

Minutes of a Meeting of the Industrial Commission of North Dakota  
Held on February 12, 2019 beginning at 1:00 p.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 1:05 p.m. and the Commission took up State Mill business.

**NORTH DAKOTA MILL**

Mr. Vance Taylor, North Dakota Mill (Mill) President and CEO, presented the second quarter report as follows:

**Review of Operations  
2<sup>nd</sup> Quarter Ended 12/31/18  
SUMMARY**

Activities in the 2<sup>nd</sup> Quarter of the year resulted in a profit of \$3,151,168 compared to \$3,396,642 last year. For the six months ending December there is a profit of \$7,003,864 compared to \$6,807,592 last year.

	<u>Quarter</u>		<u>Year-to-Date</u>	
	<u>12/18</u>	<u>12/17</u>	<u>12/18</u>	<u>12/17</u>
Profits	3,151,168	3,396,642	7,003,864	6,807,592
Sales	83,166,165	89,162,286	162,165,483	169,855,800
Cwt. Shipped:				
Spring	3,651,494	3,648,631	7,106,916	7,108,027
% to Total	93.2%	92.2%	93.4%	92.5%
Durum/Blends	<u>264,748</u>	<u>308,628</u>	<u>498,389</u>	<u>575,883</u>
Total	<u>3,916,243</u>	<u>3,957,259</u>	<u>7,605,304</u>	<u>7,683,910</u>
Bulk Shipments	3,248,690	3,259,551	6,253,863	6,306,673
% to Total	83.0%	82.4%	82.2%	82.1%
Bag Shipments	632,176	658,098	1,275,645	1,303,562
% to Total	16.1%	16.6%	16.8%	17.0%
Tote Shipments	35,377	39,609	75,797	73,675
% to Total	0.9%	1.0%	1.0%	0.9%
Family Flour	103,754	109,779	186,607	215,580
% to Total	2.6%	2.8%	2.5%	2.8%
Organic Flour	37,327	40,633	72,682	77,619
% to Total	1.0%	1.0%	1.0%	1.0%
Wheat/Durum Bought:				
Spring/Winter	7,606,746	7,675,082	15,136,866	15,777,879
Durum	<u>530,675</u>	<u>612,174</u>	<u>1,005,318</u>	<u>1,313,485</u>
Total	<u>8,137,421</u>	<u>8,287,256</u>	<u>16,142,184</u>	<u>17,091,364</u>

## SALES

### 2<sup>nd</sup> Quarter

Sales for the 2<sup>nd</sup> Quarter were \$83,166,165 compared to \$89,162,286 last year. Shipments of 3,916,243 cwts. are 41,016 cwts. below last year. Bag shipments for the 2<sup>nd</sup> Quarter are 632,176 cwts., which is 3.9% below last year's 2<sup>nd</sup> Quarter. Tote shipments for the 2<sup>nd</sup> Quarter are 35,377 cwts., which is 10.7% below last year's 2<sup>nd</sup> Quarter. Family flour shipments of 103,754 cwts. is 5.4% below last year's 2<sup>nd</sup> Quarter. Organic flour shipments were 37,327 cwts., which is 8.1% below last year's 2<sup>nd</sup> Quarter.

### Year-to-Date

Sales for the six months ended December were \$162,165,483 compared to \$169,855,800 last year, a decrease of 4.5%. For the first six months the average settled price of grain is \$0.50 lower than last year. Shipments of 7,605,304 cwts. are 78,606 cwts. below last year, a decrease of 1.0%. Year-to-date bag shipments are 1,275,645 cwts., a decrease of 27,917 cwts. from last year. Tote shipments are 75,797 cwts., an increase of 2,121 cwts. from last year. Family flour shipments for the six months ending are 186,607 cwts., a decrease of 13.4%. Organic flour shipments of 72,682 cwts. is a decrease of 6.3% from last year.

## OPERATING COSTS

### 2<sup>nd</sup> Quarter

Operating costs for the 2<sup>nd</sup> Quarter were \$8,833,215 compared to \$8,392,916 last year, an increase of 5.2%. Operating cost per cwt. of production was \$2.26 compared to \$2.11 last year, an increase of \$0.15 per cwt.

### Year-to-Date

Year-to-date operating costs are \$17,510,676 compared to \$16,556,461 last year, an increase of 5.8%. Operating cost per cwt. of production for six months ending is \$2.29 compared to \$2.15 last year, an increase of \$0.14 per cwt. Flour production declined 1.0% to 7,635,321 cwts.

## PROFITS

### 2<sup>nd</sup> Quarter

Operating activity for the 2<sup>nd</sup> Quarter led to a profit of \$3,151,168 compared to a profit of \$3,396,642 last year. Gross margins as a percent of gross sales for the Quarter were 14.9% compared to 13.5% last year, an increase of 1.4%.

### Year-to-Date

Operating activity for six months ending December led to a profit of \$7,003,864 compared to a profit of \$6,807,592 last year. Gross margins as a percent of gross sales for the year are 15.6% compared to 14.0% last year, an increase of 1.6%.

## RISK MANAGEMENT POSITION

The table below shows our hedge ratio by futures month going forward. While the Mill does monitor and maintain the spring wheat hedges, it does remain at risk for fluctuations in the basis.

### **Position Report 31-Dec-18**

<b>Period</b>	<b>Hedge Ratio</b>
Mar-19	1.0
May-19	1.1
Jul-19	1.0
Sep-19	0.7
Dec-19	0.9
Net Position	1.0

Mr. Taylor provided an update on the capital projects and noted that because of the extreme weather conditions there have been some challenges. Currently on budget with completions anticipated this spring.

Ms. Karlene Fine, Industrial Commission Executive Director, and Mr. Taylor provided a legislative update. There are two bills currently being followed:

- HB 1217 has failed,
- HB 1293 was amended and has failed.

In regards to the proposed 2019-2021 budget the Mill had requested four positions. Two were approved by the House and Mill management will be requesting the other two positions in the Senate.

In response to questions Mr. Taylor discussed the increased operating costs, current marketing and competition issues, and workforce needs.

### **DEPARTMENT OF MINERAL RESOURCES**

Mr. Ed Murphy, State Geologist, presented the North Dakota Geological Survey Division quarterly report. (A copy is available in Commission files.) Topics included:

- Core and Sample Library
- Oil Well Temperature Logging Project
- Midale Subinterval Report
- Regulatory Programs
- Publications and Presentations

The Oil Well Temperature Logging Project is in its fourth year. The rate of oil production doubles with a 30-50°C change, highlighting the importance of the temperature. A report will be put out shortly. The temperature is information that companies can use in their strategic planning especially as they look at shallower formations. Higher temperatures equate to more oil production. However, if temperatures get too hot, then only gas will be produced and not oil. Because the temperatures aren't consistent across the Basin this information will help identify areas for production.

The Midale Subinterval report involves a play started in the 1950s with vertical wells that are starting to transition into an unconventional play with horizontal wells. The study discovered that oil accumulated along subsurface ridges. There could be 100s of additional wells in the area. This case study could be applied to other regions of the state for further development. Industry will be able to take the report and plug it into their resource evaluations.

In response to a question, Mr. Murphy stated that anticlines are ridges and the synclines are depressions. The ridges serve as collection sites for oil. There is the potential for hundreds of horizontal wells. It is a very large area that is saturated with oil, but was unproductive with vertical wells.

Mr. Murphy provided a review of the 2018 Geological Survey Strategic Plan (a copy is available in the Commission files) and presented the 2019 Strategic Plan for consideration. Some items in the plan include:

- Study on proppant sand.
- Plan to revamp the Dakota dinosaur exhibit to help the public understand the significance of that fossil. Using a 3D printer the staff will be able to print a soft plastic material that will be placed on display where visitors will be able to pet and feel the scales on the dinosaur.
- 80 1-year project plans and 53 long-term project plans.

- 500 lidar maps which will be turned into PDF files to make it easier for the general public to access.
- Potash map.
- 1-2 rare earth reports.
- 1-2 proppant sand reports.
- 150 landslide maps.
- Partnership with Dickinson University and the Badlands Dinosaur museum on a paleontology conference.
- Public outreach.

**It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission adopt the following Department of Mineral Resources North Dakota Geological Survey 2019 Strategic Plan.**

#### **MISSION**

To serve as the primary source of geologic information in the state by: 1) interpreting the state's geologic setting; 2) conducting geological investigations that emphasize the state's economic products, geological hazards, and energy resources; 2) establishing a scientific framework from which to base regulatory programs; and 3) operating and maintaining a public repository for fossils, rock specimens, rock cores, well cuttings, and associated geologic data.

#### **OVERVIEW**

The 2019 Geological Survey Strategic Plan contains 80 one-year project plans and 53 long-term plans. This is a flexible document and, over the course of the year, we will add and suspend one-year projects as priorities change.

#### **SUBSURFACE ASSESSMENTS**

##### **One-year Plan:**

1. Publish a report on the Madison Group.
2. Publish a report on geothermal gradients from the temperature logging project.
3. Publish the 100K map and cross sections of the Inyan Kara for the Belfield 100K sheet.
4. Publish the 100K map and cross sections of the Inyan Kara for the Bowman 100K sheet.
5. Publish a report on Three Forks Formation stratigraphy.
6. Publish a Birdbear/Duperow report, map, or cross section.
7. Publish a report on the Tyler Formation.

##### **Long-Term Plan:**

1. Provide stratigraphic and structural information to industry on major oil and gas plays in ND.
2. Generate information on current and future oil and gas plays useful to industry and the citizens of ND.
3. Complete digital stratigraphic column of North Dakota.
4. Determine the framework geology (stratigraphy & structure) of the Williston Basin in three dimensions.
5. Continue involvement in the annual Williston Basin Petroleum Conference.

#### **CORE AND SAMPLE LIBRARY**

##### **One-Year Plan:**

1. Identify shelf space for 30,000 linear feet of Chester Fritz books (temporary storage).
2. Photograph 11,000 feet of core and add to website.
3. Initiate a phase II comparison of onsite vs offsite cuttings coming into the core library.
4. Photograph thin sections as they become available and post on website.
5. Evaluate existing forklift and identify replacement make and model.
6. Install thin section equipment in core library and evaluate for efficiency.
7. Continue to assist with janitorial duties at building.

8. Determine if there is a need to create a petroleum engineering student laboratory.
9. Compile core analyses from core library files and post on website.

**Long-Term Plan:**

1. Post all core analyses on website.
2. Review and revise safety policy for the expanded core facility.
3. Photograph all 450,000 feet of core in the core library (prioritize based upon industry interest).
4. Identify whole core holdings and determine what should remain whole and what should be slabbed.
5. Take a large view photograph of each thin section and add it to subscription site.
6. Evaluate cross-training of technicians every two years.

**GEOHERMAL ASSESSMENTS**

**One-year Plan:**

1. If funds are available, temperature log one or two temporarily abandoned wells.

**Long-Term Plan:**

1. Publish all forty-four 100k geothermal sheets using actual subsurface temperature data for ND.
2. Enhance ability to respond quickly to requests for geothermal data from industry.
3. Periodically evaluate methods of storing and publishing geothermal data.

**LIGNITE ASSESSMENTS**

**One-Year Plan:**

1. Interpret lithologies from 200 oil and gas gamma logs and place into coal database.
2. Convert additional data in DOS based program into PETRA coal database.

**Long-Term Plan:**

1. Evaluate feasibility and usability of a 1:250K series of coal map sheets.
2. Maintain and enhance ability to respond quickly to requests for lignite data.
3. Evaluate feasibility of scanning all public coal logs into a web-based system and requiring digital raster files of electric logs from industry.

**GEOLOGIC MAPPING**

**Detailed Surface or Subsurface Mapping**

**One-Year Plan:**

1. Publish the surface geology of the Crown Butte and Crown Butte Lake quads.
2. Publish the surface geology of Moffit NW and Moffit SW quadrangles in the Bismarck area.
3. Publish 500 LiDAR quadrangles from North Dakota.
4. Publish a report on glacial stratigraphy in eastern North Dakota.

**Long-Term Plan:**

1. Complete 24K and 100K LiDAR maps for all of North Dakota.
2. Obtain an additional surface geologist so mapping responsibilities would be divided: ne,nw,sw,se.
3. Publish isopachs and contour maps of all the subsurface fms. and mappable intervals in North Dakota.
4. Expand investigative resources through the use of contract drilling.
5. Complete engineering property cross-sections of all urban areas in ND.

**Mineral Resource Mapping**

**One-Year Plan:**

1. Publish potash maps for the Mohall 100K sheet.
2. Publish a phase III report on rare earth concentrations in western North Dakota lignites.
3. Complete a report on the proppant sand potential of North Dakota surface deposits.

**Long-Term Plan:**

1. Complete mapping of all nonhydrocarbon mineral deposits in ND at a scale of 1:24,000.
2. Update existing maps, such as uranium, as nonconfidential information becomes available.
3. Digitize all uranium logs in our well files.

**Geologic Hazards Mapping**

**One-Year Plan:**

1. Publish 30 landslide maps (1:24,000) in northcentral North Dakota.
2. Publish 30 landslide maps (1:24,000) in central North Dakota.
3. Publish 20 landslide maps (1:24,000) of potential wind farms in North Dakota.
4. Publish 30 landslide maps (1:24,000) in northeastern North Dakota.
5. Publish 30 landslide maps (1:24,000) in southeaster North Dakota.
6. Utilize drone for landslide mapping as needed and provide assistance to other agencies.

**Long-Term Plan:**

1. Map landslides at a scale of 1:24,000 across all of North Dakota.
2. Obtain recent stereo pair aerial photos of ND to map current landslides, supplement with LiDAR.
3. Convert photos to digital database and map landslides on computer.

**PALEONTOLOGICAL ACTIVITIES**

**One-Year Plan:**

1. Safely remove parts of Dakota and complete preparation work for a revamped exhibit.
2. Evaluate new public fossil dig sign up procedure and recommend improvements.
3. Evaluate new Paleo Pals donor program and recommend improvements.
4. Administer Dickinson Public Fossil Dig.
5. Administer Bismarck Public Fossil Dig.
6. Administer Medora Public Fossil Dig.
7. Administer the Pembina Gorge Dig.
8. Partner with the Badlands Dinosaur Museum on a paleontology conference in the fall.
9. Complete a revamp of Walhalla Public Library fossil exhibit.
10. Evaluate one other public fossil exhibit outside of the Bismarck area.
11. Conduct 30 tours of the Corridor of Time Exhibit or the Paleo Lab at the Heritage Center.
12. Present lectures on prehistoric life in North Dakota to public and academic groups.
13. Finish preparation and copying of two Thescelosaurus dinosaur skeletons.
14. Spend one week excavating dinosaur fossils at Fort Rice site.
15. Assess land tracts for development for potential impact on paleo resources for the Land Dept.
16. Interact with federal agencies to assure effective management of ND paleontological resources.
17. Hold a year end paleontology program banquet and membership drive in the fall.

**Long-Term Plan:**

1. Explore additional paleontologic exhibit opportunities in communities across North Dakota.
2. Update the paleontology website with a focus on the Fossil ID, Publications, and Outreach pages.
3. Develop a procedure and associated database for 3D scanned fossils from North Dakota.
4. Maintain public fossil digs program at the current level.
5. Continue paleontology outreach activities including tours of the NDGS Johnsrud Paleontology Laboratory and fossil exhibits at the ND Heritage Center, public lectures, public field trips to fossil sites, identification of fossils for the public, participation in science olympiads and science fairs, etc.
6. Continue to conduct research to learn more about North Dakota's prehistoric life and the climates and environments that existed at different times in the geologic past.
7. Continue publishing technical and non-technical articles about the prehistoric life of North Dakota for the scientific and public communities.
8. Scan and organize all of the historical slides in the paleontology archives.
9. Partner with the State Library to compile a searchable inventory of the paleontology research library.

**STATE FOSSIL COLLECTION**

**One-Year Plan:**

1. Collect, prepare, and curate fossil specimens from public digs and agency digs into the collection.
2. Enter 1,000 paleontological localities into the Specify database program.
3. Construct a searchable timeline of archived field notes.
4. Catalog and curate the Concordia Dinosaur Collection.

**Long-Term Plan:**

1. Continue collection and curation of North Dakota fossil specimens.
2. Prepare fossil specimens for scientific study, public display, and educational use.
3. Catalog specimens into the Specify database.

#### **STATE ROCK AND MINERAL COLLECTION**

##### **One-Year Plan:**

1. Collect, prepare, and curate rocks and minerals collected by NDGS staff or from donations.
2. Complete the digitization of the paper collection records for the rock and mineral collection.

##### **Long-Term Plan:**

1. Continue collection and curation of North Dakota rock and mineral specimens.
2. Prepare rock and mineral specimens for scientific study, public display, and educational use.

#### **REGULATORY ACTIVITIES**

##### **One-Year Plan:**

1. Transfer nonconfidential geophysical coal logs from confidential file to public file.
2. Issue permits for coal exploration in a timely manner.
3. Issue permits for subsurface minerals in a timely manner.
4. Issue permits for geothermal facilities in a timely manner.
5. Issue permits for fossil collecting on State administered lands in a timely manner.
6. Complete environmental reviews of landfill permit applications, coal mine permit applications, wind farms, as well as highway, pipeline, and transmission line corridors in a timely manner.
7. Answer inquiries from industry and the public regarding program rules and regulations.

##### **Long-Term Plan:**

1. Propose the needed statute and rule changes to keep the regulatory programs functioning efficiently.

#### **OUTREACH ACTIVITIES**

##### **Public Outreach**

##### **One-Year Plan:**

1. Continue providing educational content to users on Facebook, Twitter, and Instagram.
2. Assist with the 2019 ND Petroleum Council Teacher Seminar.
3. Publish seven geology articles in the DMR newsletter.
4. Prepare a program for the 2019 Kids Reading Day at the Heritage Center.
5. Prepare a program for the 2019 Earth Day Festival.
6. Prepare a program for the 2019 National Fossil Day at the Heritage Center.
7. Assist with the 2019 Science Olympiad.
8. Assist with the 2019 State or Regional Science Fairs.
9. Provide lecture/tour to geoscience classes at Bismarck State College and Dickinson State U.
10. Provide public presentations pertaining to a variety of geologic topics in ND.
11. Implement a live streaming program focusing on presentations and fossil preparation sessions.
12. Publish DMR newsletter in a timely manner.
13. Continue to maintain a wide variety of map products related to North Dakota.

##### **Long-Term Plan:**

1. Prepare guidebooks for general public fieldtrips in areas of interest in North Dakota.
2. Meet with industry and state and federal agencies to assess study topics, on an as-needed-basis.
3. Hire a full-time outreach person.
4. Develop a six volume educational series on the paleontology of North Dakota.

##### **Survey Web Page**

##### **One-Year Plan:**

1. Rearrange items on the homepage to accommodate state logo.

##### **Long-Term Plan:**

1. Continue to place relevant geologic information and related technical material on the website.
2. Scan all of the electric and geologic logs from coal and uranium exploration holes.

### **Computerized Geologic Database**

#### **One-Year Plan:**

1. **Identify geologic data to be scanned and placed into a Survey database.**

#### **Long-Term Plan:**

1. **Complete digitization of existing databases and maintain files.**

### **Information Dissemination**

#### **One-Year Plan:**

1. **Publish completed studies as NDGS publications, refereed journal articles, or in industry publications.**
2. **Place links to digital copies of maps and reports on Survey website.**
3. **Place shape files of coal, uranium, landslides maps, etc on the website for download.**

#### **Long-Term Plan:**

1. **Create digital files for all of the Geological Survey's historic documents.**
2. **Study the feasibility of scanning all stereopair aerial photographs in the Survey collection and, unless prohibited by agreement, provide to the general public.**
3. **Scan electric and geologic logs from coal and subsurface mineral files and place on website.**

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

Governor Burgum thanked Mr. Murphy and his team for their work.

Mr. Lynn Helms, Director of DMR, provided a legislative update. (A copy is available in Commission files.) Currently, DMR is actively following 17 bills. Of note, there are some concerns with the following bills:

- HB 1014, the appropriations bill, is going well. Out of 16 requests, the House approved 13.
- HB 1290 could impact the inspection enforcement program by requiring permission from land owner, a search warrant, or probable cause to enter private property. With 80,000 inspections per year, obtaining landowner permission or a search warrant is not feasible. Mr. Helms is working with the bill sponsor.
- HB 1493 could impact the drone program. It would prohibit viewing or photographing private land from a drone. Landslide, reclaimed sites, etc. often have homes or private land in the periphery. It would be impossible to comply with the legislation as it is currently written.
- SB 2037 relates to high level radioactive waste. DMR is trying to communicate with local interests that this is driven by federal law and that the bill is intended to provide as much state and local control as possible under the federal law. If taken a step to far, the federal government can discredit state and local policies.

He indicated that everything else that they have supported has passed and the bills that they have opposed have failed.

Mr. Helms reported that the U.S. Forest Service did extend the comment period to February 20th in regards to the Oil and Gas Leasing Program. If there are any comments the Commission members would like to submit or have the staff supplement what has been submitted, there is a window of time to do so.

In response to a question, Mr. Helms stated that December oil production will be a new record. Numbers for January looks ok, but production for February will be down.



## **PIPELINE AUTHORITY**

Mr. Justin Kringstad, Pipeline Authority Director, presented an update on production, transportation, pricing, oil and natural gas forecasts, and industry outlook. (A copy is available in Commission files and on the Pipeline Authority website.)

Mr. Kringstad reported that pipeline continues to be the dominate mode of transportation. There are attractive rail options out of the region with the majority of rail shipping going to the Pacific Northwest. With the current pricing, these trends will likely continue for the quarter.

Mr. Kringstad discussed the significant decrease in price for North Dakota oil in December. A Midwest refining complex was offline for a short period of time and the resulting congestion impacted pricing. This will impact December tax information -- a \$14.00 discount for North Dakota crude oil; that discount has now retracted. He noted that actions taken in Alberta helped reverse that lower price.

Mr. Kringstad stated that when DAPL came on line there was sufficient pipeline capacity. However, with the increase in oil production in 2018 and 2019 the production currently exceeds pipeline capacity.

Mr. Kringstad provided data regarding initial oil production rates and noted an upward trend in initial oil production rates due to technology (referred to as fourth generation). Mr. Helms and Mr. Kringstad described what is involved in "fourth generation" technology. In response to a question it was noted that the use of this technology is beginning to move out from the Bakken core and is being used by the majority of the industry. Mr. Kringstad stated that forecasting is challenging because of the advances in technology that have taken place.

Mr. Kringstad updated the Commission on the work that is currently being proposed by the True Companies to increase the oil export capacity out of North Dakota. That project will have Corpus Christi, Texas as its designation and will bypass the congestion in Cushing.

Mr. Kringstad stated that natural gas is experiencing rapid growth because of the way the wells perform over time. He noted that the initial gas production rates have a very similar trend to what was shown for oil production. Since the second half of 2018, there have been substantial improvements in the initial gas production rates. Dunn and Mountrail Counties, in particular, had substantial increased gas performance. He provided information on the statewide gas oil ratio (MCF/BBL) and noted that the ratios have been consistent in 2016, 2017, and 2018 for new wells drilled. This is an area that he will be monitoring closely.

Mr. Kringstad indicated that there are several projects that have either recently come online or are in the planning/construction stages to increase gas processing capacity.

Mr. Kringstad updated the Commission on the major gas pipeline and process infrastructure and noted the projects that WBI Energy has recently completed and announced--Valley Expansion Project; North Bakken Expansion Project.

Mr. Kringstad provided background information on natural gas storage and discussed both traditional natural gas storage and infield natural gas storage, especially as it relates to gas capture solutions.

Mr. Kringstad stated that Northern Border pipeline will likely face capacity challenges in the early to mid-2020s.

Mr. Kringstad provided a slide regarding traditional and straddle gas process plants. He indicated that House Bill 1205 utilizes the term “straddle” gas plant so that prompted him to include this slide. He explained how this type of plant works. While straddle plants are not a new concept, it is new to North Dakota. Straddle plants do not gather any gas at the well. Rather they tap into the interstate system. Natural gas liquids (NGL’s), primarily ethane, are extracted at a straddle plant. Economics drive location. A straddle plant would need to locate near an ethane market. The capital investment is \$1 million per million cubic feet of gas capacity. Almost all of North Dakota’s interstate transmission systems have high levels of ethane, but the challenge is to find a local market.

In response to a question, Mr. Kringstad stated that he is not aware of anything currently happening in Minnesota that would affect pipelines. He will continue to monitor the situation.

### **HOUSING FINANCE AGENCY**

Ms. Jolene Kline, Executive Director, provided a legislative update. Of note:

- HB 1014 has been amended with no request for Housing Incentive Fund (HIF) funding. An amendment was added to allow continuing authority to accept additional funds.
- SB 2271 has been approved by the Senate Industry, Business and Labor Committee which has \$40 million. It is being considered by the Senate Appropriations Committee.
- SB 2302 which had \$10 million in tax credits was defeated.
- HB 1376 which allows the Agency to do criminal backgrounds has passed the House.

It was the consensus of the Commission that Ms. Kline should continue to advocate for HIF funding.

### **PUBLIC FINANCE AUTHORITY (PFA)**

Ms. DeAnn Ament, PFA Executive Director, reported on loans approved by the PFA Advisory Committee for the following entities:

1. City of Valley City - \$746,000
2. City of Glenburn - \$600,000

In response to a question, Ms. Ament stated that Glenburn’s water comes from a water district; this is a new water tower.

Ms. Ament provided a legislative report.

- HB 1067 – Relates to Certificates of Indebtedness - Passed the House.
- SB 2214 – Passed the Senate. Bonding for school construction projects. Appropriation would come from the Foundation Aid Stabilization Fund.
- SB 2268 – Passed in the Senate Transportation Committee as amended. Currently being considered by the Senate Appropriations Committee. Corridors of Commerce bonding for a total amount of \$100 million.
- SB 2275 – hearing will be held tomorrow (2/13). Bonding portion of Operation Prairie Dog which would have the PFA issue bonds up to \$500 million.
- SCR 4005 – Would use the Legacy Fund for infrastructure projects. It was defeated in the Senate.

### **BANK OF NORTH DAKOTA (BND)**

Mr. Eric Hardmeyer, Bank of North Dakota President, provided a legislative update. (A copy is available in Commission files.) He reviewed the handout that listed the bills that have an impact on the Bank of North Dakota. The bills have been divided into 3 categories:

- Legislation Impacting BND Capital,
- Legislation Impacting BND Loan Programs & State Agency Borrowing Authority from BND - BND Direct Funding, and
- Legislation Impacting BND Loan Programs and State Agency Borrowing Authority - Other Funding Sources that would be administered by the Bank.

Currently, the bills impacting capital total \$228,000,000.

Mr. Hardmeyer then went through the details on the bills that the Bank is tracking and the status of each of the bills.

Mr. Hardmeyer presented the non-confidential Bank of North Dakota Advisory Board December 20, 2018 meeting minutes.

Pursuant to N.D.C.C. 6-09-35, the Industrial Commission entered into 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 15 and 30 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 3:33 p.m. pursuant to N.D.C.C. 6-09-35 to discuss the following items:

- Presentation of Concentrations of Credit Report as of December 31, 2018.
- Problem Loan Update.
- Presentation of confidential Bank of North Dakota Advisory Board December 20, 2018 meeting minutes.
- Other Bank of North Dakota confidential (as defined under N.D.C.C. 6-09-35) business.

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**BND EXECUTIVE SESSION**

**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

**Others in Attendance:**

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

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The meeting reconvened in open session at 4:16 p.m. Governor Burgum invited the public to return to the meeting room.

Mr. Hardmeyer presented a memorandum regarding the proposed 2019 budget. (A copy of the memorandum is available in the Commission files.) He noted that for 2019 BND management is projecting a modest decrease in total assets; from a level of \$7.0 billion at year-end 2018 to \$6.9 billion for 2019, or a decline of 1.5%. Net income is projected to be \$163.5 million, a 3.1% increase over 2018. They are projecting a decrease in both deposits and loan demand. Capital position is projected to decline

slightly during 2019, from \$861.9 million to \$849.0 million, or a 1.5% decline. However, it is estimated to be at approximately 12% for a capital ratio.

In reviewing the proposed Budgeted Income Statement he noted that the non-interest expense is projected to increase primarily because of a \$5 million increase in IT -- several projects are planned for 2019-- several technology initiatives and enhancements scheduled for loan and deposit operations, student lending (i.e. new core platform), commercial lending (i.e. correspondent bank portal), implementation of the One-Application System, a new residential real estate origination, internal operating systems as well as in the area of information security and cybersecurity.

**It was moved by Commissioner Goehring and seconded by Attorney General Stenhjem that the Industrial Commission accepts the recommendation of the Bank of North Dakota Advisory Board and approves the following CY 2019 Budget for the Bank of North Dakota:**

BANK OF NORTH DAKOTA  
 ENDING BALANCE SHEET  
 ACTUAL 2018 v. BUDGET 2019

	(In thousands)			
	Actual 2018	Budget 2019	Difference	% Change
Cash and due from banks	470,227	185,000	(285,227)	-60.66%
Federal funds sold	39,465	65,000	25,535	64.70%
Securities	1,912,743	2,108,987	196,244	10.26%
Loans				
Commercial	2,063,757	2,039,490	(24,267)	-1.18%
Farm	665,692	674,806	9,114	1.37%
Residential	694,577	627,937	(66,640)	-9.59%
Student loans	1,184,132	1,197,363	13,231	1.12%
	4,608,158	4,539,596	(68,562)	-1.49%
Less allowance for loan loss	(92,750)	(92,750)	-	0.00%
	4,515,408	4,446,846	(68,562)	-1.52%
Other assets	101,915	103,307	1,392	1.37%
Total Assets	7,039,758	6,909,140	(130,618)	-1.86%
Deposits-				
Non-interest bearing	587,301	506,000	(81,301)	-13.84%
Interest bearing	4,202,467	3,970,726	(231,741)	-5.51%
Federal funds purchased and repurchase agreements	275,480	310,000	34,520	12.53%
Short and long-term borrowings	1,103,436	1,263,889	160,453	14.54%
Other liabilities	9,190	9,133	(57)	-0.62%
Total liabilities	6,177,874	6,059,748	(118,126)	-1.91%
Equity	861,884	849,392	(12,492)	-1.45%
Total Liabilities and Equity	7,039,758	6,909,140	(130,618)	-1.86%

**BANK OF NORTH DAKOTA  
 ENDING INCOME STATEMENT  
 ACTUAL 2018 v. BUDGET 2019  
 (In thousands)**

	Actual 2018	Budget 2019	Difference	% Change
<b>Interest Income</b>	240,002	269,903	29,901	12.46%
<b>Interest Expense</b>	46,441	68,426	21,985	47.34%
<b>Net Interest Income</b>	193,561	201,477	7,916	4.09%
<b>Provision for Loan Losses</b>	12,000	6,000	(6,000)	100.00%
<b>Net Interest Income After Provision</b>	181,561	195,477	13,916	7.66%
<b>Non-Interest Income</b>	6,911	7,081	170	2.46%
<b>Non-Interest Expense</b>	16,870	18,194	1,324	7.85%
Salaries and benefits	5,253	10,379	5,126	97.58%
Data processing	932	1,176	244	26.18%
Occupancy and equipment	6,909	9,317	2,408	34.85%
Other operating expense	29,964	39,066	9,102	30.38%
<b>Net Income</b>	158,508	163,492	4,984	3.14%
Return on Average Assets	2.35%	2.42%		
Return on Average Equity	18.12%	18.45%		

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

It was requested that Bank management provide the Commission with a listing of the projected impacts on the Bank's equity -- income going in and withdrawals.

**RENEWABLE ENERGY PROGRAM**

**It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that under the authority of North Dakota Century Code Sections 54-63-02 and 44-04-19.2 the Industrial Commission close the meeting to the public and enter into executive session for the purpose of considering applicants confidentiality requests for portions of a Grant Round 39 application and for reporting on two projects if the project applications are approved. 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 those items listed on the agenda which is

anticipated to last between 5 and 10 minutes. Commission members and their staff remained but the public was asked to leave the room. Governor Burgum closed the meeting at 4:27 p.m.

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RENEWABLE ENERGY PROGRAM EXECUTIVE SESSION

**Members Present:**

Governor Doug Burgum  
Attorney General Wayne Stenehjem  
Agriculture Commissioner Doug Goehring

**Others in Attendance:**

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

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The Industrial Commission meeting reconvened at 4:29 and the public was invited to return to the room.

**It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission grant the request from Evolve Analytics, LLC and determines that the following information is confidential:**

**Appendices E, G and H of Grant Round 39 Application - Enterprise Autonomy - Secure, Remote, Autonomous, Multi-Drone Operations within the Renewable Energy Sector and further determines, if the application is approved, that the reporting on the project is confidential, including the types and design of hardware, software design and components, source codes, and intellectual property owned by Evolve Analytics, contingent upon Evolve Analytics, LLC providing non-confidential reports with sufficient information to determine that the work outlined in the application is being completed.**

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

**It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission grant the request from Hankinson Renewable Energy, LLC and, if the application is approved, determines that the reporting on the New Implementation of Stack Heat Recovery Technology to Increase Efficiency and Production at Existing Ethanol Production Facility Project is confidential, including specific information pertaining to total usage amounts, grind margin, inputs per gallon of ethanol, yields and expense details, contingent upon Hankinson Renewable Energy, LC providing non-confidential reports with sufficient information to determine that the work outlined in the application is being completed.**

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

**OUTDOOR HERITAGE FUND**

Ms. Andrea Pfennig, Industrial Commission Deputy Executive Director, provided a legislative update. (A copy is available in Commission files.) Ms. Pfennig noted that HB 1014 has been amended so that OHF will receive a maximum of \$15 million for the biennium. There are three other bills that have been introduced that would impact the Outdoor Heritage Fund.

- SB 2054 – Received a Do Not Pass recommendation from the Senate Energy and Natural Resources committee.
- SB 2261 – Hearing was held on January 24. No action has been taken at this time.
- HB 1202 – Passed the House.

#### ADMINISTRATION

Ms. Fine presented the January 18, 2019 non-confidential meeting minutes for consideration.

**It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the January 18, 2019 non-confidential meeting minutes be approved. On a roll call vote, Governor Burgum, Attorney General Stenehjem, and Commissioner Goehring voted aye. The motion carried unanimously.**

Ms. Fine provided a legislative update. (A copy is available in Commission files.) She provided a handout summarizing the actions taken on the Industrial Commission appropriation bill, HB 1014. She noted that HB 1523 is being monitored as it could impact Industrial Commission programs.

With no further Industrial Commission business, Governor Burgum adjourned the meeting at 4:36 p.m.

North Dakota Industrial Commission



Karlene Fine, Executive Director and Secretary