

2013 SENATE EDUCATION

SCR 4026

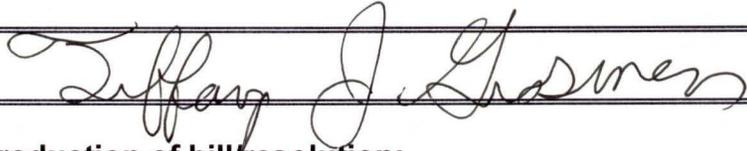
2013 SENATE STANDING COMMITTEE MINUTES

Senate Education Committee
Missouri River Room, State Capitol

SCR 4026
3-11-13
19667

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A concurrent resolution to create and enact a new section to article X of the Constitution of North Dakota, relating to the creation of a legacy scholarship fund; and to amend and reenact section 26 of article X of the Constitution of North Dakota, relating to the legacy fund.

Minutes:

You may make reference to "attached testimony."

Chairman Flakoll opened the hearing on SCR 4026

Senator Tony Grindberg District 41, Fargo: I am here to offer support on SCR 4026. In 2007 I introduced a piece of legislation called the ND promise. It passed the Senate but not the House. The next two sessions both House and Senate worked to put the program in place now. When I first introduced this, the concept is largely in place now that was proposed in 2007. The two missing components of that are up to \$10,000 and the second is that we are funding this biennium after biennium. Senator Schneider and I have been talking about this for weeks. My history and support for this concept is something I think you can understand. I believe if you polled most North Dakotans, you would find overwhelming support. The question you have to ask is it time? Citizens will decide what to do if we don't do something. The legacy fund could have \$25-30 billion in 10-12 years. I think this is a wonderful idea.

Vice Chairman Schaible: What is the amount that it would take every year to do that?

Senator Tony Grindberg District 41, Fargo: If this was under normal investment portfolio management of 8%, you would get \$35 million a year.

Vice Chairman Schaible: Do you see that scholarships are giving college institutions a way to charge more?

Senator Tony Grindberg District 41, Fargo: That is a worthy discussion. The dollars follow the student. If the student doesn't perform, they won't receive the dollars for tuition. They are mutually exclusive discussions.

Vice Chairman Schaible: Do you think ideas like this and several others of taking chunks of the legacy fund out was the idea of the voters? Or is it better to decide as needed?

Senator Tony Grindberg District 41, Fargo: The voters generally speaking didn't want us to spend all of the money. I believe with others, that if we do nothing, measures to spend that money will come up.

Chairman Flakoll: If you have a billion dollars, your concern is everyone will want a \$1500 check.

Senator Tony Grindberg District 41, Fargo: That could very well happen. I wouldn't support a culture in the state where we are writing checks to people. Everyone should have to contribute to the overall society. Sooner or later we have to be ready for something.

Senator Heckaman: On the dollar amount listed of \$450 million, why did you pick that amount? Also is there enough from the interest rate to take care of that?

Senator Tony Grindberg District 41, Fargo: I will let Senator Schneider take that one.

Senator Luick: If we run out of dollars, would there be an area of ACT scores this would be applicable to or is there a guideline as to who would get the scholarship?

Senator Tony Grindberg District 41, Fargo: I'm not sure how you protect against natural inflation. You want to make sure the standards are a level to be achieved and not just a freebee. How you manage that from an actuarial standpoint is going to take some work.

Chairman Flakoll: In terms of growing the funds, 4% gives you \$18 million. Would this provide for rolling the excess dollars back into the \$450 million? What is the intent of the overage?

Senator Tony Grindberg District 41, Fargo: That would be something the legislature would have to evaluate as the program was sustained.

Chairman Flakoll: Any thoughts in terms of overage for needs based?

Senator Tony Grindberg District 41, Fargo: I know there is a needs based program but I would need to think about that.

Senator Mac Schneider: I wish to testify in support of SCR 4026. (Written testimony #1 attached) 18:25

Senator Luick: Is the intent to take the place of the scholarships or in addition to scholarships?

Senator Mac Schneider: This is the missing component. This is the permanent funding source that will allow the merit based scholarships that have been advanced by the Senate to be funded in perpetuity. This one time investment generates a return to fund merit-based scholarships forever. It is not to take the place of

Vice Chairman Schaible: This is making the legacy smaller. You must agree this intent designating spending is the intent of the people?

Senator Mac Schneider: The people will decide whether they want this or not. This just directs a portion of the legacy fund for a specific purpose. Free money is not good for anyone. This is a permanent investment in our people.

Chairman Flakoll: Help convince me why we should have the \$450 million in the bill. We are making a portion immune.

Senator Mac Schneider: That is not the magic. I think if you put a percentage, you don't know how much the fund will grow. I asked the fiscal staff to take into account the rising cost of higher education and they came up with \$450 million. Setting it aside and having sole authority for the eligibility is totally important.

Chairman Flakoll: Couldn't we have more authority if we didn't have an amount. What if it came from the legacy fund and the amount we needed is derived from interest in income in the legacy fund. We control it then.

Senator Mac Schneider: I think it would be interesting to see how Wyoming has done that. It has worked there.

Chairman Flakoll: How do we get past the messaging about ending fund balances?

Senator Mac Schneider: This is a one-time investment that will pay off long after the oil boom has passed us by.

Chairman Flakoll: How should we invest?

Senator Mac Schneider: Prudently.

Chairman Flakoll: The reason why that is a germane question is if we don't have a certain level of interest in income derived from that, it really defeats the whole purpose of the entire piece of legislation.

Senator Heckaman: Did Wyoming do a constitutional change or is theirs just a law?

Senator Mac Schneider: It is a combination. There is the constitutional change and the statutes which implement the change.

Chairman Flakoll: Written testimony from Laura Glatt, Vice Chancellor for academic Affairs, (Written testimony #2 attached)

Chairman Flakoll: Closed hearing on SCR 4026

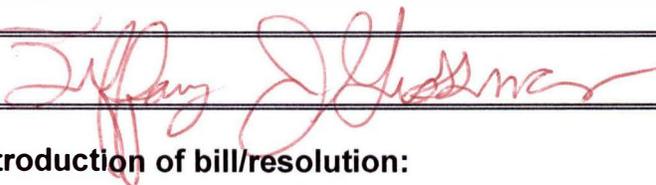
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Vice Chairman Schaible: This is a little premature to start divvying up the legacy fund. I think it is the wrong time. I am not against the idea of putting money away for scholarships. I just think the timing is premature. I think we have some avenues that we are going to study the intent of the legacy fund and the actual intent of the purpose. Those discussions need to be done before we start making different commitments to that fund. For those reasons, I will be opposing this.

Senator Heckaman: I like the idea. I think it is an opportunity for us to get something in the constitution where we will have a permanent funding for our scholarship programs. We discussed the \$450 million versus an amount certain to just cover each year's scholarships. That may have made this a little better but I will support the bill as it is.

Senator Poolman: I am reluctant to start allocating any of the legacy fund dollars because I think my constituency really wants to see us wait. They set it aside for a rainy day. I want to be respectful of that.

Senator Luick: I feel the same way. I think by divvying out this fund when we don't know the exact numbers that are going to be in is not a good idea. Also the importance of letting this study go through is more important than trying to figure this out at this time so I am not in favor of this right now.

Senator Marcellais: I am in favor of the Resolution because it will give the people an opportunity to vote on it.

Senator Heckaman: When we look at section two, it won't start until 2018 so there will be an opportunity for the voters to accept or reject this and it also gives the opportunity for a study for the remaining funds in here. The starting date is important and it is not until 2018.

Chairman Flakoll: From my perspective, the biggest flaw they made was putting a specific amount in here. I would rather have had it be just from the interest in earnings of the legacy fund. I didn't bring any amendments.

Senator Heckaman: Would you allow time to get some amendments?

Chairman Flakoll: It won't change my vote. We need to get this out today.

Vice Chairman Schaible: I move a Do Not Pass for SCR 4026

Senator Luick: Second

A roll call vote was taken for a Do Not Pass on SCR 4026: 3 yeas, 3 neas, 0 absent

Senator Heckaman: I move a Do Pass on SCR 4026

Senator Marcellais: Second

A roll call vote was taken for a Do Pass on SCR 4026: 3 yeas, 3 neas, 0 absent

Vice Chairman Schaible: I move we send SCR to the floor 4026 Without Committee Recommendation

Senator Heckaman: Second

A roll call vote was taken for Without Committee Recommendation on SCR 4026: 5 yeas, 1 neas, 0 absent.

Vice Chairman Schaible: Will carry the bill

Date: 3-12-13
Roll Call Vote #: 3

2013 SENATE STANDING COMMITTEE
ROLL CALL VOTES 4826

BILL/RESOLUTION NO.

Senate Education Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken WCR

Motion Made By Schaible Seconded By Heckaman

Senators	Yes	No	Senator	Yes	No
Chairman Tim Flakoll	✓		Senator Joan Heckaman	✓	
Vice Chairman Donald Schaible	✓		Senator Richard Marcellais		✓
Senator Larry Luick	✓				
Senator Nicole Poolman	✓				

Total (Yes) 5 No 1

Absent 0

Floor Assignment Schaible

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

REPORT OF STANDING COMMITTEE

SCR 4026: Education Committee (Sen. Flakoll, Chairman) recommends BE PLACED ON THE CALENDAR WITHOUT RECOMMENDATION (5 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). SCR 4026 was placed on the Eleventh order on the calendar.

2013 TESTIMONY

SCR 4026

#1

TESTIMONY OF SENATOR MAC SCHNEIDER (DISTRICT 42 - GRAND FORKS)

SENATE CONCURRENT RESOLUTION 4026

SENATE EDUCATION COMMITTEE - MARCH 11, 2013

Mr. Chairman, members of the committee, my name is Mac Schneider and I represent District 42 in the North Dakota Senate. I am a co-sponsor of SCR 4026 which, if approved by voters, would establish the legacy scholarship fund.

This measure seeks to utilize a small fraction of our state's one-time harvest of oil revenue to make a permanent investment in our people. Very basically, here is how this proposed constitutional change would work: \$450 million from the legacy fund would be set aside to establish the legacy scholarship fund. The legacy scholarship fund's principal, which could never be expended, would be prudently invested to generate a return. This return would be used to finance the merit-based scholarships this committee has established and is working to expand this session.

The benefit of this approach is that it would guarantee a perpetual funding source for scholarships to benefit North Dakota's best and brightest for generations to come. Unlike a budget line item that requires ongoing tax revenue and is subject to biennial budget debates and any future downturns in the state's economy, the legacy scholarship fund would generate a return even after the last drop of oil is extracted from the ground.

To be fair, this is not a new idea. Wyoming uses this endowment-based model to fund its successful Hathaway Scholarship, and last session the interim Workforce Committee recommended approval of a senate concurrent resolution that would have used the foundation aid stabilization fund to permanently fund merit-based scholarships in a similar fashion.

- Not an increase in the size of government

Because the legacy scholarship fund would only amount to a shift of dollars from the larger legacy fund, this approach does not increase spending or make government bigger. Rather, it would actually decrease the dependence on legislative appropriations to fund merit-based scholarships available under current law. Importantly, the legacy scholarship fund would not interfere with any budgetary priorities identified by the executive branch in the future since the principal in the legacy fund cannot presently be spent.

- No future impact on the legacy fund or its uses

After the \$450 million is set aside, the legacy scholarship fund would have no future impact on the legacy fund, the revenue that will continue to accrue to it, or its future uses. Likewise, no future tax collections would be deposited in the legacy scholarship fund once established (absent an affirmative legislative appropriation). As you are aware, the legacy fund is running well-ahead of projections. This means that the legacy scholarship fund would ultimately have little meaningful impact on the larger legacy fund as it continues to grow in the coming years and decades.

- Honors the intent of the people in establishing the legacy fund

Though the constitution was amended in 2010 to create the legacy fund, further amending the constitution to create the legacy scholarship fund honors the intent of those voters. Far from spending down the legacy fund, the resolution would direct savings from the fund to be used for the specific purpose of providing merit-based scholarships. Of course, the people themselves will ultimately get the chance to vote on the legacy scholarship fund.

With North Dakota's good fortune, now is the time to make one-time investments that will pay off even after the oil boom subsides. The legacy scholarship fund is such an investment.

Thank you for your consideration, Mr. Chairman. I would be happy to stand for any questions.

North Dakota University System
SCR4026 – Senate Education
3/11/13, Laura Glatt

My name is Laura Glatt, Vice Chancellor for the North Dakota University System. I appear today in support of sustained funding and/or new student scholarship programs. Financial aid support, either needs-based or merit based, is a critical element of maintaining student affordability and accessibility for ND students.

The fund is appropriately called the “legacy fund”. What greater legacy can we create for North Dakotan’s than a scholarship that encourages the pursuit and attainment of a post-secondary degree. A recent national report^{1/} suggests that “postsecondary degree attainment results in higher earnings for individuals and expanding higher education degree attainment is clearly an essential and powerful strategy for economic development in a state.”

While the NDUS is appreciative of the financial aid funding already provided by the state, this bill appears to be an additional investment in the future. Thank you.

1/ The Economic Benefit of Postsecondary Degrees, A State and National Level Analysis, December 2012, National Center for Higher Education Management Systems