

**2021 HOUSE APPROPRIATIONS**

**HB 1022**

**Department 190 - Retirement and Investment Office  
House Bill No. 1022**

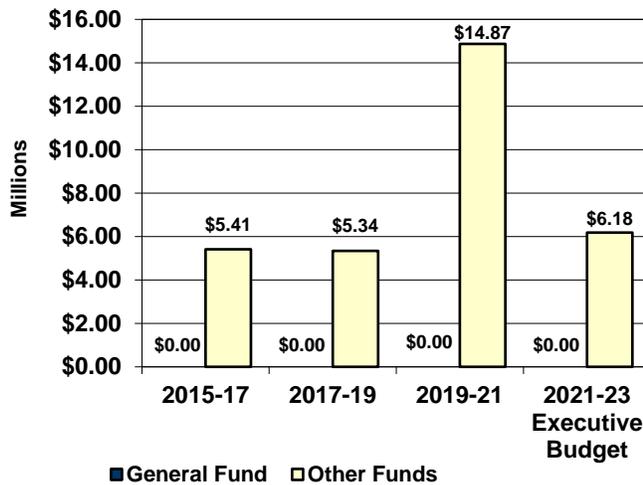
**Executive Budget Comparison to Prior Biennium Appropriations**

	FTE Positions	General Fund	Other Funds	Total
2021-23 Executive Budget	20.00	\$0	\$6,180,318	\$6,180,318
2019-21 Legislative Appropriations	20.00	0	14,869,164	14,869,164
Increase (Decrease)	000	\$0	(\$8,688,846)	(\$8,688,846)

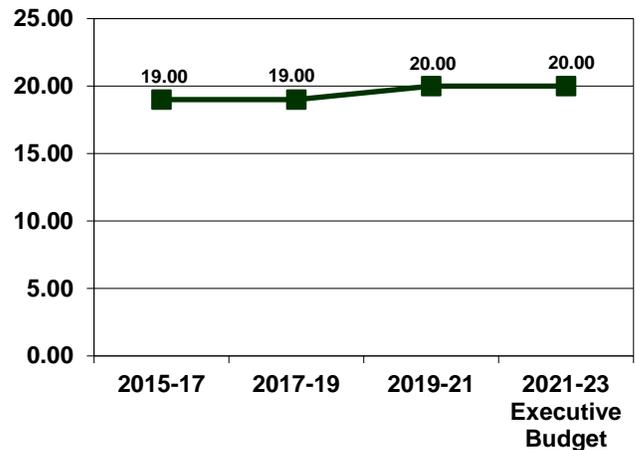
**Ongoing and One-Time Other Funds Appropriations**

	Ongoing Other Funds Appropriation	One-Time Other Funds Appropriation	Total Other Funds Appropriation
2021-23 Executive Budget	\$6,180,318	\$0	\$6,180,318
2019-21 Legislative Appropriations	5,869,164	9,000,000	14,869,164
Increase (Decrease)	\$311,154	(\$9,000,000)	(\$8,688,846)

**Agency Funding**



**FTE Positions**



**Executive Budget Comparison to Base Level**

	General Fund	Other Funds	Total
2021-23 Executive Budget	\$0	\$6,180,318	\$6,180,318
2021-23 Base Level	0	5,869,164	5,869,164
Increase (Decrease)	\$0	\$311,154	\$311,154

Attached as an appendix is a detailed comparison of the executive budget to the agency's base level appropriations.

**Executive Budget Highlights**

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases, of which \$131,891 is for salary increases, \$981 is for health insurance increases, and \$27,454 is for retirement increases	\$0	\$160,326	\$160,326
2. Decreases funding for operating expenses primarily related to information technology costs	\$0	(\$107,934)	(\$107,934)
3. Adds funding for desktop support	\$0	\$70,920	\$70,920
4. Increases funding for Microsoft Office 365 license expenses	\$0	\$2,203	\$2,203

**Other Sections Recommended to be Added in the Executive Budget  
(As Detailed in the Attached Appendix)**

**Contingencies line item** - Section 3 would provide, upon approval of the State Investment Board, the Retirement and Investment Office may transfer from the contingencies line item in Section 1 of the bill to all other line items.

**Information technology project exemption** - Section 4 would provide an exemption for a pension administration information technology project to continue any unexpended 2019-21 biennium funds for this project into the 2021-23 biennium.

### **Continuing Appropriations**

**Investment expenses** - North Dakota Century Code Section 21-10-06.2 - Investment management, custody, consulting, income offset, and due diligence/education costs.

**Benefits and refunds** - Section 15-39.1-05.2 - Benefits and refunds from the Teachers' Fund for Retirement.

**Administrative charges** - Section 15-39.1-05.2 - Income offset and Teachers' Fund for Retirement consulting costs.

### **Significant Audit Findings**

The audit for the Retirement and Investment Office conducted by CliftonLarsonAllen LLP, Certified Public Accountants, for the period ending June 30, 2020, did not identify any significant audit findings.

The schedule of employer allocations and pension amounts by employer prepared for the Retirement and Investment Office and audited by CliftonLarsonAllen LLP, for the period ending June 30, 2019, did not identify any significant audit findings.

### **Major Related Legislation**

**House Bill No. 1037** - Establishes a percent of market value method for determining the amount of legacy fund earnings available to be spent each biennium and creates a legacy earnings fund.

**Retirement and Investment Office - Budget No. 190**  
**House Bill No. 1022**  
**Base Level Funding Changes**

	<b>Executive Budget Recommendation</b>			
	<b>FTE Positions</b>	<b>General Fund</b>	<b>Other Funds</b>	<b>Total</b>
<b>2021-23 Biennium Base Level</b>	20.00	\$0	\$5,869,164	\$5,869,164
<b>2021-23 Ongoing Funding Changes</b>				
Base payroll changes			\$185,639	\$185,639
Salary increase			131,891	131,891
Retirement contribution increase			27,454	27,454
Health insurance increase			981	981
Decreases funding for operating expenses			(107,934)	(107,934)
Adds funding for desktop support			70,920	70,920
Increases funding for Microsoft Office 365 licensing expenses			2,203	2,203
Total ongoing funding changes	0.00	\$0	\$311,154	\$311,154
<b>One-time funding items</b>				
No one-time funding items				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0
<b>Total Changes to Base Level Funding</b>	0.00	\$0	\$311,154	\$311,154
<b>2021-23 Total Funding</b>	20.00	\$0	\$6,180,318	\$6,180,318
<i>Total ongoing changes as a percentage of base level</i>	0.0%		5.3%	5.3%
<i>Total changes as a percentage of base level</i>	0.0%		5.3%	5.3%

**Other Sections in Retirement and Investment Office - Budget No. 190**

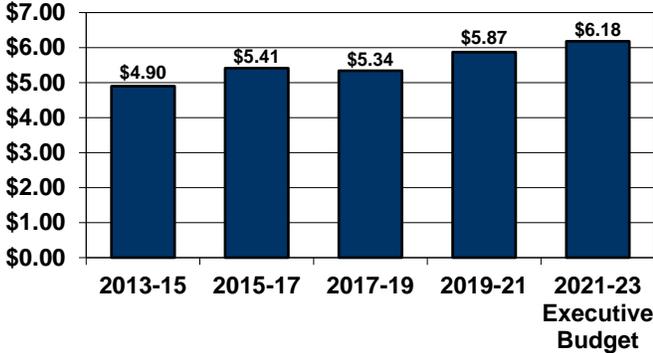
	<b>Executive Budget Recommendation</b>
Contingencies line item transfers	Section 3 would allow the Retirement and Investment Office to transfer from the contingencies line item to any other line item, upon approval of the State Investment Board, during the 2021-23 biennium.
Information technology project exemption	Section 4 would provide an exemption to continue unspent prior biennium appropriations into the 2021-23 biennium related to an information technology project.

Department 190 - Retirement and Investment Office

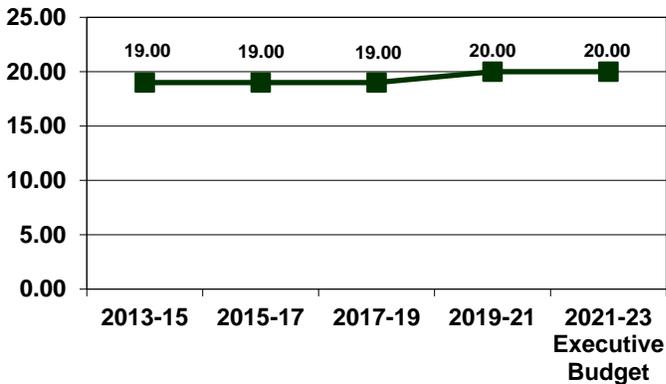
# Historical Appropriations Information

## Ongoing Total Fund Appropriations Since 2013-15

Agency Funding (in Millions)



FTE Positions



Ongoing Total Funds Appropriations					
	2013-15	2015-17	2017-19	2019-21	2021-23 Executive Budget
Ongoing total fund appropriations	\$4,899,369	\$5,413,425	\$5,340,054	\$5,869,164	\$6,180,318
Increase (decrease) from previous biennium	N/A	\$514,056	(\$73,371)	\$529,110	\$311,154
Percentage increase (decrease) from previous biennium	N/A	10.5%	(1.4%)	9.9%	5.3%
Cumulative percentage increase (decrease) from 2013-15 biennium	N/A	10.5%	9.0%	19.8%	26.1%

### Major Increases (Decreases) in Ongoing Total Fund Appropriations

**2015-17 Biennium**

- 1. No major changes

**2017-19 Biennium**

- 1. Adjusted funding for operating expenses (\$128,390)
- 2. Reduced contingency funding to \$52,000 (\$30,000)

**2019-21 Biennium**

- 1. Added 1 FTE investment analyst position (\$294,996) and related operating expenses (\$14,450) \$309,446
- 2. Added funding for Microsoft Office 365 license expenses \$12,000

**2021-23 Biennium (Executive Budget Recommendation)**

- 1. Decreases funding for operating expenses primarily related to information technology costs (\$107,934)
- 2. Adds funding for desktop support \$70,920
- 3. Increases funding for Microsoft Office 365 license expenses \$2,203

**GOVERNOR'S RECOMMENDATION FOR THE  
RETIREMENT AND INVESTMENT OFFICE AS SUBMITTED  
BY THE OFFICE OF MANAGEMENT AND BUDGET**

**SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys from special funds derived from income for the purpose of defraying their expenses, for the biennium beginning July 1, 2021, and ending June 30, 2023, as follows:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and Wages	\$4,928,230	\$345,965	\$5,274,195
Operating Expenses	888,934	(34,811)	854,123
Contingencies	<u>52,000</u>	<u>0</u>	<u>52,000</u>
Total All Funds	\$5,869,164	\$311,154	\$6,180,318
Less Estimated Income	<u>5,869,164</u>	<u>311,154</u>	<u>6,180,318</u>
Total General Fund	\$ 0	\$ 0	\$ 0
Full-time Equivalent Positions	20.00	0.00	20.00

**SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET.** The following amounts reflect the one-time funding items approved by the sixty-sixth legislative assembly for the 2019-21 biennium:

<u>One-Time Funding Description</u>	<u>2019-21</u>	<u>2021-23</u>
TFFR Pension Administration System	<u>\$9,000,000</u>	\$ 0
Total Special Funds	\$9,000,000	\$ 0

**SECTION 3. APPROPRIATION LINE ITEM TRANSFERS.** Upon approval of the state investment board, the retirement and investment office may transfer from their contingency line item in section 1 of this Act to all other line items. The agency shall notify the office of management and budget of each transfer made pursuant to this section.

**SECTION 4. EXEMPTION.** The amount appropriated in section 1 of chapter 47 of the 2019 session laws for the pension administration system project is not subject to section 54-44.1-11 and any unexpended funds are available for completing the project during the biennium beginning July 1, 2021 and ending June 30, 2023.

# 2021 HOUSE STANDING COMMITTEE MINUTES

## Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1022  
1/12/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide an exemption.

11:30 **Chairman Vigesaa** opened the meeting. Members present: Chairman Vigesaa, Vice Chairman Brandenburg, Representative Kempenich, Representative Howe, Representative Meier, Representative Bellew and Representative Mock.

### Discussion Topics:

- Appropriation request for the 2021-2023 biennium budget.
- Teacher's Fund for Retirement
- State Investment Board
- SIB Client Investment Performance

11:32 **Dave Hunter**, Executive Director and Chief Investment Officer, ND Retirement and Investment Office. Testimony #324.

11:52 **Janilyn Murtha**, Deputy Executive Director, ND Retirement and Investment Office. Testimony #499.

**Additional Written Testimony:** #326, #325, #327

**Chairman Vigesaa** adjourned the meeting.

*Sheri Lewis, Committee Clerk*

**HOUSE BILL 1022**

**North Dakota Retirement and Investment Office (RIO)  
Testimony to the House Appropriations Government Operations Committee  
David Hunter, Executive Director/CIO, Janilyn Murtha, Deputy Executive Director/Chief  
Retirement Officer and Darren Schulz, Deputy Chief Investment Officer**

**January 12, 2021**

**I. RIO Programs Overview (Outline Items 1-3)**

The Retirement and Investment Office (hereinafter "RIO") was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the **State Investment Board (SIB)** and the retirement program of the **Teachers' Fund for Retirement (TFFR)**. Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR). RIO is a Special Fund agency and receives no General Fund appropriation. All appropriated expenditures for the SIB are allocated directly to the client funds and paid out of their invested assets/earnings. All appropriated expenditures for the TFFR program are paid from contributions collected from members and employers and from invested assets/earnings.

RIO has received no financial audit findings in the past 20+ years. The agency currently is authorized for 20 FTEs and there are no vacant positions. An organizational chart is attached to this presentation.

**II. State Investment Board (SIB) (Outline Item 4)**

**The SIB is responsible for investment of nearly \$18 billion in assets for the Legacy Fund, seven pension funds and 19 other non-pension funds.** The following table shows the most currently available fair value of assets by fund.

	<b>Fair Value 11/30/20</b>
<b>PENSION POOL PARTICIPANTS</b>	
	<i>(Unaudited)</i>
Teachers' Fund for Retirement	\$2,861,340,438
Public Employees Retirement System	3,545,199,441
Bismarck City Employee Pension Fund	\$116,759,662
Bismarck City Police Pension Fund	\$46,723,385
City of Grand Forks Pension Fund	\$72,013,615
Grand Forks Park District Pension Fund	\$8,185,027
<b>Subtotal Pension Pool Participants</b>	<b>\$6,650,221,567</b>
<b>INSURANCE POOL PARTICIPANTS</b>	
Workforce Safety & Insurance Fund	\$2,235,389,463
State Fire and Tornado Fund	24,349,525
State Bonding Fund	3,856,166
Petroleum Tank Release Fund	6,270,326
Insurance Regulatory Trust Fund	1,164,366
State Risk Management Fund	4,126,993
State Risk Management Workers Comp	3,996,377
Cultural Endowment Fund	550,085
Budget Stabilization Fund	744,320,167
ND Assoc. of Counties (NDACo) Fund	7,267,438
City of Bismarck Deferred Sick Leave	830,457
PERS Group Insurance	39,448,940
State Board of Medicine	2,648,173
City of Fargo FargoDome Permanent Fund	46,399,302
Lewis & Clark Interpretive Center Endowment	862,009
Attorney General Settlement Fund	996,671
Veterans' Cemetery Trust Fund	346,973
<b>Subtotal Insurance Pool Participants</b>	<b>\$3,122,823,430</b>
<b>INDIVIDUAL INVESTMENT ACCOUNTS</b>	
Legacy Fund	7,894,446,184
Retiree Health Insurance Credit Fund	161,961,271
Job Service of North Dakota Pension Fund	96,567,365
Tobacco Prevention and Control Trust Fund	7,592,639
<b>TOTAL</b>	<b>\$17,933,612,458</b>

SIB members include: The Lt. Governor, State Treasurer, State Insurance Commissioner, State Land Commissioner, Workforce Safety & Insurance designee, three PERS board members, and three TFFR board members as voting members; and the Legacy and Budget Stabilization Fund Advisory Board Chair serves as a non-voting member. **All the funds are invested in accordance with the “Prudent Investor Rule” under N.D.C.C. 21-10-07.**

**Investment guidelines and asset allocations are established by the governing bodies of the individual funds, with assistance from consultants and/or RIO staff, and subject to review and approval by the SIB prior to implementation.** The SIB selects investment managers to manage different types of portfolios within each asset class with the goal of maximizing return within the clients' acceptable risk levels. Similar client funds are pooled together when possible to receive lower fees and better terms from investment managers and achieve efficiencies in staff monitoring.

## A. SIB Investment Expenses:

The SIB investment program appropriated expenses include salaries, benefits and administrative overhead for the management of the day-to-day operations of the program.

The staff of RIO administers the day-to-day operations of the investment program by assisting client funds with asset/liability studies; conducting investment manager searches; monitoring guidelines and asset allocations of each client fund; managing the consultant, custodian and investment manager relationships; conducting initial and continuing due diligence on the investment managers; researching new investment and risk management options; and maintaining separate monthly accounting and investment performance data for all 27 client funds. Statistics regarding the number of investment clients/managers/accounts, etc., are shown in the following table.

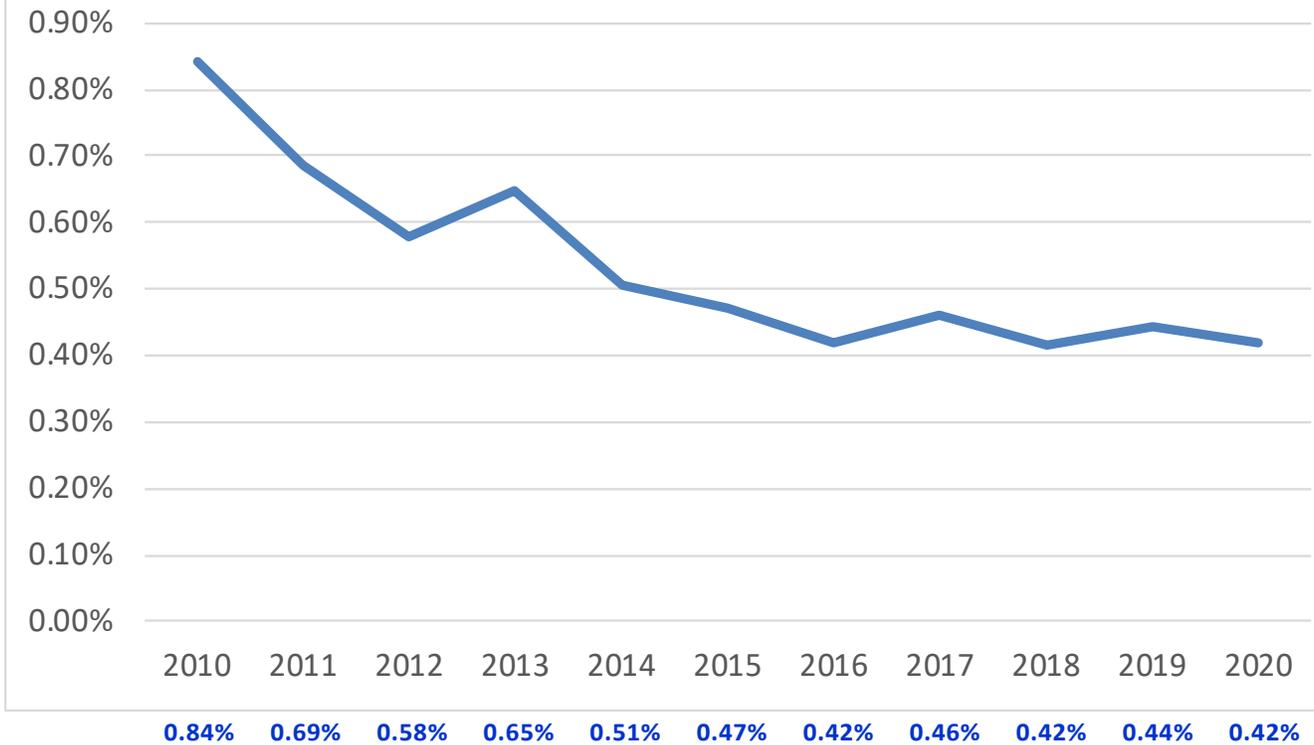
Client Funds	27
Asset Class Pools/Groups	34
Investment Manager Relationships	40
Investment Strategies	77
Investment Manager Accounts	121
Custodian Banks	2
Investment Consultants	3

The SIB has continuing appropriation authority under ND Century Code section 21-10-06.2 to pay for investment related costs of the program such as investment management fees, custodial fees, performance measurement fees, and fees associated with manager searches and onsite reviews of investment managers. These costs are allocated directly to the client funds affected by the expense and paid out of invested assets/earnings.

**Active investment management by the SIB has generated over \$300 million of incremental income for our clients in the last 5-years including over \$150 million of above benchmark returns for the Legacy Fund.** As example, the Legacy Fund earned a net investment return of 7.91% for the 5-years ended 9/30/2020, which exceeded the Policy Benchmark of 7.26% by 0.65%. Based on Legacy Fund balances averaging over \$5 billion the last 5-years, the 0.65% of "Excess Return" translates into \$162.5 million of incremental income since 2016 (e.g. average Legacy Fund balance of \$5 billion x 0.65% of Excess Return = \$32.5 million of incremental income per year x 5 years = \$162.5 million). **A keen focus on reducing investment fees and expenses has been a major factor in generating this incremental income for all of our SIB clients.**

**In recent years, the SIB and RIO have re-intensified efforts to improve our overall return on investment expenses through review and negotiation of investment management agreements.** As a result, SIB client investment expenses have declined from 0.65% in fiscal 2013 to less than 0.45% in fiscal 2020; while assets under management have grown from \$5 billion in 2010 to \$18 billion in 2020. This 0.20% decrease in expenses on \$12 billion in average investment balances equates to \$24 million in annual savings (e.g. \$12 billion x 0.20% lower fees = \$24 million of fee savings per year). The following chart shows the downward trend in investment expenses over the last decade.

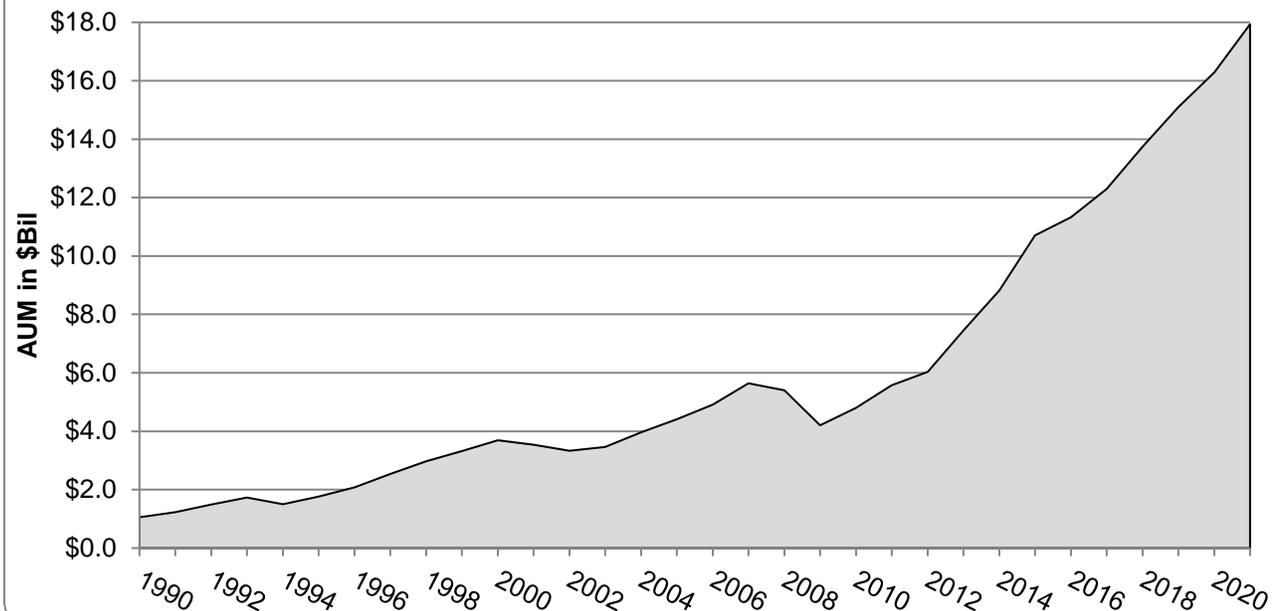
## SIB Investment Expense %



## B. SIB Assets Under Management (AUM):

SIB investments have grown from less than \$5 billion in 2010 to nearly \$18 billion in 2020. North Dakota's Legacy Fund was initially funded in 2011 and approximates \$7.9 billion at 11/30/2020.

## SIB Assets Under Management (AUM)



## C. SIB Client Investment Performance

Over 99% of our SIB clients generated net investment returns which exceeded their approved policy benchmarks for the 5 years ended 9/30/2020 including Legacy Fund, PERS, TFFR, WSI and Budget Stabilization Fund. As example, Legacy Fund earned 7.91% for the 5 years ended 9/30/2020, exceeding the Policy Benchmark Return by 0.65%. As a result, the SIB use of active management created \$162.5 million of incremental income for Legacy for the 5-years ended 9/30/2020 (e.g. a 5-year average balance of over \$5 billion x 0.65% of Excess Return = \$32.5 million/year x 5 years = \$162.5 million). The prudent use of active investment management also improved PERS and TFFR combined returns by \$125 million for the 5 years ended 9/30/2020 (e.g. a 5-year average combined balance of over \$5 billion x 0.50% = \$25 million/year x 5 years = \$125 million). The SIB Pension Pool has also performed well when compared with other U.S. public pension funds. The SIB Pension Pool, which includes PERS and TFFR, was ranked in the top 25% of Callan's Public Fund Sponsor Database for the 10-years ended 9/30/2020, with a net return of 8.3% exceeding its policy benchmark of 7.8% by 0.50% and long-term actuarial return assumptions of 7% for PERS and 7.25% for TFFR. SIB client investments were adversely impacted by the major market downturn driven by the global pandemic in the first quarter of 2020, but fully recovered in subsequent months by rebalancing our client portfolios in the second quarter. **As a result of the SIB maintaining a consistent and disciplined investment approach during these challenging times, the vast majority of our SIB client actual investment returns exceed their policy benchmarks for the 1, 3 and 5 years ended 9/30/2020, including the Legacy Fund, PERS, TFFR and WSI.**

SIB Five Largest Clients (AUM as of 9/30/2020)	Qtr. Ended 9/30/2020	1 Yr Ended 9/30/2020	3 Yrs Ended 9/30/2020	5 Yrs Ended 9/30/2020	10 Yrs Ended 9/30/2020
<b>Legacy Fund \$7.4 billion</b>					<i>9 Yrs. Ended</i>
Total Fund Return - Net	4.93%	8.27%	6.02%	7.91%	5.19%
Policy Benchmark Return	3.95%	7.45%	5.94%	7.26%	4.48%
Excess Return	0.98%	0.82%	0.08%	0.65%	0.71%
<b>PERS \$3.4 billion</b>					
Total Fund Return - Net	4.97%	8.15%	6.39%	8.35%	8.05%
Policy Benchmark Return	4.35%	7.05%	6.25%	7.83%	7.52%
Excess Return	0.62%	1.10%	0.14%	0.52%	0.53%
<b>TFFR \$2.7 billion</b>					
Total Fund Return - Net	4.89%	8.08%	6.38%	8.29%	8.07%
Policy Benchmark Return	4.41%	7.06%	6.24%	7.79%	7.42%
Excess Return	0.48%	1.02%	0.14%	0.50%	0.65%
<b>WSI \$2.2 billion</b>					
Total Fund Return - Net	3.10%	7.46%	6.29%	7.07%	7.00%
Policy Benchmark Return	2.25%	7.30%	5.88%	5.99%	5.60%
Excess Return	0.85%	0.16%	0.41%	1.08%	1.40%
<b>BSF \$738 million</b>					
Total Fund Return - Net	1.63%	3.06%	2.80%	2.22%	2.13%
Policy Benchmark Return	0.23%	3.70%	2.83%	2.06%	1.27%
Excess Return	1.40%	-0.64%	-0.03%	0.16%	0.86%

## D. SIB Program Goals:

The SIB and RIO work to keep investment expenses at or below 0.50% per year, while seeking to identify investment firms which beat their performance benchmarks by 0.50% or more over the long term after all fees and expenses. If we are successful in attaining both of the above goals, our SIB clients are effectively earning a minimum 2-for-1 return on our investment expense dollars.

The five largest SIB clients earned net investment returns which exceeded their Policy Benchmark Returns for the 5-years ended 9/30/2020 as highlighted in the table above. Based on these funds averaging over 0.50% of Excess Return above their Policy Benchmarks the last 5-years, the SIB was successful in selecting investment firms which exceeded stated passive benchmarks thereby generating over \$300 million of incremental income for our clients for the 5-years ended 9/30/2020 after paying all fees and expenses (e.g. SIB client investment average asset balance of \$12 billion x 0.50% of average Excess Return = \$60 million/year or \$300 million of incremental income in last five years).

Asset allocation is a major driver of investment returns for most institutional investors. It is important to note that like-for-like comparisons between funds with different investment programs (or retail investors) are rarely straightforward. Differences in asset allocation and strategies being pursued must be considered as part of a broader analysis of the costs and risks incurred in relation to the results achieved.

The Sovereign Wealth Fund (SWF) Institute identified the Alaska Permanent Fund as the largest U.S. SWF and the Norway Government Pension Fund as the world's largest Global SWF. The return chart below shows recent and inception to date returns of North Dakota's Legacy Fund in comparison to these larger SWF's. As stated previously, like for like comparisons between funds with different asset allocations and risk profiles are rarely straightforward. Legacy Fund returns are comparable to the Alaska Permanent Fund and Norway Government Pension Fund for the 5-years ended June 30, 2020, and slightly better than the Alaska Permanent Fund for the 5-months ended Nov. 30, 2020, while noting the \$1+ trillion Norway Government Pension Fund return data as of Nov. 30, 2020, was not readily available. It is important to note the Legacy Fund was not fully invested in its current asset allocation until 2015, which adversely impacted inception to date results (as Legacy Fund was 100% invested in short-term fixed income until 2013).

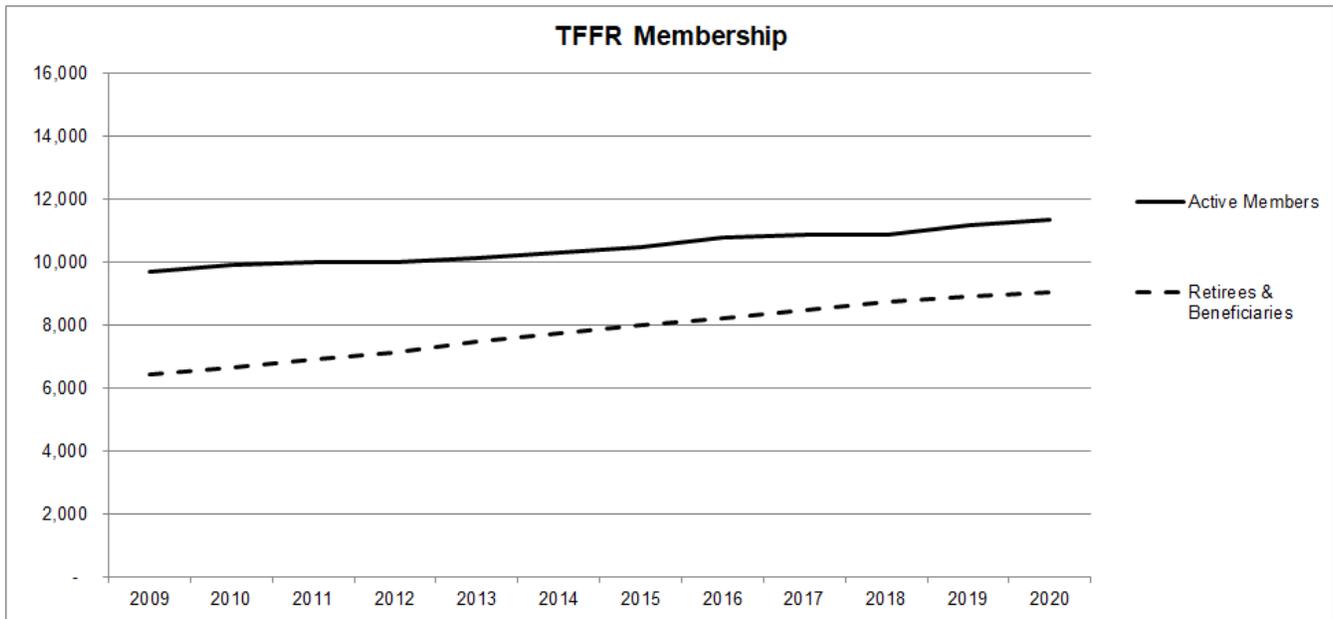
Sovereign Wealth Fund Returns Fund Name / FundSize at Nov. 30, 2020	Fund Size (billions)	Fiscal Year Ended June 30, 2020			Date of Inception	Fiscal YTD Nov. 30, 2020
		1-year	5-years	Inception		
Alaska Permanent Fund Source: <a href="https://apfc.org/report-archive/">https://apfc.org/report-archive/</a>	\$ 71.9	2.01%	6.44%	8.60%	7/1/1980	10.78%
North Dakota Legacy Fund Source: <a href="https://www.rio.nd.gov/legacy-fund">https://www.rio.nd.gov/legacy-fund</a>	\$ 7.9	4.23%	5.91%	4.76%	9/7/2011	11.06%
Norway Government Pension Fund Global Source: <a href="https://www.nbim.no/en/the-fund/returns/">https://www.nbim.no/en/the-fund/returns/</a>	\$ 1,078.0	3.17%	5.41%	5.79%	1/1/1998	n/a

Note: The Legacy Fund was invested in 100% short-term fixed income prior to August 1, 2013. Since inception returns were 5.19% as of 9/30/2020.

## III. Teachers' Fund for Retirement (TFFR)

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven-member board of trustees which consists of the State Treasurer, State Superintendent, with two active teachers, two retired teachers and one school administrator all appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. During the past decade, active membership has increased 13.4% from 10,004 to nearly 11,347 participants, while retirees and beneficiaries have increased 30.3% from less than 6,933 to over 9,036.



For Fiscal Year 2020 there were 213 participating TFFR employers comprised as follows:

School Districts	174
Special Ed Units	20
Vocational Centers	4
Counties	6
State Agencies/Institutions	5
Other	4
<b>2017-18 Total Employers</b>	<b>213</b>

The TFFR program appropriated expenses includes salaries, benefits and administrative overhead costs for the administration of the day-to-day operations of the fund and delivery of high quality services and outreach programs to members and employers. Examples of activities included in the administration of the TFFR program are detailed in the following table, based on the fiscal year ended June 30, 2020.

Activity	# of Members
Monthly collection of contributions from 213 Employers	11,347
Maintenance of Membership Records	23,230
New Retirement & Disability Claims Processed	285
Deaths Processed	254
Refunds/Rollovers Processed	260
Service Purchase Inquiries Processed	175
New Member Enrollments Processed	817
Monthly Benefit Payments Processed	9,036
Educational Outreach Programs Attended	651

Additional administrative activities include development of publications and educational materials for active and retired members and employers; maintenance of website, member and employer online services, and the pension administration software system that houses all TFFR member data; compliance reviews to verify accuracy of member records, contributions, and benefit payments; and staff training and education to ensure all necessary regulatory and financial reporting requirements are being met.

Benefit payments to retirees or their beneficiaries totaled \$224.4 million in fiscal year 2020. Another \$6.5 million was paid out in refunds of account values. These payments, in addition to amounts paid to actuarial, investment and other consultants, are included in a continuing appropriation under ND Century Code section 15-39.1-05.

The pandemic had a significant impact on TFFR program operations and outreach efforts. Many of our program processes have relied on paper forms, both internally and externally; in addition, our outreach programs were held as in-person events. In addition to adjusting our perception of what constitutes a “normal” work environment RIO agency staff successfully found ways to innovate program operations by transitioning to digital processes internally and developing virtual outreach opportunities. While we hope to achieve even greater efficiencies with a new system the change process has already started.

One major accomplishment of the program was the initiation of the Pension Administration System (PAS) project. With the support of the 2019 legislative assembly the TFFR program was authorized to initiate a multi-year project that seeks to review and update our current business practices and ultimately procure and implement a new software solution. Phase 1 out of 3 of the project is scheduled for completion in the current biennium, but a substantial amount of work is anticipated to be performed next biennium.

Program goals include maintaining current staff level to achieve: (1) fiduciary obligations, (2) performance expectations and (3) agency initiatives. Agency initiatives include completing Phase 2 and initiating Phase 3 of the PAS project, pursuing ITD unification, and maintaining a budget reflective of best practices to meet unexpected needs.

#### **IV. Agency Budget Status Current and Future (Items 5, 6, 9, 10,12 and 14)**

##### **A. 2019-2021 Budget Status**

**The RIO 2019-21 base budget is \$5.869 million.** Salaries and wages for RIO’s current 20 FTEs make up 84% of that total. RIO had five vacancies during the first half of the biennium, including two very long-term employees who retired after many successful years with the agency. The TFFR Retirement Services Manager retired on February 28, 2020, after more than 28 years with RIO. The Deputy Executive Director/Chief Retirement Officer, Fay Kopp, retired on April 30, 2020, after more than 32 years with RIO. One internal promotion was awarded to fill the Retirement Services Manager position and was filled on March 1, 2020. The Deputy Executive Director/Chief Retirement Officer position was filled on June 1, 2020. Janilyn Murtha, former Assistant Attorney General assigned to RIO, was chosen to fill the Deputy position. RIO is currently fully staffed.

Base operating expenses were approved at \$889,000 for the 2019-21 biennium. This was an increase of \$26,000 or 3% from the previous biennium’s approved operating expenses. The main driver of the increase was a desire to provide board members and staff with more educational opportunities in order to meet the fiduciary obligations of program management after needing to decrease funding for this purpose in the 2017-19 biennium request.

RIO continues to investigate long-term cost savings options and has found savings in the areas related to the printing and mailing of newsletters and other similar materials to active members of the TFFR retirement program. TFFR engaged with employers to leverage their assistance in disseminating program information to active members through the use of emails and the RIO website. It is anticipated that RIO will save nearly \$20,000 per biennium due to this process change.

The contingency line item was reduced in the 2017-19 biennium and held steady in the 2019-21 biennium. The \$30,000 reduction in the 2017-19 biennium amounted to a 37% reduction. This line item is reserved for expenses that are outside of normal operations and are difficult to plan. In the past, this line item has been used for executive search firms to assist in filling the Executive Director/CIO position. Due to the

nature of these types of expenses, the costs can be high. The average expenditures for executive searches ranged from \$84,000-to-\$110,000 per search in the last decade, therefore making the reduction to this line concerning. As we plan for the future, RIO is exploring other cost saving opportunities such as relocation of our physical operations which may require the expenditure of one time moving expenses.

### B. Budget Status as of December 31, 2020

	2019-21 Approved Budget	Actual Expenses through 12/31/2020	Estimated Remaining Expenses	Estimated Total 2019-21 Expenses	Estimated 2019-21 Ending Balance
Salaries & Benefits	\$ 4,928,230	\$3,574,792	\$ 1,269,275	\$ 4,844,067	\$ 84,163
Operating Expenses	888,934	444,086	224,933	669,019	219,915
Contingency	52,000	-	-	-	52,000
<b>Total Base</b>	<b>\$ 5,869,164</b>	<b>\$4,018,878</b>	<b>\$ 1,494,208</b>	<b>\$ 5,513,086</b>	<b>\$ 356,078</b>

### C. 2021-23 Budget Request

	2019-21 Approved Budget	Remove 2019-21 One-Time Funding	2021-23 Legislative Base	2021-23 Base Request	Governor's Additions	2021-23 Total Governor's Budget	Additional Amendment Requests to HB1022	Total Request (including requested amendments)
SALARIES & BENEFITS	4,978,230	(50,000)	4,928,230	5,088,164	186,031	5,274,195	221,225	5,495,420
OPERATING	3,538,934	(2,650,000)	888,934	781,000	73,123	854,123	15,000	869,123
CONTINGENCY	52,000	-	52,000	-	52,000	52,000	73,000	125,000
CAPITAL ASSETS	6,300,000	(6,300,000)	-	-	-	-	-	-
<b>TOTAL</b>	<b>14,869,164</b>	<b>(9,000,000)</b>	<b>5,869,164</b>	<b>5,869,164</b>	<b>311,154</b>	<b>6,180,318</b>	<b>309,225</b>	<b>6,489,543</b>
FTE	20.0		20.0	20.0		20.0	1.0	21.0

**RIO's 2021-23 Base Budget request is \$5.869 million.** Salaries and wages for RIO's 20 FTEs make up over 86% of that total. Due to the large number of vacancies in the first half of the biennium, RIO experienced first-hand the challenges associated with market demand for highly skilled and qualified workers. RIO was able to hire extremely qualified staff, however, that experience resulted in the need to equitably adjust salary levels, not just for the vacant positions, but also for veteran staff, whose average state service is over 17 years. Maintaining current staffing levels is a priority in the 2021-23 budget request. Current staffing is needed to meet our fiduciary obligations and program goals, especially as the agency maintains current processes and operations during implementation of the PAS project. This need required a shift in funding from the operating and contingency lines to the salaries line. The Governor's budget guidelines required that the total base budget request not exceed the current biennium base budget, therefore the decision was made to decrease the operating and contingency lines in order to accommodate the required increase in the salary line to maintain current staffing. However, even with that shift, \$25,000 had to be included in an optional request to fully fund the salary line at current levels.

Operating expenses have been sharply reduced over the last decade including the 12% reduction in the current base budget request in addition to a 13% cut in the 2017-19 biennium. Major cost savings have been achieved by sharply reducing printing and mailing costs by significantly enhancing RIO's website and digital information transfer and communication methods in recent years; particularly in the past year

due to the global pandemic and the need to move to more digital means for communications. This important transition is expected to continue into the next biennium with the TFFR PAS upgrade. Removing expenses related to maintaining the current TFFR software solution allowed us to decrease operating expenses in the base budget request. This is only possible because we are in a transition phase between our existing PAS and a new system. While we reduced the amount of funds necessary to continue to update and modify the existing system in the short-term (2021-23 biennium), once a new system is implemented we will need to request a return of funding to pay for the maintenance of the new system (likely in the 2023-25 biennium).

**RIO's Total 2021-23 Budget Request is \$6.49 million including \$311,154 from the Governor's Budget and \$309,225 in additional amendments RIO is requesting today. The Governor's additions to the base budget of \$311,154 include \$186,031 for 2% annual salary increases plus additional benefit costs and \$25,000 of "underfunded" salaries, \$73,123 to join the Governor's IT Unification plan by utilizing NDIT Desktop Support; and \$52,000 to re-instate the current appropriation level in our Contingency line. RIO's Additional Amendment Requests of \$309,225 include \$11,225 in the salaries line to correct a beginning salary amount for one position that was on probationary status when the original budget request was submitted; salaries and operating costs of \$225,000 for a new Public Information Officer (PIO), \$73,000 to more adequately fund our Contingency line (up to \$125,000) for unanticipated expenses in the coming biennium, and a modification of our Salary and Operating expense line items to allow our two FTE positions dedicated to information services to participate in the Governor's IT Unification effort through allocation to NDIT.**

**RIO's contingency appropriation is reserved for expenses outside of normal operations and difficult to forecast.** During the last decade, this line item has been used for executive search firms to assist in filling the Exec. Director/Chief Investment Officer position, which are estimated to approximate \$125,000 per search (and ranged from \$82,000 in 2011 to \$110,075 in 2013). As stated, RIO is also exploring alternative cost savings such as relocation of our physical offices, which may result in long term savings but require one-time expenses related to moving costs.

RIO Total Agency Budget vs Actual Comparison				
	Budget	Actual	Unspent \$	Unspent %
2005-07	3,488,727	3,079,516	409,211	11.7%
2007-09	3,371,136	3,086,439	284,697	8.4%
2009-11	3,705,650	3,514,813	190,837	5.1%
2011-13	4,232,954	3,734,728	498,226	11.8%
2013-15	4,899,369	4,361,844	537,525	11.0%
2015-17	5,413,425	5,085,472	327,953	6.1%
2017-19	5,340,054	5,094,609	245,445	4.6%
2019-21	5,869,164			

RIO Contingency Budget		
	Actual	Budget
2005-07	-	82,000
2007-09	11,441	82,000
2009-11	82,000	82,000
2011-13	48,088	82,000
2013-15	61,987	82,000
2015-17	8,999	82,000
2017-19	-	52,000
2019-21		

**The PIO position request is made as a result of a growing awareness that our current staffing levels have not allowed us to meet the needs of public demand for strategic and coordinated communications.** For example, there is an increasing public interest in SIB client funds which have grown from \$5 billion in 2010 to \$18 billion in 2020, including North Dakota's \$8 billion Legacy Fund and TFFR's \$2.9 billion pension fund. Further, as part of the PAS project RIO obtained a consultant's analysis of our TFFR communication efforts which highlighted areas of growth and the need for the creation and implementation of a strategic communication plan. An FTE for a full-time PIO will allow RIO to increase the speed at which information is disseminated to the public and the quality and quantity of that information for both the investment and retirement programs. **RIO's additional amendment request of \$309,225 is only a 5% increase over the Governor's Recommended Budget while noting SIB client investments increased by roughly 50% from \$12 billion to \$18 billion from 2016 to 2020.**

#### **D. TFFR PAS Project (Items 7, 8 & 10)**

***The TFFR Pension Administration Software Modernization Project*** includes funding within the capital assets, operating and salaries line items to identify, purchase and implement an upgrade or replacement of the current pension administration software (PAS) utilized by TFFR.

The RIO 2019-21 appropriation included one-time funding of \$9 million for the TFFR Pension Administration System project. After discussions with the Governor's Office in the early stages and addressing challenges resulting from the global pandemic, the project is well underway. During the current biennium an Executive Steering Committee (ESC) was approved, the project charter was developed and approved, a RFP for a project consultant was issued and selection of a project consultant was made. Thus far significant milestones in Phase One of the consulting agreement have occurred including evaluations of our current business processes, security and communications assessments.

Actual expenditures from the \$9 million project budget total approximately \$65,000. Expenditures were paid for NDIT and NDAG consulting costs and progress payments to the project consultant. We anticipate that \$411,527 of the current project consulting contract will be paid over the next few months as the process study and procurement phases of the contract are completed. RIO respectfully requests an amendment to HB1022 allowing for the remaining balance of the \$9 million to be carried over into the 2021-23 biennium.

Approval for this project was presented to and approved by the legislature in the 2019 session because the TFFR Board and RIO staff believed it necessary and prudent to use TFFR funds (special fund, not general fund) to upgrade or replace the current 15-year old system with a more technologically advanced, web based system. A new system will provide significant improvements in functionality, efficiency and system security for TFFR members, employers, and staff. An updated system is also needed in order for the TFFR program to re-engineer business processes and automate TFFR pension administration activities, reporting capabilities, electronic communications and services. The current PAS has many limitations, and without an updated PAS, TFFR will need to spend trust fund assets trying to maintain an old system, instead of investing in newer technology that includes the necessary functionality to efficiently administer the plan.

Based on the anticipated benefits RIO believes there is an opportunity for post implementation efficiencies that could result in future budget reductions in the TFFR pension program. Potential budget reductions are not quantifiable at this point in the project planning. However, if TFFR is able to automate current pension administration processes with a new system and transition to secure digital communications with members and employers, at a minimum, it is expected to save printing and mailing costs and allow users to better utilize their skills and knowledge in other needed areas of retirement program administration.

In order to successfully complete the project within the anticipated project timeline, it will be necessary to maintain all current budget and staffing levels in order to re-engineer business processes and maintain adequate service levels during the implementation.

#### **CONCLUSION**

Based on the information provided within this testimony, RIO respectfully requests the House approve the requested amendments to RIO's budget request set forth in Attachment 2.

**Attachments:**

1. Full Budget Summary page showing details by program
2. Requested Amendments
3. TFFR PAS Project Summary
4. Org chart
5. TFFR Fast Facts
6. SIB Fast Facts

RETIREMENT AND INVESTMENT OFFICE  
DEVELOPMENT OF 2021-23 BUDGET REQUEST  
HOUSE BILL 1022

DEVELOPMENT OF BASE BUDGET REQUEST

	2019-21 Approved Budget			Remove 2019-21 One-Time Funding			2021-23 Legislative Base			2021-23 Requested Budget Changes (Base)			2021-23 Base Request		
	TFFR	SIB	RIO	TFFR	SIB	RIO	TFFR	SIB	RIO	TFFR	SIB	RIO	TFFR	SIB	RIO
SALARIES & BENEFITS	2,486,818	2,491,412	4,978,230	(50,000)	-	(50,000)	2,436,818	2,491,412	4,928,230	(17,684)	177,618	159,934	2,419,134	2,669,030	5,088,164
OPERATING	3,351,459	187,475	3,538,934	(2,650,000)	-	(2,650,000)	701,459	187,475	888,934	(128,616)	20,682	(107,934)	572,843	208,157	781,000
CONTINGENCY	26,000	26,000	52,000	-	-	-	26,000	26,000	52,000	(26,000)	(26,000)	(52,000)	-	-	-
CAPITAL ASSETS	6,300,000	-	6,300,000	(6,300,000)	-	(6,300,000)	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>12,164,277</b>	<b>2,704,887</b>	<b>14,869,164</b>	<b>(9,000,000)</b>	<b>-</b>	<b>(9,000,000)</b>	<b>3,164,277</b>	<b>2,704,887</b>	<b>5,869,164</b>	<b>(172,300)</b>	<b>172,300</b>	<b>-</b>	<b>2,991,977</b>	<b>2,877,187</b>	<b>5,869,164</b>
FTE	11.7	8.3	20.0				11.7	8.3	20.0				11.7	8.3	20.0
												-12.1%			

DEVELOPMENT OF FINAL BUDGET REQUEST

	2021-23 Base Request			Governor's Additions			2021-23 Total Governor's Budget			Additional Amendment Requests to HB1022			2021-23 Total Request (including requested amendments) *		
	TFFR	SIB	RIO	TFFR	SIB	RIO	TFFR	SIB	RIO	TFFR	SIB	RIO	TFFR	SIB	RIO
SALARIES & BENEFITS	2,419,134	2,669,030	5,088,164	99,848	86,183	186,031	2,518,982	2,755,213	5,274,195	105,000	116,225	221,225	2,623,982	2,871,438	5,495,420
OPERATING	572,843	208,157	781,000	43,691	29,432	73,123	616,534	237,589	854,123	7,500	7,500	15,000	624,034	245,089	869,123
CONTINGENCY	-	-	-	26,000	26,000	52,000	26,000	26,000	52,000	36,500	36,500	73,000	62,500	62,500	125,000
CAPITAL ASSETS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>2,991,977</b>	<b>2,877,187</b>	<b>5,869,164</b>	<b>169,539</b>	<b>141,615</b>	<b>311,154</b>	<b>3,161,516</b>	<b>3,018,802</b>	<b>6,180,318</b>	<b>149,000</b>	<b>160,225</b>	<b>309,225</b>	<b>3,310,516</b>	<b>3,179,027</b>	<b>6,489,543</b>
FTE	11.7	8.3	20.0				11.7	8.3	20.0	0.5	0.5	1.0	12.2	8.8	21.0

Salaries (Optional Request #1):  
Governor added back \$25,000 for underfunded salary line per optional request

Salaries: Governor's recommended 2% per year plus add'l cost for benefits (\$161,031)

Operating (Optional Request #2):  
Governor approved optional package request to join NDI Desktop Support

Contingency (Optional Request #3-partial): Governor added back \$52,000 of the \$125,000 requested in optional request.

Correction: \$11,225 to correct salary error in original request

1 FTE: \$210,000 salary and benefits for Public Information Officer position (Grade 106)

Operating: \$15,000 for add'l expenses for add'l FTE

Contingency: \$73,000 increase

\* Does not include carry-over of one-time funding included as amendment request.

## Requested Amendments to HB 1022 (Item 13)

SECTION 4. EXEMPTION. The amount appropriated in section 1 of chapter 47 of the 2019 session laws for the pension administration system project is not subject to section 54-44.1-11 and any unexpended funds are available for completing the project during the biennium beginning July 1, 2021, and ending June 30, 2023.

	Salaries & Benefits	Operating	Contingency	Total	FTE
<b>Base Budget Changes</b>	<b>159,934</b>	<b>(107,934)</b>	<b>(52,000)</b>	<b>-</b>	
<b>Governor's Recommendations</b>					
Restore full funding for 20 current FTEs (optional request #1)	25,000			25,000	
Governor's 2% salary increases and benefit funding	161,031			161,031	
NDIT desktop support (optional request #2)		70,920		70,920	
Additional MS 365 costs added by Governor		2,203		2,203	
Restore current contingency line funding (optional request #3-partial)			52,000	52,000	
<b>Total included in Governor's recommendation</b>	<b>186,031</b>	<b>73,123</b>	<b>52,000</b>	<b>311,154</b>	
<b>Additional Agency Requests</b>					
Correction for incorrect salary in original budget request	11,225			11,225	
Additional FTE for Public Information Officer	210,000			210,000	1
Additional operating expenses for new FTE		15,000		15,000	
Remove 2 FTE for IT Unification (move to operating)	(440,540)	440,540		(0)	(2)
Increase contingency line funding			73,000	73,000	
<b>Total additional agency request</b>	<b>(219,315)</b>	<b>455,540</b>	<b>73,000</b>	<b>309,225</b>	<b>(1)</b>
<b>Total Amendment Request</b>	<b>126,650</b>	<b>420,729</b>	<b>73,000</b>	<b>620,379</b>	<b>(1)</b>

#499

House Bill 1022

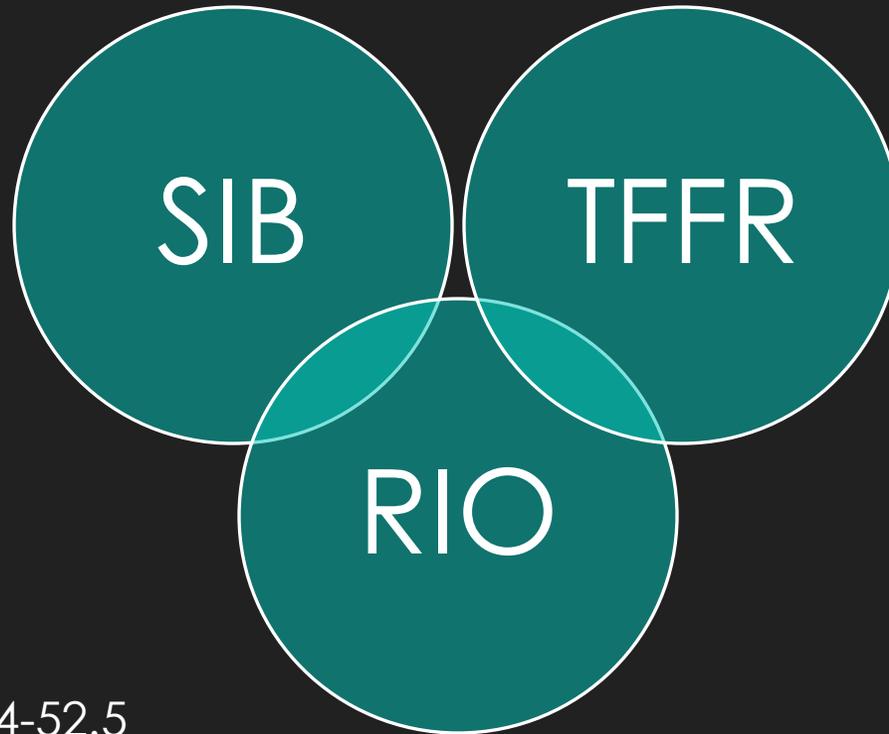
House Appropriations Government Operations Committee

January 12, 2021

North Dakota Retirement and Investment Office Testimony

# NDRIO supports 2 “Special Fund” Programs

SIB - Investment Program  
NDCC Ch. 21-10  
\$18 Billion in Assets  
27 Government Funds



TFFR – Retirement Program  
NDCC Ch. 15-39.1  
\$2.8 Billion in Assets  
23,230 Active, Retired, &  
Deferred Members and  
Beneficiaries.

RIO Agency  
NDCC Ch. 54-52.5  
2021-23 Budget Request - \$6,489,543  
+ PAS Project Carryover

# SIB – Investment Program

## 2019-21 Accomplishments

- SIB investments rise 34% from \$13.4 billion in 2019 to \$18 billion in late-2020.
- Active Management has generated over \$300 million in incremental income over last 5 years.
- Decrease in Investment Expenses over last seven years saving clients approximately 24 million per year.

## 2021-23 Goals &

- Exceed Policy Benchmark Returns.
- Prudently pursue active management opportunities to generate increased investment income.
- Continue to monitor and decrease investment expenses when possible.

# TFFR – Retirement Program

## 2019-21 Accomplishments

- Successfully transitioned predominantly paper processes to electronic processes as a result of challenges created by the pandemic.
- Successfully transitioned from predominantly in-person outreach efforts to virtual efforts as a result of challenges created by the pandemic.
- Successfully initiated Phase 1 of the PAS (Pension Administration System) Project.

## 2021-23 Goals

- Complete Phase 1 and 2 of the PAS Project; initiate Phase 3.
- Create and implement a strategic communication plan that provides for both in person and virtual outreach opportunities.
- Leverage state and agency level initiatives to modernize our processes and increase engagement with members and stakeholders.

## RIO Budget Goals & Initiatives

# 1 Agency Budget Goal =  
Maintain Current staff level.

Needed to achieve:

- (1) fiduciary obligations,
- (2) performance expectations and
- (3) agency initiatives.

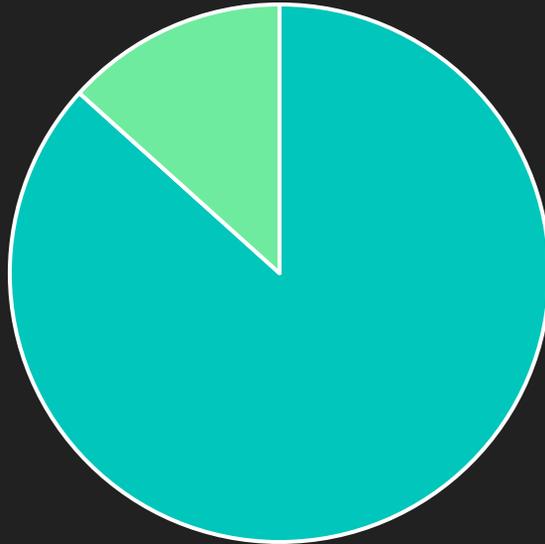
PAS Project

ITD Unification

Strategic  
Communication

# 2021-2023 RIO Budget Request

Base Budget

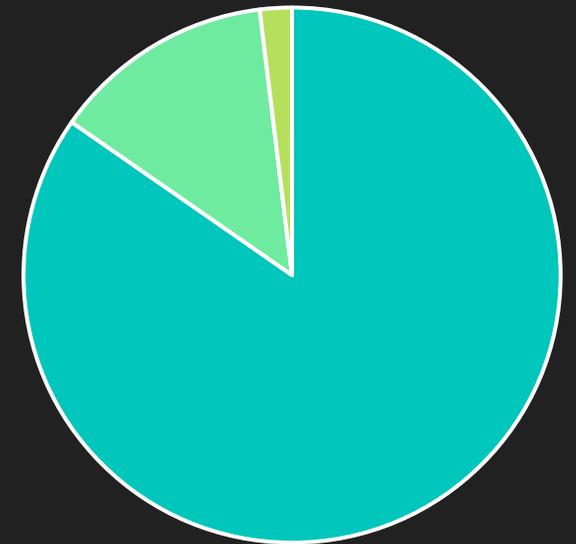


■ SALARIES & BENEFITS ■ OPERATING  
■ CONTINGENCY ■ CAPITAL ASSETS

Pros - Meets Executive Directive.

Cons - Reduces staff level, eliminates contingency funds, doesn't support achievement of agency initiatives.

Optional Package w/ Amendments



■ SALARIES & BENEFITS ■ OPERATING  
■ CONTINGENCY ■ CAPITAL ASSETS

Pros – Supports agency initiatives, maintains staff level (+ 1 FTE), provides contingency funds, general fund neutral.

Cons – Exceeds Executive Directive.

# Requested Amendments

	Salaries & Benefits	Operating	Contingency	Total	FTE
<b>Base Budget Changes</b>	<b>159,934</b>	<b>(107,934)</b>	<b>(52,000)</b>	<b>-</b>	
<b>Governor's Recommendations</b>					
Restore full funding for 20 current FTEs (optional request #1)	25,000			25,000	
Governor's 2% salary increases and benefit funding	161,031			161,031	
NDIT desktop support (optional request #2)		70,920		70,920	
Additional MS 365 costs added by Governor		2,203		2,203	
Restore current contingency line funding (optional request #3-partial)			52,000	52,000	
<b>Total included in Governor's recommendation</b>	<b>186,031</b>	<b>73,123</b>	<b>52,000</b>	<b>311,154</b>	
<b>Additional Agency Requests</b>					
Correction for incorrect salary in original budget request	11,225			11,225	
Additional FTE for Public Information Officer	210,000			210,000	1
Additional operating expenses for new FTE		15,000		15,000	
Remove 2 FTE for IT Unification (move to operating)	(440,540)	440,540		(0)	(2)
Increase contingency line funding			73,000	73,000	
<b>Total additional agency request</b>	<b>(219,315)</b>	<b>455,540</b>	<b>73,000</b>	<b>309,225</b>	<b>(1)</b>
<b>Total Amendment Request</b>	<b>126,650</b>	<b>420,729</b>	<b>73,000</b>	<b>620,379</b>	<b>(1)</b>

**Respectfully  
Submitted on behalf  
of NDRIO**

**Presented By:**

**David Hunter, Executive Director/CIO**

**Janilyn Murtha, Deputy Executive  
Director/Chief Retirement Officer**

**Darren Schulz, Deputy Chief Investment  
Officer**

# SIB Mission Statement and Fast Facts

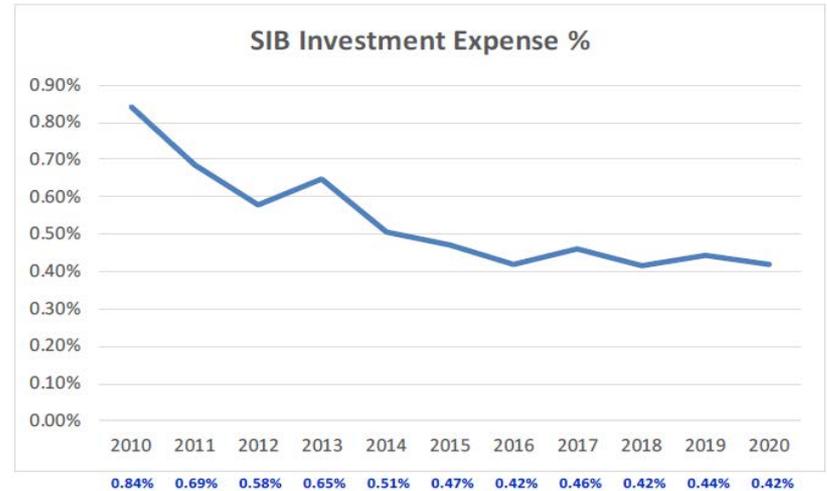
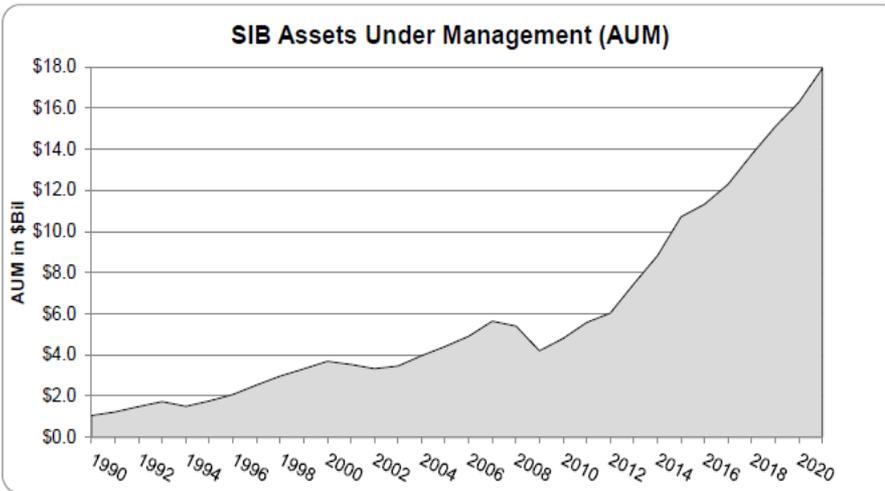
As of November 30, 2020

**Mission Statement:** The Retirement and Investment Office (RIO) serves the State Investment Board (SIB) and exists in order that:

- 1) SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective investment manner and under the Prudent Investor Rule (as defined in NDCC 21-10-07 "Legal Investments").
- 2) Potential SIB clients have access to information regarding the services provided by the SIB.
- 3) SIB clients receive satisfactory services from our Board & RIO staff including the TFFR, PERS, WSI and Legacy & Budget Stabilization Funds.

**Top Ten SIB Fast Facts:**

- SIB client assets under management have more than tripled from \$5 billion in 2010 to \$18 billion in 2020.
- SIB investment fees have significantly declined from 0.84% in 2010 to less than 0.45% in 2020.
- The SIB's keen focus on fees is saving our clients over \$20 million per year in lower costs which increases our SIB client net investment returns.
- The SIB prudent use of active investment management has generated over \$300 million of incremental income for our clients in the last 5-years.
- SIB client investment performance compares favorably with our peers including U.S. public pension plans and larger sovereign wealth funds.
- The SIB pension investment pool, which includes TFFR and PERS, returns are ranked in the top 25% of U.S. public funds in the last 10-years.
- North Dakota Legacy Fund returns are comparable to other Sovereign Wealth Funds since 2015 and favorable in more recent periods (see below).
- Actual net investment returns for 99% of our SIB clients have exceeded approved performance benchmarks for the 5-years ended Sep. 30, 2020.
- The SIB regularly accepts new investment clients such as the Office of the Attorney General and Veterans' Cemetery Trust Fund in recent years.
- SIB client satisfaction scores range from 3.4 to 3.7 in recent years (on 4.0 scale with 4 = Excellent, 3 = Above Average, 2 = Average and 1 = Poor).



<b>Sovereign Wealth Fund Returns</b>		<b>Fund Size</b>	<b>Fiscal Year Ended June 30, 2020</b>			<b>Date of</b>	<b>Fiscal YTD</b>
<b>Fund Name / Fund Size at Nov. 30, 2020</b>		<b>(billions)</b>	<b>1-year</b>	<b>5-years</b>	<b>Inception</b>	<b>Inception</b>	<b>Nov. 30, 2020</b>
Alaska Permanent Fund (Largest U.S. SWF) Source: <a href="https://apfc.org/report-archive/">https://apfc.org/report-archive/</a>		\$ 71.9	2.01%	6.44%	8.60%	7/1/1980	10.78%
North Dakota Legacy Fund Source: <a href="https://www.rio.nd.gov/legacy-fund">https://www.rio.nd.gov/legacy-fund</a>		\$ 7.9	4.23%	5.91%	4.76%	9/7/2011	11.06%
Norway Government Pension Fund (#1 Global) Source: <a href="https://www.nbim.no/en/the-fund/returns/">https://www.nbim.no/en/the-fund/returns/</a>		\$ 1,078.0	3.17%	5.41%	5.79%	1/1/1998	n/a

Note: The Legacy Fund was invested in 100% short-term fixed income prior to August 1, 2013. Since inception returns were 5.19% as of 9/30/2020.

# Overview of Prudent Investor Rule



Government Finance Officers Association

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

### North Dakota Retirement and Investment Office

For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2019

*Christopher P. Morill*

Executive Director/CEO

## NDCC 21-10-07 Legal Investments - Prudent Investor Rule:

The **state investment board** shall apply **the prudent investor rule** in investing for funds under its supervision. The "**prudent investor rule**" means that in making investments **the fiduciaries** shall exercise the **judgment and care**, under the **circumstances then prevailing**, that an institutional investor of ordinary **prudence, discretion, and intelligence** exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, **considering probable safety of capital as well as probable income**. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

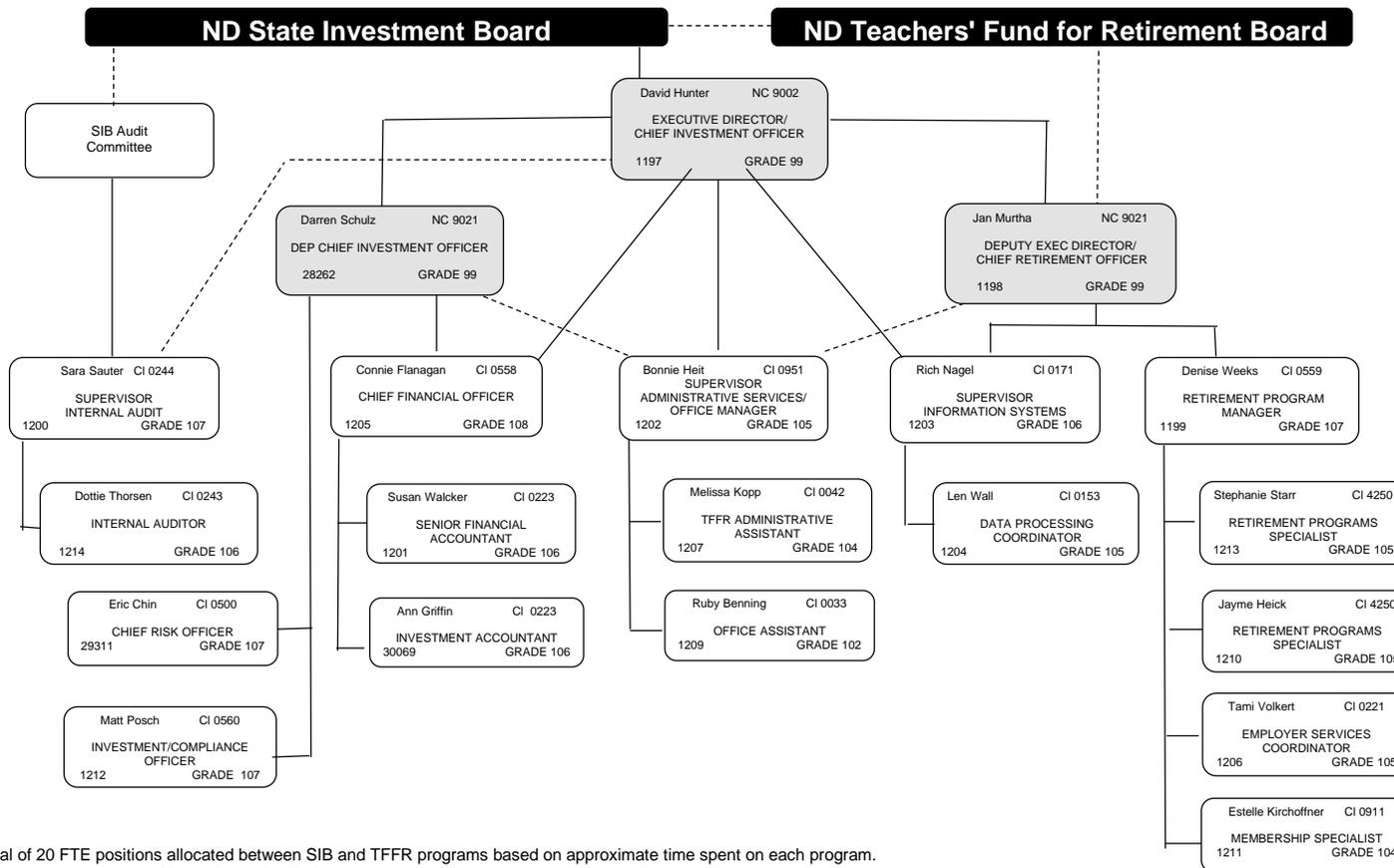
**The SIB does not make individual investments in securities as all client portfolios are externally managed by approved investment firms using SIB client board approved investment policies and asset allocations.**

**Economically targeted investing is prohibited unless the investment meets the "exclusive benefit rule" and the following four conditions are satisfied:**

- 1) The cost does not exceed the fair market value at time of investment;
- 2) **The investment provides the fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and expected risk;**
- 3) Sufficient liquidity is maintained in the fund to permit distributions in accordance with plan terms; and
- 4) The safeguards or diversity that a **prudent investor would adhere to are present.**

RIO's website was recently updated to improve overall transparency and reporting access for our users and clients noting the Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for its CAFR for the fiscal year ended June 30, 2019 (for the 22<sup>nd</sup> consecutive year). →

## ND Retirement and Investment Office Organizational Chart



Total of 20 FTE positions allocated between SIB and TFFR programs based on approximate time spent on each program. Currently FTEs are split 12 TFFR and 8 SIB (8 shared positions in fiscal, administrative, IT and audit).

1. SIB is the Governing Board of RIO (per statute) and the Executive Director / Chief Investment Officer (ED/CIO) reports directly to SIB.
2. ED/CIO is responsible for all staffing of RIO office.
3. Deputy ED/Chief Retirement Officer (CRO) reports directly to the ED/CIO and functionally to TFFR Board.
4. Deputy CIO reports directly to the ED/CIO.
5. Chief Financial Officer (CFO) reports to the ED/CIO and Deputy CIO
6. Supervisor of Internal Audit reports directly to the SIB Audit Committee (for compliance matters) and the RIO ED/CIO (for day to day operational matters).
7. CFO and Fiscal & Investment Services report to the Deputy CIO.
8. Administrative & Office Services report directly to the ED/CIO and is functionally shared with the Deputy ED/CRO and Deputy CIO.
9. Retirement Program reports to the Deputy ED/CRO.
10. Supervisor of Information Services reports directly to the ED/CIO and Deputy ED/CRO.
11. RIO Executive Team includes the ED/CIO, Deputy CIO, Deputy ED/CRO & CFO.
12. RIO Management includes the Supervisor of Internal Audit, Administrative Services Supervisor, IT Supervisor, Retirement Program Manager and RIO Executive Team.

## TFFR PAS Project Summary

### Request

- Upgrade or replace TFFR pension software with web-based system.
- Carryover approved funding from 2019 legislative session.

### Risks of Current PAS

- Current system is 15+ years old.
- Functionality and technical architecture of client-server system is outdated.
- Increased costs to maintain and support.
- Limited technical support.
- Limited functionality of member and employer online portals – read only.
- No electronic member communication and interaction.
- Inability to automate manual processes and re-engineer business processes.
- Inability to utilize secure digital communications w/members and employers.

### Benefits of PAS Upgrade or Replacement

- Web based technology is standard.
- Re-engineer business processes and adopt best practices in pension administration.
- Enhanced member and employer self-service and security improvements.
- Straight-through-processing to automate enrollment, termination, retirement processing, calculations, communications, forms, and distribution
- Cost savings with digital communication, and reduced paper mailings.
- Improved staff efficiency.

### Estimated Cost

- Carryover 2019 legislative session \$9 million appropriation less expenditures from the current biennium.
- Includes external vendor costs, consulting costs, project management, and ITD, legal, and other project costs and contingencies.
- Special funds – no general funds.
- Budget proposal contains reduced operating expenses for current system due to anticipated transition; will need to request return of operating funding levels after new system is implemented.

### Vendor Selection and Project Oversight

- Utilize state's procurement/RFP process to select consultant and software vendor
- Follow ITD requirements in managing major IT project
- Executive Steering Committee Oversight
- TFFR Board contract approval and project oversight to ensure TFFR trust fund assets are being appropriately spent

# ND TFFR Fast Facts

FY End 6/30/2020

The ND Teachers' Fund for Retirement plan (ND TFFR) provides ND educators with a financial foundation for the future that includes a secure and stable retirement. This is possible due to TFFR's plan design, professional plan management, strong investment performance, and outstanding customer service.



## MEMBERS

**11,347** ACTIVE MEMBERS

**9,036** RETIRED MEMBERS

**213** EMPLOYERS

### Member Stats

	Actives	Retirees
Avg. Annual Salary/Benefit	\$62,663	\$25,392
Avg. Service Credit	11.7 yrs	27.3 yrs
Avg. Current Age	41.8 yrs	72.3 yrs

MEMBER/EMPLOYER SATISFACTION: 3.9 (4.0 Scale)

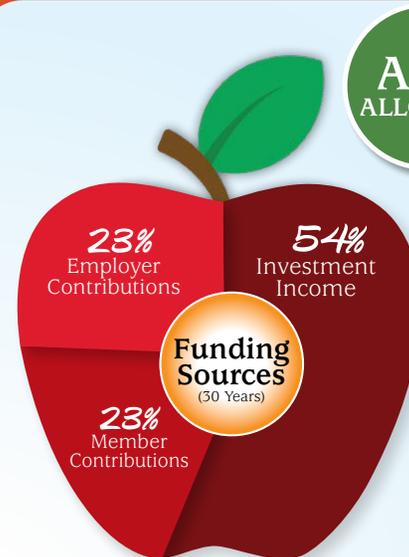
**84%**

of benefits are paid to ND residents.

**\$224 million**

was distributed to retirees in FY 2020.

Market value of TFFR assets **\$2.65 billion**



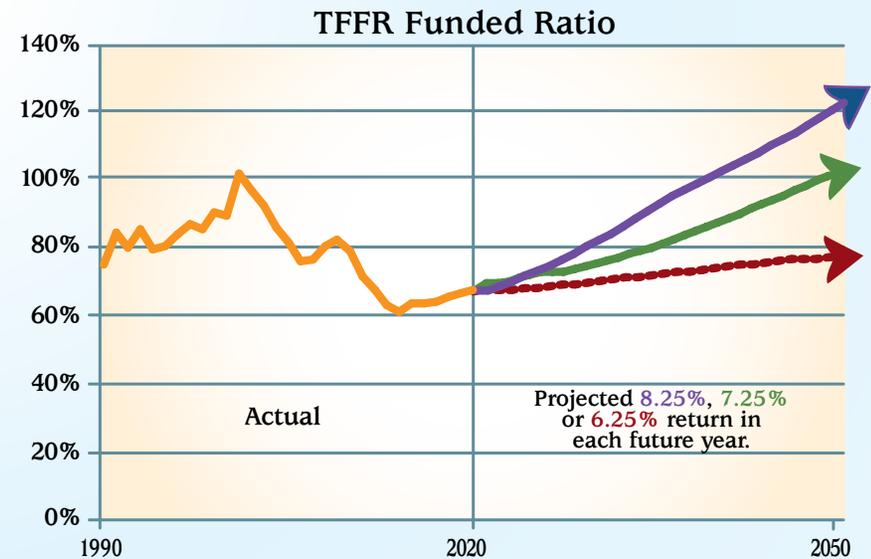
### ASSET ALLOCATION



### Investment Returns

1 year	3.5%
5 year	6.2%
30 year	7.5%

## 63% of BENEFITS are PREFUNDED



# ND TFFR PLAN SUMMARY

**Tier 1 is a member who had service credit in the TFFR plan prior to 7/1/08.**

- Tier 1 Grandfathered member was less than 10 years away from retirement eligibility as of 6/30/13. Grandfathered member was vested, and either age 55 or had a combined total of service credit and age equal to or greater than 65 on 6/30/13.
- Tier 1 Non-Grandfathered member was more than 10 years away from retirement eligibility as of 6/30/13. Non-grandfathered member was less than age 55 and had a combined total of service credit and age which was less than 65 on 6/30/13.

**Tier 2 is a member who began participation in the TFFR plan on 7/1/08 or after.**

\* Contribution rates are in effect until TFFR reaches 100% funded level, then rates reduce to 7.75% each.

	Tier 1 Grandfathered Member	Tier 1 Non-Grandfathered Member	Tier 2 Member
<b>Employee Contribution Rates (active and re-employed retirees)</b>			
7/1/10 – 6/30/12	7.75%	7.75%	7.75%
7/1/12 – 6/30/14	9.75%	9.75%	9.75%
*7/1/14 ongoing	11.75%	11.75%	11.75%
<b>Employer Contribution Rates</b>			
7/1/10 – 6/30/12	8.75%	8.75%	8.75%
7/1/12 – 6/30/14	10.75%	10.75%	10.75%
*7/1/14 ongoing	12.75%	12.75%	12.75%
<b>Vesting Period</b>	3 yrs	3 yrs	5 yrs
<b>Unreduced Retirement Eligibility</b>			
Minimum Age	No	60	60
<b>AND Rule</b>	Rule 85	Rule 90	Rule 90
<b>OR Normal Retirement Age</b>	65	65	65
<b>Reduced Retirement Eligibility</b>			
Minimum Age	55	55	55
Reduction Factor	6%	8%	8%
<b>Retirement Formula Multiplier</b>			
X Final Average Salary	3 yr FAS	3 yr FAS	5 yr FAS
X Service Credit	Total years	Total years	Total years
<b>Disability Retirement</b>			
	Yes	Yes	Yes
Retirement Formula Multiplier (2%) X Final Average Salary (FAS) X Total Service Credit			
<b>Death/Survivor Benefits</b>			
	Yes	Yes	Yes
Refund of account value or Life Annuity to survivor based on member's vesting status.			

# 2021 HOUSE STANDING COMMITTEE MINUTES

## Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1022  
1/21/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide an exemption.
--

02:31 **Chairman Vigesaa** brought the committee to order. Members present: Chairman Vigesaa, Vice Chairman Brandenburg, Representative Kempenich, Representative Howe, Representative Bellew, Representative Meier. Members absent: Representative Mock.

### Discussion Topics:

- Appropriation for the 2021-2023 biennium budget.
- Discussion of the green sheet.

02:31 **Chairman Vigesaa** went through the green sheet.

02:52 **Chairman Vigesaa** adjourned the meeting.

*Sheri Lewis, Committee Clerk*

# 2021 HOUSE STANDING COMMITTEE MINUTES

## Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1022  
2/1/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide an exemption.
--

11:33 **Chairman Vigesaa** brought the committee to order. Members present: Chairman Vigesaa, Vice Chairman Brandenburg, Representative Kempenich, Representative Howe, Representative Bellew, Representative Meier, Representative Mock.

### Discussion Topics:

- Appropriation request for the 2021-2023 biennium budget.
- Green sheet.

11:45 **Chairman Vigesaa** adjourned the meeting.

*Sheri Lewis, Committee Clerk*

# 2021 HOUSE STANDING COMMITTEE MINUTES

## Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1022  
2/3/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide an exemption.
--

2:56 **Chairman Vigesaa** brought the committee to order. Members present: Chairman Vigesaa, Representative Kempenich, Representative Howe, Representative Mock, Representative Meier. Members absent: Vice Chairman Brandenburg, Representative Bellew.

### Discussion Topics:

- Base level funding changes.
- Pension funds
- Investments
- Unification

2:57 **Representative Kempenich** explained the budget funding changes. Testimony #3129.

2:58 **David Hunter, Executive Director, ND Retirement and Investment Office** answered questions relating to the budget.

3:02 **Janilyn Murtha, Deputy Executive Director/Chief Retirement Officer, ND Retirement and Investment Office** answered questions about the budget.

3:20 **Chairman Vigesaa** adjourned the meeting.

*Sheri Lewis, Committee Clerk*

**Retirement and Investment Office - Budget No. 190**  
**House Bill No. 1022**  
**Base Level Funding Changes**

	Executive Budget Recommendation				House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
<b>2021-23 Biennium Base Level</b>	20.00	\$0	\$5,869,164	\$5,869,164	20.00	\$0	\$5,869,164	\$5,869,164
<b>2021-23 Ongoing Funding Changes</b>								
Base payroll changes			\$185,639	\$185,639				\$0
Salary increase			131,891	131,891				0
Retirement contribution increase			27,454	27,454				0
Health insurance increase			981	981				0
Decreases funding for operating expenses			(107,934)	(107,934)				0
Adds funding for desktop support			70,920	70,920				0
Increases funding for Microsoft Office 365 licensing expenses			2,203	2,203				0
Total ongoing funding changes	0.00	\$0	\$311,154	\$311,154	0.00	\$0	\$0	\$0
<b>One-time funding items</b>								
No one-time funding items				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
<b>Total Changes to Base Level Funding</b>	0.00	\$0	\$311,154	\$311,154	0.00	\$0	\$0	\$0
<b>2021-23 Total Funding</b>	20.00	\$0	\$6,180,318	\$6,180,318	20.00	\$0	\$5,869,164	\$5,869,164
<i>Total ongoing changes as a percentage of base level</i>	0.0%		5.3%	5.3%	0.0%		0.0%	0.0%
<i>Total changes as a percentage of base level</i>	0.0%		5.3%	5.3%	0.0%		0.0%	0.0%

**Other Sections in Retirement and Investment Office - Budget No. 190**

	Executive Budget Recommendation	House Version
Contingencies line item transfers	Section 3 would allow the Retirement and Investment Office to transfer from the contingencies line item to any other line item, upon approval of the State Investment Board, during the 2021-23 biennium.	
Information technology project exemption	Section 4 would provide an exemption to continue unspent prior biennium appropriations into the 2021-23 biennium related to an information technology project.	

# 2021 HOUSE STANDING COMMITTEE MINUTES

## Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1022  
2/9/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide an exemption.

09:33 **Chairman Vigesaa** brought the committee to order. Members present: Chairman Vigesaa, Vice Chairman Brandenburg, Representative Kempenich, Representative Howe, Representative Bellew, Representative Meier, Representative Mock.

### Discussion Topics:

- Base level changes
- Proposed amendments

09:33 **Representative Kempenich** explained the bill. Testimony #3129.

09:52 **Representative Kempenich** made a motion to adopt the amendments  
21.0281.01001.

09:52 **Representative Meier** seconded the motion.

09:55 Voice vote

09:55 Motion carried.

09:56 **Representative Kempenich** made a motion for a "Do Pass as Amended". 09:56

**Representative Meier** seconded the motion.

09:57 Roll call vote 6 Yeas 0 Nays 1 Absent

	<i>Representatives</i>	<b>Yes</b>	<b>No</b>
09:57 Motion carried.			
	<i>Chairman Vigesaa</i>	X	
	<i>Vice Chairman Brandenburg</i>	X	
	<i>Representative Kempenich</i>	X	
	<i>Representative Howe</i>	X	
	<i>Representative Meier</i>	X	
	<i>Representative Bellew</i>	X	
	<i>Representative Mock</i>	A	

09:57 **Chairman Vigesaa** closed the meeting.

*Sheri Lewis, Committee Clerk*

21.0281.01001  
Title.

Prepared by the Legislative Council staff for  
the House Appropriations - Government  
Operations Division Committee  
February 10, 2021

Fiscal No. 1

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1022

Page 1, replace lines 9 through 15 with:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$4,928,230	\$64,544	\$4,992,774
Operating expenses	888,934	429,220	1,318,154
Contingencies	<u>52,000</u>	<u>0</u>	<u>52,000</u>
Total special funds	\$5,869,164	\$493,764	\$6,362,928
Full-time equivalent positions	20.00	(1.00)	19.00"

Page 1, remove lines 21 through 23

Page 2, replace lines 1 and 2 with:

**"SECTION 3. EXEMPTION.** The amount of \$9,000,000 appropriated in section 1 of chapter 47 of the 2019 Session Laws for the pension administration system project is not subject to section 54-44.1-11 and any unexpended funds are available for completing the project during the biennium beginning July 1, 2021, and ending June 30, 2023."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1022 - Retirement and Investment Office - House Action**

	<u>Base Budget</u>	<u>House Changes</u>	<u>House Version</u>
Salaries and wages	\$4,928,230	\$64,544	\$4,992,774
Operating expenses	888,934	429,220	1,318,154
Contingencies	<u>52,000</u>		<u>52,000</u>
Total all funds	\$5,869,164	\$493,764	\$6,362,928
Less estimated income	<u>5,869,164</u>	<u>493,764</u>	<u>6,362,928</u>
General fund	\$0	\$0	\$0
FTE	20.00	(1.00)	19.00

**Department 190 - Retirement and Investment Office - Detail of House Changes**

	<u>Adjusts Funding for Base Payroll Changes<sup>1</sup></u>	<u>Adds Funding for Salary and Benefit Increases<sup>2</sup></u>	<u>Adds Funding for Salaries<sup>3</sup></u>	<u>Adds 1 FTE Public Information Officer Position<sup>4</sup></u>	<u>Transfers 2 FTE Positions for IT Unification<sup>5</sup></u>	<u>Decreases Funding for Operating Expenses<sup>6</sup></u>
Salaries and wages	\$185,639	\$98,220	\$11,225	\$210,000	(\$440,540)	
Operating expenses				15,000	449,031	(\$107,934)
Contingencies						
Total all funds	\$185,639	\$98,220	\$11,225	\$225,000	\$8,491	(\$107,934)
Less estimated income	<u>185,639</u>	<u>98,220</u>	<u>11,225</u>	<u>225,000</u>	<u>8,491</u>	<u>(107,934)</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	1.00	(2.00)	0.00

	Adds Funding for Desktop Support <sup>1</sup>	Increases Funding for Microsoft Office 365 Licensing Expenses <sup>8</sup>	Total House Changes
Salaries and wages			\$64,544
Operating expenses	\$70,920	\$2,203	429,220
Contingencies			
<b>Total all funds</b>	<b>\$70,920</b>	<b>\$2,203</b>	<b>\$493,764</b>
Less estimated income	70,920	2,203	493,764
General fund	\$0	\$0	\$0
<b>FTE</b>	<b>0.00</b>	<b>0.00</b>	<b>(1.00)</b>

<sup>1</sup> Funding is adjusted for base payroll changes.

<sup>2</sup> The following funding is added for 2021-23 biennium salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250 for both years, and increases in health insurance premiums from \$1,427 to \$1,429 per month:

	<u>Other Funds</u>
Salary increase	\$97,337
Health insurance increase	<u>883</u>
Total	\$98,220

<sup>3</sup> Funding is added for salaries and wages for cost to continue 2019-21 biennium salary equity increases.

<sup>4</sup> Funding and authorization are provided for 1 FTE public information officer position (\$210,000) and related operating expenses (\$15,000).

<sup>5</sup> Two FTE positions are transferred to the Information Technology Department for the IT unification project, reducing salaries and wages by \$440,540 and increasing operating expenses by \$449,031.

<sup>6</sup> Funding is decreased for operating expenses primarily related to information technology costs.

<sup>7</sup> Funding is added to pay for desktop support services from the Information Technology Department.

<sup>8</sup> Funding is increased for Microsoft Office 365 licensing expenses.

This amendment also adds a section to provide an exemption to allow funding for an information technology project to continue into the 2021-23 biennium.

**Retirement and Investment Office - Budget No. 190**  
**House Bill No. 1022**  
**Base Level Funding Changes**

	Executive Budget Recommendation				House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
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<b>One-time funding items</b>								
No one-time funding items				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
<b>Total Changes to Base Level Funding</b>	0.00	\$0	\$311,154	\$311,154	0.00	\$0	\$0	\$0
<b>2021-23 Total Funding</b>	20.00	\$0	\$6,180,318	\$6,180,318	20.00	\$0	\$5,869,164	\$5,869,164
<i>Total ongoing changes as a percentage of base level</i>	0.0%		5.3%	5.3%	0.0%		0.0%	0.0%
<i>Total changes as a percentage of base level</i>	0.0%		5.3%	5.3%	0.0%		0.0%	0.0%

**Other Sections in Retirement and Investment Office - Budget No. 190**

	Executive Budget Recommendation	House Version
Contingencies line item transfers	Section 3 would allow the Retirement and Investment Office to transfer from the contingencies line item to any other line item, upon approval of the State Investment Board, during the 2021-23 biennium.	
Information technology project exemption	Section 4 would provide an exemption to continue unspent prior biennium appropriations into the 2021-23 biennium related to an information technology project.	

# 2021 HOUSE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Brynhild Haugland Room, State Capitol

HB 1022  
2/16/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide an exemption.
--

**9:50 Chairman Delzer-** Opened the meeting for HB 1022;

<b>Representatives</b>	<b>P/A</b>
Representative Jeff Delzer	P
Representative Keith Kempenich	P
Representative Bert Anderson	P
Representative Larry Bellew	P
Representative Tracy Boe	P
Representative Mike Brandenburg	P
Representative Michael Howe	P
Representative Gary Kreidt	P
Representative Bob Martinson	P
Representative Lisa Meier	P
Representative Alisa Mitskog	P
Representative Corey Mock	P
Representative David Monson	P
Representative Mike Nathe	P
Representative Jon O. Nelson	P
Representative Mark Sanford	P
Representative Mike Schatz	P
Representative Jim Schmidt	P
Representative Randy A. Schobinger	P
Representative Michelle Strinden	P
Representative Don Vigesaa	P

## **Discussion Topics:**

- Amendment

**9:50 Representative Kempenich-** Explains the budget and amendment 21.0281.01001

**10:02 Representative Kempenich** Made a motion to adopt amendment

**Representative Howe** Second

Further discussion

**Voice Vote- Motion Carries**

**10:02 Representative Nathe-** Make a motion to further amend and strike the FTE and all related funding

**Representative Mitskog-** Second

Further discussion

**10:04 Roll call vote was taken;**

<b>Representatives</b>	<b>Vote</b>
Representative Jeff Delzer	Y
Representative Keith Kempenich	N
Representative Bert Anderson	N
Representative Larry Bellew	Y
Representative Tracy Boe	N
Representative Mike Brandenburg	N
Representative Michael Howe	N
Representative Gary Kreidt	Y
Representative Bob Martinson	Y
Representative Lisa Meier	N
Representative Alisa Mitskog	Y
Representative Corey Mock	N
Representative David Monson	Y
Representative Mike Nathe	Y
Representative Jon O. Nelson	N
Representative Mark Sanford	Y
Representative Mike Schatz	Y
Representative Jim Schmidt	Y
Representative Randy A. Schobinger	Y
Representative Michelle Strinden	N
Representative Don Vigesaa	N

**Motion Carries 11-10-0**

Further discussion

**Representative Monson Motion** to remove Unification

**Representative Mock** Second

**10:07 Voice Vote- Motion Carries**

**10:08 Representative Kempenich-** Makes a motion to Do Pass as Amended

**Representative Howe** Second's the motion

**Roll call vote was taken;**

<b>Representatives</b>	<b>Vote</b>
Representative Jeff Delzer	Y
Representative Keith Kempenich	Y
Representative Bert Anderson	Y
Representative Larry Bellew	Y
Representative Tracy Boe	Y
Representative Mike Brandenburg	Y
Representative Michael Howe	Y
Representative Gary Kreidt	Y
Representative Bob Martinson	Y
Representative Lisa Meier	Y
Representative Alisa Mitskog	Y
Representative Corey Mock	Y
Representative David Monson	Y
Representative Mike Nathe	Y
Representative Jon O. Nelson	Y
Representative Mark Sanford	Y
Representative Mike Schatz	Y
Representative Jim Schmidt	Y
Representative Randy A. Schobinger	Y
Representative Michelle Strinden	Y
Representative Don Vigesaa	Y

**Motion Carries 21-0-0 Representative Kempenich will carry the bill**

**Additional written testimony:** No Written Testimony

**10:10 Chairman Delzer-** Closes the meeting for HB 1022

*Risa Berube,*

*House Appropriations Committee Clerk*

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1022

Page 1, replace lines 9 through 15 with:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$4,928,230	\$64,544	\$4,992,774
Operating expenses	888,934	429,220	1,318,154
Contingencies	<u>52,000</u>	<u>0</u>	<u>52,000</u>
Total special funds	\$5,869,164	\$493,764	\$6,362,928
Full-time equivalent positions	20.00	(1.00)	19.00"

Page 1, remove lines 21 through 23

Page 2, replace lines 1 and 2 with:

**"SECTION 3. EXEMPTION.** The amount of \$9,000,000 appropriated in section 1 of chapter 47 of the 2019 Session Laws for the pension administration system project is not subject to section 54-44.1-11 and any unexpended funds are available for completing the project during the biennium beginning July 1, 2021, and ending June 30, 2023."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1022 - Retirement and Investment Office - House Action**

	Base Budget	House Changes	House Version
Salaries and wages	\$4,928,230	\$64,544	\$4,992,774
Operating expenses	888,934	429,220	1,318,154
Contingencies	<u>52,000</u>		<u>52,000</u>
Total all funds	\$5,869,164	\$493,764	\$6,362,928
Less estimated income	<u>5,869,164</u>	<u>493,764</u>	<u>6,362,928</u>
General fund	\$0	\$0	\$0
FTE	20.00	(1.00)	19.00

**Department 190 - Retirement and Investment Office - Detail of House Changes**

	Adjusts Funding for Base Payroll Changes <sup>1</sup>	Adds Funding for Salary and Benefit Increases <sup>2</sup>	Adds Funding for Salaries <sup>3</sup>	Adds 1 FTE Public Information Officer Position <sup>4</sup>	Transfers 2 FTE Positions for IT Unification <sup>5</sup>	Decreases Funding for Operating Expenses <sup>6</sup>
Salaries and wages	\$185,639	\$98,220	\$11,225	\$210,000	(\$440,540)	
Operating expenses				15,000	449,031	(\$107,934)
Contingencies						
Total all funds	\$185,639	\$98,220	\$11,225	\$225,000	\$8,491	(\$107,934)
Less estimated income	<u>185,639</u>	<u>98,220</u>	<u>11,225</u>	<u>225,000</u>	<u>8,491</u>	<u>(107,934)</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	1.00	(2.00)	0.00

	Adds Funding for Desktop Support <sup>2</sup>	Increases Funding for Microsoft Office 365 Licensing Expenses <sup>8</sup>	Total House Changes
Salaries and wages			\$64,544
Operating expenses	\$70,920	\$2,203	429,220
Contingencies			
<b>Total all funds</b>	<b>\$70,920</b>	<b>\$2,203</b>	<b>\$493,764</b>
Less estimated income	<u>70,920</u>	<u>2,203</u>	493,764
General fund	\$0	\$0	\$0
<b>FTE</b>	<b>0.00</b>	<b>0.00</b>	<b>(1.00)</b>

<sup>1</sup> Funding is adjusted for base payroll changes.

<sup>2</sup> The following funding is added for 2021-23 biennium salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250 for both years, and increases in health insurance premiums from \$1,427 to \$1,429 per month:

	<u>Other Funds</u>
Salary increase	\$97,337
Health insurance increase	883
Total	\$98,220

<sup>3</sup> Funding is added for salaries and wages for cost to continue 2019-21 biennium salary equity increases.

<sup>4</sup> Funding and authorization are provided for 1 FTE public information officer position (\$210,000) and related operating expenses (\$15,000).

<sup>5</sup> Two FTE positions are transferred to the Information Technology Department for the IT unification project, reducing salaries and wages by \$440,540 and increasing operating expenses by \$449,031.

<sup>6</sup> Funding is decreased for operating expenses primarily related to information technology costs.

<sup>7</sup> Funding is added to pay for desktop support services from the Information Technology Department.

<sup>8</sup> Funding is increased for Microsoft Office 365 licensing expenses.

This amendment also adds a section to provide an exemption to allow funding for an information technology project to continue into the 2021-23 biennium.

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PROPOSED AMENDMENTS TO HOUSE BILL NO. 1022

Page 1, replace lines 9 through 15 with:

"		<u>Adjustments or</u>	
	<u>Base Level</u>	<u>Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$4,928,230	\$303,575	\$5,231,805
Operating expenses	888,934	(34,811)	854,123
Contingencies	<u>52,000</u>	<u>0</u>	<u>52,000</u>
Total special funds	\$5,869,164	\$268,764	\$6,137,928
Full-time equivalent positions	20.00	0.00	20.00"

Page 1, remove lines 21 through 23

Page 2, replace lines 1 and 2 with:

**"SECTION 3. EXEMPTION.** The amount of \$9,000,000 appropriated in section 1 of chapter 47 of the 2019 Session Laws for the pension administration system project is not subject to section 54-44.1-11 and any unexpended funds are available for completing the project during the biennium beginning July 1, 2021, and ending June 30, 2023."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1022 - Retirement and Investment Office - House Action**

	Base Budget	House Changes	House Version
Salaries and wages	\$4,928,230	\$303,575	\$5,231,805
Operating expenses	888,934	(34,811)	854,123
Contingencies	<u>52,000</u>		<u>52,000</u>
Total all funds	\$5,869,164	\$268,764	\$6,137,928
Less estimated income	<u>5,869,164</u>	<u>268,764</u>	<u>6,137,928</u>
General fund	\$0	\$0	\$0
FTE	20.00	0.00	20.00

**Department 190 - Retirement and Investment Office - Detail of House Changes**

	Adjusts Funding for Base Payroll Changes <sup>1</sup>	Adds Funding for Salary and Benefit Increases <sup>2</sup>	Adds Funding for Salaries <sup>3</sup>	Decreases Funding for Operating Expenses <sup>4</sup>	Adds Funding for Desktop Support <sup>5</sup>	Increases Funding for Microsoft Office 365 Licensing Expenses <sup>6</sup>
Salaries and wages	\$185,639	\$106,711	\$11,225			
Operating expenses				(\$107,934)	\$70,920	\$2,203
Contingencies						
Total all funds	\$185,639	\$106,711	\$11,225	(\$107,934)	\$70,920	\$2,203
Less estimated income	<u>185,639</u>	<u>106,711</u>	<u>11,225</u>	<u>(107,934)</u>	<u>70,920</u>	<u>2,203</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00	0.00

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	<b>Total House Changes</b>
Salaries and wages	\$303,575
Operating expenses	(34,811)
Contingencies	
Total all funds	\$268,764
Less estimated income	268,764
General fund	\$0
FTE	0.00

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<sup>1</sup> Funding is adjusted for base payroll changes.

<sup>2</sup> The following funding is added for 2021-23 biennium salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250 for both years, and increases in health insurance premiums from \$1,427 to \$1,429 per month:

	<u>Other Funds</u>
Salary increase	\$105,730
Health insurance increase	981
Total	\$106,711

<sup>3</sup> Funding is added for salaries and wages for cost to continue 2019-21 biennium salary equity increases.

<sup>4</sup> Funding is decreased for operating expenses primarily related to information technology costs.

<sup>5</sup> Funding is added to pay for desktop support services from the Information Technology Department.

<sup>6</sup> Funding is increased for Microsoft Office 365 licensing expenses.

---

This amendment also adds a section to provide an exemption to allow funding for an information technology project to continue into the 2021-23 biennium.

**REPORT OF STANDING COMMITTEE**

**HB 1022: Appropriations Committee (Rep. Delzer, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (21 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1022 was placed on the Sixth order on the calendar.

Page 1, replace lines 9 through 15 with:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$4,928,230	\$303,575	\$5,231,805
Operating expenses	888,934	(34,811)	854,123
Contingencies	<u>52,000</u>	<u>0</u>	<u>52,000</u>
Total special funds	\$5,869,164	\$268,764	\$6,137,928
Full-time equivalent positions	20.00	0.00	20.00"

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ReNUMBER accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1022 - Retirement and Investment Office - House Action**

	Base Budget	House Changes	House Version
Salaries and wages	\$4,928,230	\$303,575	\$5,231,805
Operating expenses	888,934	(34,811)	854,123
Contingencies	<u>52,000</u>		<u>52,000</u>
Total all funds	\$5,869,164	\$268,764	\$6,137,928
Less estimated income	<u>5,869,164</u>	<u>268,764</u>	<u>6,137,928</u>
General fund	\$0	\$0	\$0
FTE	20.00	0.00	20.00

**Department 190 - Retirement and Investment Office - Detail of House Changes**

	Adjusts Funding for Base Payroll Changes <sup>1</sup>	Adds Funding for Salary and Benefit Increases <sup>2</sup>	Adds Funding for Salaries <sup>3</sup>	Decreases Funding for Operating Expenses <sup>4</sup>	Adds Funding for Desktop Support <sup>5</sup>	Increases Funding for Microsoft Office 365 Licensing Expenses <sup>6</sup>
Salaries and wages	\$185,639	\$106,711	\$11,225			
Operating expenses				(\$107,934)	\$70,920	\$2,203
Contingencies						
Total all funds	\$185,639	\$106,711	\$11,225	(\$107,934)	\$70,920	\$2,203
Less estimated income	<u>185,639</u>	<u>106,711</u>	<u>11,225</u>	<u>(107,934)</u>	<u>70,920</u>	<u>2,203</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00	0.00

Salaries and wages  
 Operating expenses  
 Contingencies  
  
 Total all funds  
 Less estimated income  
 General fund  
  
 FTE

<b>Total House Changes</b>	
	\$303,575
	(34,811)
	\$268,764
	268,764
	\$0
	0.00

<sup>1</sup> Funding is adjusted for base payroll changes.

<sup>2</sup> The following funding is added for 2021-23 biennium salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250 for both years, and increases in health insurance premiums from \$1,427 to \$1,429 per month:

	<u>Other Funds</u>
Salary increase	\$105,730
Health insurance increase	981
Total	\$106,711

<sup>3</sup> Funding is added for salaries and wages for cost to continue 2019-21 biennium salary equity increases.

<sup>4</sup> Funding is decreased for operating expenses primarily related to information technology costs.

<sup>5</sup> Funding is added to pay for desktop support services from the Information Technology Department.

<sup>6</sup> Funding is increased for Microsoft Office 365 licensing expenses.

This amendment also adds a section to provide an exemption to allow funding for an information technology project to continue into the 2021-23 biennium.

# 2021 HOUSE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Brynhild Haugland Room, State Capitol

HB1022  
2/23/2021

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide an exemption.
--

**7:16 pm Chairman Delzer-** Opened the meeting for HB 1022 for reconsideration;

<b>Attendance</b>	<b>P/A</b>
Representative Jeff Delzer	P
Representative Keith Kempenich	P
Representative Bert Anderson	P
Representative Larry Bellew	P
Representative Tracy Boe	P
Representative Mike Brandenburg	P
Representative Michael Howe	P
Representative Gary Kreidt	P
Representative Bob Martinson	P
Representative Lisa Meier	P
Representative Alisa Mitskog	P
Representative Corey Mock	P
Representative David Monson	P
Representative Mike Nathe	P
Representative Jon O. Nelson	P
Representative Mark Sanford	P
Representative Mike Schatz	P
Representative Jim Schmidt	P
Representative Randy A. Schobinger	P
Representative Michelle Strinden	P
Representative Don Vigesaa	P

## **Discussion Topics:**

- Reconsideration
- Amendment

**Representative Kempenich** Makes a motion to reconsider HB 1022

**Representative Mock** Second

**Voice Vote-Motion carries**

**7:16 Representative Kempenich** Explains the amendment 21.0281.02001

**7:17 Representative Kempenich** Makes a motion to adopt the amendment

**Representative Meier** Second

**Voice Vote- Motion Caries**

**7:18 Representative Kempenich** Makes a motion for a Do Pass Amended

**Representative Brandenburg** Second

**Roll Call Vote was taken;**

<b>Representatives</b>	<b>Vote</b>
Representative Jeff Delzer	Y
Representative Keith Kempenich	Y
Representative Bert Anderson	Y
Representative Larry Bellew	Y
Representative Tracy Boe	Y
Representative Mike Brandenburg	Y
Representative Michael Howe	Y
Representative Gary Kreidt	Y
Representative Bob Martinson	Y
Representative Lisa Meier	Y
Representative Alisa Mitskog	Y
Representative Corey Mock	Y
Representative David Monson	Y
Representative Mike Nathe	Y
Representative Jon O. Nelson	Y
Representative Mark Sanford	Y
Representative Mike Schatz	Y
Representative Jim Schmidt	Y
Representative Randy A. Schobinger	Y
Representative Michelle Strinden	Y
Representative Don Vigesaa	Y

**Motion Carries 21-0-0 Representative Kempenich will carry the bill**

**Additional written testimony:** No written Testimony

**7:18 Chairman Delzer-** Closes the meeting for HB 1022

*Risa Berube,*

*House Appropriations Committee Clerk*

of  
 2/23/21

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1022

Page 1, replace line 12 with:

"Operating expenses 888,934 (105,731) 783,203"

Page 1, replace line 14 with:

"Total special funds \$5,869,164 \$197,844 \$6,067,008"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1022 - Retirement and Investment Office - House Action**

	Base Budget	House Changes	House Version
Salaries and wages	\$4,928,230	\$303,575	\$5,231,805
Operating expenses	888,934	(105,731)	783,203
Contingencies	52,000		52,000
Total all funds	\$5,869,164	\$197,844	\$6,067,008
Less estimated income	5,869,164	197,844	6,067,008
General fund	\$0	\$0	\$0
FTE	20.00	0.00	20.00

**Department 190 - Retirement and Investment Office - Detail of House Changes**

	Adjusts Funding for Base Payroll Changes <sup>1</sup>	Adds Funding for Salary and Benefit Increases <sup>2</sup>	Adds Funding for Salaries <sup>3</sup>	Decreases Funding for Operating Expenses <sup>4</sup>	Increases Funding for Microsoft Office 365 Licensing Expenses <sup>5</sup>	Total House Changes
Salaries and wages	\$185,639	\$106,711	\$11,225			\$303,575
Operating expenses				(\$107,934)	\$2,203	(105,731)
Contingencies						
Total all funds	\$185,639	\$106,711	\$11,225	(\$107,934)	\$2,203	\$197,844
Less estimated income	185,639	106,711	11,225	(107,934)	2,203	197,844
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00	0.00

<sup>1</sup> Funding is adjusted for base payroll changes.

<sup>2</sup> The following funding is added for 2021-23 biennium salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250 for both years, and increases in health insurance premiums from \$1,427 to \$1,429 per month:

<b>Other Funds</b>	
Salary increase	\$105,730
Health insurance increase	981
Total	\$106,711

<sup>3</sup> Funding is added for salaries and wages for cost to continue 2019-21 biennium salary equity increases.

<sup>4</sup> Funding is decreased for operating expenses primarily related to information technology costs.

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2/23/21

<sup>5</sup> Funding is increased for Microsoft Office 365 licensing expenses.

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This amendment also adds a section to provide an exemption to allow funding for an information technology project to continue into the 2021-23 biennium.

**REPORT OF STANDING COMMITTEE**

**HB 1022, as engrossed: Appropriations Committee (Rep. Delzer, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (21 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1022 was placed on the Sixth order on the calendar.

Page 1, replace line 12 with:

"Operating expenses 888,934 (105,731) 783,203"

Page 1, replace line 14 with:

"Total special funds \$5,869,164 \$197,844 \$6,067,008"

ReNUMBER accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1022 - Retirement and Investment Office - House Action**

	Base Budget	House Changes	House Version
Salaries and wages	\$4,928,230	\$303,575	\$5,231,805
Operating expenses	888,934	(105,731)	783,203
Contingencies	52,000		52,000
<b>Total all funds</b>	<b>\$5,869,164</b>	<b>\$197,844</b>	<b>\$6,067,008</b>
Less estimated income	5,869,164	197,844	6,067,008
General fund	\$0	\$0	\$0
FTE	20.00	0.00	20.00

**Department 190 - Retirement and Investment Office - Detail of House Changes**

	Adjusts Funding for Base Payroll Changes <sup>1</sup>	Adds Funding for Salary and Benefit Increases <sup>2</sup>	Adds Funding for Salaries <sup>3</sup>	Decreases Funding for Operating Expenses <sup>4</sup>	Increases Funding for Microsoft Office 365 Licensing Expenses <sup>5</sup>	Total House Changes
Salaries and wages	\$185,639	\$106,711	\$11,225			\$303,575
Operating expenses				(\$107,934)	\$2,203	(105,731)
Contingencies						
<b>Total all funds</b>	<b>\$185,639</b>	<b>\$106,711</b>	<b>\$11,225</b>	<b>(\$107,934)</b>	<b>\$2,203</b>	<b>\$197,844</b>
Less estimated income	185,639	106,711	11,225	(107,934)	2,203	197,844
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00	0.00

<sup>1</sup> Funding is adjusted for base payroll changes.

<sup>2</sup> The following funding is added for 2021-23 biennium salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250 for both years, and increases in health insurance premiums from \$1,427 to \$1,429 per month:

<u>Other Funds</u>	
Salary increase	\$105,730
Health insurance increase	981
Total	\$106,711

<sup>3</sup> Funding is added for salaries and wages for cost to continue 2019-21 biennium salary equity increases.

<sup>4</sup> Funding is decreased for operating expenses primarily related to information technology costs.

<sup>5</sup> Funding is increased for Microsoft Office 365 licensing expenses.

This amendment also adds a section to provide an exemption to allow funding for an information technology project to continue into the 2021-23 biennium.

**2021 SENATE APPROPRIATIONS**

**HB 1022**

**Department 190 - Retirement and Investment Office  
House Bill No. 1022**

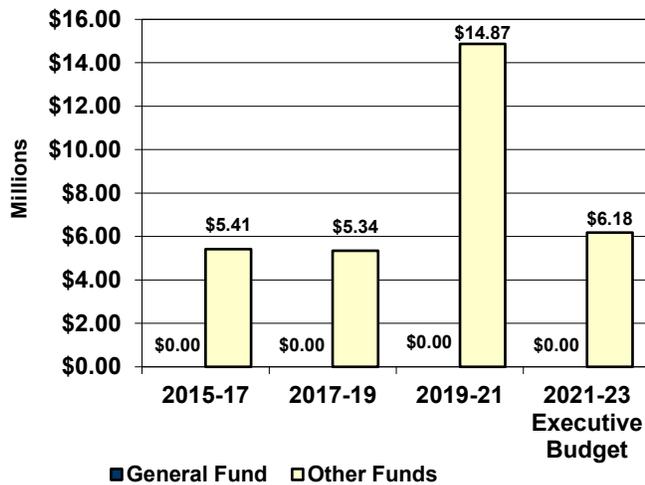
**Executive Budget Comparison to Prior Biennium Appropriations**

	FTE Positions	General Fund	Other Funds	Total
2021-23 Executive Budget	20.00	\$0	\$6,180,318	\$6,180,318
2019-21 Legislative Appropriations	20.00	0	14,869,164	14,869,164
Increase (Decrease)	000	\$0	(\$8,688,846)	(\$8,688,846)

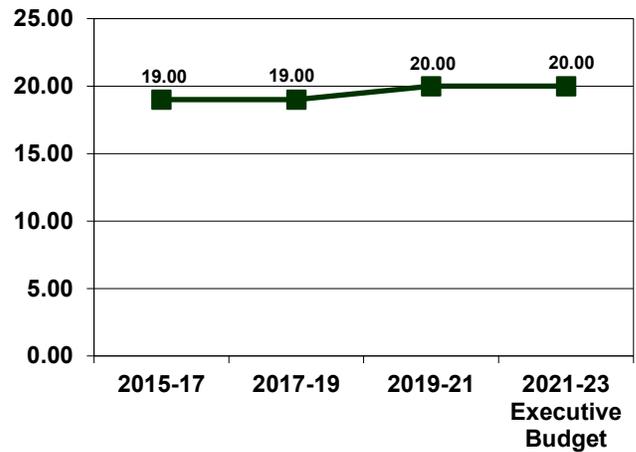
**Ongoing and One-Time Other Funds Appropriations**

	Ongoing Other Funds Appropriation	One-Time Other Funds Appropriation	Total Other Funds Appropriation
2021-23 Executive Budget	\$6,180,318	\$0	\$6,180,318
2019-21 Legislative Appropriations	5,869,164	9,000,000	14,869,164
Increase (Decrease)	\$311,154	(\$9,000,000)	(\$8,688,846)

**Agency Funding**



**FTE Positions**



**Executive Budget Comparison to Base Level**

	General Fund	Other Funds	Total
2021-23 Executive Budget	\$0	\$6,180,318	\$6,180,318
2021-23 Base Level	0	5,869,164	5,869,164
Increase (Decrease)	\$0	\$311,154	\$311,154

**First House Action**

Attached is a comparison worksheet detailing first house changes to base level funding and the executive budget.

**Executive Budget Highlights  
(With First House Changes in Bold)**

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases, of which \$131,891 is for salary increases, \$981 is for health insurance increases, and \$27,454 is for retirement increases. <b>The House added funding for salary adjustments of 1.5 percent per year with a \$100 minimum and \$250 maximum monthly increase and increases in health insurance premiums from \$1,427 to \$1,429 per month. The House did not add funding for retirement contribution increases.</b>	\$0	\$160,326	\$160,326
2. Decreases funding for operating expenses primarily related to information technology costs.	\$0	(\$107,934)	(\$107,934)
3. Adds funding for desktop support. <b>The House did not add funding for desktop support.</b>	\$0	\$70,920	\$70,920

4. Increases funding for Microsoft Office 365 license expenses.	\$0	\$2,203	\$2,203
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**Other Sections in House Bill No. 1022**

**Information technology project exemption** - Section 3 provides an exemption for a pension administration information technology project to continue any unexpended 2019-21 biennium funds for this project into the 2021-23 biennium.

**Continuing Appropriations**

**Investment expenses** - North Dakota Century Code Section 21-10-06.2 - Investment management, custody, consulting, income offset, and due diligence/education costs.

**Benefits and refunds** - Section 15-39.1-05.2 - Benefits and refunds from the Teachers' Fund for Retirement.

**Administrative charges** - Section 15-39.1-05.2 - Income offset and Teachers' Fund for Retirement consulting costs.

**Significant Audit Findings**

The audit for the Retirement and Investment Office conducted by CliftonLarsonAllen LLP, Certified Public Accountants, for the period ending June 30, 2020, did not identify any significant audit findings.

The schedule of employer allocations and pension amounts by employer prepared for the Retirement and Investment Office and audited by CliftonLarsonAllen LLP, for the period ending June 30, 2019, did not identify any significant audit findings.

**Major Related Legislation**

**House Bill No. 1380** - Establishes a percent of market value method for determining the amount of legacy fund earnings available to be spent each biennium and creates a legacy earnings fund.

**House Bill No. 1425** - Requires the Legacy and Budget Stabilization Fund Advisory Board to establish an asset allocation plan for the legacy fund, which includes debt and equity investments within the state, and provides an exemption from the prudent investor rule to require the State Investment Board to give preference to qualified in-state investment firms and financial institutions.

**Retirement and Investment Office - Budget No. 190**  
**House Bill No. 1022**  
**Base Level Funding Changes**

	Executive Budget Recommendation				House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
<b>2021-23 Biennium Base Level</b>	20.00	\$0	\$5,869,164	\$5,869,164	20.00	\$0	\$5,869,164	\$5,869,164
<b>2021-23 Ongoing Funding Changes</b>								
Base payroll changes			\$185,639	\$185,639			\$185,639	\$185,639
Salary increase			131,891	131,891			105,730	105,730
Retirement contribution increase			27,454	27,454				0
Health insurance increase			981	981			981	981
Adds funding to continue salary equity increases				0			11,225	11,225
Decreases funding for operating expenses			(107,934)	(107,934)			(107,934)	(107,934)
Adds funding for desktop support			70,920	70,920				0
Increases funding for Microsoft Office 365 licensing expenses			2,203	2,203			2,203	2,203
Total ongoing funding changes	0.00	\$0	\$311,154	\$311,154	0.00	\$0	\$197,844	\$197,844
<b>One-time funding items</b>								
No one-time funding items				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
<b>Total Changes to Base Level Funding</b>	0.00	\$0	\$311,154	\$311,154	0.00	\$0	\$197,844	\$197,844
<b>2021-23 Total Funding</b>	20.00	\$0	\$6,180,318	\$6,180,318	20.00	\$0	\$6,067,008	\$6,067,008
<i>Total ongoing changes as a percentage of base level</i>	0.0%		5.3%	5.3%	0.0%		3.4%	3.4%
<i>Total changes as a percentage of base level</i>	0.0%		5.3%	5.3%	0.0%		3.4%	3.4%

**Other Sections in Retirement and Investment Office - Budget No. 190**

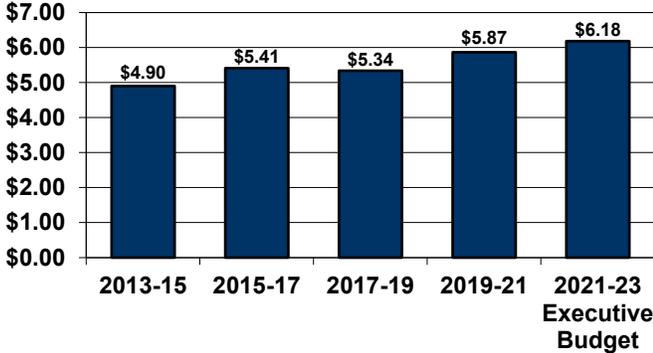
	Executive Budget Recommendation	House Version
Contingencies line item transfers	Section 3 would allow the Retirement and Investment Office to transfer from the contingencies line item to any other line item, upon approval of the State Investment Board, during the 2021-23 biennium.	
Information technology project exemption	Section 4 would provide an exemption to continue unspent prior biennium appropriations into the 2021-23 biennium related to an information technology project.	Section 3 provides an exemption to continue unspent prior biennium appropriations into the 2021-23 biennium related to an information technology project.

Department 190 - Retirement and Investment Office

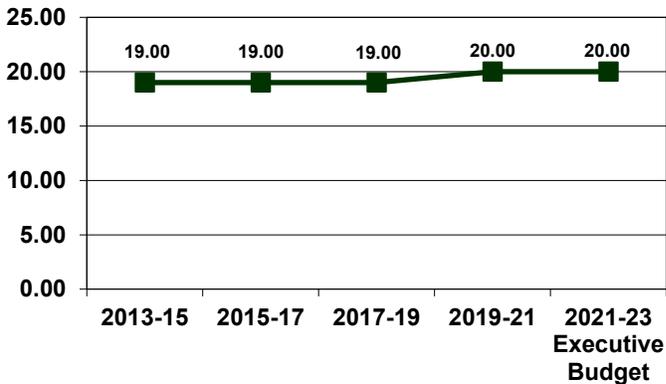
# Historical Appropriations Information

## Ongoing Total Fund Appropriations Since 2013-15

Agency Funding (in Millions)



FTE Positions



Ongoing Total Funds Appropriations					
	2013-15	2015-17	2017-19	2019-21	2021-23 Executive Budget
Ongoing total fund appropriations	\$4,899,369	\$5,413,425	\$5,340,054	\$5,869,164	\$6,180,318
Increase (decrease) from previous biennium	N/A	\$514,056	(\$73,371)	\$529,110	\$311,154
Percentage increase (decrease) from previous biennium	N/A	10.5%	(1.4%)	9.9%	5.3%
Cumulative percentage increase (decrease) from 2013-15 biennium	N/A	10.5%	9.0%	19.8%	26.1%

### Major Increases (Decreases) in Ongoing Total Fund Appropriations

**2015-17 Biennium**

- 1. No major changes

**2017-19 Biennium**

- 1. Adjusted funding for operating expenses (\$128,390)
- 2. Reduced contingency funding to \$52,000 (\$30,000)

**2019-21 Biennium**

- 1. Added 1 FTE investment analyst position (\$294,996) and related operating expenses (\$14,450) \$309,446
- 2. Added funding for Microsoft Office 365 license expenses \$12,000

**2021-23 Biennium (Executive Budget Recommendation)**

- 1. Decreases funding for operating expenses primarily related to information technology costs. (\$107,934)
- 2. Adds funding for desktop support. **The House did not add funding for desktop support.** \$70,920
- 3. Increases funding for Microsoft Office 365 license expenses. \$2,203

**GOVERNOR'S RECOMMENDATION FOR THE  
RETIREMENT AND INVESTMENT OFFICE AS SUBMITTED  
BY THE OFFICE OF MANAGEMENT AND BUDGET**

**SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys from special funds derived from income for the purpose of defraying their expenses, for the biennium beginning July 1, 2021, and ending June 30, 2023, as follows:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and Wages	\$4,928,230	\$345,965	\$5,274,195
Operating Expenses	888,934	(34,811)	854,123
Contingencies	<u>52,000</u>	<u>0</u>	<u>52,000</u>
Total All Funds	\$5,869,164	\$311,154	\$6,180,318
Less Estimated Income	<u>5,869,164</u>	<u>311,154</u>	<u>6,180,318</u>
Total General Fund	\$ 0	\$ 0	\$ 0
Full-time Equivalent Positions	20.00	0.00	20.00

**SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET.** The following amounts reflect the one-time funding items approved by the sixty-sixth legislative assembly for the 2019-21 biennium:

<u>One-Time Funding Description</u>	<u>2019-21</u>	<u>2021-23</u>
TFFR Pension Administration System	<u>\$9,000,000</u>	\$ 0
Total Special Funds	\$9,000,000	\$ 0

**SECTION 3. APPROPRIATION LINE ITEM TRANSFERS.** Upon approval of the state investment board, the retirement and investment office may transfer from their contingency line item in section 1 of this Act to all other line items. The agency shall notify the office of management and budget of each transfer made pursuant to this section.

**SECTION 4. EXEMPTION.** The amount appropriated in section 1 of chapter 47 of the 2019 session laws for the pension administration system project is not subject to section 54-44.1-11 and any unexpended funds are available for completing the project during the biennium beginning July 1, 2021 and ending June 30, 2023.

# 2021 SENATE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Roughrider Room, State Capitol

HB 1022  
3/17/2021  
Senate Appropriations Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office.
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**Senator Holmberg** opened the hearing at 2:32 PM.

Senators present: **Holmberg, Krebsbach, Wanzek, Bekkedahl, Poolman, Erbele, Dever, Oehlke, Rust, Davison, Hogue, Sorvaag, Mathern, and Heckaman.**

**Discussion Topics:**

- Pension Pool Participants
- Performance Benchmarks
- Cyber Security risks

**David Hunter, Executive Director, Retirement and Investment Office** – testified in favor and submitted testimony #9605 and #9604.

**Connie Flanagan, CFO, Retirement and Investment Office** – testified and answered subcommittee questions.

**Jan Murtha, Deputy Executive Director and Chief Retirement Officer** – testified in favor and continued with testimony #9605.

**Senator Krebsbach** closed the hearing at 3:08 PM.

*Rose Laning, Committee Clerk*

## Re-engrossed House Bill 1022

**North Dakota Retirement and Investment Office (RIO)**  
**Testimony before the Senate Appropriations Committee**  
**David Hunter, Executive Director/CIO**  
**Janilyn Murtha, Deputy Executive Director/Chief Retirement Officer**  
**Darren Schulz, Deputy Chief Investment Officer**  
**Connie Flanagan, Chief Financial Officer**

March 17, 2021

### I. RIO Programs & House Action Impact Overview

The Retirement and Investment Office (hereinafter “RIO”) was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the **State Investment Board (SIB)** and the retirement program of the **Teachers’ Fund for Retirement (TFFR)**. Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR). RIO is a Special Fund agency and receives no General Fund appropriation. All expenditures for the SIB are allocated directly to the client funds and paid out of their invested assets/earnings. All expenditures for the TFFR program are paid from contributions collected from members and employers and from invested assets/earnings.

RIO has received no financial audit findings in the past 20+ years. The agency is currently authorized for 20 FTEs and there are no vacant positions. An organizational chart is attached to this presentation.

The following summarizes the impact to agency operations resulting from House action on HB 1022; and which will be discussed in greater detail throughout our presentation:

Request	House Action	Impact
PAS Project Carryover	Approved	Continuation of Project from 2019-2021 biennium.
PIO FTE Request	Removed	RIO has no current FTE dedicated to strategic communication for either program. PIO recommended by consultant as part of PAS review and is needed for in-state investment initiative.
IT Unification	Removed	RIO approved for unification by NDIT in December 2020; third party cyber security assessment in February 2021 supports benefits of unification; anticipate budget neutral impact. <u>Without</u> unification need to add \$70K in Desktop support <u>or</u> \$45K in replacement equipment cost without desktop support.
Increase Contingency Fee from \$52K to \$125K.	Removed	RIO is exploring moving the agency to a state owned building reflecting a savings of more than \$50K per biennium. Moving costs

		are estimated at approximately \$46K, however, the cap on contingency funds leaves no room for error. Request increased contingency funding to facilitate option to move.
HB 1425 Fiscal Note Impact	House passed HB 1425 but did not amend HB 1022 to include fiscal note.	1 additional FTE for an investment analyst position to facilitate an in-state investment initiative.

## II. State Investment Board (SIB)

The SIB is responsible for investment of nearly \$18.5 billion in assets for the Legacy Fund, seven pension funds and 19 other non-pension funds. The following table shows the most currently available fair value of assets by fund.

	<b>Fair Value 01/31/21</b>
<b>PENSION POOL PARTICIPANTS</b>	
Teachers' Fund for Retirement	\$2,956,324,106
Public Employees Retirement System	3,669,732,777
Bismarck City Employee Pension Fund	118,490,380
Bismarck City Police Pension Fund	47,512,530
City of Grand Forks Pension Fund	73,503,177
Grand Forks Park District Pension Fund	8,512,899
Subtotal Pension Pool Participants	6,874,075,870
<b>INSURANCE POOL PARTICIPANTS</b>	
Workforce Safety & Insurance Fund	2,247,955,963
State Fire and Tornado Fund	24,563,155
State Bonding Fund	3,851,775
Petroleum Tank Release Fund	6,265,155
Insurance Regulatory Trust Fund	1,181,325
State Risk Management Fund	4,189,959
State Risk Management Workers Comp	4,072,205
Cultural Endowment Fund	565,038
Budget Stabilization Fund	749,904,605
ND Assoc. of Counties (NDACo) Fund	7,382,806
City of Bismarck Deferred Sick Leave	812,332
PERS Group Insurance	37,035,446
State Board of Medicine	2,679,352
City of Fargo FargoDome Permanent Func	47,673,720
Lewis & Clark Interpretive Center Endowm	875,381
Attorney General Settlement Fund	1,004,186
Veterans' Cemetery Trust Fund	355,932
Subtotal Insurance Pool Participants	3,140,368,335
<b>INDIVIDUAL INVESTMENT ACCOUNTS</b>	
Legacy Fund	8,166,501,207
Retiree Health Insurance Credit Fund	166,859,515
Job Service of North Dakota Pension Func	96,161,250
Tobacco Prevention and Control Trust Fun	1,594,148
<b>TOTAL AUM</b>	<b>\$18,445,560,326</b>

SIB members include: Lt. Governor, State Treasurer, State Insurance Commissioner, State Land Commissioner, Workforce Safety & Insurance designee, three PERS board members, and three TFFR board members as voting members; and the Legacy and Budget Stabilization Fund Advisory Board Chair serves as a non-voting member. **All the funds are invested in accordance with the “Prudent Investor Rule” under N.D.C.C. 21-10-07.**

**Investment guidelines and asset allocations are established by the governing bodies of the individual funds, with assistance from consultants and/or RIO staff, and subject to review and approval by the SIB prior to implementation.** The SIB selects investment managers to manage different types of portfolios within each asset class with the goal of maximizing return within the clients’ acceptable risk levels. Similar client funds are pooled together when possible to receive lower fees and better terms from investment managers and achieve efficiencies in staff monitoring.

### **A. SIB Investment Expenses:**

The SIB investment program appropriated expenses include salaries, benefits and administrative overhead for the management of the day-to-day operations of the program.

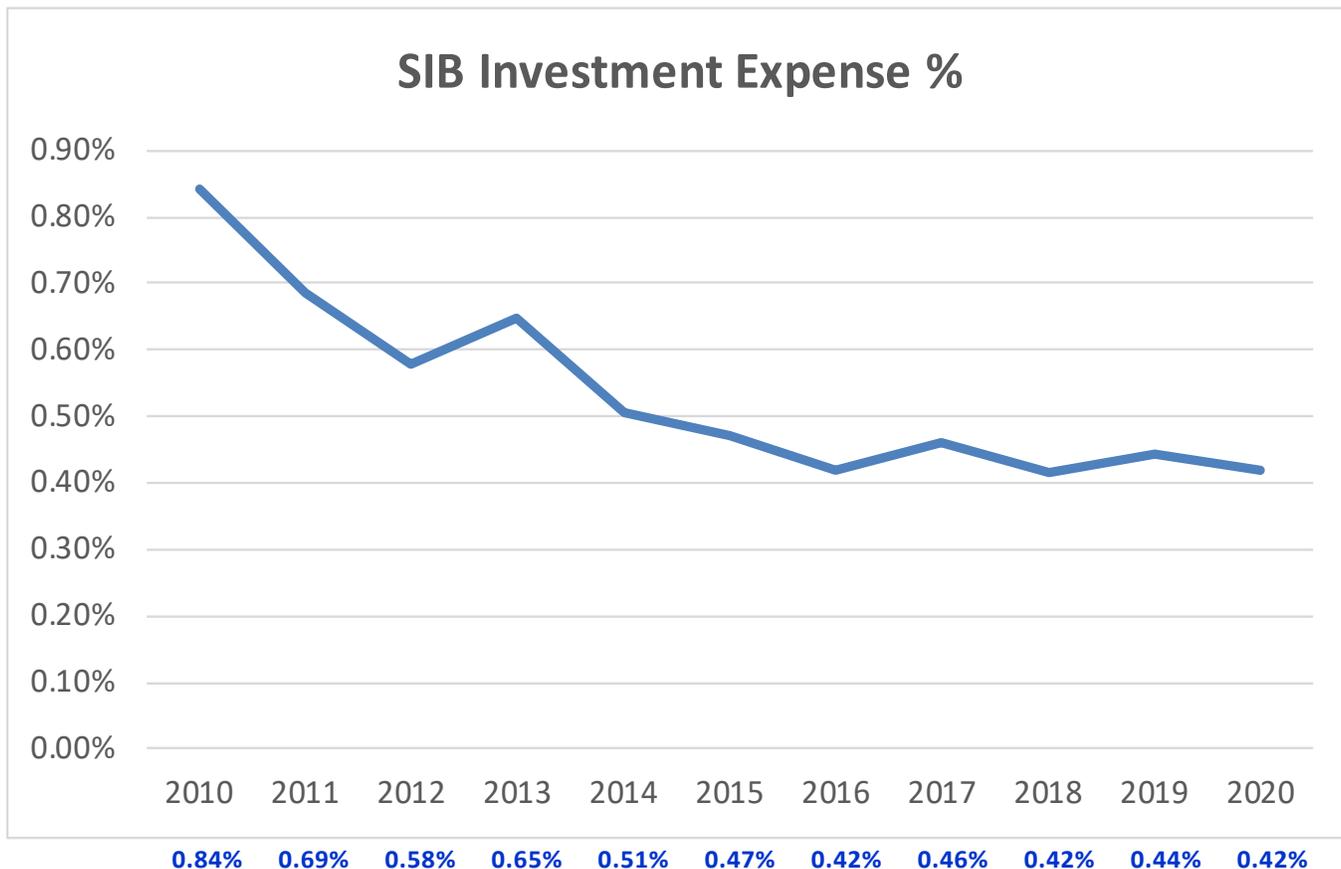
The staff of RIO/SIB administers the day-to-day operations of the investment program by assisting client funds with asset/liability studies; conducting investment manager searches; monitoring guidelines and asset allocations of each client fund; managing the consultant, custodian and investment manager relationships; conducting initial and continuing due diligence on the investment managers; researching new investment and risk management options; and maintaining separate monthly accounting and investment performance data for all 27 client funds. Statistics regarding the number of investment clients/managers/accounts, etc., are shown in the following table.

Client Funds	27
Asset Class Pools/Groups	34
Investment Manager Relationships	40
Investment Strategies	77
Investment Manager Accounts	121
Custodian Banks	2
Investment Consultants	3

The SIB has continuing appropriation authority under ND Century Code section 21-10-06.2 to pay for investment related costs of the program such as investment management fees, custodial fees, performance measurement fees, and fees associated with manager searches and onsite reviews of investment managers. These costs are allocated directly to the client funds affected by the expense and paid out of invested assets/earnings.

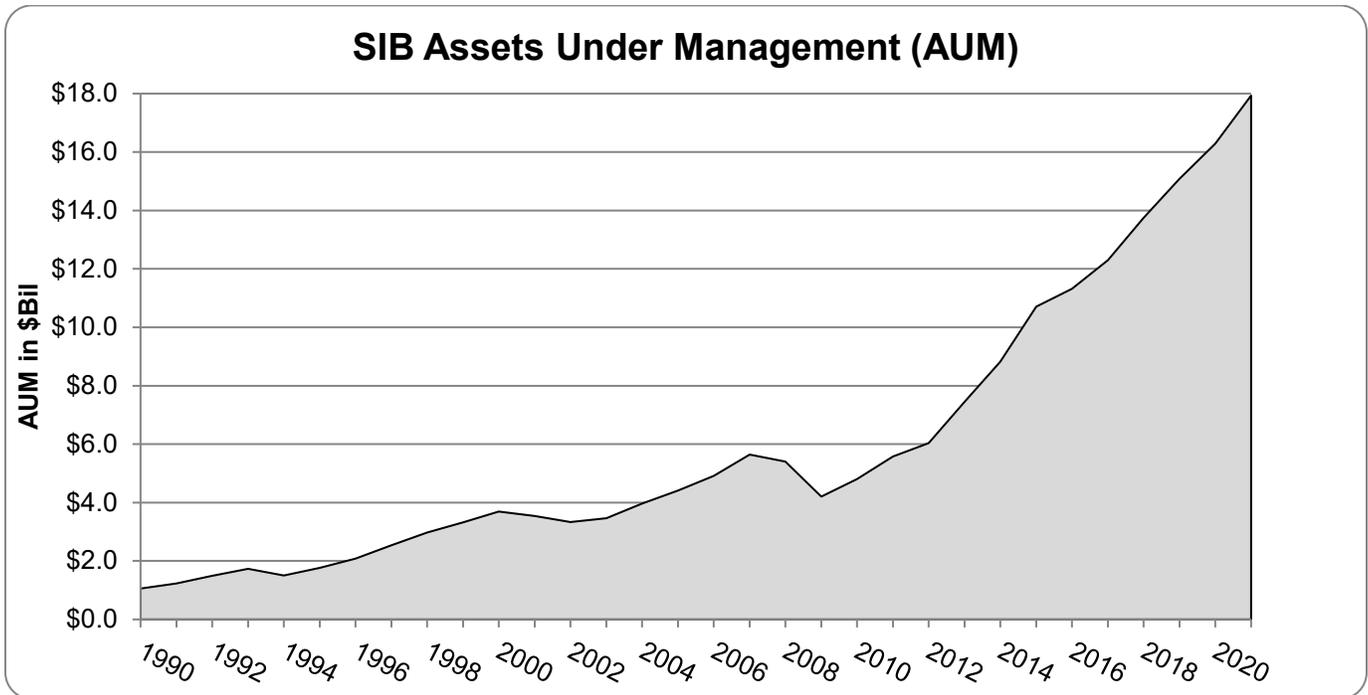
The SIB’s prudent use of **active investment management has generated over \$300 million of incremental income for our clients in the last 5-years including over \$150 million of above benchmark returns for the Legacy Fund.** As example, the Legacy Fund earned a net investment return of 9.25% for the 5-years ended 12/31/2020, which exceeded the Policy Benchmark of 8.60% by 0.65%. Based on Legacy Fund balances averaging over \$5 billion the last 5-years, the 0.65% of “Excess Return” translates into \$162.5 million of incremental income since 2016 (e.g. average Legacy Fund balance of \$5 billion x 0.65% of Excess Return the last 5 years = \$32.5 million of incremental income per year x 5 years = \$162.5 million). **A keen focus on reducing investment fees and expenses has been a major factor in generating this incremental income for all of our SIB clients.**

In recent years, the SIB and RIO have re-intensified efforts to improve our overall return on investment expenses through review and negotiation of investment management agreements. As a result, SIB client investment expenses have declined from 0.65% in fiscal 2013 to less than 0.45% in fiscal 2020; while assets under management have grown from \$5 billion in 2010 to over \$18 billion in 2020. This 0.20% decrease in expenses on \$12 billion in average investment balances equates to \$24 million in annual savings (e.g. \$12 billion x 0.20% lower fees = \$24 million of fee savings per year). The following chart shows the downward trend in investment expenses over the last decade.



## B. SIB Assets Under Management (AUM):

SIB investments have grown from less than \$5 billion in 2010 to over \$18 billion in 2021. North Dakota's Legacy Fund was initially funded in 2011 and approximates \$8.2 billion at 01/31/2021.



## C. SIB Client Investment Performance

**Over 99% of our SIB clients generated net investment returns which exceeded their approved policy benchmarks for the 5 years ended 12/31/2020 including Legacy Fund, PERS, TFFR, WSI and Budget Stabilization Fund.** As example, Legacy Fund earned 9.25% for the 5 years ended 12/31/2020, exceeding the Policy Benchmark Return by 0.65%. As previously discussed, the SIB use of active management created \$162.5 million of incremental income for Legacy for the 5-years ended 12/31/2020 (e.g. a 5-year average balance of over \$5 billion x 0.65% of Excess Return = \$32.5 million/year x 5 years = \$162.5 million).

The prudent use of active investment management also improved PERS and TFFR combined returns by \$110 million for the 5 years ended 12/31/2020 (e.g. a 5-year average combined balance of over \$5 billion x 0.45% = \$22.5 million/year x 5 years = \$112.5 million). The SIB Pension Pool has also performed well when compared with other U.S. public pension funds. The SIB Pension Pool, which includes PERS and TFFR, was ranked in the top third of Callan's Public Fund Sponsor Database for the 5-years ended 12/31/2020, with a net return of 9.71% exceeding its policy benchmark of 9.26% by 0.45% and long-term actuarial return assumptions of 7% for PERS and 7.25% for TFFR.

SIB client investments were adversely impacted by the major market downturn driven by the global pandemic in the first quarter of 2020, but fully recovered in subsequent months by rebalancing our client portfolios in the second quarter. **As a result of the SIB maintaining a consistent and disciplined investment approach during these challenging times, the vast majority of our SIB client actual investment returns exceed their policy benchmarks for the 1, 5 and (9 or) 10-years ended 12/31/2020, including the Legacy Fund, PERS, TFFR, WSI and Budget Stabilization Fund.**

SIB Five Largest Clients (AUM as of 12/31/2020)	Current FYTD 12/31/2020	1 Yr Ended 12/31/2020	5 Yrs Ended 12/31/2020	10 Yrs Ended 12/31/2020
<b>Legacy Fund \$8.16 billion</b>				Since 10/1/2011
Total Fund Return - Net	14.37%	12.22%	9.25%	6.03%
Policy Benchmark Return	13.32%	12.08%	8.60%	5.28%
Excess Return	1.06%	0.14%	0.65%	0.75%
<b>PERS \$3.67 billion</b>				
Total Fund Return - Net	15.10%	12.19%	9.77%	8.34%
Policy Benchmark Return	14.52%	11.96%	9.27%	7.88%
Excess Return	0.58%	0.23%	0.50%	0.46%
<b>TFFR \$2.955 billion</b>				
Total Fund Return - Net	14.86%	12.07%	9.69%	8.29%
Policy Benchmark Return	14.66%	12.00%	9.24%	7.72%
Excess Return	0.20%	0.07%	0.45%	0.57%
<b>WSI \$2.263 billion</b>				
Total Fund Return - Net	8.16%	9.85%	7.84%	7.29%
Policy Benchmark Return	6.61%	9.54%	6.65%	5.90%
Excess Return	1.54%	0.31%	1.20%	1.39%
<b>BSF \$747 million</b>				
Total Fund Return - Net	2.80%	3.45%	2.53%	2.15%
Policy Benchmark Return	0.35%	3.22%	2.14%	1.29%
Excess Return	2.45%	0.23%	0.39%	0.86%

#### D. SIB Program Goals:

The SIB and RIO work to keep investment expenses at or below 0.50% per year, while seeking to identify investment firms which beat their performance benchmarks by 0.50% or more over the long term after all fees and expenses. If we are successful in attaining both of the above goals, our SIB clients are effectively earning a minimum 2-for-1 return on our investment expense dollars.

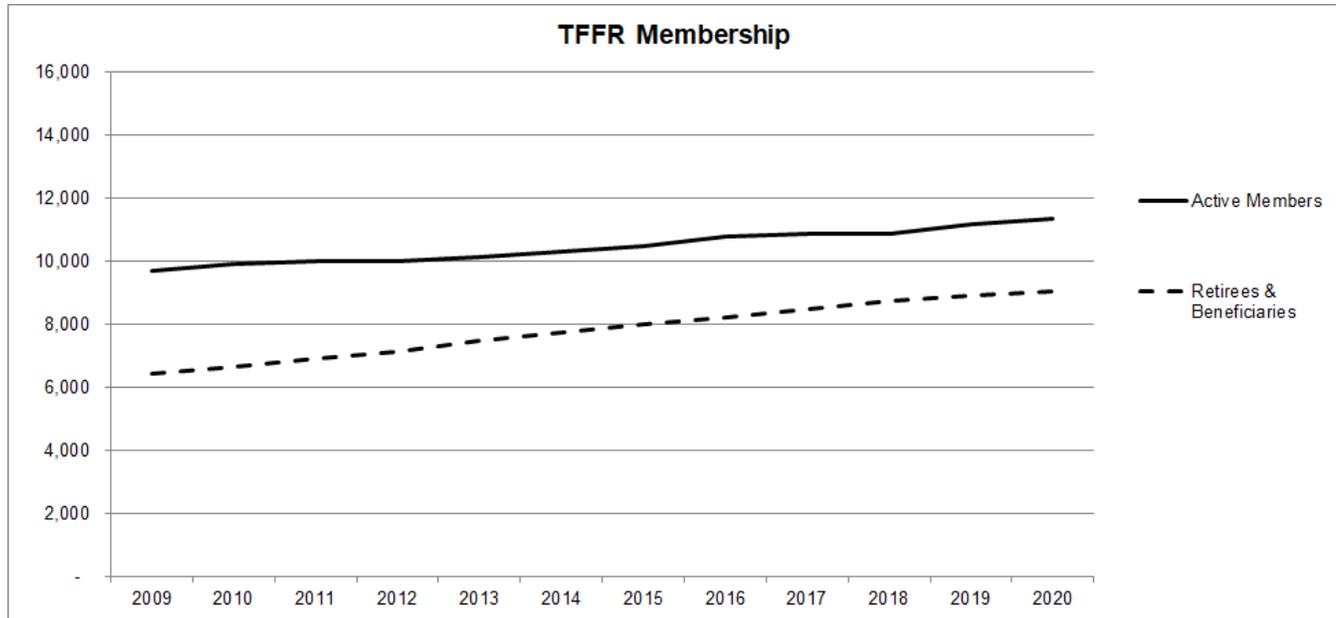
The five largest SIB clients earned net investment returns which exceeded their Policy Benchmark Returns for the 5-years ended 12/31/2020 as highlighted in the table above. Based on these funds averaging over 0.50% of Excess Return above their Policy Benchmarks the last 5-years, the SIB was successful in selecting investment firms which exceeded stated passive benchmarks thereby generating over \$300 million of incremental income for our clients for the 5-years ended 12/31/2020 after paying all fees and expenses (e.g. SIB client investment average asset balance of \$12 billion x 0.50% of average Excess Return = \$60 million/year or \$300 million of incremental income in last five years).

Asset allocation is a major driver of investment returns for most institutional investors. It is important to note that like-for-like comparisons between funds with different investment programs (or retail investors) are rarely straightforward. Differences in asset allocation and strategies being pursued must be considered as part of a broader analysis of the costs and risks incurred in relation to the results achieved.

### III. Teachers' Fund for Retirement (TFFR)

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven-member board of trustees which consists of the State Treasurer, State Superintendent, and two active teachers, two retired teachers and one school administrator all appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. During the past decade, active membership has increased 13.4% from 10,004 to nearly 11,347 participants, while retirees and beneficiaries have increased 30.3% from less than 6,933 to over 9,036.



For Fiscal Year 2020 there were 213 participating TFFR employers comprised as follows:

School Districts	174
Special Ed Units	20
Vocational Centers	4
Counties	6
State Agencies/Institutions	5
Other	<u>4</u>
<b>2019-20 Total Employers</b>	<b>213</b>

The TFFR program appropriated expenses includes salaries, benefits and administrative overhead costs for the administration of the day-to-day operations of the fund and delivery of high quality services and outreach programs to members and employers. Examples of activities included in the administration of the TFFR program are detailed in the following table, based on the fiscal year ended June 30, 2020.

Activity	# of Members
Monthly collection of contributions from 213 Employers	11,347
Maintenance of Membership Records	23,230
New Retirement & Disability Claims Processed	285
Deaths Processed	254
Refunds/Rollovers Processed	260
Service Purchase Inquiries Processed	175
New Member Enrollments Processed	817
Monthly Benefit Payments Processed	9036
Educational Outreach Programs Attended	651

Additional administrative activities include development of publications and educational materials for active and retired members and employers; maintenance of website, member and employer online services, and the pension administration software system that houses all TFFR member data; compliance reviews to verify accuracy of member records, contributions, and benefit payments; and staff training and education to ensure all necessary regulatory and financial reporting requirements are being met.

Benefit payments to retirees or their beneficiaries totaled \$224.4 million in fiscal year 2020. Another \$6.5 million was paid out in refunds of account values. These payments, in addition to amounts paid to actuarial, investment and other consultants, are included in a continuing appropriation under ND Century Code section 15-39.1-05.

The pandemic had a significant impact on TFFR program operations and outreach efforts. Many of our program processes have relied on paper forms, both internally and externally; in addition to our outreach programs which were held as in-person events. By adjusting our perception of what constitutes a “normal” work environment RIO agency staff successfully found ways to innovate program operations by transitioning to digital processes internally and developing virtual outreach opportunities. While we hope to achieve even greater efficiencies with a new system the change process has already started.

One major accomplishment of the program was the initiation of the Pension Administration System (PAS) project. With the support of the 2019 legislative assembly the TFFR program initiated a multi-year project that seeks to review and update our current business practices and ultimately procure and implement a new software solution. Phase 1 out of 3 of the project is scheduled for completion in the current biennium (March 2021), but a substantial amount of work is scheduled for next biennium.

## **IV. Agency Budget - Current and Future**

### **A. 2019-2021 Budget Status**

The RIO 2019-21 base budget is \$5.869 million. Salaries and wages for RIO's current 20 FTEs make up 84% of that total. RIO had five vacancies during the first half of the biennium, including two very long-term employees who retired after many successful years with the agency. The TFFR Retirement Services Manager retired on February 28, 2020, after more than 28 years with RIO. The Deputy Executive Director/Chief Retirement Officer, Fay Kopp, retired on April 30, 2020, after more than 32 years with RIO. One internal promotion was awarded to fill the Retirement Services Manager position on March 1, 2020. The Deputy Executive Director/Chief Retirement Officer position was filled on June 1, 2020. Janilyn Murtha, former Assistant Attorney General assigned to RIO, was chosen to fill the Deputy position. RIO is currently fully staffed.

Base operating expenses were approved at \$889,000 for the 2019-21 biennium. This was an increase of \$26,000 or 3% from the previous biennium's approved operating expenses. The main driver of the increase was a desire to provide board members and staff with more educational opportunities in order to meet the fiduciary obligations of program management after needing to decrease funding for this purpose in the 2017-19 biennium request.

RIO continues to investigate long-term cost savings options and has found savings in the areas related to the printing and mailing of newsletters and other similar materials to active members of the TFFR retirement program. TFFR engaged with employers to leverage their assistance in disseminating program information to active members through the use of emails and the RIO website. It is anticipated that RIO will save nearly \$20,000 per biennium due to this process change.

The contingency line item was reduced in the 2017-19 biennium and held steady in the 2019-21 biennium. The \$30,000 reduction in the 2017-19 biennium amounted to a 37% reduction. This line item is reserved for expenses that are outside of normal operations and are difficult to plan. In the past, this line item has been used for executive search firms to assist in filling the Executive Director/CIO position. Due to the nature of these types of expenses, the costs can be high. The average expenditures for executive searches ranged from \$84,000-to-\$110,000 per search in the last decade, therefore making the reduction to this line concerning. As we plan for the future RIO is exploring other cost saving opportunities such as relocation of our physical operations which may require the expenditure of one time moving expenses, but would also result in future cost savings of more than \$50,000 per biennium.

### **B. Budget Status as of December 31, 2020**

Due to diligent management of expenses, coupled with the pandemic, RIO anticipates a larger than average appropriation balance at the end of the 2019-21 biennium as estimated below.

	2019-21 Approved Budget	Actual Expenses through 12/31/2020	Estimated Remaining Expenses	Estimated Total 2019-21 Expenses	Estimated 2019-21 Ending Balance
Salaries & Benefits	\$ 4,928,230	\$3,574,792	\$ 1,269,275	\$ 4,844,067	\$ 84,163
Operating Expenses	888,934	444,086	224,933	669,019	219,915
Contingency	52,000	-	-	-	52,000
<b>Total Base</b>	<b>\$ 5,869,164</b>	<b>\$4,018,878</b>	<b>\$ 1,494,208</b>	<b>\$ 5,513,086</b>	<b>\$ 356,078</b>

## C. 2021-23 Budget Request

Agency budget goals include maintaining current staff level to achieve: (1) fiduciary obligations, (2) performance expectations and (3) agency initiatives. 2021-2023 agency initiatives include completing Phase 2 and initiating Phase 3 of the PAS project, allocating sufficient resources for TFFR and SIB strategic communication efforts, pursuing NDIT unification and improved cybersecurity, and maintaining a budget reflective of best practices to meet unexpected needs including potential relocation.

	Salaries & Benefits	Operating	Contingency	Total	FTE
<b>Legislative Base Budget</b>	<b>4,928,230</b>	<b>888,934</b>	<b>52,000</b>	<b>5,869,164</b>	<b>20</b>
<b>Base Budget Changes</b>	<b>159,934</b>	<b>(107,934)</b>	<b>(52,000)</b>	<b>-</b>	
<b>Governor's Recommendations</b>					
Restore full funding for 20 current FTEs (optional request #1)	25,000			25,000	
Governor's 2% salary increases and benefit funding	161,031			161,031	
NDIT desktop support (optional request #2)		70,920		70,920	
Additional MS 365 costs added by Governor		2,203		2,203	
Restore current contingency line funding (optional request #3-partial)			52,000	52,000	
<b>Total included in Governor's recommendation</b>	<b>186,031</b>	<b>73,123</b>	<b>52,000</b>	<b>311,154</b>	
<b>House Changes</b>					
Correction for incorrect salary in original budget request	11,225			11,225	
Remove Governor's 2% salary increase and benefit funding	(161,031)			(161,031)	
Removed NDIT desktop support		(70,920)		(70,920)	
House salary and benefits changes	107,416			107,416	
<b>Total House Changes</b>	<b>(42,390)</b>	<b>(70,920)</b>	<b>-</b>	<b>(113,310)</b>	
<b>Current HB1022 Second Engrossment</b>	<b>5,231,805</b>	<b>783,203</b>	<b>52,000</b>	<b>6,067,008</b>	<b>20</b>
<b>Requested Amendments</b>					
<i>Additional FTE for Public Information Officer</i>	210,000			210,000	1
<i>Additional operating expenses for new FTE</i>		15,000		15,000	
<i>Remove 2 FTE for IT Unification (move to operating)</i>	(449,476)	449,476		-	(2)
<i>Increase contingency line funding</i>			73,000	73,000	
<b>Total Requested Amendments</b>	<b>(239,476)</b>	<b>464,476</b>	<b>73,000</b>	<b>298,000</b>	<b>(1)</b>
<b>Total Requested Appropriation</b>	<b>4,992,329</b>	<b>1,247,679</b>	<b>125,000</b>	<b>6,365,008</b>	<b>19</b>

**RIO's 2021-23 Base Budget request was \$5.869 million.** Salaries and wages for RIO's 20 FTEs make up over 86% of that total. Due to the large number of vacancies in the first half of the biennium, RIO experienced first-hand the challenges associated with market demand for highly skilled and qualified workers. RIO was able to hire extremely qualified staff, however, that experience resulted in the need to equitably adjust salary levels, not just for the vacant positions, but also for veteran staff, whose average state service is over 17 years. Maintaining current staffing levels is a priority in the 2021-23 budget request. Current staffing is needed to meet our fiduciary obligations and program goals, especially as the agency maintains current processes and operations during implementation of the PAS project. This need required a shift in funding from the operating and contingency lines to the salaries line. The Governor's budget guidelines required that the total base budget request not exceed the current biennium base budget, therefore the decision was made to decrease the operating and contingency lines in order to accommodate the required increase in the salary line to maintain current staffing. However, even with that shift, \$25,000 had to be included in an optional request to fully fund the salary line at current levels. This funding was reinstated by the Governor and the House.

Operating expenses have been sharply reduced over the last decade including the 12% reduction in the current base budget request in addition to a 13% cut in the 2017-19 biennium. Major cost savings have been achieved by sharply reducing printing and mailing costs by significantly enhancing RIO's website

and digital information transfer and communication methods in recent years; particularly in the past year due to the global pandemic and the need to move to more digital means for communications. This important transition is expected to continue into the next biennium with the TFFR PAS upgrade. Reducing expenses related to maintaining the current TFFR software solution allowed us to decrease operating expenses in the base budget request. This is only possible because we are in a transition phase between our existing PAS and a new system. While we reduced the amount of funds necessary to continue to update and modify the existing system in the short-term (2021-23 biennium), once a new system is implemented we will need to request a return of funding to pay for the maintenance of the new system (likely in the 2023-25 biennium).

**RIO's Total 2021-23 Budget Request is \$6.365 million including \$197,844 approved and added by the House and \$298,000 in additional amendments RIO is requesting today.** The House additions to the base budget include \$36,225 of "underfunded" salaries, \$2,203 in additional MS 365 costs, \$52,000 to reinstate the current appropriation level in the contingency line and \$107,416 for the state employee salary package.

**RIO's Additional Amendment Requests of \$298,000** include salaries and operating costs of \$225,000 for a new Public Information Officer (PIO), \$73,000 to more adequately fund our contingency line (up to \$125,000) for unanticipated expenses in the coming biennium, and a modification of our salary and operating expense line items to allow our two FTE positions dedicated to information services to participate in the State's IT Unification effort through allocation to NDIT. It should be noted that RIO did not include \$45,000 of IT equipment replacement costs in its budget request due to the request for IT unification (which includes desktop support/replacement). The House did not approve IT unification, therefore in order to facilitate ongoing agency operations RIO is requesting the Senate to include one of the following 1) IT Unification (budget neutral transfer of cost for two FTEs from salaries to operating); OR 2) \$70K for just Desktop Support; OR 3) additional \$45K for IT equipment replacement cost.

**The PIO position request is made as a result of a growing awareness that our current staffing levels have not allowed us to meet the needs of public demand for strategic and coordinated communications.** As part of the PAS project a third party consultant was retained to perform a Communications Assessment, which was presented to the TFFR Board at its January 2021 meeting. The assessment provided a strong business case for the addition of a Public Information Officer (PIO) position for the agency. This position would be used to support strategic communication efforts for both the TFFR and SIB programs. The consultant issued a weighted average score of 39%, measuring our communication against the criteria proven to result in effective benefit communication. Further, there is an increasing public interest in SIB client funds which have grown from \$5 billion in 2010 to \$18 billion in 2020, including North Dakota's \$8 billion Legacy Fund and TFFR's \$2.9 billion pension fund. Should HB 1425 or similar legislation become law, a PIO position would be instrumental in developing a communication plan for an in-state investing initiative. An FTE for a full-time PIO will allow RIO to increase the speed at which information is disseminated to the public and the quality and quantity of that information for both the investment and retirement programs. Currently, RIO does not have an FTE dedicated to strategic communication development, unlike many other agencies including NDPERS.

**RIO's contingency appropriation is reserved for expenses outside of normal operations and difficult to forecast.** During the last decade, this line item has been used to hire executive search firms to assist in filling the Executive Director/Chief Investment Officer position, which are estimated to approximate \$125,000 per search (and ranged from \$82,000 in 2011 to \$110,075 in 2013). As stated, RIO is also exploring alternative cost savings such as relocation of our physical offices, which may result in long term savings of \$53,600 per biennium but require one-time expenses related to moving costs of approximately \$46,325. Although this line item is used infrequently, RIO deems it prudent to be adequately funded.

RIO Total Agency Budget vs Actual Comparison				
	Budget	Actual	Unspent \$	Unspent %
2005-07	3,488,727	3,079,516	409,211	11.7%
2007-09	3,371,136	3,086,439	284,697	8.4%
2009-11	3,705,650	3,514,813	190,837	5.1%
2011-13	4,232,954	3,734,728	498,226	11.8%
2013-15	4,899,369	4,361,844	537,525	11.0%
2015-17	5,413,425	5,085,472	327,953	6.1%
2017-19	5,340,054	5,094,609	245,445	4.6%
2019-21	5,869,164			

RIO Contingency Budget		
	Actual	Budget
2005-07	-	82,000
2007-09	11,441	82,000
2009-11	82,000	82,000
2011-13	48,088	82,000
2013-15	61,987	82,000
2015-17	8,999	82,000
2017-19	-	52,000
2019-21		

RIO's additional amendment request of \$298,000 is only a 5.1% increase to the base budget while noting SIB client investments increased by roughly 50% from \$12 billion to \$18 billion from 2016 to 2020.

## V. TFFR PAS Project

**The TFFR Pension Administration Software Modernization Project** requires funding within the capital assets, operating and salaries line items to identify, purchase and implement an upgrade or replacement of the current pension administration system (PAS) utilized by TFFR. The RIO 2019-21 appropriation included one-time funding of \$9 million for the TFFR PAS project. After discussions with the Governor's Office in the early stages and addressing challenges resulting from the global pandemic, the project is well underway. During the current biennium an Executive Steering Committee (ESC) was created and approved, the project charter was developed and approved, an RFP for a project consultant was issued and selection of a project consultant was made. Thus far significant milestones in Phase One of the consulting agreement have occurred including evaluations of our current business processes, security and communications assessments, and all Phase One Deliverables are expected to be completed in March 2021.

Actual expenditures paid from the \$9 million project budget total approximately \$135,000 through the end of February. Expenditures were paid for NDI and NDAG consulting costs and progress payments to the project consultant. We anticipate that an additional \$221,000 of the current project consulting contract will be paid over the next few months as the process study and procurement phases of the contract are completed. RIO requested an amendment to HB1022 allowing for the remaining balance of the \$9 million to be carried over into the 2021-23 biennium. This is included in the re-engrossed version of the bill approved by the House.

Approval for this project was presented to and approved by the legislature in the 2019 session because the TFFR Board and RIO staff believed it necessary and prudent to use TFFR funds (special fund, not general fund) to upgrade or replace the current 15-year old system with a more technologically advanced, web based system. A new system will provide significant improvements in functionality, efficiency and system security for TFFR members, employers, and staff. An updated system is also needed in order for the TFFR program to re-engineer business processes and automate TFFR pension administration activities, reporting capabilities, electronic communications and services. The current PAS has many limitations, and without an updated PAS, TFFR will need to spend trust fund assets trying to maintain an old system, instead of investing in newer technology that includes the necessary functionality to efficiently administer the plan.

Based on the anticipated benefits RIO believes there is an opportunity for post implementation efficiencies that could result in future budget reductions in the TFFR pension program. Potential budget

reductions are not quantifiable at this point in the project planning. However, if TFFR is able to automate current pension administration processes with a new system and transition to secure digital communications with members and employers, at a minimum, it is expected to save printing and mailing costs and allow users to better utilize their skills and knowledge in other needed areas of retirement program administration.

In order to successfully complete the project within the anticipated project timeline, it will be necessary to maintain all current budget and staffing levels in order to re-engineer business processes and maintain adequate service levels during the implementation.

## **VI. CONCLUSION**

Based on the information provided within this testimony, RIO respectfully requests the Senate approve the requested amendments to RIO's budget request set forth above and in Attachment 1.

### **Attachments:**

1. Requested Amendments
2. TFFR PAS Project Summary
3. Org chart
4. TFFR Fast Facts
5. SIB Fast Facts

# HB 1022 – Requested Amendments (Senate)

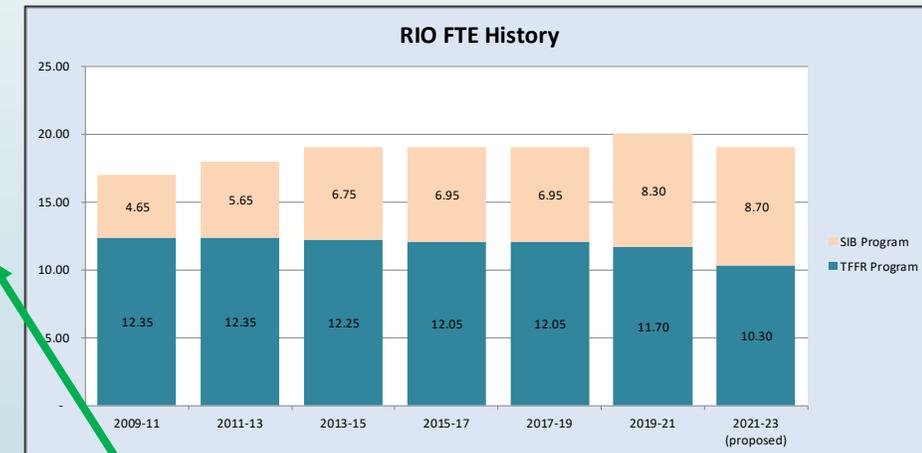
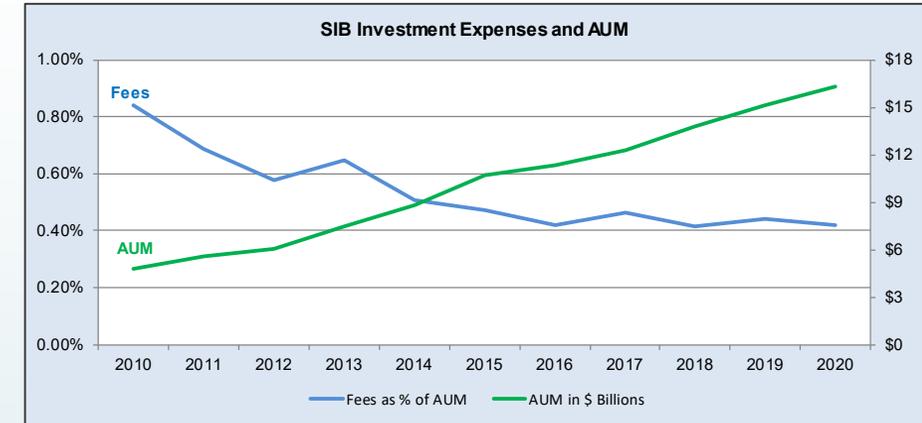
## Retirement and Investment Office

	Salaries & Benefits	Operating	Contingency	Total	FTE
<b>Legislative Base Budget</b>	4,928,230	888,934	52,000	5,869,164	20
<b>Base Budget Changes</b>	159,934	(107,934)	(52,000)	-	
<b>Governor's Recommendations</b>					
Restore full funding for 20 current FTEs (optional request #1)	25,000			25,000	
Governor's 2% salary increases and benefit funding	161,031			161,031	
NDIT desktop support (optional request #2)		70,920		70,920	
Additional MS 365 costs added by Governor		2,203		2,203	
Restore current contingency line funding (optional request #3-partial)			52,000	52,000	
<b>Total included in Governor's recommendation</b>	<b>186,031</b>	<b>73,123</b>	<b>52,000</b>	<b>311,154</b>	
<b>House Changes</b>					
Correction for incorrect salary in original budget request	11,225			11,225	
Remove Governor's 2% salary increase and benefit funding	(161,031)			(161,031)	
Removed NDIT desktop support		(70,920)		(70,920)	
House salary and benefits changes	107,416			107,416	
<b>Total House Changes</b>	<b>(42,390)</b>	<b>(70,920)</b>	<b>-</b>	<b>(113,310)</b>	
<b>Current HB1022 Second Engrossment</b>	<b>5,231,805</b>	<b>783,203</b>	<b>52,000</b>	<b>6,067,008</b>	<b>20</b>
<b>Requested Amendments</b>					
Additional FTE for Public Information Officer	210,000			210,000	1
Additional operating expenses for new FTE		15,000		15,000	
Remove 2 FTE for IT Unification (move to operating) **	(449,476)	449,476		-	(2)
Increase contingency line funding			73,000	73,000	
<b>Total Requested Amendments</b>	<b>(239,476)</b>	<b>464,476</b>	<b>73,000</b>	<b>298,000</b>	<b>(1)</b>
<b>Total Requested Appropriation</b>	<b>4,992,329</b>	<b>1,247,679</b>	<b>125,000</b>	<b>6,365,008</b>	<b>19</b>

\*\* If the IT Unification is not approved for RIO, additional operating line appropriation will be needed for IT Equipment replacement in the 2021-23 biennium based on the agency's equipment replacement schedule of 5-6 years. Last full replacement was in 2017. Estimated cost is \$45,000. IT equipment replacement is included in Desktop Support with IT Unification.

**RIO Budget – Executive Summary:**

- 1) SIB investments increased from \$5 billion in 2010 to \$18 billion in 2020 (up 260%)
- 2) SIB fees declined from 0.84% in 2010 to 0.42% in 2020 (down 50%)
- 3) RIO Requested Amendments of \$298,000 represents only 5.1% increase from base budget;
- 4) Additional contingency line appropriation needed for possible RIO office move to State owned building (WSI) per on-going State leadership dialogue.



Please note requested amendments to House version

Net effect of PIO request and IT Unification is a decrease of 1 FTE for agency.

## **TFFR PAS Project Summary**

### **Request**

- Upgrade or replace TFFR pension software with web-based system.
- Carryover approved funding from 2019 legislative session.

### **Risks of Current PAS**

- Current system is 15+ years old.
- Functionality and technical architecture of client-server system is outdated.
- Increased costs to maintain and support.
- Limited technical support.
- Limited functionality of member and employer online portals – read only.
- No electronic member communication and interaction.
- Inability to automate manual processes and re-engineer business processes.
- Inability to utilize secure digital communications w/members and employers.

### **Benefits of PAS Upgrade or Replacement**

- Web based technology is standard.
- Re-engineer business processes and adopt best practices in pension administration.
- Enhanced member and employer self-service and security improvements.
- Straight-through-processing to automate enrollment, termination, retirement processing, calculations, communications, forms, and distribution
- Cost savings with digital communication, and reduced paper mailings.
- Improved staff efficiency.

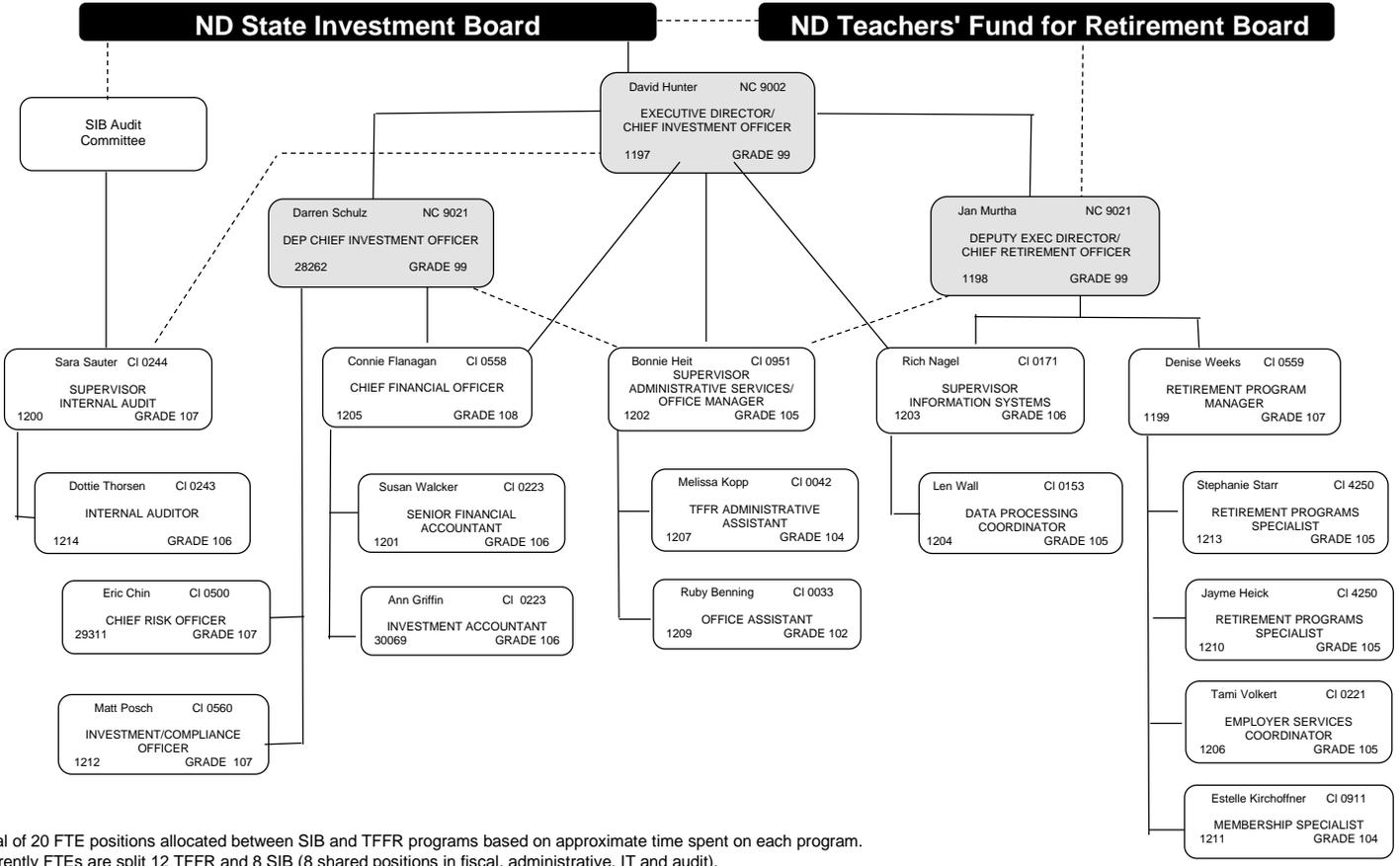
### **Estimated Cost**

- Carryover 2019 legislative session \$9 million appropriation less expenditures from the current biennium.
- Includes external vendor costs, consulting costs, project management, and ITD, legal, and other project costs and contingencies.
- Special funds – no general funds.
- Budget proposal contains reduced operating expenses for current system due to anticipated transition; will need to request return of operating funding levels after new system is implemented.

### **Vendor Selection and Project Oversight**

- Utilize state's procurement/RFP process to select consultant and software vendor
- Follow ITD requirements in managing major IT project
- Executive Steering Committee Oversight
- TFFR Board contract approval and project oversight to ensure TFFR trust fund assets are being appropriately spent

**ND Retirement and Investment Office  
Organizational Chart**



Total of 20 FTE positions allocated between SIB and TFFR programs based on approximate time spent on each program. Currently FTEs are split 12 TFFR and 8 SIB (8 shared positions in fiscal, administrative, IT and audit).

1. SIB is the Governing Board of RIO (per statute) and the Executive Director / Chief Investment Officer (ED/CIO) reports directly to SIB.
2. ED/CIO is responsible for all staffing of RIO office.
3. Deputy ED/Chief Retirement Officer (CRO) reports directly to the ED/CIO and functionally to TFFR Board.
4. Deputy CIO reports directly to the ED/CIO.
5. Chief Financial Officer (CFO) reports to the ED/CIO and Deputy CIO
6. Supervisor of Internal Audit reports directly to the SIB Audit Committee (for compliance matters) and the RIO ED/CIO (for day to day operational matters).
7. CFO and Fiscal & Investment Services report to the Deputy CIO.
8. Administrative & Office Services report directly to the ED/CIO and is functionally shared with the Deputy ED/CRO and Deputy CIO.
9. Retirement Program reports to the Deputy ED/CRO.
10. Supervisor of Information Services reports directly to the ED/CIO and Deputy ED/CRO.
11. RIO Executive Team includes the ED/CIO, Deputy CIO, Deputy ED/CRO & CFO.
12. RIO Management includes the Supervisor of Internal Audit, Administrative Services Supervisor, IT Supervisor, Retirement Program Manager and RIO Executive Team.

# ND TFFR Fast Facts

FY End 6/30/2020

The ND Teachers' Fund for Retirement plan (ND TFFR) provides ND educators with a financial foundation for the future that includes a secure and stable retirement. This is possible due to TFFR's plan design, professional plan management, strong investment performance, and outstanding customer service.



## MEMBERS

**11,347** ACTIVE MEMBERS  
**9,036** RETIRED MEMBERS  
**213** EMPLOYERS

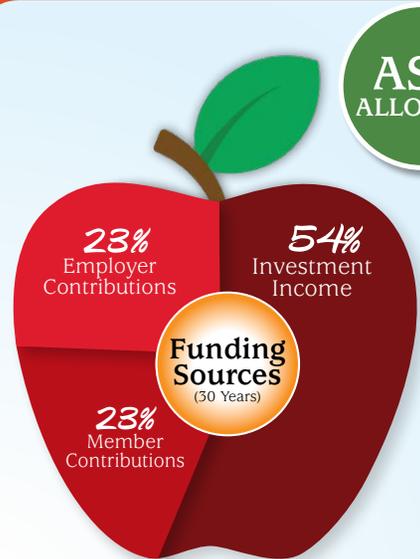
Member Stats	Actives	Retirees
Avg. Annual Salary/Benefit	\$62,663	\$25,392
Avg. Service Credit	11.7 yrs	27.3 yrs
Avg. Current Age	41.8 yrs	72.3 yrs

MEMBER/EMPLOYER SATISFACTION: 3.9 (4.0 Scale)

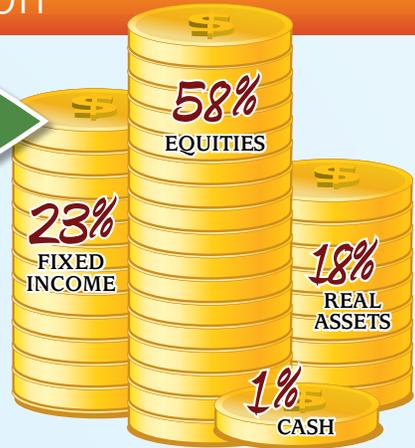
**84%** of benefits are paid to ND residents.

**\$224 million** was distributed to retirees in FY 2020.

Market value of TFFR assets **\$2.65 billion**



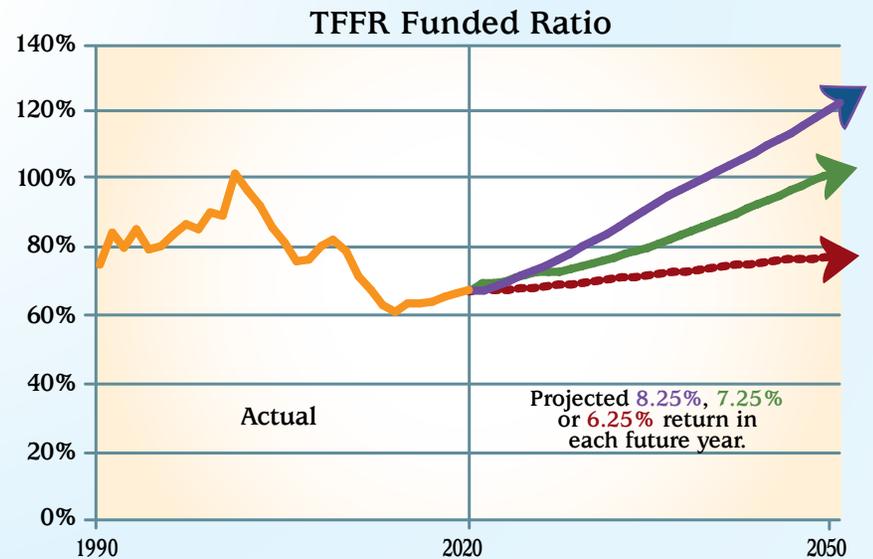
**ASSET ALLOCATION**



**Investment Returns**

- 1 year 3.5%
- 5 year 6.2%
- 30 year 7.5%

## 63% of BENEFITS are PREFUNDED



# ND TFFR PLAN SUMMARY

**Tier 1 is a member who had service credit in the TFFR plan prior to 7/1/08.**

- Tier 1 Grandfathered member was less than 10 years away from retirement eligibility as of 6/30/13. Grandfathered member was vested, and either age 55 or had a combined total of service credit and age equal to or greater than 65 on 6/30/13.
- Tier 1 Non-Grandfathered member was more than 10 years away from retirement eligibility as of 6/30/13. Non-grandfathered member was less than age 55 and had a combined total of service credit and age which was less than 65 on 6/30/13.

**Tier 2 is a member who began participation in the TFFR plan on 7/1/08 or after.**

\* Contribution rates are in effect until TFFR reaches 100% funded level, then rates reduce to 7.75% each.

	Tier 1 Grandfathered Member	Tier 1 Non-Grandfathered Member	Tier 2 Member
<b>Employee Contribution Rates (active and re-employed retirees)</b>			
7/1/10 – 6/30/12	7.75%	7.75%	7.75%
7/1/12 – 6/30/14	9.75%	9.75%	9.75%
*7/1/14 ongoing	11.75%	11.75%	11.75%
<b>Employer Contribution Rates</b>			
7/1/10 – 6/30/12	8.75%	8.75%	8.75%
7/1/12 – 6/30/14	10.75%	10.75%	10.75%
*7/1/14 ongoing	12.75%	12.75%	12.75%
<b>Vesting Period</b>	3 yrs	3 yrs	5 yrs
<b>Unreduced Retirement Eligibility</b>			
Minimum Age	No	60	60
<b>AND Rule</b>	Rule 85	Rule 90	Rule 90
<b>OR Normal Retirement Age</b>	65	65	65
<b>Reduced Retirement Eligibility</b>			
Minimum Age	55	55	55
Reduction Factor	6%	8%	8%
<b>Retirement Formula Multiplier</b>			
X Final Average Salary	3 yr FAS	3 yr FAS	5 yr FAS
X Service Credit	Total years	Total years	Total years
<b>Disability Retirement</b>			
	Yes	Yes	Yes
Retirement Formula Multiplier (2%) X Final Average Salary (FAS) X Total Service Credit			
<b>Death/Survivor Benefits</b>			
	Yes	Yes	Yes
Refund of account value or Life Annuity to survivor based on member's vesting status.			

# SIB Highlights and RIO Mission Statement

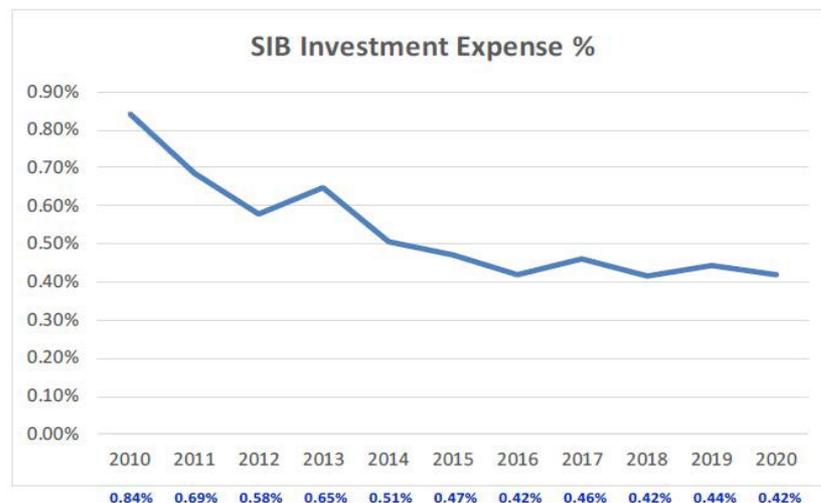
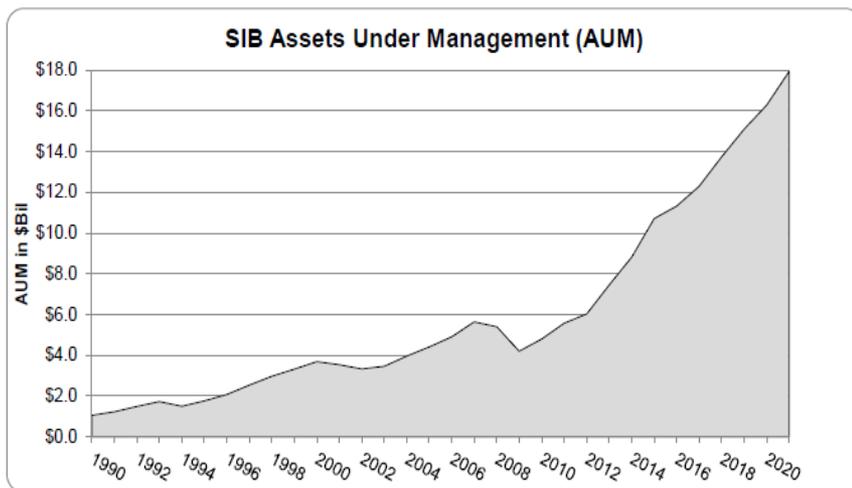
Updated as of December 31, 2020

## SIB Highlights:

- SIB client assets have more than tripled from \$5 billion in 2010 to \$18.4 billion in 2020, while increasing by over \$5 billion (or 38%) in the last two years.
- SIB investment fees have been significantly reduced from 0.84% in 2010 to 0.42% in 2020.
- The SIB's keen focus on fees is saving our clients over \$20 million per year in lower costs which increases client net investment income.
- The SIB's prudent use of active investment management has generated \$125 million of incremental income for our clients in the last 2-years.
- SIB client investment performance compares favorably with our peers including U.S. public pension plans and larger sovereign wealth funds.
- Actual net investment returns for 98% of our SIB clients have exceeded approved performance benchmarks for the 5-years ended Dec. 31, 2020.
- Active management has generated over \$70 million of incremental income for Legacy Fund in the last half of 2020 after deducting all investment fees and expenses.
- SIB clients earned \$4.2 billion of net investment income in the two years ended 12/31/2020; including the Legacy Fund which earned \$1.9 billion with returns in excess of 18% in 2019 and 12% in 2020.

**Mission Statement:** RIO serves the State Investment Board (SIB) and exists in order that:

- 1) SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective investment manner and under the Prudent Investor Rule (NDCC 21-10-07 "Legal Investments").
- 2) Potential SIB clients have access to information regarding the services provided by the SIB.
- 3) SIB clients receive satisfactory services from our Board & RIO staff including TFFR, PERS, WSI and Legacy & Budget Stabilization Funds.

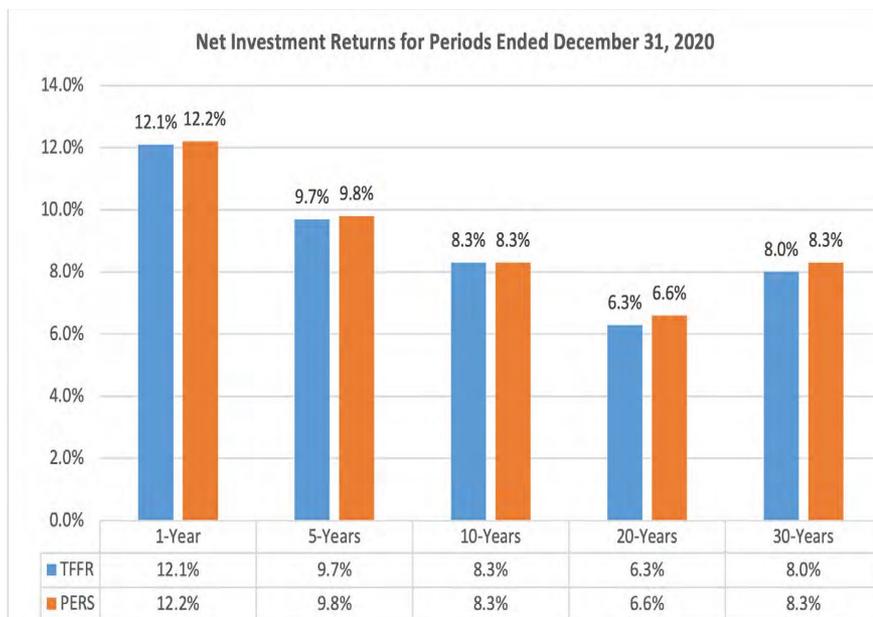


## SIB Raises In-State Investment Targets up to 8% as Recommended by Legacy Fund Advisory Board

In the last two years, the SIB has doubled the size of Legacy's In-State Investment Program by increasing its long-standing commitment to Bank of North Dakota's Match Loan Program – from a \$200 million commitment in August of 2019 to a \$400 million in November 2020. In 2021, the Advisory Board and SIB sought to further expand the commitment to the Legacy Fund In-State Investment Program by adding a new private capital allocation with a preference to target in-state investments in private equity and private credit. The SIB approved these Advisory Board recommendations in February and is working towards identifying a new In-State Program Manager.

# PERS, TFFR and Legacy Fund Investment Returns

Updated as of December 31, 2020



SWFI Rank		6-Mos. Ended 12/31/2020	1-Year Ended 12/31/2020	5-Yrs. Ended 12/31/2020
1	<b>Norway Gov't. Pension Fund Global \$1.3 trillion</b>			
	<b>Net Investment Return</b>	na	10.86%	8.69%
	- Passive Benchmark	na	10.59%	8.50%
	72.8% Equity / 24.7% Fixed Income / 2.5% Real Estate			
18	<b>Alaska Permanent Fund \$73 billion</b>			
	<b>Net Investment Return</b>	15.74%	12.15%	10.09%
	- Passive Benchmark	18.24%	12.38%	9.40%
	60% Equity / 20% Fixed Income / 10% US TIPs / 10% Real Estate			
31	<b>New Mexico SIC Land Grant \$22 billion</b>			
	<b>Net Investment Return</b>	14.24%	8.94%	8.68%
	- Interim Policy Index	14.55%	10.13%	8.75%
	51% Equity / 26% Fixed Income / 12% Real Estate / 10% Real Return / 1% Cash			
45	<b>Wyoming Permanent Mineral \$9 billion</b>			
	<b>Net Investment Return</b>	11.5%	9.1%	7.1%
	- Passive Benchmark	11.2%	8.4%	6.9%
	40% Equity / 36% Fixed Income / 11% Real Estate / 7.5% Hedge Funds / 5.5% MLPs			
47	<b>North Dakota Legacy \$8 billion</b>			
	<b>Net Investment Return</b>	14.37%	12.22%	9.25%
	- Passive Benchmark	13.32%	12.08%	8.60%
	50% Equity / 35% Fixed Income / 5% US TIPs / 5% Real Estate / 5% Infrastructure			

PERS Investment Returns (Net of Fees)	Calendar									
	Year Ending 12/31/2020	Year Ending 12/31/2019	Year Ending 12/31/2018	Year Ending 12/31/2017	Year Ending 12/31/2016	Year Ending 12/31/2015	Year Ending 12/31/2014	Year Ending 12/31/2013	Year Ending 12/31/2012	Year Ending 12/31/2011
PERS Actual (Net of Fees)	12.2%	18.0%	-4.1%	17.2%	7.1%	0.5%	6.0%	16.6%	13.4%	-0.8%
PERS Policy Benchmark	12.0%	17.4%	-3.2%	14.2%	7.2%	0.1%	5.2%	15.3%	12.5%	0.4%

PERS Investment Returns (Net of Fees)	Fiscal Year									
	Ending 6/30/2020	Ending 6/30/2019	Ending 6/30/2018	Ending 6/30/2017	Ending 6/30/2016	Ending 6/30/2015	Ending 6/30/2014	Ending 6/30/2013	Ending 6/30/2012	Ending 6/30/2011
PERS Actual (Net of Fees)	3.4%	5.5%	9.2%	13.1%	0.3%	3.5%	16.4%	13.4%	-0.1%	21.3%
PERS Policy Benchmark	3.2%	6.4%	7.9%	11.9%	0.6%	2.2%	15.7%	11.8%	1.1%	20.6%

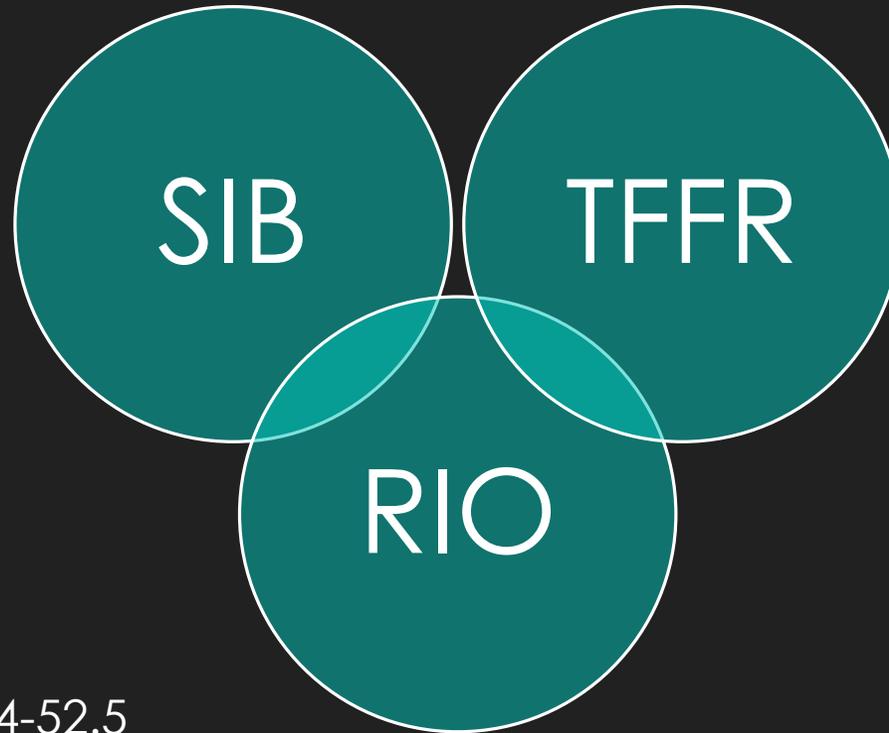
PERS and TFFR U.S. Large Cap Equity returns were 26% in 2020 and 31% in 2019, while averaging 14.7% per annum for the 10 years ended 12/31/2020 (the latter of which exceeded the Russell 1000 Index by over 0.65% per annum).

House Bill 1022  
Senate Appropriations Committee  
March 17, 2021

North Dakota Retirement and Investment Office Testimony

# NDRIO supports 2 “Special Fund” Programs

SIB - Investment Program  
NDCC Ch. 21-10  
\$18+ Billion in Assets



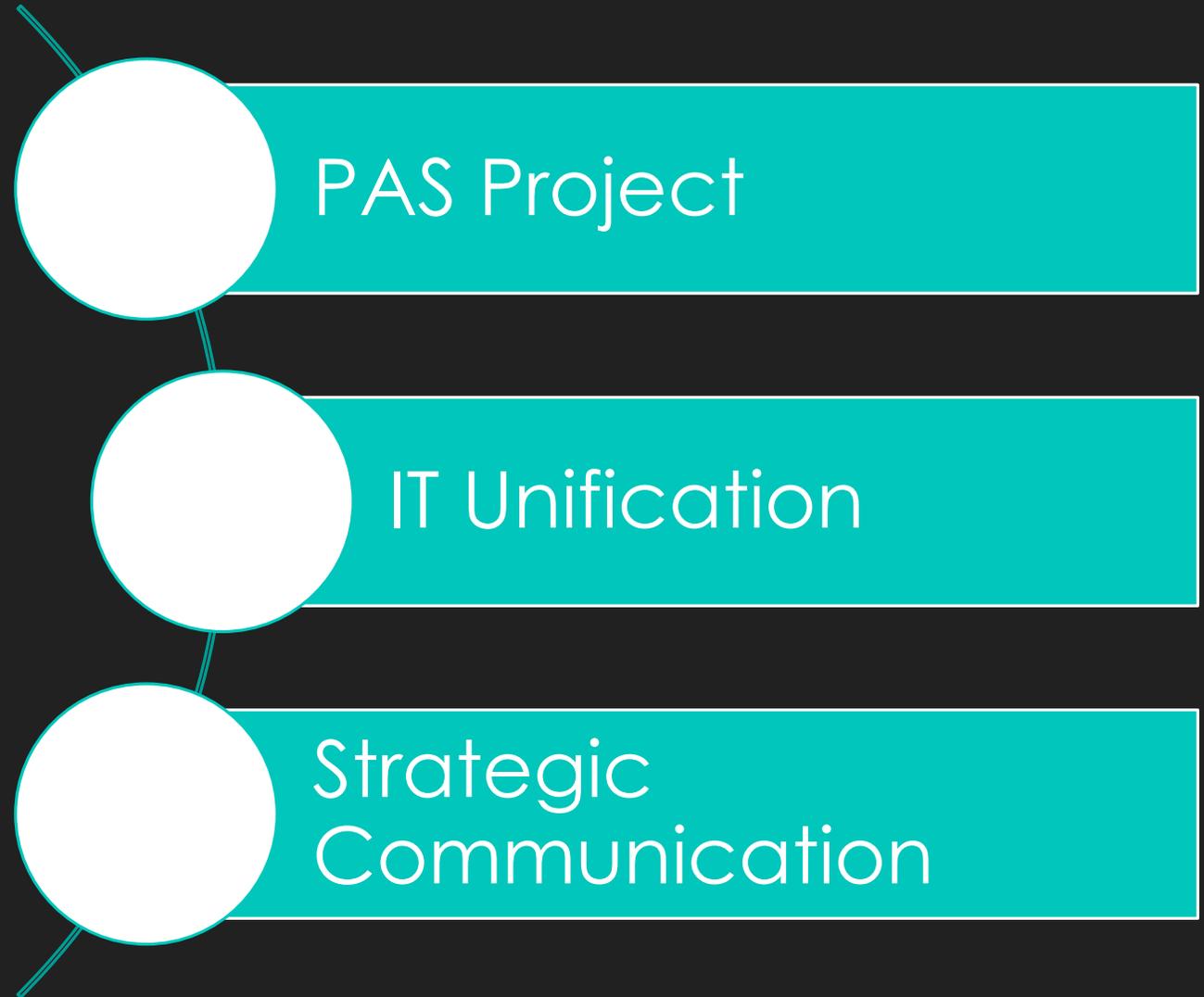
TFFR – Retirement Program  
NDCC Ch. 15-39.1  
\$2.9 Billion in Assets

RIO Agency  
NDCC Ch. 54-52.5  
2021-23 Budget Request - \$6,365,008  
+ PAS Project Carryover

# RIO Budget Goals & Initiatives

Needed to achieve:

- (1) fiduciary obligations,
- (2) performance expectations and
- (3) agency initiatives.



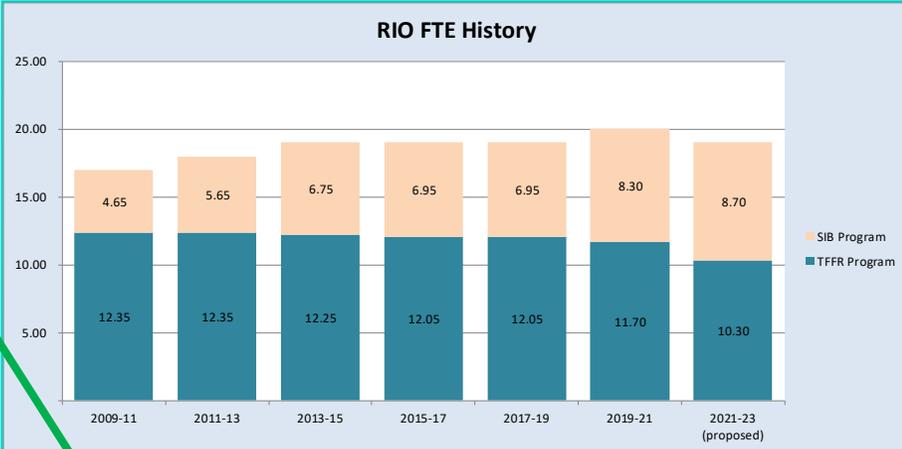
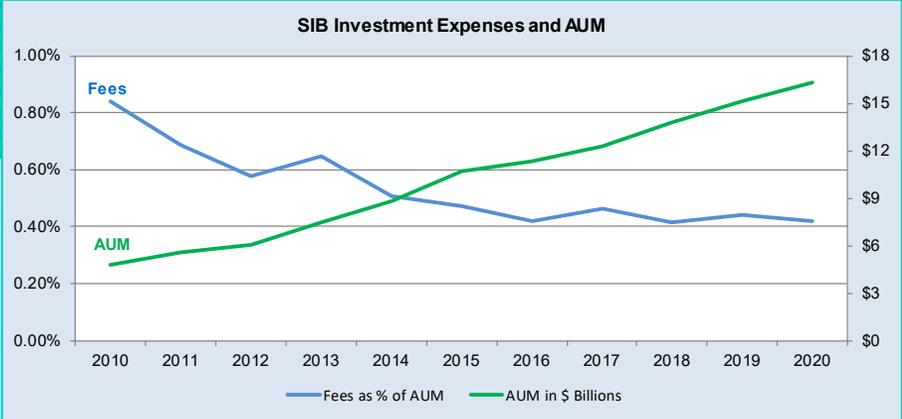
# Requested Amendments to HB 1022

Request	House Action	Impact
PIO FTE Request	Removed	<ul style="list-style-type: none"><li>• No current FTE dedicated to strategic communication for either program.</li><li>• PIO recommended by consultant as part of PAS</li><li>• Needed for in-state investment initiative.</li></ul>
HB 1425 Fiscal Note Impact (in-state investment initiative)	House passed HB 1425 but did not amend HB 1022 to include fiscal note.	<ul style="list-style-type: none"><li>• 1 additional FTE for investment analyst position.</li></ul>
IT Unification	Removed	<ul style="list-style-type: none"><li>• Approved by NDIT in 12/2020;</li><li>• 3rd party cyber security assessment supports;</li><li>• Budget neutral impact.</li><li>• <u>Without</u> unification need:</li><li>• + \$70K in Desktop support; <u>or</u></li><li>• \$45K in equipment cost.</li></ul>
Increase Contingency Fee from \$52K to \$125K.	Removed	<ul style="list-style-type: none"><li>• Need for possible move to a state owned building;</li><li>• Savings of \$50K+ per biennium.</li></ul>

# HB 1022 – Requested Amendments (Senate)

## Retirement and Investment Office

	Salaries & Benefits	Operating	Contingency	Total	FTE
<b>Legislative Base Budget</b>	<b>4,928,230</b>	<b>888,934</b>	<b>52,000</b>	<b>5,869,164</b>	<b>20</b>
<b>Base Budget Changes</b>	<b>159,934</b>	<b>(107,934)</b>	<b>(52,000)</b>	<b>-</b>	
<b>Governor's Recommendations</b>					
Restore full funding for 20 current FTEs (optional request #1)	25,000			25,000	
Governor's 2% salary increases and benefit funding	161,031			161,031	
NDIT desktop support (optional request #2)		70,920		70,920	
Additional MS 365 costs added by Governor		2,203		2,203	
Restore current contingency line funding (optional request #3-partial)			52,000	52,000	
<b>Total included in Governor's recommendation</b>	<b>186,031</b>	<b>73,123</b>	<b>52,000</b>	<b>311,154</b>	
<b>House Changes</b>					
Correction for incorrect salary in original budget request	11,225			11,225	
Remove Governor's 2% salary increase and benefit funding	(161,031)			(161,031)	
Removed NDIT desktop support		(70,920)		(70,920)	
House salary and benefits changes	107,416			107,416	
<b>Total House Changes</b>	<b>(42,390)</b>	<b>(70,920)</b>	<b>-</b>	<b>(113,310)</b>	
<b>Current HB1022 Second Engrossment</b>	<b>5,231,805</b>	<b>783,203</b>	<b>52,000</b>	<b>6,067,008</b>	<b>20</b>
<b>Requested Amendments</b>					
Additional FTE for Public Information Officer	210,000			210,000	1
Additional operating expenses for new FTE		15,000		15,000	
Remove 2 FTE for IT Unification (move to operating) **	(449,476)	449,476		-	(2)
Increase contingency line funding			73,000	73,000	
<b>Total Requested Amendments</b>	<b>(239,476)</b>	<b>464,476</b>	<b>73,000</b>	<b>298,000</b>	<b>(1)</b>
<b>Total Requested Appropriation</b>	<b>4,992,329</b>	<b>1,247,679</b>	<b>125,000</b>	<b>6,365,008</b>	<b>19</b>



**\*\* If the IT Unification is not approved for RIO, additional operating line appropriation will be needed for IT Equipment replacement in the 2021-23 biennium based on the agency's equipment replacement schedule of 5-6 years. Last full replacement was in 2017. Estimated cost is \$45,000. IT equipment replacement is included in Desktop Support with IT Unification.**

**RIO Budget – Executive Summary:**

- 1) SIB investments increased from \$5 billion in 2010 to \$18 billion in 2020 (up 260%)
- 2) SIB fees declined from 0.84% in 2010 to 0.42% in 2020 (down 50%)
- 3) RIO Requested Amendments of \$298,000 represents only 5.1% increase from base budget;
- 4) Additional contingency line appropriation needed for possible RIO office move to State owned building (WSI) per on-going State leadership dialogue.

Please note requested amendments to House version

Net effect of PIO request and IT Unification is a decrease of 1 FTE for agency.

# 2021 SENATE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Roughrider Room, State Capitol

HB 1022  
4/1/2021  
Senate Appropriations Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office.
---

**Senator Holmberg** opened the committee work at 8:02 AM.

Senators present: **Holmberg, Krebsbach, Wanzek, Bekkedahl, Poolman, Erbele, Dever, Oehlke, Rust, Davison, Hogue, Sorvaag, Mathern, and Heckaman.**

**Senator Poolman** – gave an update on HB 1388.

**Senator Erbele** - gave an update Historical Society (HB 1018).

**Senator Sorvaag** – Game and Fish (HB 1017) update; HB 1020 – Water Commission update

**Senator Hogue** – gave update on WSI (HB 1021) sub-committee.

**Senator Bekkedahl** – gave update on RIO (HB 1022)

**Senator Hogue** updated the committee on (HB 1035) Uniform Juvenile Court Act.

HB 1233 – waiting for recommended amendment

HB 1246 – **Senator Rust** is waiting for an amendment – attaching the Air Force base to the bill.

**Senator Holmberg** closed the committee work at 8:29 AM.

*Skyler Strand, Committee Clerk*

# 2021 SENATE STANDING COMMITTEE MINUTES

## Appropriations Committee Roughrider Room, State Capitol

HB 1022

4/5/2021

Senate Appropriations Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office.

**Senator Holmberg** opened the hearing at 3:28 PM.

Senators present: **Holmberg, Krebsbach, Wanzek, Bekkedahl, Poolman, Erbele, Dever, Oehlke, Rust, Davison, Hogue, Sorvaag, Mathern, and Heckaman.**

### Discussion Topics:

- Movement to the WSI building

**Senator Bekkedahl** presented and moved amendment LC 21.0281.03003 - #11377.

**Senator Dever** second.

<i>Senators</i>		<i>Senators</i>	
<i>Senator Holmberg</i>	Y	<i>Senator Hogue</i>	Y
<i>Senator Krebsbach</i>	Y	<i>Senator Oehlke</i>	Y
<i>Senator Wanzek</i>	Y	<i>Senator Poolman</i>	Y
<i>Senator Bekkedahl</i>	Y	<i>Senator Rust</i>	Y
<i>Senator Davison</i>	Y	<i>Senator Sorvaag</i>	Y
<i>Senator Dever</i>	Y	<i>Senator Heckaman</i>	Y
<i>Senator Erbele</i>	Y	<i>Senator Mathern</i>	Y

Roll Call vote 14-0-0 Motion passed.

**Senator Bekkedahl** moved DO PASS AS AMENDED on HB 1022.

**Senator Dever** second.

<i>Senators</i>		<i>Senators</i>	
<i>Senator Holmberg</i>	Y	<i>Senator Hogue</i>	Y
<i>Senator Krebsbach</i>	Y	<i>Senator Oehlke</i>	Y
<i>Senator Wanzek</i>	Y	<i>Senator Poolman</i>	Y
<i>Senator Bekkedahl</i>	Y	<i>Senator Rust</i>	Y
<i>Senator Davison</i>	Y	<i>Senator Sorvaag</i>	Y
<i>Senator Dever</i>	Y	<i>Senator Heckaman</i>	Y
<i>Senator Erbele</i>	Y	<i>Senator Mathern</i>	Y

Roll Call vote 14-0-0 Motion passed.

Senator Holmberg closed the hearing at 3:33 PM.

*Rose Laning, Committee Clerk*

4/5  
 10/1

PROPOSED AMENDMENTS TO REENGROSSED HOUSE BILL NO. 1022

Page 1, replace lines 11 through 15 with:

"Salaries and wages	\$4,928,230	\$73,382	\$5,001,612
Operating expenses	888,934	359,594	1,248,528
Contingencies	<u>52,000</u>	<u>73,000</u>	<u>125,000</u>
Total special funds	\$5,869,164	\$505,976	\$6,375,140
Full-time equivalent positions	20.00	(1.00)	19.00"

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1022 - Retirement and Investment Office - Senate Action

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$4,928,230	\$5,231,805	(\$230,193)	\$5,001,612
Operating expenses	888,934	783,203	465,325	1,248,528
Contingencies	<u>52,000</u>	<u>52,000</u>	<u>73,000</u>	<u>125,000</u>
Total all funds	\$5,869,164	\$6,067,008	\$308,132	\$6,375,140
Less estimated income	<u>5,869,164</u>	<u>6,067,008</u>	<u>308,132</u>	<u>6,375,140</u>
General fund	\$0	\$0	\$0	\$0
FTE	20.00	20.00	(1.00)	19.00

Department 190 - Retirement and Investment Office - Detail of Senate Changes

	Adjusts Funding for Salary Increases <sup>1</sup>	Adds Investment Program Analyst <sup>2</sup>	Transfers Positions for IT Unification <sup>3</sup>	Adds Funding for Contingencies <sup>4</sup>	Total Senate Changes
Salaries and wages	\$347	\$210,000	(\$440,540)		(\$230,193)
Operating expenses		15,000	450,325		465,325
Contingencies				\$73,000	73,000
Total all funds	\$347	\$225,000	\$9,785	\$73,000	\$308,132
Less estimated income	<u>347</u>	<u>225,000</u>	<u>9,785</u>	<u>73,000</u>	<u>308,132</u>
General fund	\$0	\$0	\$0	\$0	\$0
FTE	0.00	1.00	(2.00)	0.00	(1.00)

<sup>1</sup> Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

<sup>2</sup> Funding of \$225,000 from special funds, including \$210,000 for salaries and wages and \$15,000 for related operating costs, is added for 1 FTE investment program analyst position.

<sup>3</sup> Two FTE positions are transferred to the Information Technology Department for the IT unification project, reducing salaries and wages by \$440,540 and increasing operating expenses by \$450,325.

<sup>4</sup> Funding for contingencies is increased by \$73,000 to provide total contingency funding of \$125,000.

**REPORT OF STANDING COMMITTEE**

**HB 1022, as reengrossed: Appropriations Committee (Sen. Holmberg, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (14 YEARS, 0 NAYS, 0 ABSENT AND NOT VOTING). Reengrossed HB 1022 was placed on the Sixth order on the calendar.

Page 1, replace lines 11 through 15 with:

"Salaries and wages	\$4,928,230	\$73,382	\$5,001,612
Operating expenses	888,934	359,594	1,248,528
Contingencies	<u>52,000</u>	<u>73,000</u>	<u>125,000</u>
Total special funds	\$5,869,164	\$505,976	\$6,375,140
Full-time equivalent positions	20.00	(1.00)	19.00"

ReNUMBER accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1022 - Retirement and Investment Office - Senate Action**

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$4,928,230	\$5,231,805	(\$230,193)	\$5,001,612
Operating expenses	888,934	783,203	465,325	1,248,528
Contingencies	<u>52,000</u>	<u>52,000</u>	<u>73,000</u>	<u>125,000</u>
Total all funds	\$5,869,164	\$6,067,008	\$308,132	\$6,375,140
Less estimated income	<u>5,869,164</u>	<u>6,067,008</u>	<u>308,132</u>	<u>6,375,140</u>
General fund	\$0	\$0	\$0	\$0
FTE	20.00	20.00	(1.00)	19.00

**Department 190 - Retirement and Investment Office - Detail of Senate Changes**

	Adjusts Funding for Salary Increases <sup>1</sup>	Adds Investment Program Analyst <sup>2</sup>	Transfers Positions for IT Unification <sup>3</sup>	Adds Funding for Contingencies <sup>4</sup>	Total Senate Changes
Salaries and wages	\$347	\$210,000	(\$440,540)		(\$230,193)
Operating expenses		15,000	450,325		465,325
Contingencies				<u>\$73,000</u>	<u>73,000</u>
Total all funds	\$347	\$225,000	\$9,785	\$73,000	\$308,132
Less estimated income	<u>347</u>	<u>225,000</u>	<u>9,785</u>	<u>73,000</u>	<u>308,132</u>
General fund	\$0	\$0	\$0	\$0	\$0
FTE	0.00	1.00	(2.00)	0.00	(1.00)

<sup>1</sup> Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

<sup>2</sup> Funding of \$225,000 from special funds, including \$210,000 for salaries and wages and \$15,000 for related operating costs, is added for 1 FTE investment program analyst position.

<sup>3</sup> Two FTE positions are transferred to the Information Technology Department for the IT unification project, reducing salaries and wages by \$440,540 and increasing operating expenses by \$450,325.

<sup>4</sup> Funding for contingencies is increased by \$73,000 to provide total contingency funding of \$125,000.

PROPOSED AMENDMENTS TO REENGROSSED HOUSE BILL NO. 1022

Page 1, replace lines 11 through 15 with:

"Salaries and wages	\$4,928,230	\$73,382	\$5,001,612
Operating expenses	888,934	359,594	1,248,528
Contingencies	<u>52,000</u>	<u>73,000</u>	<u>125,000</u>
Total special funds	\$5,869,164	\$505,976	\$6,375,140
Full-time equivalent positions	20.00	(1.00)	19.00"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1022 - Retirement and Investment Office - Senate Action

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$4,928,230	\$5,231,805	(\$230,193)	\$5,001,612
Operating expenses	888,934	783,203	465,325	1,248,528
Contingencies	<u>52,000</u>	<u>52,000</u>	<u>73,000</u>	<u>125,000</u>
Total all funds	\$5,869,164	\$6,067,008	\$308,132	\$6,375,140
Less estimated income	<u>5,869,164</u>	<u>6,067,008</u>	<u>308,132</u>	<u>6,375,140</u>
General fund	\$0	\$0	\$0	\$0
FTE	20.00	20.00	(1.00)	19.00

Department 190 - Retirement and Investment Office - Detail of Senate Changes

	Adjusts Funding for Salary Increases <sup>1</sup>	Adds Investment Program Analyst <sup>2</sup>	Transfers Positions for IT Unification <sup>3</sup>	Adds Funding for Contingencies <sup>4</sup>	Total Senate Changes
Salaries and wages	\$347	\$210,000	(\$440,540)		(\$230,193)
Operating expenses		15,000	450,325		465,325
Contingencies				\$73,000	73,000
Total all funds	\$347	\$225,000	\$9,785	\$73,000	\$308,132
Less estimated income	<u>347</u>	<u>225,000</u>	<u>9,785</u>	<u>73,000</u>	<u>308,132</u>
General fund	\$0	\$0	\$0	\$0	\$0
FTE	0.00	1.00	(2.00)	0.00	(1.00)

<sup>1</sup> Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

<sup>2</sup> Funding of \$225,000 from special funds, including \$210,000 for salaries and wages and \$15,000 for related operating costs, is added for 1 FTE investment program analyst position.

<sup>3</sup> Two FTE positions are transferred to the Information Technology Department for the IT unification project, reducing salaries and wages by \$440,540 and increasing operating expenses by \$450,325.

<sup>4</sup> Funding for contingencies is increased by \$73,000 to provide total contingency funding of \$125,000.

Sixty-seventh  
Legislative Assembly  
of North Dakota

**REENGROSSED HOUSE BILL NO. 1022**

Introduced by

Appropriations Committee

1 A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and  
2 investment office; and to provide an exemption.

3 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

4 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds  
5 as may be necessary, are appropriated out of any moneys from special funds derived from  
6 income, to the retirement and investment office for the purpose of defraying the expenses of the  
7 retirement and investment office, for the biennium beginning July 1, 2021, and ending June 30,  
8 2023, as follows:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
11 <del>Salaries and wages</del>	<del>\$4,928,230</del>	<del>\$303,575</del>	<del>\$5,231,805</del>
12 <del>Operating expenses</del>	<del>888,934</del>	<del>(105,731)</del>	<del>783,203</del>
13 <del>Contingencies</del>	<del>52,000</del>	<del>0</del>	<del>52,000</del>
14 <del>Total special funds</del>	<del>\$5,869,164</del>	<del>\$197,844</del>	<del>\$6,067,008</del>
15 <del>Full-time equivalent positions</del>	<del>20.00</del>	<del>0.00</del>	<del>20.00</del>
16 <u>Salaries and wages</u>	<u>\$4,928,230</u>	<u>\$73,382</u>	<u>\$5,001,612</u>
17 <u>Operating expenses</u>	<u>888,934</u>	<u>359,594</u>	<u>1,248,528</u>
18 <u>Contingencies</u>	<u>52,000</u>	<u>73,000</u>	<u>125,000</u>
19 <u>Total special funds</u>	<u>\$5,869,164</u>	<u>\$505,976</u>	<u>\$6,375,140</u>
20 <u>Full-time equivalent positions</u>	<u>20.00</u>	<u>(1.00)</u>	<u>19.00</u>

21 **SECTION 2. ONE-TIME FUNDING.** The following amounts reflect the one-time funding  
22 items approved by the sixty-sixth legislative assembly for the 2019-21 biennium:

Sixty-seventh  
Legislative Assembly

	<u>One-Time Funding Description</u>	<u>2019-21</u>	<u>2021-23</u>
1			
2	Pension administration system project	<u>\$9,000,000</u>	<u>\$0</u>
3	Total special funds	\$9,000,000	\$0

4       **SECTION 3. EXEMPTION.** The amount of \$9,000,000 appropriated in section 1 of  
5 chapter 47 of the 2019 Session Laws for the pension administration system project is not  
6 subject to section 54-44.1-11 and any unexpended funds are available for completing the  
7 project during the biennium beginning July 1, 2021, and ending June 30, 2023.

**2021 CONFERENCE COMMITTEE**

**HB 1022**

# 2021 HOUSE STANDING COMMITTEE MINUTES

## Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1022  
4/15/2021  
Conference Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide an exemption.
--

09:30 **Chairman Kempenich** brought the conference committee to order. Members present: Chairman Kempenich, Representative Brandenburg, Representative Meier, Senator Bekkedahl, Senator Poolman, Senator Rust.

### Discussion Topics:

- Base level funding changes

09:30 **Senator Rust** explained the Senate changes. Testimony #11530.

09:40 **Senator Poolman** made a motion to recede from the Senate amendments and amend to reduce contingency items from \$145,000.00 to \$100,000.00.

09:40 **Representative Brandenburg** seconded the motion.

09:41 Roll call vote 6 Yeas 0 Nays 0 Absent

09:41 Motion carried.

09:42 **Chairman Kempenich** closed the conference committee.

*Sheri Lewis, Committee Clerk*

*(This bill was reconsidered on 4.20.21)*

PROPOSED AMENDMENTS TO REENGROSSED HOUSE BILL NO. 1022

That the Senate recede from its amendments as printed on pages 1481 and 1482 of the House Journal and page 1201 of the Senate Journal and that Reengrossed House Bill No. 1022 be amended as follows:

Page 1, replace lines 11 through 15 with:

"Salaries and wages	\$4,928,230	\$73,382	\$5,001,612
Operating expenses	888,934	359,594	1,248,528
Contingencies	<u>52,000</u>	<u>48,000</u>	<u>100,000</u>
Total special funds	\$5,869,164	\$480,976	\$6,350,140
Full-time equivalent positions	20.00	(1.00)	19.00"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1022 - Retirement and Investment Office - Conference Committee Action

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$4,928,230	\$5,231,805	(\$230,193)	\$5,001,612	\$5,001,612	
Operating expenses	888,934	783,203	465,325	1,248,528	1,248,528	
Contingencies	<u>52,000</u>	<u>52,000</u>	<u>48,000</u>	<u>100,000</u>	<u>125,000</u>	<u>(\$25,000)</u>
Total all funds	\$5,869,164	\$6,067,008	\$283,132	\$6,350,140	\$6,375,140	(\$25,000)
Less estimated income	<u>5,869,164</u>	<u>6,067,008</u>	<u>283,132</u>	<u>6,350,140</u>	<u>6,375,140</u>	<u>(25,000)</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	20.00	20.00	(1.00)	19.00	19.00	0.00

Department 190 - Retirement and Investment Office - Detail of Conference Committee Changes

	Adjusts Funding for Salary Increases <sup>1</sup>	Adds Investment Program Analyst <sup>2</sup>	Transfers Positions for IT Unification <sup>3</sup>	Increases Funding for Contingencies <sup>4</sup>	Total Conference Committee Changes
Salaries and wages	\$347	\$210,000	(\$440,540)		(\$230,193)
Operating expenses		15,000	450,325		465,325
Contingencies				\$48,000	48,000
Total all funds	\$347	\$225,000	\$9,785	\$48,000	\$283,132
Less estimated income	<u>347</u>	<u>225,000</u>	<u>9,785</u>	<u>48,000</u>	<u>283,132</u>
General fund	\$0	\$0	\$0	\$0	\$0
FTE	0.00	1.00	(2.00)	0.00	(1.00)

<sup>1</sup> Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

<sup>2</sup> Funding of \$225,000 from special funds, including \$210,000 for salaries and wages and \$15,000 for related operating costs, is added for 1 FTE investment program analyst position, the same as the Senate version. The House did not include this position and the related funding.

DO 4/19/21  
2 of 2

<sup>3</sup> Two FTE positions are transferred to the Information Technology Department for the IT unification project, reducing salaries and wages by \$440,540 and increasing operating expenses by \$450,325. The Senate included the IT unification project, but the House did not.

<sup>4</sup> Funding for contingencies is increased by \$48,000 to provide total contingency funding of \$100,000. The Senate provided an increase of \$73,000 for a total of \$125,000. The House did not increase funding for contingencies.



**Retirement and Investment Office - Budget No. 190**  
**House Bill No. 1022**  
**Base Level Funding Changes**

	House Version				Senate Version				Senate Changes to House Version Increase (Decrease) - House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
<b>2021-23 Biennium Base Level</b>	20.00	\$0	\$5,869,164	\$5,869,164	20.00	\$0	\$5,869,164	\$5,869,164	0.00	\$0	\$0	\$0
<b>2021-23 Ongoing Funding Changes</b>												
Base payroll changes			\$185,639	\$185,639			\$185,639	\$185,639				\$0
Salary increase			105,730	105,730			106,174	106,174			444	444
Health insurance increase			981	981			884	884			(97)	(97)
Adds funding to continue salary equity increases			11,225	11,225			11,225	11,225				0
Adds funding for an investment program analyst				0	1.00		225,000	225,000	1.00		225,000	225,000
Decreases funding for operating expenses			(107,934)	(107,934)			(107,934)	(107,934)				0
Adjusts funding for IT unification				0	(2.00)		9,785	9,785	(2.00)		9,785	9,785
Adds funding for contingencies				0			73,000	73,000			73,000	73,000
Increases funding for Microsoft Office 365 licensing expenses			2,203	2,203			2,203	2,203				0
Total ongoing funding changes	0.00	\$0	\$197,844	\$197,844	(1.00)	\$0	\$505,976	\$505,976	(1.00)	\$0	\$308,132	\$308,132
<b>One-time funding items</b>				\$0				\$0				\$0
No one-time funding items				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
<b>Total Changes to Base Level Funding</b>	0.00	\$0	\$197,844	\$197,844	(1.00)	\$0	\$505,976	\$505,976	(1.00)	\$0	\$308,132	\$308,132
<b>2021-23 Total Funding</b>	20.00	\$0	\$6,067,008	\$6,067,008	19.00	\$0	\$6,375,140	\$6,375,140	(1.00)	\$0	\$308,132	\$308,132
Total ongoing changes as a percentage of base level	0.0%		3.4%	3.4%	(5.0%)		8.6%	8.6%				
Total changes as a percentage of base level	0.0%		3.4%	3.4%	(5.0%)		8.6%	8.6%				

**Other Sections in Retirement and Investment Office - Budget No. 190**

	House Version	Senate Version
Information technology project exemption	Section 3 provides an exemption to continue unspent prior biennium appropriations into the 2021-23 biennium related to an information technology project.	Section 3 provides an exemption to continue unspent prior biennium appropriations into the 2021-23 biennium related to an information technology project.

# 2021 HOUSE STANDING COMMITTEE MINUTES

## Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1022  
4/21/2021  
Conference Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide an exemption.
--

3:30 **Chairman Kempenich** brought the conference committee to order. Members present: Chairman Kempenich, Representative Meier, Representative Brandenburg, Senator Bekkedahl, Senator Poolman, Senator Rust.

### Discussion Topics:

- Salaries

3:34 **Chairman Kempenich** discussed the salary of the CIO of the agency.

3:39 **Chairman Kempenich** adjourned the conference committee.

*Sheri Lewis, Committee Clerk*

# 2021 HOUSE STANDING COMMITTEE MINUTES

## Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB1022  
4/23/2021  
Conference Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide an exemption.
--

10:01 **Chairman Kempenich** brought the conference committee to order. Members present: Chairman Kempenich, Representative Meier, Representative Brandenburg, Senator Bekkedahl, Senator Poolman, Senator Rust.

### Discussion Topics:

- Equity package

10:01 **Chairman Kempenich** explained the equity.

10:03 **Senator Rust** made a motion to reconsider HB1022.

10:03 **Senator Bekkedahl** seconded the motion.

10:03 Voice vote.

10:04 **Senator Poolman** made a motion to recede from the Senate amendments and amend to add the salary equity increase.

10:04 **Representative Meier** seconded the motion.

10:05 Roll call vote 6 Yeas 0 Nays 0 Absent

10:05 Motion carried.

10:06 **Representative Kempenich** closed the conference committee.

*Sheri Lewis, Committee Clerk*

PROPOSED AMENDMENTS TO REENGROSSED HOUSE BILL NO. 1022

That the Senate recede from its amendments as printed on pages 1481 and 1482 of the House Journal and page 1201 of the Senate Journal and that Reengrossed House Bill No. 1022 be amended as follows:

Page 1, replace lines 11 through 15 with:

"Salaries and wages	\$4,928,230	\$125,747	\$5,053,977
Operating expenses	888,934	359,594	1,248,528
Contingencies	<u>52,000</u>	<u>48,000</u>	<u>100,000</u>
Total special funds	\$5,869,164	\$533,341	\$6,402,505
Full-time equivalent positions	20.00	(1.00)	19.00"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1022 - Retirement and Investment Office - Conference Committee Action

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$4,928,230	\$5,231,805	(\$177,828)	\$5,053,977	\$5,001,612	\$52,365
Operating expenses	888,934	783,203	465,325	1,248,528	1,248,528	
Contingencies	<u>52,000</u>	<u>52,000</u>	<u>48,000</u>	<u>100,000</u>	<u>125,000</u>	<u>(25,000)</u>
Total all funds	\$5,869,164	\$6,067,008	\$335,497	\$6,402,505	\$6,375,140	\$27,365
Less estimated income	<u>5,869,164</u>	<u>6,067,008</u>	<u>335,497</u>	<u>6,402,505</u>	<u>6,375,140</u>	<u>27,365</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	20.00	20.00	(1.00)	19.00	19.00	0.00

Department 190 - Retirement and Investment Office - Detail of Conference Committee Changes

	Adjusts Funding for Salary Increases <sup>1</sup>	Adds Investment Program Analyst <sup>2</sup>	Adds Salary Equity Funding <sup>3</sup>	Transfers Positions for IT Unification <sup>4</sup>	Increases Funding for Contingencies <sup>5</sup>	Total Conference Committee Changes
Salaries and wages	\$347	\$210,000	\$52,365	(\$440,540)		(\$177,828)
Operating expenses		15,000		450,325		465,325
Contingencies					\$48,000	48,000
Total all funds	\$347	\$225,000	\$52,365	\$9,785	\$48,000	\$335,497
Less estimated income	<u>347</u>	<u>225,000</u>	<u>52,365</u>	<u>9,785</u>	<u>48,000</u>	<u>335,497</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	1.00	0.00	(2.00)	0.00	(1.00)

<sup>1</sup> Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

<sup>2</sup> Funding of \$225,000 from special funds, including \$210,000 for salaries and wages and \$15,000 for related operating costs, is added for 1 FTE investment program analyst position, the same as the Senate version. The House did not include this position and the related funding.

<sup>3</sup> Funding is added to provide a 10.5 percent salary equity increase for the chief investment officer position. Neither the House nor the Senate included funding for this salary equity increase.

DA 9/26/21  
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<sup>4</sup> Two FTE positions are transferred to the Information Technology Department for the IT unification project, reducing salaries and wages by \$440,540 and increasing operating expenses by \$450,325. The Senate included the IT unification project, but the House did not.

<sup>5</sup> Funding for contingencies is increased by \$48,000 to provide total contingency funding of \$100,000. The Senate provided an increase of \$73,000 for a total of \$125,000. The House did not increase funding for contingencies.



Insert LC: 21.0281.03005  
 House Carrier: Kempenich  
 Senate Carrier: Bekkedahl

**REPORT OF CONFERENCE COMMITTEE**

**HB 1022, as engrossed:** Your conference committee (Sens. Bekkedahl, Poolman, Rust and Reps. Kempenich, Meier, Brandenburg) recommends that the **SENATE RECEDE** from the Senate amendments as printed on HJ pages 1481-1482, adopt amendments as follows, and place HB 1022 on the Seventh order:

That the Senate recede from its amendments as printed on pages 1481 and 1482 of the House Journal and page 1201 of the Senate Journal and that Reengrossed House Bill No. 1022 be amended as follows:

Page 1, replace lines 11 through 15 with:

"Salaries and wages	\$4,928,230	\$125,747	\$5,053,977
Operating expenses	888,934	359,594	1,248,528
Contingencies	<u>52,000</u>	<u>48,000</u>	<u>100,000</u>
Total special funds	\$5,869,164	\$533,341	\$6,402,505
Full-time equivalent positions	20.00	(1.00)	19.00"

ReNUMBER accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1022 - Retirement and Investment Office - Conference Committee Action**

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$4,928,230	\$5,231,805	(\$177,828)	\$5,053,977	\$5,001,612	\$52,365
Operating expenses	888,934	783,203	465,325	1,248,528	1,248,528	
Contingencies	<u>52,000</u>	<u>52,000</u>	<u>48,000</u>	<u>100,000</u>	<u>125,000</u>	<u>(25,000)</u>
Total all funds	\$5,869,164	\$6,067,008	\$335,497	\$6,402,505	\$6,375,140	\$27,365
Less estimated income	<u>5,869,164</u>	<u>6,067,008</u>	<u>335,497</u>	<u>6,402,505</u>	<u>6,375,140</u>	<u>27,365</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	20.00	20.00	(1.00)	19.00	19.00	0.00

**Department 190 - Retirement and Investment Office - Detail of Conference Committee Changes**

	Adjusts Funding for Salary Increases <sup>1</sup>	Adds Investment Program Analyst <sup>2</sup>	Adds Salary Equity Funding <sup>3</sup>	Transfers Positions for IT Unification <sup>4</sup>	Increases Funding for Contingencies <sup>5</sup>	Total Conference Committee Changes
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Total all funds	\$347	\$225,000	\$52,365	\$9,785	\$48,000	\$335,497
Less estimated income	<u>347</u>	<u>225,000</u>	<u>52,365</u>	<u>9,785</u>	<u>48,000</u>	<u>335,497</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	1.00	0.00	(2.00)	0.00	(1.00)

<sup>1</sup> Funding is adjusted to provide salary increases of 1.5 percent on July 1, 2021, with a minimum monthly increase of \$100, and 2 percent on July 1, 2022, the same as the Senate version. The House provided salary adjustments of 1.5 percent on July 1, 2021, and July 1, 2022, with a minimum monthly increase of \$100 and a maximum monthly increase of \$250.

<sup>2</sup> Funding of \$225,000 from special funds, including \$210,000 for salaries and wages and \$15,000 for related operating costs, is added for 1 FTE investment program analyst position, the same as the Senate version. The House did not include this position and the related funding.

**Insert LC: 21.0281.03005  
House Carrier: Kempenich  
Senate Carrier: Bekkedahl**

<sup>3</sup> Funding is added to provide a 10.5 percent salary equity increase for the chief investment officer position. Neither the House nor the Senate included funding for this salary equity increase.

<sup>4</sup> Two FTE positions are transferred to the Information Technology Department for the IT unification project, reducing salaries and wages by \$440,540 and increasing operating expenses by \$450,325. The Senate included the IT unification project, but the House did not.

<sup>5</sup> Funding for contingencies is increased by \$48,000 to provide total contingency funding of \$100,000. The Senate provided an increase of \$73,000 for a total of \$125,000. The House did not increase funding for contingencies.

Engrossed HB 1022 was placed on the Seventh order of business on the calendar.