

ANALYSIS OF THE STUDENT LOAN TRUST FUND FOR THE 2005-07 BIENNIUM¹ AS OF MAY 2006

Beginning balance - July 1, 2005		\$28,026,050
Add estimated revenues		
Fund earnings	\$2,800,000 ²	
Total available		30,826,050
Less estimated expenditures and transfers		
Transfer to the general fund	\$9,000,000 ³	
Funding for veterinary medicine program	262,500 ⁴	
Total estimated expenditures and transfers		9,262,500
Estimated ending balance - June 30, 2007		\$21,563,550

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

²The projected income is based on interest rates as of April 1, 2006, the trust's ability to continue to receive a return of 9.5 percent on a portion of the 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. As of January 31, 2006, the trust is no longer able to recycle student loans and receive the return of 9.5 percent. The trust's portfolio of "9.5 percent earning loans" will continue to shrink as students consolidate or pay off their loans.

³The 2005 Legislative Assembly provided for a transfer of \$9 million from the student loan trust fund to the general fund.

⁴House 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 medicine 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.

NOTE: The estimated June 30, 2007, balance made at the end of the 2005 legislative session was \$22,626,531. The decrease in the estimated balance of \$1,062,981 is the net effect of the actual July 1, 2005, balance of \$28,026,050 being \$237,019 more than the July 1, 2005, balance estimated at the close of the 2005 legislative session of \$27,789,031 and the 2005-07 revised estimated revenues of \$2.8 million being \$1.3 million less than the previous estimate of \$4.1 million. The 2005-07 biennium estimated revenues are less than previously estimated due to the loss of the trust's ability to recycle student loans and receive the return of 9.5 percent.

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 bonds and use the proceeds for purchasing student loans made or acquired by the Bank of North Dakota.

The student loan trust fund does not make loans to students or service 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. As of April 1, 2006, the Bank has not informed the trust if it will be seeking a transfer for any losses the Bank may have incurred from investments made in North Dakota alternative and venture capital investments and early-stage capital funds.

After all bonds in the 1979 and 1996 general bond resolutions 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 1979 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 a certification from the trustee of the bond (Bank of North Dakota) that sufficient reserves remain for bond payments and other related program costs. In order to use assets held under the 1996 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.