

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2085

2001 SENATE GOVERNMENT AND VETERANS AFFAIRS

SB 2085

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2085

Senate Government and Veterans Affairs Committee

Conference Committee

Hearing Date January 11, 2001

Tape Number	Side A	Side B	Meter #
1	X		25.0-END
		X	0.0-1.3
1		X	41.7-46.2
Committee Clerk Signature <i>James A. Raile</i>			

Minutes: Chairman Krebsbach opened the hearing on SB 2085 which relates to administrative agreements for loans and the issuance of bonds by the municipal bond bank on behalf of state agencies authorized to make loans or to allocate or issue bonds. Tom Tudor, executive director of the North Dakota Municipal Bond Bank, appeared before the committee to introduce the legislation of the committee. He indicated the bond bank is a state agency which operates under the supervision of the industrial commission. A copy of his written testimony is attached.

Senator Kilzer inquired how other states are doing this. Do most states have a central unit like this? Mr. Tudor indicated actually he was not aware how this is broken down by states. He gave some examples of QZABS used by cities, for example the city of Canton, Ohio. He then spoke about QZABS in North Dakota and how school districts generally need to deal with local banks for such loans. He indicated the banks will either say yes or no to the loans. He also indicated he had no specifics with respect to the prices that ND school districts have been able to negotiate. Nationally a lot of the QZABS are purchased at a discount which means that the school district is

going to receive less than the face dollar of the QZAB when they negotiate that sale. That is one of the things we would hope to eliminate by having a larger bond sale. Being able to sell the bonds at par rather than at a discount which would be more money to school districts. Under the federal law at least 95% of the proceeds have to be dedicated to the purpose for which the QZAB is being issued. The purposes are limited. There is no new construction allowed. It's either remodeling or rehabilitation, purchase of equipment or I believe training of teachers. In North Dakota, as far as he is aware the QZABS have been issued for remodeling projects. They have been small projects. Senator Wardner indicated that currently the individual school districts would negotiate the QZABS, whereas you are proposing that they would take their requests to the Department of Public Instruction and everybody would get together and do that. Mr. Tudor indicated that the way he envisioned this, if we would implement this, right now school districts submit requests to the Dept. of Public Instruction through Mr. Decker's area and then, I think it's on a first come first served basis, and they receive an allocation, assuming they have a qualified project. Then it is up to the school district to make sure that their QZAB in compliance with the federal law and regulations. They would then negotiate with a local bank. The way the bond bank would handle the program would be to have a competitive sale of say for example a million dollars. We would want to make sure that there were school districts which were requesting that full million dollars of the QZAB allocation. We would then issue a series of bond bank bonds of the million dollars, the states allocation through a competitive sale. Through our financial advisor we would be contacting potential purchaser banks, larger banks probably or perhaps a consortium of the banks where the participating school districts are located. They would then bid on the bond banks bonds and then the bonds would be sold to the purchaser with the best bid. Then the proceeds would be used and we would just complete, we would work with the school

district and we would have a set set of forms that we would need in order to complete the sale of their QZAB. Senator Wardner Give me an example of another agency besides DPI that would use this? Mr. Tudor indicated that he guesses that potentially several states departments of transportation are issuing bonds in anticipation of the federal transportation dollars that they are receiving. The benefit of this is that it gives them the money now to complete projects where otherwise they would have to wait on an annual basis or however the money is received before they go ahead with these projects. This could potentially be done by the water commission of the state of North Dakota. Senator Dever posed a question concerning schools, local banks, and QZAB's. Mr. Tudor offered a response (Meter #'s 42.3 to 47.0) Chairman Krebsbach asked Mr. Tudor about the municipal bond bank and it's relationship to political subs as a source of loans, etc. She then asked if he could give a brief history of the Municipal Bond Bank. He did so at this time. Tom Decker, with the Department of Public Instruction appeared before the committee. He indicated that on behalf of the department they support this effort and he encourages the committee to give the bill a do pass recommendation. He indicated ND was one of the first states to put in place mechanisms within the department as required by federal law to approve QZAB loans and work with school districts to get them in place. Senator Wardner asked a question concerning ND schools and which ones qualify as schools which meet the requirements of the federal law. Mr. Decker indicated that not all schools apply. He guesses about 60% of our schools who make the list. There was nothing further concerning SB 2085. The hearing was closed at this time. Chairman Krebsbach adjourned the meeting at this time. Committee discussion SB 2085 Tape 1, Side B, Meter #'s 41.7-46.2. Senator Kilzer commented that he had determined that this agency is located in the former Penney's store in downtown Bismarck. A motion for a Do Pass on SB 2085 was made by Senator Mathern, seconded by

Page 4

Senate Government and Veterans Affairs Committee

Bill/Resolution Number SB 2085

Hearing Date January 11, 2001

Senator Wardner. Comments were offered from Senators Mathern, Dever, and Wardner. Roll

Call Vote indicated 6 Yes, 0 No, 0 Absent or Not Voting. Senator T. Mathern will carry the bill.

FISCAL NOTE

Requested by Legislative Council
12/14/2000

Bill/Resolution No.: SB 2085

Amendment to:

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.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

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

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

2. Narrative: *Identify the aspects of the measure which cause fiscal impact and include any comments relevant your analysis.*

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, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Tom Tudor	Agency:	ND Municipal Bond Bnak
Phone Number:	8-3981	Date Prepared:	12/19/2000

Date: 1/12/01
 Roll Call Vote #: 1

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2085

Senate GOVERNMENT AND VETERAN'S AFFAIRS Committee

- Subcommittee on _____
 or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Sen. Mathern Seconded By Sen. Wardner

Senators	Yes	No	Senators	Yes	No
Senator Karen Krebsbach, Chr.	✓		Senator Carolyn Nelson	✓	
Senator Dick Dever, Vice-Chr.	✓		Senator Tim Mathern	✓	
Senator Ralph Kilzer	✓				
Senator Rich Wardner	✓				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Sen. Mathern

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

REPORT OF STANDING COMMITTEE (410)
January 15, 2001 7:28 a.m.

Module No: SR-05-0957
Carrier: T. Mathern
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2085: Government and Veterans Affairs Committee (Sen. Krebsbach, Chairman)
recommends **DO PASS** (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2085
was placed on the Eleventh order on the calendar.

2001 HOUSE GOVERNMENT AND VETERANS AFFAIRS

SB 2085

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2085

House Government and Veterans Affairs Committee

Conference Committee

Hearing Date 3/08/01

Tape Number	Side A	Side B	Meter #
1	X		3400-4410
3/09/01 (1)	X		1721-2320
Committee Clerk Signature <i>Robin D. Small</i>			

Minutes:

REP. M. KLEIN called the hearing to order, with all members present.

In favor:

KARLENE FINE, INDUSTRIAL COMMISSION

Please see attached testimony.

REP. HAAS asks what type of obligations do the school districts have to prove? FINE states that they have to indicate that they receive this grant.

REP. DEVLIN asks if the schools lose a little bit of money due to this bill. FINE replies no not at all.

REP. HAAS asks would the bond bank sell under North Dakota ratings. FINE states that she can not respond to that. Moral obligations. REP. HAAS asks if there is a small construction fund.

FINE replies that there already is a program in place.

Page 2

House Government and Veterans Affairs Committee

Bill/Resolution Number SB 2085

Hearing Date 3/08/01

REP. CLARK asks if there is any chance that the political subdivisions can not pay, then who is responsible? FINE replies that they have never had to ask the state for funding. REP. CLARK asks would it be the states obligation to make good on these bonds? FINE replies it is a moral obligation and up to the legislature. REP. CLARK asks if this would effect the bond rating? FINE replies it might for the bond bank.

Being there was no further testimony in favor or in opposition the hearing was then closed.

Action was taken on March 9th, 2001. REP. CLARK motioned for a DO PASS, seconded by REP. CLEARY. The roll call was taken with 14 YES, 1 NO and 0 ABSENT AND NOT VOTING. The motion carries. The CARRIER of the bill is REP. WIKENHEISER.

SB 2085; DO PASS 14-1

CARRIER: REP. WIKENHEISER

Date: 3/9/01

Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2085

House GOVERNMENT AND VETERANS AFFAIRS Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Clark Seconded By Cleary

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN KLEIN	✓		REP KROEBER	✓	
VICE CHAIR GRANDE	✓				
REP BELLEW		✓			
REP BRUSEGAARD	✓				
REP CLARK	✓				
REP DEVLIN	✓				
REP HAAS	✓				
REP KASPER	✓				
REP KLEMIN	✓				
REP MEIER	✓				
REP WIKENHEISER	✓				
REP CLEARY	✓				
REP HUNSKOR	✓				
REP METCALF	✓				

Total (Yes) 14 No 1

Absent _____

Floor Assignment Rep. Wikenheiser

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

REPORT OF STANDING COMMITTEE (410)
March 9, 2001 11:14 a.m.

Module No: HR-41-5202
Carrier: Wikenheiser
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2085: Government and Veterans Affairs Committee (Rep. M. Klein, Chairman)
recommends **DO PASS** (14 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). SB 2085
was placed on the Fourteenth order on the calendar.

2001 TESTIMONY

SB 2085

January 11, 2001

Senate Bill 2088
Government and Veterans Affairs
Testimony of Tom Tudor
North Dakota Municipal Bond Bank

Good morning. My name is Tom Tudor. I am the Executive Director of the North Dakota Municipal Bond Bank. The Bond Bank is a state agency which operates under the supervision of the Industrial Commission. The Bond Bank was established for the purpose of making low-cost loans to North Dakota political subdivisions at favorable interest rates. The Bond Bank accomplishes this purpose by issuing bonds in the municipal securities market and making loans with the bond proceeds through the purchase of municipal securities issued to the Bond Bank by political subdivisions.

Under SB 2088, a state agency which is authorized to make an allocation of bonds or bonding authority, or to make loans or issue bonds to make loans, may enter into an agreement with the Bond Bank to administer the loan or bond program. This is permissive legislation - no state agency which has such authority is required to enter into an agreement with the Bond Bank. Here are two examples, the first an existing program which has been implemented under specific statutory authority, and the second a potential program which could be implemented under this legislation:

The State Revolving Fund Program. The Bond Bank and the Health Department currently are parties to agreements for the financial administration of the State Revolving Fund Program, under which the Bond Bank issues bonds and makes loans to political subdivisions which have projects approved by the Health Department. Specific state authority for these agreements is set out in N.D.C.C. chs 61-28 and 61-28.2. Under the SRF Program, which consists of a clean water program and a drinking water program, federal capitalization grants are received by the State through the Health Department, and are held under the Bond Bank's SRF Program Master Trust Indenture for the purpose of making loans to political subdivisions for eligible waste water treatment facilities and public water systems, and other eligible projects. Through year-end 2000, in excess of \$165,000,000 of loans have been approved under the SRF Program.

QZABs. The second example, the specific program prompting this bill, is set out in section 1397E of the Internal Revenue Code. Under this federal program, the State, through the Department of Public Instruction, is annually allocated an amount of "qualified zone academy bonds" ("QZABs") which may be issued by the State or which may be allocated by the DPI to qualified zone academies within the State. A "qualified zone academy" is a public school which meets certain requirements established by federal law and regulations, including the requirement that, if the school is not located in an empowerment zone or an enterprise community, at least 35% of the students must be eligible for free or reduced-cost lunches under the school lunch program. The holder of a QZAB receives a tax credit each year based upon a credit rate determined by the U.S. Treasury Department's Bureau of Public Debt for the month in which the bond was issued, multiplied by the outstanding amount of the bond. The holder receives no interest payments from the issuer of the QZAB.

Because there is currently no QZAB bond program at the state level, DPI is allocating the authority to issue QZABs directly to school districts on an individual basis. Each school district receiving an allocation must issue and sell its QZABs, usually through negotiation with a local bank. Qualified purchasers are limited to banks, insurance companies, and other corporations actively engaged in the business of lending money.

The State's QZAB allocations for 1998, 1999, and 2000 were, respectively, \$711,000, \$918,000, and \$1,053,000. The annual federal allocation to all states for these years was \$400,000,000 each year. The federal allocation for 2001 is also \$400,000,000. Under current federal law, the QZAB program will expire at the end of 2001. The State's allocation for 2001 will be approximately the same as the 2000 allocation. A state's allocation is based on the population below the poverty level, as defined by the federal Office of Management and Budget.

Under SB 2086, DPI and the Bond Bank could, through an implementing administrative agreement, provide for the annual issuance of the State's QZAB allocation through one or two sales of Bond Bank bonds, and the proceeds of the Bond Bank's bonds would then be used to directly purchase QZABs from school districts. Rather than several bond sales by participating school districts, there would be just one or two Bond Bank bond sales. Eligible school districts could then issue eligible obligations to the Bond Bank, which would then directly fund loans to those school districts.

Advantages of administering the QZAB program in this manner include potentially lower costs to participating school districts and a more efficient sale by school districts of their QZABs.



INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Commissioner of Agriculture

March 8, 2001
Senate Bill 2085
Government and Veterans Affairs
Testimony of Karlene Fine
North Dakota Municipal Bond Bank

For the record, my name is Karlene Fine and I am Executive Director and Secretary for the Industrial Commission. I am appearing today as the Interim Executive Director of the Municipal Bond Bank. The Bond Bank is a state agency which operates under the supervision of the Industrial Commission. The Bond Bank was established for the purpose of making low-cost loans to North Dakota political subdivisions at favorable interest rates. The Bond Bank accomplishes this purpose by issuing bonds in the municipal securities market and making loans with the bond proceeds through the purchase of municipal securities issued to the Bond Bank by political subdivisions.

Under Senate Bill 2085, a state agency which is authorized to make an allocation of bonds or bonding authority, or to make loans or issue bonds to make loans, may enter into an agreement with the Bond Bank to administer the loan or bond program. This is permissive legislation – no state agency, which has such authority, is required to enter into an agreement with the Bond Bank. Here are two examples, the first an existing program which has been implemented under specific statutory authority, and the second a potential program which could be implemented under this legislation.

The State Revolving Fund Program (SRF). The Bond Bank and the Health Department currently are parties to agreements for the financial administration of the State Revolving Fund Program, under which the Bond Bank issues bonds and makes loans to political subdivisions which have projects approved by the Health Department. Specific state authority for these agreements is set out in N.D.C.C. chs. 61-28 and 61-28.2. Under the SRF Program, which consists of a clean water program and a drinking water program, federal capitalization grants are received by the State through the Health Department, and are held under the Bond Bank's SRF Program Master Trust Indenture for the purpose of making loans to political subdivisions for eligible waste water treatment facilities and public water systems, and other eligible projects. Through year-end 2000, in excess of \$141,000,000 of loans have been approved and closed under the SRF Program.

QZABs. The second example, the specific program prompting this bill, is set out in section 1397E of the Internal Revenue Code. Under this federal program, the State,

through the Department of Public Instruction, is annually allocated an amount of "qualified zone academy bonds" ("QZABs") which may be issued by the State or which may be allocated by the Department of Public Instruction to qualified zone academies within the State. A "qualified zone academy" is a public school which meets certain requirements established by federal law and regulations, including the requirement that, if the school is not located in an empowerment zone or an enterprise community, at least 35% of the students must be eligible for free or reduced-cost lunches under the school lunch program. The holder of a QZAB receives a tax credit each year based upon a credit rate determined by the U.S. Treasury Department's Bureau of Public Debt for the month in which the bond was issued, multiplied by the outstanding amount of the bond. The holder receives no interest payments from the issuer of the QZAB.

Because there is currently no QZAB bond program at the state level, DPI is allocating the authority to issue QZABs directly to school districts on an individual basis. Each district receiving an allocation must issue and sell its QZABs, usually through negotiation with a local bank. Qualified purchasers are limited to banks, insurance companies, and other corporations actively engaged in the business of lending money.

The State's QZAB allocations for 1998, 1999, and 2000 were, respectively, \$711,000, \$918,000, and \$1,053,000. The annual federal allocation to all states for these years was \$400,000,000 each year. The federal allocation for 2001 is also \$400,000,000. Under current federal law, the QZAB program will expire at the end of 2001. The State's allocation for 2001 will be approximately the same as the 2000 allocation. A state's allocation is based on the population below the poverty level, as defined by the federal Office of Management and Budget.

Under Senate Bill 2085, DPI and the Bond Bank could, through an implementing administrative agreement, provide for the annual issuance of the State's QZAB allocation through one or two sales of Bond Bank bonds, and the proceeds of the Bond Bank's bonds would then be used to directly purchase QZABs from school districts. Rather than several bond sales by participating school districts, there would be just one or two Bond Bank bond sales. Eligible school districts could then issue eligible obligations to the Bond Bank, which would then directly fund loans to those school districts.

Advantages of administering the QZAB program in this manner include potentially lower costs to participating school districts and a more efficient sale by school districts of their QZABs.