Neutral Testimony HB 1176 Presented to the Senate Finance and Taxation Committee
Prepared by John T. Shockley, bond counsel Monday March 17, 2025

Chairman Weber and members of the Senate Finance and Taxation Committee, thank you for the opportunity to present testimony regarding HB1176. I practice in the area of infrastructure, development and finance and for over twenty years I have represented both large and small political subdivisions along with private business seeking to expand or start operations throughout the state of North Dakota. I am also a nationally recognized bond counsel. My testimony is intended to provide the committee with additional information regarding its consideration of a cap on political subdivisions budgets.

When political subdivisions issue municipal bonds those political subdivisions often secure bond ratings from ratings agencies such as S & P, Moodys, and Fitch. Some large bond issues may even require ratings from two ratings agencies. Bond ratings are representations of the creditworthiness of the bonds. The ratings are published and provide independent evaluations of a political subdivision's financial strength and capacity to repay the bond principal and interest in accordance with the bond documents. Bond ratings provide institutional investors and individual investors with a reliable source of information for making investment decisions. Bond ratings impact the cost of capital, commonly referred to as the interest rate, that will attach to the bonds on the day of the bonds are sold.

Laws that impact or restrict the ability of political subdivisions to manage budgets and mill levies, are likely to impact a political subdivision's rating. Further, consideration by rating agencies of how political subdivisions manage budgets during high inflationary periods that exceed a specific percentage cap will likely impact bond ratings.

Political subdivisions (Issuers) credit strengths and weaknesses for bond issuances are analyzed by a rating agency using specified industry criteria. The ratings criteria below may be impacted by a political subdivision's ability to manage its financial condition, including (but aren't limited) to the following:

- Resident Income (Median Household Income)
    - Issuer or State actions may impact resident income to the extent job diversity and availability is impacted. A component of workforce development is the ability of an Issuer or the region to provide activities and recreational activities for the workforce. Park Districts across the state have developed facilities that help to attract and retain young families and provide recreational activities. Limitations in the ability to staff these facilities and operate them can have an impact on workforce development. It is common practice for ratings agencies to ask pointed questions regarding work force development within an issuer's jurisdiction.

- Valuation per Capita
    - A change to real estate valuation or elimination of ad valorem treatment can impact ratings. For many issuers, ratings agencies look directly at the growth of

    - the Issuers valuation numbers as measure of the entity's financial solvency and ability to address future challenges to budgets or other impacts.
    - Increasing value per capita can impact ratings.
    - Issuer strength is measured by value and the ability to generate revenues from values in the issuer jurisdiction. Any cap on that ability will be identified as a potential weakness.

- Trend in Revenue Growth
    - Revenue growth often contributes to increased fund balances often because of increased property taxes; this can positively impact ratings.
    - Revenue declines and/or fund balance declines, this can negatively impact ratings

- Fixed Operating Costs (Fixed Costs Ratio: Fixed Costs as a percentage of Revenues)
    - A reduction in fixed costs ratio of revenue or offset by an increase in revenues; this can positively impact ratings.
    - An increase in fixed costs or a decrease in revenues; this can negatively impact ratings.

- Management of Debt Load (Long-term Liabilities Ratio; Long-term Liabilities as a percentage of Revenues)
    - A reduction in long-term liabilities relative to offsetting revenues or offset by increased revenues; this can positively impact ratings.

- Maintenance of Available Fund Balance (Fund Balance Ratio: Fund Balance as a percentage of Revenues)
    - Maintaining or increasing fund balance as a percentage of revenues; this can positively impact ratings.
    - Maintaining balances with declining revenues or declining fund balances; this can negatively impact ratings.
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- Adequacy of Issuer Management Experience
    - Tenure and experience of the administrative team; experienced teams with longer tenure can positively impact ratings.
    - Implementation of capital improvement plans, reserve plans, and adherence to such plans; are measured and can impact ratings.
    - Loss of ability to maintain compensation of experienced staff may lead to questions regarding the ability of the entity to maintain its current services, fund balances and have proper management.

- Additional Strength in Local Resources
    - The overall ability of an issuer to access, increase, control, revenues, fees, taxes, reserve balances; can impact ratings.
    - The ability to produce and manage a balanced budget with minimal or favorable actual vs. budget financials; can impact ratings.

These issues are all impacted by a fixed percentage cap on mill levies. Linking the proposed cap in HB1176 to an inflationary index would provide a safe harbor for political subdivisions and relieve some of the budget constraints on the entity. The safe harbor would help to reduce some of the impact on political subdivisions bond ratings (as a result of a change in law), which directly impacts the cost of capital which benefits local taxpayers and utility ratepayers.

I appreciate the opportunity to offer background information to the committee as it considers this important public policy matter.

Thank you for your time and consideration.

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