

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on August 28, 2019 beginning at 9:00 a.m.
Governor's Conference Room - State Capitol

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

Also Present: Other attendees are listed on the attendance sheet available in the Commission files
Members of the Press

Governor Burgum called the Industrial Commission meeting to order at approximately 9:00 a.m. and the Commission took up Department of Mineral Resources (DMR) business.

DEPARTMENT OF MINERAL RESOURCES

Governor Burgum complimented Mr. Lynn Helms, DMR Director, and his team for their work on hosting the Interstate Oil and Gas Compact Commission (IOGCC) conference held in Medora earlier in the week and for making all the arrangements for the tours. He heard great comments from the participants.

Mr. Helms and Mr. Bruce Hicks, Oil and Gas Division Assistant Director, presented the following draft orders for the Commission's consideration: (Copies of the proposed orders are available in the Commission files.)

Case 27548, Order 29992 – review of temporary abandoned status of the #1 Sagaser well

This case involves a request for review of the temporarily abandoned status of the Cobra Oil & Gas Corp. #1 Sagaser located in Williams County. The well had been converted from production to injection in 1998. The well has not been utilized for 8 years. The Sagaser family is requesting the temporarily abandoned status of the well be revoked. The family presented testimony and photographs documenting problems with maintenance and security of the site and road as well as interference with large agriculture equipment. The weeds and access have not been controlled. The family is farming around the well site.

Cobra indicated that they could possibly use the well for water supply for a proposed unit in the future. The proposed unit, which has not been unitized, would be more than two miles north of the site with no current pipeline connection.

The staff recommendation is to revoke the temporarily abandoned (TA) status and place the well in an abandoned well status instead. The abandoned well status will require posting of a single well bond within six months or the well to be returned to production or plugged with the well site and road reclamation started within twelve months.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that Order 29992, issued in Case 27548 in which the temporarily abandoned status of the Cobra Oil & Gas Corp. #1 Sagaser (File No. 9920) located in the SESE of Section 1, T.158N., R.96W., Temple Field, Williams County, ND, is revoked and an abandoned well status is established requiring the posting of a single well bond within 6 months or the well to be returned to production or plugged with site and road reclamation started within 12 months pursuant to NDCC § 38-08-04, be approved this 28th day of August, 2019.

Mr. Helms clarified that the Sagasers own the minerals. This was a conventional vertical well. There is uncertainty that this would ever be unitized and the ability to use the wells for water is questionable.

There was discussion regarding conventional wells that have Temporary Abandoned (TA) status. Mr. Helms stated that the Oil and Gas Division has a list of the wells that have TA status, along with their location. The wells are inspected on an annual basis by field inspectors. Requests for extension of TA status must be filed annually. In 2015, the Legislature passed legislation that allows surface owners to approach the Commission and ask for the TA status to be revoked. Mr. Hicks indicated that there are 385 wells in the system with a TA status. Approximately 50% are in the 7-year range. The staff will provide a list of the wells with a TA status by age at the next meeting. It was noted that it is difficult to farm around these well sites with modern farming equipment and results in inefficiency of the farming operations.

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

Case 27632, Order 30076 – voluntary unitization, operation, and further development of the Flat Top Butte-Madison Unit Area

This case involves a request for approval of the voluntary unitization, operation, and further development of the Flat Top Butte-Madison Unit Area within McKenzie County. Cobra Oil and Gas, Corp. owns 100% working and mineral interests of the proposed unit through acquisition of Burlington Resources minerals.

The unit size would be 640 acres. There have been successful waterfloods in the area, and it is a good prospect. The staff is recommending approval with two conditions. The Department of Mineral Resources (DMR) geology staff was not satisfied with the unitized interval description that was provided because conventional geology markers were not used. DMR staff recommends modifying the unitized interval to follow geologic markers. Additionally, part of the geologic structure extends outside the proposed 640-acre unit. To protect the correlative rights of the mineral owners outside the unit, DMR recommends limiting injection to one well.

The staff recommendation is to approve the modified unitized interval, modified unit termination language, and to restrict the injection to one well to protect correlative rights of owners to the south of the unit.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that Order 30076, issued pursuant to NDCC §38-08-09 in Case 27632 authorizing the Director to approve the petition of Cobra Oil & Gas, Corp. for the voluntary unitization, operation and further development of the Flat Top Butte-Madison Unit Area, consisting of lands within McKenzie County, ND and approving the unit agreement and unit operating agreement, approval of the plan of operation and vacating the applicable spacing orders and restricting injection to one well, be approved this 28th day of August, 2019.

In response to a question, Mr. Helms stated that there are five drilling pads in the area. The development occurred in the 1980s. This is an appropriate unit for a waterflood, and future expansion is possible if successful. Cobra would need to request any further expansion and present a plan of how others' rights would be protected.

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

Case 27651, Order 30095 – salt water disposal well

This case involves an application from Continental Resources, Inc. for the drilling of a saltwater disposal well to be located in Williams County, in the Dakota Group. During the public hearing, a neighboring surface owner did not object to the proposed well but requested that the Commission require compensation for damages from fluid migrating into his pore space. It was determined that the compensation issue is under the jurisdiction of the district courts. The staff recommendation is approval of the disposal well with findings that the Commission does not have jurisdiction over damage and contract payments.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that Order 30095, issued in Case 27651 authorizing Continental Resources, Inc. to drill a saltwater disposal well to be located in the SESE of Section 33, T.156N., R.99W., East Fork Field, Williams County, ND, in the Dakota Group pursuant to NDAC Chapter 43-02-05, be approved this 28th day of August, 2019. On a roll call vote, Governor Burgum, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Helms & Mr. Hicks presented proposed draft amendments to the administrative rules for the Commission's consideration. (A copy of the proposed amendments are available in the Commission files.) The Department is seeking authority to proceed with the administrative hearing process. The proposed rules would be published for hearing and comment. Hearings would be conducted in October followed by a written comment period. Incorporating the feedback received during the hearing process, it is anticipated that DMR would present proposed changes to the Commission in November or December. The rules could be effective April 2020. A copy of the timetable for the proposed rules is available in the Commission files.

Mr. Hicks stated that hearings will be in four locations: Bismarck, Dickinson, Williston, and Minot.

Mr. Hicks reviewed some of the proposed draft amendments, including:

Bond and Transfer of Wells

- Increase bond limits on commercial injection wells.
- Consider wells on TA status over seven years as liability on bond.
- Require full single-well bond on any Abandoned well prior to transfer.

Oil & Produced Water Underground Gathering Pipelines

- Require CO₂ pipelines to comply with 43-02-03-29.1.
- Require third party inspector independent of owner and contractor.
- Require removal of pipeline at abandonment if buried more than 3 feet final grade.

Preservation of Cores as Samples

- Require geologist or mudlogger on first well samples and mudlog when pad drilling.

Abandonment of Wells, Treating Plants, or Saltwater Handling Facilities – Suspension of Drilling

- Require future well plans when considering approval for TA.
- Future well plans must be contemplated within seven years.

Royalty Statements

- Require producer's net value of total sales after deducts and taxes.
- Consider owner's value prior to removing taxes, but after removing deducts.
- Consider owner's value of sales less deducts and taxes.
- Require statement when owner's decimal interest changes.

Regarding the proposed Bond and Transfer of Wells Rule amendments there was discussion regarding bond limits on commercial injection wells. It was noted these are typically wells that are drilled for disposal and operated by somebody in the business of capturing the water and injecting it, not producing oil itself. Fifteen years ago, 80% of the disposal wells were owned by an oil and gas operator that owned many other

income producing assets. Now, over 50% are commercial disposal wells, and the disposal well is the asset. A separate company with a separate bond is formed for each well. Because of this, DMR feels that the risk is significant, and the bonding requirements need to be increased. The bonding limit would double from \$50,000 to \$100,000.

In response to a question, Mr. Helms indicated that the increase in the bond amount would cover 2/3 of the cost of plugging. It was noted that state law allows DMR to confiscate material on site. Mr. Helms stated that the new law has been very helpful. Recovery of costs from confiscation has averaged \$25,000 - \$50,000 in value. When the recovery of costs from confiscation of materials is added to the proposed increase in bond amount, a good portion of the costs of plugging a well can be recovered; greatly reducing the risk to the State.

Mr. Hicks noted that wells on TA status currently are not considered a liability against the bond. DMR is proposing that after seven years, those wells would be viewed as a liability against the bond. If the well hasn't been utilized in seven years, then either something should be done, or the bonding should be increased. There has been a 10% increase in wells with a TA status over the last two years. This is a nationwide problem that North Dakota currently does not have and the State doesn't want to have in the future.

There are currently over 700 abandoned wells in the state. This has increased by 10% over the last two years. A trend is emerging within the industry of abandoned wells being transferred to another company. This can result in states being left to deal with plugging and restoration. DMR is proposing to prevent this from occurring by requiring a full single well bond to cover plugging and restoration costs with the hope that uneconomic wells will be addressed and only wells that can be used will be transferred.

Regarding the proposed amendments to the Oil & Produced Waster Underground Gathering Pipelines Rule, the current policy intended 3rd party inspectors to be independent. However, it appears that some companies are housing the 3rd party inspectors and employing them. DMR would like to make it clear that the inspectors must truly be independent.

Regarding the proposed amendment to the Preservation of Cores and Samples Rule, the cuttings from the first well on the pad need to be accurately collected because they go to the core library. In the past, key discoveries such as the Pronghorn formation were discovered due to the library. Because of this, DMR would like a geologist or mudlogger to be on site for the first well drilled at a pad. In response to a question, Mr. Helms stated that the American Association of Petroleum Geologists defines qualifications for a mudlogger, well site geologist, etc. and those definitions would be referenced as part of the administrative rules.

Regarding the proposed amendments to the Abandonment of Wells, Treating Plants, or Saltwater Handling Facilities – Suspension of Drilling it was noted that many of the proposed changes are centered around a seven year timeframe. This would provide consistency. In response to a question, Mr. Helms stated that this is more restrictive than other states.

Regarding the proposed amendments to the Royalty Statements Rule, the proposed amendments came from stakeholders, including the North Dakota Petroleum Council workgroup and a state legislator. It was noted that all deductions are required to be explained.

It was clarified that today DMR is requesting approval to publish the proposed changes and go through the public comment process. After receiving and incorporating public feedback, DMR will come back to the Commission with proposed revisions for the Commission's consideration.

Governor Burgum requested that in regards to the royalty statement rules, DMR be consistent with Supreme Court decisions to avoid confusion.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Department of Mineral Resources be authorized to proceed with the administrative hearing process and publish for hearing and comment the draft amendments to the general rules of statewide application to conserve the natural resources of North Dakota, to prevent waste, and to provide for operation in a manner as to protect correlative rights of all owners of crude oil and natural gas. On a roll call vote, Governor Burgum, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Attorney General Stenehjem provided an update on North Dakota's preemption application to the Pipeline and Hazardous Materials Safety Administration (PHMSA) regarding State of Washington SB 5579. PHMSA acted quickly on the application, issuing a proposed rule and publishing it in the federal register on July 23. The State of Washington requested a 30-day extension on the 30-day comment period, which was granted. The comment period closes on September 23rd, after which, North Dakota will provide a rebuttal.

The Attorney General noted that Congress had previously mandated a study on Bakken crude and the volatility of different crude oils. The results of that study have recently been published. The findings are significant because it demonstrates that all the oils tested are comparable in terms of volatility. Additionally, the study indicates that vapor pressure is not a statistically significant factor in predicting the outcomes. Bakken oil is no more volatile than any other oil. Attorney General Stenehjem stated that these findings will be noted in North Dakota's rebuttal and will be a tremendous help as it undermines the State of Washington's reasoning behind their statute. The methodology was sound and there is confidence in the findings. In response to a question, it was stated that after the 30-day rebuttal period PHMSA has 180 days to make a determination.

Governor Burgum and Commissioner Goehring complimented Attorney General Stenehjem and his team for their efficient work on this issue.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that under the authority of North Dakota Century Code Sections 44-04-19.1 and 44-04-19.2 the Industrial Commission close the meeting to the public and enter executive session for the purpose of attorney consultation. The purpose of the executive session will be to consult with the Commission's attorney(s) regarding current and potential adversarial proceedings in:

- Case No. 09-2018-cv-00089/Sorum, et al vs. State of North Dakota, et al., and
- Case No. 05-2019-cv-00085/Northwest Landowners Association vs. State of North Dakota, et al.

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

Governor Burgum reminded the Commission members and those present in the executive session that the discussion during executive session must be limited to the announced purpose for entering into executive session which is anticipated to last between 15 and 30 minutes.

Governor Burgum stated that the Commission is meeting in executive session to consult with the Commission's attorney(s) regarding Case Nos. 09-2018-cv-00089 and 2019-cv-00085 (Sorum and

Northwest Landowners). He noted that any formal action by the Commission will occur after it reconvenes in open session.

Commission members, staff, DMR staff, and Special Assistant Attorney General(s) and counsel with the Attorney General staff remained, but the public was asked to leave the room. The executive session began at 9:51 a.m.

DMR EXECUTIVE SESSION

Members Present:

Governor Doug Burgum
Attorney General Wayne Stenehjem
Commissioner Doug Goehring

Others in Attendance:

Leslie Bakken Oliver	Governor's Office
Reice Haase	Governor's Office
Matt Sagsveen	Attorney General's Office
Nici Meyer	Attorney General's Office (a portion of the Executive Session)
Dan Gaustad	Special Assistant Attorney General, Attorney General's Office (a portion of the Executive Session)
Lynn Helms	Department of Mineral Resources
Bruce Hicks	Department of Mineral Resources
Ed Murphy	Department of Mineral Resources
Karlene Fine	Industrial Commission Office
Andrea Pfennig	Industrial Commission Office

The Industrial Commission reconvened in open session at 10:34 a.m. and the public was invited to return to the meeting room. Governor Burgum noted that during its executive session the Commission consulted with its attorneys regarding Case Nos. 09-2018-cv-00089 and 2019-cv-00085 (Sorum and Northwest Landowners).

Mr. Ed Murphy, State Geologist, presented the Geological Survey Quarterly Report. (A copy of the report is available in the Commission files.) The Quarterly Report included information on the following topics:

- Wilson M. Laird Core and Sample Library
- Core Library Thin Sections
- The Prairie Formation
- Proppant Sand Project
- The High School Summer Biology Fossil Dig
- Regulatory Programs Activities (April 1 – June 30, 2019)
- Publications (April 1 – June 30, 2019)
- Presentations (April 1 – June 30, 2019)

Mr. Murphy noted that 3,181 feet of core was photographed generating 5,145 photographs for the subscription site. Regarding the Core Library Thin Sections, he stated that the library has more than 17,00 thin sections. He noted that industry and academia also come in and take their own photographs of the thin sections.

Mr. Murphy stated that the Prairie Formation is a sequence of salts that extends across portions of ten counties in northwestern and north-central North Dakota and reaches a maximum thickness of 655 feet in Burke County. Four different maps on the Prairie Formation were published in the second quarter of 2019. Six different maps were created regarding potassium salts (potash) in the Kenmare area. In 1979, the Geological Survey estimated the Prairie Formation contains 50 billion tons of potash. This estimate could be inaccurate since it is estimated the amount that can be economically mined is 16 billion. This number could drop significantly. Even if it goes down significantly, it could still be a significant amount. It would be mined by solution. There's a lot of work involved to mine it.

In response to a question regarding the potential for the creation of salt caverns as storage locations for future value-added energy industry, Mr. Murphy stated that the Piper Formation: Dunham Salt and Spearfish Formation: Pine Salt are the most likely to be mined as they are at shallower depths. As those areas are remapped, the potential opportunities will be considered. In the core library, the Geological Survey has 30 feet of Pine Salt core, but there are no cores of the Dunham Salt.

Mr. Murphy reported that four high schools (Bismarck, Century, Legacy, and Mandan) participated in a public dig in June. DMR has been trying to encourage other schools from around the state to participate each summer. However, only Bismarck, Century, Legacy, Mandan, and Surrey have consistently offered summer biology for the last five years. After consulting with DPI, it was determined that the 4 schools that participated this summer accounted for 76% of students taking summer biology.

The permits issued in the second quarter included:

- 1 Coal Exploration,
- 1 Subsurface Mineral, and
- 8 Geothermal (4 residential, 4 commercial.)

Because of a shortage of time it was decided that Mr. Helms would delay his presentation regarding the Abandoned Well Plugging and Site Restoration Fund and Abandoned-Orphan-Legacy wells and sites to the October meeting.

OIL & GAS RESEARCH PROGRAM

Ms. Karlene Fine, Industrial Commission Executive Director, provided a financial statement for the Oil and Gas Research Program. There is currently \$3,272,840 available.

Mr. Brent Brannan, Oil and Gas Research Program Director, presented the following Oil and Gas Research Council Grant Round 49 recommendations for consideration:

G-049-02: "Weather Information System to Effectively Reduce Oilfield Delays and Disruption (WISE Roads)" Submitted by: Western Dakota Energy Association; Request for \$250,000; Total Project Costs: \$500,000; Project Duration: 24 months.

This project will use research-grade weather monitoring equipment to accurately record weather data, which will in turn be used as a management tool to reduce the scope and duration of weather-related road restrictions that impede the movement of truck traffic associated with the oil industry. The project will leverage the research expertise of two outreach centers of North Dakota State University to ensure the data collected is accurate and accessible, and that it is used appropriately by county road managers.

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 “Weather Information System to Effectively Reduce Oilfield Delays and Disruption (WISE Roads)” and to authorize the Industrial Commission Executive Director and Secretary to execute a contract with the Western Dakota Energy Association to provide a total of not to exceed \$250,000 in funding. On a roll call vote, Governor Burgum, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Governor Burgum noted that he is eager to move towards using data to determine road closures.

G-049-03: “AUG Field Trip – Promoting Student Interest in Geology and Geological Engineering”
Submitted by: Association of UND Geologists; Request for \$5,300; Total Project Costs: \$10,600; Project Duration: 14 months.

This proposal outlines a 3-day field trip to show participants just how exciting many aspects of geology are: such as petroleum geology, sedimentology, stratigraphy, paleontology, geomorphology, slope stability, and more. The overall goal of this proposed field trip is to expose students to the fields of geology and geological engineering in a fun and exciting non-classroom setting, in order to increase interest in the field of geology and increase the enrollment of Geology and Geological Engineering students at the Harold Hamm School of Geology and Geological Engineering (HHSgge). This will help provide more geologists to support North Dakota businesses and industry. A secondary benefit will be that some students, even if they elect not to become majors, will be exposed to the geology of North Dakota and the importance of oil and gas production to our state.

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 “AUG Field Trip – Promoting Student Interest in Geology and Geological Engineering” and to authorize the Industrial Commission Executive Director and Secretary to execute a contract with the University of North Dakota to provide a total of not to exceed \$5,300 in funding (education). On a roll call vote, Governor Burgum, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Brannan presented the Oil and Gas Research Council recommendation regarding a Request for Proposals on a Recycling Produced Water Study for consideration. This study was included in Section 19 of House Bill 1014. The projects would be completed by October 2020.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission accepts the Oil and Gas Research Council’s recommendation and approves the Request for Proposals for a Recycling Produced Water Study and further direct the Oil and Gas Research Council Director to release the Request for Proposals. On a roll call vote, Governor Burgum, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Governor Burgum mentioned that Oklahoma had set a goal to cease using freshwater in oil production by 2060 and the Ground Water Protection Council has been studying this issue. There is potential to leverage that information. Mr. Helms indicated that this is a top goal for many states. However, because North Dakota water is so salty, there may be more challenges regarding technology.

Mr. Brannan presented the Oil and Gas Research Council’s recommendation to approve the expenditure of funding under Emerging Issues Contract G-000-004 with the Energy and Environmental Research Center for a Study on Lightning Protection at Oil Production and Saltwater Disposal Facilities with a final report to be provided in October 2019 for consideration.

Mr. Brannan indicated that during the recent Oil and Gas Research Council meeting there was discussion about lightning strikes in western North Dakota on oil production and saltwater disposal facility sites. The Council is proposing that the Commission use a portion of the Emerging Issues contract funds to have a scoping study completed on the cause and possible methods for prevention of these lightning strike fires and then, based on the scoping study results, determine if further field studies are needed.

Mr. Helms noted that there have recently been six lightning strikes, which has prompted reactions without scientific evidence to back them up. Because of this, it is important to do the research first and based on the findings develop rules and regulations.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that \$64,000 of the Emerging Issues Contract G-000-004 with the Energy & Environmental Research Center be used for a Lightning Protection at Oil Production and Saltwater Disposal Facilities Phase 1-Scoping Study with a report on the scoping study to be presented to the Commission by October 31, 2019. On a roll call vote, Governor Burgum, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Mr. Brannan presented a request to establish an additional OGRP grant round application deadline of September 16, 2019.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission Industrial Commission accepts the recommendation of the Industrial Commission Executive Director/Secretary and approves an additional grant round for the Oil and Gas Research Program with an application submission deadline of September 16, 2019. On a roll call vote, Governor Burgum, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

WESTERN AREA WATER SUPPLY AUTHORITY (WAWSA)

Ms. Fine provided the Western Area Water Supply Authority Financial and Debt Reduction Report for the months of May, June, and July. Net income for the month of May was -\$903,471.32 after paying the principal due on the BND loan and an additional principal payment. There were also capital expenditures paid in the amount of \$992,518.05. For June the net income was -\$737,856.36 which included capital improvement payments of \$856,571.50. In July the net income was -\$383,912.47 and again there were capital improvements payments of \$118,171.35. (A copy of the report is available in the Commission files.)

Mr. Curtis Wilson, WAWSA Executive Director, and Mr. Corey Chorne, AE2S, provided an update on sales and current activity through July. (Copies of the update/graphs are available in the Commission files.)

Mr. Chorne reported that revenue year-to-date through July is at \$9.1 million and was projected to be over \$12 million. Current revenue projections for 2019 are \$16.2 - \$18.4 million, which is above the breakeven of \$13.6 million. July sales did not perform as expected, averaging only 1.3 million gallons per day of industrial sales. However, August sales are performing well--at almost 2.7 million gallons per day and revenues are expected to increase.

In response to a question about the slow July, Mr. Wilson indicated that a significant amount of rain in the spring resulted in an increased volume of water being available from private producers -- rivers and ponds.

Additionally, well stimulation schedules have been delayed. Water is used during the completion process and several wells are being drilled but not completed.

Mr. Chorne noted that year over year, slightly more revenue is being generated for the product. He noted that the cost for delivery is also down. That is because of the location of the delivery point -- more water is being sold in the north service area compared to south and the costs for delivery to the north are lower than the south based on the number of pump stations that the water must go through.

In response to a question, Mr. Chorne clarified that even though revenues are below the budgeted revenue, it is still anticipated that revenue will be above the breakeven point. Mr. Wilson stated that he anticipates sales to increase in the later part of the year because private producers have used up their water permit appropriations.

There was discussion that the business model for industrial sales is changing. More water is required to stimulate a well, requiring water storage using pits and lay flats. In response to a question, Mr. Wilson responded that they are trying to build relationships with companies building the pits in order to sell to them. Infrastructure to pits is a challenge depending on the location. Pits north of Highway 2 are more strategic for WAWSA. There are several currently being built in this area. WAWSA does not have any lay flat. It has been considered, but it was unclear if expending funds for that purpose is an option for WAWSA. WAWSA is continuing to work on building relationships with oil companies to provide maintenance water. Mr. Wilson stated that oil companies are willing to pay the operations and maintenance costs for the delivery of WAWSA water, but they are not willing to provide the upfront capital costs to get the water to the well site. The Commission requested that Mr. Wilson come back before the end of the year with an updated business plan reflecting how WAWSA can deal with these issues.

Mr. Wilson noted that there has been a focus on cost reductions. It was the consensus of the Commission that due to the size of debt, cutting costs won't solve the problem. The Commission expressed that they would like a business plan for their review including potential customers, if the pits are permanent or temporary, a map showing the location of the pits, and what level of capital investment may be needed to get the water to the customers, etc.

Mr. Chorne reviewed the additional reports that showed the 2019 WAWSA Monthly Budgeted and Adjusted Industrial Sales Forecast; WAWSA 2019 and Historical Domestic Water Demands; WAWSA 2019 and Historical Industrial Water Demands, and WAWSA 2019 and Historical Total Water Demand. These charts show how weather and seasons impact the demand for water. He also noted that in the future he would be revising the first chart to reflect a lower breakeven to be consistent with the lower forecasted revenue.

LIGNITE RESEARCH, DEVELOPMENT, & MARKETING PROGRAM

Ms. Fine provided the Lignite Research Fund financial report. There is \$5.4 million currently available. Ms. Fine noted that in the 2019-2021 biennium the fund will receive an additional \$10 million in accordance with HB 1066. The Lignite Research Council will be considering a budget for the 2019-2021 biennium and will have a recommendation for the Commission at the November Industrial Commission meeting.

Mr. Jason Bohrer and Mr. Mike Holmes, Lignite Energy Council, presented the following Lignite Research Council recommendations on Grant Round 89 & 90 applications for consideration: (Copies of the applications are available in the Commission files.)

LRC-XC (90)-B: “Co-Production of Multiple High Value Solid Products from Lignite Coals” Submitted by: Institute for Energy Studies (UND); Request for \$157,500; Total Project Costs: \$1,064,625; Project Duration: 35 months

The University of North Dakota (UND), in collaboration with Clean Republic LLC, Microbeam Technologies, Inc., and Barr Engineering Co. is proposing to develop a synergic process to co-produce multiple high-value solid products from North Dakota lignite coals, through integration of several successful projects performed at the UND Institute for Energy Studies (IES).

The objectives of this proposed project include: 1) Build on current efforts to produce a high-value ore containing >90% REE and other critical elements, leaving a clean lignite by-product; 2) Utilize the clean lignite by-product as a feedstock for extracting humic acid from lignite; 3) Develop two innovative processes to prepare advanced anode materials for lithium-ion batteries from the lignite-derived humic acid; 4) Determine the chemical and physical properties of the lignite extraction residue for use as a char or activated carbon.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission accepts the Lignite Research Council’s recommendation to fund the grant application “Co-Production of Multiple High Value Solid Products from Lignite Coals” and authorizes the Industrial Commission Executive Director and Secretary to execute an agreement with the Institute for Energy Studies (UND) to provide a total of Industrial Commission Lignite Research Program funding in an amount not to exceed \$157,500 (small research/education/demonstration funding category) with the contingencies that the Technical Advisor participates in project reviews, the Technical Advisor reviews the project management plan with the project team, and receipt of the DOE award and match funding.

In response to a question, Mr. Holmes provided examples of high value products from leftover char such as carbon black for tires. This project is specifically targeting cathodes for batteries as well as carbon fibers.

In response to a question regarding the potential for carbon to be used as a replacement for building products, Mr. Holmes stated he would have to do some checking on whether a high strength, lightweight product could be used as a replacement for cement.

In response to a question, Mr. Holmes stated that NDSU recently investigated different concentrations of CO₂ at greenhouses in a recent project, including carbon injection. The results are available, and Mr. Holmes will provide the information.

Mr. Bohrer noted there has been discussion regarding partnering with the Agricultural Products Utilization Commission to build upon the NDSU study and do a joint study by the end of the year that focuses on identifying transportation and distribution bottle necks.

Governor Burgum asked Mr. Bohrer if he has contacted the MHA nation leadership regarding the issue. Mr. Bohrer stated that he had. The MHA engagement in this work will be part of the next study. Their approach will be slightly different, because they will be taking advantage of energy from flared gas. But there will be other synergies including market size and distribution. The impacts of corporate farming laws also need to be fully understood.

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

LRC-XC (90)-C: “Rare Earth Element Extraction and Concentration of Pilot-Scale from North Dakota Coal-Related Feedstocks” Submitted by: Institute for Energy Studies (UND); Request for \$900,000; Total Project Costs \$6,508,555; Project Duration: 30 months

The University of North Dakota (UND), in collaboration with Microbeam Technologies Inc. (MTI), Barr Engineering Co., Rare Earth Salts (RES) and MLJ Consulting is proposing to demonstrate at the pilot scale its novel technology for rare earth element recovery from North Dakota lignite coal feedstocks.

The objectives of this project include: 1) Confirm coal seams found within active North Dakota mines have elevated REE content and collect a large sample (300-500 tons) for further processing; 2) Design and construct a pilot-scale facility for REE extraction and concentration with at least 0.25 tons/hr coal feed; 3) Determine optimal operating conditions using existing bench-scale equipment and utilize these optimized parameters to process at least 100 tons of high REE coal; 4) Verify REE product quality with downstream REE refiners (RES) and reduce potential costs and time-to-market associated with coal-related REE materials.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission accepts the Lignite Research Council’s recommendation to fund the grant application “Rare Earth Element Extraction and Concentration of Pilot-Scale from North Dakota Coal-Related Feedstocks” and authorizes the Industrial Commission Executive Director and Secretary to execute an agreement with the Institute for Energy Studies (UND) to provide a total of Industrial Commission Lignite Research Program funding in an amount not to exceed \$900,000 (small research/education/demonstration funding category) with the contingencies that the Technical Advisor participates in project reviews and the Technical Advisor reviews the project management plan with the project team including, site planning, HAZOP considerations, and work/budget schedule breakout.

In response to a question about the location of the project, Mr. Holmes indicated that the location will be determined based on the confirmation of elevated concentrations. DOE has a minimum threshold of 300 ppm. Another factor determining the location is having an active mine. The Freedom Mine, north of Beulah, is likely as it is an active mine.

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

LRC-XC (90)-D: “Mitigation of Alkali Promoted Ash Deposition and Emissions from Coal Combustion” Submitted by: Barr Engineering Co.; Request for \$400,000; Total Project Costs: \$4,999,412; Project Duration: 36 months

Barr Engineering Co. is proposing to lead a multi-faceted team to study and demonstrate technology that will reduce the formation and presence of aerosols in the combustion zone of a lignite-fired utility boiler. The technology is for a low-cost retro-fit feature to reduce fouling and overall boiler and furnace temperatures when using high alkali coals, and to help plants explore ways to reduce aerosols which is needed for the consideration in carbon capture technology.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission accepts the Lignite Research Council’s recommendation to fund the grant application “Mitigation of Alkali Promoted Ash Deposition and Emissions from Coal Combustion” and authorizes the Industrial Commission Executive Director and Secretary to execute an agreement with Barr Engineering Co. to provide a total of Industrial Commission Lignite Research Program

funding in an amount not to exceed \$400,000 (small research /education/demonstration funding category) with the contingencies that the Technical Advisor participates in project reviews and the Technical Advisor reviews the project management plan with the project team. On a roll call vote, Governor Burgum, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Ms. Fine presented the Lignite Research Council's recommendation on LRC-LXXXIX (89)-A: "Enhance, Preserve and Protect Project, Research & Development, Environmental, and Transmission Planning Services" Submitted by: Lignite Energy Council; Request for \$3,051,961; Total Project Costs: \$3,051,961; Project Duration: 42 months. This is a non-matching project.

The Enhance, Preserve, and Protect project continues to build on the ongoing commitment and cooperation among government agencies, elected leadership, and the lignite industry to insure the long-term viability of the ND lignite industry. Objectives include: Build on previous work to preserve and protect the existing lignite fleet in ND; Employ and update Advanced Energy Technology (AET) Program; Identify opportunities to enhance the future of the state's lignite resources; Monitor regulatory policy that could jeopardize the future of lignite; Be flexible and timely in working with industry and regulators to make the best use of lignite.

Mr. Bohrer confirmed he will be working on this project. Mr. Jonathan Fortner will also be significantly involved. All of the activities in this grant tie to the core mission.

In response to a question regarding accountability to taxpayers, Mr. Holmes stated that measures of success include annual presentations on performance results, white papers including valued-added opportunities, and engagement with the Department of Energy and other groups that shape policy. The ND Transmission Authority is also funded under this project. Mr. Bohrer noted that this grant will fill in gaps in data and knowledge to take ideas into commercialization.

It was noted that there is flexibility built in to the scope of work that would support studies regarding capacity for power demand growth, such as that which might result from the establishment of petrochemical plants, underground injection of gas, CO2 injection, etc.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission accepts the Lignite Research Council's recommendation to fund application "Enhance, Preserve and Protect Project, Research & Development, Environmental, and Transmission Planning Services" and authorizes the Industrial Commission Executive Director and Secretary to execute an agreement with the Lignite Energy Council to provide a total of Industrial Commission Lignite Research Program non-match funding in an amount not to exceed \$3,051,961 with the contingencies that 1) semi-annual reporting be provided to the Industrial Commission; 2) at a minimum, an annual presentation be made to the Lignite Research Council and the Industrial Commission; and 3) funding of studies in excess of \$100,000 be approved by the Industrial Commission Executive Director. On a roll call vote, Governor Burgum, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

TRANSMISSION AUTHORITY

Mr. John Weeda, Transmission Authority Director, provided the Transmission Authority FY 2019 Annual Report. (A copy of the Annual Report is available in the Commission files.)

Mr. Weeda stated that additional transmission needs to be seriously considered if North Dakota is to continue adding generation for export. Queues for Regional Transmission Organizations (RTOs) demonstrate the interest in developing energy resources. Limited availability of transmission and the high cost of interconnections to the transmission grid has resulted in some projects being canceled.

Mr. Weeda stated that he has a power study ongoing which should be completed by end of year which will help us understand the areas that are congested and the areas that are available for permits. He will be reporting that information to the Commission when the study is completed.

Mr. Weeda reported that he is working with the Governor's Office staff regarding a letter from the Midwest Governors Association to MISO requesting that MISO proceed with more transmission studies. The message to MISO is that North Dakota is an "all of the above" state and intends to continue in that manner; North Dakota does not support 100% renewable by 2050 mandates or goals; and North Dakota will continue to provide energy resources to others in a sound business manner.

Mr. Weeda stated that DC transmission has many advantages and should be considered by MISO. He will be carrying this message to RTOs at several events in upcoming months.

In response to a question, Mr. Weeda stated that wind energy typically only runs on peak demand time about 15% of the time.

Mr. Weeda noted that Great River Energy in partnership with other CapX2020 utilities has announced an operational study of the grid termed CapX2050 to evaluate operation of the grid under high renewable energy scenarios. In response to a question regarding CapX2020, Mr. Weeda indicated that it does have room for additional wires and could be part of the solution. Both AC lines and DC lines could be an option. DC lines have less than 5% loss, while AC historically has a loss of 10% or more. There would need to be a feeder system to feed into a DC terminal, so local AC improvements would be needed as well.

Mr. Weeda noted he is engaging in the following::

- Actively supporting GRE led CapX2050 study effort
- Outreach to current transmission owners in North Dakota
- Outreach to potential long-distance transmission developers that have aspirations to build in ND
- Coordinating PSE power flow study for ND with both Basin Electric and Great River Energy
- Monitoring conferences and meetings that give North Dakota an opportunity to talk about transmission needs.

Ms. Fine presented, as required by state law, the FY 2019 Financial Report. For the fiscal year ended June 30, 2019, \$164,275 had been spent on the Transmission Authority. The funding is provided through a Lignite Research Program contract with the Lignite Energy Council.

BANK OF NORTH DAKOTA

Mr. Eric Hardmeyer, BND President, and Mr. Kirby Evanger, Chief Credit Officer, presented amendments to the General Loan Policy for the Commission's consideration. The amendments were to the following sections of the General Loan Policy:

- Revisions to the Loan Approval Table
- Investment Committee Approvals
- Sunset Clause for Loan Commitments
- Contributed Capital

- Environmental Risk
- Review, Approval, and Monitoring of Policy Exceptions
- Beginning Farmer Loan Programs
- Family Farm Loan Program
- Beginning Entrepreneur Loan Guarantee Program
- Match
- Value-Added Loan Guarantee Program
- School Construction Loan Program
- Medical Facility Infrastructure Loan Fund
- State Water Commission Infrastructure Revolving Loan Fund
- Infrastructure Loan Fund
- Innovation Technology Loan Fund
- Residential Loan Origination Program
- School Construction Assistance Revolving Loan Fund

There was discussion regarding the location of assets as part of the loan evaluation. Apartment vacancies are higher on new buildings on the edge of a community compared to older buildings in the core of a community, which could increase the risk of a loan. Mr. Evanger noted that this wouldn't be in the general loan policy, it would be in the underwriting.

It was noted that some of the proposed interest rates are established in statute.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission adopt the recommendation of Bank of North Dakota Advisory Board and approve the amendments to the General Loan Policy and Bank of North Dakota Loan Programs as follows contingent upon review by the Credit Review Board:

2019 General Loan Policy Changes

(Changes to page 12 of BND General Loan Policy document)

The President, with the advice of the Financial Institutions Market Manager and Chief Credit Officer, shall establish lending authority for individual business bankers, residential, and student loan staff consistent with their experience, expertise and demonstrated lending judgment and will be reviewed annually. Commercial and agriculture authorities shall be distinguished between non-watchlist and watchlist classifications. Non-watchlist includes credits that are risk rated 1-4. Watchlist includes credits that are risk rated 5-8. The Bank's lending authorities are as follows:

Loan Approval Table

	<i>NON-WATCH LIST CREDITS</i> <i>Authorities for all credit actions</i> <i>except: extensions</i>	<i>WATCH LIST CREDITS</i> <i>authorities for all credit</i> <i>actions except: extensions,</i> <i>charge offs and moves to</i> <i>and from non- accrual</i>
<i>Individual Loan Approval</i>		
<i>Business Bankers</i>	<i>Up to \$500,000</i>	<i>Up to \$250,000</i>
<i>Direct Farm RE Loan Specialist</i>	<i>Up to \$500,000</i>	<i>Up to \$250,000</i>
<i>E.D. & Govt Program Manager</i>	<i>Up to \$500,000</i>	<i>Up to \$250,000</i>
<i>Special Assets Manager</i>	<i>Up to \$1,000,000</i>	<i>Up to \$750,000</i>
<i>Sole Serial Sign-Off (requires any of the following to approve):</i>		
<i>President</i>	<i>Up to \$1,500,000</i>	<i>Up to \$750,000</i>

<i>Chief Credit Officer</i>	<i>Up to \$1,500,000</i>	<i>Up to \$750,000</i>
<i>Chief Business Development Officer</i>	<i>Up to \$1,500,000</i>	<i>Up to \$750,000</i>
<i>Financial Institutions Market Manager</i>	<i>Up to \$1,500,000</i>	<i>Up to \$750,000</i>
Dual Serial Sign-Off (requires any of the following to approve):		
<i>President</i>	<i>\$1,500,001 up to \$5,000,000</i>	<i>\$750,001 up to \$2,500,000</i>
<i>Chief Credit Officer</i>	<i>\$1,500,001 up to \$5,000,000</i>	<i>\$750,001 up to \$2,500,000</i>
<i>Chief Business Development Officer</i>	<i>\$1,500,001 up to \$5,000,000</i>	<i>\$750,001 up to \$2,500,000</i>
<i>Financial Institutions Market Manager</i>	<i>\$1,500,001 up to \$5,000,000</i>	<i>\$750,001 up to \$2,500,000</i>
Investment Committee		
	<i>\$5,000,001 up to \$15,000,000</i>	<i>\$2,500,001 up to \$7,500,000</i>
Advisory Board		
	<i>Loans in excess of \$15,000,000</i>	<i>Loans in excess of \$7,500,000</i>
Industrial Commission		
	<i>Loans in excess of \$15,000,000</i>	<i>Loans in excess of \$7,500,000</i>

INVESTMENT COMMITTEE

Watchlist loans between \$2,500,001 and up to \$7,500,000 and non-watchlist loans between \$5,000,001 and up to \$15,000,000 require approval from the Investment Committee. The Investment Committee of the Bank shall consist of seven members appointed by the President with no more than three members from Business Development or Credit Administration. It is the responsibility of an absent voter to find a substitute to vote in their place. A minimum of six voting members or delegates must be present for a quorum with a simple majority ruling.

For a credit relationship which exceeds \$15,000,000, the Investment Committee may renew the loan without further action by the Industrial Commission or Advisory Board provided: 1) the loan has a risk rating code of 4 or better; 2) the quality of the loan has not deteriorated; and 3) the Advisory Board and Industrial Commission have previously approved the loan.

The Investment Committee will also have full authority to set pricing, rates, and fees on all Bank of North Dakota loan programs unless otherwise stated in century code.

(Changes to page 14 of BND General Loan Policy document)

- The 15% rule resets after a loan decision of the highest authority; however, the most recent Annual Review/new request must be dated within the past 12 months and business banker must conclude that there has been no material change to the borrower's financial condition since last financial review. If negative change or deterioration to the credit has occurred, the 15% rule is not available.
- The new loan proposed complies with loan policy.
- The 15% Rule does not apply to a new borrower to the bank, regardless of existing debt to related entities. The 15% Rule cannot be used to advance to a borrower who does not have existing debt with the Bank.
- The combined aggregate credit exposure, including the new proposed debt, DOES NOT exceed legal lending limits or concentration limits.

Upon granting a loan under the 15% Rule, the banker must indicate in the file comment that the loan was granted under the 15% Rule; no additional reporting or approval is required.

SUNSET CLAUSE FOR LOAN COMMITMENTS

An initial commitment by the Bank to make a direct loan or to participate in a loan may not exceed 180 days. If

the Bank is not a participant in the construction or bridge financing provided to a borrower but has committed to provide permanent financing to that borrower, the Bank may ~~extend~~ make up to an ~~182~~- month commitment to accommodate the construction or installation phase. Loans under the Economic Development and Government Program area will be allowed up to 12 months before the initial commitment will expire. Upon expiration as outlined herein, the banker must obtain re-approval from the same authority level that made the original approval. Unless tied to an index, fixed rate commitments expire 30 days from the commitment date.

LOAN MATURITY EXTENSIONS

Regardless of exposure level, extensions of loan payments and/or maturity totaling no more than 120 days for non-watchlist loans, and 30 days for watchlist credits, may be granted by the business banker without further approval provided no adverse change has occurred in the borrower's financial condition. Any subsequent extensions must be approved by Sole Approval and shall have the authority to approve an extension of loan payments and/or maturity dates for an additional 120 days regardless of exposure level for non-watchlist credit and an additional 90 days for watchlist credits. The cumulative total of extensions exceeding 240 days must be considered a renewal and require a full financial review and credit analysis of the borrower.

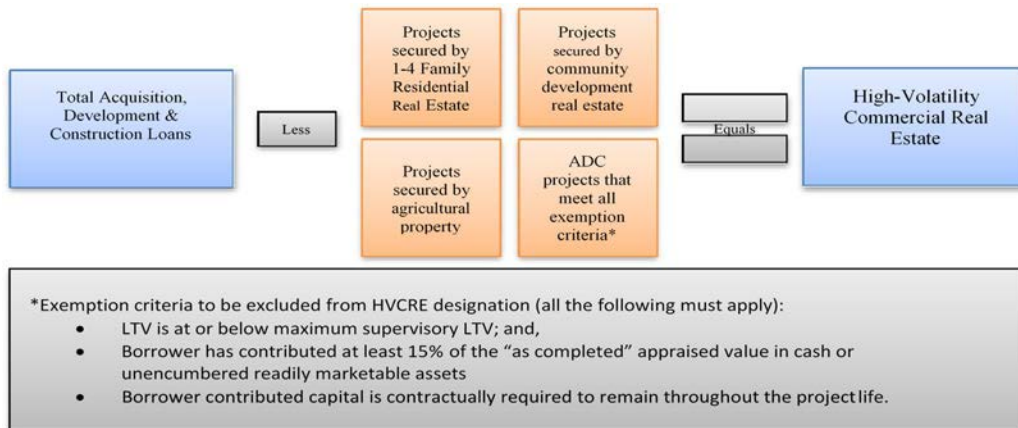
For watchlist credits all extensions of loan payments and/or maturity beyond 120 cumulative days must be approved by Dual authority regardless of exposure level. The cumulative total of extensions exceeding 240 days must be considered a renewal and require a full financial review and credit analysis of the borrower.

(Changes to page 24 of BND General Loan Policy document)

3. The loan is secured by agricultural land and is used for the purchase or development of land that will or can be used for agricultural purposes. The valuation of the land must be based on its use for agricultural purposes only and should not consider other development options.

4. The loan finances an acquisition, construction, or development project in which all of the following criteria are met:

- The project's loan-to-value is less than or equal to the maximum supervisory loan-to-value limits set forth in applicable regulations and,*
- The borrower(s) has **contributed capital** (see definition below) to the project prior to the advancement of funds in the form of cash, unencumbered readily marketable assets, land to be contributed to the project purchased with cash, or certain out-of-pocket development expenses, where the aggregate of such capital contributions is at least 15 percent of the real estate project's "as completed" appraised value; and,*
- Borrower-contributed capital is contractually required to remain throughout the life of the project, i.e., until the loan is converted to permanent financing or the debt is paid in full. A financial institution that provides the original ADC loan may permanently finance the project so long as the permanent financing meets underwriting criteria for similar loans with similar risk profiles at the financial institution.*



Contributed Capital

Assets that are eligible to be counted toward contributed capital:

- Land, purchased with cash, that is contributed to the project prior to the advancement of funds.
- Out-of-pocket development expenses paid by the borrower, including:
 - Brokerage fees
 - Marketing expenses
 - Cost feasibility studies
- Soft costs included are expenses in development and predevelopment expenses that contribute to the value or completion of the project, provided that they and are reasonable in comparison to similar services from third parties. Examples include:
 - Interest and fees related to pre-development expenses
 - Developer fees
 - Leasing expenses
 - Brokerage commissions
 - Management fees

(Changes to pages 26-27 of BND General Loan Policy document)

MARIJUANA RELATED BUSINESSES (MRBs)

ND will have eight dispensaries and two grow facilities

Definitions of Marijuana Related Businesses (MRBs) Tiers

- Tier I – Businesses that manufacture, distribute, or dispense marijuana
- Tier II – Businesses that specifically focus on providing products and services to Tier I MRBs
 - Hydroponic supplies
 - Packaging supplies
 - Training and education
 - Marijuana software
- Tier III – Businesses with sales or services that are incidental to a Tier I MRB’s overall business and revenue
 - Electricians/plumbers
 - Attorneys/Accountants
 - Commercial property owners

BND Lending and Participating in MRBs

- Tier I – The Bank will not directly lend to or participate in a lending transaction to a Tier I MRBs.

- Tier II – The Bank will not directly lend to any Tier II.
 - The Bank will only participate in a Tier II loan transaction if less than 25% of the entity's revenue comes from doing business with a Tier I.
- Tier III – The Bank will only participate in a Tier III loan transaction if less than 25% of the entity's revenue comes from doing business with a Tier I or Tier II.

Correspondent Banks will be required to confirm that commercial property owners will not rent to a Tier I or Tier II. Correspondent Banks will be required to reaffirm periodically the commercial property owner has not rented to a Tier I or Tier II.

ENVIRONMENTAL RISK

~~The Bank will not knowingly extend credit secured by real estate that is contaminated by hazardous substances unless proper environmental due diligence and analysis is conducted prior to loan funding. If environmental contamination is discovered during the environmental due diligence, the Bank will need to determine whether to decline the loan request or proceed based on further analysis of the environmental remediation. In some cases, remediation is complete or partially complete or not started at all at the time a loan application is being considered. If remediation is complete, confirmation from a third party environmental expert is warranted, and a Letter of Regulatory Assurance from the Department of Health will absolve the Bank from environmental liability. If the environmental remediation is in process or not started at all, the Bank will need to obtain a progress report from a third party environmental expert as to the extent of the environmental damage yet to be complete along with estimated costs, and evidence that remediation funding plus a contingency is in place to finish the clean up work.~~

~~The goal of the bank is to utilize prudent procedures to evaluate potential environmental risk, balancing the interests of the Bank in protecting itself from potential liability against the need to avoid unnecessary~~

~~expenditures of time and money. Because certain types of real estate collateral pose a higher degree of risk of environmental liability, the level of scrutiny given to real estate collateral will be commensurate with the Bank's perception of the degree of risk posed by the property at issue.~~

~~If the credit quality is such that the credit would be approved as unsecured, it would be appropriate to still take a mortgage on the contaminated property; however, the Bank would not want to become a part of the chain of title to avoid potential environmental liability. Credit risk is the primary risk of focus in this situation.~~

The Bank will not knowingly extend credit secured by real estate that is contaminated by hazardous substances unless proper environmental due diligence and analysis is conducted prior to loan funding. If environmental contamination is discovered during the environmental due diligence process, the Bank will need to determine whether to decline the loan request or proceed based on further analysis of the environmental remediation. Requests where remediation is complete, partially complete, or not yet started may be considered; however, the Bank must receive the appropriate assurances from the state's regulatory agency based on the stage of remediation (see guidelines for further details). If remediation is not complete prior to loan funding, the Bank will need to obtain a progress report from a third-party environmental expert detailing the extent of the environmental damage yet to be remediated, the estimated costs, and evidence that remediation funding plus a contingency (typically 30%) is in place to finish the clean-up work. Remediation funds plus contingency must be held in a bank-controlled account.

The goal of the bank is to utilize prudent procedures to evaluate potential environmental risk, balancing the interests of the Bank in protecting itself from potential liability against the need to avoid unnecessary expenditures of time and money. Because certain types of real estate collateral pose a higher degree of risk of environmental liability, the level of scrutiny given to real estate collateral will be commensurate with the Bank's perception of the degree of risk posed by the property at issue.

If the credit quality is such that the request would be approved as unsecured, it would be appropriate to still take a mortgage on the contaminated property; however, the Bank would not want to become a part of the chain of title or participate in the management of the property to avoid potential environmental liability. Credit risk is the primary risk of focus in this situation.

ENVIRONMENTAL QUESTIONNAIRES

Requirements for potential borrowers:

Potential borrowers are to complete an Environmental Questionnaire on any loan request exceeding \$100,000 to be secured by real estate except one- to four-family residential real estate or bare farm land. The questionnaire is also to be completed by a customer if the banker or originating lender detected any potential contamination in the site inspection of a non-real estate secured loan request. The questionnaire is to be completed, dated, and signed by the customer or a party authorized by the customer (the customer may elect to contract with an outside expert to complete the questionnaire) and placed in the customer file. The questionnaire is to be reviewed by the banker prior to committing or funding these credit requests.

If answers on the questionnaire indicate any potential environmental contamination issues, a Transaction Screen Assessment (TSA) or Phase I or Phase II Assessment must be performed by a qualified third party with environmental expertise, at the customer's expense, before proceeding with the loan request, or the banker may need to decline the loan request.

(Changes to page 35 of BND General Loan Policy document)

- Capable of rendering unbiased estimates of value;
- Competent to perform the review commensurate with the complexity of the transaction;
- Experienced with the related real estate that is relevant to the type of property being evaluated;
- Subject to adequate safeguards and controls to ensure the integrity of the evaluations they perform; and
- Detailed in documenting the file to support the estimate of value and include sufficient information for the Bank to understand the decision regarding the transaction.

Individuals who perform any of the engagement, evaluation or review functions described herein will have their credentials documented.

DIRECT LOAN CLOSINGS

The Bank's Direct Loans, with the exception of bank stock loans and CD secured loans, must be closed by a North Dakota attorney that has been appointed as a Special Assistant of the North Dakota Attorney General.

REVIEW, APPROVAL, AND MONITORING OF POLICY EXCEPTIONS

Exceptions to this policy should be approved only in limited circumstances. Justification for exceptions to policy should be based upon compelling economic reasons and should not represent undue risk or exposure to the Bank. Each exception to loan policy must be identified in the credit presentation along with the mitigating risk factor(s). Except for environmental and appraisal/valuation policy exceptions, all other exceptions to loan policy must be approved by the appropriate approval levels based on exposure previously outlined in this policy. A eEnvironmental and appraisal/valuation policy exceptions require Dual Approval, regardless of exposure level

~~at a minimum.~~ Policy exceptions will be tracked and monitored by the Chief Credit Officer and reported annually to the Investment Committee.

LOAN PROGRAMS

The attachments which follow are loan programs administered by the Bank and are part of this loan policy. Any amendments or additions must be approved by the Bank's Executive Committee, Advisory Board and the Industrial Commission.

LOAN GUIDELINES

The Guidelines which follow are made a part of this loan policy. The guidelines are generally focused on loan programs, administrative issues or guidance relative to the Bank's credit culture. These topics tend to be subject to frequent modification as a result of changes in:

- Regulatory environment
- Economy of the state or nation
- The Bank's appetite for risk due to concentration issues or other factors

Due to this need to react to changes in the Bank's environment, the Bank's Investment Committee will have the sole authority at any time to amend or make additions to the loan guidelines in order to address issues associated with administration of the Bank's assets or its credit culture. The Bank's Investment Committee minutes will specifically note action taken with regards to changes in the loan guidelines.

(Changes to page 38 of BND General Loan Policy document)

BEGINNING FARMER LOAN PROGRAMS

The Bank may make direct loans to beginning farmers for the purchase of farm real estate and may participate in loans to beginning farmers for the purchase of equipment and livestock.

A beginning farmer is any person who meets all of the following:

- The person is a resident of North Dakota whose principal occupation is or will be the production of an agricultural commodity on a family farm if granted a loan under this program.
- The person intends to use the real estate, equipment or livestock to be purchased for agricultural purposes.
- The person has a net worth, including that of any dependents and spouse, of less than \$1,500,000.
- Real Estate Only – The person may not have previously owned any substantial farmland greater than 30 percent of the average farm size in the county where the parcel is located.

Chattel Only – The person may not have previously farmed for more than 15 years. This eligibility requirement will be determined by totaling the number of years the applicant has received federal farm program payments.

Beginning Farmer Real Estate Program – A loan may not exceed 75 percent of the current appraised value of the farm real estate on which the Bank receives a first mortgage as security for the repayment of the loan and may not in any event exceed \$750,000. The person is restricted to a lifetime cap of \$750,000 under this program.

The term of a loan may not exceed 30 years. Payments may be based on amortization period not to exceed 30 years.

~~The interest rate will be fixed at 1.00% below the Bank's then current Base Rate for the first five years of a loan with a maximum interest rate of 6.00% per year and variable at 1.00% below the Bank's then current Base Rate~~

for the next five years adjusted annually on the anniversary date. For the remaining period of a loan, interest must be charged at the Bank's Base Rate as in effect from time to time. The interest rate for the first five years will be supplemented by 2.00% per annum from the revolving loan fund established by N.D.C.C. § 6-09-15.5 (not to exceed 8.00%).

A loan made from the fund must have either a fixed rate at one percent below the Bank's then current base rate for 10 years or the interest rate fixed at one percent below the Bank's then current base rate for the first five years with a maximum rate of six percent per year and variable at one percent below the Bank's current base rate for the second five years. During the second five years, the variable rate must be adjusted annually on the anniversary date. The rate during the remaining term of the loan floats at the Bank's base rate as in effect at that time.

During the first ten years of a loan made under this program, the loan may be refinanced under the BND Established Farmer or State Land Department Loan programs with no cost to the borrower. The borrower must meet all other requirements of the program selected.

All fees and actual costs incurred by the Bank in connection with a loan application and loan closing must be paid by the borrower.

Beginning Farmer Chattel Program – *A participation loan for the purchase of equipment or livestock may not exceed 80 percent of the agricultural collateral value on which the Bank receives a first security interest as collateral for the repayment of the loan. The Bank is required to participate in at least 50 percent of the total loan, and not more than 80 percent, with the balance to be retained by the lead*

(Changes to pages 41-42 of BND General Loan Policy document)

FAMILY FARM LOAN PROGRAM

The Bank may participate in farm loans in compliance with N.D.C.C. § 6-09.11. The minimum eligibility requirements are:

- Must be 18 years of age,*
- Must be a farmer,*
- Has experience and training necessary to operate a family farm, and*
- Net worth does not exceed \$1,500,000*

The types of farm loans which the Bank will purchase participation interests in under this program can generally be grouped into six categories:

- The purchase, or refinancing, of agricultural real estate.*
- The purchase of a home-quarter under N.D.C.C. § 6-9.10.*
- Making permanent improvements to agricultural real estate.*
- The purchase, or refinancing, of farm equipment.*
- The purchase, or refinancing, of livestock.*
- Restructuring operating debt carry-over.*

A loan made for any purpose under 1, 2 or 3 above must be secured by a first lien on the real property which is the subject of the loan and the total loan amount may not exceed 75 percent of the current appraised value of the real estate. The Bank must be provided with an acceptable appraisal conducted by an independent, qualified appraiser. The term of a loan for the purchase or the refinancing of real estate, or for the purpose of making permanent improvements to real property, may not exceed 30 years. Payments may be based on an amortization period not to exceed 30 years.

A loan for the purchase or refinancing of farm equipment must be secured by a first lien on the equipment and may not exceed 75 percent of the appraised value of the equipment. The term of a loan for the purchase or

refinancing of farm equipment may not exceed seven years.

A loan for the purchase or refinancing of livestock must be secured by a first lien on all similar livestock owned or acquired by the borrower while the loan is outstanding and may not exceed 75 percent of the appraised value of the livestock. The term of a loan for the purchase or refinancing of livestock may not exceed seven years.

A loan for the refinancing of farm equipment or livestock loan or the purchase of the home quarter which is part of the debt settlement transaction may not exceed 85 percent of the appraised value of the security being offered.

A loan for the restructuring of operating debt carry-over may not exceed 85 percent of the appraised value of the security being offered and all available security must be pledged to the loan. The term of a loan for the restructuring of operating debt carry-over may not exceed five years.

Any loan from any of the six categories which is supported by a Farm Service Agency guarantee may not exceed the value of the guarantee or the applicable limit of the appropriate category, whichever is greater. The term of the loan may not exceed the term of the guarantee.

The Bank must be provided with an acceptable appraisal. Additional security may be taken, as appropriate, in all other cases.

The Bank and the originating financial institution shall determine whether a borrower must obtain insurance on property pledged as security for a loan.

The interest rate charged by the lead financial institution on its share of a loan may not exceed the Bank's Base Rate plus 2.00% on variable rate loans and 3.50% over the corresponding Federal Home Loan Bank Advance Rate on fixed rate loans.

The interest rate charged by the lead financial institution on the Bank's participation interest in a loan shall be 1.00% less than the Bank's base Rate as in effect from time to time and will float. A loan may be a fixed rate at the Bank's then current base rate for up to ten years. The rate during the remaining term of the loan floats at the Bank's base rate as in effect at that time. For loans under this section, the interest rate will not exceed 11.00% at any time during the course of the loan.

The Bank's participation interest is limited to the lesser of \$750,000 or 90 percent of the loan amount.

Total cumulative portfolio for this program shall not exceed 45 percent of the Bank's unimpaired capital and surplus.

*Adopted: July 16, 1987
Amended: April 19, 2018*

(Changes to page 50 of BND General Loan Policy document)

BEGINNING ENTREPRENEUR LOAN GUARANTEE PROGRAM

The Bank may guarantee loans made to beginning entrepreneurs in compliance with N.D.C.C. § 6-09-15. The intent of this program is to assist an individual in the start-up or purchase of a revenue-producing enterprise. Also includes child care providers that consist of a child care home, group, or center licensed by the Department of Human Services.

A beginning entrepreneur is a resident of North Dakota who:

- *Has graduated from high school or has received a general equivalency certificate.*
- *Has had some training, by education or experience, in the type of revenue-producing enterprise which that person wishes to begin.*
- *Has, including the net worth of that person's dependents and spouse, if any, a net worth of less than an amount which is \$500,000.*

A loan guarantee means an agreement that in the event of default by a beginning entrepreneur under a promissory note, the Bank shall pay the lender the amount agreed upon in the Bank's Commitment Letter of the amount of principal due the lender on a loan at the time the claim is approved. The final claim may include up to 90 days of interest and all reasonable collection expenses based on the Bank's guarantee percentage.

The loan guarantee may not exceed five years. The maximum total loans to a single borrower may not exceed \$200,000 the Bank may approve a guarantee on a loan up to \$5,000 to a beginning entrepreneur for business start-up expense. The Bank may approve a guarantee on a loan up to \$25,000 without requiring collateral.

The Bank will provide loan guarantees based on the loan amount as follows:

<u>Maximum Loan Amount</u>	<u>Maximum Guarantee %</u>
<i>Up to \$150,000</i>	<i>85%</i>
<i>From \$150,001 to \$300,000</i>	<i>75%</i>
<i>From \$300,001 to \$500,000</i>	<i>50%</i>

At the discretion of the lead bank with Bank of North Dakota's consent, a beginning entrepreneur may receive a one-year period of interest only payments at the beginning term of the loan.

A lender is any lending institution that is regulated or funded under the laws of this state or the United States and which has provided financing to a beginning entrepreneur for the establishment of a qualified revenue-producing enterprise.

A revenue-producing enterprise means any real property, building, improvements, equipment or personal property used in connection with the enterprise.

~~*The Bank will charge a guarantee fee equal to 0.50% per year or a one time fee of 2.00%. The lender is required to charge an interest rate acceptable to the Bank. The guarantee fee may be included in the rate charged by the lender.*~~

This program can be used for refinance or consolidation of debt as long as the amount of the refinance or consolidation does not exceed 20 percent of the total loan to be guaranteed. This program can be used in conjunction with other Bank loan programs. Total outstanding guarantee under this program at the time of issuance may not exceed 5.00% of the Bank's tier one capital as defined by the Department of Financial Institutions.

*Adopted: July 30, 1999
Amended: May 1, 2017*

(Changes to page 55 of BND General Loan Policy document)

MATCH

The Bank has established a specially funded loan program intended to encourage and attract financially strong companies to North Dakota.

The primary candidates for this program will be businesses that create new wealth for the state and

provide new jobs or retain existing primary sector jobs outside of the retail sector. Companies interested in this program must provide evidence of considerable financial strength and adequate factors that demonstrate security of the principal and interest payments. The company must also demonstrate that they have a long-term investment grade rating from a nationally recognized rating agency.

If the company does not have a long-term investment grade rating, or chooses not to obtain such a rating, the following credit enhancements may be substituted:

- Letter of credit enhancement by a financial institution.*
- Guarantee from a federal guaranty agency.*
- Guarantee from a company other than the borrower which has a long-term investment grade rating from a nationally recognized rating agency.*
- Pledging of a certificate of deposit or marketable securities of a quality and level satisfactory to the Bank.*

The enhancement alternatives must provide 100 percent coverage for the Bank's portion of the loan. The financial institution may provide a letter of credit acceptable to the Bank or pledge Fed Book entry securities (Government, Agencies and Agency sponsored securities).

In determining the qualifications for this program, primary consideration will be given to the impact the project will have on the state's economy. Specifically, it will be judged in terms of the number and types of jobs, wage and/or salary scales, tax impact, contribution to other state businesses and its enhancement of the labor force through technical training as well as other factors considered pertinent in each specific case.

The primary purposes of the program are for the financing of:

- 1. Real Estate*
- 2. Equipment*

The loan will be in participation with a lead lender. The amount of the participation shall be negotiable.

Funding of the loan is predicated on the acquisition of the Bank's deposits that will be used to match fund the loan.

The interest rate on the Bank's portion of this loan shall be 25-50 basis points over the one to five- year US Treasury Yield Rate with a floor of 2%. The interest rate on the Bank's portion may be repriced during the term of the loan depending upon the condition(s) of the match funding sale.

The term of the loan will vary depending on the loan purpose ~~with a maximum of 15 years~~ and number of years agreed upon with the State Investment Board.

The security on the loan shall consist of a first lien position on real estate, equipment, corporate guarantees and any other security to be deemed appropriate. If the company is a subsidiary of a parent corporation, and the subsidiary cannot meet the financial strength requirements, then the parent may provide a corporate guarantee in order for the company to qualify.

Loan servicing must be provided by a servicer with substantial skills and experience qualified to handle large corporate borrowers.

Adopted: March 2, 1990

Amended: December 9, 2016

(Changes to pages 68-69 of BND General Loan Policy document)

FUEL PRODUCTION FACILITY LOAN GUARANTEE PROGRAM-VALUE-ADDED LOAN GUARANTEE PROGRAM

~~The Bank may guarantee loans made to entities for value added agriculture and energy projects that construct agriculturally derived fuel production facilities in compliance with N.D.C.C. § 6-09.7. (Fuel Production Loan Guarantee Program) The intent of this program is to encourage lenders to provide financing for projects, which must be located in North Dakota, that add value to North Dakota commodities to fuel production facilities with a guarantee provided by the Bank. The Bank shall establish and at all times maintain an adequate guarantee reserve fund in a special account at the Bank.~~

~~Value added agriculture is a change made to primary agriculture products (crops and livestock) that increase the product's value, thereby creating new economic activity and jobs in one of three ways:~~

- ~~Process activities that create value for the product and/or introduce the product to new markets;~~
- ~~Diversification and/or modification of primary agriculture product; or~~
- ~~Pre-production modifications that increase yield, quality and uses~~

~~Value added agriculture does not include; farm production of crops and livestock; biotechnology and research and development activities focused on increasing primary agricultural production; human capital investments; agritourism; seed production; and transportation.~~

~~Value added energy is a change made to hydrocarbons or by-products of hydrocarbons produced in North Dakota that increase the product's value, thereby creating new economic activity and jobs in one of three ways:~~

- ~~Process activities the create value for the hydrocarbon or by-products and/or introduce the product to new markets;~~
- ~~Modifications of hydrocarbons or by-products that result in increased production, quality or uses;~~
- ~~Pre-production modifications that increase production of hydrocarbons through drilling or mining activities.~~

~~The facility must use biomass for agriculturally derived fuel production. The facility must be located in North Dakota.~~

~~A loan guarantee means an agreement that in the event of default by the eligible borrower under a promissory note, the Bank shall pay the lender the amount agreed upon up to 30 percent of the amount of principal due the lender on a loan at the time the claim is approved by the Bank. The loan guarantee to an individual project may not exceed fifteen years. The Bank of North Dakota may take not less than 50 percent or no more than 80 percent of the total loan amount as its participation percentage.~~

~~The maximum dollar amount of any guarantee on a single loan may not exceed \$25,000,000. The extent of the value of all loan guarantees issued by the Bank may not, at any one time, exceed \$25,000,000.~~

~~The loan guarantee may not exceed fifteen years.~~

~~A lender is any bank, credit union, farm credit association, and saving and loan association that is regulated or funded under the laws of this state or the United States and which has provided financing to an eligible project.~~

~~The loan guarantee reserve fund will be funded from the Strategic Investment and Improvements Fund created by section 15-08.1-08. Money in the guarantee reserve fund are available to reimburse lenders for guaranteed loans in default. The amount of reserves for all guaranteed loans must be determined by a formula that will assure, as determined by the Bank, and adequate amount of reserve.~~

The securities in which the moneys in the reserve fund may be invested must meet the same requirements as those authorized for investment used the state investment board. The income from such investments must be made available for the costs of administering the state guarantee loan program and income in excess of that required to pay the cost of administering the program must be deposited in the reserve fund.

Lender shall pay Bank of North Dakota a guaranty fee in an amount equal to one percent (1.0%) if BND's total guaranty amount. The guaranty fee shall be paid at the time of loan closing. On each anniversary date of the note, an on-going guaranty fee of on-half percent (.50%) of BND'S total outstanding guaranty amount shall be due through the maturity date of the notes approved for guaranty. If the lender terminates the guaranty of this agreement, the guaranty fee will not be refunded.

The guarantee reserve fund will be equal to or greater than the amount of the outstanding guarantees. The guarantee reserve fund will be funded from the Strategic Investment and Improvements Fund. Moneys in the guarantee reserve fund are available to reimburse lenders for guaranteed loans in default.

—The Bank will charge a guarantee fee as determined by the Bank's Investment Committee. Guarantee fees in excess of the amount required to pay the cost of administering the program must be deposited in the guarantee reserve fund.

This program can be used in conjunction with other Bank loan programs. This program expires on July 31, 2015.

Adopted: July 21, 2011
Amended: July 30, 2013
Reviewed: June 30, 2015

(Changes to page 70 of BND General Loan Policy document)

SCHOOL CONSTRUCTION LOAN PROGRAM

The School Construction Loan Program (SCL Program) has been established under N.D.C.C. § 15.1-36-02 to fund the construction and permanent financing to eligible North Dakota school districts. Projects may include new school construction or remodeling project approved by the superintendent of public instruction.

The Bank may provide up to \$250,000,000 to eligible school districts for school construction projects, except that total debt provided under this program for the first year of the biennium ending June 30, 2017, may not exceed \$125,000,000. This program expires June 30, 2017.

Qualifying Requirements –

The board of a school district shall:

- Propose a new construction or renovation project with a cost of no less than \$1,000,000 and an expected utilization of at least 30 years.
- Obtain approval of the superintendent of public instruction for the project under N.D.C.C. § 15.1-36.01.
- Receive authorization for a bond issue in accordance with by N.D.C.C. § 21-03.

Eligible Use of Proceeds –

Proceeds may be used to finance new construction or remodeling project of a North Dakota school district.

Refinancing of existing debt or other obligations will not be allowed.

Funding Amount –

The minimum amount of the debt obligation must be no less than \$700,000. The maximum amount is \$20,000,000. If the school district's unobligated general fund balance on the preceding June 30 exceeds the limitations set forth under N.D.C.C. § 15.1-27-35.3, the amount may not exceed 80 percent of the project's cost.

Repayment Terms –

The debt obligation shall require the following:

- Interest payments may be made during the construction period or paid at the time of conversion to permanent financing. The construction period may not exceed 24 months.
- The term of the obligation may not exceed 20 years and will call for amortized payments over the term. The school district may request a shorter term.

Interest Rate –

The interest rate to the school districts may not exceed 2.00% until July 1, 2025. Thereafter, the rate will reset at a variable rate not to exceed the Bank's Base Rate or may be a fixed rate for the remaining amortization of the note.

The effective interest rate on debt obligations closed between July 1, 2015, and June 30, 2017, will reflect an interest buydown. As of July 1, 2019, these funds will come from the School Construction Assistance Revolving Loan Fund transferred from the Bank's undivided profits and awarded to the school districts. The maximum aggregate amount of the interest buydown awarded under this program may not exceed \$7,875,000 during the biennium.

Collateral –

The Bank may take all steps necessary and appropriate to preserve security under this program.

(Changes to pages 81-82 of BND General Loan Policy document)

MEDICAL FACILITY INFRASTRUCTURE LOAN FUND

The Bank shall administer the Medical Facility Infrastructure Loan Fund established by N.D.C.C. § 6-09-47 to provide loans to medical facilities to conduct construction that improves the health care infrastructure in the state or improves access to existing nonprofit health care providers in the state. The medical facility infrastructure fund is a special fund in the state treasury with an initial appropriation of \$50,000,000.

Qualifying Requirements for Borrower –

In order to qualify for the program:

- An application must be submitted by the governing board of the health care facility intended to receive the funding.
- The applicant must provide a detailed description of the proposed construction project, and the proposed medical facility must have an expected utilization of at least thirty years.
- The need and long-term viability of the construction project must be demonstrated.
- ~~All applications must be reviewed and approved by the Medical Facility Infrastructure Task Force. Priority will be given to applicants located in oil producing counties.~~

Eligible Loan Proceeds –

The proceeds may be used to finance the following:

- Purchase of land
- Purchase, lease, erection, or improvement of any structure or facility to the extent that the governing board of the health care facility has authority to authorize such activity
- Purchase of equipment

Loan Amount –

The maximum amount of a loan may not exceed 75 percent of the project costs within the following

parameters:

- The proposed construction project must be at least \$1,000,000.*
- The maximum loan amount is \$15,000,000 per project or borrower.*
- The construction period must not exceed 24 months after loan approval by the Bank.*

Collateral –

All loans under this program shall be secured by all available collateral interests. The Bank will work with other alternative financing sources in perfecting collateral interests for all parties.

Application Process –

All applications for loans under this program must be made to the Bank of North Dakota Medical Facility Infrastructure Task Force. ~~This task force shall provide written notice of each approved application to the Bank.~~ The Bank will require the following items from the applicant:

- Application*
- ~~*Conditional and firm commitment from the Task Force*~~
- Evidence of approval of the building plans from the North Dakota Department of Health*
- Corporate opinion and resolution confirming the project*
- Analysis of the project*
- Insurance coverage for the collateral offered and financial reporting*
- Any other data or documentation as deemed necessary*

Interest Rate –

The interest rate established for this program has been set at 1.00% with the fund receiving 0.50% and the Bank receiving a 0.50% service fee.

Repayment Terms –

Monthly interest payments may be required during the construction period or paid at the time of conversion to permanent financing.

- Permanent financing requires monthly amortized payments not to exceed 25 years.*

Fees and Costs –

The Bank may charge an origination fee and charge the borrower for all construction related loan servicing expenses.

*Adopted: July 30, 2013
Reviewed: September 17, 2014
Amended: June 30, 2015*

(Changes to page 83 of BND General Loan Policy document)

STATE WATER COMMISSION INFRASTRUCTURE REVOLVING LOAN FUND

The Bank administers the State Water Commission Infrastructure Revolving Loan Fund established by N.D.C.C. § 61-02-78. The fund was established to provide loans for water supply, flood protection, or other water development and water management projects. This fund is a revolving loan fund.

Projects which are not eligible for the state revolving fund will be given priority for these funds. Refinancing of existing debt or other obligations will not be allowed.

Loan Amount –

The maximum amount of a loan may not exceed the project costs, with the maximum loan limits to be determined by the ND State Water Commission.

Interest Rate –

The interest rate established for this program has been set at 1.50% with the fund receiving 1.00% and The Bank receiving a 0.50% service fee. the same interest rate as the revolving loan fund established under chapters 61-28.1 and 61-28.2

Repayment Terms –

Amortized payments over a term to be determined by the ND State Water Commission.

Collateral –

The Bank may take all steps necessary and appropriate to preserve security under this program.

Application Process –

All applications for loans under this program must be made to the ND State Water Commission office. The ND State Water Commission shall consider the following information when evaluating projects:

- A description of the nature and purposes of the proposed infrastructure project, including an explanation of the need for the project, the reasons why it is in the public interest, and the overall economic impact of the project.*
- The estimated cost of the project and the amount of the loan sought and other proposed sources of funding.*
- The extent to which completion of the project will provide a benefit to the state or regions within the state.*

The Commission shall approve projects and loans from the infrastructure fund and shall provide written notice of each approved application to the Bank.

The Bank shall manage and administer loans from the infrastructure fund. The Bank will require the following items from the applicant:

- Application*
- Conditional and firm commitment from the ND State Water Commission*
- Any other data or documentation as deemed necessary*

The Bank may use legal counsel to document and close the loan as deemed necessary. The Bank may recover from the revolving loan fund amounts actually expended by it for legal fees incurred.

*Adopted: September 17, 2014
Reviewed: June 30, 2015*

(Changes to page 85 of BND General Loan Policy document)

INFRASTRUCTURE LOAN FUND

The Bank shall administer the Infrastructure Revolving Loan Fund established by N.D.C.C. § 6-09-49 for the purpose of providing loans to political subdivisions, the Garrison Diversion Conservancy District, and the Lake Agassiz water authority for essential infrastructure projects. This fund is a revolving loan fund and is a continuing appropriation.

The Bank will have the authority to determine allocation of funds based upon the political subdivision's population base.

Qualifying Requirements for Borrower –

Loans may be made to North Dakota political subdivisions whose projects have been determined to be a priority for the state based upon a priority ranking methodology as established by the Bank.

Political subdivisions which receive funds distributed by the state treasurer or the Department of Transportation as approved by Senate Bill 2103 of the 64th Legislative Assembly will be ineligible to receive

a loan under this Fund until July 1, 2017.

Eligible Loan Proceeds –

The priorities for this program shall include a focus on essential infrastructure projects in North Dakota communities. Proceeds may be used to finance capital construction projects for the following:

- The Red River valley water supply project
- New or replacement of existing water or wastewater treatment plants
- New or replacement of existing sewer, storm sewer and water lines
- New or replacement of existing transportation infrastructure
- New or replacement of existing curb and gutter

Ineligible use of proceeds includes:

- Building construction other than structures integral to treatment plants or other approved processes are not eligible under this program
- Refinancing of existing debt or other obligations will not be allowed

Loan Amount –

The cumulative loan amounts may not exceed \$15,000,000 per applicant.

Repayment Terms –

The promissory note shall require the following:

- The term of the construction and permanent financing period may not exceed 30 years.

Interest Rate –

The interest rate established for this program has been set at 2.00% with the fund receiving 1.50% and the Bank receiving a 0.50% service fee.

Collateral –

The Bank may take all steps necessary and appropriate to preserve security under this program.

(Changes to pages 87-88 of BND General Loan Policy document)

INNOVATION TECHNOLOGY LOAN FUND

The Department of Commerce shall administer the Innovation Technology Loan program in consultation with the Bank of North Dakota to provide loans to conduct applied research, experimentation or operational testing within the state, to support technology advancement. The innovation loan fund is a special fund in the state treasury with an initial appropriation of \$15,000,000.

Qualifying Requirements for Borrower –

In order to qualify for the program:

- An application must be submitted to Department of Commerce for forwarding to the Innovation Loan Fund to Support Technology Advancement Committee.
- All applications will be reviewed by the Innovation Loan Fund to Support Technology Advancement Committee. The Committee will recommend which applications will be forwarded to the Bank for final approval. The Committee shall consider to the extent the proposal will:
 - o Deliver applied research, experimentation, or operational testing in one or more of the diversification sectors to create information or data to enhance North Dakota companies or industries making investments in North Dakota.
 - o Lead to the commercialization or patent of an innovative technology solution.
 - o Result in the development of a new company or expansion of an existing company that will diversify the state's economy through new products, investment, or skilled jobs.

Eligible Loan Proceeds –

Loan recipients shall, to the extent possible, leverage other state, federal and private sources of funding.

The proceeds may be used to finance the following:

- Enhance capacity to conduct applied research, experimentation or operational testing within the state.

Ineligible use of proceeds:

- Academic or instructive programing, workforce training or administrative costs
- To supplant funding for regular operations of institutions of higher education

Loan Terms – Loan terms will be in accordance with industry standards.

Interest Rate:

- Zero percent for the first three years of the loan;
- Two percent for the next two years of the loan;
- An interest rate equal to a standard Bank of North Dakota loan for all subsequent years.
- If an applicant no longer conducts its activities in the state, the interest rate of the loan shall default to the rate of a standard Bank of North Dakota loan.

Application Process –

All applications will be reviewed by the Committee and forwarded to the Bank for final loan approval.

The Bank will require the following items from the applicant:

- Application
- Business Plan
- Financial Statements
- Other information necessary to determine final loan approval

Post Award Monitoring –

- Upon completion of work performed from funding provided by a loan, the Department of Commerce shall provide an independent review of the results. Evaluation criteria include:
 - o How the work performed has contributed to the development of a company or the expansion of an existing company, has enhanced the ability of a company to make investment in the state, or otherwise enticed a company to invest or move to the state.
 - o How the work performed has led to additional economic investment of capital from public and private sector entities within and outside North Dakota.
 - o How the work performed has led to or may lead to a patent or research that is commercially viable.

Fees and Costs –

The Bank may charge an origination fee and charge the borrower for all fees associated with the project or other loan servicing expenses.

Adopted: August 1, 2019

(Changes to page 90 of BND General Loan Policy document)

RESIDENTIAL LOAN ORIGINATION PROGRAM

The Bank may originate residential mortgage loans in areas of the state where private sector loans are not available. The loan must be referred to the Bank by a local financial institution or credit union. The referring institution may assist with taking the loan application, gathering documents, ordering legal documents and maintaining contact with the borrower. The Bank will provide all regulatory disclosures, process, approve and disburse the loan. Eligible first-time homebuyer loans may be sold to the North Dakota Housing Finance Agency.

Conventional Loans (in compliance with N.D.C.C. § 06-09-44)

Loans may be made for the purpose of purchasing or refinancing an owner-occupied residence., ~~refinancing an existing loan to lower the interest rate, or refinancing a balloon payment that is due within 60 days.~~

The maximum loan amount will be determined by the Bank's Investment Committee.

The interest rate is the Bank's current market rate for conventional loans that are purchased and sold on the secondary market.

The maximum loan to value may not exceed 9080 percent ~~loan to value; with mortgage insurance from an approved private mortgage insurer. however, the local institution may take a second mortgage up to a combined loan to value of 95 percent.~~

FHA Insured and USDA Guaranteed Loans (in compliance with N.D.C.C. § 6-09-15)

Loans may be made for the purpose of purchasing an owner-occupied residence, or for refinancing an owner-occupied property which includes cash out refinancing.

Loans will be made according to the underwriting guidelines of the insuring or guaranteeing agency. The maximum loan and loan to value is also determined by the insuring or guaranteeing agency.

The interest rate is the Bank's current market rate for FHA/USDA loans that are purchased and sold on the secondary market.

Adopted: July 21, 2011
Amended: July 30, 2013

(Changes to pages 100-101 of BND General Loan Policy document)

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND

The School Construction Assistance Revolving Loan Fund (SCARLF Program) has been established under N.D.C.C. § 15.1-36-08 to fund the construction and permanent financing to eligible North Dakota school districts. Projects may include new school construction or remodeling project approved by the superintendent of public instruction.

Qualifying Requirements – The board of a school district shall:

- Propose a new construction or renovation project with a cost of no less than \$1,000,000 and an expected utilization of at least 30 years.
- Obtain approval of the superintendent of public instruction for the project under N.D.C.C. § 15.1-36.01.
- Receive authorization for a bond issue in accordance with by N.D.C.C. § 21-03.
- Submit a completed application to the Bank of North Dakota

Eligible Use of Proceeds – Proceeds may be used to finance new construction or remodeling project of a North Dakota school district.

Refinancing of existing debt or other obligations will not be allowed.

Funding Amount – The maximum amount is \$10,000,000. If the school district's unobligated general fund balance on the preceding June 30 exceeds the limitations set forth under N.D.C.C. § 15.1-27-35.3, the amount may not exceed 80 percent of the project's cost.

Repayment Terms – The debt obligation shall require the following:

- Interest payments may be made during the construction period or paid at the time of conversion to permanent financing. The construction period may not exceed 24 months.
- The term of the obligation may not exceed 20 years and will call for amortized payments over the term. The school district may request a shorter term.

Interest Rate – The interest rate to the school districts may not exceed 2.00%

Collateral – The Bank may take all steps necessary to preserve security under this program.

Application Process – To apply for funding under this program, the school district shall:

- Submit a completed application to the Bank. The application shall include:
 - Estimated sources and uses for the project
 - Financial statements for the school district as well as projections to support the repayment capacity for the project
 - Any other data or documentation as deemed necessary

The Bank shall consider the program applications in accordance with the priority ranking completed by the superintendent of public instruction based upon a review of all application filed during the 12-month period preceding April 1 of each year. The Bank will be responsible for final due diligence and loan committee approval.

Fees and Costs – The Bank may charge an origination fee and charge the borrower for all fees associated with the project or other servicing expenses.

Adopted: July 1, 2017

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

Mr. Tim Porter, Chief Financial Officer, presented the December 31, 2018 College SAVE Audit. (A copy of the audit is available in the Commission files.) Mr. Hardmeyer noted that because the auditor is located in Arkansas, Mr. Porter is presenting the report on the audit. The audit had an unmodified opinion.

The net position decreased 2.9% from 2017 to 2018. This is attributed to a decline in the stock market. Contributions increased 4.8% from 2017 to 2018. The audit did not find any issues with internal control.

In response to a question, Mr. Porter verified that the overall fund total went down by \$13.6 million from December 31, 2017 to December 31, 2018. This was related to the downturn of the market. The fund currently has a total value of over \$500,000 million.

In response to questions, Mr. Hardmeyer indicated that deposits come from people investing in 529 accounts. There are currently over 25,000 North Dakota accounts, up by approximately 3,000 from 2017. The average account is approximately \$15,000.

Van Guard was selected to invest the portfolio. Participants get a tax incentive as well as a return. The Bank gets 10 basis points on everything under management, which is currently \$511,000,000. These funds are used for grant programs. There are some administrative costs associated with the program.

Mr. Hardmeyer presented the second quarter 2019 Performance Highlights.

- Currently, net income is \$4.8 million above budget. It is anticipated that the year will finish with \$170 million compared to \$158 million last year.
- Student loans all-time record low in terms of delinquency.
- Agriculture loans delinquency has increased. Currently, eight loans are at risk of foreclosure.

There was discussion regarding student loans that have used Deal One to consolidate. Federal loans that may qualify for loan forgiveness become disqualified if they are consolidated. This is disclosed by the Bank to the borrower at the time the borrower consolidates their loans.

There was discussion regarding the balance of SIIF. BND's return on equity is 17-18% compared to approximately 1% in SIIF. It was the consensus of the Commission that this should be considered further for the next legislative session.

Mr. Hardmeyer provided a Match Program Update. The State Investment Board (SIB) increased the amount from \$200 million to \$300 million. Interest in the program has increased dramatically. There are 8-9 projects totaling \$2 billion that are interested in participating. SIB also is allowing a 10 year fixed rate option, and the maximum loan term was increased from 15 years to 20 years.

Mr. Hardmeyer presented the Bank of North Dakota Advisory Board May 16 & 24, 2019 and June 20, 2019 nonconfidential meeting minutes.

Pursuant to N.D.C.C. 6-09-35, the Industrial Commission entered executive session. Governor Burgum reminded the Commission members and those present in the executive session that the discussion during executive session must be limited to those items listed on the agenda which is anticipated to last between 30 and 45 minutes. It was noted that any formal action by the Commission would occur after it reconvened in open session. Commission members, their staff, and BND staff remained but the public was asked to leave the room. Governor Burgum closed the meeting at 12:38 p.m. pursuant to N.D.C.C. 6-09-35 to discuss the following items:

- Consideration of a loan application
- Non-Accrual Loans Quarterly Recap/Detail
- Problem Loan as of 07/31/19 – Adversely Classified Quarterly Recap
- Loan Charge-Offs and Recoveries Y.T.D. 06/30/19
- Off-Balance Sheet Risk Quarterly Recap/Detail
- Concentrations of Credit as of 06/30/19
- Bank of North Dakota Advisory Board May 16, 2019 and June 20, 2019 confidential meeting minutes
- Other Bank of North Dakota confidential business (as defined under N.D.C.C. 6-09-35)

Members Present:

Governor Doug Burgum
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Bank of North Dakota Personnel Present:

Eric Hardmeyer	Bank of North Dakota
Kirby Evanger	Bank of North Dakota
Tim Porter	Bank of North Dakota
Todd Steinwand	Bank of North Dakota

Others in Attendance:

Leslie Oliver	Governor's Office
Reice Haase	Governor's Office
Andrea Pfennig	Industrial Commission Office
Karlene Fine	Industrial Commission Office

The meeting reconvened in open session at 12:52 p.m. and Governor Burgum invited the public to return to the meeting room. He noted that during its executive session, the Commission made a motion regarding a Bank of North Dakota loan application. **On a roll call vote, Governor Burgum, Attorney General Stenehjem, and Commissioner Goehring voted aye. The motion carried unanimously.**

ADMINISTRATION

Ms. Fine presented a request from the North Dakota Investment Board for approval of Investment Board management of the AG Settlement Fund.

Attorney General Stenehjem noted that during last session, the Legislature approved the establishment and use of the fund to address attorney compensation needs and educational initiatives. The fund will be spread out over 3 biennia. Allowing the SIB to manage the fund will enable the fund to earn interest.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission accept the Industrial Commission Executive Director's recommendation and grant the Investment Board's request to enter into an agreement with the Office of the Attorney General to provide investment management services for the AG Settlement Fund. On a roll call vote, Governor Burgum, Attorney General Stenehjem, and Commissioner Goehring voted aye. The motion carried unanimously.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approve the June 20 and July 17, 2019 meeting minutes. On a roll call vote, Governor Burgum, Attorney General Stenehjem, and Commissioner Goehring voted aye. The motion carried unanimously.

With no further business at this location, the meeting went into recess at 1:00 p.m. Governor Burgum stated the meeting would reconvene at the State Mill in Grand Forks.

NORTH DAKOTA MILL

The Industrial Commission traveled from Bismarck to Grand Forks. Upon arriving in Grand Forks the Commission was driven to the North Dakota Mill. While traveling to the Mill the Commission viewed the

shuttle tracks north of the Mill and the construction work completed along those tracks. Upon arriving at the Mill, the Commission members, Commission Executive Director/Secretary, Governor's Office staff/security and Mill staff met briefly in the Mill conference room to get their safety equipment and then began the tour of the Mill facilities at approximately 3:15 p.m.—Vance Taylor and Chris Lemoine led the tour. The tour included stops at: 1) new grain unloading facility; 2) grain testing facility; 3) packing warehouse (viewed the new robotic packer); 4) roof of the G-Mill and 5) new warehouse and maintenance operations space across the street. Upon the conclusion of the tour, Governor Burgum reconvened the Commission meeting at 4:41 p.m. and the Commission took up North Dakota Mill business.

Mr. Vance Taylor, Mill CEO, thanked the Commission for touring the Mill and meeting with the Mill management team. Attorney General Stenehjem stated that the Mill facilities are impressive and suggested that Mill management have a video filmed of the flour making process in preparation of the Mill's 100th anniversary and to serve as an educational piece for the public. The Governor and the Agriculture Commissioner concurred and noted the importance of showcasing the improvements at the Mill including the robotics and the amount of flour being produced—adding value to North Dakota's wheat. The Commission members expressed appreciation for the Mill team and the improvements that have been made. The Commission asked that Mill management team convey to their staff how much the Commission appreciates all their work.

Mr. Taylor presented the fourth quarter unaudited report and fiscal year-end 2019 report.

SUMMARY

Operations in the 4th Quarter led to a profit of \$1,401,546 compared to a profit of \$4,169,484 in last year's 4th Quarter. For the year we had a profit of \$10,622,211 compared to \$14,188,276 last year.

	<u>Quarter</u>		<u>Year-to-Date</u>	
	<u>6/19</u>	<u>6/18</u>	<u>6/19</u>	<u>6/18</u>
Profits	1,401,546	4,169,484	10,622,211	14,188,276
Sales	73,709,291	84,301,118	312,342,791	338,852,593
Cwt. Shipped:				
Spring	3,253,276	3,533,476	13,701,106	14,164,287
% to Total	93.3%	93.1%	93.5%	92.6%
Durum/Blends	<u>233,333</u>	<u>261,152</u>	<u>960,296</u>	<u>1,125,490</u>
Total	<u>3,486,609</u>	<u>3,794,628</u>	<u>14,661,402</u>	<u>15,289,777</u>
Bulk Shipments	2,871,780	3,115,164	12,073,911	12,591,227
% to Total	82.4%	82.1%	82.4%	82.4%
Bag Shipments	584,312	644,572	2,445,370	2,552,832
% to Total	16.8%	17.0%	16.7%	16.7%
Tote Shipments	30,517	34,891	142,121	145,718
% to Total	0.8%	0.9%	0.9%	0.9%

Family Flour				
Shipments	77,503	64,899	350,522	341,084
% to Total	2.2%	1.7%	2.4%	2.2%
Organic Flour				
Shipments	35,091	40,534	141,901	156,413
% to Total	1.0%	1.1%	1.0%	1.0%
Wheat Purchased:				
Spring	7,256,476	7,341,000	29,095,539	30,715,866
Durum	<u>485,125</u>	<u>639,631</u>	<u>1,956,143</u>	<u>2,598,732</u>
Total	<u>7,741,601</u>	<u>7,980,631</u>	<u>31,051,682</u>	<u>33,314,598</u>

Mr. Taylor noted that the profits were the seventh highest annual profits in the Mill's history. It was a 25% reduction from the prior year. It was a tough marketplace this year for the entire industry. Total flour production for the US was down approximately 1.6% nationwide. The Mill experienced a decrease in shipment volumes and an unexpected pension expense.

Mr. Taylor and Mr. Ed Barchenger, Mill CFO, reported on transfers made on July 23, 2019 to the General Fund and the Ag Products Utilization Fund as follows:

FY 2019 Profits	\$10,622,211.03
Transfer to the Ag Products Utilization Fund	\$ 531,110.55 5.0%
Transfer to the General Fund	<u>\$7,568,325.36</u> 75% of remaining profits
Total Transfers	\$8,099,435.91

It was indicated that for the upcoming biennium the Mill will be making transfers at the 50% level to the General Fund rather than the 75% level.

Mr. Taylor presented the draft FY 2020 Gain Sharing Plan for consideration. Mr. Taylor reported on the importance of the gain sharing plan in achieving the Mill's positive results for the year. Considering the market, Mill management found FY19 to be a successful year. Plant employees worked hard to achieve 3 of the 4 goals. They did not make the cost per cwt. goal. Fiscal Year 2019 payout was 15.63%. The average employee payout was \$11,362. The average employee payout over the last ten years has been about 17.8% or \$10,953 per employee. The Gain Sharing Program continues to motivate the Mill's employees and is a key to managing the plant operations.

Mr. Taylor pointed out each of the changes from the prior year including new language regarding unknown adjustments – pension, etc. Mr. Taylor stated the proposed plan will continue to motivate the hourly and salaried employees to work together as a team towards the same goals to maximize results and to work safely. In response to a question, Mr. Barchenger provided what the results in FY19 were for each of the gain sharing goals.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approves the following North Dakota Mill Gain Sharing Program for Fiscal Year 2020:

**NORTH DAKOTA MILL
 GAIN SHARING PROGRAM
 FY2020**

- Eligibility – all full-time employees on June 30, 2020 that worked a minimum of 1,000 hours during the program year are eligible.
- No pay out of any bonuses if profit before gain sharing expense accrual and any unknown adjustments (pension, etc.), positive or negative does not exceed 3.0 million dollars.
- No payout on the profit part of the plan if profit before gain sharing expense accrual and any unknown adjustments (pension, etc.), positive or negative does not exceed 5.0 million dollars.
- Payout will be calculated as a percent of earnings from July 1, 2019 to June 30, 2020.
- Goal numbers were set to reflect current realities for the new plan year.
- Goal numbers were set by the President and CEO and are attainable with effort.

The plan consists of two independent parts. 4% potential payout is from exceeding gain sharing goals and an un-capped potential payout is from profits.

For the fiscal year ending June 30, 2020 the goals are as follows:

<u>Gain Sharing 1st Part – 4% Bonus Potential*</u>	
<u>Goals</u>	
Cwt./man-hour (includes all hours)	38.0
Cost per cwt. (before gain sharing exp.)	\$2.40
Yield	77.8%
Safety Record	172 Points

*4% bonus potential if all numbers are met or exceeded. Each goal is worth 1% of the 4%.

<u>Gain Sharing 2nd Part – Uncapped Bonus Potential</u>	
<u>Profits</u> (before gain sharing expense accrual):	
3.0 million	= 0.0% bonus pay out
5.0 million	=5.0% bonus pay out
Each additional 1.0 million in profits = 1.0% additional bonus payout.	

NOTE: The 1st Part of the gain sharing goals begin to payout at a profit (before gain sharing expense accrual and any unknown adjustments (pension, etc.), positive or negative) level greater than \$3.0 million. The 2nd Part of the gain sharing goals begin to payout at a profit (before gain sharing expense accrual) level greater than \$5.0 million.

EXAMPLE #1:

The mill makes \$3.0 million profit (before gain sharing expense accrual and any unknown adjustments (pension, etc.), positive or negative) and we exceed the goal for cwt./man-hour and cost/cwt. but not the safety record or yield. The total bonus received would be 2% for goals + 0% for profit = 2.0%.

EXAMPLE #2:

The mill makes \$6.0 million profit (before gain sharing expense accrual and any unknown adjustments (pension, etc.), positive or negative) and we exceed the goal for cwt./man-hour, cost/cwt., and the safety record but not the yield. The total bonus received would be 3% for goals + 6.0% for profit = 9.0%.

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

Mr. Taylor reported on the two-year agreement that had been reached with the Union. That agreement resulted in a \$.69 per hour increase each year—very close to the 2% and 2.5% Legislative provisions. He noted that the Legislative minimums impacted the negotiations and the \$2,400 maximums limited the compensation for the management team. He noted that more flexibility is needed going forward to keep both the hourly and salaried staff. The Commission concurred with Mr. Taylor’s statement and indicated

their concern with the lack of flexibility and the resulting compression of salaries. This is a significant issue that needs to be dealt with next legislative session.

Mr. Taylor presented a report on FY 2019 Capital Expenditures. (A copy of the Report is available in the Commission files.) The Report shows that the Approved/Remaining Budget was \$27,813,719 with net capital costs of \$22,618,685 resulting in being under budget by \$5,195,034. A portion of these dollars for four projects--\$5,103,557--will be carried over to the new fiscal year. He reviewed each of the projects that had been completed.

Mr. Taylor provided the draft 2020 Capital Plan for consideration and discussed each of the new projects.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission approves the North Dakota Mill FY 2020 Capital Plan as follows:

**NORTH DAKOTA MILL
 Capital Plan for FY 2020
 August 28, 2019**

<u>Capital Expense Item</u>	<u>Remaining Budget</u>
Carryover from FY 2019	
Plant	
Grain Receiving Land & Engineering	\$ 460,548
Phase II Shuttle Track & Grain Storage	4,121,354
Transformers and Electrical Room	270,205
Power Factor Correction Capacitors	251,450
<hr/>	
Total Carryover Capital Expenditures	\$ 5,103,557
<hr/>	
<u>FY 2020 Capital Expense Item</u>	<u>Plan</u>
Plant	
Freight Elevator Upgrade	950,000
Upper Bulk Flour Storage Renovation and Automation Phase 1	635,000
Rail Track and Crossing Upgrade	585,000
Old Warehouse North Dock Upgrade	225,000
Roof Replacements	160,000
K Mill Wheat Leg Replacement	105,000
Tractor	85,000
Motorized Roll Chill Transfer Cart	62,000
Lab	
Protein Analyzer	53,000
Computers/Technology	
Systems Improvements, replacements, and upgrades	300,000

Other	400,000
Total New Capital Expenditures	\$ 3,560,000
Total Capital Expenditures	\$ 8,663,557

Capital Projects FY 2020

1. **Freight Elevator Upgrades - \$950,000**
 This project will upgrade the freight elevator in the A/B Mill with all new hoist system, new cab and control system. The freight elevator in the D/K Mill requires a new hoist system and controls. The Cleaning House cage-style man lift will be replaced with an Otis unit. The Terminal Elevator will be cleaned and adjusted to allow smoother operation of the doors and the door latches will be repaired. All electrical will be NEMA 4 for hazardous locations.
2. **Upper Bulk Flour Storage Renovation and Automation Phase I - \$635,000**
 Purchase and install 21 bin top filters and 51 high level indicators in the bulk flour storage area including a manifold to vent air into a secondary filter. Phase II will add actuator controlled valves and a control system to allow for remote and automated operation of the upper bulk plant.
3. **Rail Track and Crossing Upgrades - \$585,000**
 Several track areas, 3 rail-road crossings and one rail switch require upgrades including new ties, concrete panels and heavier rail to continue reliable, safe operation.
4. **Old Warehouse North Dock Upgrade - \$225,000**
 This project will replace the existing platform and stairs with a concrete structure including a new recessed hook truck/trailer dock plate and restraint. This will allow for continued safe operation of the dock.
5. **Roof Replacements - \$160,000**
 Replaces worn out and leaking roofs on the Grain Terminal, Cleaning House and Grain Tank Cross over areas
6. **K-Mill Wheat Leg Replacement - \$105,000**
 This project replaces the worn out K-Mill wheat bucket elevator leg located in the Grain Terminal with a new leg and drive.
7. **Tractor - \$85,000**
 Replaces our current worn out 50 horsepower tractor used for yard maintenance and mowing with a 100 horsepower unit that is needed to cover the areas added with the shuttle track project.
8. **Motorized Roll Chill Transfer Cart – \$62,000**
 Purchase a battery powered self-propelled omni-directional cart that will be used to move roll chill packs to and from the mills. This will allow for the safe transport of heavy roll chills between the corrugation shop and the mills.
9. **Protein Analyzer - \$53,000**
 Purchase a new unit to replace our current fast nitrogen protein analyzer which is obsolete and worn out to the point where replacement is required.
10. **Computers / Technology - \$300,000**
 Several systems improvements, replacements and upgrades are required on our management information system.
11. **Other Capital – \$400,000**

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

In response to a question, Mr. Taylor indicated that this request is a low number for a facility of this size. Generally, a milling operation would average \$6 to \$7 million just to do the replacements and maintenance that is needed. Because the Mill is completing two major projects, they minimized their request at this time so they could utilize dollars to reduce their debt. He noted that Mill management is working on some projects to grow the business but those requests won't be coming until 2021/2022.

In response to a question, Mr. Taylor indicated that when they upgrade their equipment they do try to trade-in equipment or make it available to other mills and get whatever value they can. Generally the equipment is worn out and generally not of much use to anyone else unless it is for spare parts.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that under the provisions of N.D.C.C. § 44-04-18.4 the Industrial Commission proceed into executive session to discuss commercial information including the North Dakota Mill's marketing strategies and sales strategies within the proposed 2020 Strategic Plan. On a roll call vote, Governor Burgum, Attorney General Stenehjem, and Commissioner Goehring voted aye. The motion carried unanimously.

Governor Burgum noted that the executive session would be recorded. He reminded the Commission members and those present that the discussion during executive session must be limited to the announced purpose, which was anticipated to last 30 minutes. Commission members, employees of the North Dakota Mill, and staff remained but the public was asked to leave the room. Governor Burgum closed the meeting at 5:28 p.m.

MILL EXECUTIVE SESSION

Members Present:

Governor Doug Burgum
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Mill Personnel Present:

Vance Taylor	North Dakota Mill
Ed Barchenger	North Dakota Mill
Cathy Dub	North Dakota Mill
Chris Lemoine	North Dakota Mill
Jeff Bertsch	North Dakota Mill
Russ Bischof	North Dakota Mill
Mike Jones	North Dakota Mill
Bob Sombke	North Dakota Mill

Others in Attendance:

Reice Haase	Governor's Office
Mark Staples	Governor's Office
Karlene Fine	Industrial Commission Office

The meeting reconvened in open session at 6:32 p.m. and Governor Burgum invited the public to return to the meeting room.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission approve the following North Dakota Mill Strategic Plan:

**North Dakota State Mill & Elevator
FY 20 Strategic Plan**

Our Mission:

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

FY 20 Goals and Objectives

Goal 1: Promote and Support North Dakota Agriculture, Commerce and Industry

Objective 1A: Increase State Mill Demand for Conventional and Organic Spring Wheat and Durum

Objective 1B: Develop and Market New Agriculture Products

Objective 1C: Work with the Dakota Pride Cooperative, NCI, and other Agriculture Organizations

Objective 1D: Identify and Target New Export Opportunities

Objective 1E: Plan for the Centennial Anniversary of the State Mill

Goal 2: Identify and Respond to Emerging Issues in the Flour Milling Industry

Objective 2A: Respond to Changing Grain Market Conditions and Volatility

Objective 2B: Respond to Competitive Threats in the Milling & Baking Industry

Objective 2C: Develop a Strategy to Meet Grain Purchasing Needs

Objective 2D: Manage Transportation Costs to Maintain Competitiveness

Objective 2E: Address Customer Issues

Objective 2F: Focus and Rapidly React to Current Issues

Goal 3: Maximize Profit Potential

Objective 3A: Increase Gross Margins

Objective 3B: Minimize Plant Costs

Objective 3C: Minimize Freight Costs

Objective 3D: Upgrade Technology

Objective 3E: Improve Infrastructure

Objective 3F: Explore Expansion Opportunities

Goal 4: Grow Our Customer Base

Objective 4A: Maintain a Consistent High Quality Product

Objective 4B: Continue to Improve Our High Level of Customer Service

Objective 4C: Identify and Target New Customers and Markets

Objective 4D: Maintain and Leverage Our FSSC 22000 Certification

Objective 4E: Optimize Marketing Strategies

Goal 5: Invest in Our Employees

Objective 5A: Promote Workplace Safety

Objective 5B: Improve the Retention of our Workforce

Objective 5C: Recruit Quality People

Objective 5D: Enhance Workplace Communications

Objective 5E: Improve Job Performance through Training

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

With no further business, Governor Burgum adjourned the meeting at 6:35 p.m. and thanked the Mill management for their hospitality.

North Dakota Industrial Commission



Karlene Fine, Executive Director and Secretary