

2017 HOUSE EDUCATION

HB 1192

2017 HOUSE STANDING COMMITTEE MINUTES

Education Committee
Coteau A Room, State Capitol

HB 1192
1/18/2017
Job 27058

- Subcommittee
 Conference Committee

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

relating to authority to withhold school district state aid.

Minutes:

Attachment 1.

Chairman- Mark S. Owens: Open hearing on HB 1192.

Scott Wegner: see attachment 1 for testimony

Chairman- Mark S. Owens: any questions, you wowed them. Any additional support for HB 1192, any opposition for HB 1192, any neutral testimony for HB 1192. Closing the hearing on HB 1192.

2017 HOUSE STANDING COMMITTEE MINUTES

Education Committee
Coteau A Room, State Capitol

HB 1192
1/18/2017
Job 27068

- Subcommittee
 Conference Committee

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

Relating to authority to withhold school district state aid.

Minutes:

No attachments.

Rep. Mary Johnson: Mr. Chair I would move a do pass for HB 1192.

Chairman- Mark S. Owens: I have a motion for do pass from Rep. Mary Johnson, a second from Rep. Denton Zubke for HB 1192. Discussion?

Rep. Mary Johnson: I think that the witness Scott Wegner did a great job of explaining everything to us, and if the notices helped political subdivisions maintain or get an increase in their bond rating due to the notice provisions I am all for that.

Rep. Longmuir: it makes a lot of sense having worked a bond issue through a school where you are able to get a better price, my only concern was we had no support from the North Dakota school board association or the North Dakota council of educational leaders, which I would think they would be wanting to be pounding the drum, because they would benefit from it.

Chairman- Mark S. Owens: as we say back home, they were against it either, they did not show up to opposition to it, but I can see where they might be on the fence wondering about withholding payment, I can see where that would scare them a little bit, it is the function of withholding payment that guarantees the bond payment that elevates the bond rating, because they know they know that they will get their money, that's what is doing it.

Rep. Denton Zubke: If I understand correctly, they opt into that. They simply opt into it if they choose, and it sounds like most all of them do.

Chairman- Mark S. Owens: that was my understanding as well committee, this is not mandatory, it is voluntary, but if they are going to save tens of thousands maybe a million dollar on interest because they can do it, you have to think they are saying, duh. Any other questions or comments. Inviting the clerk for a roll call vote for HB 1192. Motioned by Rep.

House Education Committee

HB 1192

January 18, 2017

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Mary Johnson, and seconded by Rep. Denton Zubke. 13-0-1 Rep. Corey Mock is absent for the vote, and Rep. Longmuir will carry the bill.

Date: 1/18/17

Roll Call Vote # 1

2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1192

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. M. Johnson Seconded By Rep. Zubke

Representatives	Yes	No	Representatives	Yes	No
Chairman- Mark S. Owens	✓		Rep. Andrew Marschall	✓	
Vice Chairman- Cynthia Schreiber-Beck	✓		Rep. Bill Oliver	✓	
Rep. Rich S. Becker	✓		Rep. Brandy Pyle	✓	
Rep. Pat D. Heinert	✓		Rep. Matthew Ruby	✓	
Rep. Dennis Johnson	✓		Rep. Denton Zubke	✓	
Rep. Mary Johnson	✓		Rep. Ron Guggisberg	✓	
Rep. Donald W. Longmuir	✓		Rep. Corey Mock	AB	

Total (Yes) 13 No 0

Absent Mock

Floor Assignment Rep. Longmuir

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

REPORT OF STANDING COMMITTEE

HB 1192: Education Committee (Rep. Owens, Chairman) recommends **DO PASS**
(13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1192 was placed on the
Eleventh order on the calendar.

2017 SENATE EDUCATION

HB 1192

2017 SENATE STANDING COMMITTEE MINUTES

Education Committee
Sheyenne River Room, State Capitol

HB 1192
3/8/2017
Job Number 28844

- Subcommittee
 Conference Committee

Committee Clerk Signature

Sandy Baumgartner

Explanation or reason for introduction of bill/resolution:

Relating to authority to withhold school district state aid.

Minutes:

#1

Chairman Schaible: Committee come to order. Roll taken, all present. Open for 1192.

Scott Wegner: Law firm of Arntson Stewart Wegner PC with offices in Bismarck and Fargo. Testimony #1. Having the backing creates a better interest rate on the bonds and a better interest rate means more interest in buying the bonds and that reduced interest costs. These programs get bond ratings. If schools participate they can be sold with a rating that attaches to this program, a double A or a double A 3 depending on which rating agency we are looking at. It is important to schools because a school couldn't even get an A rating, but instead now they sell their bonds and get a double A under this program. That could result in as much as a half of a percent interest rate savings. Over 20 years for large amounts of money that is tens of thousands of interest savings. The reason for house bill 1192 is to make one improvement of the program. It adds a new subsection 2, and this is basically a timing and notification process. Currently the statute doesn't have a law that specific requirements of giving notification of a potential default is coming. What the credit rating agencies have said is that they would consider rating our program higher if they saw a statutory that there was some timing in notification requirements. 1192 adds a new subsection that requires 15 days in advance notice if a district or their paying agent sees a default coming. If a default is coming it is because there was some error in the tax certification and it didn't get to the county auditor and didn't get levied or mismanagement of funds. There are about 100 bond issues in ND that is participating in the credit enhancement and it is very successful.

Chairman Schaible: This is for a default mechanism. That is mostly on the first go around the first year or an error that would be fixed, or is that an on-going problem?

Scott Wegner: It is on-going. The tax levy for the next-year's debt service, that has to be certified annually to the county auditor. It could be a new business manager and a mistake in the levy and you wouldn't have a problem. It could occur any year.

Chairman Schaible: We really don't have faults with the bond issues coming in unless it is a mistake. It is not because the school isn't viable or land isn't producing the tax they thought. It is usually a mistake.

Scott Wegner: The general obligations bonds are payable from an excess mill levy. The mills will go as high as necessary to produce the dollars needed. It would almost have to be a mistake or other example a gross mismanagement on the part of the school district. We are not aware of any that has actually needed this default mechanism. Since 2011 since districts started using it, over a 100 bond issues to our knowledge it has never been used. It is to get a better bond rating. Moody's have said they would

consider rating a program higher if they saw a statutory or some kind of early warning mechanism is in place and that is what section 2 does.

Senator Rust: Is this bill sponsored at your request?

Scott Wegner: I did as Repr. Kemin to sponsor this. As bond council we work exclusively in public finance and we do a great many school district and work with this program all the time. We are aware of Moody's feedback about needs for improvements. With that in mind, we did ask Repr. Klemm to sponsor this.

Chairman Schaible: Any other testimony in favor, opposition and agency?

Gary Coleman: Department of Public Instruction: My understanding on what this change is making is what we are doing in procedure only and already doing it. The bond rates personnel would like to see that in statute. There is really no change in practice of what we are currently doing.

Chairman Schaible: Have we ever had a problem with this being used?

Gary Coleman: I have gotten a couple calls with a late payment, but we never had to intercept. It was always the checks in the mail type of thing. It is a limited assurance type program.

Chairman Schaible: Seeing no other testimony, we will close the hearing.

2017 SENATE STANDING COMMITTEE MINUTES

Education Committee
Sheyenne River Room, State Capitol

HB 1192
3/13/2017
Job Number 29065

- Subcommittee
 Conference Committee

Committee Clerk Signature

Sandy Baumgardner

Explanation or reason for introduction of bill/resolution:

Relating to authority to withhold school district state aid

Minutes:

Chairman Schaible: Does anyone have concerns about this? It was to improve the accreditation rating and to allow them to get a better bond rating so they get lower interest rate on their bond. Any discussion?

Senator Oban: I would move a Do Pass on HB 1192.

Senator Davison: I second.

Chairman Schaible: Any discussion? Clerk take roll. 6 Yeas, 0 nay, 0 absent.

Senator Vedaa will carry.

Close the hearing.

Date: 3-13-17
Roll Call Vote #: 1

2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1192

Senate 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 Oban Seconded By Davison

Senators	Yes	No	Senators	Yes	No
Chairman Schaible	✓		Senator Oban	✓	
Vice-Chairman Rust	✓				
Senator Davison	✓				
Senator Kannianen	✓				
Senator Vedaa	✓				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Sen Vedaa

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

REPORT OF STANDING COMMITTEE

HB 1192: Education Committee (Sen. Schaible, Chairman) recommends DO PASS
(6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1192 was placed on the
Fourteenth order on the calendar.

2017 TESTIMONY

HB 1192

Attachment #
HB 1192

1/18/17

HB 1192
House Education Committee
January 18, 2017

Mr. Chairman and members of the Committee:

My name is Scott Wegner. I am a member of the law firm of Arntson Stewart Wegner PC with offices in Bismarck & Fargo. We serve as bond counsel to several school districts.

North Dakota Century Code Section 6-09.4-23 is a credit enhancement program designed to reduce borrowing costs for public school districts. Specifically, the program authorizes the Department of Public Instruction to withhold or intercept state aid to a school district if necessary to pay debt service on bonds. The intercepted aid is applied toward the school district's bond payments. The school board must authorize use of this program as part of a bond financing.

Bonds sold with the credit enhancement program may have a higher rating which in turn means lower interest rates on the bonds.

- Moody's Investors Service rates the program Aa3 (two notches off the state rating of Aa1)
- Standard & Poor's rates the program AA (one notch off the state rating of AA+)

Approximately one hundred (100) ND school district bond issues are outstanding under the credit enhancement program. To our knowledge there have been no instances of a school district missing a bond payment and having its state aid withheld.

House Bill 1192 makes one improvement to the credit enhancement program:

- a new subsection is added to include timing and notification mechanics for the program

The rating agencies have indicated that the program may be rated more highly if the notification process is set forth in statute.

We ask you to give House Bill 1192 a Do Pass recommendation.

Scott Wegner
Arntson Stewart Wegner PC
(701) 255.1008
swegner@aswbondlaw.com

HB 1192
Senate Education Committee
March 8, 2017

HB 1192
3-08-17
#1 p.1

Mr. Chairman and members of the Committee:

My name is Scott Wegner. I am a member of the law firm of Arntson Stewart Wegner PC with offices in Bismarck & Fargo. We serve as bond counsel to several school districts.

North Dakota Century Code Section 6-09.4-23 is a credit enhancement program designed to reduce borrowing costs for public school districts. Specifically, the program authorizes the Department of Public Instruction to withhold or intercept state aid to a school district if necessary to pay debt service on bonds. The intercepted aid is applied toward the school district's bond payments. The school board must authorize use of this program as part of a bond financing.

Bonds sold with the credit enhancement program may have a **higher rating** which in turn means **lower interest rates** on the bonds.

- Moody's Investors Service rates the program Aa3 (two notches off the State's rating of Aa1)
- Standard & Poor's rates the program AA (one notch off the State's rating of AA+)

Approximately one hundred (100) ND school district bond issues are outstanding under the credit enhancement program (since 2011). To our knowledge there have been no instances of a school district missing a bond payment and having its state aid withheld.

House Bill 1192 makes one improvement to the credit enhancement program:

- a new subsection is added to include timing and notification mechanics for the program

The rating agencies have indicated that the program may be rated more highly if the notification process is set forth in statute.

We ask you to give House Bill 1192 a Do Pass recommendation.

Scott Wegner
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