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**AGENCY OVERVIEW****471 Bank of North Dakota**

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**Date:** 11/30/2020**Time:** 13:41:51**Statutory Authority**

North Dakota Century Code Chapter 6-09.

**Agency Description**

The Bank of North Dakota (BND) serves as the development bank for agriculture, commerce, and industry in North Dakota. The strategic goals from the 2020-22 Strategic Plan of the Bank include: to drive economic growth and diversity, expand access to postsecondary education, utilize BND's unique competitive advantage to drive economic diversification and entrepreneurship, enhance innovation and utilize our agility to be a model of efficient and effective government, and optimize technology and use of data.

**Agency Mission Statement**

Bank of North Dakota's mission is to deliver quality, sound financial services that promote agriculture, commerce, and industry in North Dakota.

**Agency Performance Measures**

1. Financial Performance - The Department of Financial Institutions (DFI) evaluates the safety and soundness of banks utilizing the "CAMELS" rating system. CAMELS is an acronym standing for: Capital, Asset Quality, Management, Earnings, Liquidity and funds management, and Sensitivity.
2. Meeting the Mission - To deliver quality, sound financial services that promote agriculture, commerce, and industry. We measure our success in achieving our mission by the quality and usage of our programs.
3. Meeting Legislative expectations - ND legislature has two distinct expectations of BND. They expect that BND will continue to be a major player in the economic evolution of the State of North Dakota and that BND can be a source of revenue for the State's General Fund and a funding source for special projects and/or program needs as they arise. We believe that if we meet our mission and financial performance objectives, we will fulfill the expectations of the legislature.

Return on Average Assets: Return on assets for 2019, 2018, 2017, 2016, and 2015 were 2.5 percent, 2.4 percent, 2.1 percent, 1.9 percent, and 1.7 percent.

Return on Average Equity: Return on average equity for 2019, 2018, 2017, 2016, and 2015 were 18.6 percent, 18.1 percent, 17 percent, 16.6 percent, and 18.1 percent.

Leverage Ratio: The leverage ratio for 2019, 2018, 2017, 2016, and 2015 were 12.1 percent, 13.6 percent, 12.5 percent, 12.0 percent, and 10.0 percent. BND's benchmark is 10.0 percent.

**Major Accomplishments**

1. Increased only 2.0 FTE's (179.5 to 181.5) over the past seven years while its loan programs, particularly the loans administered for the state, have increased by over \$400.0 million and as of June 30, 2020 asset size was \$8.00 billion.
2. Closed 2019 with a \$4.50 billion loan portfolio.
3. Participated in 300 North Dakota business and industrial projects in 2019. Funding or renewed \$1.30 billion of commercial participation with financial institution partners in the \$2.10 billion commercial loan portfolio.
4. BND made 19 loans through the rural housing programs, accounting for \$3.8 million of its \$628.0 million portfolio.
5. Disbursed over \$121.0 million in student loans in 2019 with a total portfolio of \$1.20 billion.
6. Agriculture loan portfolio totaled \$647.0 million in 2019. BND funded or renewed \$172.0 million of agriculture loans in 2019.
7. Grew BND's earnings in 2019 by 7 percent over 2018 to \$169.0 million. BND's return on average equity was 15 percent.
8. Rated A+ by Standard and Poors (S&P), putting BND in a rating category with the highest-rated U.S. banks.
9. Administered the \$150.0 million Infrastructure Revolving Loan Program, which was funded by \$50.0 million from the Strategic Investments and Improvements Fund and \$100.0 million from BND retained earnings.
10. Administered the School Construction Administrative Revolving Loan Fund. The program combined \$75.0 million from the Foundation Aid Stabilization Fund with \$150.0 million of school loans originated by Department of Trust Lands.

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11. Committed to provide up to \$255.0 million of its capital to fund its buydown of \$37.0 million in loan programs, \$78.0 million in various other areas, and provided a \$140.0 million dividend to the General Fund.

**Future Critical Issues**

The CAMELS rating system is utilized in the banking industry to evaluate the safety and soundness of a bank. In order to meet the financial objectives of maintaining the strength of BND and providing a consistent return to the State of North Dakota, it is critical that capital, asset quality, earnings, liquidity and fund management, and sensitivity continue to be managed. The components of the CAMELS rating system are:

- **Capital:** Capital is utilized to absorb shocks during periods of stress and is an indicator of a bank's financial strength. BND monitors its risk-based capital ratios and primary capital ratio identified in conjunction with the banking industry standards. Over the last decade, industry and regulatory requirements have put pressure on the financial industry to increase capital levels. BND has a capital level benchmark of 10.0 percent, which BND exceeded at the end of 2019. Capital growth is obtained in only one way for BND – retention of net profits.
- **Asset quality:** BND monitors delinquencies, classified loans, non-accrual loans, allowance for loan loss, concentrations of credit, restructured loans, loan distribution, off-balance sheet risk, loan documentation exceptions, loan charge offs and recoveries, adversely classified assets and investment ratings. Strong asset quality is required to maintain the bank's strength and provide consistent earnings for the bank.
- **Management:** BND management is responsible for monitoring and controlling the components of the CAMELS rating system.
- **Earnings:** BND monitors interest margin, income and expenses as a percentage of average assets, and return on assets and equity. Sufficient earnings allow BND to maintain adequate capital reserves, fund economic development programs and provide a dividend to the general fund.
- **Liquidity and funds management:** The objective of liquidity and funds management is to ensure the continuous availability of funds to meet the demands of depositors and borrowers. BND's Funds Management Team meets regularly to manage the bank's assets and liabilities.
- **Sensitivity (Interest Rate Risk):** While earning a return is essential, BND's principal objective for interest rate risk management is to control exposure of net interest income to risks associated with interest rate movements. BND utilizes a variety of funding tools to hedge its exposure to interest rate movements.

It is continually important to balance the financial and business objectives of the Bank with the social and political objectives to expand North Dakota's economy. It is equally important to provide a culture that develops people, acts as a model of efficient business and government, and exemplifies the core values of the bank. BND strives to be a leader in technology in order to provide quality customer service and meet customer needs.

BND continues to deal with increased regulatory requirements related to financial institutions. The effects of Dodd Frank, Basel III, SOX 404, and information security program requirements are burdensome. The role of compliance in the banking industry cannot be overstated and our entire bank feels the effects on a daily basis. In addition, BND will continue to invest in ways to protect its physical and cyber security, whether through improved building security or insurance coverage. Although this coverage comes at a cost, we owe it to our employees and customers to provide a safe environment to conduct business.

**REQUEST SUMMARY**

471 Bank of North Dakota

Biennium: 2021-2023

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Description	Expenditures 2017-2019 Biennium	Legislative Base 2019-2021	Budget Request Change	Requested Budget 2021-2023 Biennium	Optional Budget Request
<b>By Major Program</b>					
Bank of North Dakota Operations	51,542,448	64,357,799	0	64,357,799	1,737,348
<b>Total Major Program</b>	<b>51,542,448</b>	<b>64,357,799</b>	<b>0</b>	<b>64,357,799</b>	<b>1,737,348</b>
<b>By Line Item</b>					
Capital Assets	366,188	1,510,000	0	1,510,000	0
BND Operations	51,176,260	62,847,799	0	62,847,799	1,737,348
<b>Total Line Items</b>	<b>51,542,448</b>	<b>64,357,799</b>	<b>0</b>	<b>64,357,799</b>	<b>1,737,348</b>
<b>By Funding Source</b>					
General Fund					
Federal Funds					
Special Funds	51,542,448	64,357,799	0	64,357,799	1,737,348
<b>Total Funding Source</b>	<b>51,542,448</b>	<b>64,357,799</b>	<b>0</b>	<b>64,357,799</b>	<b>1,737,348</b>
<b>Total FTE</b>	<b>181.50</b>	<b>181.50</b>	<b>0.00</b>	<b>181.50</b>	<b>(16.00)</b>

**REQUEST DETAIL**

471 Bank of North Dakota

Biennium: 2021-2023

Date: 11/30/2020

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Description	Expenditures 2017-2019 Biennium	Legislative Base 2019-2021	Budget Request Change	Requested Budget 2021-2023 Biennium	Optional Budget Request
<b>Capital Assets</b>					
Equipment Over \$5000	172,092	250,000	0	250,000	0
IT Equip/Sftware Over \$5000	194,096	1,260,000	0	1,260,000	0
<b>Total</b>	<b>366,188</b>	<b>1,510,000</b>	<b>0</b>	<b>1,510,000</b>	<b>0</b>
<b>Capital Assets</b>					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	366,188	1,510,000	0	1,510,000	0
<b>Total</b>	<b>366,188</b>	<b>1,510,000</b>	<b>0</b>	<b>1,510,000</b>	<b>0</b>
<b>BND Operations</b>					
Salaries and Benefits	0	0	0	0	0
Salaries - Permanent	33,435,416	24,847,172	446,456	25,293,628	(2,279,950)
Salaries - Other	0	0	0	0	250,000
Temporary Salaries	592,333	1,634,770	(219,606)	1,415,164	0
Overtime	0	0	0	0	0
Fringe Benefits	0	11,224,984	(51,163)	11,173,821	(1,007,222)
Travel	406,848	422,000	(21,100)	400,900	0
Supplies - IT Software	370,293	562,352	(28,118)	534,234	0
Supply/Material-Professional	73,975	55,000	(2,750)	52,250	0
Office Supplies	303,108	475,000	(23,750)	451,250	0
Postage	664,778	780,000	(251,500)	528,500	0
IT Equip Under \$5,000	489,900	575,000	(28,750)	546,250	0
Other Equip Under \$5,000	96,490	189,000	(60,000)	129,000	0
Utilities	208,395	265,000	(13,250)	251,750	0
Insurance	187,643	225,000	0	225,000	0
Rentals/Leases-Equip & Other	88,425	56,000	(12,050)	43,950	0
Repairs	505,659	535,000	11,750	546,750	0
IT - Data Processing	3,226,900	3,983,800	(300,000)	3,683,800	3,287,172
IT - Communications	444,785	480,000	(23,688)	456,312	0
IT Contractual Srvcs and Rprs	5,938,140	7,131,000	3,061,643	10,192,643	0
Professional Development	902,297	1,352,982	(67,649)	1,285,333	0
Operating Fees and Services	1,071,506	1,505,000	(75,250)	1,429,750	0
Fees - Professional Services	2,169,369	3,009,697	(314,835)	2,694,862	0
Equipment Over \$5000	0	0	0	0	0
IT Equip/Sftware Over \$5000	0	0	0	0	0
Special Line Other	0	3,539,042	(2,026,390)	1,512,652	1,487,348
<b>Total</b>	<b>51,176,260</b>	<b>62,847,799</b>	<b>0</b>	<b>62,847,799</b>	<b>1,737,348</b>

**REQUEST DETAIL**

471 Bank of North Dakota

Biennium: 2021-2023

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Description	Expenditures 2017-2019 Biennium	Legislative Base 2019-2021	Budget Request Change	Requested Budget 2021-2023 Biennium	Optional Budget Request
<b>BND Operations</b>					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	51,176,260	62,847,799	0	62,847,799	1,737,348
<b>Total</b>	<b>51,176,260</b>	<b>62,847,799</b>	<b>0</b>	<b>62,847,799</b>	<b>1,737,348</b>

**Funding Sources**

General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	51,542,448	64,357,799	0	64,357,799	1,737,348
<b>Total Funding Sources</b>	<b>51,542,448</b>	<b>64,357,799</b>	<b>0</b>	<b>64,357,799</b>	<b>1,737,348</b>

**CHANGE PACKAGE SUMMARY**

471 Bank of North Dakota

Biennium: 2021-2023

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Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
<b><u>Base Budget Changes</u></b>						
<b>Ongoing Budget Changes</b>						
A-A 1 Operating adjustments		0.00	0	0	(175,687)	(175,687)
A-A 6 Purchase or Replacement of Equipment		0.00	0	0	250,000	250,000
A-A 7 Purchase or Replace IT Equipment		0.00	0	0	1,260,000	1,260,000
A-F 5 Remove 19-21 Capital Assets		0.00	0	0	(1,510,000)	(1,510,000)
Base Payroll Change		0.00	0	0	175,687	175,687
<b>Total Ongoing Budget Changes</b>		<b>0.00</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Base Budget Changes</b>		<b>0.00</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b><u>Optional Budget Changes</u></b>						
<b>Ongoing Optional Changes</b>						
A-C 2 Equity Increases	1	0.00	0	0	250,000	250,000
A-C 3 Increase Contingency	2	0.00	0	0	1,487,348	1,487,348
A-C 4 IT unification	3	(16.00)	0	0	0	0
<b>Total Ongoing Optional Changes</b>		<b>(16.00)</b>	<b>0</b>	<b>0</b>	<b>1,737,348</b>	<b>1,737,348</b>
<b>Total Optional Budget Changes</b>		<b>(16.00)</b>	<b>0</b>	<b>0</b>	<b>1,737,348</b>	<b>1,737,348</b>

**BUDGET CHANGES NARRATIVE****471 Bank of North Dakota****Date:** 11/30/2020**Time:** 13:41:51

<b>Change Group:</b> A	<b>Change Type:</b> A	<b>Change No:</b> 1	<b>Priority:</b>
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Operating adjustments

Per the Governor's request, BND kept it's base budget request flat @ \$62.8mm. BND reprioritized ~\$3.0mm into IT projects. BND continually seeks to invest in technology to improve deficiencies and customer service.

Also, in the optional budget change BND is purposing to consildate certain IT functions with NDIT. We have proposed moving 16 FTE's representing \$3.3mm in salaries and benefits to NDIT.

<b>Change Group:</b> A	<b>Change Type:</b> A	<b>Change No:</b> 6	<b>Priority:</b>
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Purchase or Replacement of Equipment

\$1.5mm in capital assets meets our on-going needs for replacement and/or upgrades

<b>Change Group:</b> A	<b>Change Type:</b> A	<b>Change No:</b> 7	<b>Priority:</b>
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Purchase or Replace IT Equipment

This is minimal since we are moving more to ASP service

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 2	<b>Priority:</b> 1
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Equity Increases

Equity increases are needed for the Bank to maintain competitiveness in the market place

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 3	<b>Priority:</b> 2
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Increase Contingency

An increase in contingency over base is needed to offset unanticipated challenges in our business, especially given the current situation

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 4	<b>Priority:</b> 3
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IT unification

The Bank has proposed to unfiy many of its IT services with NDIT

<b>Change Group:</b> A	<b>Change Type:</b> F	<b>Change No:</b> 5	<b>Priority:</b> 1
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**BUDGET CHANGES NARRATIVE****471 Bank of North Dakota****Date:** 11/30/2020**Time:** 13:41:51

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Remove 19-21 Capital Assets

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Removed 19-21 capital assets

<b>Change Group:</b> R	<b>Change Type:</b> A	<b>Change No:</b> 3	<b>Priority:</b>
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Increase Contingency

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An increase in contingency over base is needed to offset unanticipated challenges in our business, especially given the current situation

<b>Change Group:</b> R	<b>Change Type:</b> A	<b>Change No:</b> 100	<b>Priority:</b>
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M365

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Add costs for Microsoft 365

<b>Change Group:</b> R	<b>Change Type:</b> A	<b>Change No:</b> 101	<b>Priority:</b>
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IT Unification

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IT unification of 16 employees to NDIT