce and Industry in North Dakota."*

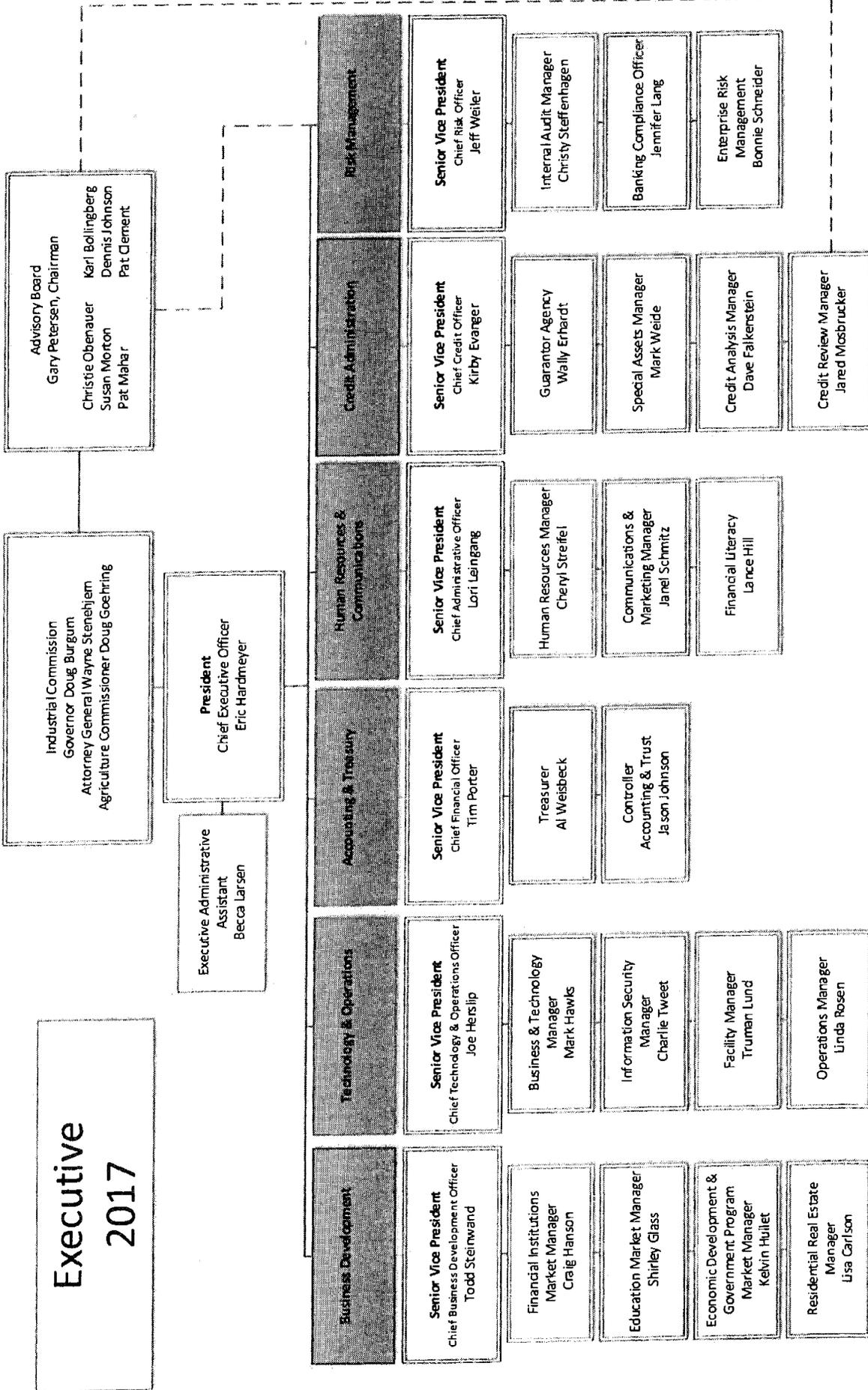
The Bank prepares a comprehensive strategic plan, operating unit MBO's and an annual operating budget.

BND creates a multi-year Information Technology Plan and submits that plan to ND ITD in accordance with NDCC 54-59.

Resources and Publications Available from BND

Bank of North Dakota publishes an annual report and a quarterly performance highlights report. The annual report, as well as a summary of services, is on the Bank's website at www.banknd.nd.gov.

Executive 2017



BANK OF NORTH DAKOTA
BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and due from banks	\$ 361,807	\$ 318,354
Federal funds sold	63,070	77,905
	<u>424,877</u>	<u>396,259</u>
Cash and cash equivalents		
Securities	2,068,327	2,657,527
Loans	4,789,553	4,339,618
Less allowance for loan losses	(78,747)	(69,294)
	<u>4,710,806</u>	<u>4,270,324</u>
Interest receivable	50,824	44,635
Bank premises, equipment, and software, net	11,942	11,566
Rebuilders loan program receivable	17,474	21,369
Other assets	11,018	6,262
	<u>11,018</u>	<u>6,262</u>
Total assets	<u>\$ 7,295,268</u>	<u>\$ 7,407,942</u>
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	\$ 663,156	\$ 641,264
Interest bearing	4,224,036	5,160,878
	<u>4,887,192</u>	<u>5,802,142</u>
Federal funds purchased and repurchase agreements	242,480	119,500
Short and long-term debt	1,280,538	727,322
Other liabilities	9,326	9,485
	<u>9,326</u>	<u>9,485</u>
Total liabilities	<u>6,419,536</u>	<u>6,658,449</u>
Equity		
Capital	2,000	2,000
Capital surplus	72,000	72,000
Undivided profits	789,496	673,330
Accumulated other comprehensive income	12,236	2,163
	<u>875,732</u>	<u>749,493</u>
Total equity	<u>875,732</u>	<u>749,493</u>
Total liabilities and equity	<u>\$ 7,295,268</u>	<u>\$ 7,407,942</u>

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands)

	<u>2016</u>	<u>2015</u>
INTEREST INCOME		
Federal funds sold	\$ 477	\$ 380
Securities	35,289	38,026
Loans, including fees	<u>175,037</u>	<u>155,892</u>
Total interest income	<u>210,803</u>	<u>194,298</u>
INTEREST EXPENSE		
Deposits	11,457	12,814
Federal funds purchased and repurchase agreements	861	223
Short and long-term debt	<u>21,657</u>	<u>19,127</u>
Total interest expense	<u>33,975</u>	<u>32,164</u>
NET INTEREST INCOME	<u>176,828</u>	<u>162,134</u>
PROVISION FOR LOAN LOSSES	<u>16,000</u>	<u>12,500</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>160,828</u>	<u>149,634</u>
NONINTEREST INCOME		
Service fees and other	6,323	7,648
Net gain on sale of available for sale securities	<u>-</u>	<u>40</u>
Total noninterest income	<u>6,323</u>	<u>7,688</u>
NONINTEREST EXPENSE		
Salaries and benefits	16,151	14,817
Data processing	5,745	4,838
Long-term debt prepayment fee	1,343	-
Occupancy and equipment	843	726
Net loss on sale of available for sale securities	131	-
Other operating expenses	<u>6,783</u>	<u>6,287</u>
Total noninterest expenses	<u>30,996</u>	<u>26,668</u>
NET INCOME	<u>\$ 136,155</u>	<u>\$ 130,654</u>

See Notes to Financial Statements

North Dakota Building Authority

History

The North Dakota Building Authority (“Building Authority”) was created by the Legislature in 1985 for the purpose of acquiring, owning, constructing, reconstructing, extending, rehabilitating or improving buildings, related structures, parking facilities, equipment, improvements, real and personal property and interests therein primarily for the use of the State of North Dakota and its agencies and instrumentalities. Since the Building Authority was created it has provided financing for projects totaling over \$170,000,000 -- including projects on all the North Dakota University System campuses, some of the North Dakota Extension Service Centers, State Penitentiary and Missouri River Correctional Center in Bismarck, Youth Correctional Center in Mandan, James River Correctional Center in Jamestown, Developmental Center at Grafton, State Hospital at Jamestown, Job Service North Dakota Service Centers, Veterans Home, Information Technology Department (ConnectND), Attorney General’s Office, Office of Management and Budget, North Dakota Parks and Recreation, and North Dakota Historical Society.

Organizational Structure

The North Dakota Building Authority Act provides that the Industrial Commission shall be the North Dakota Building Authority. The Commission generally appoints two Authorized Officers to oversee the financing of the projects approved by the Legislature. The Commission’s Executive Director and Secretary and the Director of the Office of Management and Budget served as the Authority’s Authorized Officers during the 2015-2017 biennium. The Building Authority provides the Legislature with another option as it considers how to pay the costs of projects declared by the Legislature to be in the public interest. It works in the following manner:

- The Legislature determines whether a project is in the public interest of the State and passes legislation authorizing the specific projects and authorizes the Building Authority to issue evidences of indebtedness (generally these are tax exempt lease revenue bonds payable from biennial appropriations).
- The Building Authority, working with the appropriate agencies, issues its bonds to acquire funds for the authorized projects. A financing agreement in the form of either a lease or a loan is entered into between the Agency and the Authority.
- The state or agency repays the bonds from the payments made under the financing agreements. The financing agreements run from the Building Authority to the various state agencies utilizing the projects. The financing agreements are renewed every two years with rental funds provided from a legislative appropriation in each biennium.

Statutory/Constitutional Responsibilities

North Dakota Century Code 54-17.2 is the statutory source for the North Dakota Building Authority.

Major Programs and Activities

The sole activity of the North Dakota Building Authority is to provide financing for the projects determined by the Legislature to be in the State’s public interest. These financings require the Authority to provide ongoing continuing disclosure to the financial community including national rating agencies. The Authority is also responsible for the collection of the payments from the state agencies which then are passed through to the Bank of North Dakota which serves as the Trustee for the bond issues.

Key Legislation Passed During 2017 Legislative Session Related to North Dakota Building Authority

There was no legislation passed during the 2017 Legislative Session other than the appropriation of funds in the various agency budgets for payment of debt service.

Key Responsibilities Added To or Deleted from North Dakota Building Authority during the Biennium

There were no additional statutory responsibilities added or deleted from the Building Authority during the 2015-2017 biennium.

Major Accomplishments and Activities

During the 2015-2017 biennium the Building Authority issued no new bonds or refundings. The Authority continued to make payments on outstanding bonds in a timely manner and provide the required continuing disclosure.

The North Dakota Building Authority currently has a bond rating by Standard & Poor's of AA.

Trends in Direction for North Dakota Building Authority/Short and Long Range Plans and Goals

The Building Authority on a continual basis monitors the national bond market to determine if savings can be obtained from the refinancing of outstanding Building Authority bond issues.

Resources and Publications Available from the North Dakota Building Authority

The most recent official statements for bond offerings made by the North Dakota Building Authority are available <http://www.nd.gov/ndic/ba-info.htm>

Industrial Commission of North Dakota
State Capitol – 14th Floor, 600 East Boulevard
Bismarck, North Dakota 58505
701-328-3722 or 701-328-3726
www.nd.gov/ndic/

NORTH DAKOTA BUILDING AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016
(In Thousands)

ASSETS	<u>2017</u>	<u>2016</u>
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents at the Bank of North Dakota	\$ 96	\$ 1,781
Investments at the Bank of North Dakota	5,975	4,929
Leases receivable	5,515	5,315
Investment interest receivable, Bank of North Dakota	5	4
Lease interest receivable	<u>132</u>	<u>148</u>
Total restricted current assets	<u>11,723</u>	<u>12,177</u>
NONCURRENT ASSETS - RESTRICTED		
Investments at the Bank of North Dakota	-	1,046
Lease receivable	<u>26,718</u>	<u>30,444</u>
Total restricted noncurrent assets	<u>26,718</u>	<u>31,490</u>
Total assets	<u>\$ 38,441</u>	<u>\$ 43,667</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on bond refunding	<u>\$ 1,140</u>	<u>\$ 1,370</u>
Total deferred outflows of resources	<u>\$ 1,140</u>	<u>\$ 1,370</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 5	\$ -
Bonds payable	5,515	5,315
Interest payable	<u>132</u>	<u>148</u>
Total current liabilities	<u>5,652</u>	<u>5,463</u>
NONCURRENT LIABILITIES		
Bonds payable	<u>33,929</u>	<u>39,574</u>
Total liabilities	<u>39,581</u>	<u>45,037</u>
NET POSITION		
Total liabilities and net position	<u>\$ 39,581</u>	<u>\$ 45,037</u>

See Notes to Financial Statements

NORTH DAKOTA BUILDING AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands)

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Lease interest	\$ 1,653	\$ 1,780
Other	66	76
	<u>1,719</u>	<u>1,856</u>
OPERATING EXPENSES		
Interest expense	1,765	1,976
Other	32	34
	<u>1,797</u>	<u>2,010</u>
OPERATING LOSS	(78)	(154)
NONOPERATING REVENUE		
Investment interest	<u>78</u>	<u>154</u>
CHANGE IN NET POSITION	-	-
TOTAL NET POSITION, BEGINNING OF YEAR	<u>-</u>	<u>-</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements

North Dakota Department of Mineral Resources

History

The North Dakota Geological Survey (NDGS) and the position of State Geologist were created by an act of the North Dakota Legislature in 1895, six years after statehood.

During the first half of the 20th Century, the NDGS focused their studies on the coal and clay resources of North Dakota. With the discovery of oil near Tioga in 1951, the NDGS grew rapidly to both research the geology of the petroleum-bearing formations and regulate the exploration, and production of the resource.

The Oil and Gas Division (OGD) was established by the 1981 Legislature to assume the oil and gas regulatory duties of the NDGS.

Regulation of geophysical exploration was added to the duties of the OGD on July 1, 1997.

In 1989 the State Legislature moved the NDGS from the jurisdiction of the Board of Higher Education to the Industrial Commission.

The 2003 (58th) Legislature passed an amended Industrial Commission appropriations bill, calling for a merger of the NDGS and the OGD to be accomplished by July 1, 2005. On July 1, 2005, legislation passed during the 2005 (59th) Legislative Session placed the NDGS and the OGD into the newly created Department of Mineral Resources (DMR).

Regulation of underground gathering pipelines was added to the duties of the OGD on July 1, 2013.

The Department of Mineral Resources offices are located in Bismarck. The NDGS also operates the Johnsrud Paleontology Laboratory and the Geologic Time Gallery in the North Dakota Heritage Center as well as the newly expanded Wilson M. Laird Core and Sample Library located on the campus of the University of North Dakota in Grand Forks. The OGD operates field offices in Williston, Dickinson, and Minot.

Statutory/Constitutional Responsibilities

NDCC 54-17.4 is the enabling legislation for the NDGS.

NDCC 38-08, 38-08.1,38-22, and 32-40.2 are the enabling legislation for the OGD.

In addition the NDGS has the following statutory duties:

Disposal of Nuclear and Other Waste Material

NDCC 23-20.2

Air Pollution Control

State air pollution control agency – advisory council

NDCC 23-25

NDCC 23-25-02.2

NDCC 23-25-02.4

Solid Waste Management and Land Protection

Preconstruction site review

Review of existing municipal waste landfills

NDCC 23-29

NDCC 23-29-07.6

NDCC 23-29-07.7

Ground Water Protection Wellhead protection program	NDCC 23-33 NDCC 23-33-10
Control of Gas and Oil Resources Jurisdiction of commission	NDCC 38-08 NDCC 38-08-4.1k
Surface Mining and Reclamation Operations Powers and duties of the commission	NDCC 38-14.1 NDCC 38-14.1-03.12 NDCC 38-14.1-03.24
Permit approval or denial standards	NDCC 38-14.1-21.2
Control, Prevention, and Abatement of Pollution of Surface Waters State water pollution prevention agency- board	NDCC 61-28 NDCC 61-28-03
Paleontological Resource Protection	NDCC 54-17.3
Geothermal Resource Development Regulation	NDCC 38-19
Coal Exploration	NDCC 38-12.1
Subsurface Exploration Damages	NDCC 38-11.2
Regulation, Development, and Production of Subsurface Minerals	NDCC 38-12

Major Programs and Activities

The major activity of the OGD is to encourage and promote the development, production, and utilization of oil and gas in the state in such a manner as will prevent waste, maximize economic recovery, and fully protect the correlative rights of all owners to the end that landowners, royalty owners, producers, and the general public realize the greatest possible good from these vital natural resources. This includes but is not limited to the permitting of geophysical exploration, permitting wells, establishing well spacing for producing reservoirs, inspection of facilities, approving enhanced oil recovery operations, disposal of oil field brines and other fluid wastes, proper construction, monitoring, and abandonment of underground gathering pipelines, geologic storage of carbon dioxide, ensuring proper plugging and site reclamation of all wells, and conducting hearings on oil and gas matters.

The NDGS serves as the primary source of geological information in the state. The NDGS regulates oil well core and drill samples (plus other subsurface samples), coal exploration, geothermal resources, paleontology resources, subsurface minerals and Class III injection wells for solution mining of subsurface minerals. Various non-regulatory activities include geologic mapping, oil and gas studies, mineral studies, paleontology, surface and glacial studies, mapping of landslides and other geologic hazards, environmental studies, public outreach programs, evaluation of the occurrence and economic value of mineral resources on state lands for the Department of North Dakota Trust Lands, and the geologic suitability and impact on fossil resources of construction projects such as municipal and special waste facilities, transmission and pipeline corridors.

Legislation Passed During the 2017 Legislative Session Related to the Department

- HB1043 eliminated extraction tax incentives and Industrial Commission certification for workover projects, new wells, and two-year inactive wells.

- HB1151 raised the minimum spill reporting requirement from one barrel to ten barrels for oil, produced water or natural gas liquids that are contained to a well or facility site built after September 1, 2000.
- HB1257 lowered the ratification requirement to create units from 60 percent to 55 percent. The bill also lowers the requirement to dissolve a unit from 60 percent to 55 percent; or to the same percentage that was required to create it.
- HB1336 created a new section within the judicial remedies chapter of the century code and allows for environmental health and safety audits and provides limitations of penalties for environmental audits.
- HB 1347 continued appropriation and increased funding towards the state's Abandoned Oil Well and Site Plugging Reclamation Fund. Provides funding for a phase III pipeline study by the Energy & Environment Research Center.
- HB1409 created a database within the Department of Health for water quality tests taken as a result of subsurface mineral development.
- SB 2014 set the Department of Mineral Resources Budget. Due to a reduction in state revenues the agency was required to conduct reduction in force of 8.5 FTEs. If oil and gas activity should increase, the budget contains two contingency positions upon approval by the Legislative Budget Section. The budget also contains litigation funds to protect the state against regulatory overreach by federal agencies; as well as a requirement for the NDGS to study jurisdiction over lake beds.
- SB 2134 establishes a process through the Industrial Commission for determining mineral ownership for lands inundated by the Pick-Sloan dams.
- SB2156 requires a Commission permit after public notice and hearing to test, explore, excavate drill, bore or construct an underground storage and retrieval or waste disposal facility. It also requires the legislature to approve exploration for a high-level radioactive waste disposal facility, and required the NDGS and Department of Health to assist with an interim study of rewriting this chapter.
- SB2333 places standards for reclamation, previously found in administrative code, into the century code.

Key Responsibilities Added or Deleted from the Department during the Biennium

The OGD expanded responsibilities of the underground gathering pipeline program during the 15-17 biennium. New pipeline program rules focus on construction and installation requirements for crude oil and produced water gathering pipelines. New rules also require crude oil and produced water gathering pipelines to be bonded.

Bonding requirements were added for saltwater handling facilities that are not already bonded as an appurtenance to another facility.

The OGD now requires that most facilities with a throughput of more than 100 barrels of fluid a day have a perimeter berm around the facility.

Major Accomplishments and Activities

New Oil & Gas Division Rules:

New rules for the operation of underground gathering pipelines, saltwater handling facilities and berm requirements were created (N.D.A.C. 43-02-03-15; 43-02-03-29.1; 43-02-03-49; 43-02-03-51.3; 43-02-03-53.3) along with substantial revisions to general rules (NDAC 43-02-03) related to: enforcement, organization reports, access to records, bond and transfer of wells, application for permit to drill and recomplete, sign on a well or facility, site construction, earthen pits and

open receptacles, safety, notification of fires, leaks, spills or blowouts, leak and spill cleanup, well log, completion and workover reports, method of plugging, gas-oil ratio tests, diking around oil tanks, reports of oil production, report of gas produced with oil, abandonment of wells and treating plants, certification for gas tax exemption, reports of purchasers and transporters of crude oil, authorization to transport oil, and special procedures for hearings.

Oil and Gas Resources:

The OGD increased field inspection, engineering technician staffing and created a new program within the division to regulate underground gathering pipelines. This new program includes two field inspectors in each of the district field offices and four staff members located in Bismarck. OGD continued converting files to various electronic formats. The agency made improvements to the website to make automatic reporting functions and records more accessible to the public; and continued to enhance the process of batch electronic filing of production, injection, and disposal data.

Petroleum Geology:

The NDGS scientists published 232 articles, maps, and reports and presented on various aspects of North Dakota's geology. Sixteen of these focused on North Dakota's subsurface geology including the , Red River, Bakken, Three Forks, Tyler, Inyan Kara, and Spearfish Formations.

Core Library:

The Wilson M. Laird Core and Sample Library underwent major expansion and renovation during the 2015-2017 biennium. Construction took place from August 2015 to October 2016. A temporary core laboratory was created in the old warehouse and core library personnel were relocated into Leonard Hall. The original 13,000 square-foot-warehouse was expanded to add 28,000 square feet and the 2,000 square-foot office and laboratory were demolished to make room for a two-story, 12,000 square-foot building which contains five core laboratories, a microscope laboratory, a computer laboratory, a conference room, and offices. A total of 80,137 feet of core was studied by industry and academia in the core library during the 15-17 biennium. In addition, 19,151 feet of core was photographed generating nearly 40,000 core photographs for the subscription website. Industry submitted 14,649 feet of core and 3,236 sample boxes to the core library during this biennium.

Geologic Mapping:

NDGS geologists completed field mapping the Grafton map sheet covering portions of Pembina, Cavalier, and Walsh Counties and completed field mapping and published maps in the Minot area and began field mapping in the Bismarck – Mandan area. Geologists also mapped the landslides in 157 quadrangles in areas of proposed winds farms, pipelines, and oil field pads. The NDGS initiated a LiDAR map series and posted more than 1,200 LiDAR quadrangles on the NDGS website.

Mineral Studies:

The NDGS initiated a multi-year study to determine rare earth concentrations in the lignite deposits of western North Dakota. The NDGS collected 342 coal samples from 60 sites in the Little Missouri River Valley in Slope, Billings, and McKenzie counties and found relatively high

concentrations in 19 of the samples. The NDGS published a detailed report on the potash (potassium salts) deposits in northwestern North Dakota

Paleontology:

Thirteen public fossil digs were conducted this biennium near Medora, Marmarth, South Heart, Huff, and Walhalla. NDGS paleontologists also undertook 31 fossil excavations across the state. A new Cretoscope, with improved graphics, was designed and installed in the Geologic Time Gallery in the Heritage Center. A new fossil exhibit was also installed in the Barnes County Museum in Valley City.

Petroleum Conferences and Workshops:

The DMR co-sponsored two Williston Basin Petroleum Conferences in 2016 and 2017, the first in Bismarck and the other in Regina, Saskatchewan. The Bismarck conference drew approximately 2,700 attendees. Survey geologists conducted core workshops on the Inyan Kara, Bakken, Three Forks, and Red River Formations and presented talks on North Dakota's petroleum resources at a variety of meetings including the Williston Basin Petroleum Conference and the American Association of Petroleum Geologists Rocky Mountain Sectional meeting.

Other:

The OGD issued 2,216 oil and gas permits and 18 geophysical permits; heard approximately 2,400 cases docketed for hearing, and regulated an average drilling rig count of 46 rigs and an increase of more than 1,000 producing wells. This resulted in more than 365,000 OGD inspections during the biennium.

The NDGS issued 115 geothermal, coal exploration and subsurface mineral permits and answered more than 5,100 inquiries during the 2015-2017 biennium. The NDGS continued operation of the State's GPS Community Base Station at Bismarck State College.

Trends in Direction for the Department/Short and Long Range Plans and Goals

Identifiable trends include rapidly increasing the functionality of the DMR websites as a means of accessing information and data available as well as increasing sales of print-on-demand maps. The OGD intends to restructure and improve the interagency use of the internal database known as Risk Based Data Management System.

Oil and gas activity remained strong throughout most of the biennium, resulting in high levels of well permitting, core and sample library visits, office visits, requests for digital data and well file information, and hearing case load. An oil price slump during the first 8 months of the biennium caused a dramatic reduction in rig count, although oil production, gas production and producing wells remain at historic levels.

The plans and goals for the DMR can be outlined as follows:

Geologic Studies and Techniques

Framework studies of petroleum geology

- Temperature profiles of the basin related to petroleum mature zones
- Evaluation of deep waste disposal zones
- Lignite, sand and gravel, and clay assessments
- Shallow and deep gas evaluations
- Deep geothermal potential
- Methods of evaluating information on surface geology
- Computerized geologic database

Geologic Mapping

- Detailed surface mapping and mineral resource mapping - statewide
- Mineral resource mapping on state-owned land
- Mapping of landslides and other hazards

Paleontology Activities

- Revise the Dakota exhibit in the Geologic Time Gallery in the Heritage Center
- Design and create paleontological exhibits for museums and visitor centers across North Dakota
- Continue to expand and improve the public fossil dig program

Public Information/Outreach

- Geologic presentations, tours, and fieldtrips
- Release of new publications
- NDGS web page
- Earth Science Information Center

Regulatory Activities

- Review and revise Rules and Regulations as appropriate
- Amend geothermal facility application forms

Oil and Gas Resources

- Develop and implement a GIS database for the reporting and management of GIS shapefiles for underground gathering pipelines.
- Develop web forms and batch filing systems to implement electronic filing of additional forms and production reports.
- Continue with scanning and updating historical case files, scanning new information, and scanning central tank battery files.
- Continue to provide production summary webinars through the Oil and Gas website.
- Provide hearing exhibits live through video streaming.

Resources and Publications Available From the Department

More than 1,500 Survey publications are listed on the NDGS Homepage at <https://www.dmr.nd.gov/ndgs/> . Most of these publications are linked to downloadable pdfs. New publications are listed in the back of the *DMR Newsletter (Geo News)*, issued twice a year.

The Oil and Gas Division publishes the monthly N.D. Oil and Gas Production Report online free of charge on our website: <https://www.dmr.nd.gov/oilgas/mprindex.asp>

Additional information about the Oil and Gas Division is available on the agency homepage: <https://www.dmr.nd.gov/oilgas/>

North Dakota Housing Finance Agency

History

Created by an initiated measure passed during the 1980 general election, the North Dakota Housing Finance Agency (the Agency) was established to develop, coordinate and issue tax-exempt bonds to generate funds that could be used by North Dakota residents in financing home purchases.

The Legislature expanded the Agency's authority to include rental and manufactured housing loan programs; the ability to accept federal grant funds; and the administration of a statewide rental housing assistance program. During the 2007 session, the Legislature gave the Agency broad authority to assist communities in addressing unmet housing needs, and to provide financial assistance for land development and loan guarantees.

Through public-private partnerships with local lenders and community groups, the Agency's Homeownership Division offers a variety of mortgage options to accommodate low- to moderate-income homebuyers. In addition to first-time homebuyers, the Agency provides financing to special needs households, and moderate-income buyers who may have previously owned a home. Since the Agency's formation, it has purchased over 42,000 single-family loans totaling more than \$3.2 billion.

The Agency's Planning and Housing Development Division has assisted in the production of thousands of units of affordable rental housing statewide.

The Agency's Property Management Division administers regulatory oversight and contractual compliance for the U.S. Department of Housing and Urban Development (HUD) properties. The 103 North Dakota properties have a total of 2,991 low-income rental units.

Organization Chart

(See attached NDHFA Organizational Chart.)

Statutory/Constitutional Responsibilities

The Agency operates under the authority of the Industrial Commission of North Dakota. State statute (NDCC 54-17) authorizes the Agency to operate single- and multi-family housing finance programs, a secondary mortgage program, home improvement and grant programs to encourage housing availability for persons of low- to moderate-income, and assist developing communities in addressing unmet housing needs or alleviating housing shortages. To finance these programs, the Industrial Commission is authorized to issue revenue bonds with the principal and interest being paid by revenues generated from the housing finance programs.

Major Programs and Activities

The Agency's most notable homeownership program, FirstHome™, offers low interest rate mortgages to first-time buyers. The Agency also provides down payment and closing cost assistance to these borrowers. The HomeAccess program provides similar low-interest rate mortgages to special needs buyers including single-parent, elderly, disabled and veteran households. Moderate-income buyers who may have previously owned a home can qualify for homeownership incentives via the North Dakota Roots program.

The Agency's Property Management Division conducts regulatory oversight for low-income rental units located throughout North Dakota that are under HUD Section 8 Housing Assistance Payment and Moderate Rehabilitation program contracts.

The Agency's Planning and Housing Development Division administers various development programs including the North Dakota Housing Incentive Fund (HIF), a program that provides flexible financing for the development of multi-family rental property, and the federal Low Income Housing Tax Credit (LIHTC) program. The Agency also began administering the federal Housing Trust Fund program during the biennium. The program is targeted at assisting extremely low-income households. The staff also provides compliance monitoring to ensure the properties comply with regulations once the units are placed into service.

The Agency published an update to the Statewide Housing Needs Assessment during the 2015-17 biennium. The study provided a comprehensive examination of the population, demographics and housing needs of the state and made projections for the next 15 years. New in this version of the report was a focus on changes in housing costs, existing housing rehabilitation needs and inclusion of people with a disability and other special needs populations.

Legislation Passed During the 2017 Legislative Session Directly Related to the Agency

During the 2017 Legislative Session, the legislature removed the expiration date of the HIF program, but provided no additional funding. The HIF program provides assistance for multi-family rental housing development for low- to moderate-income households, including a priority for Essential Service Workers.

Other than routine appropriations, there was no other legislation passed specific to the Agency.

Responsibilities Added or Deleted During the Biennium

See above.

Accomplishments and Activities during the Biennium

During the biennium, the Agency purchased 2,185 mortgage loans totaling \$350,502,723. Of these loans, 81 percent utilized down payment assistance under the Agency's Start and Down Payment and Closing Cost Assistance programs. The Agency also purchased 474 North Dakota Roots loans worth \$93,436,101 during the biennium, 87 percent of which utilized the Start program.

During the course of the biennium, the Agency received \$124,603 in HUD grants to provide funding for housing counseling efforts statewide. In addition, 371 households completed our online home buyer education course.

The Agency allocated more than \$5 million in federal housing tax credits under the LIHTC program for the development of 346 units of affordable housing.

The Agency allocated \$2,846,193 of National Housing Trust Fund (HTF) dollars to fund three projects creating 47 housing trust fund units in 2016 marking the first distribution of HTFs. Funds are leveraged with federal housing tax credits.

The Agency executed a 4 percent Low Income Tax Credit and tax-exempt multifamily bond issuance. A total of \$9 million in tax-exempt bonds were issued in conjunction with \$548,516 in tax credits. The transaction facilitated an acquisition rehabilitation of 96 low-income rental units with a total development cost of over \$18 million.

The Agency developed the Community Land Trust Pilot Program setting aside \$3 million of capital. The pilot program's goals are to provide low interest loans to qualified Community Land Trusts to facilitate additional capacity. The proceeds of the loan program can be used for acquisition and rehabilitation or demolition and new construction of single family homes. The homes will be available to qualified low to moderate income households.

The Agency's grant program to encourage rural communities to conduct housing market studies to ensure that they are working to meet their true needs. An additional \$100,000 of Agency capital was committed to fund this activity during the biennium. To date the program has funded 34 studies using \$238,369 of Agency capital.

The Agency committed \$500,000 of its capital to the Helping Housing Across North Dakota (Helping HAND) program. The grants are allocated to nonprofit and tribal organizations to enhance programs to rehab projects for low- to moderate-income households.

The Agency committed \$100,000 of its capital to the Rehab Accessibility Program (RAP). The grants are used for accessibility improvements for disabled households.

The Agency issued six Construction Loan Guarantees for a total of \$515,769 to encourage new construction of single-family homes in rural areas by reducing the risk to the local lender and developer.

The Agency allocated \$48,437,600 from HIF to help with the creation of 219 affordable multi-family rental housing units this biennium. This funding leveraged more than \$38 million in housing construction activity.

Identification of Trends in Direction for the Agency

The housing market moderated in many communities during the 2015-17 biennium after rapid economic expansion in the first half of the decade pushed housing prices and market rents to historic levels. Because of this moderation, low- and moderate-income and first-time homebuyers were better able to access the market. Production under Agency programs grew significantly and the percentage of borrowers using purchase assistance has steadily increased. In oil-impacted areas, individuals and families that were unable to purchase a home during the boom have been better able to make the move from renting to homeownership.

The Agency has had success in utilizing mortgage revenue bonds as well as mortgage backed securities to fund its loan portfolio. The Agency expects to continue to utilize these mechanisms to offer affordable and competitive financing to low- to moderate-income homebuyers.

As the senior population in the state increases and chooses different senior-friendly housing options, it is expected that more existing single-family homes will become available for younger workers and families. It will also mean the demand for senior rental housing will continue to increase. By assisting seniors to age-in-place either with accessibility adaptations to their

existing homes or by providing appropriate and affordable housing options, NDHFA is helping produce real cost savings for the state by keeping people out of nursing homes and more costly institutionalized settings.

Affordable rental housing projects are under increased pressure due to a compression of market rate and affordable rents. Multifamily projects have seen increased vacancies and older projects with deferred maintenance issues can be challenged by newer rental options. This is positive news for renters as more naturally-occurring affordable housing is available, but there are still populations that struggle to find long-term affordable housing. Extremely low- and very low-income households are challenged to afford housing costs and units targeted to them are in great demand. Many projects report a waiting list for those lower rent units.

Demand for development programs, like LIHTC, Housing Trust Fund and HIF, has been about double the amount of funding available in each funding round.

To sustain economic growth across the state, affordable housing options need to be available for the workforce and for elderly, disabled, homeless and other special needs households. Rehabilitation of existing affordable housing stock will be important in keeping options viable in many communities. Additional units of permanent supportive housing will be a critical need.

Short and Long-Range Plans and Goals

The Agency remains committed to supporting communities of all sizes in addressing their unmet housing needs. The Agency will continue its work as North Dakota's central clearinghouse for housing information, technical assistance and financial resources. It will also continue its active role in helping to address the housing needs of the state's most vulnerable people by leading collaborative efforts like the North Dakota Supportive Housing Collaborative and Interagency Council on Homelessness.

The Agency will continue work toward bringing housing into the public discussion on quality of life and educating policy makers at all levels on the importance of affordable housing. To this end, the Agency will actively engage in the Main Street North Dakota initiative.

Statistical Information Related to Agency Responsibilities

Total assets of the Agency as of the end of the biennium are \$1,013,559,011.

The Agency employs 42 FTEs with 15 working in the Homeownership Division, seven in Property Management, and six in Planning and Housing Development. The remaining staff hold administrative and support positions. The Agency has a total FTE authority of 44.

At the close of the biennium, the Agency had purchased, history-to-date, 41,257 FirstHome loans worth \$3,241,433,597. In addition, 837 North Dakota Roots loans have been purchased worth \$147,157,610. There were 9,110 loans outstanding worth \$976,827,580. Eighty-six percent of the outstanding loans are serviced directly by the Agency.

At the end of the biennium, the Agency was contracted to provide regulatory oversight for 93 properties with 2,834 rental units under the Section 8 project-based program.

The Moderate Rehabilitation Program administered rent subsidies for 10 properties with 157 low-income rental units.

The LIHTC program had 220 active projects with 6,198 units in service as of June 30, 2017.

HIF properties in service are monitored for compliance with program rules. There were 50 properties in service as of June 30, 2017, with 1,141 affordable housing units of which 290 are targeted to Essential Service Workers. There were an additional 410 units of market rate housing in those properties.

Since 2005, the Agency has distributed \$567,996 in grant dollars through RAP. The funds were utilized exclusively for property improvements to 387 units that addressed accessibility needs of people with physical disabilities.

Since the Helping HAND program began in 1996, the Agency has awarded more than \$5 million in grants to support the construction or rehabilitation of single- or multi-family housing projects across North Dakota.

Since HIF's inception in 2011, the Agency has awarded \$85,851,077 to support the development of 2,260 housing units.

More than \$51 million in federal Low Income Housing Tax Credits, have been allocated for the production or rehabilitation of 7,034 low-income rental units across North Dakota since 1987.

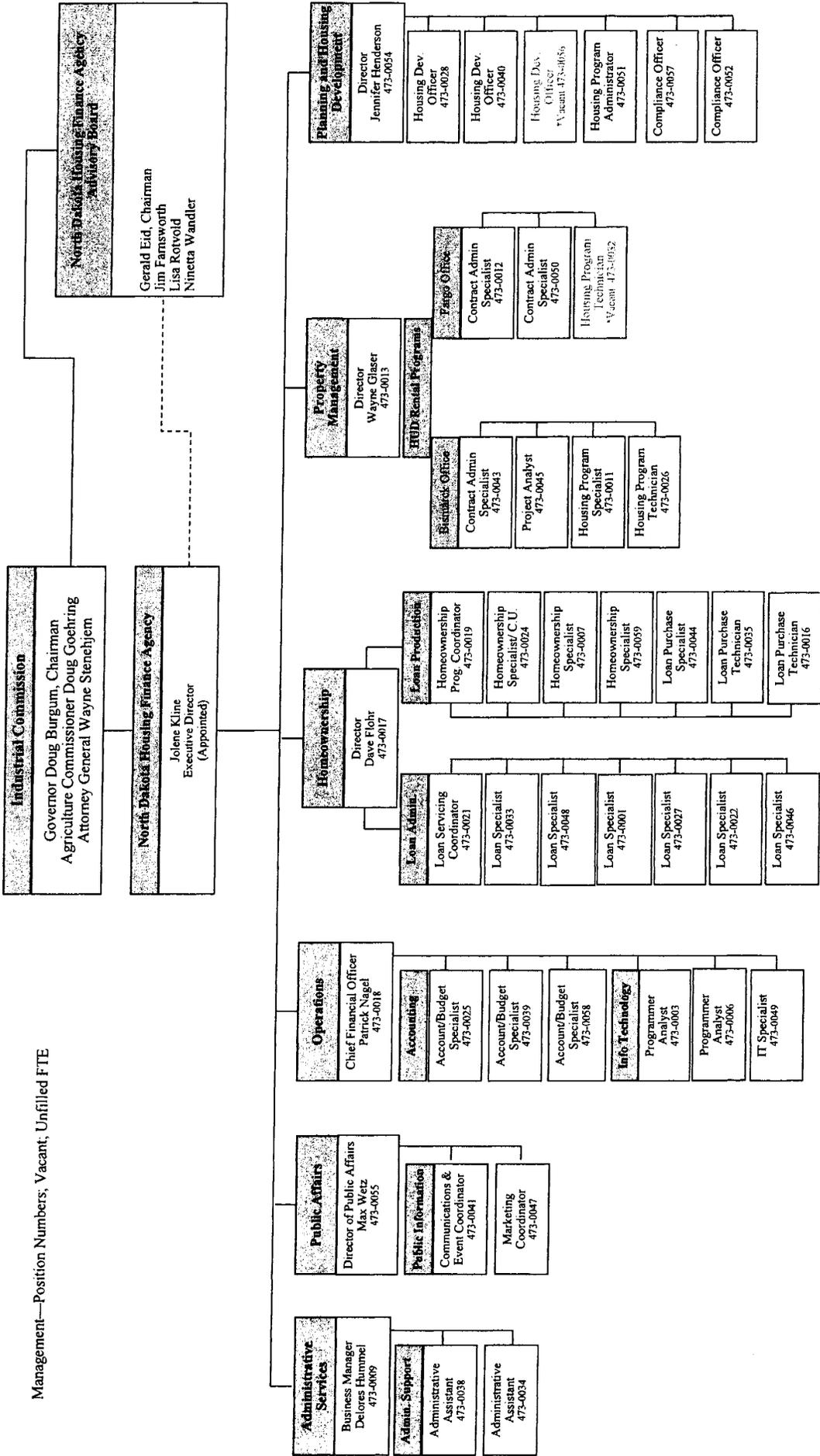
Resources and Publications Available

The Agency publishes a regular electronic newsletter that is available online at www.ndhfa.org and maintains a Facebook page where agency news is posted.

The Agency frequently updates a Housing Fact Sheet with statistics on housing in North Dakota. Printed copies are available from the Agency or may also be viewed on the website.

The Agency's most recent audit, official statements, and bond disclosure information are available as printed copies or online.

Management—Position Numbers, Vacant, Unfilled FTE



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NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016
(In Thousands)

	2017	2016
ASSETS		
CURRENT ASSETS - UNRESTRICTED		
Cash and cash equivalents	\$ 4,998	\$ 4,181
Due from State Agencies	1	3
Receivables		
Interest		
Loans	30	20
Investments	28	54
Due from HUD	132	145
Other	465	518
Current portion of service release premium	548	481
Prepaid expenses	59	57
Total unrestricted current assets	6,261	5,459
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents	123,222	215,253
Investments	-	9,018
Receivables		
Current portion of loans receivable	20,452	17,915
Interest		
Loans	2,835	2,750
Investments	225	81
Other	-	33
Total restricted current assets	146,734	245,050
Total current assets	152,995	250,509
NONCURRENT ASSETS - UNRESTRICTED		
Service release premium, net	3,713	3,169
Equipment, net	15	-
Total unrestricted noncurrent assets	3,728	3,169
NONCURRENT ASSETS - RESTRICTED		
Loans receivable, net of current portion	825,748	737,852
Investments	4,590	9,587
Total restricted noncurrent assets	830,338	747,439
Total noncurrent assets	834,066	750,608
Total assets	987,061	1,001,117
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflow - pension	736	213
Financial derivative instrument	3,777	7,633
Total deferred outflows of resources	4,513	7,846

See Notes to Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF NET POSITION - CONTINUED
JUNE 30, 2017 AND 2016
(In Thousands)

	2017	2016
LIABILITIES		
CURRENT LIABILITIES		
Due to HUD	\$ 14	\$ 18
Due to state agencies	9	31
Other	642	776
Current portion of compensated absences	202	178
Current portion of bonds payable	27,691	28,560
Loan from Bank of North Dakota	-	13,440
Accrued interest	10,165	9,939
Funds held in trust	12,852	11,938
Grant funds received in advance	95	97
Deferred credits	-	22
Total current liabilities	51,670	64,999
NONCURRENT LIABILITIES		
Compensated absences, net of current portion	138	141
Rebate due to IRS	102	13
Grant funds received in advance	4,317	4,376
Net pension liability	2,269	1,655
Financial derivative instrument	3,777	7,633
Bonds payable, net of current portion	758,517	769,172
Total noncurrent liabilities	769,120	782,990
Total liabilities	820,790	847,989
DEFERRED INFLOW OF RESOURCES		
Deferred inflow - pension	250	242
NET POSITION		
Net investment in capital assets	15	-
Restricted for debt service	163,049	153,199
Unrestricted	7,470	7,533
Total net position	\$ 170,534	\$ 160,732

See Notes to Financial Statements

NORTH DAKOTA HOUSING FINANCE AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(In Thousands)

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Mortgage interest income	\$ 30,512	\$ 29,605
Investment income	2,883	2,614
Gain on sale of investments	1,098	420
Fee income	<u>3,510</u>	<u>3,669</u>
Total revenues	<u>38,003</u>	<u>36,308</u>
OPERATING EXPENSES		
Interest expense	18,213	18,375
Agency grants	1,284	786
Administrative and operating expenses	4,931	5,415
Salaries and benefits	3,480	3,264
Pension expense	275	146
Depreciation	<u>2</u>	<u>-</u>
Total expenses	<u>28,185</u>	<u>27,986</u>
OPERATING INCOME	<u>9,818</u>	<u>8,322</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants	12,801	12,066
Investment income	66	127
Federal grants	<u>(12,801)</u>	<u>(12,265)</u>
Total nonoperating revenues (expenses)	<u>66</u>	<u>(72)</u>
INCOME BEFORE TRANSFERS	<u>9,884</u>	<u>8,250</u>
TRANSFERS		
Transfers in from Department of Commerce	-	211
Transfer out to Adjutant General	(43)	-
Transfers out to Industrial Commission	<u>(39)</u>	<u>(39)</u>
CHANGE IN NET POSITION	<u>9,802</u>	<u>8,422</u>
TOTAL NET POSITION, BEGINNING OF YEAR	<u>160,732</u>	<u>152,310</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 170,534</u>	<u>\$ 160,732</u>

See Notes to the Financial Statements

NORTH DAKOTA HOUSING INCENTIVE FUND
BALANCE SHEETS
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 11,619,420	\$ 26,375,070
Total assets	\$ 11,619,420	\$ 26,375,070
LIABILITIES		
Due to state agencies	\$1,078	\$2,504
Accounts Payable	322,563	-
Total liabilities	323,641	2,504
FUND BALANCE		
Restricted for affordable multifamily housing	11,295,779	26,372,566
Total fund balance	11,295,779	26,372,566
Total liabilities and fund balance	\$ 11,619,420	\$ 26,375,070

See Note to the Financial Statements

NORTH DAKOTA HOUSING INCENTIVE FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
REVENUES		
Contributions	\$ 2,967,605	\$ 27,032,395
Total revenues	2,967,605	27,032,395
EXPENDITURES		
Administrative and operating expenses	18,729	21,341
Grant expenses	18,025,663	17,369,740
Total expenditures	18,044,392	17,391,081
Revenue over (under) expenditures	(15,076,787)	9,641,314
INCOME (LOSS) BEFORE TRANSFERS	(15,076,787)	9,641,314
TRANSFERS		
Transfers from Bank of North Dakota	-	10,000,000
CHANGE IN FUND BALANCE	(15,076,787)	19,641,314
TOTAL FUND BALANCE, BEGINNING OF YEAR	26,372,566	6,731,252
TOTAL FUND BALANCE, END OF YEAR	\$ 11,295,779	\$ 26,372,566

See Notes to the Financial Statements

Lignite Research, Development and Marketing Program

History

The Lignite Research, Development and Marketing Program (“LRP” or “Program”) evolved from legislation passed in 1987. The 1987 legislation authorized a 2-cent per ton tax to be used to fund this Program. Potential funding was increased in 1990 when North Dakota voters approved a constitutional amendment that allows up to 50% of the revenue in the state’s coal trust fund to be used for lignite research, development and marketing. In 1995, the North Dakota Legislature increased the percentage of revenue to come from the state’s coal trust fund for lignite research, development and marketing to 70%. In 2007 the Legislature authorized that a portion of the Coal Conversion Tax be transferred to the Lignite Research Fund through July 31, 2018, and the 2018 sunset date was repealed by the 2017 Legislature (SB 2031) making this funding available indefinitely. The North Dakota Legislature made a one-time appropriation of \$5 million from the General Fund to the Lignite Research Program in 2015 to support development of the next generation of lignite based utilization system that incorporates CO₂ capture into the process. In 2017, the North Dakota Legislature added seed funding for an Advanced Energy Technology fund with \$3 million from the Strategic Investment and Improvements Fund (SIIF), authorized use of 15% of the Coal Severance Tax, and added the ability to access funding from the Renewable Energy Fund for projects that obtain approval from the Renewable Energy Council (SB 2014). The 2017 Legislature also authorized an additional \$3 million from the SIIF if certain financial triggers are met (HB 1152).

Organizational Structure

The Lignite Research, Development and Marketing Program (“Program”) is a partnership between the private and public sectors. Through Executive Order, the Governor appoints the Lignite Research Council (“Council”) which consists of representatives from the mining industry, utility industry, labor, lignite ownership, legislators, federal, state, political subdivision and local agencies and the research community. The North Dakota Industrial Commission (“Commission”) administers the Program, approves or disapproves research, development and marketing projects and activities, accepts and distributes funds and enters into contracts. The Lignite Research Council is an advisory group to the North Dakota Industrial Commission. The Council provides advice on policy and guidelines and provides recommendations on project funding. The Chairman of the Lignite Research Council is Jason Bohrer. The Commission’s Executive Director, Karlene Fine, serves as the contracts officer for this Program. Dr. Mike Jones served as the Director Program for most of the biennium. Upon Dr. Jones’ retirement, Michael Holmes was appointed Program Director in January 2017 and has held that position since that time.

Statutory Responsibilities

North Dakota Century Code 54-17.5 is the statutory authority for the Lignite Research, Development and Marketing Program. NDCC 54-17.5-01 states in part:

...The legislative assembly further finds and declares that it is an essential governmental function and public purpose to assist with the development and wise use of North Dakota’s vast lignite resources by supporting a lignite research, development and marketing program that promotes economic, efficient, and clean uses of lignite and products derived from lignite in order to maintain and enhance development of North Dakota lignite and its products; support educational activities relating to the lignite industry; preserve and create jobs involved in the production and utilization of North Dakota lignite; ensure economic stability, growth, and opportunity in the lignite industry; and maintain a stable and competitive tax base for our state’s

lignite industry for the general welfare of North Dakota. The legislative assembly further finds and declares that development of North Dakota's lignite resources must be conducted in an environmentally sound manner that protects our state's air, water and soil resources as specified by applicable federal and state law.

Major Programs and Activities

The Lignite Research, Development and Marketing Program is broken down into four areas:

Research: The Research Program funds small research projects that are focused on environmental issues, combustion, reclamation, byproducts and beneficiation. These funds are matched by private industrial investment. The primary area of focus during this period was carbon management (carbon capture, utilization, and storage), with emphasis also on the feasibility of “new options” for lignite utilization and NO_x control.

Development (Demonstration): The Development Program, often referred to as the Demonstration Program, provides funding for those projects that are taking the next step from research and are on the pathway to performing demonstration projects. A major part of the Development Program has been the Lignite Vision 21 Program (“LV21”). LV21 is the culmination of unprecedented commitment and cooperation among government agencies, elected leadership and the lignite industry. It is a vision of a vibrant economy, fueled by environmentally responsible power generation and transmission as well as other value added products from lignite. The goal of LV21 is for the construction of nothing short of the finest coal-fired electrical generating plant in the world, employing the latest clean-coal technology to provide energy for a rapidly growing region. The cooperation and vision continued during this period and was expanded to include development of options to sustain use of the existing power production assets in North Dakota. The Advanced Energy Technology program was initiated to encompass these development efforts.

Marketing and education: The Marketing Program primarily funds a matching public affairs program. This program is responsible for developing and implementing a successful marketing plan that helps preserve and enhance lignite markets. The educational component of this program provides matching funds for projects that educate students, college professors, and teachers (k through 12) about lignite and the workforce opportunities in the lignite industry.

Feasibility Studies: The Feasibility Studies Program funds are utilized for projects that do not require a match and are used in part to finance the work of the North Dakota Transmission Authority and related transmission issues. Included in this funding are monies set aside to assist with work being done to coordinate the Development Program projects.

Key Legislation Passed During Last Biennium Related to the Lignite Research Program

The key legislation affecting the Program from the 65th North Dakota Legislative Assembly included Senate Bill 2031 which repealed the sunset clause on the use of 5% of the General Fund portion of the Coal Conversion Tax for R&D, Senate Bill 2014 to provide seed funding for the Advanced Energy Technology program and add the potential to use Renewable Energy Fund dollars for key projects that receive approval from the Renewable Energy Council. House Bill 1152 allows for an additional \$3 million from the SIIF if certain financial triggers are met. These bills provide funding and the structure to enhance Program efforts critical to preserving existing lignite production and industry jobs or that will lead to development of lignite and its products and create new lignite industry jobs and economic growth for the general welfare of this state. These funds also will allow continuation of the support of technology development efforts for carbon capture, utilization, and storage using the “next generation” of lignite conversion technology that was initiated through support from the 64th North Dakota Legislative Assembly.

Key Responsibilities Added to or Deleted From Lignite Research Program During the Biennium

There were no key responsibilities directly added to or directly deleted from the Lignite Research Program during the 2015-2017 biennium.

Major Accomplishments and Activities

Under the research program each dollar in state funds has generated more than seven dollars in total research funds. These funds were utilized for research to solve critical challenges facing the lignite industry, including advanced technology options for lignite-based power, CO₂ capture, utilization, and storage, NO_x control and investigation of additional value-added opportunities for lignite use. During this period work continued on the use of ND lignite in the Allam Cycle (a very efficient cycle that uses CO₂ as the working fluid and captures 100% of the CO₂). Other research projects are underway in the areas of advanced mine reclamation, metal emissions measurement, CO₂ capture and sequestration, use of heat and CO₂ from power plants for agricultural applications, recovery of rare earth elements from lignite related feedstocks, NO_x control, and lignite upgrading. These efforts are beneficial in enhancing development of new products and markets. In addition, work on the demonstration of integrated carbon management for North Dakota (Project Tundra) ramped up.

Under the marketing program, the focus during this latest period has been on enhancing the image of lignite-based power in the region served by the North Dakota lignite industry. This effort is cost shared by industry. The marketing program has been in existence since 1996. Originally started as the Partners for Affordable Energy Program, it was transformed to the Coalition for a Secure Energy Future in 2013. Currently the program uses a mixture of media and grassroots marketing to promote the benefits of coal-based electricity.

Under the development (demonstration) program, funding has been provided to expand efforts to assist with developing new projects with cost-effective clean coal technologies to meet demands for additional energy in the region while maintaining North Dakota's existing lignite-fired power fleet. During the 2015-2017 biennium, the Program's work on addressing the needs to apply the Allam Cycle technology to lignite coal applications continued and work ramped up on moving toward demonstration of integrated carbon management for North Dakota (Project Tundra). At the end of the previous biennium GRE began commercial operation at the Spiritwood facility on November 1, 2014. The development of clean coal technology is critical to the future of the industry and considerable resources are needed in order for the lignite industry to be able to use this valuable natural resource.

A list of the research projects completed and ongoing is available on the North Dakota Industrial Commission's website www.nd.gov/ndic/lrc-infopage.htm.

Trends in Direction for LRP/Short- and Long-Range Plans and Goals

As directed by the North Dakota Legislature, the goals of the Lignite Research, Development and Marketing Program continue to be:

- Help solve problems for the state's **existing** facilities so the state can maintain jobs, economic activity and tax revenue. This work is being done under the research program.
- Assist with developing **new** lignite-fired power plants that will create additional jobs, tax revenues and business volume. This work is being done under the development (demonstration) program. These projects are being developed with new clean coal technologies.

- Help provide favorable marketing strategies for increased use of coal-based electricity. This work is being done under the marketing program.
- Help to develop projects that utilize lignite in new ways to meet the nation's growing energy needs as well as assure national energy security.
- Focus efforts using the appropriations of additional funding for Advanced Energy Technology projects to develop technologies for use on enhancing and preserving the existing North Dakota power plants and to develop the next generation of lignite based technologies that incorporate CO₂ capture.

Resources and Publications Available from the Lignite Research, Development and Marketing Program

A short summary of all the research projects completed with funding from the Lignite Research, Development and Marketing Program is available on the LRP's website at www.nd.gov/ndic/lrc-infopage.htm . Copies of research reports are available by contacting the Industrial Commission at the address noted on the back of this biennial report.

North Dakota Mill and Elevator Association

History

The North Dakota Mill and Elevator Association (“NDM”; “Mill”) began operating October 22, 1922 as a value-added market for wheat produced in North Dakota. In the early 1900’s, the flour mills and grain exchange in Minneapolis were the primary wheat markets for North Dakota farmers and elevators. After freight costs to Minneapolis were deducted from Minneapolis market prices, North Dakota farmers received a low price for their wheat. The North Dakota Mill came into existence to solve this problem.

The NDM facilities include seven milling units, a terminal elevator and a packing warehouse to prepare bagged products for shipment. All Mill facilities are located in Grand Forks and have been paid for from operating profits.

With eight milling units, NDM produces and ships 49,500 cwt. of milled products daily across the United States and around the world. In addition, the Mill ships over 14,000 cwt. of food grade bran and wheat midds daily. NDM cleans, processes and mills 100,000 bushels of top quality North Dakota wheat daily. On an annual basis, the Mill adds value to 30 million bushels of spring and durum wheat.

The terminal elevator has a storage capacity for 4.2 million bushels of wheat. The terminal elevator currently transfers wheat to the five milling units and provides wheat storage to farmers and country elevators.

The milling units operate 24 hours daily, on a three-shift basis, six and seven days a week. Eighty percent of the Mill’s flour and semolina is shipped in bulk rail cars and trucks. Twenty percent of our finished products are packaged in 5, 10, 25, 50, 100 pound bags and large tote bags for shipment via boxcars and trucks.

NDM receives no funds or financial assistance from the State of North Dakota to subsidize the milling operations. Selling value-added milled wheat products to bakery and pasta customers as well as retail and food service suppliers generates all operating funds. Since 1971, NDM has transferred 51% of its profits to the General Fund.

Mission Statement

The mission statement for the North Dakota Mill was adopted August 22, 1997. The mission of the North Dakota Mill is to promote and provide support to North Dakota agriculture, commerce and industry. Provide superior quality, consistency and service to our customers. Grow the business and provide a profit to our owners – the citizens of North Dakota. Conduct our business with the highest integrity so that our employees, customers, suppliers and owners are proud to be associated with the North Dakota Mill.

Program Objectives

The North Dakota Mill will:

1. Purchase and mill 30,000,000 bushels per year of North Dakota grown spring and durum wheat.
2. Realize profits in order to maintain the facilities in top operating condition.
3. Return a portion of the profits to the General Fund.

Services Provided

The North Dakota Mill:

1. Seeks to be the leader in quality and service for the milling industry.
2. Manufacturers flour to bakery specifications from hard red spring wheat.
3. Manufacturers durum flour and semolina to pasta manufacturer's specifications from hard amber durum.
4. Seeks to develop new, value added products to enhance the growth and profitability of the North Dakota Mill.

Major Accomplishments

1. Gross sales reached \$561,624,000 for the two years ended June 30, 2017.
2. During the biennium, the Mill shipped 27,356,000 hundredweight of flour.
3. Mill operations provided more than \$394,038,000 to the region in direct economic impact and \$914,168,000 in secondary economic impact for a total economic impact of \$1,308,206,000 .

Legislation Passed During the 2017 Legislative Session Related to the North Dakota Mill and Elevator

Legislation was passed appropriating funds for operating expenses and for the transfer of funds to the Industrial Commission.

Legislation was passed increasing the transfer to the General Fund from 50% to 75% of annual earnings and undivided profits after any transfers to other state agricultural-related programs for the 2017-2019 biennium.

Trends in Direction for the Mill/Short and Long Range Plans and Goals

The North Dakota Mill intends to continue to promote North Dakota agriculture, grow the business, and look for opportunities wherever we may find them.

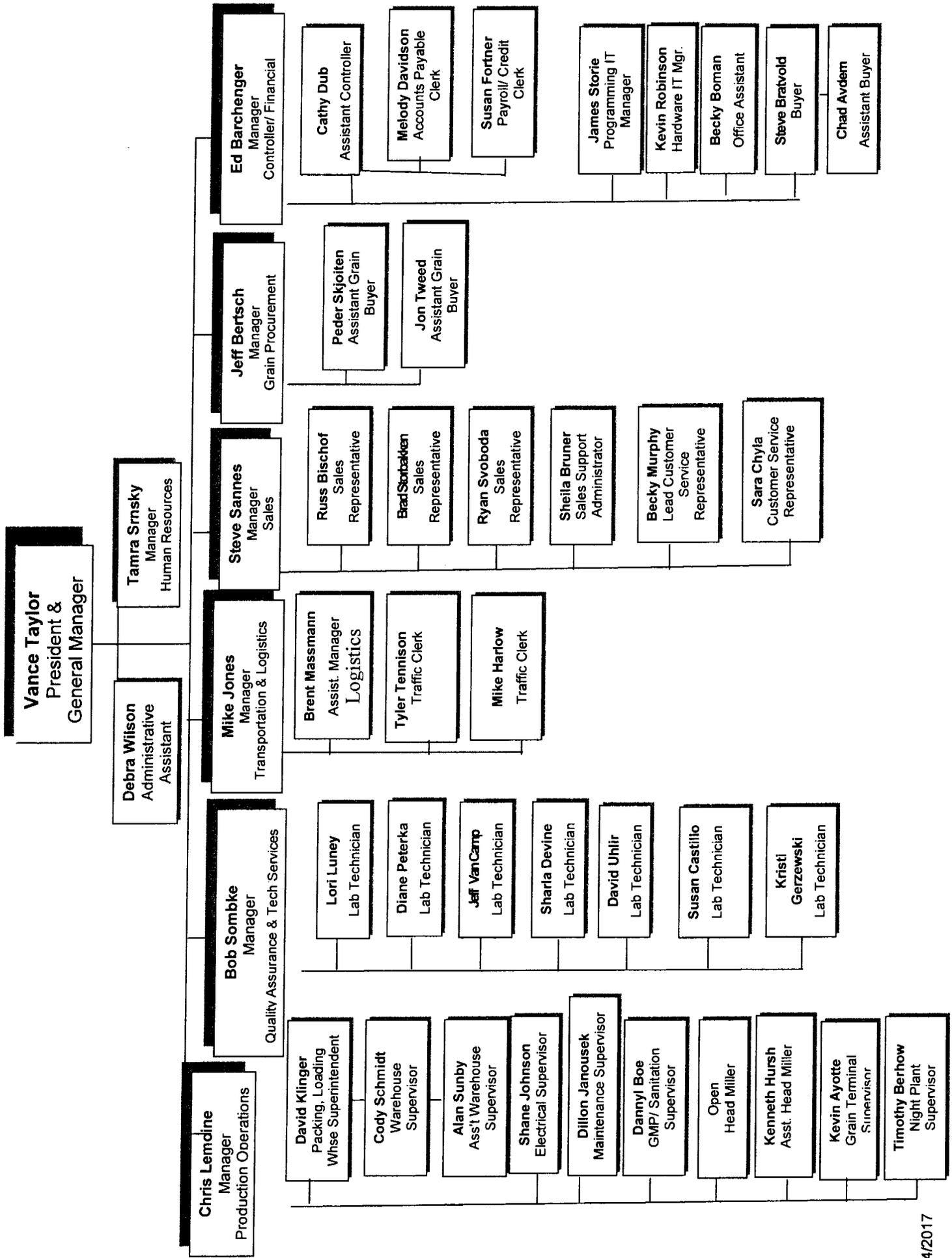
The North Dakota Mill has developed a strategic plan, which includes the following strategic thrusts:

1. Promote and Support North Dakota Agriculture, Commerce, and Industry
2. Identify and Respond to Emerging Issues in the Flour Milling Industry
3. Increase Profitability
4. Grow our Customer Base
5. Invest in our Employees

Resources Available from the North Dakota Mill and Elevator

Additional information about the North Dakota Mill and Elevator Association is available on its website at www.ndmill.com.

NORTH DAKOTA MILL ORGANIZATION CHART



Financial Statements

Comparative Statement of Net Position

ASSETS	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Current assets:		
Cash and cash equivalents	\$ 225	\$ 226
Receivables, net (note 4)	39,081,444	38,456,880
Inventories (note 5)	21,381,991	22,632,769
Derivative instrument	1,470,050	
Prepaid expense	1,210,801	742,065
Total current assets	<u>\$ 63,144,511</u>	<u>\$ 61,831,940</u>
Noncurrent assets:		
Patronage capital credits	\$ 407,749	\$ 422,566
Other assets	13,150	13,150
Capital assets, net (note 6)	90,094,338	73,706,792
Total noncurrent assets	<u>90,515,237</u>	<u>74,142,508</u>
Total assets	<u>\$ 153,659,748</u>	<u>\$ 135,974,448</u>
 DEFERRED OUTFLOW OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives		\$ 149,387
Derived from pensions	\$ 2,885,560	1,115,035
Total deferred outflows of resources	<u>\$ 2,885,560</u>	<u>\$ 1,264,422</u>
 LIABILITIES		
Current liabilities:		
Checks issued in excess of cash	\$ 919,713	\$ 1,928,041
Accounts payable and other liabilities (note 7)	17,386,042	14,460,703
Due to state general fund	4,616,603	4,434,894
Due to ag products utilization fund	485,958	466,831
Derivative instruments		149,387
Notes payable	29,000,000	20,000,000
Total current liabilities	<u>\$ 52,408,316</u>	<u>\$ 41,439,856</u>
Noncurrent liabilities:		
Compensated absences	\$ 983,877	\$ 943,836
Net pension liability	8,150,549	5,901,783
Total noncurrent liabilities	<u>9,134,426</u>	<u>6,845,619</u>
Total liabilities	<u>\$ 61,542,742</u>	<u>\$ 48,285,475</u>
 DEFERRED INFLOWS OF RESOURCES		
Accumulated increase in fair value of hedging derivatives	\$ 1,470,050	
Derived from pensions	678,491	\$ 673,042
Total deferred inflows of resources	<u>\$ 2,148,541</u>	<u>\$ 673,042</u>
 NET POSITION		
Invested in capital assets	\$ 90,094,338	\$ 73,706,792
Unrestricted	2,759,687	14,573,561
Total net position	<u>\$ 92,854,025</u>	<u>\$ 88,280,353</u>

The accompanying notes are an integral part of the financial statements.

Comparative Statement of Revenues, Expenses, and Changes in Net Position

	June 30, 2017	June 30, 2016
OPERATING REVENUES		
Sales (net of sales deductions of \$64,432,401 and \$57,514,059, respectively)	\$ 223,554,442	\$ 216,123,342
Total operating revenues	\$ 223,554,442	\$ 216,123,342
OPERATING EXPENSES		
Material cost	\$ 181,282,890	\$ 179,460,488
Wages and benefits	16,572,058	14,264,026
Repairs and maintenance	2,434,337	2,078,888
Operating supplies	1,244,729	810,351
Utilities	4,159,505	3,399,814
Insurance	981,269	883,589
Outside services	1,215,540	586,043
Office supplies	107,373	163,168
Computer expense	272,181	229,832
Communications	63,039	59,777
Travel and entertainment	343,223	260,787
Employee expense	155,920	69,171
Safety expense	56,555	54,467
Postage and mailing	27,867	24,564
Advertising	152,785	136,460
Dues and subscriptions	169,754	149,629
Legal and professional	41,523	34,207
Depreciation	3,963,829	3,842,757
Total operating expenses	213,244,377	206,508,018
Operating income	\$ 10,310,065	\$ 9,615,324
NONOPERATING REVENUES (EXPENSES)		
Interest income	\$ 2,079	\$ 2,217
Interest expense	(598,209)	(301,000)
Miscellaneous income	41,850	88,672
Other expense	(36,621)	(68,595)
Total nonoperating expenses	(590,901)	(278,706)
Gain before transfers	\$ 9,719,164	\$ 9,336,618
Transfer to state general fund	\$ (4,616,603)	\$ (4,434,894)
Transfer to ag products utilization fund	(485,958)	(466,831)
Transfer to Industrial Commission	(42,931)	(42,931)
Change in net position	\$ 4,573,672	\$ 4,391,962
Total net position - beginning of year	88,280,353	83,888,391
Total net position - ending	\$ 92,854,025	\$ 88,280,353

The accompanying notes are an integral part of the financial statements.

*North Dakota Mill and Elevator Association
For the Years Ended June 30, 2017 and 2016*

Oil and Gas Research Program/Fund

History

The Oil and Gas Research Council (“Council”) and Oil and Gas Research Fund (“Fund”) were established in 2003. The Fund was initially funded with a \$50,000 continuing appropriation during the 2003-2005 biennium. In subsequent biennia the funding has been increasing with the final increase from \$4,000,000 to \$10,000,000 taking place during the 2013 legislative session for the 2013-2015 biennium. There has been no change to that level of funding and the fund’s continuing appropriation is \$10 million per biennium from oil and gas tax revenues. [2005-2007 biennium \$1.3 million; 2007-2009 biennium \$3 million; 2009-2011 biennium \$4 million; 2011-2013 biennium \$4 million and 2013-2015 biennium and subsequent biennia \$10 million]

Organizational Structure

By statute, the Council is appointed by the Governor. It is made up of individuals representing the oil and gas industry, individuals representing local jurisdictions and two non-voting members (State Geologist and Director of the Oil and Gas Division.) The Industrial Commission (“Commission”) Administrative Office provides the administrative support for the Council and maintains the financial records of the Council and the Fund. Brent Brannan has been retained as a consultant to provide technical support for the Oil and Gas Research Program (“Program”). The Council reviews and makes recommendations to the Commission on all grant applications and policies. The Commission then acts on the Council’s recommendations.

Statutory Responsibilities

The Program shall:

- Promote efficient, economic and environmentally sound exploration, development and use of North Dakota’s oil and gas resources.
- Preserve and create jobs involved in the exploration, production and utilization of North Dakota’s oil and gas resources.
- Ensure economic stability, growth and opportunity in the oil and gas industry.
- Encourage and promote the use of new technologies and ideas that will have a positive economic and environmental impact on oil and gas exploration, development and production in North Dakota.
- Promote public awareness of the benefits and opportunities provided by the North Dakota oil and gas industry.

Major Programs and Activities

The Program’s mission statement continues to be: “To promote the growth of the oil and gas industry through research and education”. During the 2015-2017 biennium nine grant rounds were held with 11 projects and amendments approved for funding in the total amount of \$9,464,100 with total project costs of \$22,172,216. During the 2015-2017 biennium the Commission adopted a funding allocation of 92% for research, 3% for education, 2% for the Pipeline Authority and 3% for Administration/Technical Assistance.

Each dollar expended on the projects has been matched at a minimum on a one-to-one basis. The monies spent from the Fund for the Pipeline Authority, Program administration and projects directed by the Legislature are not matched.

Legislation Passed During the 2017 Legislative Session Related to the Program/Fund

Through House Bill 1347 Section 3. The Legislature approved a continuation of the Pipeline Leak Detection Study to be reported to the Legislative Management. The Industrial Commission shall use \$500,000, or so much of the sum as may be necessary, from the Oil and Gas Research Fund to contract with the Energy and Environmental Research Center (EERC) to continue a

study regarding pipeline leak detection technology, for the biennium beginning July 1, 2017 and ending June 30, 2019. The study must include an analysis of leak detection and monitoring technology and a risk assessment of new and existing pipeline systems. Notwithstanding any oil and gas research program policies, the contract does not require matching funds. The EERC shall provide a report to the industrial commission and the legislative management by September 30, 2018 regarding the results and recommendations of the study.

Key Responsibilities Added to or Deleted from the Program during the Biennium

No key responsibilities were added or deleted by the 2017 Legislature for the upcoming 2017-2019 biennium other than what has been noted in the paragraph above.

Major Accomplishments and Activities

During the 2015-2017 biennium the Program awarded funding for several projects including but not limited to:

- Collection and Development of Actionable Reclamation Data Using Aerial Remote Sensing – Hell Creek Environmental
- New Technologies for Safe and Cost-Effective Oil Conditioning in North Dakota - Statoil
- Refrac Pilot – Whiting Petroleum Corporation
- UAS Aerial Observation to Support Oil & Gas Pipeline Post Construction Restoration Efforts – Isight RPV Services
- Bakken Production Optimization Program 2.0 – Energy & Environmental Research Center
- Functional Nanoparticle-Augmented Surfactant Fluid for Enhanced Oil Recovery in the Williston Basin – University of North Dakota
- Effects of Cropping Sequence, Ripping, and Manure on Pipeline Reclamation in Western North Dakota – North Dakota State University
- Improved Characterization and Modeling of Tight Oil Formations for CO₂ Enhanced Oil Recovery Potential and Storage Capacity Estimation – Energy & Environmental Research Center
- Energy of North Dakota Program – North Dakota Petroleum Council

Information on each project funded under this Program is available on the Industrial Commission/Oil and Gas Research Program website at <https://www.dmr.nd.gov/ogr/>

Trends in Direction for the Program/Short and Long Range Plans and Goals

The awareness of the Program has increased and the Council/Commission is seeing research projects that focus on new areas of development, well site efficiencies, as well as identifying techniques that enhance oil development in North Dakota. The Program continues to develop public and private partnerships, and educational programs that promote safety in the oil fields. The Council identified five top priorities for the upcoming 2017-19 biennium which include: enhanced oil recovery, refracturing opportunities, pipeline safety, water challenges, and opportunities to explore conventional reservoirs.

Resources and Publications Available from the Industrial Commission

Additional information about the Oil and Gas Research Program is available at: www.oilresearch.nd.gov

Industrial Commission of North Dakota
State Capitol – 14th Floor
600 East Boulevard
Bismarck, North Dakota 58505
701-328-3722 or 701-328-3726
<https://www.dmr.nd.gov/ogr/>

Outdoor Heritage Fund

History

The Outdoor Heritage Fund (“OHF”) and Outdoor Heritage Fund Advisory Board (“Board”) were established by the Legislature 2013. The OHF initially received a continuing appropriation of up to \$30,000,000 from oil and gas production tax revenue. The Legislature amended the appropriation to \$40,000,000 per biennium effective July 1, 2015. However, the amount for transfer to the Fund during the 2017-2019 biennium was capped at \$10,000,000.

Organization Structure

By statute the Board is appointed by the Governor and is made up of 12 voting members and 4 ex-officio members. For the 2015-2017 biennium the voting members on the Board were 4 representatives of the agricultural community (one member from each of these organizations -- North Dakota Farm Bureau, North Dakota Farmers Union, North Dakota Stockmen’s Association and the North Dakota Grain Growers Association); 2 representatives of the energy industry (one member from the Petroleum Council and one member from the Lignite Energy Council); 4 representatives from the conservation community at large of statewide conservation groups, 1 representative from the business community from the Greater North Dakota Chamber, and 1 representative from the North Dakota Recreation and Park Association. Ex-officio members include representatives from the Game and Fish Department, State Parks and Recreation, State Forester, and the Soil Conservation Districts.

The Industrial Commission (“Commission”) administers the program. Prior to any project receiving funding from the Commission, the Board must make a favorable recommendation for funding. During the 2015-2017 biennium matching funds were required on every project with higher priority given to applications with higher levels of matching funds. The match can be in-kind or cash.

Statutory Responsibilities

The statutory authority for the OHF is found in North Dakota Century Code 54-17.8. The OHF has 4 directives given by statute:

- Provide access to private and public lands for sportsmen, including projects that create fish and wildlife habitat and provide access for sportsmen;
- Improve, maintain, and restore water quality, soil conditions, plant diversity, animal systems, and to support other practices of stewardship to enhance farming and ranching;
- Develop, enhance, conserve, and restore wildlife and fish habitat on private and public lands; and
- Conserve natural areas for recreation through the establishment and development of parks and other recreation areas.

Projects that are funded through the OHF must meet at least one of these directives. Eligible recipients of OHF funding are: state agencies, tribal governments, political subdivisions, and nonprofit organizations.

Major Programs and Activities

The Commission has established the process by which applicants can seek funding for eligible projects. Note below under major accomplishments the activity that has taken place during the 2015-2017 biennium for the OHF.

Key Legislation Passed During the 2017 Legislative Session Related to the OHF

The total amount of funding available per biennium was decreased for the 2017-2019 biennium to \$10,000,000

Key Responsibilities Added To or Deleted from the OHF for the 2017-2019 Biennium

The continuing appropriation authorization for the OHF was capped at \$10,000,000 from oil and gas production tax revenues for the 2017-2019 biennium.

Major Accomplishments and Activities

During the 2015-2017 biennium the Commission held 4 OHF grant rounds. As a result of those rounds, the Commission approved funding for 29 projects totaling \$7,569,592.

Trends in Direction for OHF/Short and Long Range Plans and Goals

The OHF will continue to seek out and fund worthwhile projects that support its overall goals and meet the four directives established by statute.

Resources and Publications Available from the OHF

The status of and summaries of all the projects funded from the OHF are available on the Industrial Commission/Outdoor Heritage Fund website at <http://www.nd.gov/ndic/ohf-projects.html>.

Additional information about the Outdoor Heritage Fund is available:

Industrial Commission of North Dakota
State Capitol – 14th Floor
600 East Boulevard
Bismarck, North Dakota 58505
701-328-3722
<http://www.nd.gov/ndic/outdoor-infopage.htm>

North Dakota Pipeline Authority

History

The North Dakota Pipeline Authority (“Pipeline Authority” “Authority”) was created by the Legislature in 2007 and became effective on April 11, 2007. The North Dakota Industrial Commission is the North Dakota Pipeline Authority. Since its inception the Authority’s mission has been to diversify and expand the North Dakota economy by facilitating development of pipeline facilities to support production, transportation, and utilization of North Dakota energy-related commodities.

Organizational Structure

The Industrial Commission is the North Dakota Pipeline Authority. During the 2015-2017 biennium, Justin J. Kringstad served as Pipeline Authority Director, and continues to serve in that capacity. The Pipeline Authority Director reports to the Industrial Commission. Day to day oversight is provided by the Industrial Commission Executive Director with the assistance of the Director of the Department of Mineral Resources and the President of the North Dakota Petroleum Council. The Authority has no other staff. Contracts and financial reporting is administered by the Industrial Commission Administrative Office. No appropriation was made by the Legislature for the North Dakota Pipeline Authority. The Legislature did establish the Pipeline Authority Administrative Fund. The Industrial Commission transferred a total of \$200,400 from the Oil and Gas Research Fund to the Pipeline Authority Administrative Fund for the operations of the Authority.

Statutory Responsibilities

Statutory authority for the Pipeline Authority is found in Chapter 54-17.7 of the North Dakota Century Code. The statute states that the purpose of the Authority is to diversify and expand the North Dakota economy by facilitating development of pipeline facilities to support the production, transportation, and utilization of North Dakota energy-related commodities. The Authority may participate in a pipeline facility through financing, planning, development, acquisition, leasing, rental, joint ownership, or other arrangements including the right to capacity in any pipeline system or systems. Section 54-17.7-04 N.D.C.C. delineates the powers of the Authority.

Before the Authority may exercise its power to construct pipeline facilities, it must follow a process defined by statute to ensure public participation and comment. In particular, the Authority must publish a notice describing the need for the pipeline facilities. Entities interested in constructing the facilities or furnishing services to satisfy the identified needs have 180 days to respond by filing a notice of intent. If the Authority receives a notice of intent from an interested entity, it may not exercise its powers to construct unless the Authority makes a finding that doing so would be in the public interest. In making such a finding, the Authority shall consider the economic impact to the state, economic feasibility, technical performance, reliability, past performance, and the likelihood of successful completion and ongoing operation.

Major Programs and Activities and Trends in Direction for the Pipeline Authority

In fulfilling the mission of diversifying and expanding the North Dakota economy by facilitating development of pipeline facilities to support the production, transportation and utilization of North Dakota energy-related commodities, the Authority is in continual contact with local and out-of state companies, governmental agencies, and trade associations. Major activities of the Authority are detailed in the 2016 and 2017 Annual Reports and include the following:

- Pipeline Authority Crude Oil, Natural Gas, and Natural Gas Liquids Forecast Modeling – (Ongoing)
- Pipeline Authority Production and Transportation Analytics – (Ongoing)
- North Dakota State Rail Plan Participant – 2016 & 2017
- Bakken Refracturing Analysis – 2017 (Ongoing)
- Bakken Drilling Economics Study – Updated Quarterly (Ongoing)
- Governor’s Meeting on Pipelines – May 23, 2017
- Pipeline Authority Websites – Ongoing updates and content additions
- Monthly Updates – Monthly publication updating interested parties on pipeline related activities
- Pipeline Publication Newsletter – Newsletter to interested parties and stakeholders
- Presentations – On demand informational and outreach presentations to industry and citizen groups

Legislation Passed During the 2017 Session

The Pipeline Authority was actively following pipeline related bills during the 2017 legislative session. Four bills were passed that directly impact or relate to the pipeline industry and/or the Pipeline Authority. A brief bill summary is below.

- HB 1144: Bill modifies the Public Service Commission’s gas and liquid energy conversion, gas and liquid transmission facility siting statute.
- SB 2013: During the 2017 18 interim, the Tax Department, in consultation with the Board of University and School Lands, the Industrial Commission, and other state agencies as necessary, shall study the valuation of oil and gas as used to determine mineral royalty payments and tax liability.
- HCR 3011: A concurrent resolution extending appreciation to the President of the United States for expediting the approval of the easement required for the completion of the Dakota Access Pipeline.
- HCR 3027: A concurrent resolution directing the Legislative Management to consider studying the estimated fiscal impact to the state of refracturing existing oil wells.

Activities During the 2017-2019 Biennium

For the 2017-2019 biennium the Authority will continue its work with industry to quantify the future crude oil and natural gas production in order to provide assurance needed to move forward with expansion projects. The forecasted production levels will require continuous updating and review over the next two years as technology advances and market conditions fluctuate.

Outreach activities by the Authority, including monthly updates, newsletters, and presentations, will continue during the 2017-2019 biennium. Website updates will also continue as new information becomes available.

Copies of the 2016 and 2017 annual reports issued by the Authority are also posted on the Industrial Commission website and provide additional detail on the work done since the Authority was established in 2007.

Resources

Copies of the Pipeline Authority monthly updates, presentations, webinars, natural gas study, annual reports, and newsletters are available on the Pipeline Authority’s websites: www.pipeline.nd.gov ; www.northdakotapipelines.com

North Dakota Public Finance Authority

History

The North Dakota Municipal Bond Bank was established on July 1, 1975 for the purpose of making loans to political subdivisions of the State through the purchase of municipal securities. In 2005 the North Dakota Municipal Bond Bank was renamed the North Dakota Public Finance Authority (“PFA”). Initially, employees of the Bank of North Dakota (“BND”) managed the day-to-day affairs of the PFA in addition to their duties at the BND. As the workload of the PFA grew, the Industrial Commission decided that the PFA should have its own full-time staff. On July 1, 1989, the Industrial Commission relocated the PFA outside the BND and established a separate budget for the PFA. On July 21, 1989, the first full-time Executive Officer was hired to manage the PFA. On August 1, 2001, the PFA, at the direction of the Industrial Commission, once again co-located with the BND.

The PFA continues to have a close working relationship with the BND. In addition to being the sole depository for all of the PFA’s operating funds, the BND through its Trust Department has served as Trustee, Registrar, and/or Paying Agent for numerous PFA bond issues. BND also provides letters of credit that act as the reserves for the PFA’s Capital Financing Program and Industrial Development Program.

The PFA has an Advisory Board made up of three individuals that are appointed by the Industrial Commission. The PFA primarily utilizes its Advisory Board in the loan approval process. However, the PFA also seeks the advice of the Board in major policy and strategic planning decisions.

Organizational Chart

DeAnn Ament - Executive Director
Lisa Froelich - Business Manager

Statutory Responsibilities

The PFA was established for the purpose of making loans to political subdivisions of the State through the purchase of municipal securities which, in the opinion of the Attorney General of North Dakota, are properly eligible for purchase by the PFA. Subject to credit and program requirements, a loan can be made by the PFA to a political subdivision for any purpose for which the political subdivision has the legal authority to borrow money through the issuance of municipal securities, with the exception that certain types of municipal securities issued under N.D.C.C. ch. 40-57 (MIDA bonds) may not be purchased by the PFA.

The PFA, which is under the operation, control and management of the Industrial Commission of North Dakota, is a self-supporting state agency. The costs and expenses of operation of the PFA are financed with earnings on program assets and fees paid by participating political subdivisions.

Obligations of the PFA, which are issued to provide funds to purchase municipal securities, do not constitute a debt or liability of the State or a pledge of the faith or credit of the State. All obligations of the PFA are payable solely from revenues or program assets pledged or available for their payment as authorized by law. The PFA has no authority to incur any indebtedness or liability on behalf of or payable by the State.

The PFA is required by statute (N.D.C.C. § 6-09.4-10(1)) to establish and maintain a reserve fund for its bonds. The Legislative Assembly has made a non-binding pledge to the PFA to replenish

the reserve fund if it is depleted by the default of a political subdivision. Section 6-09.4-10(4) provides that "there shall be appropriated by the legislative assembly and paid to the PFA for deposit in the reserve fund, such sum, if any, as shall be certified by the industrial commission as necessary to restore the fund to an amount equal to the required debt service reserve." Because future Legislative Assemblies are not legally obligated or required to appropriate moneys certified as necessary by the Industrial Commission, this statutory provision is referred to as a "moral obligation." All bonds issued by the Public Finance Authority under any of its programs prior to 2011 are moral obligation bonds unless the Industrial Commission approves a resolution to allow the Public Finance Authority to issue bonds under section 40-57 as a conduit issuer. The State Revolving Fund Program bonds issued after 2010 do not contain the moral obligation provision. There has never been the need to request an appropriation for the reserve fund.

Major Programs

Capital Financing Program

Under its Capital Financing Program (CFP), the PFA makes loans for the purpose of financing projects or improvements for which political subdivisions are legally authorized to borrow money through the issuance of municipal securities. Subject to credit requirements and certain program requirements, financing is available in any dollar amount.

The interest rates payable by a political subdivision are market rates which are set through a competitive bid process when the PFA issues and sells its bonds to fund a loan. The interest rates paid by the PFA on its bonds are the same rates a political subdivision will pay on its municipal securities sold to the PFA.

Standard & Poor's Rating Group has assigned a rating of "A+" to the Capital Financing Program.

In 2011, the Industrial Commission approved utilizing the CFP to offer low-interest, disaster loans to political subdivisions impacted by natural disasters. Any North Dakota political subdivision that is within a county that has received a Presidential Public Disaster Declaration or a gubernatorial executive order or proclamation of a state disaster or emergency is eligible to apply. The political subdivision must show ability to repay the financing either from Federal or State government disaster payments or from tax receipts. The interest rate payable by a political subdivision is the 3-month LIBOR plus 1.25% adjusted monthly with a floor of 2.25%.

State Revolving Fund Program

The State Revolving Fund Program (SRF Program) was established in 1990 to enable North Dakota to receive federal capitalization grants as authorized under the Clean Water Act. In 1998, the SRF Program was amended to enable the State to receive capitalization grants as authorized under the Safe Drinking Water Act. The SRF Program grants, received from the United States Environmental Protection Agency, are to be used to make below-market interest rate loans to political subdivisions for the purpose of financing authorized projects, to establish reserve funds, and for other purposes under the Clean Water Act and the Safe Drinking Water Act. Authorized projects under the Clean Water Act include wastewater treatment facilities and nonpoint source pollution control projects. Authorized projects under the Safe Drinking Water Act include public water systems. The SRF Program is administered jointly by the North Dakota Department of Health and the PFA.

The interest rates on SRF Program loans are set by the Health Department in consultation with the PFA. The interest rates are fixed for the term of a loan. Currently, the interest rate for most tax-exempt SRF Program loans is 1.5%. The interest rate for taxable SRF Program loans is 2.5%. SRF loans made with American Recovery and Reinvestment Act "ARRA" funds are at .5%

and/or have a loan forgiveness component.

Moody's Investors Service, Inc. assigns a rating of "Aaa" to the North Dakota SRF Program, which is Moody's highest rating. Standard & Poor's has also assigned its' highest rating, an "AAA" to the North Dakota SRF Program.

School Construction Financing Program

The School Construction Financing Program (SCFP) provides loans to school districts which have construction projects approved by the Department of Public Instruction. Under the SCFP, school districts have the opportunity to pool their construction loan needs each year, thereby sharing the cost of issuance. As with the CFP, the interest rates paid by the PFA on its bonds are the same rates a school will pay on its municipal securities sold to the PFA. No loans were issued during the 2015-2017 biennium under this program and there are no loans outstanding as of June 30, 2017.

Industrial Development Bond Program

Under its Industrial Development Bond Program (IDB), the PFA makes loans to manufacturers that qualify as small issue manufacturers. Qualified small issue manufacturers are defined within the Internal Revenue Code as "Any facility which is used in the manufacturing or production of tangible personal property including the process resulting in a change in the condition of such property." Within that definition, the qualifying organizations must also meet a capital spending requirement (\$20,000,000 over a six-year period). Qualifying borrowers are allowed to obtain tax-exempt financing to expand its existing facility, purchase manufacturing equipment, or construct a new facility.

The interest rates paid by a qualifying manufacturer are market rates which are set through a competitive bid process when the PFA issues and sells its program bonds to fund the loan. The interest rates paid by the PFA on its program bonds are the same rates the manufacturer will pay on its loan to the PFA.

The Standard and Poor's Rating Group has assigned a rating of "A+" to the PFA's IDB Program.

Major Accomplishments and Activities During 15-17 Biennium

During the 15-17 biennium, the PFA issued \$38,280,000 of bonds under the CFP. These proceeds were used to provide funding for three qualifying projects. From the inception through June 30, 2017, the total cumulative amount of bonds issued under the CFP General Bond Resolution was \$258,120,000 and the total outstanding amount of bonds under the CFP General Bond Resolution was \$156,370,000.

During the 2015-2017 biennium, the PFA did not approve any Disaster Financing CFP loans. As of June 30, 2017, \$20,824,737 had been advanced to 27 political subdivisions and \$580,770 was outstanding. The total cumulative amount of PFA bonds issued to fund the Disaster Loan Program was \$14,455,612 and the bonds are paid in full.

There were no bonds issued under the IDB Program during the 2015-2017 biennium. As of June 30, 2017, the total cumulative amount of bonds issued under the Industrial Development Bond Program was \$4,860,000 and the total bonds outstanding under the IDB Program are \$3,755,000.

The loans to borrowers under the SRF Program can be broken down into Clean Water (CWSRF) and Drinking Water (DWSRF) loans. Under the CWSRF Program, the PFA closed \$25,013,139 of loans to 17 political subdivisions during the 15-17 biennium. As of June 30, 2017, the

cumulative amount of the 275 loans closed under the CWSRF Program was \$632,549,241. Under the DWSRF Program, the PFA closed \$91,243,515 of loans to 20 political subdivisions during the 15-17 biennium. As of June 30, 2017, the cumulative amount of the 206 loans closed under the DWSRF Program was \$533,066,430.

During the 15-17 biennium, the PFA issued \$131,890,000 of bonds under the SRF Program. The cumulative amount of SRF Program Bonds issued under the PFA's SRF Program Master Trust Indenture is \$554,740,000. This total includes \$151,085,000 of the 1990, 1993, 1995, 1996, 1998, 2000, 2001, 2003, 2004, 2005 and 2008 SRF Program Bonds which have been advance refunded and are no longer considered to be outstanding. As of June 30, 2017, the total amount of SRF Program Bonds outstanding was \$249,575,000.

Trends in Direction for Public Finance Authority/Short and Long Range Plans and Goals

The PFA's continues to carry out the Mission, "To develop rural and urban North Dakota by providing political subdivisions and other qualifying organizations access to flexible and competitive financing options for their local qualifying projects."

Resources

Copies of the Public Finance Authority's most recent audited financial statements and official statements are available on the PFA's website.

DeAnn Ament, Executive Director
dament@nd.gov
(701) 426-5723

Lisa Froelich, Business Manager
lmfroelich@nd.gov
(701) 328-7120

North Dakota Public Finance Authority Website:
www.nd.gov/pfa

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015
(In Thousands)

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Restricted		
Cash and cash equivalents	\$ 26,015	\$ 46,346
Interest receivable	5,394	4,996
Investments	89,684	122,207
Municipal securities	29,564	26,631
Total restricted current assets	<u>150,657</u>	<u>200,180</u>
Total current assets	<u>150,657</u>	<u>200,180</u>
NONCURRENT ASSETS - RESTRICTED		
Investments	98,763	90,419
Municipal securities	680,364	652,905
Total restricted noncurrent assets	<u>779,127</u>	<u>743,324</u>
Total assets	<u>\$ 929,784</u>	<u>\$ 943,504</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on bond refunding	\$ 5,201	\$ 4,196
Derived from pension	50	28
Total deferred outflows of resources	<u>\$ 5,251</u>	<u>\$ 4,224</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 28	\$ 139
Rebate due to IRS	1	6
Bonds payable	23,905	23,230
Interest payable	3,576	3,837
Total current liabilities	<u>27,510</u>	<u>27,212</u>
NONCURRENT LIABILITIES		
Rebate due to IRS	12	12
Bonds payable	426,407	456,365
Net pension liability	159	122
Total noncurrent liabilities	<u>426,578</u>	<u>456,499</u>
Total liabilities	<u>\$ 454,088</u>	<u>\$ 483,711</u>
DEFERRED INFLOWS OF RESOURCES		
Derived from pension	\$ 19	\$ 28
Total deferred inflows of resources	<u>\$ 19</u>	<u>\$ 28</u>
NET POSITION		
Unrestricted	\$ 2,109	\$ 2,103
Restricted for debt service	141,000	152,588
Restricted for loan purposes	337,819	309,298
Total net position	<u>\$ 480,928</u>	<u>\$ 463,989</u>

See Notes to Financial Statements

NORTH DAKOTA PUBLIC FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands)

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Investment income	\$ 19,058	\$ 16,332
Grant and set-asides	879	831
Administrative fees and other	2,735	2,396
	<u>22,672</u>	<u>19,559</u>
OPERATING EXPENSES		
Interest expense	18,546	15,912
State Revolving Fund loan forgiveness	3,349	2,180
State Revolving Fund administration	2,100	1,917
State Revolving Fund set-asides	241	217
Rebate (Benefit) due to IRS	3	7
Salaries and benefits	234	217
Bond issue costs	196	272
Operating	46	163
Paying agent fees	2	2
	<u>24,717</u>	<u>20,887</u>
OPERATING LOSS	<u>(2,045)</u>	<u>(1,328)</u>
NONOPERATING REVENUE		
Grant and set-asides	14,165	14,592
Investment income	4,819	5,169
	<u>18,984</u>	<u>19,761</u>
EXTRAORDINARY ITEM		
Loan modification	-	1,128
CHANGE IN NET POSITION	16,939	19,561
TOTAL NET POSITION, BEGINNING OF YEAR	<u>463,989</u>	<u>444,428</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 480,928</u>	<u>\$ 463,989</u>

See Notes to Financial Statements

Renewable Energy Program

History

The Renewable Energy Council (“Council”) and Renewable Energy Program (“Program”) were established in 2007. The Program initially received a continuing appropriation of \$3,000,000 from the General Fund and \$17,000,000 was appropriated from any special funds that were received for the Program. The 2007 Legislature also established the Biomass Incentive and Research Fund/Program and provided an appropriation of up to \$2,000,000 with \$1,000,000 to come from the Beginning Farmer Revolving Loan Fund and \$1,000,000 from the BioFuels PACE Fund. The 2009 Legislature rolled the Biomass Incentive and Research Fund/Program into the Renewable Energy Program and appropriated \$3,000,000 from the General Fund for the Renewable Energy Program. In 2011 the Legislature appropriated \$1,500,000 from the General Fund for the Program. In 2013, the Legislature established a continuous funding source for the program through a biennial appropriation of up to 5% of the amount credited to the Resources Trust Fund, not to exceed \$3,000,000. The percentage of 5% was reduced to 3% in 2017, although the \$3,000,000 limit was kept in place.

Organization Structure

By statute the Renewable Energy Council is appointed by the Governor and is made up of seven members consisting of one member with a substantial interest in the agriculture industry, one member with a substantial interest in the biodiesel industry, one member with substantial interest in the wind industry, one member with a substantial interest in the biomass industry, one member with substantial interest in the ethanol industry, one member with a substantial interest in advanced biofuel and sugar-based biofuel, and the Commerce Commissioner who shall serve as Chairman. The law also provides that the Industrial Commission shall contract with the Department of Commerce to provide technical assistance to the Council and the Commission in carrying out the purposes of the program. Prior to any project receiving funding from the Industrial Commission, the Renewable Energy Council must make a favorable recommendation for funding. As per statute, each application/project must provide some level of matching funds. By policy the Commission has required a dollar-for-dollar match.

Statutory Responsibilities

The statutory authority for the Renewable Energy Program is found in North Dakota Century Code 54-63. In general terms the mission of the Renewable Energy Program is to provide financial assistance for renewable energy education, research, development and marketing projects. By policy the Commission has stated that the Program shall foster the development of renewable energy and related industrial use technologies, including, but not limited to, wind, biofuels, biomass, biomaterials, solar, hydroelectric, geothermal, and renewable hydrogen through research, development, demonstration and commercialization, demonstrate to the general public the importance of the state renewable energy industry, to encourage and promote the wise and efficient use of renewable energy and materials or products, to develop the State’s renewable energy resources and to support research and educational activities concerning the renewable energy and materials or products industries.

Major Programs and Activities

The Renewable Energy Program has established polices which outline the process by which applicants can seek funding for renewable energy projects. Note below under major

accomplishments the activity that has taken place during the 2015-2017 biennium for the Renewable Energy Program.

Key Legislation Passed During the 2017 Legislative Session Related to the Renewable Energy Program

In 2013, the Legislature established a continuous funding source for the program through a biennial appropriation of up to 5% of the amount credited to the Resources Trust Fund, not to exceed \$3,000,000. In 2017, the amount to be deposited was modified to up to 3% of the amount credited to the Resources Trust Fund, not to exceed \$3,000,000.

Key Responsibilities Added To or Deleted from the Renewable Energy Program for the 2015-2017 Biennium

There were no key responsibilities added or deleted for the Renewable Energy Program for the 2015-2017 biennium.

Major Accomplishments and Activities

During the 2015-2017 biennium the Industrial Commission held six Renewable Energy Program grant rounds. As a result of those rounds, the Commission approved funding of \$3,890,000 for nine new Renewable Energy Projects. These projects included:

- Development of a pilot scale facility for biocomposites development for industrial and consumer products
- A hands-on, interactive, ethanol-specific exhibit to be utilized as a pilot at the current facility beginning in 2016 and then permanently installed at the new Gateway to Science facility upon completion.
- A demonstration project utilizing landfill gas by converting it to compressed natural gas (CNG) to be in the City of Fargo's fleet and commercial partners. The city will install a fast-fill CNG fueling system and storage system. It will be the only CNG fueling station in ND.
- Further development of a solar powered UAS, including fabrication of a solar UAS wing using high efficiency solar cells, integrating power management and solar solutions into commercial UAS airframes, flight testing, and establishing a manufacturing plan for extended endurance solar UAS.
- A feasibility study for integrating carbon capture and storage (CCS) of CO2 emissions from Red Trail Energy to reduce net CO2 emissions associated with ethanol production.
- Construction of a community-wide geothermal heating system in Horace, ND.
- Development of portable solar array modules.
- A renewable diesel demonstration project.

Trends in Direction for Renewable Energy Program/Short and Long Range Plans and Goals

The Renewable Energy Program is still fairly new as is the renewable energy industry. The Program will continue to seek out and fund worthwhile projects that support its overall goals to foster the growth of the renewable energy industry.

Resources and Publications Available from the Renewable Energy Program

The status of and summaries of all the research projects funded from the Renewable Energy Fund are available on the Industrial Commission/Renewable Energy Program website at <http://www.nd.gov/ndic/renew-project.htm>

Additional information about the Renewable Energy Program is available:

Industrial Commission of North Dakota
State Capitol – 14th Floor
600 East Boulevard
Bismarck, North Dakota 58505
701-328-3722 or 701-328-3726
<http://www.nd.gov/ndic/renew-infopage.htm>

North Dakota Student Loan Trust

History

In 1971 the Legislature authorized the Industrial Commission to “acquire and hold in one or more trusts (1) all unpaid United States government guaranteed or reinsured student loans and (2) North Dakota guaranteed student loans, belonging to the State of North Dakota or to any of its agencies . . .” (NDCC 54-17-24). The creation of the North Dakota Student Loan Trust (“Trust”) enabled the State of North Dakota to obtain low cost funds (through the sale of tax-exempt bonds) and use those funds for purchasing student loans originated or acquired by the Bank of North Dakota. Since 1971 the Industrial Commission has issued over \$900,000,000 in student loan bonds. The Student Loan Trust had \$1,000,000 in bonds outstanding as of June 30, 2017.

Organizational Structure

The Industrial Commission has named the Commission’s Executive Director, Karlene Fine, as the Authorized Officer for the Student Loan Trust. The Student Loan Trust is composed of funds held under two General Bond Resolutions. These General Bond Resolutions determine the use and flow of funds within the Student Loan Trust. As the Bank of North Dakota (“Bank”) is the sole provider of student loans to the Trust, services the student loans held by the Trust and serves as the Trustee for the Trust, the Bank and the Trust work closely together. Tim Porter, Chief Financial Officer is the primary contact at the Bank.

Statutory/Constitutional Responsibilities

The statutory responsibilities of the Student Loan Trust are set forth in North Dakota Century Code 54-17-24 and NDCC 54-17-25.

Major Programs and Activities

The Trust is a liquidity provider for the Bank and provides an alternative for the Bank should the Bank determine a need to reduce its student loan portfolio.

The Trust provides funds for the North Dakota Student Loan Guarantee Agency as needed.

The Trust provides funds for the Dakota Education Alternative Loans (a supplemental state guaranteed program).

Key Legislation Passed During 2017 Legislative Session Related to the Student Loan Trust

The 2017 Legislature authorized the following appropriations from the Student Loan Trust during the 2017-2019 biennium:

\$465,307 for the professional student exchange program

\$539,437 for the Connect ND Campus Solutions

\$500,000 for grants to Tribal Community Colleges

\$13,806,856 for residency positions at the UND School of Medicine and Health Sciences

\$360,000 for the Dental Loan Repayment Program

\$500,000 for workforce grants at the tribally controlled community colleges

\$200,000 for the dual-credit courses pilot program

\$220,000 for the ND Governor’s STEM programs

Funding for a portion of the costs of the Industrial Commission administrative office.

Key Responsibilities Added To or Deleted from Student Loan Trust for the 2017-2019 Biennium

Other than appropriations, no other additional responsibilities were added or deleted to the Student Loan Trust for the 2017 -2019 biennium.

Major Accomplishments and Activities

During the 2015-2017 biennium the Trust expended funding totaling \$7,656,000 as follows:

- \$465,000 for the professional student exchange program
- \$539,000 for the Connect ND Campus Solutions
- \$500,000 for grants to Tribal Community Colleges
- \$2,000,000 for Dickinson State University leadership transition needs
- \$360,000 for the Dental Loan Repayment Program through the Health Department
- \$1,000,000 Tribal grants through the Commerce Department
- \$200,000 Bank of North Dakota Addiction Counseling Revolving Loan Program
- \$2,500,000 matching grants for the advancement of academics at institutions of higher Education
- \$92,000 for a portion of the costs of the Industrial Commission administrative office.

The Industrial Commission authorized the transfer of \$10,000,000 from the 1996 General Bond Resolution Revenue Fund to the North Dakota Guarantee Agency's Guarantee Program during the biennium.

No additional student loans were purchased from the Bank.

Trends in Direction for SLT/Short and Long Range Plans and Goals

In order to provide the funding as directed by the 2017 Legislature the Trust will be selling a majority of its student loan portfolio to the Bank of North Dakota. It is anticipated that by the end of the 2017-2019 biennium the Trust's balance will be less than \$3,000,000. The Trust along with the Bank will continue to monitor student loan programs to determine whether additional loan programs are needed to assist North Dakota students with pursuing higher education opportunities.

Resources and Publications Available from the Student Loan Trust

The most recent official statements for bond offerings made by the Student Loan Trust are available at the Industrial Commission Administrative Office at the addresses noted on the back of this biennial report.

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NORTH DAKOTA STUDENT LOAN TRUST
STATEMENTS OF NET POSITION
JUNE 30, 2017 and 2016
(In Thousands)

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS - UNRESTRICTED		
Cash and cash equivalents	\$ 13	\$ 456
Investments	2,846	10,936
Interest receivable	137	150
Due from other state agencies	1	8
Special allowance and interest subsidy receivable	25	20
Student loans receivable, net of allowance for loan losses	<u>3,704</u>	<u>3,922</u>
Total unrestricted current assets	<u>6,726</u>	<u>15,492</u>
CURRENT ASSETS - RESTRICTED		
Investments	<u>500</u>	<u>500</u>
NONCURRENT ASSETS - UNRESTRICTED		
Student loans receivable, net of allowance for loan losses	<u>10,248</u>	<u>13,828</u>
NONCURRENT ASSETS - RESTRICTED		
Student loans receivable, net of allowance for loan losses	<u>1,000</u>	<u>1,000</u>
Total assets	<u>\$ 18,474</u>	<u>\$ 30,820</u>

See Notes to Financial Statements

	<u>2017</u>	<u>2016</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accrued interest payable	\$ 1	\$ 1
Accrued fees payable	6	6
Accrued fees payable - related party	68	132
Appropriation payable	-	2,450
Total current liabilities	<u>75</u>	<u>2,589</u>
NONCURRENT LIABILITIES		
Bonds payable	<u>1,000</u>	<u>1,000</u>
Total noncurrent liabilities	<u>1,000</u>	<u>1,000</u>
Total liabilities	<u>1,075</u>	<u>3,589</u>
NET POSITION		
Restricted for debt service	452	397
Unrestricted	<u>16,947</u>	<u>26,834</u>
Total net position	<u>17,399</u>	<u>27,231</u>
Total liabilities and net position	<u>\$ 18,474</u>	<u>\$ 30,820</u>

NORTH DAKOTA STUDENT LOAN TRUST
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2017 and 2016
(In Thousands)

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Interest on student loans	\$ 453	\$ 544
Special allowance and interest subsidy	<u>79</u>	<u>74</u>
Total operating revenues	<u>532</u>	<u>618</u>
OPERATING EXPENSES		
Interest	14	10
Service fees	280	350
Administration fees	17	21
Provision for loan losses	8	12
Bond related expenses	<u>56</u>	<u>29</u>
Total operating expenses	<u>375</u>	<u>422</u>
OPERATING INCOME	157	196
NONOPERATING REVENUE		
Investment income	<u>11</u>	<u>21</u>
INCOME BEFORE TRANSFERS	168	217
TRANSFERS TO STATE AGENCIES	<u>(10,000)</u>	<u>(7,657)</u>
CHANGE IN NET POSITION	(9,832)	(7,440)
TOTAL NET POSITION, BEGINNING OF YEAR	<u>27,231</u>	<u>34,671</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 17,399</u>	<u>\$ 27,231</u>

See Notes to Financial Statements

North Dakota Transmission Authority

N.D. Transmission Authority Function and Organization

At the request of the North Dakota Industrial Commission (Commission), the North Dakota Transmission Authority (Authority) was created by the North Dakota Legislative Assembly in 2005. Since its inception, the Authority's mission has been to facilitate the development of transmission infrastructure in North Dakota. The Authority was established to serve as a catalyst for new investment in transmission by facilitating, financing, developing and/or acquiring transmission to accommodate new lignite and wind energy development. The Authority is a builder of *last resort*, meaning private business would have the first opportunity to invest in and/or build additional needed transmission.

Organizational Structure

By statute the Authority membership is comprised of the members of the Commission. Tyler Hamman was appointed as Transmission Authority Director on July 1, 2015. The Authority Director works closely with the Executive Director of the Commission, Ms. Karlene Fine. The Authority has no other staff, and receives no direct General Fund appropriation.

Statutory Responsibilities

Statutory authority for the Authority is found in Chapter 17-05 of the North Dakota Century Code. Section 17-05-05 N.D.C.C. delineates the powers of the Authority to: 1) make grants or loans or to borrow money; 2) issue up to \$800 million in revenue bonds; 3) enter into lease-sale contracts; 4) own, lease, rent and dispose of transmission facilities; 5) enter into contracts to construct, maintain and operate transmission facilities; 6) investigate, plan, prioritize and propose transmission corridors; and 7) participate in regional transmission organizations.

Before the Authority may exercise its power to construct transmission facilities, it must follow a process defined by statute to ensure public participation and comment. In particular, the Authority must publish a notice describing the need for the transmission project. Entities interested in constructing the facilities or furnishing services to satisfy the identified needs have 180 days to respond by filing a notice of intent. If the Authority receives a notice of intent from an interested entity, it may not exercise its powers to construct unless the Authority makes a finding that doing so would be in the public interest. In making such a finding, the Authority shall consider the economic impact to the state, economic feasibility, technical performance, reliability, past performance, and the likelihood of successful completion and ongoing operation.

To enhance the Authority's bonding program, up to 30% of the cost of a project may be financed by selling bonds that include the moral obligation of the State of North Dakota. This means that up to \$240 million of the Authority's total \$800 million bonding authority may be sold with the moral obligation of the State. The moral obligation component will enhance the marketability of the Authority's bonds.

Major Programs and Activities

Whether the issue is project development or legislative initiatives, the Authority is actively engaged in seeking ways to improve North Dakota's energy export capabilities along with transmission capabilities within the State. To be successful, the Authority Director must have an in-depth understanding of the technical and political challenges associated with moving energy from generator to satisfied customer. Outreach to potential developers, as well as existing transmission system owners and operators, and other detailed planning are necessary to maintain an understanding of the status and need for transmission to meet the goals of the State.

Another key element for success is working with elected officials at the state and federal levels to ensure that legislation and public policy are designed to take advantage of moving electricity generated from North Dakota's abundant energy resources to local, regional and national markets. During the biennium the Authority focused its efforts on three key areas: planning, outreach and government action.

Legislation Passed During the 2017 Legislative Session Related to the Authority

Energy development was once again a highly-debated issue during the 2017 Legislative Session. Of particular interest to transmission development was H.B. 1144. This legislation was the result of utilities and transmission stakeholders identifying an interest in streamlining the Public Service Commission siting authorities. Previously the North Dakota Energy Conversion and Transmission Facility Siting Act (Chapter 49-22 N.D.C.C.) applied to siting of both electric generation and transmission facilities, along with oil and gas processing and pipeline facilities. HB 1144 separated the laws regarding siting of electric facilities from oil and gas facilities to address different infrastructure and siting needs of the two industries, as well as avoiding unintended consequences of cross-industry impacts. The legislation received unanimous support from both chambers of the North Dakota Legislature.

Another issue debated by the Legislature pertained to the need for proposed energy conversion and transmission facilities under the North Dakota Siting Act. As passed by the Senate, S.B. 2314 would have required an interim study considering a long-term energy plan for the state, including consideration of multiple energy sources such as coal, wind, and hydroelectric energy sources. The House of Representatives considered an amendment to S.B. 2314 that would have further amended the North Dakota Siting Act to authorize the Public Service Commission to consider need when evaluating applications for sites, corridors, and routes for new energy conversion and transmission facilities. The House ultimately voted to reject the amendment. Supporters expressed that it was needed to give the PSC appropriate guidance to protect baseload generation and grid reliability, whereas opponents of the amendment felt that it was not necessary and would hamstring wind development in the state. Following debate and a vote on the amendment, the House also voted to not pass the underlying bill.

The Energy Development and Transmission Committee was tasked with continuing to study energy issues over the 2017-18 interim.

Summary of Responsibilities Added or Deleted During the Biennium

No specific new responsibilities were added nor were any responsibilities deleted during the biennium.

Accomplishments and Activities during the Biennium including Trends and Goals

A summary of the Authority's accomplishments and activities during the biennium are discussed below. This discussion outlines the issues that have been monitored by the Transmission Authority over the biennium and the Authority will continue to evaluate when it is appropriate for the Industrial Commission to comment or provide input on behalf of North Dakotans on these matters. Of considerable interest are the changes that have taken place at the federal level over the 2015-2017 biennium.

Planning – Short-term and Long-term

- ***Midcontinent Independent Transmission System Operator (MISO) Task Forces*** –The MISO supports a number of task forces and study groups that evaluate the feasibility of

new lines and line upgrades designed to facilitate the interconnection of both traditional and renewable energy in the MISO footprint. These are approved as part of the Midwest Transmission Expansion Projects or as Multi-Value Projects (MVPs). The transmission lines identified by the MVP studies are lines that are expected to have significant economic and reliability benefits to MISO customers. The significance of a transmission project being identified as an “MVP line” is that the cost of building the line will be allocated across the MISO footprint. Of particular importance to North Dakota are the Ellendale to Big Stone, the Big Stone to Brookings, and Brookings to Twin Cities MVP lines which are under construction. A number of smaller MISO Transmission Expansion Planning (MTEP) projects were identified as MTEP16 Projects. (www.misoenergy.org).

- ***Southwest Power Pool Expansion*** - Detailed planning of electrical infrastructure in the MISO footprint, which covers the service territories of Otter Tail Power (OTP), Montana-Dakota Utilities (MDU), Great River Energy (GRE), Xcel and Missouri River Energy Services (MRES) in North Dakota, is actively managed by the technical taskforces at MISO, and cost effective and timely solutions are approved by the MISO Board. With the Western Area Power Administration (Western) and Basin Electric Power Cooperative (BEPC) joining the Southwest Power Pool (SPP), a FERC-approved Regional Transmission Organization (RTO), in 2015, similar infrastructure planning and cost sharing will be available to these entities. As a result, sophisticated transmission planning by RTOs will cover the entire State of North Dakota, as well as much of the surrounding states.
- ***MISO - SPP Joint Transmission Study*** - Following approval by the SPP Seams Steering Committee, and the MISO Interregional Planning Stakeholder Advisory Committee, it was agreed that the two RTOs would conduct a joint study to look at the newly created Integrated System “seam” between their markets in the Upper Midwest (primarily North Dakota, South Dakota and Iowa). Seam issues are generally trading barriers that can arise when there are differences between market rules and designs that can affect the efficiency and reliability of transmission where two RTOs border each other. The Joint Planning Committee expects to complete the study by the end of 2017.
- ***Federal Issues Impacting Transmission Planning and Development*** - The November 2016 election brought with it a sea change in regulations impacting the generation and transmission of electric power. Soon after taking office, President Donald Trump signed the Energy Independence Policy Executive Order effectively repealing the Environmental Protection Agency’s Clean Power Plan and many other regulations impacting the energy industry. As proposed in June 2014, the EPA’s Clean Power Plan mandated a 30 percent reduction in carbon dioxide levels from electric power generation by 2030, with an 11 percent reduction target for North Dakota. However, the final rule, released in August 2015, presented a dramatic departure from the draft rule. While it increased the target nationally from a 30 percent to a 32 percent reduction in carbon dioxide levels, it more than quadrupled its requirement for North Dakota by mandating a 45 percent reduction in carbon dioxide within the state by 2030. Although the Clean Power Plan did not affect transmission directly, it would have significantly impacted power generation in the state and how transmission is utilized to transfer energy across the grid. While this regulation has been repealed in its current form, it is anticipated that new regulations will be developed regarding electric generating units. The Authority will continue to closely monitor this issue and work with stakeholders in North Dakota

to advise and inform federal agencies of how these rules impact transmission development in the state.

- **Department of Energy Grid Study**- On April 14, 2017, Department of Energy Secretary Rick Perry directed the DOE to initiate a study to “explore critical issues central to protecting the long-term reliability of the electric grid.” In particular, Secretary Perry directed the Department to focus on the following issues:
 - a) The evolution of wholesale electricity markets, including the extent to which federal policy interventions and the changing nature of the electric fuel mix are challenging the original policy assumptions that shaped the creation of those markets;
 - b) Whether wholesale energy and capacity markets are adequately compensating attributes such as on-site fuel supply and other factors that strengthen grid resilience, and if not, the extent to which this could affect grid reliability in the future; and
 - c) The extent to which continuing regulatory burdens, as well as mandates and tax and subsidy policies, are responsible for forcing the premature retirement of baseload power plants.

The Authority will continue to monitor the activities of the Department of Energy and FERC in regards to this study.

- **Cybersecurity** - The Authority also continues to monitor the burgeoning issue of cybersecurity as both FERC and NERC discuss standards and practices to protect the electric grid from the threat of cyber-attacks. While not directly impacting the construction of new transmission lines, cybersecurity plays an integral role in grid operations and infrastructure necessary to maintain a secure, yet flexible transmission system.

Outreach Programs

A significant element of the Authority’s mission is to solicit ideas from interested parties regarding solutions to transmission constraint issues in North Dakota. Outreach can occur in many ways, whether through one-on-one contacts with individuals or by participating in organizations and programs designed to bring a wide-variety of people and groups together to share ideas and develop solutions. The Authority’s outreach program includes both individual contacts and participation in larger group meetings. Some specific projects that the Authority has been working with when asked are:

- **CapX2020** - Of particular interest to North Dakota is the Fargo-St. Cloud-Monticello line. This project was designed to alleviate electric reliability concerns in the St. Cloud, Alexandria and Red River Valley areas, as well as meet the region’s projected electric growth and provide an outlet for new generation. The Fargo – Monticello line was placed into service on April 2, 2015. On September 16, 2016 the final segment of the CapX2020 projects was energized, bring to fruition all of the CapX2020 projects. With the completion of this segment CapX2020 had built 725 miles of high voltage transmission line across Minnesota, North Dakota, South Dakota and Wisconsin.
- **Basin Electric’s Western North Dakota 345kV line** - In response to growth in western North Dakota related to oil and gas development, Basin Electric (BEPC) has undertaken the construction of a 200-mile 345 kV line from the Antelope Valley Station (AVS) to the Neset Substation near Tioga, North Dakota. Construction of the line began in 2014 and the line has been completed and energized to the Judson Substation near Williston.

The remaining segment to Neset is expected to be in service by the end of 2017. BEPC has also completed Phase I of the North Killdeer Loop. This portion consists of approximately 28-miles of 345kV line and two substations that tie into the AVS-Neset Line going west of Watford City. Phase I was energized in September of 2016. Phase II of the North Killdeer Loop is currently on-hold while it undergoes review by the Southern Power Pool.

- ***MVP project – 345kV lines from North Dakota to South Dakota to Minnesota*** - Construction began in 2016 on the Big Stone South to Ellendale (BSSE) MVP line. BSSE is a 150-175 mile transmission line from the proposed Big Stone South substation to the proposed Ellendale substation near Ellendale, North Dakota. Montana-Dakota Utilities Co. and Otter Tail Power Company will jointly own the line. MISO has scheduled the line to be in service by 2019.
- ***Great River Energy High Voltage Direct Current (HVDC) Refurbishment*** - In December, 2015, GRE's Board of Directors approved the largest transmission refurbishment project in the organization's history. GRE's 436 mile- HVDC line has provided 99 percent reliability since being put into service in 1978, transporting power from the Coal Creek Station in Underwood, N.D., to the Dickinson Converter Station in Buffalo, MN. There, electric power is converted to alternating current and distributed within GRE's service territory in Minnesota. GRE intends to invest approximately \$200 million over the next decade to overhaul converter stations, replace valve electronics, and upgrade components to improve performance and extend the life of the HVDC line.

Government Action

Providing elected officials with the information necessary to make informed decisions is another function of Authority staff. Whether the issue is setting state energy policy regarding transmission development or commenting on federal transmission legislation, the Authority serves as a resource for decision-makers. During the biennium the Authority was busy on several fronts working with the following entities: the EmPower ND Commission, Governor's Office, Attorney General's Office, Department of Commerce, Public Service Commission, ND Legislative Assembly and the Congressional Delegation.

- ***EmPower ND Commission*** – The Authority was an active participant in the EmPower ND Commission work. Authority activities included briefing the Commission on transmission issues in North Dakota and participating in the development of Commission goals. The 2016 EmPower ND report highlighted transmission as a key infrastructure need in North Dakota and expressed support for continued R&D funding to facilitate development of transformational energy technologies, as well as enhance understanding of integration between traditional and renewable electric generation sources.
- ***North Dakota Legislative Assembly*** – Provided technical support on legislation supported by the EmPower Commission and provided technical information to the legislators on transmission issues during the 2017 legislative session.
- ***Interagency Coordination*** – As important as everything else discussed in this report, is the coordination of efforts among the various government entities with oversight or interest in transmission development. In particular, regular meetings are held with representatives from the Public Service Commission to discuss the status of transmission projects and receive updates from RTOs. On occasion other offices request technical support and policy guidance from Authority staff.

Overall Evaluation of Program

Despite a litany of challenges and uncertainty, transmission continues to be built in new and innovative ways that improve efficiency and reduce environmental impacts. Several hundred miles of new transmission has been developed in North Dakota by private investors since the North Dakota Transmission Authority was established and it will continue to serve its mission to facilitate development.

Resources and Publications Available

The Transmission Authority Annual Reports are available on the Industrial Commission website at <http://www.nd.gov/ndic/ic-public.htm>

Oversight of Western Area Water Supply Authority Industrial Sales

History

During the 2013 Legislative Session the Legislature authorized the North Dakota Industrial Commission (“Commission”) to have oversight of the Western Area Water Supply Authority (“WAWS”) industrial sales revenues and expenditures.

Organizational Structure

The Industrial Commission Executive Director/Secretary serves as the contact between the Commission and WAWS staff and prepares monthly reports for the Commission based on information provided by the WAWS staff. The WAWS Executive Director meets with the Commission on a regular basis to review the activities of the WAWS Board as they relate to the WAWS industrial sales. The Bank of North Dakota staff also works closely with the Commission Executive Director/Secretary and reports to the Commission on a regular basis on the loan payments made by WAWS.

Statutory Responsibilities

Senate Bill 2233 - 2013 Session (Chapter 61-40) became effective on August 1, 2013 and states the Industrial Commission shall have:

- Oversight of the monies earned from industrial water sales by receiving reports on a monthly basis of receipts and expenditures; (Section 19)
- Reimburse WAWS for industrial water depot capital improvements and the cost of delivery of potable or nonpotable water sold at industrial water depots and lateral lines, at a cost no greater than the participating member, or submember, if applicable, entity rate at the location of the depot or lateral line. [Section 19 (1) (b)]
- Approval of water rates for industrial water sales (Section 20);
- Approval of additional debt that may form the basis of a claim for territorial or franchise protection for industrial water sales; (subsection 13 of Section 18)
- Revision of loan repayments if cash flow is insufficient to meet debt requirements (Section 22)

Major Programs and Activities

The Commission’s role is oversight so no major programs have been developed other than for monitoring the WAWS operations as they relate to industrial sales and to assure that all outstanding State and Bank of North Dakota debt is repaid. The Commission meets on a regular basis with the WAWS staff and hears reports on the WAWS industrial sales operations.

Key Legislation Passed During the 2017 Legislative Session Related to the Industrial Commission’s oversight of the WAWS Industrial Sales

House Bill 1020 stated that the Industrial Commission shall conduct an independent study of the feasibility and desirability of the sale or lease of the industrial water supply assets of the Western Area Water Supply Authority.

House Bill 1020 also directed the Industrial Commission to approve WAWS contracting at competitive, floating, market rates for industrial water depot and lateral retail sales.

Key Responsibilities Added to or Deleted from the Commission’s Oversight of the WAWS Industrial Sales

The 2017 Legislature authorized that an independent study be conducted of the feasibility and desirability of the sale or lease of the industrial water supply assets of the Western Area Water Supply Authority.

Major Accomplishments and Activities

The Industrial Commission continued to receive monthly reports on the industrial sales revenues and the expenditures from the industrial sales revenues. With the downturn in the industrial water sales during the biennium, the Commission, working with the Bank of North Dakota and the Water Commission restructured the debt service payments on the WAWS debt. The Commission at various times during the biennium adjusted water rates to improve water sales. The Commission also reported to the interim Water Topics Committee as requested.

Trends in Direction for the Industrial Commission/Short and Long Range Plans and Goals

The Commission will continue to work with the WAWS Board to assure that the outstanding Public Finance Authority, Water Commission and Bank of North Dakota debt be repaid from the WAWS industrial sales revenues.

Resources and Publications Available regarding the Western Area Water Supply Authority

Information on the Western Area Water Supply Authority can be found on the WAWS website at <http://www.wawsp.com/>

The following condensed financial statements are the most recent audited statements of the Industrial Commission. Included in these financial statements are the Industrial Commission Administrative Office, the North Dakota Lignite Research, Development and Marketing Program which includes the funding for the Transmission Authority, Renewable Energy Development Fund, Oil and Gas Research Fund, Pipeline Authority Fund and the Department of Mineral Resources which includes the North Dakota Geological Survey and the North Dakota Oil and Gas Division.

Ag PACE Fund

Section 6-09.13 of the North Dakota Century Code (“NDCC”) established the Agriculture Partnership in Assisting Community Expansion (“Ag PACE”) Fund (“Fund”). The Fund is revolving and all moneys transferred into the Fund, interest on Fund moneys and payments to the Fund are appropriated for the purposes of the Fund. The Bank of North Dakota (“Bank”) supervises and administers the Ag PACE Fund. The purpose of the Ag PACE Fund/Program is to provide interest buydown on loans to on-farm businesses. The program funds are used to reduce the interest rate on loans which have been approved by a local lender and the Bank. The Bank’s participation may not exceed 80% nor be less than 50% of the total loans.

Loans eligible for the buydown are loans to on-farm North Dakota businesses that are using the proceeds to purchase real property or equipment, expand their facility, acquire working capital or inventory, purchase irrigation equipment, purchase equity shares in a value-added ag-processing business or purchase capital improvements for retention of livestock or dairy operations. The loan funds cannot be used to refinance any existing debt.

Ag PACE recognizes two rates: Yield Rate and Borrowing Rate. The yield rate is the rate charged by the lead lender for the loan. The borrowing rate is the rate charged to the borrower. The Interest Differential is the difference between the yield rate and the borrowing rate. This difference is paid to the lead lender under an agreement among the lead lender, the borrower and the Bank on behalf of the Ag PACE Fund.

The Ag PACE Fund provides buydown dollars, to the extent available, to reduce the borrower’s interest rate by a maximum of 4% and may not be less than one percent (1%). The maximum buydown amount per borrower may not exceed a biennium cap of \$20,000 with a lifetime cap of \$60,000. In order to receive buydown funds in excess of \$20,000, the applicant must have a net worth of less than \$1,000,000.

Ag PACE loans are made by a lead lender in participation with the Bank. As of June 30, 2017 there are 331 Ag PACE loans outstanding. The total principal outstanding is \$41,429,564 of which the Bank of North Dakota participates in \$14,125,034. The remaining amount of buydown interest to be paid by this Fund on these loans is \$2,184,976. There were 32 loans totaling \$3,902,927 made in the year ended June 30, 2017 and 64 loans totaling \$8,268,007 made during the year ended June 30, 2016. Loans funded in the year ended June 30, 2017 will require \$457,121 in buydown interest during the life of the loans. There are 8 pending loan commitments totaling \$1,221,000 as of June 30, 2017.

As of June 30, 2017, interest buydown funds of \$1,667,740 were remaining from the 2015-2017 biennium. A total of \$3,192,020 was available for the 2015-2017 biennium as follows: \$3,000,000 legislative appropriation transfer from the Bank plus a carry forward from the 2013-2015 biennium of \$61,388 plus adjustments on Defaulted or Prepaid Loans of \$130,632.

With the ability to transfer funds from the Bank’s undivided profits, the Ag PACE Fund continues to have adequate resources to meet its mission. For further information regarding the Ag PACE Fund contact the Bank.

**AG PACE FUND
BALANCE SHEETS
JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash deposits at the Bank of North Dakota	\$ 1,815,654	\$ 149,549
Cash deposits at the Bank of North Dakota for buydowns committed	<u>2,184,976</u>	<u>2,735,256</u>
Total assets	<u>\$ 4,000,630</u>	<u>\$ 2,884,805</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCE		
Committed	<u>4,000,630</u>	<u>2,884,805</u>
Total fund balance	<u>4,000,630</u>	<u>2,884,805</u>
Total liabilities and fund balance	<u>\$ 4,000,630</u>	<u>\$ 2,884,805</u>

See Notes to Financial Statements

AG PACE FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
REVENUES	\$ -	\$ -
EXPENDITURES		
Buydown interest	<u>984,175</u>	<u>985,372</u>
EXPENDITURES OVER REVENUES	(984,175)	(985,372)
OTHER FINANCING SOURCES (USES)		
Operating transfers in	2,100,000	900,000
Operating transfers out	<u>-</u>	<u>(177,899)</u>
NET CHANGE IN FUND BALANCE	1,115,825	(263,271)
FUND BALANCE, BEGINNING OF YEAR	<u>2,884,805</u>	<u>3,148,076</u>
FUND BALANCE, END OF YEAR	<u>\$ 4,000,630</u>	<u>\$ 2,884,805</u>

See Notes to Financial Statements

Beginning Farmer Revolving Loan Fund

The Beginning Farmer Revolving Loan Fund (“Fund”) is authorized in Section 6-09.8 of the North Dakota Century Code. The purpose of the Fund is to make or participate in loans to North Dakota beginning farmers for the purchase of agricultural real estate, equipment, and livestock. The Fund is a revolving fund, and all moneys transferred into the Fund, interest upon moneys in the Fund and payments to the Fund of principal and interest on loans made from the Fund are appropriated for the purpose of providing loans and to supplement the interest rate on loans to beginning farmers.

The Bank of North Dakota (BND) supervises and administers the Fund and the loans made by the Fund. Four programs have been established under the Fund, including two direct loan programs and two interest buy-down programs.

Beginning Farmer Direct Real Estate Loans

Prior to 1989, most of the loans made by the Fund were made to beginning farmers in conjunction with the Federal Land Bank of St. Paul. These loans were secured by a second mortgage on agricultural real estate and may not exceed the lesser of 35% of the appraised value of the real estate or \$100,000 per borrower. On June 1, 2011 the remaining 41 loans totaling \$1,348,000 were sold to BND. Subsequent to 1988, a direct real estate loan may not exceed 75% of the current appraised value of the farm real estate on which the Fund receives a first mortgage as security. The total loan amount was increased from \$100,000 to \$150,000 in 1999, to \$250,000 in 2005, to \$400,000 in 2009 and to \$500,000 in 2013. The borrower is restricted to a lifetime cap of \$500,000 under this program. The term of the loan may not exceed 30 years. The interest rate will be fixed at one percent below the Bank of North Dakota’s then current base rate for the first five years of the loan with maximum interest rate of 6% and variable at one percent below the Bank’s then current base rate adjusted annually on the anniversary date. For the remaining period of the loan, interest may be charged at the Bank’s base rate

Currently Beginning Farmer Real Estate loans are being funded directly by BND. The loans are restricted to the same terms as indicated above. The Fund provides buydown funds, to the extent available, to reduce the borrower’s interest rate by 2% for the first five years of the loan. There were 78 loans totaling \$20,110,000 made during 2016 with this program. These loans will require \$1,928,000 in buy down interest during the life of the loans. There were 70 loans totaling \$19,857,000 made during 2015, which will utilize \$1,915,000 in buydown interest during the life of the loans. There are currently 330 loans outstanding totaling \$82,190,000 made directly by BND that are receiving buy down interest from the Fund.

Beginning Farmer Chattel Loans Originated out of the Fund

There are two components to this program. These loans are made in conjunction with a lead lender. BND is required to participate in at least 50% of the total loan, and not more than 80%, with the balance to be retained by the lead lender. These loans are secured by a first security interest on the chattel with a maximum loan to collateral value of 80%. The borrowers are limited to \$500,000 in total loans. The second component of this program provides for interest buy down on the lead lender’s share of the loan. The lead lender’s interest rate may not exceed 2% over BND’s base rate on variable rate loans and 3.5% over the corresponding Federal Home Loan Bank Advance Rate on fixed rate loans. Interest buy down funds are provided through the chattel loan program, to the extent available, to reduce the borrower’s interest rate by up to 4% subject to a minimum rate of 1% to the borrower.

There were 74 loans totaling \$7,925,000 made during 2016 with this loan program, of which BND participated in \$4,038,000. These loans will utilize \$620,000 in buy down interest. There were 57 loans totaling \$5,797,000 made during 2015 with this program, of which BND participated in \$2,898,000. These loans will utilize \$393,000 in buy down interest.

Beginning Farmer Revolving Fund Balance Summary

Cash available to provide interest buy down to beginning farmers for both chattel and real estate purchase was \$4,553,000 as of December 31, 2016. There was a \$7,000,000 appropriation from BND's undivided profits for the biennium July 1, 2015 through June 30, 2017 for interest buy down purposes to beginning farmers, of which \$4,500,000 had been transferred to the Fund as of December 31, 2016.

Envest Loans Funded by BND and Lead Lender

Section 6-09-15.5 of the North Dakota Century Code authorizes BND to provide interest buydown on value-added agriculture equity loans (Envest) made for investment in a feedlot or dairy operation. The legislation began August 1, 2007 and states that no more than \$1,000,000 can be transferred from the Fund during a biennium. There were no new Envest loans made during 2016 or 2015.

For further information regarding the Beginning Farmer Revolving Loan Fund contact the Bank of North Dakota Loan Department or go to the Bank of North Dakota's website <https://bnd.nd.gov/ag/>

BEGINNING FARMER REVOLVING LOAN FUND
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash deposits at the Bank of North Dakota	\$ 4,553	\$ 4,446
Prepaid interest, current portion	<u>2,150</u>	<u>2,043</u>
Total current assets	<u>6,703</u>	<u>6,489</u>
Noncurrent Assets		
Prepaid interest	<u>3,936</u>	<u>3,754</u>
Total noncurrent assets	<u>3,936</u>	<u>3,754</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
Total assets and deferred outflows	<u>\$ 10,639</u>	<u>\$ 10,243</u>
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
NET POSITION		
Unrestricted	<u>10,639</u>	<u>10,243</u>
Total liabilities, deferred inflows, and net position	<u>\$ 10,639</u>	<u>\$ 10,243</u>

See Notes to Financial Statements

BEGINNING FARMER REVOLVING LOAN FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES	\$ -	\$ -
OPERATING EXPENSES		
Buy-down interest	2,119	1,981
Other expenses	5	5
	<u>2,124</u>	<u>1,986</u>
OPERATING LOSS	(2,124)	(1,986)
NONOPERATING REVENUES		
Recovery of charge-off	18	47
Investment income	2	2
	<u>20</u>	<u>49</u>
LOSS BEFORE TRANSFERS	<u>(2,104)</u>	<u>(1,937)</u>
TRANSFERS		
Transfer from Bank of North Dakota	2,500	2,800
Transfer to Medical Pace Loan Program	-	(108)
TRANSFERS, NET	<u>2,500</u>	<u>2,692</u>
CHANGE IN NET POSITION	396	755
TOTAL NET POSITION, BEGINNING OF YEAR	<u>10,243</u>	<u>9,488</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 10,639</u>	<u>\$ 10,243</u>

Community Water Facility Loan Fund

Section 6-09.5 of the North Dakota Century Code (“NDCC”) established the Community Water Loan Fund (“Fund”). The purpose of the Fund is to provide supplementary financing in conjunction with federal monies received directly by the community for the construction, enlargement, extension, or other improvement of community water facilities. The Fund is a revolving fund, and all monies transferred into the Fund, interest earned on the Fund monies, and collections of interest and principal on Fund loans are used for the purpose of the Fund.

The Bank of North Dakota (“Bank”) supervises and administers the Fund and the loans made by the Fund. In 2005 the Bank entered into a Memorandum of Understanding with Rural Utilities Services, one of the departments of Rural Development, which is an agency of the USDA. The Memorandum provides guidance for processing combined loans between the Fund and Rural Utilities Service. The Fund has a pro rata lien on loans made under the Memorandum.

All loans made by the Fund are made in combination with loans and/or grants made by Rural Utilities Service. NDCC states that all loans from the Fund shall not exceed fifty percent of the cost of a community water facility project. Such loans must bear interest at a rate of three percent per annum.

There were three new loans for \$3,132,000 made by the Fund in 2016. There were four new loans for \$4,888,000 made by the Fund in 2015. There are currently 53 loans. The gross amount of outstanding loans as of December 31, 2016 is \$21,555,000 with an allowance for loan losses of \$286,000, for net loans of \$21,269,000.

Cash available for investment in loans at the end of calendar year 2016 was \$12,691,000. There was one loan commitment outstanding totaling \$1,575,000 as of December 31, 2016.

For further information regarding the Community Water Facility Loan Fund contact the Bank of North Dakota.

COMMUNITY WATER FACILITY LOAN FUND
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash deposits at the Bank of North Dakota	\$ 12,691	\$ 14,549
Loans, current portion	746	679
Interest receivable	269	274
Total current assets	<u>13,706</u>	<u>15,502</u>
Noncurrent Assets		
Loans, net of allowance for loan losses of \$286 in 2016 and 2015	<u>20,523</u>	<u>18,239</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total assets and deferred outflows	<u>\$ 34,229</u>	<u>\$ 33,741</u>
LIABILITIES		
Current Liabilities		
Due to the Bank of North Dakota	<u>\$ 26</u>	<u>\$ 24</u>
DEFERRED INFLOWS OF RESOURCES		
NET POSITION		
Unrestricted	<u>34,203</u>	<u>33,717</u>
Total liabilities, deferred inflows, and net position	<u>\$ 34,229</u>	<u>\$ 33,741</u>

See Notes to Financial Statements

COMMUNITY WATER FACILITY LOAN FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Interest on loans	<u>\$ 581</u>	<u>\$ 526</u>
OPERATING EXPENSES		
Administrative fees	97	87
Other expenses	<u>5</u>	<u>5</u>
	<u>102</u>	<u>92</u>
OPERATING INCOME	479	434
NONOPERATING REVENUES		
Investment income	<u>7</u>	<u>7</u>
REVENUES BEFORE TRANSFERS	<u>486</u>	<u>441</u>
TRANSFERS		
Transfer from State Water Commission	<u>-</u>	<u>5,000</u>
CHANGE IN NET POSITION	486	5,441
TOTAL NET POSITION, BEGINNING OF YEAR	<u>33,717</u>	<u>28,276</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 34,203</u>	<u>\$ 33,717</u>

See Notes to Financial Statements

Infrastructure Revolving Loan Fund

Section 6-09-49 of the North Dakota Century Code (“NDCC”) established the Infrastructure Revolving Loan Fund (“Fund”) effective July 1, 2015. The purpose of the Fund is to provide loans to political subdivisions for essential infrastructure projects. Eligible infrastructure projects may include new or replacement of existing water treatment plants, wastewater treatment plants, sewer lines and water lines, storm water and transportation infrastructure, including curb and gutter construction, and other infrastructure needs as established by the Bank of North Dakota. The Bank administers the Fund and all loans made by the Fund.

During the biennium beginning July 1, 2015 and ending June 30, 2017, the Office of Management and Budget shall transfer the sum of \$50,000,000 from the Strategic Investment and Improvements Fund (“SIIF”) to the Fund. The Bank of North Dakota shall transfer the sum of \$100,000,000, or so much of the sum as may be necessary, from the Bank’s current earnings and undivided profits to the Fund. All moneys transferred to the Fund, interest upon moneys in the Fund and payments to the Fund of principal and interest are appropriated to the Bank on a continuing basis for administrative costs and for loan disbursement.

Loans made by the Fund may not exceed \$15,000,000, must have an interest rate that does not exceed 2% and must have a repayment schedule that does not exceed thirty years.

There were 15 loans originated for \$41,143,000 with \$16,729,000 funds advanced on these loans during the year ended June 30, 2017. For the year ended June 30, 2016 there was 1 loan originated for \$15,000,000 with no funds advanced on the loan. As of June 30, 2017, the gross amount of outstanding loans is \$16,701,000 with an allowance for credit losses of \$251,000 for next loans of \$16,450,000. There were 11 loan commitments for \$45,465,000 as of June 30, 2017. Funds available for investment in loans as of June 30, 2017 were \$33,299,000.

INFRASTRUCTURE REVOLVING LOAN FUND
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016
(Dollars in Thousands)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 33,299	\$ 50,009
Loans, current portion	534	-
Interest receivable	190	-
Total current assets	<u>34,023</u>	<u>50,009</u>
Noncurrent Assets		
Loans, net of allowance for credit losses of \$251 in 2017	<u>15,916</u>	-
Total assets	<u>\$ 49,939</u>	<u>\$ 50,009</u>
LIABILITIES		
Current Liabilities	<u>\$ 19</u>	<u>\$ -</u>
NET POSITION		
Unrestricted	<u>49,920</u>	<u>50,009</u>
Total liabilities and net position	<u>\$ 49,939</u>	<u>\$ 50,009</u>

See Notes to Financial Statements

INFRASTRUCTURE REVOLVING LOAN FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2017 AND 2016
(Dollars in Thousands)

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Interest on loans	\$ 193	\$ -
OPERATING EXPENSES		
Administrative fees	46	-
Other expenses	5	-
Provision for credit loss	251	-
OPERATING LOSS	<u>(109)</u>	<u>-</u>
NONOPERATING REVENUES		
Investment income	20	9
NONOPERATING INCOME	<u>20</u>	<u>9</u>
INCOME/LOSS BEFORE TRANSFERS	(89)	9
OPERATING TRANSFERS IN		
Transfer from Strategic Investment and Improvements Fund	-	50,000
CHANGE IN NET POSITION	(89)	50,009
TOTAL NET POSITION, BEGINNING OF YEAR	<u>50,009</u>	<u>-</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 49,920</u>	<u>\$ 50,009</u>

Medical Facility Infrastructure Loan Program

The Medical Facility Infrastructure Loan Program was established by NDCC Section 6-09-47 to provide loans to medical facilities to conduct construction that improves the health care infrastructure in the state or improves access to existing nonprofit health care providers in the state.

There were five loans totaling \$31,007,000 made by the Program during the 2015-2017 biennium. As of June 30, 2017, the gross amount of outstanding loans is \$39,500,000 with an allowance for credit losses of \$891,000 for net loans of \$38,699,000.

There were no pending loan commitments as of June 30, 2017. The entire \$50,000,000 Fund has been committed. Funds available for investment in loans for the year ended June 30, 2017 were \$10,920,000.

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016
(Dollars in Thousands)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 10,920	\$ 7,622
Investments	-	24,850
Loans, current portion	1,762	651
Interest receivable	20	62
Total current assets	<u>12,702</u>	<u>33,185</u>
Noncurrent Assets		
Loans, net of allowance for credit losses of \$891 in 2017 and \$395 in 2016	<u>36,937</u>	<u>16,737</u>
Total assets	<u>\$ 49,639</u>	<u>\$ 49,922</u>
LIABILITIES		
Current Liabilities	<u>\$ 48</u>	<u>\$ 22</u>
NET POSITION		
Unrestricted	<u>49,591</u>	<u>49,900</u>
Total liabilities and net position	<u>\$ 49,639</u>	<u>\$ 49,922</u>

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2017 AND 2016
(Dollars in Thousands)

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Interest on loans	\$ 283	\$ 134
OPERATING EXPENSES		
Administrative fees	142	67
Other expenses	5	5
Provision for credit loss	496	165
OPERATING LOSS	<u>(360)</u>	<u>(103)</u>
NONOPERATING REVENUES		
Investment income	51	112
NONOPERATING INCOME	<u>51</u>	<u>112</u>
INCOME/(LOSS) BEFORE TRANSFERS	(309)	9
OPERATING TRANSFERS		
Transfer from Strategic Investment and Improvements Fund	-	49,891
CHANGE IN NET POSITION	(309)	49,900
TOTAL NET POSITION, BEGINNING OF YEAR	<u>49,900</u>	<u>-</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 49,591</u>	<u>\$ 49,900</u>

See Notes to Financial Statements

North Dakota Guaranteed Student Loan Program

Section 15-62.1 of the North Dakota Century Code (“NDCC”) designates the Bank of North Dakota (“Bank”) as the agency for the administration of the North Dakota Guaranteed Student Loan Program (“Program”). The Program shall expend monies received and interest on the reserve funds established pursuant to this section of the NDCC as may be necessary to implement and administer the Program. The Program has been designated to act as a guarantor of student loans made pursuant to the Higher Education Act of 1965, as amended (“Act”), and certain other student loans if the North Dakota Industrial Commission determines that student loans made under the terms of certain federal programs are no longer meeting the needs of North Dakota students, or are no longer available. As such, the Program is responsible for processing loans submitted for guarantee, issuing loan guarantees, providing collection assistance to lenders for delinquent loans, paying lender claims for loans and collecting loans on which default claims have been paid.

The Program is comprised of three components – an Agency Operating Fund (“AOF”), an Alternative Loan Fund and a separate group of monies administered by the Program (“Federal Student Loan Reserve Fund” or “FSLRF”). The AOF and any future earnings of the Fund are the property of the Program, and may be used for application processing, loan disbursement, enrollment and repayment status management, default aversion activities, default collection activities, school and lender training, financial aid awareness and related outreach activities, compliance monitoring and other student financial aid related activities as selected by the Program. The Alternative Loan Fund and any earnings on the Fund are property of the Program and may be used to fund the operations of the Program in its role as a guarantor of student loans outside the scope of the Act. The FSLRF and any earnings thereon are the sole property of the Federal Government, and may only be used to pay claims and certain specified fees.

In accordance with the provisions of the Act, the Program has entered into certain contracts with the U.S. Department of Education (“Department”). These contracts define the responsibilities of the Program to the Department and qualify the Program for various forms of payment available under the Act. The basic agreement provides for the qualification of borrowers and participating lenders whose loans are guaranteed by the Program for federal interest benefits. Other agreements provide for reinsurance of loans with the Federal Government.

On March 31, 2016, all Federal Family Education Loan Program guarantees were transitioned to Great Lakes Higher Education. Subsequently, the Agency Operating Fund was transferred to the Alternative Loan Fund and the Federal Student Loan Reserve was returned to the Department of Education, as approved by the Department.

Agency Operating Fund

On March 31, 2016, all Federal Family Education Loan Program guarantees were transitioned to Great Lakes Higher Education; therefore, there were no guarantees outstanding at the end of fiscal year 2016. The original principal amount of guarantees at the end of fiscal year 2015 totaled \$605 million.

The Program provided first time default aversion activities on \$3.8 million in delinquent loans held by lenders in the fiscal year ending September 30, 2016 and \$12 million in delinquent loans

in the fiscal year ending September 30, 2015. A one-time fee of 1% was received from the FSLRF for this service.

Collection revenue during the fiscal year ending September 30, 2016 was \$394,000 compared to \$676,000 received in fiscal year ended September 30, 2015. The Program received these revenues as reimbursement for collection efforts performed for the Department of Education. The decrease in collection revenue during the fiscal year 2016 was due to the transition of all federal guarantees on March 31, 2016.

Federal Student Loan Reserve Fund (FSLRF)

On March 31, 2016, all Federal Family Education Loan Program guarantees were transitioned to Great Lakes Higher Education. Subsequently, the balance of the Federal Student Loan Reserve Fund, which was property of the Federal Government, was returned to the Department of Education on August 4, 2016.

Prior to the dissolution of the FSLRP, the Program was required to maintain a reinsurance rate of less than 5% in order to receive the maximum reimbursement from the Federal Government on loan claims. The Program's reinsurance rates during fiscal years 2016 and 2015 were 1.34% and 1.18% respectively, well under the limitation.

Alternative Loan Fund

State law requires that the Program must maintain a reserve fund on deposit with the Bank for all outstanding Alternative Loans. The fund level may be no less than the Bank's historical default rate. The Alternative Loan Fund 2016 statement of net position indicates that the Alternative Loan Fund has adequate resources to provide for new loan guarantees, claim payments to lenders and continuing obligations.

Alternative Loan Fund guarantees during the fiscal year ending September 30, 2016 were \$240 million compared to \$294 million guaranteed during fiscal year ended September 30, 2015.

Alternative Loan Fund guarantees outstanding at the end of fiscal year 2016 totaled \$1.043 million compared to \$901 million at the end of fiscal year 2015.

For further information regarding the North Dakota Guaranteed Student Loan Program contact the Bank of North Dakota.

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents		
Unrestricted	\$ 33,724,107	\$ 27,066,129
Restricted	<u>167,900</u>	<u>3,694,953</u>
Investments		
Unrestricted	3,000,000	6,500,000
Restricted	<u>-</u>	<u>2,000,000</u>
Receivables		
Unrestricted		
Interest	4,167	6,883
Department of Education	-	1,865
Account maintenance fee	-	90,732
Administrative fee	883,725	941,877
Other receivables	91,198	18,066
Restricted		
Interest	-	2,157
Federal reinsurance	<u>-</u>	<u>4,358,135</u>
Total receivables	<u>979,090</u>	<u>5,419,715</u>
Total current assets	<u>37,871,097</u>	<u>44,680,797</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$ 37,871,097</u></u>	<u><u>\$ 44,680,797</u></u>

See Notes to Financial Statements

STATEMENTS OF NET POSITION – page 2

	<u>2016</u>	<u>2015</u>
LIABILITIES		
CURRENT LIABILITIES		
Due to other funds	\$ 199,883	\$ 173,607
Payable to lenders	320,709	2,478,601
Collections payable		
Department of Education	-	316,679
Allowance for future credit losses	3,380,000	6,882,000
Estimated future refunds of DAF	-	426,083
Federal Student Loan Reserve Fund	-	4,418,423
	<u>3,900,592</u>	<u>14,695,393</u>
Total current liabilities		
NONCURRENT LIABILITIES		
Allowance for future credit losses	18,421,081	15,833,000
Estimated future refunds of default aversion fees	<u>167,900</u>	<u>-</u>
	<u>18,588,981</u>	<u>15,833,000</u>
Total noncurrent liabilities		
	<u>22,489,573</u>	<u>30,528,393</u>
Total liabilities		
DEFERRED INFLOWS OF RESOURCES		
	<u>-</u>	<u>-</u>
NET POSITION		
Restricted		
Expendable for default prevention activities	-	582,147
Unrestricted	<u>15,381,524</u>	<u>13,570,257</u>
	<u>15,381,524</u>	<u>14,152,404</u>
Total net position		
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
	<u>\$ 37,871,097</u>	<u>\$ 44,680,797</u>

See Notes to Financial Statements

PACE Fund

Section 6-09.14 of the North Dakota Century Code (“NDCC”) established the Partnership in Assisting Community Expansion (“PACE”) Fund (“Fund”). The Fund is revolving and all moneys transferred into the Fund, interest on Fund moneys and payments to the Fund are appropriated for the purposes of the Fund. The Bank of North Dakota (“Bank”) supervises and administers the PACE Fund. The purpose of the PACE Fund is to buy down the interest rate on loans made by a lead financial institution in participation with the Bank. The Bank’s participation may not exceed 80% nor be less than 50% of the total loans. If the lenders approve the loan and there is evidence of the community’s commitment and ability to fund its portion of the buydown the fund’s participation in the buydown is approved as part of the Bank’s loan approval process.

The PACE programs recognize two rates: Yield Rate and Borrowing Rate. The yield rate is the rate charged by the lead lender for the loan. The borrowing rate is the rate charged to the borrower. The Interest Differential is the difference between the yield rate and the borrowing rate. This difference is paid to the lead lender under an agreement among the lead lender, the borrower, the community (if required) and the Bank on behalf of the PACE Fund. The PACE Fund provides buydown dollars, to the extent available, to reduce the borrower’s interest rate by a maximum of 5% and may not be less than 1%.

PACE Program

Loans eligible for the buydown are loans to new or expanding North Dakota businesses using the proceeds to purchase real property or equipment, expand their facility, or fund permanent working assets. The loan funds cannot be used to refinance any existing debt or for the relocation of business within North Dakota. The community shall determine the amount of the interest rate buydown and apply to the Bank for participation from the PACE Fund. The funds for the community’s portion of the buydown may come from local development corporation contributions, community funds, future dedicated tax programs, or any other community source. The maximum amount from the Fund in the interest rate buydown may not exceed \$500,000 per borrower in any biennium. The communities within the state are given a percentage factor to determine the PACE Fund’s maximum participation in the interest rate reduction. These funds are on deposit with BND’s Trust Department which has been appointed to act as agent for the interest rate reduction fund.

Flex PACE Program

Flex PACE was designed to provide interest buydown to non-PACE qualifying businesses where the community determines eligibility and accountability standards. Flex PACE targets essential community businesses without the job creation requirement. The communities within the state are given a percentage factor to determine the PACE Fund’s maximum participation in the interest rate reduction. The maximum buydown amount may not exceed \$500,000 per borrower in any biennium. These funds are on deposit with BND’s Trust Department which has been appointed to act as agent for the interest rate reduction fund.

Biofuels PACE Program

In compliance with NDCC 17-03, Biofuels PACE was created to provide interest buydown to qualified North Dakota businesses which are defined as biodiesel, ethanol, and green diesel production facilities and livestock operations. The maximum interest buydown per borrower for each eligible use is \$500,000 for a biodiesel, ethanol or green diesel project, and \$250,000 for a livestock operation. The Biofuels PACE Loan Program does not require a community interest

buydown match or job creation. Recipients of Biofuels PACE are not eligible for regular PACE or Flex PACE funds.

Medical PACE Program

The Medical PACE Program provides interest buydown to assist in the financing of critical access hospital medical infrastructure throughout North Dakota. The maximum interest buydown amount does not apply to the Medical PACE Program nor does the community percentage factor. Loan proceeds may be used to finance the purchase of land, the purchase of equipment, or to purchase, lease, erect, or improve any structure or facility to the extent that the governing board of the health care facility has authority to authorize such activity.

PACE loans are made by a lead financial institution in participation with the Bank. As of June 30, 2017 there are 87 PACE loans outstanding. The total principal outstanding is \$30,200,634. There were 9 loans totaling \$17,761,149 made in 2016 and 2017. These loans will require \$1,593,333 in buydown interest during the life of the loans. There are 2 loan commitments issued as of June 30, 2017 that total \$3,426,618 and will use \$391,413 of interest buydown.

Flex PACE loans are made by a lead financial institution in participation with the Bank. As of June 30, 2017 there are 549 Flex PACE loans outstanding. The total principal outstanding is \$162,589,016. There were 211 loans totaling \$172,337,191 made during 2016 and 2017. These loans will require \$17,869,483 in buydown interest during the life of the loans. There are 31 loan commitments issued as of June 30, 2017 that total \$24,532,083 and will use \$3,307,253 of interest buydown.

BioFuels PACE loans are made by a lead financial institution in participation with the Bank. As of June 30, 2017, there are 53 BioFuels PACE loans outstanding. The total principal outstanding is \$8,177,476. There were 8 loans totaling \$2,777,561 made during 2016 and 2017. These loans will require \$914,129 in buydown interest during the life of the loans. There are 3 loan commitments issued as of June 30, 2017 that totals \$1,145,675 and will use \$487,311 of interest buydown.

Medical PACE loans are made by a lead financial institution in participation with the Bank. As of June 30, 2017 there are 2 Medical PACE loans outstanding. The total principal outstanding is \$10,659,367. There were 2 loans totaling \$12,754,000 made during 2016 and 2017. These loans will require \$7,802,025 in buydown interest during the life of the loans. There is 1 loan commitment issued as of June 30, 2017 that totals \$5,000,000 and will use \$2,076,583 of interest buydown.

As of June 30, 2017, \$4,996,121 is available of PACE interest buydown; \$3,482,110 is available for Flex PACE interest buydown; \$693,618 is available for BioFuels PACE interest buydown and \$371,014 is available for Medical PACE interest buydown.

The 2015 Legislature approved the following appropriations and transfers from the PACE programs during the biennium July 1, 2015 through June 30, 2017 as follows:

PACE	\$6,000,000	Legislative Appropriation transfer from BND
	229,663	Carry Forward from Previous Allocation
	<u>808,144</u>	Adjustments on Defaulted or Prepaid PACE Loans
	\$7,037,807	

Flex PACE	\$22,000,000	Legislative Appropriation transfer from BND
	1,355,453	Carry Forward from Previous Allocation
	<u>740,226</u>	Adjustments on Defaulted or Prepaid Flex PACE Loans
	\$24,095,679	

BioFuels	<u>\$2,000,000</u>	Legislative Appropriation transfer from BND
	\$2,000,000	

During the year ended June 30, 2017, the Bank of North Dakota transferred \$4,600,000 to PACE, \$11,800,000 to Flex PACE, and \$1,200,000 to Biofuels PACE from its current earnings and undivided profits.

During the year ended June 30, 2016, the Bank transferred \$1,400,000 to PACE, \$10,200,000 to Flex PACE, and \$800,000 to Biofuels PACE from its current earnings and undivided profits. Additionally, remaining buydown appropriations from the 2013-2015 biennium were transferred into Medical PACE in July of 2015, including \$8,844,511 from PACE, \$859,239 from Flex PACE, \$260,089 from Biofuels PACE, \$177,899 from Ag PACE, and \$107,884 from the Beginning Farmer Revolving Loan Fund.

For further information regarding the PACE Fund, Flex PACE or the BioFuels PACE contact the Bank of North Dakota.

PACE FUND
BALANCE SHEETS
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash deposits at the Bank of North Dakota	<u>\$ 58,123,789</u>	<u>\$ 48,397,763</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accrued interest payable	<u>\$ 670,109</u>	<u>\$ 612,885</u>
FUND BALANCE		
Committed for interest buydown	<u>48,583,278</u>	<u>43,872,079</u>
Committed for future interest buydown	<u>8,870,402</u>	<u>3,912,799</u>
Total fund balance	<u>57,453,680</u>	<u>47,784,878</u>
Total liabilities and fund balance	<u>\$ 58,123,789</u>	<u>\$ 48,397,763</u>

See Notes to Financial Statements

PACE FUND**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
REVENUES		
Interest income	\$ 167,324	\$ 158,645
EXPENDITURES		
Buydown interest	<u>8,098,522</u>	<u>7,475,075</u>
EXPENDITURES OVER REVENUES	(7,931,198)	(7,316,430)
OTHER FINANCING SOURCES		
Operating transfer in, net of interfund transfers	<u>17,600,000</u>	<u>12,685,783</u>
NET CHANGE IN FUND BALANCE	9,668,802	5,369,353
FUND BALANCE, BEGINNING OF YEAR	<u>47,784,878</u>	<u>42,415,525</u>
FUND BALANCE, END OF YEAR	<u>\$ 57,453,680</u>	<u>\$ 47,784,878</u>

See Notes to Financial Statements

Rebuilders Loan Program

The North Dakota Legislature appropriated \$50,000,000 for the Rebuilders Loan Program during its special session held in November, 2011. The Industrial Commission approved the Rebuilders Loan Guidelines on 11/21/2011. The first \$30,000,000 for this program was transferred from Bank of North Dakota's undivided profits. The remaining \$20,000,000 was funded from the General Fund.

The purpose of this Fund is to help owners of homes damaged in the 2011 floods in Barnes, Benson, Burleigh, McHenry, Morton, Ramsey, Renville, Richland and Ward Counties. Residents with flood-damaged homes that have been granted a tax assessment reduction in 2011 are eligible to apply for a loan of up to \$30,000 at a 1% interest rate for 20 years. Payments were not required for 24 months, however interest accrued during this time. Applications were not accepted after September 30, 2012.

The Legislature amended the Rebuilders Loan Program in its 2013 Session to include the rebuilding of non-owner-occupied property and federal emergency management agency temporary housing units located in a community-approved group housing site in the disaster-impacted community. There is no deferral of principal and interest payments for a loan for non-owner-occupied property. Applications were not accepted after September 30, 2013. A supplemental loan up to \$20,000 may have been made to a homeowner who has received an initial loan under certain conditions. Supplemental loan applications were not accepted after December 31, 2013.

After June 30, 2013, repayments to the Program shall be transferred to replenish \$30,000,000 of the Bank's undivided profits. On an annual basis, the Bank shall transfer repayments to the State Treasurer for deposit in the State General Fund in any amount exceeding the \$30,000,000 used to replenish the Bank's undivided profits.

The Bank of North Dakota administers the loan fund. The Bank may deduct a service fee for administering the fund for the Bank and originating financial institutions.

There were no new loans made by the Program during fiscal years 2017 and 2016.

As of June 30, 2017 there are 1,321 loans outstanding. The gross amount of outstanding loans is \$33,413,595 with an allowance for credit losses of \$3,341,000 for net loans of \$30,072,595.

REBUILDERS LOAN PROGRAM
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash deposits at the Bank of North Dakota	\$ 681,524	\$ 606,136
Loans, current portion	1,904,969	2,007,033
Interest receivable	28,851	46,623
Total current assets	<u>2,615,344</u>	<u>2,659,792</u>
NONCURRENT ASSETS		
Loans, net of allowance for credit losses of \$3,341,000 in 2017 and \$3,788,000 in 2016	<u>28,167,626</u>	<u>32,081,053</u>
Total noncurrent assets	<u>28,167,626</u>	<u>32,081,053</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total assets and deferred outflows	<u>\$ 30,782,970</u>	<u>\$ 34,740,845</u>
LIABILITIES		
CURRENT LIABILITIES		
Due to the Bank of North Dakota	\$ 1,892,198	\$ 2,023,607
Service fee payable	8,922	9,805
Total current liabilities	<u>1,901,120</u>	<u>2,033,412</u>
NONCURRENT LIABILITIES		
Due to the Bank of North Dakota	13,919,233	17,508,455
Due to the State of North Dakota General Fund	<u>14,815,785</u>	<u>15,036,838</u>
Total noncurrent liabilities	<u>28,735,018</u>	<u>32,545,293</u>
Total liabilities	<u>30,636,138</u>	<u>34,578,705</u>
DEFERRED INFLOWS OF RESOURCES		
	<u>-</u>	<u>-</u>
NET POSITION - UNRESTRICTED		
	<u>146,832</u>	<u>162,140</u>
Total liabilities, deferred inflows and net position	<u>\$ 30,782,970</u>	<u>\$ 34,740,845</u>

See Notes to Financial Statements

REBUILDERS LOAN PROGRAM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Interest on loans	\$ 334,820	\$ 404,929
OPERATING EXPENSES		
Service fees	334,147	404,312
Other expenses	15,308	13,622
Provision for credit loss	221,909	(113,683)
	<u>571,364</u>	<u>304,251</u>
OPERATING INCOME/(LOSS)	<u>(236,544)</u>	<u>100,678</u>
NONOPERATING REVENUES		
Investment Income	183	188
Cancellation of debt income - State General Fund	221,053	-
	<u>221,236</u>	<u>188</u>
NONOPERATING EXPENSES		
Reinstatement of debt expense - State General Fund	-	(114,488)
NONOPERATING INCOME/(LOSS)	<u>221,236</u>	<u>(114,300)</u>
CHANGE IN NET POSITION	(15,308)	(13,622)
TOTAL NET POSITION, BEGINNING OF YEAR	<u>162,140</u>	<u>175,762</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 146,832</u>	<u>\$ 162,140</u>

See Notes to Financial Statements

School Construction Assistance Revolving Loan Fund

Section 15.1-36 of the North Dakota Century Code (“NDCC”) established the School Construction Assistance Revolving Loan Fund (“Fund”). The purpose of the Fund is to provide low-interest school construction loans. The board of a school district may propose a new construction or remodeling project with a cost of at least one million dollars and an expected utilization of at least thirty years. Loan applications are reviewed and approved by the Superintendent of Public Instruction. The Bank of North Dakota administers the Fund and all loans made by the Fund.

As of June 30, 2016, the Fund was a special revolving fund in the State Treasury administered by the North Dakota Department of Trust Lands (“Department”) and was presented in the Department’s annual financial statements. Senate Bill 2272 of the 2017 North Dakota Legislature amended the Fund to be administered by the Bank of North Dakota. The Fund was transferred from the State Treasury to the Bank on January 3, 2017. All moneys transferred to the Fund, interest upon money in the Fund, and repayment of principal and interest are appropriated to the Bank on a continuing basis for administrative costs and loan disbursement.

Loans made by the Fund may not exceed \$10,000,000, must have an interest rate that does not exceed 2%, and must have a repayment schedule that does not exceed 20 years.

As of June 30, 2017 there were 19 loans outstanding totaling \$135,952,000 with an allowance for loan losses of \$1,563,000 for net loans of \$134,389,000.

There were no loans advanced during the six months ended June 30, 2017. There were two loan commitments for \$20,000,000 as of June 30, 2017. Funds available for investment in loans as of June 30, 2017 were \$17,900,000.

Senate Bill 2272 of the 2017 North Dakota Legislature states that the Office of Management and Budget shall transfer the sum of \$75,000,000 from the Foundation Aid Stabilization Fund to the Fund during the period beginning August 1, 2017 and ending June 30, 2019. Of that \$75,000,000 transferred to the Fund, up to \$50,000,000 must be used to purchase existing loans originated by the Bank under Section 15.1-36-06. The remaining amount transferred to the Fund is available for new school construction loans. The sum of \$75,000,000 was transferred from the Foundation Aid Stabilization Fund to the Fund in September 2017.

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND
STATEMENT OF NET POSITION
JUNE 30, 2017
(Dollars in Thousands)

	<u>2017</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 17,900
Loans, current portion	7,350
Interest receivable	<u>215</u>
Total current assets	<u>25,465</u>
Noncurrent Assets	
Loans, net of allowance for loan losses of \$1,563 in 2017	<u>127,039</u>
Total noncurrent assets	<u>127,039</u>
Total assets	<u>152,504</u>
DEFERRED OUTFLOWS OF RESOURCES	
Total assets and deferred outflows	<u>\$ 152,504</u>
LIABILITIES	
	<u>\$ 175</u>
DEFERRED INFLOWS OF RESOURCES	
	<u>-</u>
NET POSITION	
Unrestricted	<u>152,329</u>
Total liabilities, deferred inflows and net position	<u>\$ 152,504</u>

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
SIX MONTHS ENDED JUNE 30, 2017
(Dollars in Thousands)

	<u>2017</u>
OPERATING REVENUES	
Interest on loans	<u>\$ 1,024</u>
OPERATING EXPENSES	
Administrative fees	353
Other expenses	2
Provision for loan loss	<u>1,563</u>
OPERATING LOSS	(894)
NONOPERATING REVENUES	
Investment income	<u>3</u>
LOSS BEFORE TRANSFERS	(891)
OPERATING TRANSFERS IN	
Transfer from Department of Trust Lands	<u>153,220</u>
CHANGE IN NET POSITION	152,329
TOTAL NET POSITION, BEGINNING OF PERIOD	<u>-</u>
TOTAL NET POSITION, END OF PERIOD	<u><u>\$ 152,329</u></u>

See Notes to Financial Statements

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