

SCHOOL CONSTRUCTION LOAN INTEREST RATE BUYDOWN PROGRAM

This memorandum provides information on the school construction loan interest rate buydown program authorized in 2015 Senate Bill No. 2178.

PROGRAM OVERVIEW

Senate Bill No. 2178 authorized the Bank of North Dakota to provide up to \$250 million for school construction loans to eligible school districts. Eligibility for school districts includes the following criteria:

- New construction or remodeling projects with a cost of at least \$1 million and an expected utilization of at least 30 years;
- Project approval by the Superintendent of Public Instruction; and
- Bond authorization.

The loan awards are subject to the advice and consent of the Superintendent of Public Instruction with priority given to student capacity, academic needs, safety and security, project costs, and other criteria established in rule by the Superintendent of Public Instruction. An eligible school district is limited to \$20 million of loans from this program.

The loans are for a 20-year term unless the school district requests a shorter term. The interest rates on the loans may not exceed 2 percent, until July 1, 2025, after which the interest rate may be a fixed rate or a variable rate. The total of all loans provided by the Bank of North Dakota under this program may not exceed \$125 million during the first year of the 2015-17 biennium. The 2015 Legislative Assembly, in Senate Bill No. 2178, provided for a transfer of approximately \$7.8 million from Bank profits for the interest rate buydown program in the 2015-17 biennium to reduce interest rates by 3 percent, from 5 to 2 percent.

CURRENT STATUS

As of August 31, 2016, the outstanding balance of the loans issued under the school construction loan interest rate buydown program totaled approximately \$65 million, and the Bank of North Dakota has transferred \$694,000 of profits for the interest rate buydowns. The Bank is in the process of evaluating applications for approximately \$30 million of additional school construction loans. The Bank anticipates authorizing approximately \$95 million of school construction loans during the 2015-17 biennium, or \$155 million less than the \$250 million available for the program.

2017-19 BIENNIUM

According to testimony during the 2015 legislative session, the intent of the school construction loan interest rate buydown program is to allow school districts to access school construction financing before the school construction assistance loan program (2015 Senate Bill No. 2039) becomes available, contingent upon the passage of Constitutional Measure No. 2 (2015 Senate Concurrent Resolution No. 4003).

If Constitutional Measure No. 2 is approved by the voters, the loans issued under this interest rate buydown program could be refinanced under the school construction loan program in 2015 Senate Bill No. 2039. In this case, the Bank of North Dakota would not need to request appropriation authority to continue the interest rate buydowns in the 2017-19 biennium.

If Constitutional Measure No. 2 is not approved by the voters, the Bank of North Dakota would request appropriation authority to continue the interest rate buydowns in the 2017-19 biennium. If the entire \$250 million of loans are issued, the estimated cost-to-continue reducing interest rates from 5 to 2 percent for the 2017-19 biennium is \$14.5 million. However, if only \$95 million of loans are issued, the estimated cost-to-continue reducing interest rates from 5 to 2 percent for the 2017-19 biennium is \$5.6 million. The Bank would continue to request appropriation authority in subsequent bienniums to continue the interest rate buydowns for the duration of the loans.