

A construction worker wearing a yellow long-sleeved shirt, a yellow hard hat, and blue gloves is working on a grid of steel rebar. The worker is positioned in the upper right quadrant of the image, leaning over the grid. The background shows a concrete wall with a similar rebar grid. A white diagonal shape cuts across the top right corner of the image.

BND

Bank of North Dakota

Achieve more.

ECONOMIC DEVELOPMENT

REPORT 2018

President's Message



Bank of North Dakota's role in economic development started in 1919 with its inception. When farmers weren't getting a fair shake on interest rates, railway costs and grain prices, the state Legislature voted a state-owned bank and grain mill into law. One hundred years later, we still serve our state's farmers and ranchers but have become far more diverse in our efforts to facilitate economic development.

The financing continuum on the next page demonstrates the changes made in 2017 to BND's programs which are available for businesses in each stage of development. The buydown increases for PACE and Flex PACE, along with additional programs for startups and small businesses, created more opportunities for economic diversification. Changes to Ag PACE allowed farmers to increase land values with subsurface field tiling projects.

Our role in financing infrastructure continues to expand. As federal funding decreases, our state needs to be more resourceful to fund road, water and housing projects. The myriad of state and federal programs can be overwhelming for local officials. To simplify the process, we are working across agency lines to create a one-stop application which can be reviewed by all state agencies that have the potential to assist with funding. Upon receipt of the application, those agencies would respond to the local government entity with the options available.

The Bank hosts monthly Your Direct Line calls for bankers and economic developers, featuring a variety of topics relevant to economic development. This past year included an economic outlook, oil industry update, realtors roundtable and blockchain presentation.

Diversifying and growing the state's economy is a primary focus of the Bank's activities. We continually assess needs and update programs to help bankers and communities build the best deal. In 2019, we expect to see more results from increasing our collaboration with financial institution, economic development, legislative and state agency stakeholders.

A handwritten signature in black ink that reads "Eric Hardmeyer". The signature is written in a cursive, flowing style.

Eric Hardmeyer
President/CEO

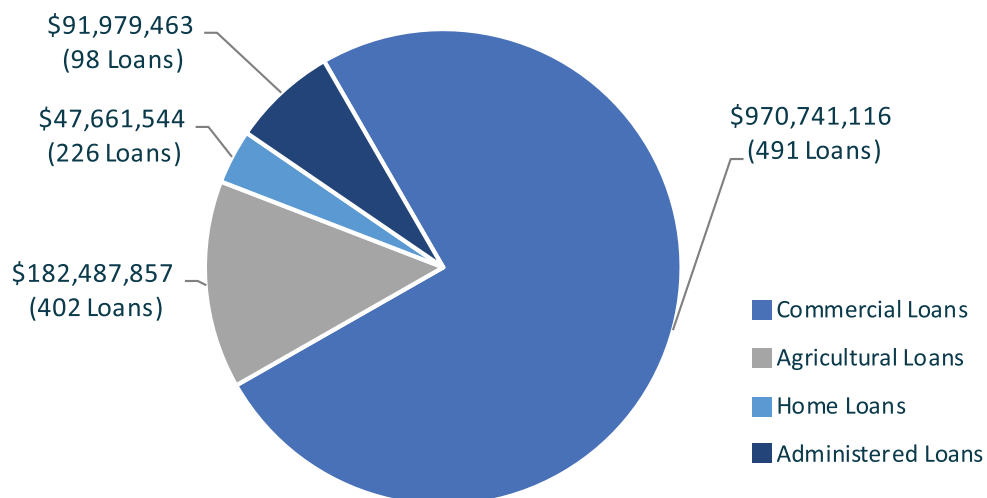
Economic development funding continuum

BND provides loan opportunities from startup through expansion.



2018 Economic development loans

The activities in these four loan portfolios reflect the Bank's role in economic development activities throughout the state for 2018.



Loan programs drive business

Three of the top business financing challenges are startups, rapid growth opportunities and ownership changes. Recent updates to BND's loan programs addressed these gaps.

Entry Point

Seed Funding

Early Stage

Intermediate Stage

Mature Stage

Entry Point

- Department of Commerce
- Entrepreneur Centers
- Local EDC Organization
- Local Financial Institutions
- One Million Cups
- Regional Councils
- SBA, SCORE and SBDC
- University Research Centers

Seed Funding

- BND Beginning Entrepreneur
- BND Venture Capital Fund
- Innovate North Dakota
- Research ND

Early Stage

- BND Beginning Entrepreneur
- BND Business Development Loan
- BND Venture Capital Fund
- North Dakota Development Fund
- Private Sector Venture Capital Fund
- Private Sector Angel Funding

Intermediate Stage

- BND Accelerated Growth Loan
- BND Venture Capital Fund
- North Dakota Development Fund
- Private Sector Venture Capital Fund

Mature Stage

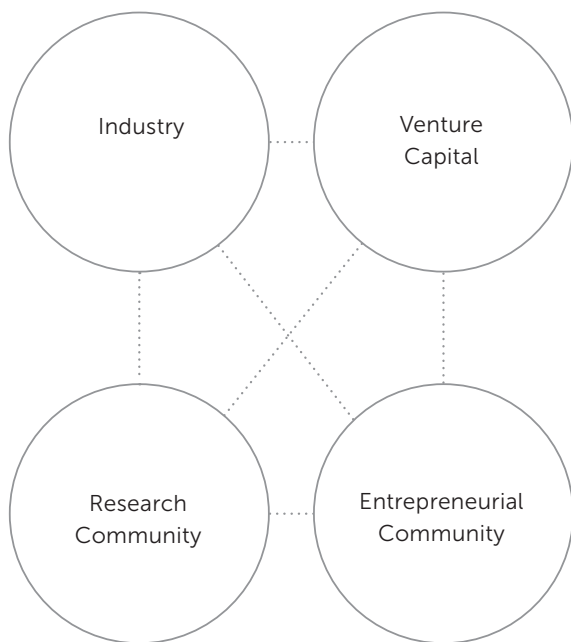
- Bank Financing
- BND PACE/Flex PACE
- Private Sector Equity
- SBA Loans

Venture capital ecosystem

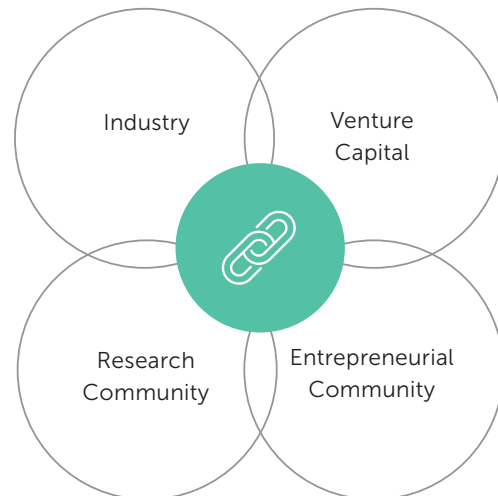
Today, BND in cooperation with the Department of Commerce, the North Dakota University System and private venture capital firms, is striving to build an integrated venture capital ecosystem. When successful, this will strengthen relationships among the partners resulting in more private sector venture capital investment in North Dakota, support for commercialization efforts of Intellectual Property and more vibrant support of our startup community.

What are we trying to accomplish

Today - Loose relationship confederation prevents commercialization opportunities



Future - Linked research, intellectual property, entrepreneurial, industrial and venture capital environment



Intellectual Property Commercialization occurs when:

- Ecosystem is mapped
- Locating where industry, money, entrepreneurs and researchers intersect
- Marketing, corporate engagement and synergy discovery is enabled

Building the best deal

Interest buydowns stimulate economic development

BND's PACE programs subsidize a portion of the interest accrued which allows businesses to begin or expand without the full weight of the debt. The suite of PACE programs can buy down the interest rate up to 5% with the borrower paying a minimum of 1%. The community must also invest in these projects. This example demonstrates a \$500,000 loan with an interest rate of 6% and a 240-month amortization.

The impact of a PACE buydown on monthly payments

	Without buydown	With buydown	Decrease in interest payment
Month 1	\$3,607.44	\$1,454.67	\$2,152.77
Month 2	\$3,607.44	\$1,666.98	\$1,940.46
Month 3	\$3,607.44	\$1,464.58	\$2,142.86
Month 4	\$3,607.44	\$1,538.02	\$2,069.42
Month 5	\$3,607.44	\$1,473.88	\$2,133.56
Month 6	\$3,607.44	\$1,547.07	\$2,060.37

Projects that are eligible for PACE may receive up to \$500,000 in interest buydown. Flex PACE provides a \$200,000 buydown with an increase for child care facilities up to \$300,000 and affordable housing up to \$500,000.

It takes a village...

BND utilizes its experienced staff to build the best deal. By partnering with local financial institutions and a variety of economic development programs, businesses can start or expand with advantages traditional financing models do not provide.

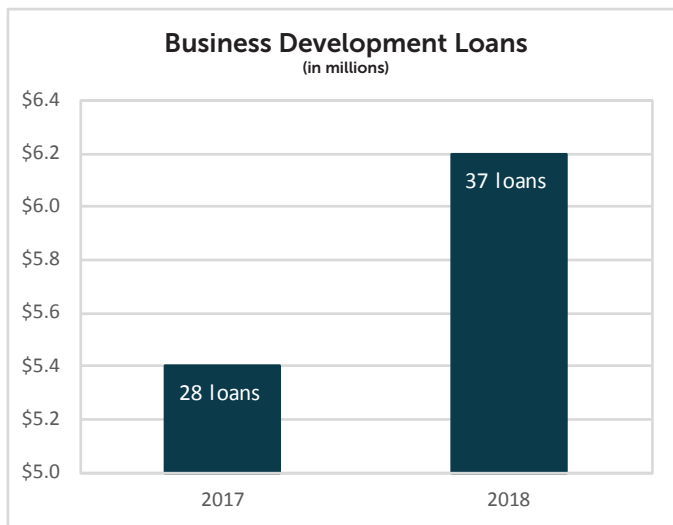
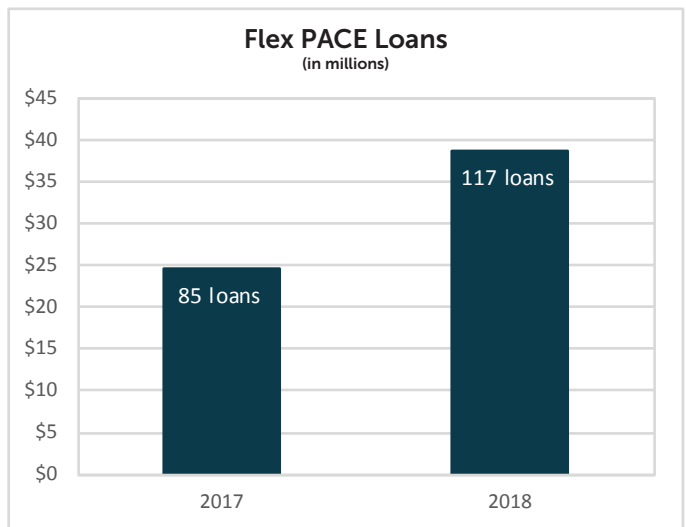
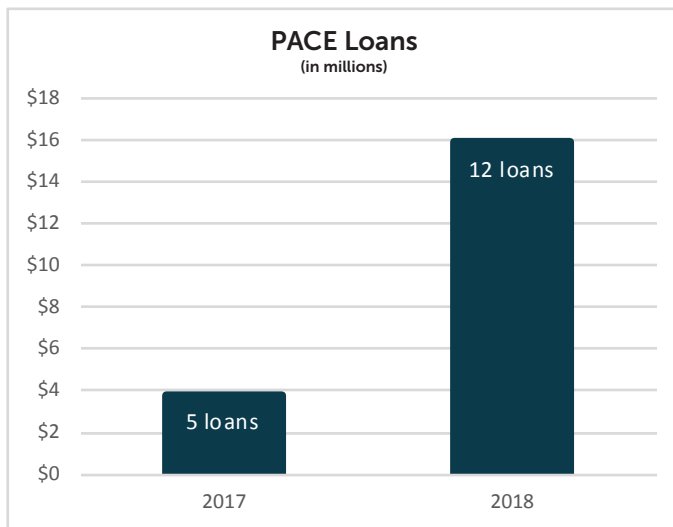
For example, a North Dakota-based technology company wanted to acquire a company complementary to their business model. With limited cash resources to make the \$3.5 million acquisition, traditional financing was not an option. BND brought several entities together to build the best deal. The company accessed funding from the local economic development organization, local financial institution, North Dakota Development Fund and BND's Accelerated Growth Loan. They continue to be successful today.



Loan programs grow

PACE and Flex PACE

In 2017, the maximum buydowns for PACE and Flex PACE were increased and the buydown parameters for PACE were changed. These changes proved themselves in 2018 by allowing more businesses opportunities.

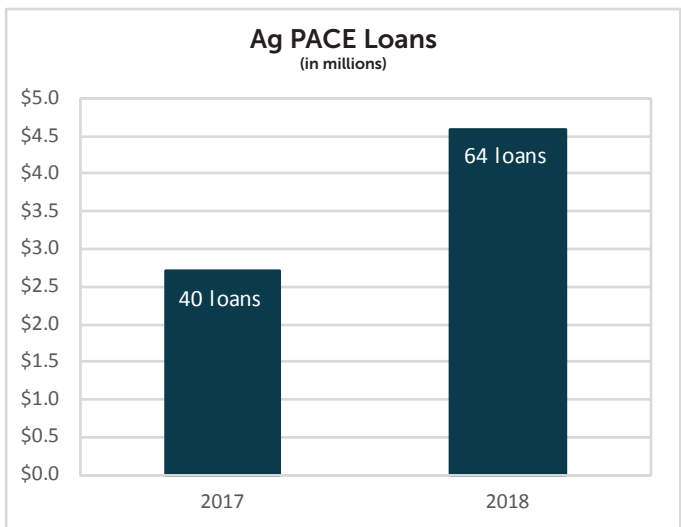
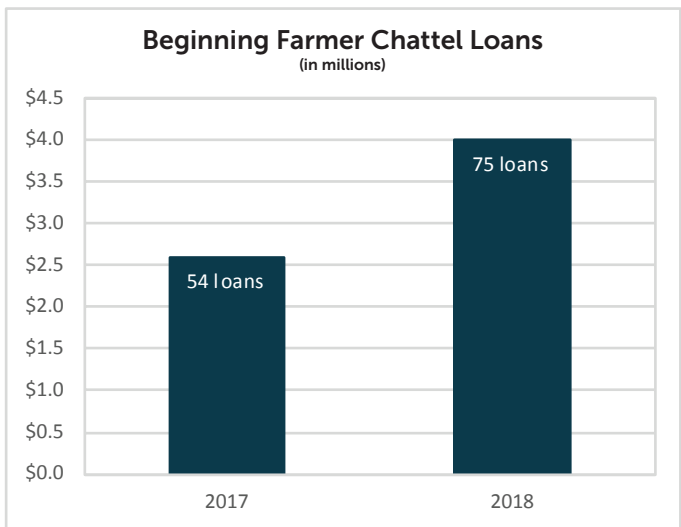
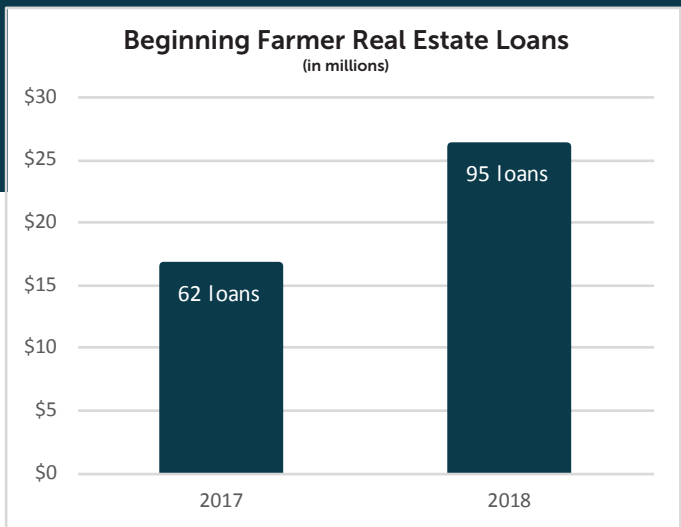


Beginning Farmer Real Estate and Beginning Farmer Chattel

Beginning farmers and ranchers reaped the benefits of changes made in 2017 to these programs. These loans are made at below-market rates to incentivize less established borrowers. Increasing the net worth and loan amounts allowed more to take advantage of the programs.

Ag PACE Loans

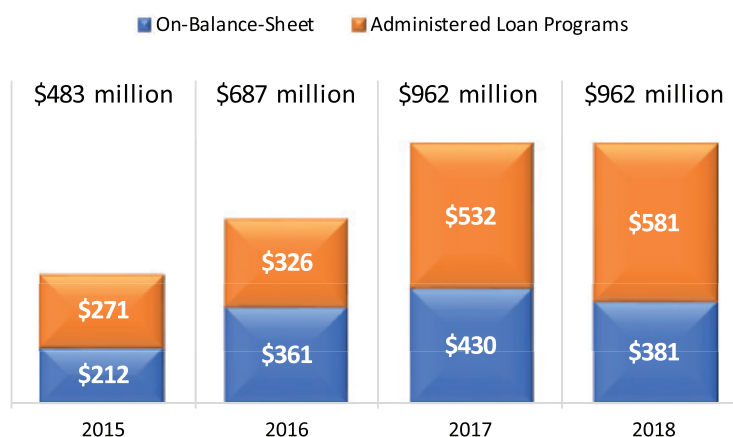
Expanded parameters for Ag PACE to include subsurface field tiling increased the value of real estate by increasing production capacity. In 2018, 43 loans for tiling were made for a total of \$3 million.



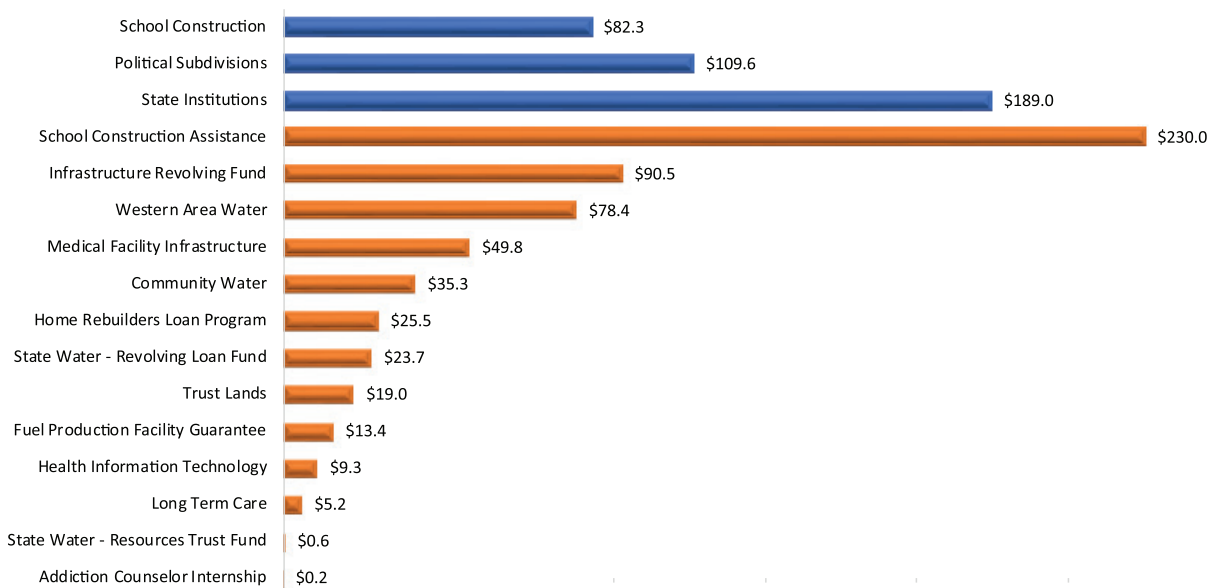
Administered loan programs

Bank of North Dakota administers a special category of loan programs designated to meet a specific need. The funding dollars and loan requirements are set by the state Legislature. BND provides administrative services which may include managing loan applications, distributing funds to borrowers, and loan servicing. A nominal fee is charged for these services. The loan programs are considered “off-balance sheet” to BND; the loans and related income or expense are not included in BND’s financial statements. Each program is either in a separate fund requiring standalone financial statements or presented within the state Comprehensive Annual Financial Report, or CAFR.

Administered loan programs increase



2018 State loans & administered programs



Infrastructure funding



Health care infrastructure

The Medical Infrastructure Loan Fund committed nearly \$50 million during the two previous biennial legislative sessions. Facilities are starting to repay their loans, so more funds will be available during the 2019-21 biennium.

School Construction

BND deployed \$33,955,000 to school construction in 2018. This independently administered fund offers a 2% fixed interest rate for up to 20 years.

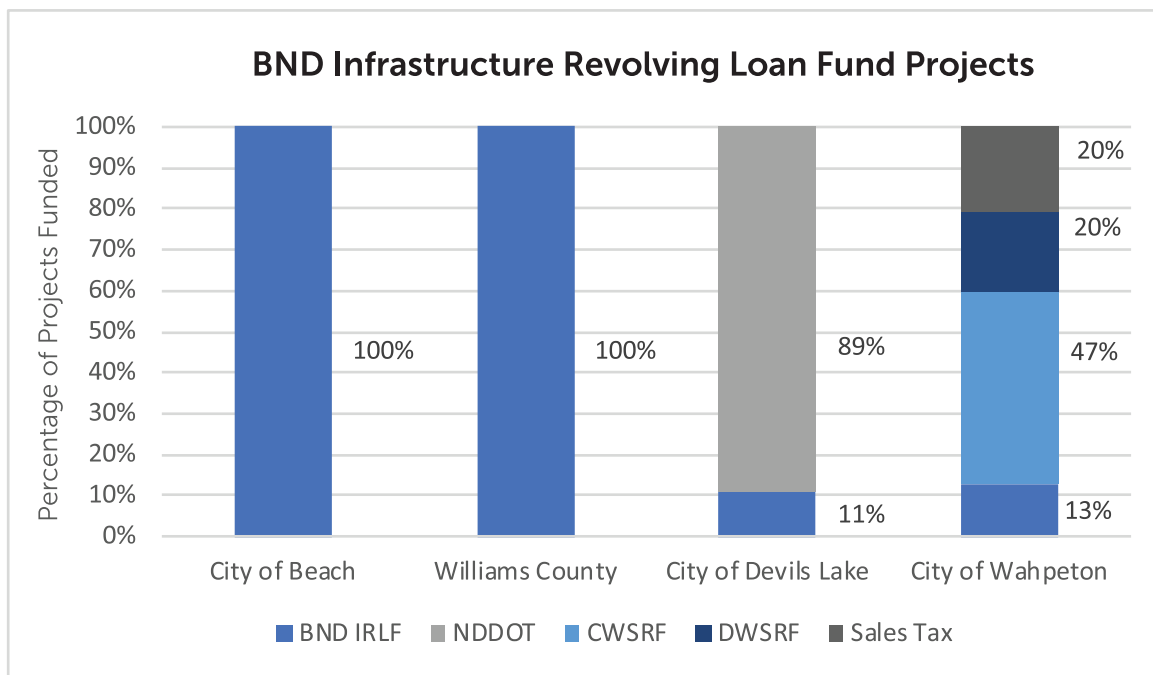
Hatton Eielson School District

Loan amount: \$6,300,000

The students in Hatton Eielson School District are celebrating a new addition and renovation that replaced their 1908 and 1934 buildings. The addition is 24,000 square feet and houses four new classrooms, kitchen, music room, office suite for administration and staff, high school faculty room, conference room, bathrooms, community fitness center and a second gym. The renovation covers 5,000 square feet and includes the junior high and high school special education areas.

Infrastructure Revolving Loan Fund

The BND Infrastructure Revolving Loan Fund was well utilized in 2018. We administered \$13,615,000 to improve roads and water access across the state. When possible, a variety of funds are utilized to create the best deal for communities.



BND IRLF: BND Infrastructure Revolving Loan Fund

NDDOT: ND Department of Transportation

CWSRF: Clean Water State Revolving Fund

DWSRF: Drinking Water State Revolving Fund

BND is working with its partners in state government, including the Department of Transportation, Public Finance Authority, Department of Health and State Water Commission, to develop a one-stop application for political subdivisions. The application will be reviewed by a committee and a report of available funding sources will be provided to assist communities in receiving the best deal.

City of Beach

Loan amount: \$3,888,000 at 2% interest for 30 years

More than 2.3 miles of improvements were made to the city's street network to serve recent and future growth areas. The width of the roads was expanded, and new design standards implemented along with curb, gutter and sidewalks being constructed. The roadways now allow for increased trips and heavier loads to accommodate for economic development. Health and safety were improved with the curb and gutter construction for better storm water runoff. Easier access to a local park makes it safer for children.

Williams County

Loan amount: One loan of \$2,860,000 for Madison Ridge Subdivision and a second loan for \$300,000 for Scenic East Subdivision; both at 2% fixed for 15 years.

The subdivisions paved roads and solved major drainage issues, improving the health of its residents by decreasing dust and saving gravel road maintenance costs.

City of Devils Lake

Loan amount: Total project cost \$17,083,577 - \$1,876,000 from the BND Infrastructure Revolving Loan Fund at 2% fixed for 15 years. ND Department of Transportation granted \$15,207,577.

An aging railroad underpass suffering from a concrete condition that speeds the aging process was replaced.

City of Wahpeton

Loan amount: Total project cost of \$2,240,000 - \$286,000 gap funding from the BND Infrastructure Revolving Loan Fund at 2% for 20 years, Drinking Water State Revolving Fund for \$452,000, Clean Water State Revolving Fund for \$1,046,000, local sales tax dollars providing \$456,000.

Installed between 1890 and 1930, the sanitary sewer in east Wahpeton has capacity issues during high flow with residents experiencing numerous sewer backups in their basements for the past 14 years. The water mains installed in the early 1900s experienced more frequent breaks over the last few years. Roads were upgraded with new materials, drain tile, curb and gutter.

2018-2020 Strategic Plan

The Strategic Plan was updated in the fall of 2018 to reflect changes in the state's needs. The following are strategies and initiatives specific to economic development.

Strategy 1: Facilitate economic growth and diversity

Initiatives

1. Expand BND's leadership role as economic development "financing" experts, strengthen its ability to facilitate financing of very large projects and provide programming that drives economic diversification.
2. Grow BND's role in financing municipal infrastructure projects.
3. Collaborate with other agencies to reduce financing overlap and increase efficiency delivering better end results.
4. Develop capacity and resources to measure statewide trends.

Strategy 2: Utilize BND's unique competitive advantage

Initiatives

1. Enhance relationships with financial institutions and stay flexible to their needs with new lending programs and by including broader financing resources.
2. Fully implement and leverage an enhanced Customer Relationship Module.
3. Build a capability (technology, operations, skills) to facilitate project syndication with sub-participations, primarily with North Dakota financial institutions.
4. Connect more electronically with financial institutions to streamline the lending process.
5. Evaluate offering a collateral review service for agriculture and commercial properties.

Strategy 3: Enhance innovation and agility to be a model of effective government

Initiatives

1. Initiate more collaboration and conversations with relevant state agencies to leverage more of BND's capabilities.
2. Develop a total compensation philosophy for BND to support staffing and retention.
3. Develop BND's workforce and evolve to a more innovative culture to create an agile organization through coaching and training.
4. Review procurement processes to identify opportunities that could increase BND's agility.
5. Enhance knowledge transfer to prepare for succession and to strengthen collaboration.
6. Evaluate the organization structure to support future needs.



1200 Memorial Hwy. Bismarck, ND 58506-5509

Phone: 701.328.5600 • Toll-free: 800.472.2166 • TTY: 800.366.6888

bnd.nd.gov