

FISCAL NOTE
Requested by Legislative Council
01/16/2015

Revised
 Bill/Resolution No.: HB 1369

- 1 A. **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.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$(90,282,301)	\$0	\$(90,282,301)
Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

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

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties	\$0	\$0	\$0
Cities	\$0	\$0	\$0
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

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

HB1369 will require BND to reduce the interest rate to zero percent on student loans to ND resident's. To qualify the individual must be a resident of the state, employed on a full-time basis, hold a certificate or degree from an accredited institution and not have defaulted on a student loan.

- 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.*

Bank of North Dakota estimates that North Dakota residents have approximately \$1.68 billion in student loan debt based on information received from a credit reporting agency. Approximately \$1.16 billion is in repayment status. This balance is reduced to approximately \$752,352,510 when considering criteria noted in the bill, such as percentage of customers working full-time in North Dakota and percentage of customers who hold a degree or certificate. BND estimates the average interest rate on these loans is 6 percent, which was gathered from loans consolidated (67% are federal loans with a majority of loans from external lenders) into the DEAL One Program in 2014. The cost of this program may increase as interest rates increase.

BND estimates approximately \$752,352,510 in student loans may be eligible for the interest rate reduction to 0 percent resulting in a fiscal impact to North Dakota at \$90.28 million per biennium. The calculation used to arrive at this amount for each biennium is as follows: $\$752,352,510 \times 6\% \times 2 = \$90,282,301$.

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.*

HB1369 would result in lost revenues for BND by reducing the interest rate to zero on the existing BND student loan portfolio and to other student loan providers.

- 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.*

BND estimates approximately \$752,352,510 in student loans may be eligible for the interest rate reduction to 0 percent resulting in a fiscal impact to North Dakota at \$90.28 million per biennium. The calculation used to arrive at this amount for each biennium is as follows: $\$752,352,510 \times 6\% \times 2 = \$90,282,301$. In addition to lost revenues to BND, there will be costs to create and implement this program along with advertising and counseling borrowers. BND also estimates this program could result in 3 additional FTEs depending on the response from customers. These FTEs cost approximately \$180 thousand annually and are not included in the fiscal effect section of this note.

- 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 or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

HB1369 does not specify an appropriation.

Name: Robert A Humann

Agency: Bank of North Dakota

Telephone: 328-5703

Date Prepared: 01/27/2015

FISCAL NOTE
Requested by Legislative Council
01/16/2015

Bill/Resolution No.: HB 1369

- 1 A. **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.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$90,282,301	\$0	\$90,282,301
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

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

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties	\$0	\$0	\$0
Cities	\$0	\$0	\$0
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

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

HB1369 will require BND to reduce the interest rate to zero percent on student loans to ND resident's. To qualify the individual must be a resident of the state, employed on a full-time basis, hold a certificate or degree from an accredited institution and not have defaulted on a student loan.

- 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.*

Bank of North Dakota estimates that North Dakota residents have approximately \$1.68 billion in student loan debt based on information received from a credit reporting agency. Approximately \$1.16 billion is in repayment status. This balance is reduced to approximately \$752,352,510 when considering criteria noted in the bill, such as percentage of customers working full-time in North Dakota and percentage of customers who hold a degree or certificate. BND estimates the average interest rate on these loans is 6 percent, which was gathered from loans consolidated (67% are federal loans with a majority of loans from external lenders) into the DEAL One Program in 2014. The cost of this program may increase as interest rates increase.

BND estimates approximately \$752,352,510 in student loans may be eligible for the interest rate reduction to 0 percent resulting in a fiscal impact to North Dakota at \$90.28 million per biennium. The calculation used to arrive at this amount for each biennium is as follows: $\$752,352,510 \times 6\% \times 2 = \$90,282,301$.

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.*

HB1369 would not produce revenues for the State of North Dakota.

- 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.*

BND estimates approximately \$752,352,510 in student loans may be eligible for the interest rate reduction to 0 percent resulting in a fiscal impact to North Dakota at \$90.28 million per biennium. The calculation used to arrive at this amount for each biennium is as follows: $\$752,352,510 \times 6\% \times 2 = \$90,282,301$. Additionally, there will be costs to create and implement this program along with advertising and counseling borrowers. BND also estimates this program could result in 3 additional FTEs depending on the response from customers. These FTEs cost approximately \$180 thousand annually and are not included in the fiscal effect section of this note.

- 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 or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

HB1369 does not specify an appropriation.

Name: Robert A Humann

Agency: Bank of North Dakota

Telephone: 328-5703

Date Prepared: 01/27/2015

2015 HOUSE EDUCATION

HB 1369

2015 HOUSE STANDING COMMITTEE MINUTES

Education Committee
Pioneer Room, State Capitol

HB 1369
2/4/2015
23176

- Subcommittee
 Conference Committee

Committee Clerk Signature

Donna Whetham

Explanation or reason for introduction of bill/resolution:

Relating to approval of school construction projects by the superintendent of public instruction and bids and plans and specifications for public improvements; and to provide for application.

Attachment # 1,2.

Minutes:

Chairman Nathe: opened the hearing on HB 1369.

Representative Anderson: District 41. introduced HB 1369. (1:00-6:23). (See Attachment #1).

Rep. Schreiber Beck: In line 19 of the bill holds a certificate or degree from accredited institution, some of our students don't obtain that degree but are ready for the work force, would you consider having the students that they would have a 3 year college or a year and a half of trade tech?

Representative Anderson: If they can show they have gone to school and are educated and skilled, and yes I would be open to including that.

Rep. Olson: Students can come from out of state, would part of the goal be to attract students with large amount of debt to the state so they could benefit from the free interest rate.

Representative Anderson: My idea was to retain students in the state.

Rep. Olson: Did you ask the Bank of North Dakota how many students default on their loans. My concern is we will attract people with high student loan debt yet still have the inability to pay and that could increase the risk of default which could increase the cost to the bank.

Representative Anderson: I wrote the bill so the Bank of North Dakota gives out these loans and they would do due diligence on these loans as other loans they make.

Rep. Rohr: Would it change the provisions to pay back the loans?

Representative Anderson: No it wouldn't.

Rep. Hunsakor: The word certificate, could that include a beautician etc.?

Representative Anderson: It could be any certificate.

Nick Archuletta: President of North Dakota United, in support of HB 1369. (11:29-12:49) I do know several people who would come back and finish their education if they could get a low interest loan. I support this bill.

Aimee Copas: North Dakota Council of Educational Leaders: in full support of HB 1369. We are having a hard time filling teachers and we are looking for ways to attract and retain good people. I do support this bill.

Chairman Nathe: Any support? None. Any opposition to HB 1369?

Eric Hardmeyer: President and CEO of Bank of North Dakota in opposition to HB 1369. (14:49)- (28:01) (See Attachment # 2). The easiest way to do this would be a tax credit.

Rep. Kelsh: For three biennium there was no transfer to the general fund?

Eric Hardmeyer: Well not entirely, for the most part we did not, but the last biennium the governor had the Bank of ND paying for all of the buy down programs, that equated to \$38 million dollars.

Rep. Kelsh: Did that go all to equity for your bank or did some of that get used for economic development, maybe something like this would help to attract people or how was that money used?

Eric Hardmeyer: Most of the money was used for capital the retained earnings. Except for the \$40million dollars that was used for our farmer programs. You need to sustain and 8.5% capital level.

Rep Meier: What is your default rate on your student loans?

Eric Hardmeyer: We have two types of student loans, one is federal and one is the Deal program . The Deal program had claims of \$1.3 million dollars and the federal claims would be higher than that. The delinquency numbers are the best in the nation.

Rep Meier: What is the average amount of student debt?

Eric Hardmeyer: It is \$28,000, under the Deal One when they consolidate it is \$45,000.

The Deal program the federal government will lend you \$5,500, and then you get scholarships and grants, then you can go to the bank and they will lend the rest. We are a gap financier.

Rep. Zubke: Did you try to calculate now there is no reason to pay off the loans? Does that also translate into encouraging irresponsibility for occurring debt?

Eric Hardmeyer: That is correct. If there is no cost to your debt there is no incentive to pay. It could encourage people into debt.

Chairman Nathe: Any Opposition to HB 1369? Seeing none.
Recessed.

Rep. Zubke: Moved Do Not Pass on HB 1369.

Rep. Looyen: seconded.

Rep. Zubke: I have serious concerns about the 0% interest, so the loans would not get paid off.

Rep. Olson: I don't like creating more and more moral hazard in society. We need to keep people responsible for taking care of their spending and debt. I will support the motion.

Rep. Schreiber Beck: I will support the motion also, given the fact we don't know how the dividends are being used.

A Roll Call Vote was taken. Yes: 9 No: 2 Absent : 2.

Rep. Zubke: will carry the bill.

Date: 2/4/15
 Roll Call Vote #: 1

**2015 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1369**

House Education Committee

Subcommittee

Amendment LC# or Description: _____

- Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Rep Zubke Seconded By Rep Looyen

Representatives	Yes	No	Representatives	Yes	No
Chairman Nathe	✓		Rep. Hunskor	✓	
Vice Chairman Schatz	✓		Rep. Kelsh		✓
Rep. Dennis Johnson	✓		Rep. Mock		✓
Rep. B. Koppelman	A				
Rep. Looyen	✓				
Rep. Meier	✓				
Rep. Olson	✓				
Rep. Rohr	A				
Rep. Schreiber Beck	✓				
Rep. Zubke	✓				

Total (Yes) 89 No 2

Absent 2

Floor Assignment Rep. Zubke

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

REPORT OF STANDING COMMITTEE

HB 1369: Education Committee (Rep. Nathe, Chairman) recommends DO NOT PASS
(9 YEAS, 2 NAYS, 2 ABSENT AND NOT VOTING). HB 1369 was placed on the
Eleventh order on the calendar.

2015 TESTIMONY

HB 1369

#1 H.B. 1369

2/4/15

Testimony on House Bill 1369

Pamela Anderson, District 41

House Education Committee

Good Morning Chairman Nathe and members of the House Education Committee. My name is Pamela Anderson and I represent District 41, Fargo, North Dakota.

North Dakota is an outstanding state to call home, and one of our many assets is having our own state bank. No other state has one. The Bank of North Dakota provides opportunities for residents including a great student loan consolidation program, DEAL One. They know how to do student loans.

The Forum's editorial on April 27, 2014, stated that "the program is a good start but the state can and should do more to reduce crushing student debts." The editorial went on to say that the mission of the bank is "to serve as an economic development tool- not to allow leaders to smile as the bank vault bulges" (\$111 million to the state general fund last year).

Certainly both parties and the governor want an educated, permanent workforce throughout the state. This bill is to offer no-interest student loans. If a graduate lives and works in North Dakota, holds a degree or certificate, and consolidates their student loans with the Bank of North Dakota, they would pay no interest. If they leave the state, they would keep their loan, but the interest rate would convert to a current rate.

The same April issue of The Forum included an article on a North Dakota marketing campaign intended for recruiting and retaining a workforce. The challenge of the campaign will be "how to best persuade people to uproot and move here." No-interest student loans might make the difference whether a graduate moves here, stays here or goes somewhere else. The marketability is zero interest, not a lower interest rate.

If the graduate has a \$50,000 DEAL One loan at the fixed rate of 5.29% , (the current rate is slightly lower) they would pay \$2,645 a year in interest, \$220 a month. This is a car payment, help with a mortgage, health insurance, or they could apply it to the principal and pay off their student loan sooner.

The Impact magazine interviewed several leaders and asked the question, "What challenges are facing the local business community in 2014 and beyond?" The respondents and their answers were:

- Craig Whitney, Chamber CEO, "While flooding poses a physical threat to our community, another danger our businesses face is a lack of skilled workers they need to operate successfully and efficiently."
- Tammy Miller, CEO Border States Electric, "The challenges in our community are a result of a strong economy, demographics and low unemployment. Workforce presents our greatest challenge."
- Brad Schlossman, CEO West Acres, "While flood protection is our community's key long term challenge, our business community needs to be focused on educating, retaining and attracting a talented and skilled workforce."
- Dayna Del Val, Executive Director of the Arts Partnership, "Employee attraction and retention is and will continue to be an issue."
- Sher Thomsen, President of the United Way of Cass-Clay, "Workforce development is a challenge and an opportunity in our community- we currently have 6,000 job openings."
- Steve Swiontek, President and CEO Gate City Bank, "Ensuring that businesses have an adequate and properly trained workforce."

This is about economic development, pure and simple. Since these are the educated and skilled workers, they will pay income taxes, sales taxes, and-

without the burden of the high student loan payments-likely, property taxes. What is the downside? In my opinion, not much, but the upside is huge.

I ask for your support on HB 1369 for no-interest student loans aimed at recruiting and retaining a workforce and helping our graduates get a "jump start" on their financial future.

I would like to address the Fiscal Note of \$90 million. It's a big number but I am looking at another Fiscal Note for HB 1223 with an \$820,943,000 if we eliminate certain taxes. So comparatively, \$90 million doesn't look all that bad.

The Bank of North Dakota had record earnings for 2014, \$111.2 million, \$11.7 million higher than budgeted. Eric Hardmeyer runs a very, very good bank. We should all be very proud that he leads our state bank and what it has done for North Dakota- impressive. The growth in earnings has been outstanding. Just 10 years ago the bank's earnings were only \$34.2 million.

I believe we can afford this Fiscal Note for our employers and their employees. Again I ask for your support of this bill.

Thank you.

FISCAL NOTE
Requested by Legislative Council
01/13/2015

Bill/Resolution No.: HB 1223

- 1 A. **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.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(820,934,000)			
Expenditures						
Appropriations						

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

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties			
Cities			
School Districts			
Townships			

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

HB 1223 reduces individual and corporate income tax rates, and eliminates the individual income tax effective tax year 2017.

- 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 of HB 1223 eliminates one bracket and reduces corporation income tax rates beginning with tax year 2015. This provision is expected to reduce corporate income tax revenue by an estimated \$168.228 million in the 2015-17 biennium.

Section 2 of HB 1223 eliminates one bracket and reduces individual income tax rates for tax year 2015. Section 3 of HB 1223 eliminates two additional brackets and reduces individual income tax rates for tax year 2016. Together, Sections 2 and 3 of HB 1223 are expected to reduce individual income tax revenue by an estimated \$652.706 million in the 2015-17 biennium.

Section 4 of HB 1223 eliminates the individual income tax starting with tax year 2017. This will reduce revenues in the 2017-19 biennium and beyond. However, there is no forecast for revenues extending that far in the future so estimating the fiscal impact of this repeal is not possible.

If enacted, HB 1223 is expected to reduce state general fund revenues by an estimated \$821 million in the 2015-17 biennium.

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.*

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.*

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 or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

Name: Kathryn L. Strombeck

Agency: Office of Tax Commissioner

Telephone: 328-3402

Date Prepared: 01/24/2015

#2

HB 1369

2/4/15

TESTIMONY TO THE
HOUSE EDUCATION COMMITTEE

February 4, 2015

HOUSE BILL 1369

ERIC HARDMEYER – PRESIDENT & CEO

BANK OF NORTH DAKOTA

I am here today to testify on behalf of Bank of North Dakota (BND) in opposition to House Bill 1369 to establish a 0% student loan program.

BND has been involved in assisting students attend higher education since 1967 when it made the first federally insured student loan in the nation. We have helped thousands of people achieve their dream of going to college. We understand the responsibility and often times the burden of student loan debt now topping \$29,000 per borrower according to *The Project on Student Debt*. It is why we are actively engaged in working with the North Dakota's College Save program (529 plans) and the administration of the Dollars for Scholars program statewide.

In my opinion this issue of student loan debt was effectively dealt with during the last legislative session when SB2361 was passed. The program that resulted from that legislation is called the DEAL One program. It is the first comprehensive student loan consolidation program offered in the nation. While we have seen other consolidation programs start up around the country, the DEAL One, we believe offers the best rates and terms. In fact, since this program was rolled out in April of 2014, BND has funded over \$150 million in DEAL One loans to over 3,000 ND borrowers.

Let me explain the fiscal note (see attached). We estimate the annual impact on our earnings to be approximately \$45 million. This amount is based upon the loans we currently have on our books that would be eligible for the zero percent program, as well as the student loans at other financial institutions. According to credit bureau information, the total amount of outstanding student loans to ND borrowers is approximately \$1.6 billion. As the qualifying criteria are applied, including those employed and with degrees or certificates, the total amount of eligible student loans is reduced to approximately \$750 million. With an average rate of 6% on this amount that equals an interest reduction of \$45 million per year. This bill places additional administrative burden of underwriting loans that qualify for this program as well as tracking residency and employment of each of the borrowers on an annual basis, those costs are not included in the fiscal note.

Bank of North Dakota, in our estimation, can prudently provide transfers from our earnings of \$140 million over the 2015-2017 biennium. Our earnings over that same time frame should be approximately \$230 million. This equates to a 61% "dividend". At present, with the legislative

bills that we are tracking, there are \$240 million in BND transfers required. This bill as mentioned earlier will reduce BND earnings by \$90 million over the course of the biennium.

We have identified several practical and/or technical issues that need to be addressed or clarified:

- There are hundreds of millions of dollars of student loans in North Dakota that are not held by Bank of North Dakota; the Federal Government, Sallie Mae, private banks to name a few. How are these addressed in the bill? Should BND purchase all those and reduce to 0%. Should BND write a check for the interest paid or accrued to those individuals?
- How are collection of loan payments, residency and employment tracking paid for if loans do not accrue interest?

It is because of the expense of the program, the loss of revenue to BND and the fact that the State of North Dakota already has the best Student Loan consolidation program in the nation, I recommend a do not pass on this bill.

HB1369	
\$ 1,684,523,500.00	Total outstanding debt to ND residents - received from credit bureau
\$ 1,166,438,000.00	Amount from Credit Bureau to ND customers in RP - approximately 69%
86%	Rate of ND customers working in ND; Data received from Amercian Community Survey through Census Bureau as referred by ND Job Service. Includes ages of 20 to 54.
\$ 1,003,136,680.00	
75.00%	% of eligible loans tied to degree or certificate. Fast Facts = 59% graduate from 4 year college; Rounded up 16% for 2 year colleges (38.8%) and certificates (plumbing, electricians, truck drivers, etc
\$ 752,352,510.00	Estimated amount of eligible loans tied to degree or certificate
6.00%	Weighted Average interest of loans consolidation from non BND lenders = 6.44%; include BND loans is 6.06%; BND weighted average is 4.39%
\$ 45,141,150.60	Annual cost to State of North Dakota