

Minutes of a Meeting of the Industrial Commission of North Dakota
 Held on October 19, 2016 beginning at 1:00 p.m.
 Governor's Conference Room
 State Capitol

Present: Governor Jack Dalrymple, Chairman
 Attorney General Wayne Stenehjem
 Agriculture Commissioner Doug Goehring

Also Present: Jessica Pfaff, Agriculture Department
 Bonnie Storbakken, Governor's Office
 Jason Nisbet, Governor
 Jolene Kline, Housing Finance Agency
 Max Wetz, Housing Finance Agency
 Members of the Press

Governor Dalrymple called the Industrial Commission meeting to order at 1:00 p.m. and the Commission took up Housing Finance Agency business.

Ms. Jolene Kline, Executive Director of the Housing Finance Agency introduced Mr. Max Wetz from the Housing Finance Agency to present the 2016 Housing Needs Assessment Summary. Mr. Wetz presented the summary as follows: (A copy is available in the Commission files.)



COMPONENTS

The Statewide Housing Needs Assessment consists of three components:

Population and Housing Forecast
 An analysis of trends affecting housing supply and demand and projections for growth

Special Housing Topics
 An examination of special housing topics including special needs populations, subsidized housing programs, and housing costs

Detailed Tables
 Data tables each level of geography



All three components may be found online at www.ndhfa.org



LEVELS OF GEOGRAPHY

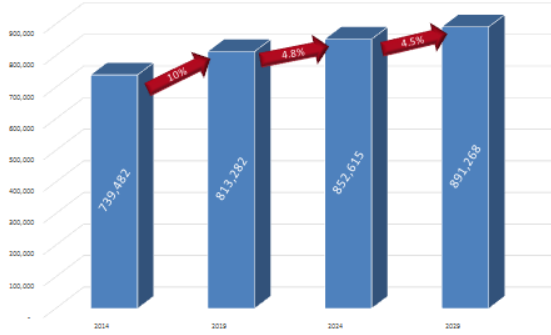


- Statewide
- 8 Planning Regions
- 53 Counties
- 12 Largest Communities
- 4 Native American Indian Reservations

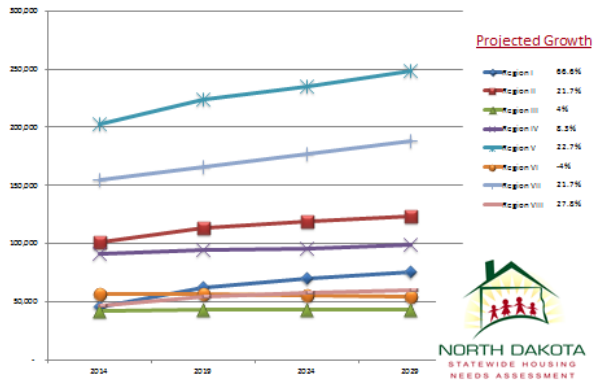


POPULATION PROJECTIONS

North Dakota's population is expected to increase by 20.5% from 2014 to 2029

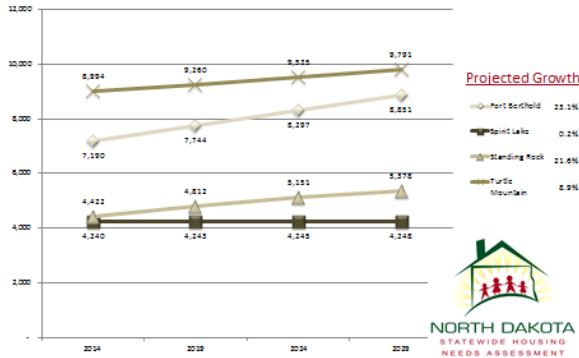


POPULATION PROJECTIONS – Region by Region



POPULATION PROJECTIONS

The state's Native American Reservations are projected to grow 13.8%

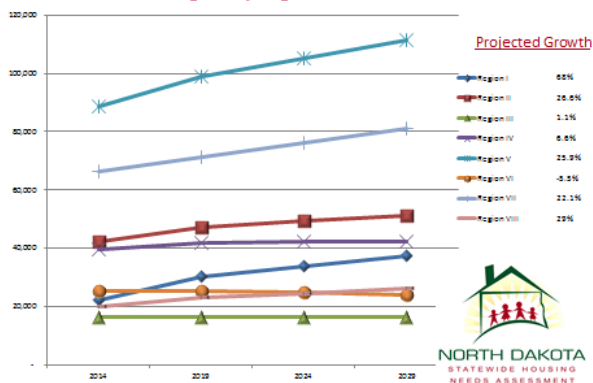


HOUSEHOLDS

The number of households is projected to increase 21.5% from 2014 to 2029

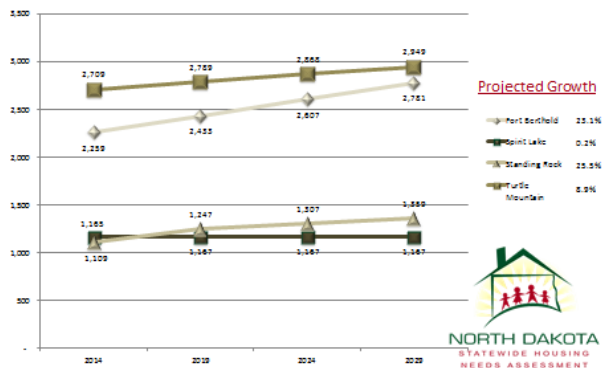


HOUSEHOLDS – Region by Region



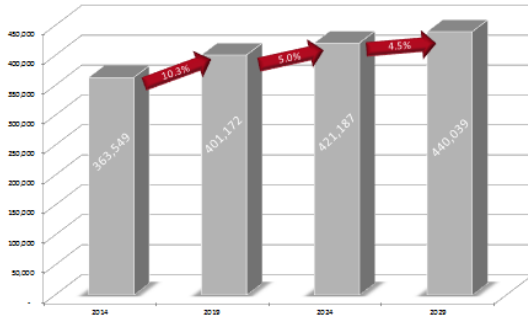
HOUSEHOLDS

Households on the Reservations are projected to increase by 14%

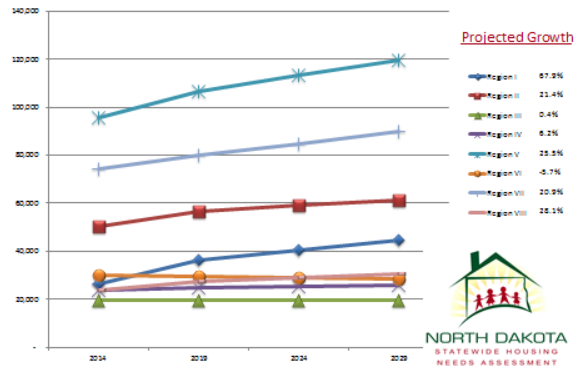


HOUSING NEED

The total number of housing units needed is projected to increase 21% from 2014 to 2029

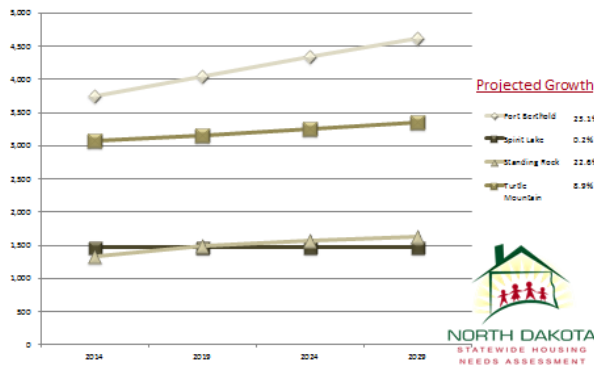


HOUSING NEED – Region by Region



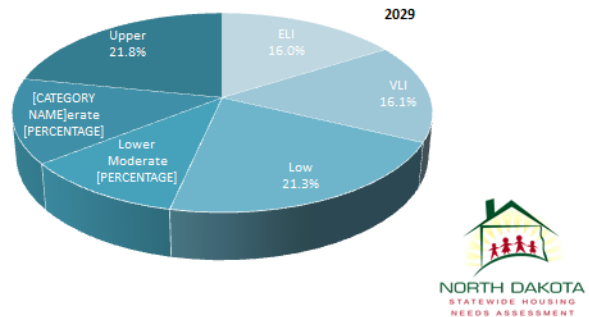
HOUSING NEED

Housing need on the Reservations is projected to increase by 15%



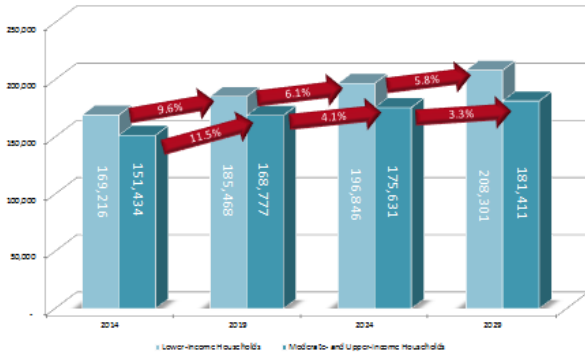
HOUSEHOLD INCOME

Lower-income households (below 80% AMI) will make up a greater percentage of total households going from 52.8% in 2014 to 53.4% in 2029



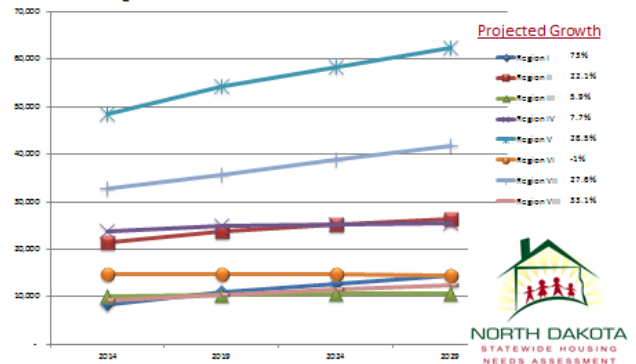
LOW-INCOME HOUSEHOLDS

The number of lower-income households is projected to increase 23.1% from 2014 to 2029 while moderate- and upper-income households will grow by 19.8%



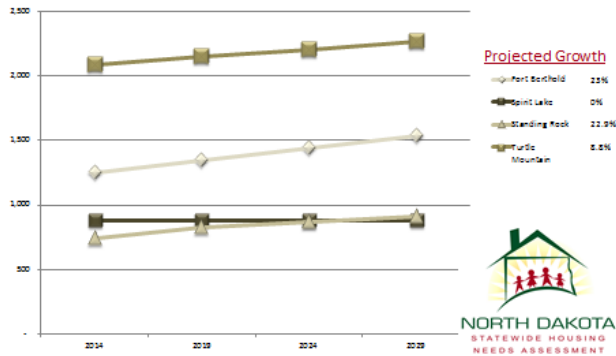
LOW-INCOME HOUSEHOLDS – Region by Region

Lower-income households are projected to increase by 39,085 or 56.6% of total household growth in the state from 2014 to 2029



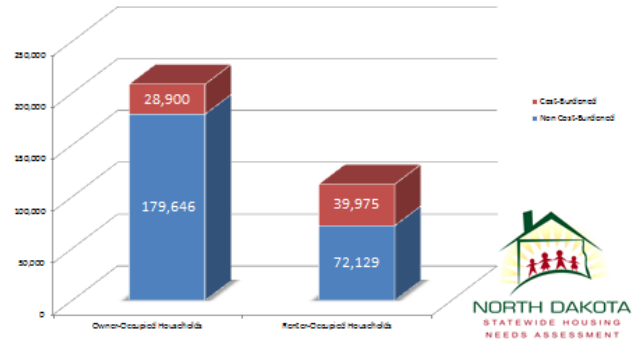
LOW-INCOME HOUSEHOLDS

Lower-income households on the Reservations are projected to increase by 12.9% from 2014 to 2029



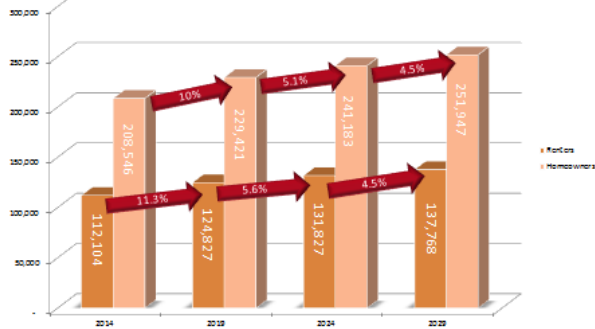
COST BURDEN

In 2014, 12.8% of owner-occupied and 33.5% of renter-occupied households were cost-burdened – spending more than 30 percent of their income on housing costs



RENTERS VS HOMEOWNERS

Renter households are projected to grow faster than homeowner households – renters will grow by 22.9% from 2014 to 2029 while homeowners will grow by 20.8%



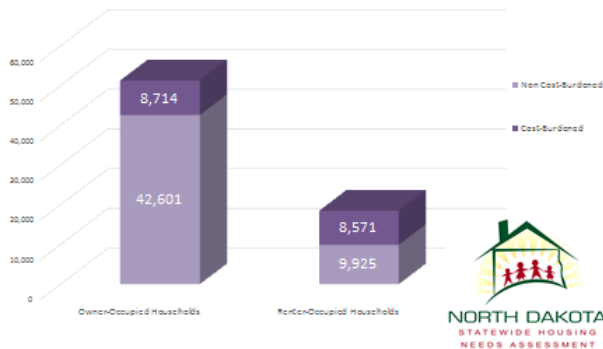
SENIORS

As the Baby Boom generation ages, the number of people over 65 will increase by 54,971 or by 52.4%



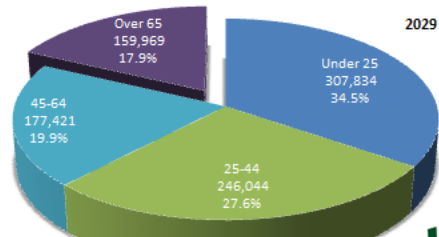
SENIORS

Currently, 17% of owner-occupied and 46.3% of renter-occupied senior households are cost-burdened



SHIFTING AGE DISTRIBUTION

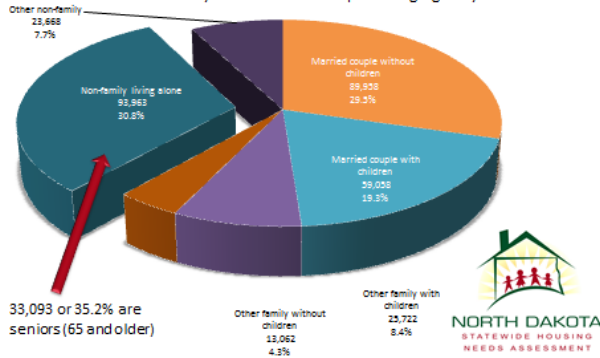
By 2029, those over 65 will make up a larger portion of the total population going from 14.2% to 17.9%



Working-age adults (25-44), which is also the prime child-bearing age group, is also projected to increase from 25.7% of the population to 27.6%

CHANGING HOUSEHOLD COMPOSITION

Household composition will continue to shift to married couples without children and non-family households due in part to aging Baby Boomers



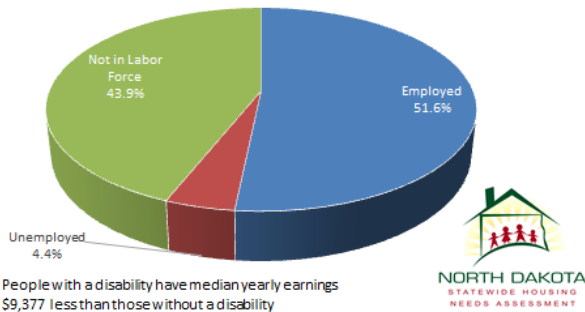
PEOPLE WITH A DISABILITY

The number of people with a disability is projected to increase by 31.9% from 2014 to 2029 – seniors with a disability will grow faster than those under 65 with a 52.4% increase versus a 15.3% increase



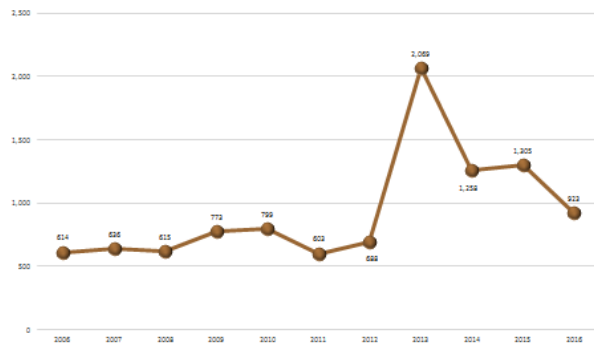
PEOPLE WITH A DISABILITY

For people age 18-64 with a disability, 51.6% are employed, but people with a disability are more than twice as likely as those without a disability to have incomes below the poverty level



HOMELESS

There were 923 homeless individuals in North Dakota in 2016, down from the high of 2,069 counted in 2013, but higher than 10 years ago



HOUSING NEED

Between 2014 and 2029



For more information:

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 Executive Director
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 Director of Public Affairs
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Read the full 2016 North Dakota Statewide Housing Needs Assessment online at

www.ndhfa.org



Ms. Kline said the challenge for the Agency is to figure out what the Agency can do to help create 882 units of rental housing a year that are going to cost less than \$500.00 a month for the tenant. That \$500.00 is the upper benchmark because the facts show that one third of every retiree lives only on Social Security and the average check in North Dakota is under \$1,200.00 per month. If you take 30% of that amount (30% being the right balance to pay for housing) that is \$360.00 per month for shelter costs which is rent plus utilities paid by the tenant. When the Agency conducted the regional meetings in all eight regions and asked the audience, which was

comprised of city officials, builders, nonprofit developers and legislators, can you build housing that will rent for \$500.00 per month without some kind of federal or state subsidy – the answer was absolutely not. Can you build it for \$875.00 including utilities, the answer again was absolutely not unless you get free land or there are city incentives for infrastructure.

Ms. Kline stated that approximately 1,800 rental units need to be built annually to keep up with demand. The federal resources available today will only help with 200 units. At the regional meetings they heard that there were some variances from region to region but there were four common themes in every region in terms of their housing needs:

- senior friendly housing options,
- affordable housing for extremely and very low income,
- affordable homeownership opportunities for young families moving into the community,
- rehabilitation of the aging housing stock.

She noted that the State is losing existing affordable rental stock each year -- we are losing units that had rental subsidies that were funded back in the 1970's with HUD or USDA. The aging population is growing and there is an increase in the extremely and very low income tenant. Unless some state resources are made available the State will continue to lose ground with housing issues.

In regards to affordable homeownership for young families, the big obstacle is that you have to have incentives. With the costs for lots ranging from \$35,000 to \$100,000 (depending on the community) the cost of the home after construction is over \$250,000 which is not affordable for working families.

Governor Dalrymple said in the short term he hoped that the housing supply would hold down rental costs but in the long term there will be issues. Ms. Kline said that was correct. In the Williston, Minot and Dickinson communities they have seen falling rents that are now affordable for the working families but rents certainly are not dropping down to \$360.00 that's affordable to the retiree.

Ms. Kline presented the 2017 Low Income Housing Tax Credit Application Summary and 2016 Housing Trust Fund Application Summary as follows: (A copy is available in the Commission files.)

RE: 2017 Low Income Housing Tax Credit Application Summary and 2016 Housing Trust Fund Application Summary

The 2017 Low Income Housing Tax Credit application round closed September 30, 2016. The total credit authority for 2017 has yet to be determined by the IRS, however 2016 authority was capped at \$2,690,000. Notification of the authority should be available by the first week of November. Nine applications were received requesting \$5,663,129 in credits.

The 2016 Housing Trust Fund application round also closed September 30, 2016. The Agency received six applications totaling \$7,381,986 for the \$ 3 million in funding authority. Three of the six applications also applied for LIHTC funding.

This memo will provide a summary of each project submitted, as a supplementary attachment you will find a comprehensive listing of each application.

Low Income Housing Tax Credit Applications

La Sagrada Familia

This project is proposing an adaptive reuse of the junior high school building in Mandan, ND to provide 39 units targeting families experiencing homelessness. The project will include a wellness center, chapel, community

rooms and a playground. Supportive services will be provided 24 hours a day by Mother Theresa Outreach a subsidy of Spirit of Life Catholic Church. These services will include case management, employment self-sufficiency supports, food, clothing, and transportation, financial and rental assistance.

This project is also applying for Housing Trust Fund.

New Horizon Manor

This application is proposing s rehabilitation of eighty-six public housing units owned by Fargo Housing and Redevelopment Authority in Fargo, ND. This particular project has a complex financing structure proposing the use of both 4% and 9% credits in addition to a RAD conversation. RAD conversion will allow the housing authority to transfer the public housing to a project based voucher project. This project is currently in service and provides housing for a mix of senior and disabled individuals. New Horizon is a forty year old building requiring major rehabilitation including replacement of all major systems and unit upgrades. The project will continue to serve the populations it currently does with supportive services to be provided by non-profit agencies including certified nursing assistant services, meal preparation, and homemaker services.

Dacotah Ridge Apartments

This application is a proposal to acquire and rehabilitate twenty-four units in Dickinson. Currently owned by the Dickinson ARC the project contains two buildings in need of significant rehabilitation. One building constructed in 1979 and the other in 1988. Rehab proposed invests around \$61,000 per unit and an addition of an elevator. The applicant's goal is to increase overall accessibility of the property. Currently occupied, the property is already housing individuals with developmental and intellectual disabilities. This property has a Section 8 project based voucher contract, which the applicant intends to renew and maintain. Tenants of this property will continue to receive services for day to day living, supported employment, meal planning and preparation. Five of the units will be adapted and remodeled to implement universal design standards for physically disabled.

Cottage at South Meadows

This application proposes new construction of a forty unit senior apartment complex in Bismarck. Supportive services will be provided to residents who need services for grocery pickup, personal shopping, transportation, light housekeeping, meal preparation, and personal care. These services are provided by a non-profit and are generally reimbursed by Medicaid. Eight of the units will be accessible for physically disabled individuals.

LaGrave on First

This application is a proposal for a housing first permanent supportive housing complex in Grand Forks. This project is a new construction of forty-two units. Services will be provided twenty-four hours a day. These services include mental health care, substance abuse counseling, medication monitoring, primary and preventative healthcare services and job training as well as security and crisis management. These services will be provided through the human service center and community health centers.

This project is also applying for Housing Trust Fund.

Sunset Ridge II

This application is a phase two of a low-income general occupancy project in Minot, ND. This phase would add an additional thirty-nine units with seven units designed for individuals with physical disabilities. Service providers available to residents can provide services such as benefits counseling, employment supports, and day to day task living supports and are available as needed for each individual tenant.

Homefield II and III

Two applications were received for development of phase two and three of a senior project in Fargo. Homefield I was awarded 2016 credits and it currently under construction. Phase II and III are identical application. These projects are intended to be a gradual replacement of the Fargo Highrise. Each project will add an additional thirty-

nine units of senior housing targeting frail elderly with supportive services provided as needed. Eight units in each building will be designed for individuals with physical disabilities.

Roosevelt Apartments

This application proposes the new construction development of forty units designed for frail elderly seniors in Fargo, ND. Services will be provided as needed to support aging in place. Eight of the units will be designed for individuals with physical disabilities.

This project is also applying for Housing Trust Fund.

Applications are currently under review and staff anticipates funding commitments to be issued the second week of November.

Housing Trust Fund Applications

The Gardens

This application proposes the new construction of a six unit complex in Fargo ND. The units will be targeted to precariously housed families. The services will be provided through an Open Table Model which uses a volunteer/peer support committee assigned to each individual family. This committee provides employment supports, financial education, counseling services, family building and other services with a goal to transition the family into self-sufficiency. This is the first project in ND to propose utilizing the Open Table model.

Jeremiah Program

This project is a HIF 3 awardee seeking additional resources for a twenty unit permanent supportive housing complex in Fargo ND. This project's mission is to transform lives two generations at a time for single parent households who are enrolled in the program. This program provides services such as early childhood education, empowerment and life skills training, and an affordable place to live while the head of household pursues a post-secondary education.

Turtle Mountain

This application is proposing the renovation of fifteen homes from the Walking Shield project on the Turtle Mountain Reservation. Turtle Mountain received twenty-nine homes from Grand Forks Airforce Base and has fifteen remaining to place on foundations and renovate as necessary.

Applications are currently under review and staff anticipates funding commitments to be issued the second week of November.

Ms. Kline said these are good applications. The Agency staff will have to make tough choices because they will only be able to fund less than half of the applications with what is available.

Ms. Kline reported the Agency is now fully capitalized for the HIF (Housing Incentive Fund). The Agency issued their last tax credit certificates earlier this month so the \$30 million has been awarded.

Being no further Housing Finance Agency business, Governor Dalrymple adjourned this portion of the meeting at 1:32 p.m. and the Commission took up Bank of North Dakota business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

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Held on October 19, 2016 beginning at 1:00 p.m.
Governor's Conference Room - State Capitol

Present: Governor Jack Dalrymple, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Also

Present: Jessica Pfaff, Agriculture Department
Bonnie Storbakken, Governor's Office
Jason Nisbet, Governor's Office
Eric Hardmeyer, Bank of North Dakota
Kelvin Hullet, Bank of North Dakota
Todd Steinwand, Bank of North Dakota
Tom Redmann, Bank of North Dakota
Kim Kautzman, Bank of North Dakota
Darrell Lingle, Eide Bailly
DeAnn Ament, Public Finance Authority
Members of the Press

Governor Dalrymple called the Bank of North Dakota portion of the Industrial Commission meeting to order at 1:33 p.m. following completion of Housing Finance Agency business.

Mr. Darrell Lingle, Eide Bailly, presented the following four audits: (Copies of the audits are available in the Commission files.)

1. Ag PACE Fund - June 30, 2016
2. PACE Fund - June 30, 2016
3. Rebuilders Loan Program - June 30, 2016
4. Medical Infrastructure Loan Program - June 30, 2016

Mr. Lingle covered all four of the above audits at once. He said for each of the four audits they issued two audit opinions – on all four audits their firm issued an unmodified opinion or a clean opinion over the financial statements. They also issued an opinion over internal controls and compliance with laws and regulations in accordance with the government auditing standards and there were no matters identified in regards to internal control in any of these four programs or any matters in regards to non-compliance with laws and regulations so a clean opinion in that regard as well. The four programs had routine activities over the year so nothing unusual that occurred in any of the four different loan programs.

Mr. Lingle presented the Addiction Counselor Internship Loan Program - June 30, 2016 audit. (A copy is available in the Commission files.) He said their firm issued an unmodified opinion on the financial statements or a clean opinion. He noted that this is the first year of the program so it covers the twelve months ended June 30, 2016. He reviewed the financial highlights information in the Management's Discussion and Analysis which summarized the activities during the year. Their firm also issued an unmodified opinion (clean opinion) on internal control over financial reporting in compliance and other matters based on the audit of the financial statements performed in accordance with government auditing standards.

Mr. Lingle presented the Infrastructure Revolving Loan Fund - June 30, 2016 audit. (A copy is available in the Commission files.) He said their firm issued an unmodified opinion on the financial statements or a clean opinion. This also was the first audit on this Fund so it covers the twelve months ended June 30, 2016. He reviewed the financial highlights information in the Management's Discussion and Analysis under the financial highlights which summarized the activities during the year. Their firm also issued an unmodified opinion (clean opinion) on internal control over financial reporting in compliance and other matters based on the audit of the financial statements performed in accordance with government auditing standards.

In response to a question, Mr. Hardmeyer reviewed the funding sources for the Infrastructure Revolving Loan Fund -- \$50 million from the Strategic Improvement and Investment Fund and \$100 million from the Bank's capital as loans are funded.

Mr. Eric Hardmeyer, Bank of North Dakota President, presented the following highlights of the BND Economic Development White Paper. (A copy of the White Paper is available in the Commission files.)



Community input meeting results
 Presented to North Dakota Industrial Commission

Presented by
 Kelvin Hullet, Economic Development and Government Program Market Manager
 Bank of North Dakota

October 2016

Team approach

ND League of Cities
 ND Public Finance Authority






Community input meetings

Date	Meeting	Date	Meeting
15-Feb	Meeting on Housing Incentive Fund as part of the Housing Finance Conference	29-Jun	GrandForks and surrounding region Community Input Meeting
24-Feb	Affordable Housing Trust Forum	29-Jul	Meeting with Rugby Economic Development Representatives
8-Mar	League of Cities Update Meeting	18-Jul	Presentation to County Auditor / Treasurer Conference
3-Mar	Focus Group with Small Cities	14-Jul	Meeting with Pembina County Job Development Authority
4-Mar	Meeting with Grand Forks Economic Development Group	15-Jul	Meeting and Tour of Grand Sky
4-Mar	Meeting with Minnecroft Executives	4-Aug	Meeting with Hazen Economic Development / Elected Officials
20-Apr	Meeting with Fargo Business Community Leaders	18-Aug	Presentation to North Dakota Economic Development Foundation
21-Apr	Meeting with Fargo City Administrators / Elected Officials	26-Aug	Meeting with Venture Capital Fund Representatives
6-May	Meeting with Fargo Entrepreneurs in Fargo	30-Aug	Meeting with Jamestown EDC / Business Leadership
10-May	N.W. North Dakota Community Input meeting in Williston	31-Aug	Focus Group with NDSU Entrepreneurs
10-May	S.W. North Dakota Community Input meeting in Dickinson	31-Aug	Meeting with Fargo Banking Community Representatives
22-May	Minot / Surrounding Area Community Input meeting	30-Aug	Meeting with Venture Capital Fund Representatives
22-May	Bismarck/Mandan / Surrounding Area Community Input Meeting	1-Sep	Focus Group at NDSU Center for Innovation
1-Jun	Meeting with Emerging Prairie representatives	1-Sep	Meeting with Bock in North Dakota
2-Jun	Meeting with 500 Startup representatives	9-Sep	Meeting with Minot Economic Development Representatives
22-Jun	Meeting with Red River Corridor Representatives on Venture Capital	14-Sep	Bismarck-Mandan Chamber Major Employers Roundtable
22-Jun	EDMO Conference	14-Sep	Dickinson Manufacturers Roundtable
27-Jun	Jamestown / Valley City Community Input Meeting	15-Sep	Meeting with Venture Fund / Angel Fund Investors
27-Jun	Meeting with Dakota Development Fund Board Representatives	16-Sep	Presentation to North Dakota League of Cities Annual Meeting
		27-Sep	Presentation to Dickinson AFB

Community engagement questions

- In the next five to 10 years, what do you anticipate to be the most pressing infrastructure needs of your community?
- In the next five years, how do you anticipate the economic development needs of your community evolving? Is there a plan to diversify your community's economic base?
- What do you anticipate the housing needs to be in your community over the next five to 10 years? Do you have affordable housing for low-income households, millennials and employees?
- Of the economic development and financing programs offered by the State and BND from PACE and Flex PACE to the Match Program and low-interest rate programs created by the Legislature, which ones are most useful to your community. Does BND currently offer the right "mix" of financing programs?
- Are there new financing or loan programs or ideas that could benefit local communities and aid in infrastructure or economic development?

Mr. Kelvin Hullet, Bank of North Dakota Economic Development and Government Program Market Manager, finished the presentation as follows:

Finding 1:
 Renewed emphasis on economic diversification

From local elected officials to bankers and economic developers, the downturn in oil and agriculture prices is spurring creative thought across the state about enhancing diversification.

In conversations with community leaders, they are optimistic about the future and feel North Dakota is moving into the "New Normal." The oil boom brought significant wealth to the state but it also diverted attention away from overall economic diversification efforts.



Finding 1:
 Renewed emphasis on economic diversification

- Ensure state agency programs work in tandem
- Focus on entrepreneurs
- Enhance access to very early-stage capital
- Programming to assist fast-growth companies
- Enhance mentoring opportunities
- Focus on technology development
- Natural gas to eastern North Dakota
- Need for "bigger tools" in traditional programs

Finding 2: Infrastructure

Smaller communities view infrastructure as key to their competitive position for talent attraction and retention. They are seeking low-interest financing alternatives to allow for substantial infrastructure replacement.



The needs in larger communities quickly escalate into the tens of millions of dollars for new growth and repair and replacement projects. The administrators and mayors of large communities are interested in developing programs that enhance their utilization and access to Bank of North Dakota for local municipal financing.

Finding 2: Infrastructure

Infrastructure needs beyond new growth are a pressing issue.

The overall needs most identified included:

- "Gap" financing for infrastructure projects, especially focusing on airports, flood diversion and water related projects
- Replacement of existing, aging infrastructure in small and rural communities
- The ability to "package" projects and gain access to various programs simultaneously
- New infrastructure in growing communities
- The ability for larger communities to access more substantial state funding through Bank of North Dakota and the Public Finance Authority

Finding 3: Affordable housing

While the demand for housing in the west is down from all-time highs, housing costs and demand across the state remain elevated.

Especially challenging is the cost of developing lots. A minimum residential lot cost including specials starts around \$35 thousand in small communities and can reach as high as \$125 thousand in larger communities.

Finding 3: Affordable housing

- Housing for seniors and subsidized housing for lower-income residents
- Affordable single-family housing for employees
- Rehabilitation of rural residential housing



Finding 4: Talent attraction

Challenge is the transition in perspective by the millennial generation.

Generation interested in quality of life opportunities; Instead of moving to a job, they select a community and then seek a job.



Finding 4: Talent attraction

Challenge of adequate daycare capacity

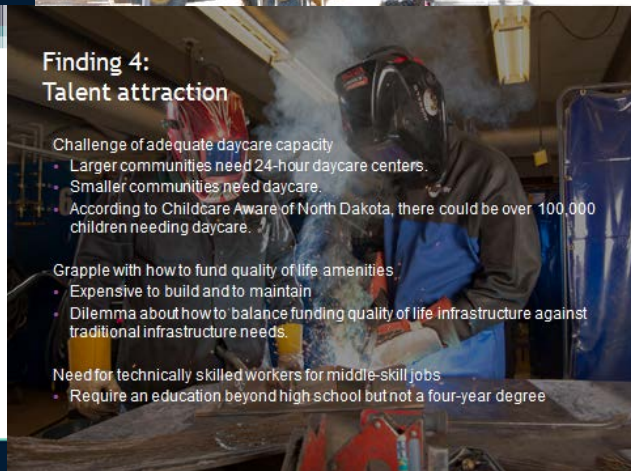
- Larger communities need 24-hour daycare centers.
 - Smaller communities need daycare.
- According to Childcare Aware of North Dakota, there could be over 100,000 children needing daycare.

Grapple with how to fund quality of life amenities

- Expensive to build and to maintain
- Dilemma about how to balance funding quality of life infrastructure against traditional infrastructure needs.

Need for technically skilled workers for middle-skill jobs

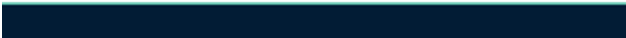
- Require an education beyond high school but not a four-year degree





Next Steps

1. Communicate results to key decision makers
2. Work in coordination with state agencies and others to develop solutions to the issues
3. Review existing policy documents and legislation to determine policy recommendations
4. Provide recommendations to decision makers by early November 2016



Mr. Hardmeyer discussed the next steps and indicated that Bank management is in the process of looking at their programs. They have identified some potential changes that they will be bringing to the Commission next month in the form of legislation and policy revisions to meet the needs outlined in the White Paper. He didn't think there were a lot of changes that were going to need legislative approval; most can be done through policy changes that the Commission can approve.

The Commission members noted that what they hear frequently is the need for affordable housing and daycare.

Ms. Jolene Kline, Housing Finance Agency Executive Director, indicated that the regional forums the Bank referred to were conducted prior to the Statewide Housing Assessment being released and the housing findings are the same as what the Housing Finance Agency heard when they held their post-Statewide Housing Assessment regional meetings with different audiences.

Ms. DeAnn Ament, Public Finance Authority Executive Director, stated the resounding theme she heard in the forums regarding infrastructure was a need to replace roads--a desire for a low-interest rate program. The Public Finance Authority can offer a market rate loan but the communities are looking for a lower-interest rate loan.

Mr. Hullet said the emphasis they heard was on entrepreneurs in small business – how do you grow a one or two person company to a ten, twenty or thirty person company. He indicated that national research shows that is really where growth and major job generation comes from. Because of that Bank management is focusing on developing and enhancing the Beginning Entrepreneur Program. They have identified some gaps that if addressed would enhance the ability of those companies to move through the system. They have been working closely with the Department of Commerce in developing a road map for growing small business and supporting entrepreneurs--to assist them in getting needed seed funding.

Mr. Hardmeyer said there are some gaps but a lot of these programs exist out there but are dispersed in different places and there is no logical transition through these programs. The Bank is working on identifying this road map or this continuum to give the entrepreneur a sense of where to go. The Bank believes we need to make this intuitive for the entrepreneur and it isn't. Next month they will be more specific about these gaps and some of these issues and will walk the Commission through the whole process and propose the changes that the Bank is looking to make.

In response to a question, Mr. Hardmeyer stated that in the smaller communities they heard the need was for repair and replace. This is an area that the Bank had not focused on with the Infrastructure Loan Program because their efforts had been on new development. As the Bank looked at this issue they asked the League of

Cities the question: How big is that need? The response was that all these communities would have some kind of repair, replacement project and that could easily overwhelm the funding that is available.

There was discussion about the role of municipal financing and that being the main source of funding. There isn't going to be a time when communities won't have to have special assessments.

Mr. Todd Steinwand, Bank of North Dakota Senior Vice President of Business Development, said the Bank is trying to work closely with the other agencies and not duplicate programs--to identify what is available and are there some tweaks we need to do to those programs to help meet needs. To have a one-stop capital source – here is a project, have a group of people get together and figure out based on the various programs how we piece meal the financing to meet the need.

Mr. Hardmeyer presented the 2017 BND Holiday Schedule for the Commission's consideration.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approve the following 2017 BND Holiday Schedule:

**BANK OF NORTH DAKOTA
2017 HOLIDAY SCHEDULE**

The 2017 holidays will be observed by the Bank of North Dakota and the Federal Reserve Bank of Minneapolis and its Helena Branch on the following dates:

New Year's Day	Monday, January 2*
Martin Luther King Jr. Day	Monday, January 16
Presidents Day	Monday, February 20
Memorial Day	Monday, May 29
Independence Day.....	Tuesday, July 4
Labor Day	Monday, September 4
Columbus Day	Monday, October 9
Veterans Day	Saturday, November 11**
Thanksgiving Day	Thursday, November 23
Christmas Day.....	Monday, December 25

*Actual holiday Sunday, January 1

**BND will be open Friday November 10th. We will have a skeleton crew. Employees who work Friday can choose to take another day off.

On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Hardmeyer presented and discussed the Third Quarter 2016 Performance Highlights. (A copy of the Performance Highlights is available in the Commission files.) He summarized the following points:

- Assets are down about \$63 million over budget which is not significant.
- Loans are off \$135 million from what had been projected, \$20 million lower in commercial loans because of timing although overall activity is down on the commercial side from last year; and farm loans are down considerably from what had been budgeted due to the Farm Financial Stability Program (BND had budgeted \$300 million and the Bank ended up issuing \$154 million under that program).
- State revenues are not what anyone budgeted which is reflected in the Bank's deposits so they are down but they are offset by other types of debt instruments that the Bank has available including short and long

term debt from the Federal Home Loan Bank so we just replaced deposit debt with Home Loan Bank debt for the most part.

- Equity is up \$64 million over budget – the Bank continues to have a pretty good gain on its securities portfolio of about \$10 million - \$5 million higher than anticipated and the Bank had anticipated the funding for the Infrastructure Fund to come out of capital sooner. In addition the funding identified for transfer during the special session will probably not be drawn on until next spring.
- Income is up \$5.5 million over budget--at \$109 million during the first nine months compared to \$103 million. Anticipate ending the year at \$130 million to \$135 million plus--on track for a good strong year.
- Provision for Credit Losses is at \$5.5 million--they will be increasing that amount throughout the rest of the year-- Bank management thinks it is prudent to do that at this time.
- The leverage ratio – Benchmark for capital is now 10% which is in line with the North Dakota average. The Bank has steadily increased that benchmark from 8.5% to 10%. It is anticipated that with the draws that will be coming out of capital over the next nine months and probably more next legislative session, Bank management believes it will be able to maintain that strong benchmark of 10%.
- Loan originations - Mr. Steinwand stated commercial participations are down – there is less activity in the western part of the state, we are still very busy in the eastern part but commercial participations overall are down both in numbers and dollar amount. In 2015 we did a lot of political subdivision loans and of course we met that need and it dropped. The other one is school construction – that is a timing issue but those would be the major categories from the commercial side. On the ag side you can see it's a little bit of the opposite, the big change there is we are up with the change in farm financial stability, we have already funded about \$142 million of those – that is a big change from that standpoint. Residential originations are down from last year there was a lot of refinanced volume in 2015 and then the needs have really slowed down out west compared to what it had been overall.
- Loan portfolio is at \$4.7 billion. In regards to school construction loans the Bank had been authorized to loan up to \$250 million in school construction loans. To date the Bank has financed \$82 million out of that program and they believe the final number will be around \$160 million; Farm loan programs continue to be used in a significant way; Student loans - FELP loans are down \$300 million in total from 2012. DEAL loans are up by \$600 million over that same period of time – just replaced the FELP with the DEAL.

Governor Dalrymple pointed out that in regards to school construction loans the Bank was envisioned to be a bridge in school construction loans with a buy down to a favorable interest rate until Measure Two passed. The Bank was never intended to be a long term low cost interest source for school construction loans. The Foundation Aid Stabilization Fund is to be the long term source. Mr. Hardmeyer agreed and stated that BND was meant to be a bridge to where, if it is approved in November, a certain amount of that might be eligible for school construction. There was another companion bill that was passed that would allow up to \$200 million to be financed through that funding if it is available.

Mr. Hardmeyer noted that there is good and bad news in the delinquency report.

- The good news is that the student loan portfolio continues to have lower delinquencies as the Bank books more DEAL One loans with loans that are in repayment and are income tested – good solid credits. As those loans are booked the Bank continues to see a downward trend in its student loan delinquencies.
- The residential portfolio is more problematic. It is up over a year ago from 3.5 to 4.8 –for the most part because of issues the Bank is dealing with out west. Income levels are down; people have left and in some cases completely and are hard to track down. The good news for the Bank is that virtually all of that debt is federally guaranteed so the Bank should have very little, if any, loss.
- Commercial and farm portfolios continue to be in very good shape.

Mr. Hardmeyer stated that the Bank continues to build its loan loss allowance -- currently at \$72.6 million. That is the Bank's allowance for future credit losses and when it is spread over the Bank's whole portfolio that is

1.53%; the state average is lower at 1.3%. He noted that the DEAL student loans are also guaranteed by the Student Loan Guarantee Agency which has an additional reserve. If that was taken into consideration then the Bank's loan loss allowance is at approximately 2%. Bank management believes the Bank is in good shape in regards to its loan loss reserve.

Mr. Hardmeyer indicated that the College SAVE program continues to be the bright spot for the State and the Bank. The Bank has \$414 million under management with \$107 million of that being North Dakota investments. The North Dakota investments have grown from \$41 million in 2012 to \$107 million -- which is North Dakota investments for higher education savings -- that is what people have saved for children in the State. A lot of that is due to the matching grants the Bank has been able to provide.

Mr. Hardmeyer presented the non-confidential Bank of North Dakota Advisory Board August 18, 2016 meeting minutes.

Governor Dalrymple closed the meeting at 2:15 p.m. pursuant to North Dakota Century Code 6-09-35 to discuss the items on the agenda under Bank of North Dakota confidential business.

Following the confidential portion of the meeting, the Commission reconvened in non-confidential session at 2:31 p.m. and it was noted that during the confidential portion of the meeting, it had been moved and seconded that the Bank of North Dakota be authorized to participate in three loans identified as Attachments 13-15. In non-confidential session, on a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Being no further Bank of North Dakota business, Governor Dalrymple adjourned this portion of the meeting at 2:31p.m. and the Commission took up Student Loan Trust business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on October 19, 2016 beginning at 1:00 p.m.
Governor's Conference Room
State Capitol

Present: Governor Jack Dalrymple, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Also

Present: Jessica Pfaff, Agriculture Department
Bonnie Storbakken, Governor's Office
Jason Nisbet, Governor's Office
Eric Hardmeyer, Bank of North Dakota
Kelvin Hullet, Bank of North Dakota
Todd Steinwand, Bank of North Dakota
Tom Redmann, Bank of North Dakota
Kim Kautzman, Bank of North Dakota
Members of the Press

Governor Dalrymple called the Student Loan Trust portion of the Industrial Commission meeting to order at 2:31 p.m. following completion of Bank of North Dakota business.

Ms. Karlene Fine, SLT Authorized Officer, presented a Resolution of Intent to Issue and Sell North Dakota Student Loan Revenue Bonds. She said Bank of North Dakota management had requested that the Student Loan Trust begin the process for the issuance of bonds. The Bank is looking at liquidity issues and one option is to sell portions of their student loan portfolio to the Student Loan Trust. This resolution starts the process for the Trust issuing bonds to have funds available to purchase the Bank's student loans. The Resolution names herself as the Authorized Officer for the Student Loan Trust, and authorizes her to prepare Request for Proposals for bond counsel and investment banking services.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approve the following resolution:

RESOLUTION OF INTENT TO ISSUE AND SELL
NORTH DAKOTA STUDENT LOAN REVENUE BONDS

Preliminary Statement

The Industrial Commission of North Dakota (the "Commission") is authorized by N.D.C.C. Ch. 54-17 (the "Act") to issue and sell and refund and refinance student loan revenue bonds in such amounts and at such times and in such form as the Commission shall determine to be for the public interest and good and for the purposes stated in the Act.

The Commission has through its agents, financial advisor (the "Financial Advisor") and other authorized representatives determined that it is in the public interest and consistent with the Act to authorize and issue in one or more series North Dakota Student Loan Revenue Bonds.

Therefore, Be It Resolved by the Commission as follows:

1. It is the intention of the Commission to issue and sell North Dakota Student Loan Revenue Bonds (the "Bonds") in one or more series in such amount, in such form, bearing interest at such rates, and having such other terms and provisions as may be specified by the Commission, the proceeds of which may be used (i) to provide proceeds which may be used to purchase guaranteed student loans from the Bank of North Dakota (the "Bank"); (ii) to fund a reserve fund; and (iii) to pay administrative and other costs, including costs of

necessary credit enhancement instruments, costs of issuance, and any capitalized interest incurred in connection with the issuance of the Bonds.

2. The Commission names Karlene Fine, Executive Director and Secretary to the Commission as its Authorized Officer for the North Dakota Student Loan Trust (the "Authorized Officer").
3. The Commission appoints the Authorized Officer to serve as the Commission's representative at a public hearing regarding any proposed issuance of Student Loan Trust bonds with said hearing to be held in Bismarck, North Dakota, at the Bank of North Dakota and further directs the Authorized Officer to publish a Notice of Public Hearing prior to the date set for the Public Hearing in the daily newspapers in the State of North Dakota in accordance with the requirements of Internal Revenue Code Section 147(f) for reasonable public notice.
4. The Commission authorizes and directs the officers and employees of the Bank to provide such assistance as the Authorized Officer and counsel to the Commission shall request in order to do all things necessary and proper to carry out the provisions of this Resolution and to prepare the Bonds for issuance and sale including but not limited to the issuance of Requests for Proposals for bond counsel and investment banking services.
5. The adoption of this Resolution does not obligate the Commission to enter into a bond purchase agreement with any investment banking firm or firms chosen for the issuance of the Bonds, if any, or to issue the Bonds without further action by the Commission.

In response to a question, Mr. Hardmeyer said in the Bank's total loan portfolio they have about \$1.1 billion in DEAL loans and \$300 million in FELP loans. As they manage the Bank one thing they want to make sure they always have is liquidity within the Bank. Currently they borrow from the Home Loan Bank to provide that liquidity. In years past the Trust would go to the capital markets and sell bonds and with the bond proceeds purchase loans from the Bank and the Bank would have cash. It is a tool the Bank would like to have as a possibility. The other reason is as the Bank continues to make more DEAL loans they need to decide how much of the student loan portfolio do they want on their books. This is an option they would like to have available as they manage their concentration of loans. This isn't anything they are looking at in the near future but they would like to have this option available should the Bank's deposits continue to fall and the Bank needs more liquidity. .

In response to a question regarding what the revenue source would be for the bonds, Ms. Fine stated the repayments from the student loans that were purchased from the Bank.

Ms. Fine indicated that previously this type of transaction was fairly common place but in recent years the student loan market is more of a challenge. There are not a lot of student loan bond issues. The federal government used to provide guarantees and incentives for student loan bond issuers and that is no longer the case. That is why it is important to get a financing team together to better understand the market and how a bond transaction would be structured.

On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Being no further Student Loan Trust business, Governor Dalrymple adjourned this portion of the meeting at 2:36 p.m. and the Commission took up Western Area Water Supply Authority business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on October 19, 2016 beginning at 1:00 p.m.
Governor's Conference Room
State Capitol

Present: Governor Jack Dalrymple, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Also

Present: Jessica Pfaff, Agriculture Department
Bonnie Storbakken, Governor's Office
Jason Nisbet, Governor's Office
Jaret Wirtz, WAWSA
Brent Brannan, Oil and Gas Research Council
John Harju, EERC
Bruce Hick, DMR – Oil and Gas Division
Ron Ness, ND Petroleum Council
Members of the Press

Governor Dalrymple called the Western Area Water Supply Authority portion of the Industrial Commission meeting to order at 2:36 p.m. following completion of Student Loan Trust business.

Ms. Karlene Fine, Industrial Commission Executive Director, presented the September financial report and Debt Reduction Report as follows: (A complete copy of the report is available in the Commission files.)

RE: Western Area Water Supply Authority - Industrial Sales - September, 2016 & Debt Repayment Report

Attached is the Western Area Water Supply Authority (WAWS) financial information for the month of September, 2016.

Page 1 prepared by the Bank of North Dakota, reflects debt service payments through the month of September, 2016. In September interest was paid on the two BND loans and two Water Commission loans and principal was paid on the \$40 million BND loan. In addition a principal payment of \$77,901 was made on BND Loan #1 as a result of the higher sales revenue in the month of July.

The next 3 pages (pages 2, 3 & 4) I prepared based on the information provided by WAWS staff reflecting September revenues and expenses and net income. On page 2 you will see the capital improvement disbursements (highlighted in orange) that you previously approved. There were two principal payments made in September and they are highlighted in yellow. Net income for the month of September was **\$225,848.94** before making their principal payments. No baseline sales payments were paid and those deferred costs are reflected on the line item titled Deferred Expense Asset. (As you will recall from the overall Debt Service spread sheet the breakeven sales monthly number is \$871,750 without the baseline sales payments so we slightly exceeded that number.)

Page 5 is the balance sheet prepared by WAWS staff as of September 30, 2016. As noted on the Balance Sheet the Accounts Receivables are \$2,616,224.56 which is included in the assets of \$6,179,739.79 Note: The assets include a deferred expense line item which reflects the deferred expenses for the Baseline Sales.

Ms. Fine discussed a request for reimbursement of capital expenditures. She said the Board submitted one request for \$6,186.50 for design work on the Hess Industrial Bulk Connection and the Continental-Marshall TWP Service Connection.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission grant the request of the Western Area Water Supply Authority (WAWS) Board of Directors and reimburse WAWS for \$6,186.50 in design costs for the Hess Industrial Bulk Connection and the Continental-Marshall TWP Service Connection. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Jaret Wirtz, Western Area Water Supply Authority Executive Director, presented a special industrial water rate proposal and a draft contract for the Commission’s consideration. (A copy of the draft contract is available in the Commission files.) He said WAWS legal staff drafted the contract and it is being reviewed by Commission staff. This take or pay contract is somewhat similar to what WAWS used when WAWS was first organized. This contract will be for five years and has a take or pay provision that locks in a payment for WAWS.

The concept as discussed last month is that WAWS could offer a rate of \$.60 per barrel based on volume commitments with the following terms: 1) contract would be for 5 years and 2) the Purchaser must commit to pay (a take or pay) 25% of the volume of the yearly average of water purchase with the minimum payment amount being \$50,000 a year.

Mr. Wirtz provided the following examples of how the payment terms would work under this concept.

Example One					
Year	Proposed Volume(Barrels)	Actual Volume(Barrels)	Required Minimum(\$)	Actual Yearly Payment(\$)	
2017	200,000	200,000	\$ 50,000.00	\$	120,000.00
2018		400,000	\$ 50,000.00	\$	240,000.00
2019		600,000	\$ 50,000.00	\$	360,000.00
2020		800,000	\$ 60,000.00	\$	480,000.00
2021		0	\$ 75,000.00	\$	75,000.00
				\$	1,275,000.00
					Total

Example Two					
Year	Proposed Volume(Barrels)	Actual Volume(Barrels)	Required Minimum	Actual Yearly Payment	
2017	200,000	50,000	\$ 50,000.00	\$	50,000.00
2018		150,000	\$ 50,000.00	\$	90,000.00
2019		2,600,000	\$ 50,000.00	\$	1,200,000.00
2020		100,000	\$ 140,000.00	\$	140,000.00
2021		100,000	\$ 108,750.00	\$	108,750.00
				\$	1,588,750.00
					Total

Example Three					
Year	Proposed Volume(barrels)	Actual Volume(Barrels)	Required Minimum	Actual Yearly Payment	
2017	600000	600,000	\$ 90,000.00	\$	360,000.00
2018		400,000	\$ 90,000.00	\$	240,000.00
2019		200,000	\$ 75,000.00	\$	120,000.00
2020		200,000	\$ 60,000.00	\$	120,000.00
2021		200,000	\$ 52,500.00	\$	120,000.00
				\$	960,000.00
					Total

The following is the excerpt from the proposed contract regarding how the annual payments would be calculated:

Annual Usage Fee. The cost for the Contracted Water Supply is set with a \$50,000 per year minimum payment, whether or not Customer uses the full Contracted Water Supply and unused barrels of water will not be added to a subsequent year. Customer shall pay the Authority, in the aggregate per 12 month period, the greater of: (i) \$50,000; or (ii) the dollar amount equal to 25% of the running average on an annual basis (either (i) or (ii) as applicable in each year, the "Annual Fee"). For the purpose of calculating the Annual Fee for the purposes of 8(ii), the annual amounts used for averaging would be either the Contracted Water Supply or the total amount of water purchased annually if the amount purchased exceeds the Contracted Water Supply. All calculations of the Annual Fee are based on a rate of \$0.60 per barrel. For illustration, for the first twelve month period ("First Year"), Customer shall pay the greater of: (i) \$50,000; (ii) that dollar amount resulting from multiplying 25% of the Contracted Water Supply by \$0.60, regardless of whether such number of barrels is used; or (iii) that dollar amount resulting from multiplying the number of barrels used by \$0.60. For the second twelve months ("Second Year"), the Annual Fee is the greater of: (i) \$50,000; or (ii) the dollar amount equal to 25% of the First Year purchases. For the third twelve months ("Third Year"), the Annual Fee is the greater of: (i) \$50,000; or (ii) the dollar amount equal to 25% of the average of the First Year and Second Year purchases. Each additional year for the five year term continues with a rolling average of the prior years on the contract.

Water service is not guaranteed beyond the Contracted Water Supply. If the Authority, with approval from the North Dakota State Water Commission Chief Engineer, determines that it has sufficient water available to provide water service to Customer in excess of the Contracted Water Supply, the Customer may purchase additional water at the rate of \$0.60 per barrel. Customer may request an amendment to the contract mid-year to increase the Contracted Water Supply to reserve additional capacity, which may be granted if sufficient capacity exists.

Mr. Wirtz said this concept requires companies to submit a realistic request of the volume of water they will use every year and locks them into that number. They understand if they want to use more they have to come to WAWS and say they would like to use more and if they want the \$.60 rate they will then see a change in their required minimum. If they want more water but don't want to change their required minimum then they can have water at the \$.84 rate.

In response to a question regarding if anyone will sign up, Mr. Wirtz said he has discussed the concept with a couple of companies and they are interested especially as it relates to maintenance water. It could also work for a fracture job depending on the timing of when that fracture water would be needed--especially in the 4th or 5th year of the contract. In the early years of the contract they would be skeptical to use it. The maintenance water is really predictable for them – they have that down to barrels--every well has a determined amount of water it needs and they know that number ahead of time.

In response to a question regarding if they should have a "window of opportunity" for this agreement through June 30, 2017, Mr. Wirtz said that was agreeable because it would encourage companies to consider it before the deadline.

Mr. Wirtz said they have reviewed the contract, Ms. Fine edited it and the Commission needs to have their attorneys review it. The Water Commission by law also has to review it – any water contract that WAWS signs has to be approved.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring to approve the industrial water rate concept with a five year contract subject to the review of the actual contract language and authorize WAWS to offer this concept until June 30, 2017. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Wirtz said sales were up a little in October--WAWS is providing water for a fracture job. They also have another job starting in November so they hope to end the year on a more positive note.

Being no further Western Area Water Supply Authority business, Governor Dalrymple adjourned this portion of the meeting at 2:53 p.m. and the Commission took up Oil and Gas Research Program business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on October 19, 2016 beginning at 1:00 p.m.
Governor's Conference Room
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Present: Governor Jack Dalrymple, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Also
Present: Jessica Pfaff, Agriculture Department
Bonnie Storbakken, Governor's Office
Jason Nisbet, Governor's Office
Brent Brannan, Oil and Gas Research Council
John Hatju, EERC
Bruce Hick, DMR – Oil and Gas Division
Ron Ness, ND Petroleum Council
Members of the Press

Governor Dalrymple called the Oil and Gas Research Program portion of the Industrial Commission meeting to order at 2:53 p.m. following completion of Western Area Water Supply Authority business.

Ms. Karlene Fine, Industrial Commission Executive Director/Secretary, presented the Oil and Gas Research Program Financial Report as follows:

Oil and Gas Research Fund
Financial Statement
2015-2017 Biennium
October 7, 2016

	<u>Cash Balance</u>
July 1, 2015 Balance	\$ 4,419,836.98
Revenues through July 31, 2016 (2% State's share of oil taxes)	\$10,000,000.00
Revenues from Abandoned Well Fund	\$ 2,000,000.00
Revenues from interest income & grant applications	\$ 6,493.49
Transfer to the Pipeline Authority Fund	\$ (200,400.00)
Expenditures through August 31, 2016	<u>\$(5,205,093.92)</u>
	\$11,020,836.55
Outstanding Administration Commitment as of August 31, 2016	\$ (355,998.54)
Outstanding Commitments on Legislative Studies	\$ (475,000.00)
Outstanding Project Commitments as of September 30, 2016	<u>\$(7,332,242.93)</u>
Balance	\$ 2,857,595.08

Oil and Gas Research Fund
Continuing Appropriation Authority
2015-2017 Biennium

Uncommitted Balance July 1, 2015	\$ 759,360.59
Carried Over Unused Administration Allocation	\$ 72,009.72
Projected Income from Project Applications & Interest	\$ 20,000.00
Revenues (2% of State's Share of Oil Tax Revenues)	\$10,000,000.00
Transfer from the Abandoned Well Fund for two studies	<u>\$ 2,000,000.00</u>
	\$12,851,370.31
Transfer to Pipeline Authority	\$ (200,400.00)
Administration Commitment*	\$ (522,909.72)
Approved Project Commitments 2015-2017	\$ (2,460,019.00)
Legislative Mandated Studies	\$ (2,000,000.00)

Carried over Project Commitments for 2015-2017**	\$ (4,796,940.00)
Available Funding	\$ 2,871,101.59

57-51.1-07.3. Oil and gas research fund - Deposits - Continuing appropriation.

There is established a special fund in the state treasury to be known as the oil and gas research fund. Before depositing oil and gas gross production tax and oil extraction tax revenues in the general fund, property tax relief sustainability, strategic investment and improvements fund or the state disaster relief fund, two percent of the revenues must be deposited monthly into the oil and gas research fund, up to ten million dollars per biennium. All moneys deposited in the oil and gas research fund and interest on all such moneys are appropriated as a continuing appropriation to the council to be used for purposes stated in chapter 54-17.6.

*This includes the remaining amount of \$39,356.50 owed on the NDSU Workforce Study and Legislative Mandated \$100,000 Natural Gas Study

**This amount includes research/education funding carried over from prior biennia for:

Contract G-028-058 with \$1,100,000 to be expended in the 2015-2017 biennium;

Contract G-030-060 with \$3,027,250 to be expended in the 2015-2017 biennium;

Contract G-034-065 with \$669,690 to be expended in the 2015-2017 biennium.

Ms. Fine stated the balance available for commitment for this current biennium is approximately \$2.8 million. Today the Commission has an application for consideration that is for a much higher amount but the expenditures will be spread over a three year period. Two million dollars would come from the current biennium and \$4 million from the next biennium. She also stated that there were several projects totaling \$2.1 million that have not been moving forward so she will be withdrawing the Commission's commitment to them. Another project will not be using all the funding requested so in total there is approximately \$2.2 million of funding that will be available for funding awards in the future.

Ms. Fine discussed the projects that are not moving forward and the reasons why she believes each of the projects are not moving forward. The reasons range from not finding any partners, unable to raise the match funding, or have stopped working on the project because they no longer have an interest in doing it. She is considering in the future of giving an applicant a set period of time to sign the contract or the commitment is automatically withdrawn. She stated that between the \$2.8 million noted on the financial statement and another \$2.2 million that is going to come back there should be sufficient funding available should the Commission want to fund the application being considered today.

Mr. Brent Brannan, Oil and Gas Research Program Director, presented the Oil and Gas Research Council recommendation regarding the following Grant Round 40 application:

G-040-04: Bakken Production Optimization Program – 2.0; Submitted by: Energy & Environmental Research Center (EERC); Principal Investigator: John Harju; Project Duration: 3 years; Total Project Cost \$13,280,000; Request for: \$6,000,000; Oil and Gas Research Council recommendation is \$6,500,000 – He said this is a continuation of the Program's first phase which consisted of a consortium of over ten industry operators working together to figure out both downhole and operationally how to maximize the resource. As part of the second phase there were some specific activities that will be worked on such as how to use the rich gas, EOR, and refrac optimization and any other issues that may arise as a result of operators getting together and working and modeling on how to unlock the remaining Bakken reserves. The three technical reviewers recommended funding. His recommendation was to fund in the amount of \$6 million with \$2 million each year of the three year contract. The Council recommendation is to fund in the amount of \$6,000,000 with \$2 million each year of the three year contract with the conditions that the EERC provide the Oil and Gas Research Council on an annual basis a review of the work performed during the past year and the deliverables achieved with this funding award including a specific report on the EOR and Refrac work and that they review with the Council the outlook and potential

deliverables for the coming year which will allow the Council to have direct input into that selection process. And further that an additional \$500,000 of non-match funding be approved for emerging issues over the next three years as determined by the Oil and Gas Research Council and Industrial Commission. There were two conflicts of interest - McNally, Ness and the Council vote was 6 yes; 0 nay – 1 absent and not voting.

In response to a question regarding what the additional \$500,000 non-match funding was for, Mr. Brannan said in the past there have been instances where the Council and the Commission have identified specific issues that need to be researched but it is unlikely that match funding would be available. Some examples were the Crude Rail Study or the Sandia Lab work. The Council was recommending that a portion of the Council's funding be set aside for those types of potential emerging issues to be researched at the EERC. As recommended by the Council the Council and the Commission would have to approve the expenditures for those non-matching projects.

In response to questions, Mr. Brannan and Mr. Harju talked about the work that would be done with the Bakken Optimization 2.0 funding. They reviewed some of the work that was done under the first Bakken Optimization Program. Two specific areas identified by the Council would be looking at enhanced oil recovery on a modeling level--to see whether it can be done through CO₂ injection or rich gas injection. Refacing of existing wells -- this project would bring companies together to share data to reveal best practices for getting the optimal amount of recoverable oil from existing wells. The EERC has identified a number of areas that would be pursued based on industry participation such as what should be the well density, frac design, gas flaring/controlling emissions, what is the future for handling salt water disposal-- how much capacity is in the Dakota Systems in the future, etc. One idea being discussed is building a comprehensive working model so you know what will happen if you need to throttle back production because of flaring mitigation in one area then how does that affect production in other areas. A model may also be needed as it relates to produced fluids. This project would be a very comprehensive effort that is not only focused on a benefit to industry but a broader public benefit for the state.

In response to a question, Mr. Harju said one of the key elements of the ethane EOR work is finding creative uses for ethane within the State. If ethane is used in the State then that may facilitate export of primarily the methane/natural gas product. The EERC is currently having discussions with one operator about stripping NGL's and utilizing the ethane in a rich gas enhanced oil recovery project. Ethane as a working fluid has a miscibility pressure about half that of CO₂ and it is expected to behave extremely well in the reservoir. Based on the lab work EERC has been doing one operator is very interested in moving forward with a pilot test in the field and several other operators are visiting with the EERC about better modeling their own applications of this. Mr. Harju pointed out that this work started under Phase One as a flaring mitigation concept and now it is being looked at as being obviously much bigger than that – it's something where we can meaningfully improve the recovery factor as well as mitigate flaring.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission accepts the Oil and Gas Research Council's recommendation to fund the grant application "Bakken Production Optimization Program - 2.0" and to authorize the Industrial Commission Executive Director and Secretary to execute a contract with the Energy and Environmental Research Center (EERC) to provide a total of \$6,000,000 (\$2,000,000 each year over a three-year period) with the condition that the EERC provide the Oil and Gas Research Council with an annual review of the work performed during the previous year including the deliverables achieved during that year and provide a specific report on the Enhanced Oil Recovery and Refrac work projects and that the EERC review with the Council the outlook and potential deliverables for the coming year which will allow the Council to have direct input into the selection process for work projects; and further approve an additional \$500,000 of non-match funding for emerging issues over the next three years as determined by the Oil and Gas Research Council and Industrial Commission.

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On a roll call vote, Governor Dalrymple, Attorney General Stenejem and Commissioner Goehring voted aye. The motion carried unanimously.

Being no further Oil and Gas Research Program business, Governor Dalrymple adjourned this portion of the meeting at 3:10 p.m. and the Commission took up Department of Mineral Resources business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on October 19, 2016 beginning at 1:00 p.m.
Governor's Conference Room
State Capitol

Present: Governor Jack Dalrymple, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Also

Present: Jessica Pfaff, Agriculture Department
Bonnie Storbakken, Governor's Office
Jason Nisbet, Governor's Office
Bruce Hick, DMR – Oil and Gas Division
Ron Ness, ND Petroleum Council
Members of the Press

Governor Dalrymple called the Department of Mineral Resources portion of the Industrial Commission meeting to order at 3:10 p.m. following completion of Oil and Gas Research Program business.

Case 25239, Order 27658. Mr. Bruce Hicks, Oil and Gas Division Assistant Director, presented Order 27658 for Case 25239 heard on September 28, 2016 regarding amendments of field rules for the Bear Creek-Bakken Pool, Dunn County. Mr. Hicks handed out an exhibit from the hearing. (A copy of the exhibit is available in the Commission files.) Continental came to the Commission with this application to drill two additional horizontal wells on a 1,280 acre unit. Currently the field rules allow 14 wells on the 1,280 spacing unit and Continental has located 13 of the wells and is seeking approval to drill an additional 2 wells bringing the total number of wells to 15. The problem the staff has identified is that Continental wants to drill the wells 300 feet from the outside lines on the east/west lines. Currently the rules require that they have a 500 foot set back. Mr. Hicks outlined two ways that Continental could overcome these issues –

- Request an exception location that would require notifying the offset spacing unit owners and giving them notice of their application (that has not been done) The staff did question the applicant why they did not give notice for an exception location and their attorney indicated that due to their client/attorney privilege that they could not divulge that reason – they wouldn't tell us.
- Request an overlapping spacing unit, in this case it would be a 2,560 acre unit, that would take in the two adjacent sections along with the current 1280 acre spacing unit. They would then be allowed to drill within a 500 foot corridor meaning they would have to drill within 250 feet of the section lines--they would have to move the well 50 feet closer to the section line. They also opted not to do that.

Mr. Hicks indicated that because the applicant did not comply with the Commission's guidelines and policies and there is a way for them to get relief by applying for an exception location the staff is recommending that the Commission deny the applicant's request.

There was discussion about whether or not the Commission should consider a change in the lateral setbacks. Mr. Hicks indicated that the Oil and Gas Division staff isn't ready to consider any change at this time but in the alternative has provided a procedure where development can take place and correlative rights protected.

Mr. Hicks reviewed the history of the applications that have been considered in regards to developing this area.

Case 25239: It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that Order 27658 issued in Case 25239, denying the application to amend the field rules for the Bear Creek-Bakken Pool, Dunn County, be approved this 19th day of October, 2016. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Hicks provided an update on the Renewable Resources facilities that had been discussed at last month's meeting. The Health Department has issued a facility clean-up plan that was signed on October 7 and sent to Renewable Resources. The Health Department continues to have weekly onsite inspections and indicated that the main focus was emptying one of first buildings that was constructed on the site that was nearly full of cuttings. That building is now three quarters empty. The Health Department is going to continue to have their weekly inspections to make sure that by the end of this month, October 31, the site will be waste free and everything removed from all the buildings. The operator had also done a pilot test for road base material that had been constructed on site and that also has to be removed. The final clean-up report is due December 15. The Health Department appears to be pleased with the progress that has been made and will be continuing to conduct inspections to make sure things were being done on a timely basis.

In response to a question Mr. Hicks stated that he is uncertain whether or not the operator is going to move their equipment to their other site or look for another location.

Mr. Hicks noted that the hearing regarding heel and toe setbacks will be held on Friday. After reviewing the testimony the staff will bring a recommendation to the Commission later this year

Being no further Department of Mineral Resources business, Governor Dalrymple adjourned this portion of the meeting at 3:22 p.m. and the Commission took up Lignite Research, Development and Marketing Program business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on October 19, 2016 beginning at 1:00 p.m.
Governor's Conference Room
State Capitol

Present: Governor Jack Dalrymple, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Also

Present: Jessica Pfaff, Agriculture Department
Bonnie Storbakken, Governor's Office
Jason Nisbet, Governor's Office
Mike Jones, Lignite Research, Development and Marketing Program (By Speakerphone)
Chuck Kerr, Great Northern Properties
Members of the Press

Governor Dalrymple called the Lignite Research, Development and Marketing Program portion of the Industrial Commission meeting to order at 3:22 p.m. following completion of Department of Mineral Resources business.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission meeting be closed to hear Lignite Vision 21 Feasibility Project Phase IV reports that have been determined to be confidential pursuant to 54-17.5-06. On a roll call vote Governor Dalrymple, Attorney General Stenehjem, Agriculture Commissioner Goehring voted aye. The motion carried unanimously.

The Commission reconvened in open session after receiving updates on the Great Northern Properties Limited Partnership regarding their Lignite Vision 21 Feasibility Project - Phase IV - Engineering, Business Development and Design.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission accept the recommendation of the Industrial Commission Executive Director and approve a no-cost extension to December 31, 2017, to Great Northern Properties Limited Partnership (GNP) for Contract FY08-LXII-161. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Being no further Lignite Research, Development and Marketing Program business, Governor Dalrymple adjourned this portion of the meeting at 4:14 p.m. and the Commission took up Renewable Energy Program business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on October 19, 2016 beginning at 1:00 p.m.
Governor's Conference Room
State Capitol

Present: Governor Jack Dalrymple, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Also

Present: Jessica Pfaff, Agriculture Department
Bonnie Storbakken, Governor's Office
Jason Nisbet, Governor's Office
Members of the Press

Governor Dalrymple called the Renewable Energy Program portion of the Industrial Commission meeting to order at 4:14 p.m. following completion of Lignite Research, Development and Marketing Program business.

Ms. Karlene Fine, Industrial Commission Executive Director/Secretary, discussed a request for a special grant round as follows:

RE: Additional Renewable Energy Program Grant Round

The Industrial Commission is in receipt of a request from TerraCOH for the establishment of an additional grant round (Round 30). The Renewable Energy Program policies allow for the establishment of additional grant rounds by the Industrial Commission.

TerraCOH Development has indicated that delaying consideration of their application until the January 1 grant round deadline would increase the cost of their project by \$150,000. I have consulted with Andrea Pfennig with the Department of Commerce as to whether she has any objections to having an additional grant round and she has indicated she does not. Therefore, I am recommending the establishment of an additional grant round with a deadline submission date of November 1, 2016.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission accept the recommendation of the Industrial Commission Executive Director/Secretary and approve an additional grant round for the Renewable Energy Program with a submission deadline of November 1, 2016. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Being no further Renewable Energy Program business, Governor Dalrymple adjourned this portion of the meeting at 4:17 p.m. and the Commission took up Administrative business.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on October 19, 2016 beginning at 1:00 p.m.
Governor's Conference Room
State Capitol

Present: Governor Jack Dalrymple, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Also

Present: Jessica Pfaff, Agriculture Department
Bonnie Storbakken, Governor's Office
Jason Nisbet, Governor's Office
Members of the Press

Governor Dalrymple called the Administrative portion of the Industrial Commission meeting to order at 4:17 p.m. following completion of Renewable Energy Program business.

Ms. Karlene Fine, Executive Director, presented September 26 & 27 confidential and non-confidential meeting minutes for the Commission's consideration.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission approves the September 26 & 27 confidential and non-confidential meeting minutes as presented. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Ms. Fine stated she received a request with a two-day deadline for herself as the Executive Director of the Commission to provide a Declaration in regards to the 111(b) litigation. She discussed with legal staff whether she had the authority to do it. What she ended up doing, after consulting with the Governor's staff and the Attorney General's staff, is signing a declaration that said in accordance with her position responsibilities here are the facts and the facts then stated what is in the law and what the policies have been of the Industrial Commission. She provided the Commission members with a copy of the Declaration. (A copy of the declaration is available in the Commission files.) She indicated that the Public Service Commission and the Department of Health also submitted declarations. She discussed with the Attorney General and his staff the question of whether the Commission needed to affirm this action or that she just informs the Commission that she had done this.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission approves the Declaration prepared by Ms. Karlene Fine, Executive Director, as presented nunc pro tunc. On a roll call vote, Governor Dalrymple, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Being no further Administrative business, Governor Dalrymple adjourned the meeting at 4:19 p.m.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary