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OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2306

2007 SENATE EDUCATION

SB 2306

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2306

Senate Education Committee

Check here for Conference Committee

Hearing Date: January 22, 2007

Recorder Job Number: 1504, 1506

Committee Clerk Signature

Minutes:

Chairman Freborg opened the hearing on SB 2306, a bill relating to matching grants for endowed scholarships by the state board of higher education. All members were present.

Senator Nething introduced the bill. The bill is designed to help solve a problem recognized throughout the United States. North Dakota does not have adequate funds for scholarships for need based scholarships. There seems to be more money available for merit based scholarships. The bill proposes that a donor can make a gift for a scholarship to any public or private institution and it will be matched by the state 2:1. There is a \$20 million provision if donors can come up with \$40 million. The bill further provides the Board of Higher Education will distribute the grants in the order applications are received, with no institution qualifying for a greater percent of the money available than the percentage the students bear than the number of FTE at that institution. He has a concern with the bill. In September of 2005, the attorney general wrote an opinion that it's okay for money to be paid to a student but not to a private institution. Because of this, payment may have to be made to the student for this to work with private institutions. The intern should be able to help with adding this clause. This bill was stimulated by a conversation at a research university social. He had topped someone from the university system would have been here this morning. Our critical need is for need

based scholarships. Line 18 should be changed to biennial. The fund would be started with \$20 million and see if we can raise the dollars. He likes the match portion of the bill. The ratio could be changed to 3:1. He needs the committees help in making a better bill.

Chairman Freborg asked what is the total student population at public and private institutions. Senator Nething said about 45,000.

Senator Flakoll asked if institutions such as Aakers would be included?

Senator Nething said the way the bill is written, no. Included would be higher education.

Senator Flakoll said the University of Phoenix has experienced distance learning success.

Has there been discussion of requiring the eligible schools to be institutions of higher learning as of date certain?

Senator Nething said he would have no problem with that.

Senator Flakoll asked if graduate students, medical students and law students would all count in the FTE formula?

Senator Nething said yes.

Senator Flakoll said they would be eligible if a company provided funds for research that could be used for graduate stipends would that be considered a match?

Senator Nething said yes.

Senator Flakoll said the \$20 million is ambitious. If it is not used would it roll back to the general fund?

Senator Nething said it would stay in the profits of the Bank of North Dakota.

Senator Gary Lee asked if there is a 2 year sunset on the bill?

Senator Nething said there is no sunset in the bill, it is not needed. He wants the Senate

Education Committee to like the concept of the bill and help him with it.

Representative Glassheim testified in favor of the bill. College tuition has increased 50% over the past five years. We are no longer a low tuition state; we are now a moderate to high tuition state. The need for scholarships has become apparent. This helps the state, some of the scholarship dollars would be provided by the private sector. This would be a good marketing tool to attract outside dollars. 42% of the profit of the Bank of North Dakota is from the student loan program and this program helps send some of those profits back to students. An endowment is a good idea; up to 1000 scholarships could be provided each year.

Chairman Freborg asked if the program would be for resident and non resident students.

Representative Glassheim said yes.

Senator Taylor asked if it would provide 1000 full scholarships?

Representative Glassheim said they could be full or partial. There is a question if the endowment would be protected forever or spent. He would not object to protecting it.

Senator Taylor asked if he has a preference between need and merit based scholarships.

Representative Glassheim said his heart is for the need based but he sees the point of the merit based as well. It is important to attract and retain high level students.

Senator Flakoll asked if this covers the tribal colleges.

Representative Glassheim said no, they are not a part under the Board of Higher Education.

We do not operate those schools.

Senator Flakoll said lines 9 and 10 refer to public or private institution in the state.

Senator Flakoll pointed out the bill says endowed scholarships and that usually means you don't spend the capital.

Representative Glassheim said that was his understanding. In talking to a couple of college officials, they thought the fund could be spent.

Senator Flakoll asked if this would be for new and ongoing scholarships, if donations could be made for a certain number of years.

Representative Glassheim said it would be based on actual dollars collected, not pledges. The scholarships would not be tied to the donor's name. All donations would go into the fund

Senator Flakoll asked if donations to this fund could be from donors who began contributing in past years or do all the dollars have to be new.

Representative Glassheim said it for the purposes of the state; it would be whatever comes into the pot.

.Eric Hardmeyer, President, Bank of North Dakota, testified in a neutral position. (Written testimony attached)

Senator Flakoll asked historically, what has been the income from student loans?

Mr. Hardmeyer said 35 – 40% in the last 4 to 5 years.

Senator Flakoll asked about the typical interest rate on those loans.

Mr. Hardmeyer said 80% of the loans are federally insured loans, Stafford or Phelps and the rate for those loans is set by the federal government, It has was set at 6.8% fixed July 1. It used to be a variable rate and bottomed out at 3%. As rates have risen, the federal student loan rates have also risen until the federal government decided to fix them. Another program, administered by the Bank of North Dakota is the DEAL program. Students use it when they have run out of federal eligibility. A first year student can only obtain about \$3500 in federal loans. UND or NDSU costs per year is \$10,000 plus. So there is a difference that has to be made up by scholarships, grants or alternative loans. The rate for the DEAL program is fixed at prime for the life of the loan; it was lowered in the past year from prime plus 2. The prime has gone up from 4% to 8 ¼%. Compared to other alternative loan programs across the country, and they generally start as prime variable and go up from there, Some are as high as

18% so the DEAL program is a good rate. They are looking at Senator Taylor and another group to provide flexibility on the DEAL rate because by law they can only offer a fixed rate. They would like to offer both a fixed and a variable rate so students can take advantage of lower rates when they come down.

Senator Gary Lee asked what is the average student debt level?

Mr. Hardmeyer said statistics put it at \$22,000 for a 4 year degree, the second or third highest level in the nation. Their internal statistics show just under \$20,000. Students max out the federal program after 4 or 5 years, the max of an undergraduate degree is \$33,000.

Senator Gary Lee asked if the mechanics easier for the Bank of North Dakota to do a loan forgiveness program or a scholarship program?

Mr. Hardmeyer said for the Bank of North Dakota it is easier on the front end and is better for the student.

Senator Taylor asked what the bank would prefer, a general fund transfer based on income or a level of capital. What would be ideal in terms of stability of the bank?

Mr. Hardmeyer said they are comfortable with the \$60 million transfer now. Asset growth has been significant and it did stretch equity. If they could stay at 70 – 75%, it gives them room for capital growth. They realize in years past the bank has had to pony up and help the state. He would prefer a year by year basis. One of the elements in SB 2015 is they raise the floor of equity from \$150 million to \$175 million. Where the money should go is not his decision, it is up to the legislative body.

Senator Gary Lee asked if this is a novel approach?

Mr. Hardmeyer said it is new in the sense that this money would come out their earnings and go into a scholarship fund rather than the general fund. Helping students is a fine idea.

Senator Gary Lee asked how many dollars are involved in the loan forgiveness programs.

Mr. Hardmeyer said the Bank of North Dakota does not have any loan forgiveness programs.

There are programs through higher education, through various groups, a university, the optometrists, vets. They may administer on behalf of higher ed but it is not Bank of North Dakota funding.

Senator Flakoll asked if student loans from the Bank of North Dakota, are students from private institutions eligible>

Mr. Hardmeyer said yes.

Chairman Freborg closed the hearing on SB 2306.

Chairman Freborg opened the discussion on SB 2306.

Chairman Freborg said it is apparent the bill is not acceptable in its current form.

Senator Bakke said the sponsors seem confused, there are other bills out there that address the same issues. Maybe there is a better way to do this.

Chairman Freborg said there are bills out there worth \$105 million and we take that concern into consideration.

Senator Taylor asked if it is our job to read ahead. This bill is before us. The match is attractive, leveraging private money is attractive. The bank's concerns about the transfer amount and its designation are legitimate. We would want the universities that are eligible to have a physical presence in the state and maybe the students to have a physical presence in the state for some period of time.

Senator Flakoll said he has some issues with the current bill. He appreciates the creativity and the ability to leverage some dollars. There would be several necessary amendments. With the letter of the law, endowed means only the interest could be spent, it would have to go to a schools foundation and that would eliminate private colleges from being eligible. He has some questions in dealing with students with multi year scholarships. We currently have \$4 million in

our needs based grant program. He appreciates line 13 – 15, regarding caps for the campuses.

Chairman Freborg asked if there is enough support to want to fix the bill?

Senator Flakoll said we haven't talked about the \$20 million, would those funds be better spent elsewhere?

Senator Flakoll said he does not intend to amend the bill.

Senator Gary Lee moved a Do Not Pass on SB 2306. Senator Bakke seconded the motion.

Senator Taylor said we have a needs based system with the state grant program that has been lacking in funds. If we see a bill, we will keep that in mind. We as a committee might be able to find ways to leverage the money. We should try to see the intent of this bill in other pieces of legislation.

Senator Flakoll said there is an increase of 50% in the new legislation that is being proposed on the house side, taking the grant program from \$4 million to \$6 million.

The motion passed 4 – 1 – 0. Senator Bakke will carry the bill.

Chairman Freborg said his no vote was because would have liked to lever a little private money.

Date: 1/22/09
Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2306

Senate Education Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Senator Lee Seconded By Senator Bakke

Senators	Yes	No	Senators	Yes	No
Senator Freborg		✓	Senator Taylor	✓	
Senator Flakoll	✓		Senator Bakke	✓	
Senator Gary Lee	✓				

Total Yes 4 No 1

Absent 0

Floor Assignment Senator Bakke

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
January 22, 2007 11:48 a.m.

Module No: SR-14-0935
Carrier: Bakke
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2306: Education Committee (Sen. Freborg, Chairman) recommends DO NOT PASS
(4 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). SB 2306 was placed on the
Eleventh order on the calendar.

2007 SENATE APPROPRIATIONS

SB 2306

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2306

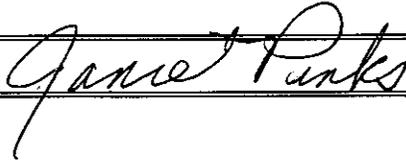
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 02/08/07

Recorder Job Number: 3096

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on SB 2306.

Senator Dave Nething, District 12, Jamestown testified as a supporter of SB 2306. He distributed (1) information on the affordability of the bill indicating there is a need do we have the funds to support the bill.

Peggy Wipf, Director, Financial Aid, North Dakota University System, distributed written testimony (2) indicating the bill is a partnership approach to making secondary education more affordable.

Questions were raised about the definition of private donors.

Eric Hardmeyer, President, Bank of North Dakota, distributed written testimony (3) testifying neutrally and stressing his concerns about the source of the funds to support this bill and providing documentation of the Bank of North Dakota highlights.

Chairman Holmberg then closed the hearing on SB 2306 indicating there are other bills that deal with the Bank of North Dakota and the committee will deal with all of them at the same time.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2306

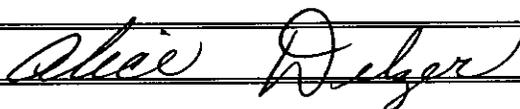
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 02-09-07

Recorder Job Number: 3334

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on SB 2306 on February 9, 2007 regarding a matching grants from scholarships.

Senator Robinson asked if the committee was planning to move these bills out the 2nd half.

Chairman Holmberg Stated someone has to make a motion.

Senator Grindberg stated we just passed the provision for private contributions to this merit trust fund in another bill.

Senator Grindberg moved a **DO NOT PASS, Seconded by Senator Wardner**. Discussion followed.

Senator Mathern had questions regarding what this bill offers in immediate help and if a student could have this money this fall if money is put into it. I

Chairman Holmberg said there was testimony from the BND of their concern that if we were going to take that out that it should be part of the amount that typically gets transferred.

They're tracking bills right now regarding transfer of funds.

A roll call was taken for a DO NOT PASS ON SB 2306 resulting in 8 yeas, 4 nays, 2 absent. The motion carried. Senator Grindberg will carry the bill.

The hearing on SB 2306 closed.

Date: 2/9/07
Roll Call Vote #:

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2306

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken do not pass

Motion Made By Grindberg Seconded By Wardner

Senators	Yes	No	Senators	Yes	No
Senator Ray Holmberg, Chrm	✓		Senator Aaron Krauter		
Senator Bill Bowman, V Chrm	✓		Senator Elroy N. Lindaas		✓
Senator Tony Grindberg, V Chrm	✓		Senator Tim Mathem		✓
Senator Randel Christmann	✓		Senator Larry J. Robinson		✓
Senator Tom Fischer	✓		Senator Tom Seymour		✓
Senator Ralph L. Kilzer	✓		Senator Harvey Tallackson		
Senator Karen K. Krebsbach	✓				
Senator Rich Wardner	✓				

Total (Yes) 8 No 4

Absent 2

Floor Assignment Sen Grindberg

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
February 12, 2007 8:45 a.m.

Module No: SR-29-2830
Carrier: Grindberg
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2306: Appropriations Committee (Sen. Holmberg, Chairman) recommends DO NOT PASS (8 YEAS, 4 NAYS, 2 ABSENT AND NOT VOTING). SB 2306 was placed on the Eleventh order on the calendar.

2007 TESTIMONY

SB 2306

TESTIMONY TO THE
EDUCATION COMMITTEE

JANUARY 22, 2007

SENATE BILL 2306

ERIC HARDMEYER, PRESIDENT

*Some
given to
Senate
appropriations*

At Bank of North Dakota, we understand and appreciate the legislative efforts to assist students with the burgeoning levels of debt associated with attending an institution of higher education. We believe there could be a better balance among debt, savings, and scholarships for North Dakota students. To do our part, we have lowered the interest rate on our popular Dakota Education Alternative Loan Program (DEAL) and have begun to pay default and origination fees on behalf of the students. We are also sponsoring legislation to improve and enhance North Dakota's 529 plan by offering tax deductions for college savings (House Bill 1091).

The bottom line for all the legislative efforts to financially assist students is that the funds have to come from somewhere. In this bill and with several other bills closely associated, the funds for the program come from the earnings of Bank of North Dakota. I believe that some amount of our earnings in the form of a transfer (dividend in the private sector) is appropriate. The legislature, along with the Governor, has settled on the amount of \$60 million for each of the last three biennia. For the current biennium, that will amount to about 70% of our total earnings. The balance of our earnings goes to grow capital.

At this point, we are tracking several bills that if passed, will take \$102.5 million of earnings from the BND during the 2007-2009 biennium. This poses a challenge to BND in that for that same period we project to earn \$90 million. The difference of \$12.5 million would have to come out of our capital base.

As a recommendation, I suggest that the \$20 million needed for this program either be earmarked as part of the on-going \$60 million that gets transferred from BND (SB 2015) to the general fund each biennium or, the funding for the program comes from a general fund appropriation.

Below for your information is synopsis of our last four years of financial history plus our projection for 2007.

BND Financial Highlights (millions)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	Unaudited <u>2006</u>	Projected <u>2007</u>
Assets	\$1,953	\$2,015	\$2,062	\$2,326	\$2,272
Loans	\$1,392	\$1,456	\$1,467	\$1,756	\$1,798
Deposits	\$1,057	\$1,199	\$1,352	\$1,617	\$1,505
Capital	\$ 153	\$ 153	\$ 163	\$ 164	\$ 185
Ratio	7.83%	7.75%	7.90%	7.24%	8.14%
Income	\$31.7	\$34.2	\$36.4	\$42.8	\$45.0
GF transfer	\$34.0	\$30.0	\$30.0	\$30.0	\$30.0
ROE	20.7%	22.1%	22.9%	26.1%	24.97%

Assets have grown over the last 4 years with significant growth in 2006. This growth generally can be attributed to the overall strength of North Dakota's economy. As tax and fee income grows they are deposited at BND. Those deposits are then deployed into various asset types; loans or investments.

Loan volume has increased each year with nearly a 20% increase in net loans in 2006. The loan portfolio is diversified into four main categories: business, agriculture, student loans, and residential. The breakdown is as follows: business - \$565 million, agriculture - \$241 million, student loans - \$561 million, and residential - \$388 million.

The Bank of North Dakota is adequately capitalized with capital of \$164 million or 7.24% of average assets. According to Federal Reserve regulations, to qualify as "well-capitalized", a financial institution must have at least 5% capital. A nation-wide average for banks of similar size is 8.01%, while the North Dakota average for all banks is 9.91%. Our internal goal is for BND to have equity of 8% and by the end of the 2005-07 biennium, we project equity to be over 8%.

With the final \$30 million installment to be paid in June of 2007, BND over the past ten years will have transferred to the General Fund nearly \$280 million, making it the fifth largest source of revenue to the state.

Earnings have been consistent over the last four years, with BND achieving record profits the last three years, although 2006 are unaudited at this point. For 2006, we had budgeted for earnings to be \$38 million; however, as a result of increased loan demand and deposit growth, earnings came in at nearly \$43 million. For the 2005-07 biennium, total BND earnings will be approximately \$83 million. This allows BND to grow capital by \$23 million after the \$60 million in transfers to the General Fund.

The return on equity ratio, which averages 23% for the last four years, represents the state's return on its investment in the Bank.

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**Testimony to Senate Appropriations
On SB 2306**

February 8, 2007

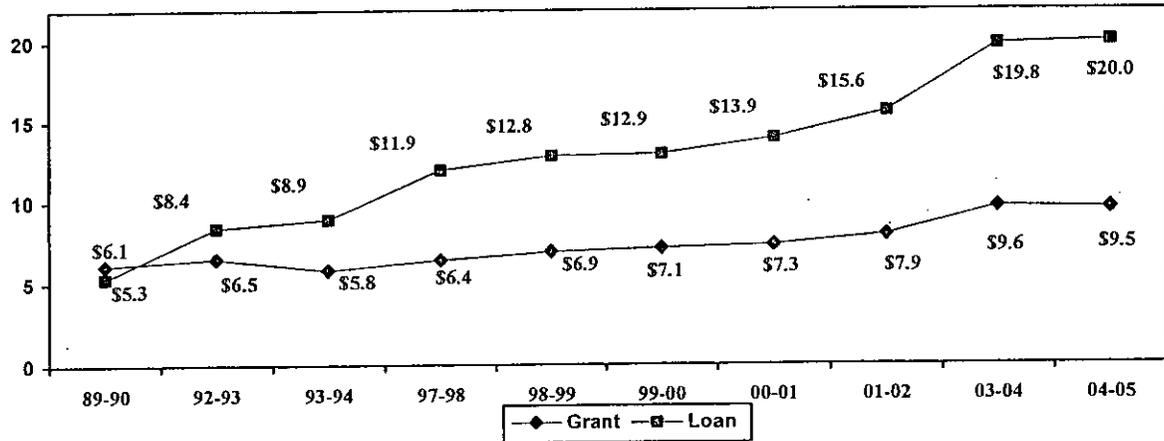
Chairman Holmberg and members of the Senate Appropriations Committee. For the record, I am Peggy Wipf, Director of Financial Aid for the North Dakota University System.

Thank you for the opportunity to provide testimony in support of SB 2306 which would provide another avenue in helping maintain an affordable education for our North Dakota citizens. The attached figures help drive home the point that federally subsidized student loan borrowing has increased dramatically between 1989-90 and 2004-05 while available federal grant dollars remained fairly steady. Currently, the average loan indebtedness of a North Dakota undergraduate student is between \$17,000 and \$22,000.

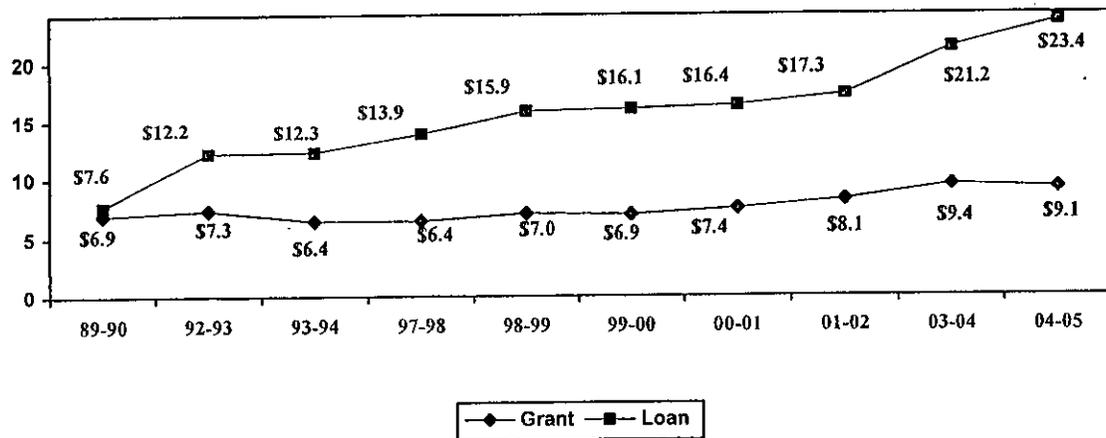
SB 2306 provides a partnership approach to not only making a post-secondary education more affordable; but, encourages private donors to contribute towards the investment of human capital – people with the knowledge and skills required to fill positions in the knowledge-based technology-driven economy. Growing scholarship opportunities for college students is a win-win situation for all students and the state.

Thank you and I would be happy to respond to questions you may have.

NDUS Two-Year Campus Combined Loan*, Grant/Campus-Based Financial Aid Information**
 (BSC, LRSC, MiSU-BC, NDSCS and WSC)
 (Millions of Dollars)



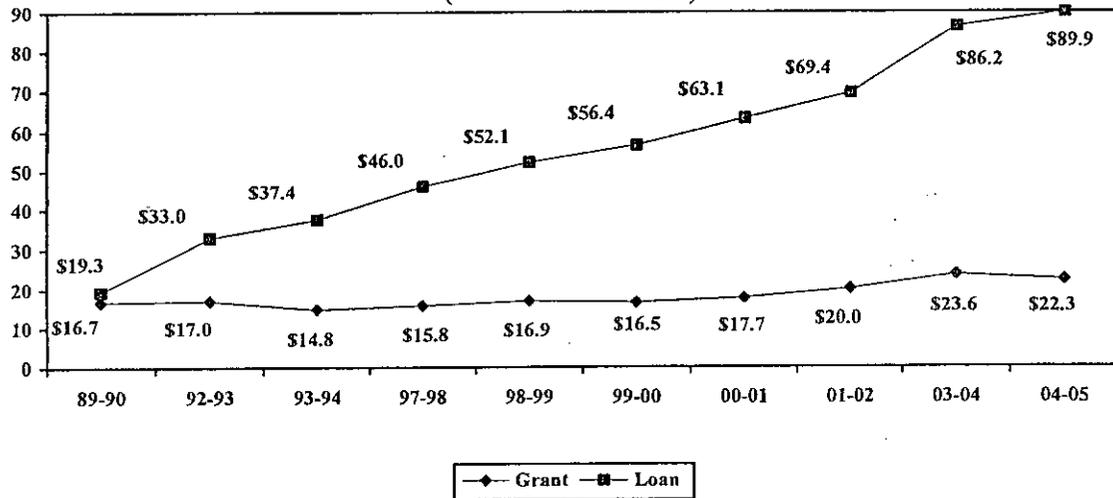
NDUS Four-Year/Regional Campus Combined Loan*, Grant/Campus-Based Financial Aid Information**
 (DSU, MaSU, MiSU and VCSU)
 (Millions of Dollars)



NDUS Doctoral Campus Combined Loan*, Grant/Campus-Based Financial Aid Information**

(NDSU and UND)

(Millions of Dollars)



* Federal Stafford (subsidized) Loan, Federal Unsubsidized Stafford Loan, Supplemental Loans for Students, Federal Parent Loan for Undergraduate Students

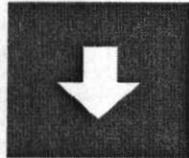
** Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Perkins Loan, Federal College Work-Study Program

The majority of information used in Appendices 2-3 was gathered from the following sources: (1) a federal campus reporting form entitled, "Fiscal Operations Report and Application to Participate," (2) Student Loans of North Dakota (SLND), and (3) the Education Assistance Corporation (EAC) for academic years 1989-90, 1992-93, 1993-94, 1997-98, 1998-99, 1999-00, 2000-01, 2001-02, 2002-03, 2003-04, and 2004-05. SLND and EAC guarantee over 90 percent of all student loan volume for University System students.

2006
Grade



Change
Over Time



North Dakota has lost considerable ground in making higher education affordable. North Dakota receives an F in affordability this year.

Graded Information

■ Compared with top-performing states, families in North Dakota devote a very large share of family income, even after financial aid, to attend public four-year colleges and universities, which enroll 66% of college students in the state.

■ The state's investment in need-based financial aid is very low when compared with top-performing states, and North Dakota does not offer low-priced college opportunities.

■ Undergraduate students borrowed on average \$3,110 in 2005, one of the lowest amounts in the nation.

Change in Graded Measures

■ Over the past several years, the share of family income, even after financial aid, needed to pay for college expenses at public four-year institutions has increased from 19% to 28%.

Other Key Facts

■ In North Dakota, 66% of students are enrolled in public four-year colleges and universities.

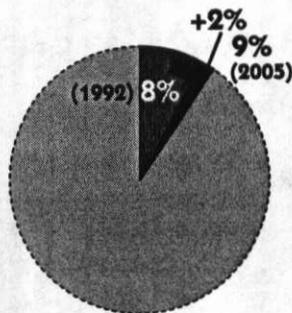
AFFORDABILITY	NORTH DAKOTA		Top States In Early 1990s
	1992*	2006	
Family Ability to Pay (50%)			
Percent of income (average of all income groups) needed to pay for college expenses minus financial aid:			
at community colleges	20%	24%	15%
at public 4-year colleges/universities	19%	28%	16%
at private 4-year colleges/universities	24%	31%	32%
Strategies for Affordability (40%)			
State investment in need-based financial aid as compared to the federal investment	8%	4%	89%
At lowest-priced colleges, the share of income that the poorest families need to pay for tuition	20%	25%	7%
Reliance on Loans (10%)			
Average loan amount that undergraduate students borrow each year	\$2,596	\$3,110	\$2,619

*The indicators report data beginning in 1992 or the closest year for which reliable data are available. See the *Technical Guide for Measuring Up 2006*.

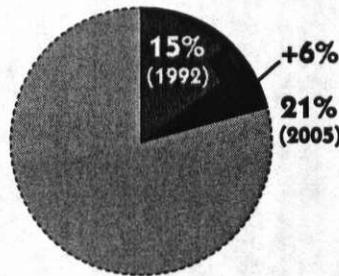
Note: In the affordability category, the lower the figures the better the performance for all indicators except for "State investment in need-based financial aid."

The affordability category measures whether students and families can afford to pay for higher education, given income levels, financial aid, and the types of colleges and universities in the state.

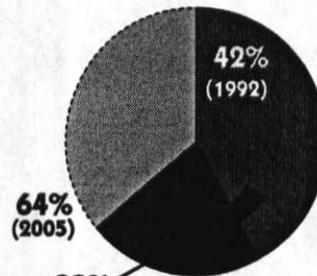
College in North Dakota Has Become Less Affordable, Particularly for Low-Income Families (1992–2005)



Highest 20%



Middle 20%



Lowest 20%

Net costs to attend public 4-year colleges as a share of income for different income families.

Financial Burden to Pay for College Varies Widely Among Different Income Families in the State

Those who are striving to reach or stay in the middle class—the 40% of the population with the lowest incomes—earn on average \$19,959 each year.

If a student from such a family were to attend a public four-year college in the state, their net cost to attend college would represent about 41% of their income annually.

Note

The numbers shown for tuition, room, and board minus financial aid may not exactly equal net college cost due to rounding.

Tuition, room, and board:	\$9,850
Financial aid received:	-\$1,717
Net college cost:	\$8,133

Percent of income: 41%

A CLOSER LOOK AT FAMILY ABILITY TO PAY	Average family income	Community colleges		Public 4-year colleges/universities		Private 4-year colleges/universities	
		Net college cost*	Percent of income needed to pay net college cost	Net college cost*	Percent of income needed to pay net college cost	Net college cost*	Percent of income needed to pay net college cost
Income groups used to calculate 2006 family ability to pay							
20% of the population with the lowest income	\$12,111	\$6,852	57%	\$7,794	64%	\$8,217	68%
20% of the population with lower-middle income	\$27,806	\$7,312	26%	\$8,472	30%	\$9,603	35%
20% of the population with middle income	\$44,719	\$7,702	17%	\$9,238	21%	\$10,878	24%
20% of the population with upper-middle income	\$64,550	\$7,811	12%	\$9,333	14%	\$11,211	17%
20% of the population with the highest income	\$101,708	\$7,833	8%	\$9,378	9%	\$11,392	11%
40% of the population with the lowest income	\$19,959	\$7,082	35%	\$8,133	41%	\$8,910	45%

*Net college cost equals tuition, room, and board, minus financial aid.