

ANALYSIS OF THE STUDENT LOAN TRUST FUND FOR THE 2003-05 AND 2005-07 BIENNIUMS

	2003-05 Biennium ¹	2005-07 Biennium ¹
Beginning balance	\$54,248,000	\$27,789,031
Add estimated revenues		
Fund earnings	<u>\$3,900,000</u>	<u>\$4,100,000³</u>
Total available	\$58,148,000	\$31,889,031
Less estimated expenditures		
Transfers to the general fund	\$26,258,969 ²	\$9,000,000 ⁴
Funding for veterinary medicine program		262,500 ⁵
Funding for North Dakota Student Loan Guarantee Agency	<u>4,100,000</u>	
Total estimated expenditures	<u>30,358,969</u>	<u>9,262,500</u>
Estimated ending balance	<u>\$27,789,031</u>	<u>\$22,626,531</u>

¹This analysis reflects estimated revenues, expenditures, and ending balance for the **1979 bond resolution only**.

²The 2003 Legislative Assembly provided for the following transfers totaling \$26,258,969 from the student loan trust fund to the general fund:

- Section 12 of Senate Bill No. 2015 - \$11,000,000.
- Section 19 of House Bill No. 1003 - \$14,258,969.
- Section 6 of House Bill No. 1019 - \$1,000,000.

³The projected income is based on interest rates as of May 1, 2005, the trust's ability to continue to receive a return of 95 percent from the federal government on student loans held by the trust and the assumption that the \$9 million transfer to the general fund for the 2005-07 biennium is made in the last six months of the biennium.

⁴The 2005 Legislative Assembly provided for a transfer of \$9 million from the student loan trust fund to the general fund.

⁵House Bill No. 1397 (2005) provides the State Board of Higher Education a \$262,500 special funds appropriation from the student loan trust fund for the purpose of reducing the amount of tuition and other costs payable by or on behalf of eligible students enrolled in the veterinary medical education program at Kansas State University. The State Board of Higher Education is to develop a plan for the continuation of funding for the program from a funding source other than the student loan trust fund.

FUND HISTORY

The 1971 Legislative Assembly authorized the Industrial Commission to acquire and hold all unpaid government-guaranteed or reinsured student loans and North Dakota student loans belonging to the state or any of its agencies. As a result, the student loan trust fund was created, which enabled the state to sell tax-exempt and taxable bonds and use the proceeds for purchasing student loans made or acquired by the Bank of North Dakota.

The student loan trust fund is not in the business of making loans to students or servicing loans which it acquires. The Bank of North Dakota continues to service those loans which the student loan trust fund holds.

The student loan trust is comprised of funds held under two general bond resolutions. The first general bond resolution includes funds from bonds issued in 1979, 1988, 1989, 1992, and 2004. The second general bond resolution referred to as the 1996 bond resolution includes funds from bonds issued in 1996, 1997, 1998, and 2000. All issuances prior to 2004 with bonds outstanding are insured by Ambac Assurance Corporation.

Under both of the bond resolutions, assets may only be used for:

- Purchase of student loans.
- Payment of debt service to bondholders.
- Providing financial assistance to the North Dakota Student Loan Guarantee Agency.
- Payment of any rebate liability to the federal government.
- Administration of the student loan trust fund.

In addition, North Dakota Century Code Section 6-09-40 provides that the Bank of North Dakota shall request from the Industrial Commission a transfer from the student loan trust fund to reimburse the Bank for any losses incurred from investments in North Dakota alternative and venture capital investments and early-stage capital funds. Section 10-03.5-04(3) provides that the maximum amount of funds that may be borrowed from the Bank of North Dakota for the purpose of investing in North Dakota alternative and venture capital investments and early-stage capital funds is \$10 million. Senate Bill No. 2032 (2005) increased the maximum amount of funds that may be borrowed for alternative and venture capital investments and early-stage capital funds by \$5 million, from \$5 million to \$10 million.

After all bonds in a general bond resolution have matured, been redeemed or defeased, and all expenses paid, any remaining assets held under the general bond resolution would be transferred to the Industrial Commission for use at its discretion. In order to use assets held under the general bond resolution for a purpose other than those stated in the general bond resolution, the administrator of the student loan trust fund must receive permission from the bond insurer, and the trustee of the bond (Bank of North Dakota) would have to certify that sufficient reserves remain for bond payments and other related program costs.

The 2003 Legislative Assembly with the passage of Senate Bill No. 2232 authorized the Industrial Commission to issue subordinate or residual bonds of up to \$23 million, and as a result the Industrial Commission issued \$23 million of subordinate bonds on December 1, 2004. House Bill No. 1152 (2005) enables the Industrial Commission to issue subordinate or residual bonds when so determined by the Industrial Commission.