

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2393

2007 SENATE EDUCATION

SB 2393

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2393

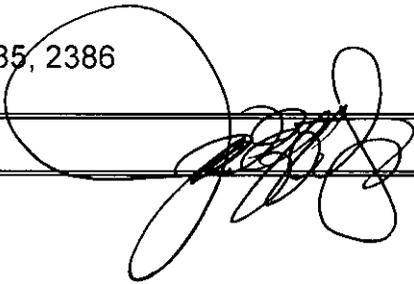
Senate Education Committee

Check here for Conference Committee

Hearing Date: January 31, 2007

Recorder Job Number: 2385, 2386

Committee Clerk Signature



Minutes:

Chairman Freborg opened the hearing on SB 2393, a bill to provide a student loan reduction for certain residents. All members were present.

Senator Fiebiger testified in favor of the bill. (Written testimony attached) The fiscal note is misleading; those who come back to the state will pay taxes, buy houses and stimulate the economy.

Senator Taylor confirmed a graduate could receive two reductions that would forgive 50% of their loan.

Senator Fiebiger said that is correct.

Senator Taylor asked if he had considered a fixed amount instead of a percentage. Some student loans could be \$100,000.

Senator Fiebiger said they considered it.

Senator Gary Lee asked if the program would include loans for post graduate work.

Senator Fiebiger said yes, that was his intent.

Senator Flakoll said the average debt is \$20,000, how much of that debt is credit card and other debt?

Senator Fiebiger said it is his understanding that the \$20,000 figure is student loans only.

Senator Bakke testified in favor of the bill. (Written testimony attached) She has two children who have left the state. They would like to return but would have to take huge cuts in salary. Something like this might help.

Brett Brudvik, an attorney in Mayville, testified in favor of the bill. He graduated 2 years ago from UND law school and he knows about student loans. He grew up in Mayville and graduated in 1994. He is now practicing law with his father in Mayville where he is part of the economic development group. They have a proactive city council and city leaders. They anticipate a loss of 105 students from their school in the next 10 years. They want to create incentives for people to stay in Mayville. At the state level, out migration is a problem. Before he attended law school, he moved to Minneapolis with 8 friends. All intended to return to North Dakota. Four have returned, four have not because they have good paying jobs that are hard to leave. New graduates have no incentive to stay in the state and they do not have much opportunity. He called his friends and they say a program like this would have made them consider staying in North Dakota. He went online and found that 43 of 50 states have loan forgiveness programs.

Senator Gary Lee asked if North Dakota was one of the 43 states.

Mr. Brudvik said he was not sure.

Senator Gary Lee said it is on the list.

Linda Wright testified in favor of the bill. She has 2 daughters, the oldest is a college graduate. She finished her nursing degree at St. Alexius with \$42,000 in student loans. Paying her bills and student loans takes most of her paycheck each month. Her student loan payment is \$415.90 each month. She has a niece who has come back to North Dakota and is working two jobs to repay her student loans. This would benefit such young people. She is also works

with the elderly and has a concern about who will be our caregivers as our population ages.

This is already a problem in rural North Dakota. This bill is doubly important.

Peggy Wipf, Director of Financial Aid for the North Dakota University System, testified in favor of the bill. (Written testimony attached) Meter 20:54

Senator Taylor asked what is included in her chart in the area of grants?

Ms. Wipf said on the second page of the charts, it lists the grants.

Eric Hardmeyer, President, Bank of North Dakota, testified in opposition to the bill. (Written testimony attached) He does not relish the idea of being the big, bad banker. He said they do have students with student loans of \$100,000. There are loan forgiveness programs in North Dakota for veterinarians, teachers, and optometrists to name a few.

Chairman Freborg asked if the \$102 million in Bank of North Dakota funds proposed to be used in this session include the \$60 million for the general fund.

Mr. Hardmeyer said yes.

Senator Gary Lee said of the \$45 million leftover after the \$60 million transfer, how much can be used and how much must be retained by the bank?

Mr. Hardmeyer referred to the Bank of North Dakota Highlights on the third page of his testimony. He said for 2006, capital is below their target of 8%. Comparable banks across the country have capital at about 8%. The bank met their \$60 million target at the end of 2006 so everything they earn in 2007 will go to capital. The bank is the beneficiary of a strong economy.

Senator Flakoll asked with a \$20,000 student loan, what is the typical repayment period.

Mr. Hardmeyer said a 10 year repayment period is typical. However, there is a consolidation program that extends the loan to a 30 year period. This could be a solution for Mrs. Wright's daughter and niece.

Senator Flakoll asked if there is a grace period after the completion of a degree and how long is it?

Mr. Hardmeyer said the grace period is 6 months.

Senator Flakoll asked if the current interest rate is 6%?

Mr. Hardmeyer said with the consolidation program there is an opportunity to lock in low rates and most loans in that program are below 6%, some are below 3%. He thinks 43% are below 5%.

Senator Taylor asked if the Bank of North Dakota participates in any loan forgiveness programs.

Mr. Hardmeyer said no, the programs are through other entities but the Bank of North Dakota may administer some.

Chairman Freborg closed the hearing on SB 2393.

Senator Bakke asked if Mr. Hardmeyer said the Bank of North Dakota did not directly participate in loan forgiveness programs but they administer them for others?

Chairman Freborg said he doesn't think they are, he doesn't remember any legislation for their participation. They participate in some interest reduction programs.

Senator Flakoll said there are programs with Kansas State for vets, there are programs for optometrists and nurses, maybe doctors.

Senator Bakke asked not through the Bank of North Dakota?

Senator Flakoll said he is not certain.

Senator Taylor said he can appreciate the interest in taking the pain out of moving back to North Dakota. Mr. Hardmeyer had some good points, why just Bank of North Dakota loans and not the other banks in the state with student loans. The big problem is the percentage, the amounts would differ. We could find a number and soften the fiscal note. For the bank's

concerns, it could be tied to a general fund appropriation. Maybe a longer grace period would be a possibility. We can't work the bill as it is right now with the bank's concerns.

Chairman Freborg said we would only be helping some students.

Senator Flakoll said he has had conversations about more logical solutions, perhaps buy down of interest rate by 1 or 2 points. With this proposal, the students would pay 3 years of interest or \$3000 before forgiveness. The return isn't much greater than the interest paid.

Senator Flakoll asked if there is a teacher loan forgiveness program?

Senator Gary Lee said there is a technical profession program of \$5000 if the participant works full time for over a year.

Senator Bakke said there are programs for students entering college now but we have a massive void of 20 – 30 year olds in the state. Every teaching position in the state will be hard to fill soon. The teaching profession will experience many retirements in the next few years.

Senator Taylor said there is an "Experience North Dakota" program that makes presentations in cities around the country to try to identify people who want to return to the state. If we can't do this through the Bank of North Dakota, maybe we could turn it into a study. If the Department of Commerce had a grant of some sort to encourage people to move to the state. He can't fault the sponsors for wanting to tackle the problem.

Senator Gary Lee moved a Do Not Pass on SB 2393, Senator Flakoll second.

Senator Taylor said in its present form, the bill is too open. With an amendment, we could look at a stipend or grant program. Could we hold it until next week?

Chairman Freborg said he doesn't know if we could do that.

Senator Flakoll said we still have time to introduce study resolutions.

Senator Gary Lee said we have passed things out with a lot of money on the front end. We can't just send this to appropriations, we are the committee that heard the testimony, and we have to deal with it. Mr. Hardmeyer's arguments are pretty compelling.

Chairman Freborg said the danger is everyone will get in the cutting mode and will do it without discretion. We have added to that.

The motion passed 3-2-0. Senator Gary Lee will carry the bill.

FISCAL NOTE
 Requested by Legislative Council
 01/26/2007

REVISION

Bill/Resolution No.: SB 2393

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				(\$875,000)		(\$2,625,000)
Expenditures				\$12,500,000		\$12,500,000
Appropriations						

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. Bill and fiscal impact summary: *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

Legislation provides a reduction in outstanding student loan balances. Section 1 has a negative impact on BND earnings in addition to required loan balance reductions. The combined impact could affect BND's ability to continue legislative mandates to contribute to the General Fund.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 has a negative fiscal impact by requiring a reduction on student loan balances which will decrease future earnings of BND. Currently BND has 37,000 existing student loan customers which have N.D. listed as their state of residence. We estimate that 15% of these customers (5,500) have a baccalaureate degree and approximately 2,500 of those customers would satisfy the 3 year residency requirement in each biennium. The North Dakota State Guaranty Agency indicates the average debt of graduating students to be approximately \$20,000.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

There would be a reduction of projected interest earnings for the 2007-09 biennium of \$875,000. There would be a reduction of projected interest earnings for the 2009-11 biennium of \$2,625,000.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

There is an estimated reduction of \$12,500,000 on student loan balances during each of the 2007-09 and 2009-11 bienniums for a total of \$25,000,000. This expenditure is based upon 2,500 eligible residents qualifying for an average loan reduction in the amount of \$5,000 in each biennium. Each reduction requires BND to debit expenses.

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Eric Hardmeyer	Agency:	Bank of North Dakota
Phone Number:	328-5674	Date Prepared:	01/25/2007

FISCAL NOTE
Requested by Legislative Council
01/23/2007

Bill/Resolution No.: SB 2393

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				(\$875,000)		(\$2,625,000)
Expenditures				(\$12,500,000)		(\$12,500,000)
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Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

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Name:	Eric Hardmeyer	Agency:	Bank of North Dakota
Phone Number:	328-5674	Date Prepared:	01/25/2007

REPORT OF STANDING COMMITTEE (410)
January 31, 2007 1:10 p.m.

Module No: SR-21-1634
Carrier: G. Lee
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2393: Education Committee (Sen. Freborg, Chairman) recommends DO NOT PASS
(3 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2393 was placed on the
Eleventh order on the calendar.

2007 TESTIMONY

SB 2393

Senate Bill 2393

Chairman Freborg, and members of the Senate Education Committee, my name is Tom Fiebiger, Senator, District 45, Fargo. I am a sponsor of this legislation and am here today to speak in support of Senate bill 2393.

It is my understanding that our North Dakota college graduates rank third in the country in terms of the amount of student loans that they find themselves owing upon graduation. That amount is approximately \$20,000. However, I don't believe that our college graduates working in North Dakota rank third in the country in terms of their income levels.

My sense is that many of the leaders in our state are genuinely and rightfully concerned about "outmigration" of our great resource – young people. Unfortunately, there has sometimes been a disconnect between acknowledging the problem and developing and implementing workable and practical strategies for solutions to this increasing problem.

I realize this bill has a significant fiscal note. I would encourage you to view this bill as one of the many investments we can and must make in our young people and towards the future economic viability of this state. I would ask the Committee to consider the cost of this legislation in a couple of ways. First, what is the cost of not doing this in terms of the message it sends to our future workers and leaders as to the value we place on investing in their futures in North Dakota. Second, please look longer term at the economic impact this would have for our communities, beyond the loan amount in question, and specifically related to people staying or returning and buying or building homes, purchasing goods and services and paying taxes for many years to come.

This bill is an opportunity for this state to provide assistance to our young people who want to stay in North Dakota or come home to be a part of this great state and its future. A Do Pass vote on Senate Bill 2393 can be a real step towards investing in one of our state's greatest economic resources – its young people.

Chairman Freborg and Members of the Senate Education Committee,

For the record, my name is JoNell Bakke. I am a senator from District 43 in Grand Forks and co-sponsor of SB2393. The intent of this bill is to provide an incentive to encourage residences of our state that have left for one reason or another to return to state and make it their permanent home.

North Dakota's population grew only slightly over the past decade. It grew by .5 percent between 1990 and 2000. That was the smallest growth of all 50 states. Since 2000, North Dakota's population has fluctuated but no noticeable increases have occurred. Three leading trends are seen to influence the state's future population: rural depopulation, increasing proportion of elderly, and out-migration of young adults and young families.

This bill attempts to address the out-migration issues. The loss of residents in their twenties and early thirties has increased markedly over the past two decades. This has caused an age imbalance that is felt in all areas of the state. Without these young families, the decline in children will continue over the next 20 years. These trends pose a serious concern for the state and we must start addressing this issue. Young adults provide the natural increase for a population base when they have children. They are the newest generation of workers as well as the future leaders of our state.

How do we stop this trend of out-migration and how do we convince them to come back to the state once they leave? This bill would be one incentive that could provide that answer. I ask for your support of SB2393.

At this time, I stand for questions.

Thank you.

**Testimony to Senate Education Committee
On SB 2393**

January 31, 2007

Chairman Freborg and members of the Senate Education Committee. For the record, I am Peggy Wipf, director of financial aid for the North Dakota University System.

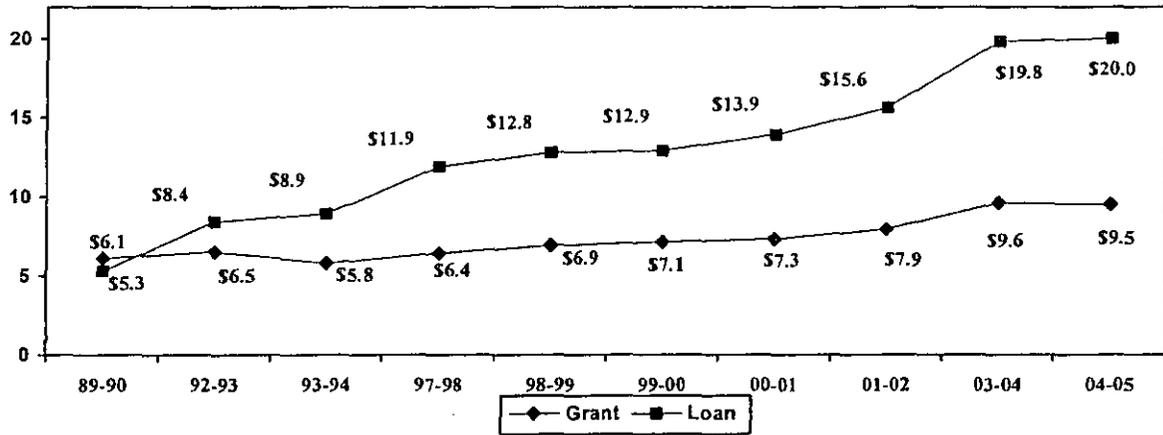
Thank you for the opportunity to provide testimony in support of SB 2393 which would provide another avenue in helping maintain an affordable education for our North Dakota residents. The attached pages help drive home the point that students are having to borrow more for their college education. Currently, the average loan indebtedness of a North Dakota undergraduate student is between \$17,000 and \$22,000. This legislation will be extremely beneficial in reducing the amount of money a family needs to repay for their post-secondary education.

Thank you and I would be pleased to respond to questions.

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

(BSC, LRSC, MiSU-BC, NDSCS and WSC)

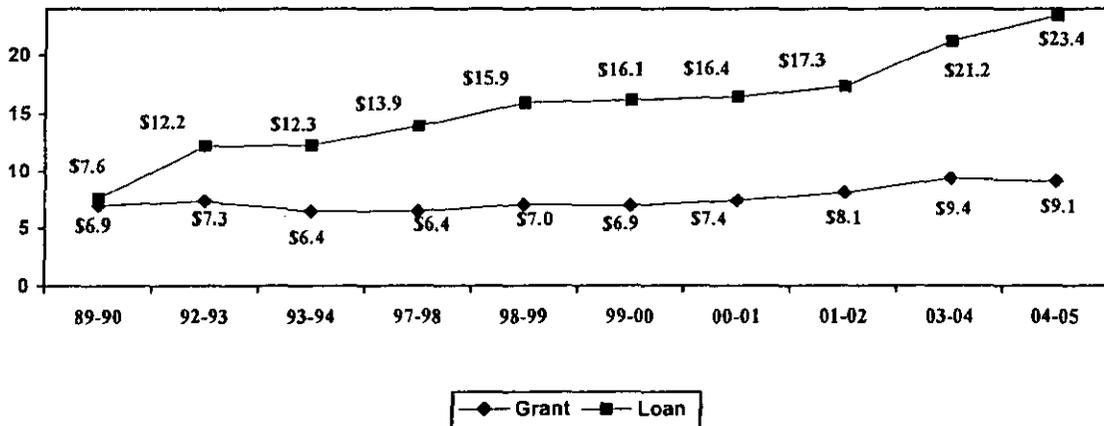
(Millions of Dollars)



NDUS Four-Year/Regional Campus Combined Loan*, Grant/Campus-Based Financial Aid Information**

(DSU, MaSU, MiSU and VCSU)

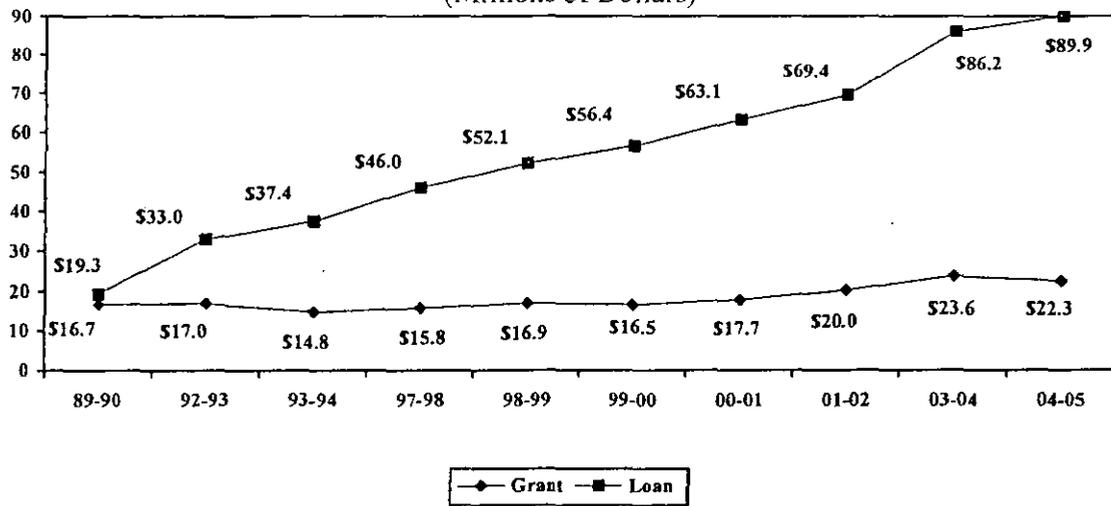
(Millions of Dollars)



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.

**TESTIMONY TO THE
EDUCATION COMMITTEE**

JANUARY 31, 2007

SENATE BILL 2393

ERIC HARDMEYER, PRESIDENT

I am here today to testify in opposition to SB 2393. This bill allows for the reduction of student loan indebtedness based on North Dakota residency. This requires BND to reduce the amount of the individual's outstanding student loan by twenty-five percent of the loan's original amount for each three-year period that the individual remains in the state.

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 associated, the funds for the program come from 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.

The net result of this bill will be a direct impact to earnings. As the fiscal note indicates, if we expect to reduce or forgive \$6,250,000 per year starting next biennium, we will need to increase our annual loan loss provision expense by that same amount. This forgiveness will effect both the income statement and balance sheet. In addition to the increased provision expense, BND's interest income will also be reduced as the loan is paid down prematurely through the forgiveness program.

Our ability to put a meaningful fiscal note together was difficult. We do not track the residency requirements. Also, the eligibility requirements are so wide open it makes determining the eligibility pool very hard to estimate. Our fiscal note may very well be off by a factor of 2 or 3. It is based on the best information we could find and from assumptions that had to be made.

Because of the adverse financial impact to BND, the bank examiners, regulators, and rating agencies will view this negatively.

A few thoughts that you might want to consider as you review this bill:

- There are no targeted professions.
- Why only BND loans? (BND does roughly 55-60% of the loans in ND).
- What do you do for the rest of the student population?

At this point, we are tracking several bills that if passed, will take \$102.5 million of earnings from 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 the bill stands, I recommend a do not pass. However, as a recommendation, I suggest that if it is the desire of this legislative body to provide a student loan forgiveness program, that it be done off balance sheet. That is, for the funds required to implement this program they should 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 should come 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.