

2023 SENATE APPROPRIATIONS

SB 2022

Department 190 - Retirement and Investment Office
Senate Bill No. 2022

Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2023-25 Executive Budget	\$0	\$11,414,495	\$11,414,495
2023-25 Base Level	0	8,209,367	8,209,367
Increase (Decrease)	\$0	\$3,205,128	\$3,205,128

Selected Budget Changes Recommended in the Executive Budget

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases of which \$549,864 is for salary increases and \$128,580 is for health insurance increases	\$0	\$678,444	\$678,444
2. Increases funding for new FTE positions approved during the November 2021 special legislative session (\$506,929) and salary equity adjustments (\$151,870)	\$0	\$658,799	\$658,799
3. Transfers \$143,721 of special funds authority from the operating expense line item to the salaries and wages line item	\$0	\$0	\$0
4. Increases funding for operating expenses related to executive staff recruitment searches (\$100,000), inflationary increases (\$157,500), and pension administration software fees (\$977,419)	\$0	\$1,244,919	\$1,244,919
5. Adds one-time funding for pension software implementation, including \$436,000 for temporary staff and \$138,900 for IT fees	\$0	\$574,900	\$574,900

A summary of the executive budget changes to the agency's base level appropriations is attached as an appendix.

A copy of the draft appropriations bill containing the executive budget recommendations is attached as an appendix.

Selected Bill Sections Recommended in the Executive Budget

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

Information technology project exemption - Section 4 would provide an exemption for a pension administration IT project to continue any unexpended 2019-21 biennium funds into the 2023-25 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.

Deficiency Appropriations

There are no deficiency appropriations for this agency.

Significant Audit Findings

The audit for the Retirement and Investment Office conducted by CliftonLarsonAllen LLP, Certified Public Accountants, for the period ending June 30, 2021, did not identify any significant audit findings.

The *Schedules 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, 2021, did not identify any significant audit findings.

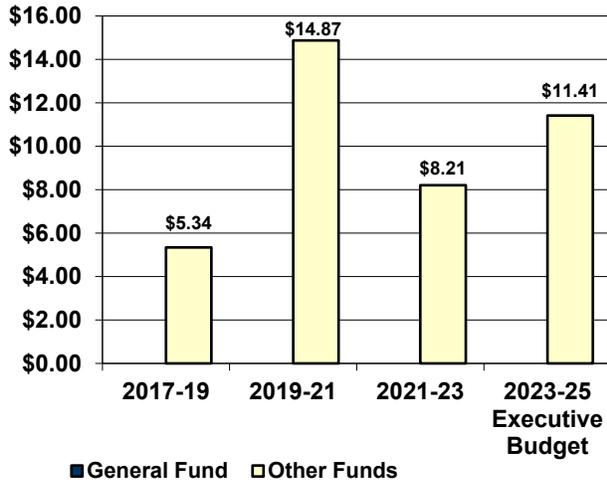
Major Related Legislation

At this time, no major related legislation has been introduced affecting this agency.

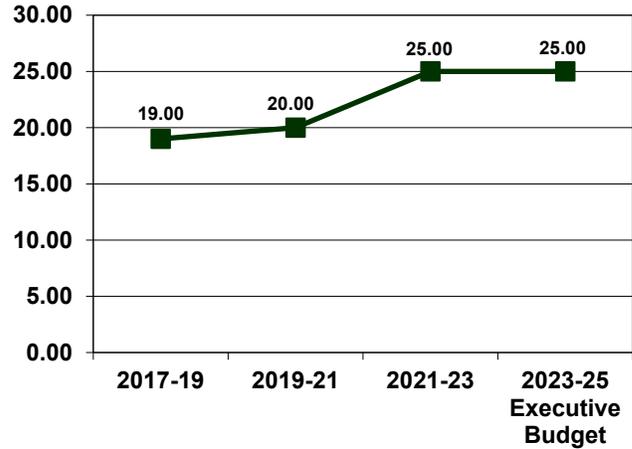
Historical Appropriations Information

Agency Appropriations and FTE Positions

Agency Funding (Millions)



FTE Positions



Ongoing Other Funds Appropriations

	2015-17	2017-19	2019-21	2021-23	2023-25 Executive Budget
Ongoing other funds appropriations	\$5,413,425	\$5,340,054	\$5,869,164	\$8,209,367	\$10,839,595
Increase (decrease) from previous biennium	N/A	(\$73,371)	\$529,110	\$2,340,203	\$2,630,228
Percentage increase (decrease) from previous biennium	N/A	(1.4%)	9.9%	39.9%	32.0%
Cumulative percentage increase (decrease) from 2015-17 biennium	N/A	(1.40%)	8.4%	51.6%	100.2%

Major Increases (Decreases) in Ongoing Other Funds Appropriations

2017-19 Biennium

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

2019-21 Biennium

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

2021-23 Biennium

- Added funding for 4 FTE investment professional positions (\$1,180,653), 1 FTE investment accountant position (\$155,951), and 1 FTE program outreach coordinator position (\$184,183); related operating expenses for the new FTE positions (\$75,000); and salary equity funding (\$211,075) \$1,806,862
- Added 1 FTE investment program analyst position, including \$210,000 for salaries and wages and \$15,000 for operating expenses \$225,000

2023-25 Biennium (Executive Budget Recommendation)

- Increases funding for new FTE positions approved during the November 2021 special legislative session (\$506,929) and salary equity adjustments (\$151,870) \$658,799
- Increases funding for operating expenses related to executive staff recruitment searches (\$100,000), inflationary increases (\$157,500), and pension administration software fees (\$977,419) \$1,244,919

One-Time Other Funds Appropriations

	2015-17	2017-19	2019-21	2021-23	2023-25 Executive Budget
One-time other funds appropriations	\$0	\$0	\$9,000,000	\$0	\$574,900

Major One-Time Other Funds Appropriations

2017-19 Biennium

1. None \$0

2019-21 Biennium

1. Pension administration system project \$9,000,000

2021-23 Biennium

1. None \$0

2023-25 Biennium (Executive Budget Recommendation)

1. Pension software implementation, including \$436,000 for temporary staff and \$138,900 for IT fees \$574,900

Retirement and Investment Office - Budget No. 190
Senate Bill No. 2022
Base Level Funding Changes

	Executive Budget Recommendation			
	FTE Positions	General Fund	Other Funds	Total
2023-25 Biennium Base Level	25.00	\$0	\$8,209,367	\$8,209,367
2023-25 Ongoing Funding Changes				
Cost to continue salary increases			\$41,345	\$41,345
Salary increase			549,864	549,864
Health insurance increase			128,580	128,580
Increases funding for ITD rates			6,721	6,721
Increases funding for FTE positions approved during the 2021 special session			506,929	506,929
Adds funding for salary equity increases			151,870	151,870
Transfers \$143,721 from operating expenses to salaries				0
Adds funding for executive search expenses			100,000	100,000
Adds funding for operating expense inflationary increases			167,500	167,500
Adds funding for pension administration software fees			977,419	977,419
Total ongoing funding changes	0.00	\$0	\$2,630,228	\$2,630,228
One-time funding items				
Adds one-time funding for pension administration software implementation			\$574,900	\$574,900
Total one-time funding changes	0.00	\$0	\$574,900	\$574,900
Total Changes to Base Level Funding	0.00	\$0	\$3,205,128	\$3,205,128
2023-25 Total Funding	25.00	\$0	\$11,414,495	\$11,414,495
<i>Federal funds included in other funds</i>			\$0	
<i>Total ongoing changes as a percentage of base level</i>	0.0%		32.0%	32.0%
<i>Total changes as a percentage of base level</i>	0.0%		39.0%	39.0%

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

Line item transfers

Executive Budget Recommendation

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

IT project exemption

Section 4 would provide an exemption for a pension administration IT project to continue any unexpended 2019-21 biennium funds into the 2023-25 biennium.

**SENATE BILL NO. 2022
 (Governor’s Recommendation)**

Introduced by

Appropriations Committee

(At the request of the Governor)

A bill for an act to provide an appropriation for defraying the expenses of the state retirement and investment office; to provide for an exemption; and to provide for a transfer.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

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, 2023, and ending June 30, 2025, as follows:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and Wages	\$6,860,839	\$1,883,309	\$8,744,148
Operating Expenses	1,248,528	1,321,819	2,570,347
Contingencies	<u>100,000</u>	<u>0</u>	<u>100,000</u>
Total All Funds	\$8,209,367	\$3,205,128	\$11,414,495
Less Estimated Income	<u>8,209,367</u>	<u>3,205,128</u>	<u>11,414,495</u>
Total General Fund	\$ 0	\$ 0	\$ 0
Full-time Equivalent Positions	25.00	0.00	25.00

SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET – REPORT TO SIXTY-NINTH LEGISLATIVE ASSEMBLY. The following amounts reflect the 2023-25 one-time funding items included in the appropriation in section 1 of this Act:

<u>One-Time Funding Description</u>	<u>2021-23</u>	<u>2023-25</u>
PASS project	<u>\$0</u>	<u>\$ 574,900</u>
Total Special Funds	\$0	\$ 574,900

The 2023-25 one-time funding amounts are not a part of the entity's base budget for the 2025-27 biennium. The retirement and investment office shall report to the appropriations committees of the sixty-ninth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2023 and ending June 30, 2025.

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, 2023 and ending June 30, 2025.

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Roughrider Room, State Capitol

SB 2022
1/6/2023

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

9:47 am Chairman Bekkedahl opened the hearing on SB 2022.

Members present: Senators Bekkedahl, Burckhard, Davison, Dever, Dwyer, Erbele, Kreun, Meyer, Roers, Schaible, Sorvaag, Vedaa, Wanzek, Rust, Mathern; Members absent: Senator Krebsbach

Discussion Topics:

- Budget overview/introduction
- Background of formation of RIO
- Current status of staffing
- Core priorities
- Strategic Plans
- Teachers Fund for Retirement (TFFR)
- State Investment Board – Investment Program
- Budget requests – agency initiatives
- Workforce initiatives and reorganization
- Background of TFFR project
- Assets under management
- Costs of the program
- Minimal requirements for professionals

9:48 Janylyn Murtha – Executive Director of ND Retirement and Investment Office (RIO) – introduced the bill and presented overviews of the office – testimony handout #12497

10:21 Ryan Skor – CFO/COO of ND RIO – discussed budget requests – continued handout # 12497

10:32 Chad Roberts – Deputy Executive Director/ Chief Retirement Officer – overview of the TFFR (Retirement) project – continued handout # 12497

10:38 Scott Anderson – CIO of ND RIO – discussed assets under management – continued with handout #12497

Additional Testimony: #21267

Chairman Bekkedahl assigned this Bill to the Human Resources Division.

10:53 am Chairman Bekkedahl closed the hearing.

Kathleen Hall, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations - Human Resources Division Roughrider Room, State Capitol

SB 2022
1/19/2023

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

10:05 AM Chairman Dever called the meeting to order.
Senators Dever, Davison, Burckhard, Mathern, Kreun are present.

Discussion Topics:

- Overview of Retirement and Investment Office
- Overview of Retirement and Invest Office Budget

10:06 AM Jan Murtha, Executive Director, ND Retirement and Investment Office provided information in favor. #14556

10:18 AM Scott Anderson, Chief Investment Officer, ND Retirement and Investment Office continued with testimony #14556

10:28 AM Jan Murtha, Executive Director, ND Retirement and Investment Office continued with testimony #14556

10:45 AM Ryan Skor, CEO, ND Retirement and Investment Office provided testimony in favor #14492

11:08 AM Chad Roberts, Deputy Executive Director, ND Retirement and Investment Office continued with testimony #14492

11:27 AM Scott Anderson, Chief Investment Officer, ND Retirement and Investment Office continued with testimony #14492

11:59 AM Jan Murtha, Executive Director, ND Retirement and Investment Office continued with testimony #14492

12:06 PM Chairman Dever closed the hearing.

Susan Huntington, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations - Human Resources Division Roughrider Room, State Capitol

SB 2022
1/23/2023

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office
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3:00 PM Chairman Dever opened the meeting.

Discussion Topics:

- Budget changes
- Budget explanation

3:00 PM Ryan Skor, CFO/COO, ND Retirement and Investment Office provided additional information. #14492 Originally presented on 1/19/23.

Additional Testimony: #23902

3:30 PM Chairmen Dever closed the meeting.

Susan Huntington, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations - Human Resources Division Roughrider Room, State Capitol

SB 2022
2/8/2023

A bill relating to exemptions from the state employee classification system and an incentive compensation program; relating to operating costs of the retirement and investment office.

3:09 PM Chairman Dever opened the meeting.

Present are Chairman Dever and Senators Burckhard, Davison, Kreun and Mathern.

Discussion Topics:

- New receptionist
- Seven new employees
- Software package
- Low-risk investment
- High return
- Dramatic growth in usable funds
- Resources

3:09 PM Levi Kinnischtzke, Senior Financial analyst for Legislative Council provided oral testimony.

3:10 PM The committee has discussion on the bill.

3:20 PM The committee asks Mr. Kinnischtzke to prepare a long form budget worksheet.

3:24 PM Chairman Dever closed the meeting.

Rick Schuchard on behalf of Susan Huntington, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations – Human Resources Division Roughrider Room, State Capitol

SB 2022
2/16/2023

To provide an appropriation for defraying the expenses of the retirement and investment office.

Technical difficulties – no audio or video until 11:16:54 AM.

11:08 AM **Chair Dever** opened committee work.

Senators Dever, Davison, Kreun, Burckhardt, Mathern were present.

Discussion Topics:

- Declassification of employees
- Incentive compensation
- Committee action

11:10 AM **Adam Mathiak** provided the long sheet overview #23903 and executive budget comparison to base level, green sheet #21267

Senator Mathern moved to adopt the amendment. LC 23.0276.01001(#21208)
Senator Kreun seconded.

Senators	Vote
Senator Dever	Y
Senator Burckhardt	Y
Senator Davison	Y
Senator Kreun	Y
Senator Mathern	Y

Motion passed 5-0-0.

Senator Davison moved **DO PASS** as **AMENDED**.
Senator Burckhardt seconded.

Senators	Vote
Senator Dever	Y
Senator Burckardt	Y
Senator Davison	Y
Senator Kreun	Y
Senator Mathern	Y

Motion passed 5-0-0.

11:26 AM **Chair Dever** closed the meeting.

Pam Dever on behalf of Sue Huntington, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Red River Room, State Capitol

SB 2022
2/16/2023

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and relating to exemptions from the state employee classification system and an incentive compensation program, and relating to operating costs of the retirement and investment office; and to provide an exemption.

7:48: PM **Chairman Bekkedahl** called the meeting to order. **Senators** Bekkedahl, Burkhard, Davison, Dever, Dwyer, Erbele, Krebsbach, Kreun, Mathern, Meyer, Roers, Schaible, Sorvaag, Wanzek, Vedaa, Rust are present.

Discussion Topics:

- New FTE's
- New funding strategy
- Special fund

Senator Dever introduced SB 2022 in favor #21049.

Senator Dever moves to **ADOPT AMENDMENT LC 23.0276.01001**

Senator Schaible seconded.

Roll call vote.

Senators	Vote
Senator Brad Bekkedahl	Y
Senator Karen K. Krebsbach	Y
Senator Randy A. Burckhard	Y
Senator Kyle Davison	Y
Senator Dick Dever	Y
Senator Michael Dwyer	Y
Senator Robert Erbele	Y
Senator Curt Kreun	Y
Senator Tim Mathern	Y
Senator Scott Meyer	Y
Senator Jim P. Roers	Y
Senator David S. Rust	Y
Senator Donald Schaible	Y
Senator Ronald Sorvaag	Y
Senator Shawn Vedaa	N
Senator Terry M. Wanzek	Y

Motion passed 15-1-0.

Senator Dever moved **DO PASS** as **AMENDED**.

Senator Meyer seconded the motion.

Roll call vote.

Senators	Vote
Senator Brad Bekkedahl	Y
Senator Karen K. Krebsbach	Y
Senator Randy A. Burckhard	Y
Senator Kyle Davison	Y
Senator Dick Dever	Y
Senator Michael Dwyer	Y
Senator Robert Erbele	Y
Senator Curt Kreun	Y
Senator Tim Mathern	Y
Senator Scott Meyer	Y
Senator Jim P. Roers	Y
Senator David S. Rust	Y
Senator Donald Schaible	Y
Senator Ronald Sorvaag	Y
Senator Shawn Vedaa	n
Senator Terry M. Wanzek	Y

Motion passed 15-1-0.

Senator Dever will carry SB 2022.

8:05 PM **Senator Bekkedahl** closed the meeting.

Patricia Lahr on behalf of Carol Thompson, Committee Clerk

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144
2-16-23

PROPOSED AMENDMENTS TO SENATE BILL NO. 2022

Page 1, line 2, after "office" insert "; to create and enact a new subsection to section 54-44.3-20 and a new section to chapter 54-52.5 of the North Dakota Century Code, relating to exemptions from the state employee classification system and an incentive compensation program; to amend and reenact section 54-52.5-03 of the North Dakota Century Code, relating to operating costs of the retirement and investment office; and to provide an exemption"

Page 1, replace lines 9 through 15 with:

"	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$6,785,839	\$3,764,387	\$10,550,226
Operating expenses	1,323,528	1,546,409	2,869,937
Contingencies	<u>100,000</u>	<u>100,000</u>	<u>200,000</u>
Total special funds	\$8,209,367	\$5,410,796	\$13,620,163
Full-time equivalent positions	25.00	9.00	34.00

SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO THE SIXTY-NINTH LEGISLATIVE ASSEMBLY. The following amounts reflect the one-time funding items approved by the sixty-seventh legislative assembly for the 2021-23 biennium and the 2023-25 biennium one-time funding items included in the appropriation in section 1 of this Act:

<u>One-Time Funding Description</u>	<u>2021-23</u>	<u>2023-25</u>
Pension administration software implementation	\$0	\$574,900
Temporary salaries	<u>0</u>	<u>50,000</u>
Total special funds	\$0	\$624,900

The 2023-25 biennium one-time funding amounts are not a part of the entity's base budget for the 2025-27 biennium. The retirement and investment office shall report to the appropriations committees of the sixty-ninth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2023, and ending June 30, 2025.

SECTION 3. A new subsection to section 54-44.3-20 of the North Dakota Century Code is created and enacted as follows:

Investment positions of the state retirement and investment office.

SECTION 4. AMENDMENT. Section 54-52.5-03 of the North Dakota Century Code is amended and reenacted as follows:

54-52.5-03. State retirement and investment fund - Cost of operation of agency.

A special fund known as the "state retirement and investment fund" is established for the purpose of defraying administrative expenses of the state retirement and investment office. The actual amount of administrative expenses incurred by the

state retirement and investment office must be paid from the respective funds listed under section 21-10-06 and are hereby appropriated to the state retirement and investment fund in proportion to the services rendered for each fund as estimated by the state investment board. The amount necessary to pay all administrative expenses of the state retirement and investment office must be paid from the state retirement and investment fund in accordance with the agency's appropriation authority and earnings lawfully available for such purposes. Any interest income earned on the state retirement and investment fund must be credited to the fund.

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2-14
2-16-23

SECTION 5. A new section to chapter 54-52.5 of the North Dakota Century Code is created and enacted as follows:

Incentive compensation program.

The state retirement and investment office may develop an incentive compensation program for full-time equivalent investment positions related to the internal management of the investment of funds under the control of the state investment board. The program must promote profitability, productivity, and responsible fund management. The provisions of the program must be approved annually by the state investment board. The provisions must ensure that the payouts do not occur unless the risk-based performance of the investments that are internally managed exceed the risk-based performance of policy benchmarks.

SECTION 6. EXEMPTION - PENSION ADMINISTRATION SYSTEM PROJECT. The sum of \$9,000,000 appropriated in section 1 of chapter 47 of the 2019 Session Laws and continued into the 2021-23 biennium pursuant to section 3 of chapter 22 of the 2021 Session Laws for the pension administration system is not subject to the provisions of section 54-44.1-11 and any unexpended funds are available for completing the project during the biennium beginning July 1, 2023, and ending June 30, 2025."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Retirement and Investment Office - Senate Action

	Base Budget	Senate Changes	Senate Version
Salaries and wages	\$6,785,839	\$3,764,387	\$10,550,226
Operating expenses	1,323,528	1,546,409	2,869,937
Contingencies	100,000	100,000	200,000
Total all funds	\$8,209,367	\$5,410,796	\$13,620,163
Less estimated income	8,209,367	5,410,796	13,620,163
General fund	\$0	\$0	\$0
FTE	25.00	9.00	34.00

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

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324
276-23

	Adds Funding for Cost to Continue Salaries ¹	Adds Funding for Salary and Benefit Increases ²	Adds FTE Positions ³	Adds Funding for Other Salary Adjustments ⁴	Transfers Funding from Operating to Salaries ⁵	Adds Funding for Operating Expenses ⁶
Salaries and wages	\$41,345	\$532,547	\$1,547,947	\$1,012,827	\$143,721	\$1,551,230
Operating expenses					(143,721)	
Contingencies						
Total all funds	\$41,345	\$532,547	\$1,547,947	\$1,012,827	\$0	\$1,551,230
Less estimated income	41,345	532,547	1,547,947	1,012,827	0	1,551,230
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	9.00	0.00	0.00	0.00

	Increases Funding for Contingencies ⁷	Adds One-Time Funding Items ⁸	Total Senate Changes
Salaries and wages		\$486,000	\$3,764,387
Operating expenses		138,900	1,546,409
Contingencies	\$100,000		100,000
Total all funds	\$100,000	\$624,900	\$5,410,796
Less estimated income	100,000	624,900	5,410,796
General fund	\$0	\$0	\$0
FTE	0.00	0.00	9.00

¹ Funding derived from the income of funds under management is added for cost to continue salary increases.

² The following funding is added for 2023-25 biennium salary adjustments of 4 percent on July 1, 2023, and 4 percent on July 1, 2024, and increases in health insurance premiums from \$1,429 to \$1,643 per month:

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Salary increase	\$0	\$401,009	\$401,009
Health insurance increase	0	131,538	131,538
Total	\$0	\$532,547	\$532,547

³ Funding of \$1,547,947 derived from the income of funds under management and FTE positions are added as follows:

- \$374,621 for 2 FTE investment assistant positions.
- \$1,173,326 for 7 FTE positions, including 5 investment positions, 1 fiscal position, and 1 administrative position. The funding is only for the 2nd year of the biennium.

⁴ Funding of \$1,012,827 derived from the income of funds under management is added for other salary adjustments as follows:

- \$506,929 for FTE positions approved during the November 2021 special legislative session.
- \$383,540 for salary equity increases.
- \$122,358 for other salary increases and internships.

⁵ Funding of \$143,721 is transferred from the operating expenses line item to the salaries and wages line item related to cost-savings from operating expenses and increases in salaries.

⁶ Funding of \$1,551,230 derived from the income of funds under management is added for operating expenses as follows:

- \$6,721 for Information Technology Department rate increases.
- \$100,000 for executive search expenses.
- \$167,500 for inflationary increases.
- \$977,419 for pension administration software fees.
- \$32,750 for staff development and marketing materials.
- \$266,840 for other operating expense increases related to rent, travel, and data processing.

⁷ Funding derived from the income of funds under management is increased by \$100,000 for contingencies to provide total funding of \$200,000.

⁸ One-time funding of \$624,900 derived from the income of funds under management is added as follows:

- \$436,000 for temporary salaries to implement new pension administration software.
- \$50,000 for additional temporary salaries.
- \$138,900 for operating expenses related to the implementation of new pension administration software.

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4/24
2-16-23

This amendment also adds sections to:

- Amend North Dakota Century Code Section 54-44.3-20 to exempt the investment staff of the Retirement and Investment Office from the state employee classification system.
- Amend Section 54-52.5-03 to clarify the Retirement and Investment Office administrative expenses are from the earnings available from the funds under management.
- Create a new section to Chapter 54-52.5 relating to an incentive compensation program.
- Provide an exemption for a pension administration information technology project to continue any unexpended 2019-21 biennium funds into the 2023-25 biennium, which are estimated to be \$6.7 million.

REPORT OF STANDING COMMITTEE

SB 2022: Appropriations Committee (Sen. Bekkedahl, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (15 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). SB 2022 was placed on the Sixth order on the calendar. This bill does not affect workforce development.

Page 1, line 2, after "office" insert "; to create and enact a new subsection to section 54-44.3-20 and a new section to chapter 54-52.5 of the North Dakota Century Code, relating to exemptions from the state employee classification system and an incentive compensation program; to amend and reenact section 54-52.5-03 of the North Dakota Century Code, relating to operating costs of the retirement and investment office; and to provide an exemption"

Page 1, replace lines 9 through 15 with:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$6,785,839	\$3,764,387	\$10,550,226
Operating expenses	1,323,528	1,546,409	2,869,937
Contingencies	<u>100,000</u>	<u>100,000</u>	<u>200,000</u>
Total special funds	\$8,209,367	\$5,410,796	\$13,620,163
Full-time equivalent positions	25.00	9.00	34.00

SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO THE SIXTY-NINTH LEGISLATIVE ASSEMBLY. The following amounts reflect the one-time funding items approved by the sixty-seventh legislative assembly for the 2021-23 biennium and the 2023-25 biennium one-time funding items included in the appropriation in section 1 of this Act:

<u>One-Time Funding Description</u>	<u>2021-23</u>	<u>2023-25</u>
Pension administration software implementation	\$0	\$574,900
Temporary salaries	<u>0</u>	<u>50,000</u>
Total special funds	\$0	\$624,900

The 2023-25 biennium one-time funding amounts are not a part of the entity's base budget for the 2025-27 biennium. The retirement and investment office shall report to the appropriations committees of the sixty-ninth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2023, and ending June 30, 2025.

SECTION 3. A new subsection to section 54-44.3-20 of the North Dakota Century Code is created and enacted as follows:

Investment positions of the state retirement and investment office.

SECTION 4. AMENDMENT. Section 54-52.5-03 of the North Dakota Century Code is amended and reenacted as follows:

54-52.5-03. State retirement and investment fund - Cost of operation of agency.

A special fund known as the "state retirement and investment fund" is established for the purpose of defraying administrative expenses of the state retirement and investment office. The actual amount of administrative expenses incurred by the state retirement and investment office must be paid from the respective funds listed under section 21-10-06 and are hereby appropriated to the state retirement and investment fund in proportion to the services rendered for each fund as estimated by the state investment board. The amount necessary to pay all administrative expenses of the state retirement and investment office must be paid from the state retirement and investment fund in accordance with the agency's appropriation authority and earnings lawfully available for such purposes. Any

interest income earned on the state retirement and investment fund must be credited to the fund.

SECTION 5. A new section to chapter 54-52.5 of the North Dakota Century Code is created and enacted as follows:

Incentive compensation program.

The state retirement and investment office may develop an incentive compensation program for full-time equivalent investment positions related to the internal management of the investment of funds under the control of the state investment board. The program must promote profitability, productivity, and responsible fund management. The provisions of the program must be approved annually by the state investment board. The provisions must ensure that the payouts do not occur unless the risk-based performance of the investments that are internally managed exceed the risk-based performance of policy benchmarks.

SECTION 6. EXEMPTION - PENSION ADMINISTRATION SYSTEM PROJECT. The sum of \$9,000,000 appropriated in section 1 of chapter 47 of the 2019 Session Laws and continued into the 2021-23 biennium pursuant to section 3 of chapter 22 of the 2021 Session Laws for the pension administration system is not subject to the provisions of section 54-44.1-11 and any unexpended funds are available for completing the project during the biennium beginning July 1, 2023, and ending June 30, 2025."

ReNUMBER accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Retirement and Investment Office - Senate Action

	Base Budget	Senate Changes	Senate Version
Salaries and wages	\$6,785,839	\$3,764,387	\$10,550,226
Operating expenses	1,323,528	1,546,409	2,869,937
Contingencies	100,000	100,000	200,000
Total all funds	\$8,209,367	\$5,410,796	\$13,620,163
Less estimated income	8,209,367	5,410,796	13,620,163
General fund	\$0	\$0	\$0
FTE	25.00	9.00	34.00

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

	Adds Funding for Cost to Continue Salaries ¹	Adds Funding for Salary and Benefit Increases ²	Adds FTE Positions ³	Adds Funding for Other Salary Adjustments ⁴	Transfers Funding from Operating to Salaries ⁵	Adds Funding for Operating Expenses ⁶
Salaries and wages	\$41,345	\$532,547	\$1,547,947	\$1,012,827	\$143,721	
Operating expenses					(143,721)	\$1,551,230
Contingencies						
Total all funds	\$41,345	\$532,547	\$1,547,947	\$1,012,827	\$0	\$1,551,230
Less estimated income	41,345	532,547	1,547,947	1,012,827	0	1,551,230
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	9.00	0.00	0.00	0.00

	Increases Funding for Contingencies ²	Adds One-Time Funding Items ⁸	Total Senate Changes
Salaries and wages		\$486,000	\$3,764,387
Operating expenses		138,900	1,546,409
Contingencies	\$100,000		100,000
Total all funds	\$100,000	\$624,900	\$5,410,796
Less estimated income	100,000	624,900	5,410,796
General fund	\$0	\$0	\$0
FTE	0.00	0.00	9.00

¹ Funding derived from the income of funds under management is added for cost to continue salary increases.

² The following funding is added for 2023-25 biennium salary adjustments of 4 percent on July 1, 2023, and 4 percent on July 1, 2024, and increases in health insurance premiums from \$1,429 to \$1,643 per month:

	General Fund	Other Funds	Total
Salary increase	\$0	\$401,009	\$401,009
Health insurance increase	0	131,538	131,538
Total	\$0	\$532,547	\$532,547

³ Funding of \$1,547,947 derived from the income of funds under management and FTE positions are added as follows:

- \$374,621 for 2 FTE investment assistant positions.
- \$1,173,326 for 7 FTE positions, including 5 investment positions, 1 fiscal position, and 1 administrative position. The funding is only for the 2nd year of the biennium.

⁴ Funding of \$1,012,827 derived from the income of funds under management is added for other salary adjustments as follows:

- \$506,929 for FTE positions approved during the November 2021 special legislative session.
- \$383,540 for salary equity increases.
- \$122,358 for other salary increases and internships.

⁵ Funding of \$143,721 is transferred from the operating expenses line item to the salaries and wages line item related to cost-savings from operating expenses and increases in salaries.

⁶ Funding of \$1,551,230 derived from the income of funds under management is added for operating expenses as follows:

- \$6,721 for Information Technology Department rate increases.
- \$100,000 for executive search expenses.
- \$167,500 for inflationary increases.
- \$977,419 for pension administration software fees.
- \$32,750 for staff development and marketing materials.
- \$266,840 for other operating expense increases related to rent, travel, and data processing.

⁷ Funding derived from the income of funds under management is increased by \$100,000 for contingencies to provide total funding of \$200,000.

⁸ One-time funding of \$624,900 derived from the income of funds under management is added as follows:

- \$436,000 for temporary salaries to implement new pension administration software.
- \$50,000 for additional temporary salaries.
- \$138,900 for operating expenses related to the implementation of new pension administration software.

This amendment also adds sections to:

- Amend North Dakota Century Code Section 54-44.3-20 to exempt the investment staff of the Retirement and Investment Office from the state employee classification system.
- Amend Section 54-52.5-03 to clarify the Retirement and Investment Office administrative expenses are from the earnings available from the funds under management.
- Create a new section to Chapter 54-52.5 relating to an incentive compensation program.
- Provide an exemption for a pension administration information technology project to continue any unexpended 2019-21 biennium funds into the 2023-25 biennium, which are estimated to be \$6.7 million.

2023 HOUSE APPROPRIATIONS

SB 2022

Department 190 - Retirement and Investment Office
Senate Bill No. 2022

First Chamber Comparison to Base Level

	General Fund	Other Funds	Total
2023-25 First Chamber Version	\$0	\$13,620,163	\$13,620,163
2023-25 Base Level	0	8,209,367	8,209,367
Increase (Decrease)	\$0	\$5,410,796	\$5,410,796

First Chamber Changes

A summary of the first chamber's changes to the agency's base level appropriations and the executive budget is attached as an appendix.

Selected Bill Sections Included in the First Chamber Version

Incentive compensation - Section 3 amends North Dakota Century Code Section 54-44.3-20 to exempt investment positions of the Retirement and Investment Office staff from the state employee classification system. Section 5 creates a new section to Chapter 54-52.5 relating to an incentive compensation program.

Information technology project exemption - Section 6 provides an exemption for a pension administration information technology (IT) project to continue any unexpended 2019-21 biennium funds into the 2023-25 biennium.

Continuing Appropriations

Investment expenses - 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.

Deficiency Appropriations

There are no deficiency appropriations for this agency.

Significant Audit Findings

The audit for the Retirement and Investment Office conducted by CliftonLarsonAllen LLP, Certified Public Accountants, for the period ending June 30, 2021, did not identify any significant audit findings.

The *Schedules 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, 2021, did not identify any significant audit findings.

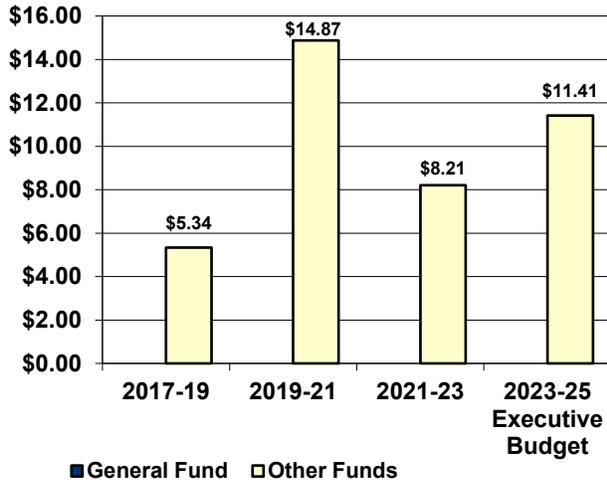
Major Related Legislation

House Bill No. 1227 - Requires the Retirement and Investment Office to arrange for a cost-benefit analysis of any measures with asset allocation or investment policy impacts to the legacy fund.

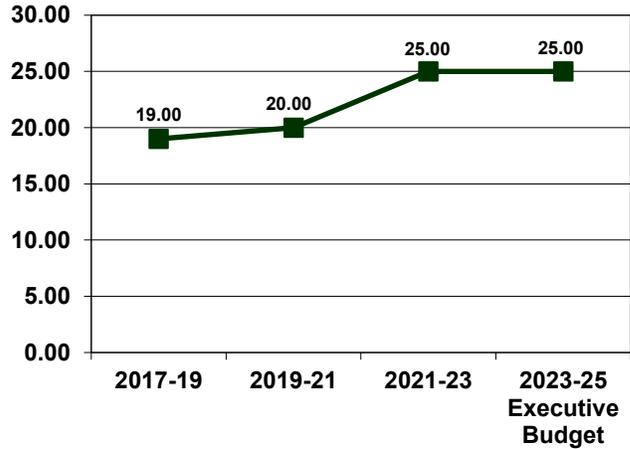
Historical Appropriations Information

Agency Appropriations and FTE Positions

Agency Funding (Millions)



FTE Positions



Ongoing Other Funds Appropriations

	2015-17	2017-19	2019-21	2021-23	2023-25 Executive Budget
Ongoing other funds appropriations	\$5,413,425	\$5,340,054	\$5,869,164	\$8,209,367	\$10,839,595
Increase (decrease) from previous biennium	N/A	(\$73,371)	\$529,110	\$2,340,203	\$2,630,228
Percentage increase (decrease) from previous biennium	N/A	(1.4%)	9.9%	39.9%	32.0%
Cumulative percentage increase (decrease) from 2015-17 biennium	N/A	(1.40%)	8.4%	51.6%	100.2%

Major Increases (Decreases) in Ongoing Other Funds Appropriations

2017-19 Biennium

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

2019-21 Biennium

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

2021-23 Biennium

- Added funding for 4 FTE investment professional positions (\$1,180,653), 1 FTE investment accountant position (\$155,951), and 1 FTE program outreach coordinator position (\$184,183); related operating expenses for the new FTE positions (\$75,000); and salary equity funding (\$211,075) \$1,806,862
- Added 1 FTE investment program analyst position, including \$210,000 for salaries and wages and \$15,000 for operating expenses \$225,000

2023-25 Biennium (Executive Budget Recommendation)

- Increases funding for new FTE positions approved during the November 2021 special legislative session (\$506,929) and salary equity adjustments (\$151,870) \$658,799
- Increases funding for operating expenses related to executive staff recruitment searches (\$100,000), inflationary increases (\$157,500), and pension administration software fees (\$977,419) \$1,244,919

One-Time Other Funds Appropriations

	2015-17	2017-19	2019-21	2021-23	2023-25 Executive Budget
One-time other funds appropriations	\$0	\$0	\$9,000,000	\$0	\$574,900

Major One-Time Other Funds Appropriations

2017-19 Biennium

None \$0

2019-21 Biennium

Pension administration system project \$9,000,000

2021-23 Biennium

None \$0

2023-25 Biennium (Executive Budget Recommendation)

Pension software implementation, including \$436,000 for temporary staff and \$138,900 for IT fees \$574,900

Retirement and Investment Office - Budget No. 190
Senate Bill No. 2022
Base Level Funding Changes

	Executive Budget Recommendation				Senate Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2023-25 Biennium Base Level	25.00	\$0	\$8,209,367	\$8,209,367	25.00	\$0	\$8,209,367	\$8,209,367
2023-25 Ongoing Funding Changes								
Cost to continue salary increases			\$41,345	\$41,345			\$41,345	\$41,345
Salary increase			549,864	549,864			401,009	401,009
Health insurance increase			128,580	128,580			131,538	131,538
Adds FTE investment assistant positions				0	2.00		374,621	374,621
Adds FTE internal investment positions				0	7.00		1,173,326	1,173,326
Increases funding for FTE positions approved during the 2021 special session			506,929	506,929			506,929	506,929
Adds funding for salary adjustments and internships				0			122,358	122,358
Adds funding for salary equity increases			151,870	151,870			151,870	151,870
Adds funding for additional salary equity increases				0			231,670	231,670
Transfers \$143,721 from operating expenses to salaries				0				0
Increases funding for Information Technology Department rates			6,721	6,721			6,721	6,721
Adds funding for executive search expenses			100,000	100,000			100,000	100,000
Adds funding for operating expense inflationary increases			167,500	167,500			167,500	167,500
Adds funding for pension administration software fees			977,419	977,419			977,419	977,419
Adds funding for staff development and marketing				0			32,750	32,750
Increases operating expenses for rent, travel, and data processing				0			266,840	266,840
Increases funding for contingencies				0			100,000	100,000
Total ongoing funding changes	0.00	\$0	\$2,630,228	\$2,630,228	9.00	\$0	\$4,785,896	\$4,785,896
One-Time Funding Items								
Adds one-time funding for pension administration software implementation			\$574,900	\$574,900			\$574,900	\$574,900
Adds one-time funding for temporary salaries				0			50,000	50,000
Total one-time funding changes	0.00	\$0	\$574,900	\$574,900	0.00	\$0	\$624,900	\$624,900
Total Changes to Base Level Funding	0.00	\$0	\$3,205,128	\$3,205,128	9.00	\$0	\$5,410,796	\$5,410,796
2023-25 Total Funding	25.00	\$0	\$11,414,495	\$11,414,495	34.00	\$0	\$13,620,163	\$13,620,163
<i>Federal funds included in other funds</i>			\$0				\$0	
<i>Total ongoing changes as a percentage of base level</i>	0.0%		32.0%	32.0%	36.0%		58.3%	58.3%
<i>Total changes as a percentage of base level</i>	0.0%		39.0%	39.0%	36.0%		65.9%	65.9%

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

	Executive Budget Recommendation	Senate Version
Line item transfers	Section 3 would allow the Retirement and Investment Office to transfer from the contingencies line item in Section 1 of the bill to all other line items, upon approval of the State Investment Board.	
Incentive compensation		Section 3 amends Section 54-44.3-20 to exempt investment positions of the Retirement and Investment Office staff from the state employee classification system. Section 5 creates a new section to Chapter 54-52.5 relating to an incentive compensation program.

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

Agency operating costs

IT project exemption

Executive Budget Recommendation

Section 4 would provide an exemption for a pension administration IT project to continue any unexpended 2019-21 biennium funds into the 2023-25 biennium.

Senate Version

Section 4 amends Section 54-52.5-03 to clarify the Retirement and Investment Office administrative expenses are from the earnings available from the funds under management.

Section 6 provides an exemption for a pension administration IT project to continue any unexpended 2019-21 biennium funds into the 2023-25 biennium.

2023 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

SB 2022
3/9/2023

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

2:25 PM Chairman Monson called the meeting to order.

Members present: Chairman Monson, Vice Chair Brandenburg, Rep. Kempenich, Rep. Meier, Rep. Pyle, Rep. Mock

Member not present: Rep Bellew

Discussion Topics:

- Communication
- Infrastructure
- Organizational culture
- Talent management
- Technology enabled processes.
- FTE's
- Internal investments

Janilyn Murtha, Executive Director, Retirement Investment Office, provided testimony in support of the bill. Testimony (#23399)

Ryan Skor, CFO and COO, Retirement Investment Office testified in support of the bill. Testimony (#23399)

Chad Roberts, Deputy Executive Director, Retirement Investment Office testified in support of the bill. Testimony (#23399)

Scott Anderson, Chief Investment officer, Retirement Investment Office, testified in support of the bill. Testimony (#23399)

Ryan Skor answered question for the committee.

4:38 PM Chairman Monson closed the meeting.

Amy Liepke, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

SB 2022
3/23/2023

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

Chairman Monson opened the meeting at 4:19 PM

Members present: Chairman Monson, Vice Chair Brandenburg, Rep. Bellew, Rep. Kempenich, Rep. Meier, Rep. Pyle

Members Absent: Rep. Mock

Discussion Topics:

- Communication assets
- New Infrastructure
- FTE's
- Internal investments
- Budget 190

Janilyn Murtha, Executive Director, Retirement Investment Office, Introduced Ryan

Ryan Skor, CFO and COO, Retirement Investment Office, provided information asked for in previous meeting (#26519)

Scott Anderson, Chief Investment officer, Retirement Investment Office, Budget 190 (#26515, #26513)

Ryan Skor answered questions for the committee.

Jan Murtha, answered questions for the committee

Chad Roberts, Deputy Executive Director, ND Retirement and Investment office Answered questions for the committee.

Ryan Skor answered questions for the committee.

Chad Roberts, answers questions for the committee.

Ryan Skor, answeres questions for the committee

Chairman Monson closed the hearing at 5:09 PM

Leah Kuball, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

SB 2022
3/31/2023

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

Chairman Monson opened the meeting at 10:56 AM

Members present: Chairman Monson, Vice Chair Brandenburg, Rep. Bellew, Rep. Kempenich, Rep. Meier, Rep. Pyle, Rep. Mock

Members absent: Rep. Pyle

Discussion Topics:

- Incentive compensation
- Amendments (23.0276.02001)

Jan Murtha, Executive Director of the retirement office, answers questions for the committee

Representative Kempenich Moved to adopt amendments (23.0276.02001) to SB 2022 (#27169)

Representative Brandenburg seconded motion

Roll call vote:

Representatives	Vote
Representative David Monson	Y
Representative Mike Brandenburg	Y
Representative Larry Bellew	Y
Representative Keith Kempenich	Y
Representative Lisa Meier	Y
Representative Corey Mock	Y
Representative Brandy Pyle	AB

Motion Carries: 6-0-1

Chairman Monson closed the hearing at 11:28 AM

Leah Kuball, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

SB 2022
4/3/2023

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

Chairman Monson opened the meeting at 4:41 PM

Members present: Chairman Monson, Vice Chair Brandenburg, Rep. Kempenich, Rep. Meier, Rep. Pyle, Rep. Mock Members absent: Rep. Bellew

Discussion Topics:

- Amendment 23.0276.02002
- Committee action

Representative Kempenich, moves to adopt amendments (23.0276.02002) (#27259)

Representative Brandenburg seconds motion

Roll call vote:

Representatives	Vote
Representative David Monson	Y
Representative Mike Brandenburg	Y
Representative Larry Bellew	AB
Representative Keith Kempenich	Y
Representative Lisa Meier	Y
Representative Corey Mock	Y
Representative Brandy Pyle	Y

Motion carries: 6-0-1

Representative Kempenich moves a DO PASS as amended.

Representative Mock seconds motion

Roll call vote:

Representatives	Vote
Representative David Monson	Y
Representative Mike Brandenburg	Y
Representative Larry Bellew	AB
Representative Keith Kempenich	Y
Representative Lisa Meier	Y
Representative Corey Mock	Y
Representative Brandy Pyle	Y

House Appropriations - Government Operations Division
SB 2022
04-03-23
Page 2

Motion carries: 6-0-1

Bill Carrier: Representative Kempenich

Chairman Monson closed the hearing at 4:51 PM

Leah Kuball, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee Brynhild Haugland Room, State Capitol

SB 2022
4/6/2023

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

11:37 AM Chairman Vigesaa Called the meeting to order and roll call was taken-

Members present; Chairman Vigesaa, Representative Kempenich, Representative B. Anderson, Representative Brandenburg, Representative Hanson, Representative Kreidt, Representative Martinson, Representative Meier, Representative Monson, Representative Nathe, Representative J. Nelson, Representative O'Brien, Representative Pyle, Representative Richter, Representative Sanford, Representative Schatz, Representative Schobinger, Representative Strindenand Representative G. Stemen

Members not Present- Representative Mock Representative Mitskog and Representative Swiontek and Representative Bellew

Discussion Topics:

- Amendment
- Committee Actions

Representative Kempenich Give the statement of porpoise, explains the amendment 23.0276.02002 and the handout (Testimony # 27345 & # 27343)

Representative Kempenich Move to adopt amendment 23.0276.02002

Representative Monson Seconds the motion.

Committee Discussion Roll call vote

Representatives	Vote
Representative Don Vigesaa	Y
Representative Keith Kempenich	Y
Representative Bert Anderson	Y
Representative Larry Bellew	AB
Representative Mike Brandenburg	Y
Representative Karla Rose Hanson	Y
Representative Gary Kreidt	Y
Representative Bob Martinson	Y
Representative Lisa Meier	Y
Representative Alisa Mitskog	AB
Representative Corey Mock	AB
Representative David Monson	Y

Representative Mike Nathe	Y
Representative Jon O. Nelson	Y
Representative Emily O'Brien	Y
Representative Brandy Pyle	AB
Representative David Richter	Y
Representative Mark Sanford	Y
Representative Mike Schatz	Y
Representative Randy A. Schobinger	Y
Representative Greg Stemen	Y
Representative Michelle Strinden	Y
Representative Steve Swiontek	AB

Motion Carries 18-0-5

Representative Kempenich Move for a Do Pass as Amended

Representative Monson Seconds the motion.

Committee Discussion Roll call vote-

Representatives	Vote
Representative Don Vigesaa	Y
Representative Keith Kempenich	Y
Representative Bert Anderson	Y
Representative Larry Bellew	AB
Representative Mike Brandenburg	Y
Representative Karla Rose Hanson	Y
Representative Gary Kreidt	Y
Representative Bob Martinson	Y
Representative Lisa Meier	Y
Representative Alisa Mitskog	AB
Representative Corey Mock	AB
Representative David Monson	Y
Representative Mike Nathe	Y
Representative Jon O. Nelson	Y
Representative Emily O'Brien	Y
Representative Brandy Pyle	AB
Representative David Richter	Y
Representative Mark Sanford	Y
Representative Mike Schatz	N
Representative Randy A. Schobinger	Y
Representative Greg Stemen	Y
Representative Michelle Strinden	Y
Representative Steve Swiontek	AB

Motion Carries 17-1-5 Representative Kempenich will carry the bill

11:51 AM Chairman Vigesaa Closed the meeting for SB 2023

House Appropriations Committee
SB 2022
April 6, 2023
Page 3

Risa Berube, Committee Clerk

DR
1f2
4-6-23

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2022

Page 1, line 6, remove the second "and"

Page 1, line 6, after "exemption" insert "; to provide a report; and to declare an emergency"

Page 1, replace lines 15 through 19 with:

"Salaries and wages	\$6,785,839	\$2,124,208	\$8,910,047
Operating expenses	1,323,528	1,546,409	2,869,937
Contingencies	<u>100,000</u>	<u>100,000</u>	<u>200,000</u>
Total special funds	\$8,209,367	\$3,770,617	\$11,979,984
Full-time equivalent positions	25.00	9.00	34.00"

Page 2, line 11, after "Investment" insert "and fiscal operations"

Page 2, line 11, after "office" insert "necessary for the management of the investment of funds under the control of the state investment board"

Page 2, line 27, after "**program**" insert "**- Report to legislative management**"

Page 2, line 29, after "investment" insert "and fiscal operations"

Page 2, line 29, replace "related to the internal" with "necessary for the"

Page 3, line 3, after "benchmarks" insert ". Any amounts paid under this program must be considered compensation and not personal profit on behalf of the employee. Each interim, the state retirement and investment office shall provide at least one report to the legislative management regarding the status of the program, including the provisions of the program; the total amount of incentives paid out to employees each year; and the minimum, maximum, and average payout per eligible full-time equivalent position"

Page 3, after line 9, insert:

"SECTION 7. REPORT TO BUDGET SECTION. Prior to the implementation of the incentive compensation program under section 5 of this Act and after approval of the program by the state investment board, the state retirement and investment office shall provide a report to the budget section regarding the provisions of the program, during the period beginning with the effective date of this Act and ending June 30, 2025.

SECTION 8. EMERGENCY. Section 7 of this Act is declared to be an emergency measure."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Retirement and Investment Office - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$6,785,839	\$10,550,226	(\$1,640,179)	\$8,910,047

Operating expenses	1,323,528	2,869,937		2,869,937
Contingencies	100,000	200,000		200,000
Total all funds	\$8,209,367	\$13,620,163	(\$1,640,179)	\$11,979,984
Less estimated income	8,209,367	13,620,163	(1,640,179)	11,979,984
General fund	\$0	\$0	\$0	\$0
FTE	25.00	34.00	0.00	34.00

OR
292
4-6-23

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

	Adjusts Funding for Salary and Benefit Increases ¹	Removes Salary Funding for Funding Pool ²	Total House Changes
Salaries and wages	\$145,897	(\$1,786,076)	(\$1,640,179)
Operating expenses			
Contingencies			
Total all funds	\$145,897	(\$1,786,076)	(\$1,640,179)
Less estimated income	145,897	(1,786,076)	(1,640,179)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ Salaries and wages funding is adjusted for 2023-25 biennium salary increases of 6 percent on July 1, 2023, and 4 percent on July 1, 2024, and for adjustments to health insurance premium rates as follows:

	General Fund	Other Funds	Total
Salary increase	\$0	\$148,855	\$148,855
Health insurance adjustment	0	(2,958)	(2,958)
Total	\$0	\$145,897	\$145,897

The Senate provided salary adjustments of 4 percent on July 1, 2023, and 4 percent on July 1, 2024.

² Funding for new FTE positions and estimated savings from vacant FTE positions is removed as shown below. These amounts are available to the agency if needed by submitting a request to the Office of Management and Budget for a transfer from the new and vacant FTE funding pool.

	General Fund	Other Funds	Total
New FTE positions	\$0	(\$1,547,947)	(\$1,547,947)
Vacant FTE positions	0	(238,129)	(238,129)
Total	\$0	(\$1,786,076)	(\$1,786,076)

The Senate did not remove funding for a new and vacant FTE funding pool.

This amendment also:

- Amends two sections allowing fiscal operations positions, along with investment positions, to be exempt from the state employee classification system and to be eligible for a newly created incentive compensation program. The Senate exempted investment positions from the classification system and authorized investment positions to be eligible for a newly created incentive compensation program.
- Adds sections to require the Retirement and Investment Office to provide a report to the Budget Section prior to the implementation of the incentive compensation program and to include an emergency clause related to the report. The Senate did not include any reporting requirements for the program.

REPORT OF STANDING COMMITTEE

SB 2022, as engrossed: Appropriations Committee (Rep. Vigesaa, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (17 YEAS, 1 NAY, 5 ABSENT AND NOT VOTING). Engrossed SB 2022 was placed on the Sixth order on the calendar.

Page 1, line 6, remove the second "and"

Page 1, line 6, after "exemption" insert "; to provide a report; and to declare an emergency"

Page 1, replace lines 15 through 19 with:

"Salaries and wages	\$6,785,839	\$2,124,208	\$8,910,047
Operating expenses	1,323,528	1,546,409	2,869,937
Contingencies	<u>100,000</u>	<u>100,000</u>	<u>200,000</u>
Total special funds	\$8,209,367	\$3,770,617	\$11,979,984
Full-time equivalent positions	25.00	9.00	34.00"

Page 2, line 11, after "Investment" insert "and fiscal operations"

Page 2, line 11, after "office" insert "necessary for the management of the investment of funds under the control of the state investment board"

Page 2, line 27, after "**program**" insert "**- Report to legislative management**"

Page 2, line 29, after "investment" insert "and fiscal operations"

Page 2, line 29, replace "related to the internal" with "necessary for the"

Page 3, line 3, after "benchmarks" insert ". Any amounts paid under this program must be considered compensation and not personal profit on behalf of the employee. Each interim, the state retirement and investment office shall provide at least one report to the legislative management regarding the status of the program, including the provisions of the program; the total amount of incentives paid out to employees each year; and the minimum, maximum, and average payout per eligible full-time equivalent position"

Page 3, after line 9, insert:

"SECTION 7. REPORT TO BUDGET SECTION. Prior to the implementation of the incentive compensation program under section 5 of this Act and after approval of the program by the state investment board, the state retirement and investment office shall provide a report to the budget section regarding the provisions of the program, during the period beginning with the effective date of this Act and ending June 30, 2025.

SECTION 8. EMERGENCY. Section 7 of this Act is declared to be an emergency measure."

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Retirement and Investment Office - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$6,785,839	\$10,550,226	(\$1,640,179)	\$8,910,047
Operating expenses	1,323,528	2,869,937		2,869,937
Contingencies	<u>100,000</u>	<u>200,000</u>		<u>200,000</u>
Total all funds	\$8,209,367	\$13,620,163	(\$1,640,179)	\$11,979,984
Less estimated income	8,209,367	13,620,163	(1,640,179)	11,979,984

General fund	\$0	\$0	\$0	\$0
FTE	25.00	34.00	0.00	34.00

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

	Adjusts Funding for Salary and Benefit Increases ¹	Removes Salary Funding for Funding Pool ²	Total House Changes
Salaries and wages	\$145,897	(\$1,786,076)	(\$1,640,179)
Operating expenses			
Contingencies			
Total all funds	\$145,897	(\$1,786,076)	(\$1,640,179)
Less estimated income	145,897	(1,786,076)	(1,640,179)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ Salaries and wages funding is adjusted for 2023-25 biennium salary increases of 6 percent on July 1, 2023, and 4 percent on July 1, 2024, and for adjustments to health insurance premium rates as follows:

	General Fund	Other Funds	Total
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Total	\$0	(\$1,786,076)	(\$1,786,076)

The Senate did not remove funding for a new and vacant FTE funding pool.

This amendment also:

- Amends two sections allowing fiscal operations positions, along with investment positions, to be exempt from the state employee classification system and to be eligible for a newly created incentive compensation program. The Senate exempted investment positions from the classification system and authorized investment positions to be eligible for a newly created incentive compensation program.
- Adds sections to require the Retirement and Investment Office to provide a report to the Budget Section prior to the implementation of the incentive compensation program and to include an emergency clause related to the report. The Senate did not include any reporting requirements for the program.

TESTIMONY

SB 2022



Senate Bill 2022
Senate Appropriations
January 6, 2023
North Dakota Retirement and Investment Office

Jan Murtha, JD, MPAP – Executive Director

Chad Roberts, MAc – Deputy Executive Director/Chief Retirement Officer

Scott M Anderson, CFA, MBA – Chief Investment Officer

Ryan Skor, CPA, MBA – Chief Financial Officer/Chief Operating Officer



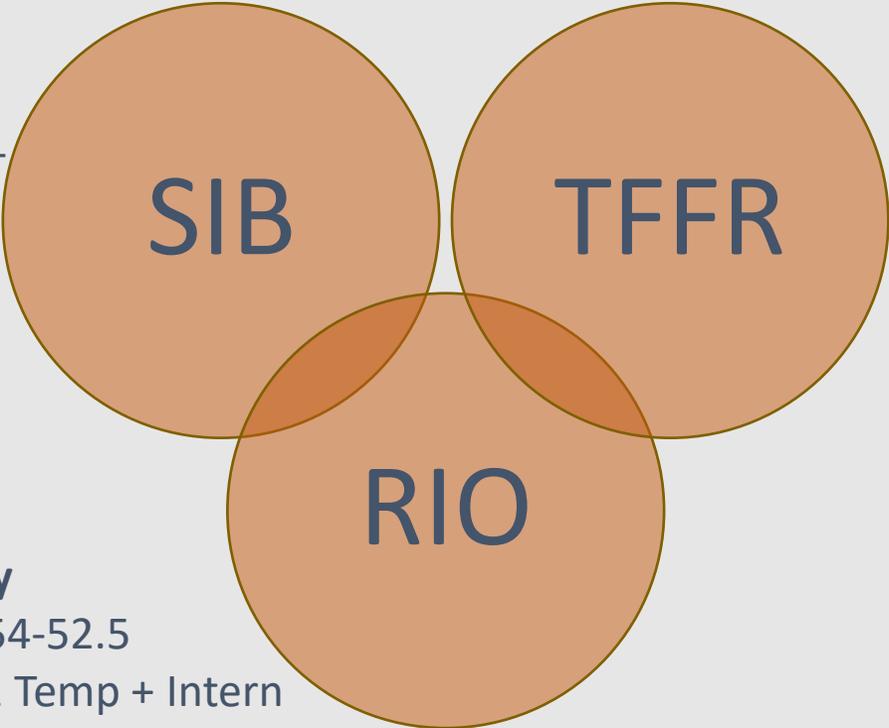
Retirement & Investment

NORTH DAKOTA RETIREMENT AND INVESTMENT SUPPORTS TWO SPECIAL FUND PROGRAMS



RIO was established in 1989 to coordinate the activities of the State Investment Board (SIB) and the Teachers’ Fund for Retirement (TFFR). The SIB is the oversight board for RIO and TFFR Board is responsible for the administration of the TFFR benefits program.

State Investment Board -
Investment Program
NDCC Ch. 21-10
~\$18 Billion in AUM
As of 10/31/22



Teachers’ Fund For Retirement –
ND Teachers’ Retirement Program
NDCC Ch. 15-39.1
~\$3.0 Billion in Fund Assets
Over 21,000 active and retired members and beneficiaries

RIO Agency
NDCC Ch. 54-52.5
25 FTEs + 2 Temp + Intern

WE CHOSE TO LEARN

- Spring 2020: Top 2 Managers in Retirement Program left within 60 days (Including Deputy Executive Director).
- Summer 2021: Top 2 Managers in Investment Program left within 60 days (including Executive Director).
- Fall 2021: additional retirements resulted in a significant staff reduction from 19 to a low of 13 filled FTE's to support both programs – contributing to *significant operational risk*.
- Fall of 2022: 25 FTE's (22 filled) + 2 Temp + 1 Intern of which 13 have started since Fall of 2021.

"Kites rise highest against the wind - not with it."

- Winston Churchill

Courtesy of www.brainyquote.com

RETIREMENT AND INVESTMENT'S CORE PRIORITIES



Engaging our Workforce:
Growth Mindset
Remote/Hybrid Office
Governance/Change Initiatives

WE CHOSE TO LISTEN

- Fall 2021 Gallup Results - Increase in team member engagement over the prior year despite strain on agency resources.
- Significant Increase in Mission/Purpose.

Gallup Q¹² Items

Questions	Total N	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q00: Overall Satisfaction	12	4.00	3.69	▲+0.31	46	3.69
Q01: Know What's Expected	12	4.08	4.06	+0.02	18	4.19
Q02: Materials and Equipment	12	4.33	4.31	+0.02	58	4.03
Q03: Opportunity to do Best	12	3.92	4.00	-0.08	31	3.89
Q04: Recognition	12	4.17	4.06	+0.11	68	3.41
Q05: Cares About Me	12	4.58	4.19	▲+0.39	68	4.07
Q06: Development	12	4.17	4.00	+0.17	55	3.75
Q07: Opinions Count	12	4.00	3.69	▲+0.31	54	3.52
Q08: Mission/Purpose	12	4.92	4.19	▲+0.73	93	3.91
Q09: Committed to Quality	12	4.42	4.50	-0.08	66	3.95
Q10: Best Friend	11	3.55	3.63	-0.08	39	3.28
Q11: Progress	12	4.08	3.94	+0.14	49	3.69
Q12: Learn and Grow	12	4.42	4.13	▲+0.29	65	3.88

Not shown if n < 4 for Mean, Top Box, Verbatim Responses, and Sentiment, n < 10 for Frequency, or data is unavailable.
 Scores are not available due to data suppression. Respondents can select multiple responses for multi-select questions.
 Percentile Rank in Gallup Overall Database: ■ < 25th Percentile ■ 25-49th Percentile ■ 50-74th Percentile ■ 75-89th Percentile ■ >= 90th Percentile

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GALLUP

WE CHOOSE TO LISTEN

- Fall 2022 Gallup Results -.
- Statistically Significant Increases in 8 of 12 categories.
- Decrease in Mission/Purpose.
- Let's talk Mission/Vision.

Q12 Mean

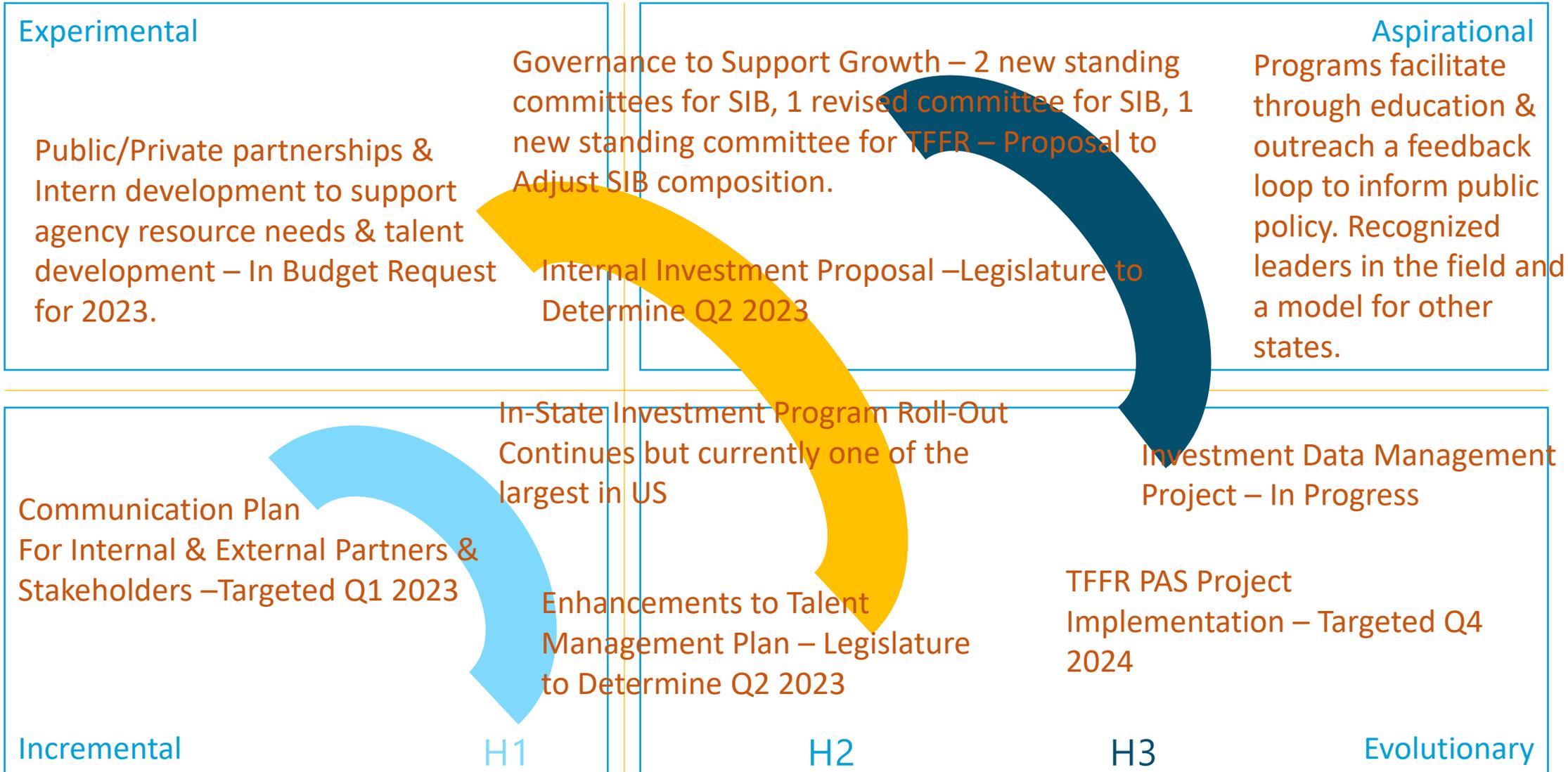
The Gallup Q12 score represents the average, combined score of the 12 elements that measure employee engagement. Each element has consistently been linked to better business outcomes.



Engagement Index
 Engagement Index is unavailable for the currently selected scorecard.

	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q00: On a five-point scale, where 5 means extremely satisfied and 1 means extremely dissatisfied, how satisfied are you with your agency as a place to work?	12	4.17	4.00	0.17	53	3.72
Q01: I know what is expected of me at work.	12	4.25	4.08	0.17	30	4.21
Q02: I have the materials and equipment I need to do my work right.	12	4.33	4.33	0.00	58	4.04
Q03: At work, I have the opportunity to do what I do best every day.	12	4.17	3.92	↑ +0.25	48	3.90
Q04: In the last seven days, I have received recognition or praise for doing good work.	12	4.42	4.17	↑ +0.25	80	3.37
Q05: My manager, or someone at work, seems to care about me as a person.	12	4.92	4.58	↑ +0.34	90	4.08
Q06: There is someone at work who encourages my development.	12	4.42	4.17	↑ +0.25	71	3.77
Q07: At work, my opinions seem to count.	12	4.00	4.00	0.00	56	3.54
Q08: The mission or purpose of my agency makes me feel my job is important.	12	4.58	4.92	↓ -0.34	77	3.92
Q09: My coworkers are committed to doing quality work.	12	4.87	4.42	↑ +0.25	82	3.96
Q10: I have a best friend at work.	11	3.91	3.55	↑ +0.36	59	3.22
Q11: In the last six months, someone at work has talked to me about my progress.	12	4.58	4.08	↑ +0.50	77	3.85
Q12: This last year, I have had opportunities at work to learn and grow.	12	4.83	4.42	↑ +0.41	91	3.90

STRATEGIC – HORIZON BASED TRANSFORMATION



TEACHERS' FUND FOR RETIREMENT

- Qualified defined benefit public pension plan for North Dakota public school teachers and administrators providing them with a foundation for retirement security.
- 11,800+ Active Members
 - 16.4% increase over past decade
- 9,400+ Retired Members and Beneficiaries
 - 26.0% increase over past decade
- ~\$3.0B Fund balance
- On-track to be 100% fully funded by 2044
- New Pension Administration System in development (est. Q4 2024)



- State Investment Board (SIB) has the statutory responsibility for the administration of the investment program of several funds including:
 - TFFR, PERS, WSI, Legacy Fund
- SIB also maintains contractual relationships for investment management with multiple political subdivisions and governmental funds
- Currently ~\$18 Billion in Assets Under Management (AUM)
- 27 client funds
- 43 fund managers

Fund/Pool	AUM (10/31/22)
Pension Pool	\$6.79B
Insurance Pool	\$2.81B
Legacy Fund	\$8.12B
Other Funds	\$0.23B

BUDGET REQUEST SUMMARY

Line Item	Base Level	Workforce Initiative	Pension System Upgrade	Internal Investment*	Total Request
Salaries & Benefits	\$6,785,839	358,756	486,000	1,404,996	\$9,035,591
Operating Expenses	1,323,528	300,250	1,116,319	266,840	3,006,937
Contingencies	100,000	100,000	-	-	200,000
Total Special Funds	8,209,367	759,006	1,602,319	1,671,836	12,242,528
(Included in Exec. Recom.)		349,012	1,552,319	-	
FTEs	25.0	1.0	-	7.0	33.0

* Amounts represent only 2nd year of biennium.
Requires authorization for performance pay within internal investment plan.

Estimated cost savings = \$16M+/year



ORGANIZATION CULTURE – WORKFORCE INITIATIVE

SALARIES

- ED/CIO SPLIT AND OTHER AGENCY RE-ORGANIZATION INCLUDING ACCOUNTING MANAGER, CFO-COO.
- Support Intern Program.

SUPPORT

- 1 ADDITIONAL ADMIN TO SUPPORT NEW INVESTMENT FTE'S.
- CURRENTLY HAVE 3 FULL TIME AND 1 TEMP PART-TIME TO SUPPORT 17.

CERTS.

- COST OF PROFESSIONAL CERTIFICATIONS THAT ARE EITHER REQUIRED OR ENCOURAGED TO PERFORM DUTIES
- SUPPORT HIGH PERFORMANCE AND GROWTH MINDSET.

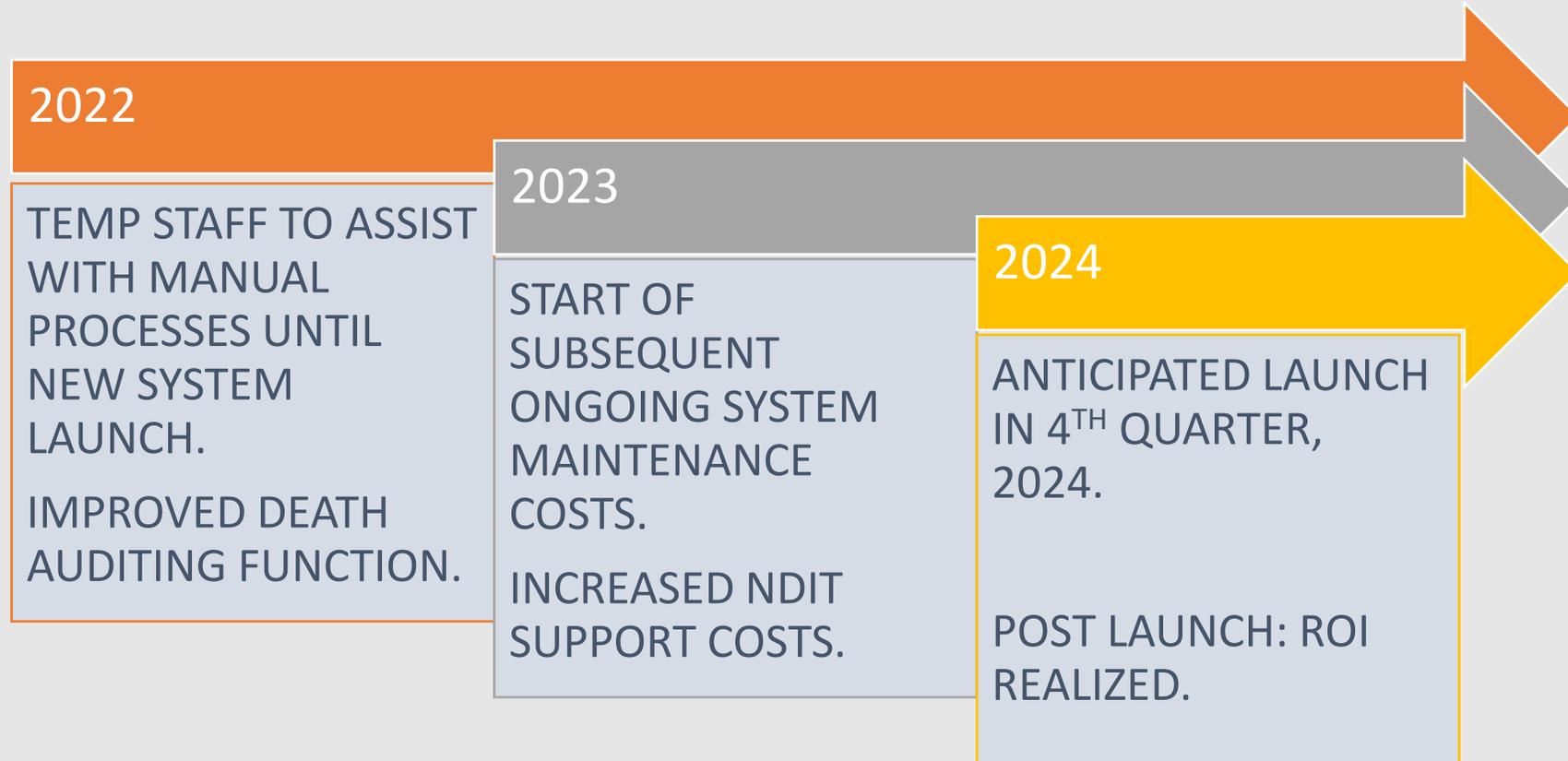
INFLATION

- COST OF TRAVEL, TRAINING, AND SUPPORT OF A HYBRID/REMOTE WORKPLACE.

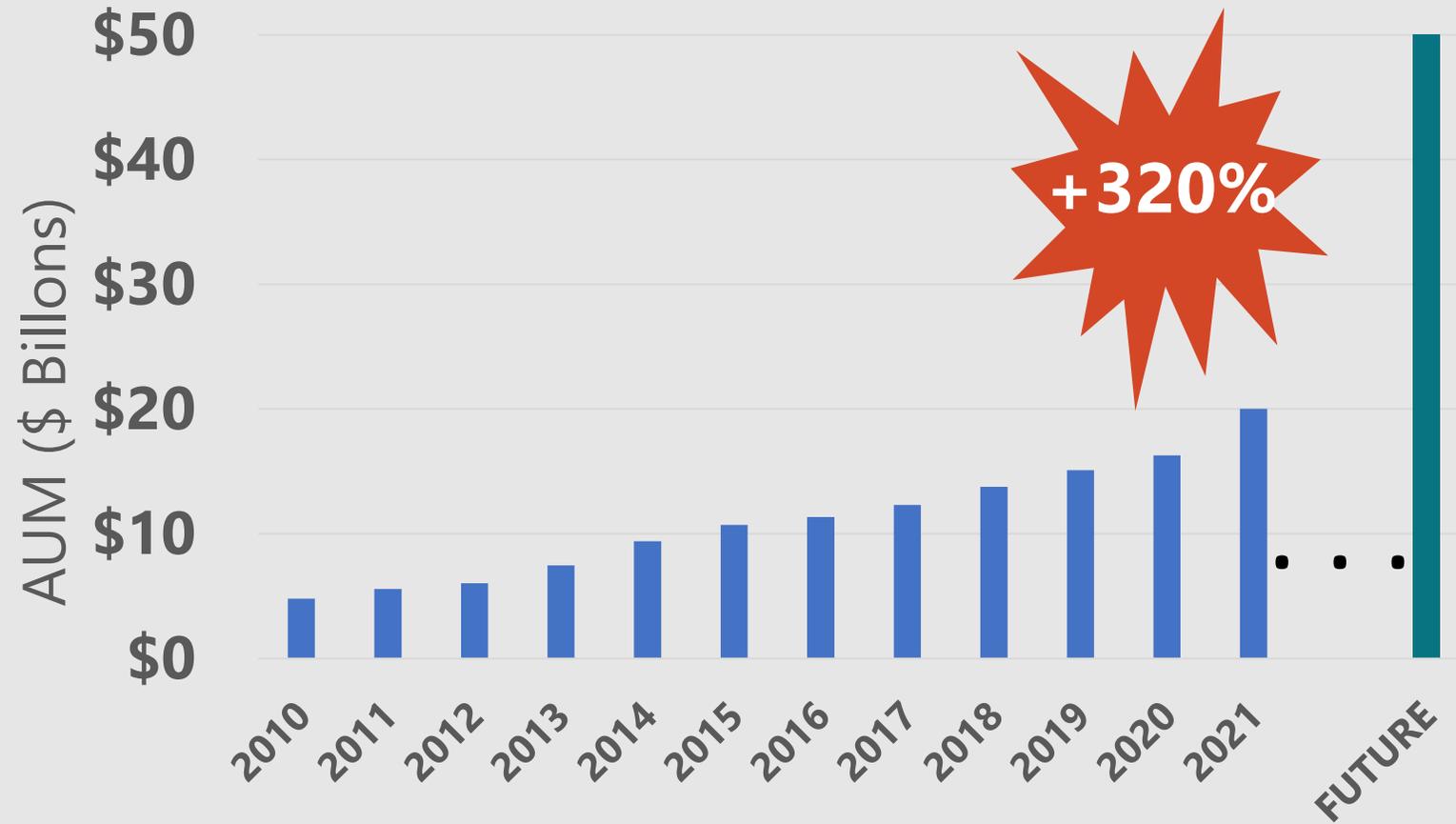
CONTINGENCY

- REQUEST FOR CONTINGENCY FUNDS.

INFRASTRUCTURE/TECHNOLOGY ENABLED PROCESSES- TFFR PIONEER PROJECT INITIATIVE

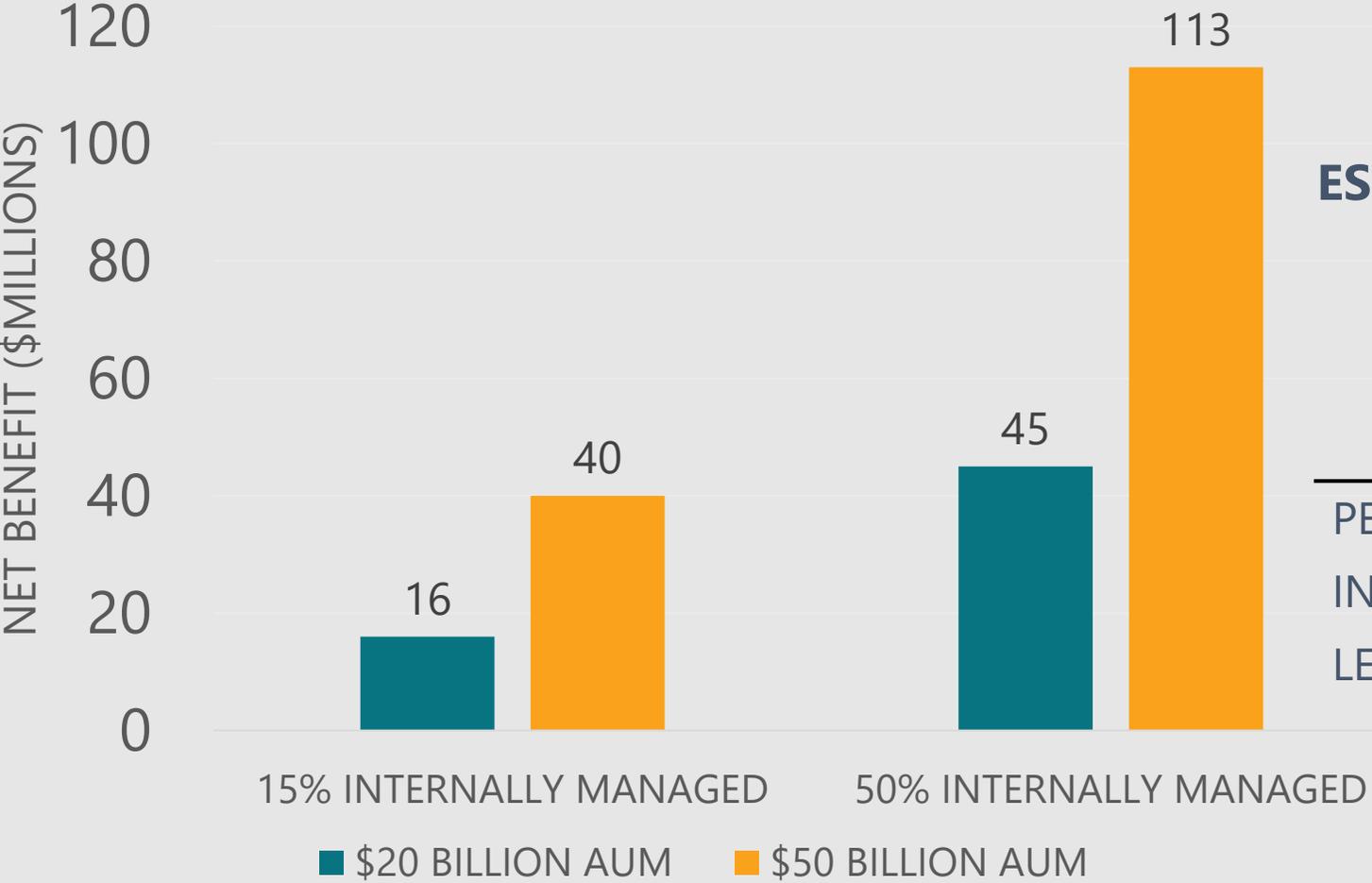


ASSETS UNDER MANAGEMENT GROWTH



- LOWER COST THAN WITH EXTERNAL MANAGERS
- APPLIED WHERE THERE IS A COST/BENEFIT
- ENABLES ENHANCED LIQUIDITY MANAGEMENT, REBALANCING AND EXPOSURE MANAGEMENT

THE BENEFIT SCALES WITH THE SIZE OF THE COMMITMENT



ESTIMATED ANNUAL SAVINGS PER YEAR (\$20 BILLION AUM)

PLAN	15% OF ASSETS		50% OF ASSETS	
	\$(MIL)	%	\$(MIL)	%
PENSION	\$6	0.08%	\$16	0.23%
INSURANCE	\$3	0.10%	\$8	0.26%
LEGACY	\$7	0.09%	\$21	0.25%

THE COST OF THE PROGRAM IS LOW WHEN COMPARED TO THE FEES IT REPLACES

PROGRAM COST

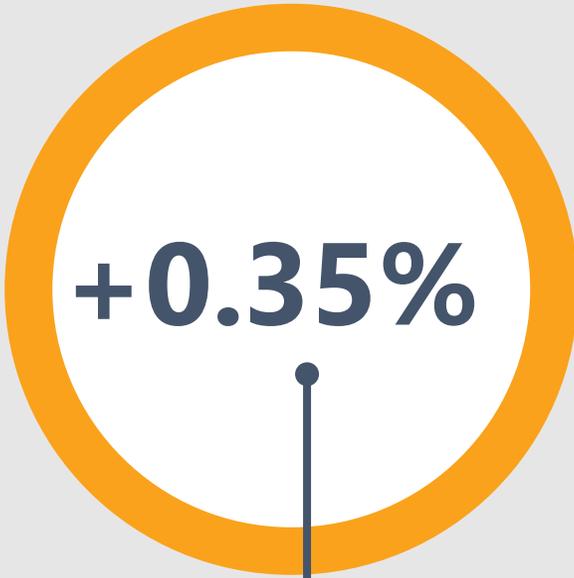


**INCLUDES TOTAL REWARDS
AND INFRASTRUCTURE**

CURRENT COST



**DOMESTIC
EQUITY**



**INVESTMENT GRADE
FIXED INCOME**

MINIMAL REQUIREMENTS WHEN COMPARED TO THE BENEFITS^{1,2,3}

5 INVESTMENT PROFESSIONALS¹:

2 X SENIOR PORTFOLIO MANAGERS

3 X INVESTMENT ANALYSTS

2 X INVESTMENT OPS



TALENT MANAGEMENT:

- ADEQUATE CLASSIFICATION OF ROLES
- INCENTIVE COMPENSATION FUNDED ON A CONTINUING BASIS (Ex: OHIO, WISCONSIN, SOUTH DAKOTA, NORTH CAROLINA)

**THE STRATEGY AND STRUCTURE WOULD EVOLVE
WITH THE SIZE OF THE PROGRAM**

- 1. The cost of staff is estimated to be approximately 10% of the total net cost savings.**
- 2. Positive Client Fund feedback.**
- 3. Supports greater control over investment strategies.**

EXAMPLE STATES WITH INTERNAL INVESTMENT MANAGEMENT AND INCENTIVE COMPENSATION

ARIZONA
FLORIDA
NEW MEXICO
NORTH CAROLINA
OHIO
SOUTH DAKOTA
TEXAS
VIRGINIA
WISCONSIN



Questions?

NORTH
Dakota
Be Legendary.

Retirement & Investment

Senate Bill 2022
North Dakota Retirement and Investment Office (RIO)
Testimony before the Senate Appropriations Committee
Senator Brad Bekkedahl, Chair
Senator Karen Krebsbach, Vice Chair

Janilyn Murtha, JD, MPAP – Executive Director
Chad Roberts, MAc – Deputy Executive Director/Chief Retirement Officer
Scott Anderson, CFA, MBA – Chief Investment Officer
Ryan Skor, CPA, MBA – Chief Financial Officer/Chief Operating Officer

I. RIO Statutory Authority and Responsibilities

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).

During this past biennium RIO underwent a strategic review and plan initiative to evolve both programs and the agency to better serve the needs of our clients, members, stakeholders, and the State of North Dakota. This review has resulted in changes to our board and agency governance, identifying and implementing improvements to our infrastructure, and a concerted focus on the development of our workforce. We are excited to share with you the foundational changes we have already made, the aspirational goals we have for the future, and the path we are asking you to approve.

The State Investment Board is responsible for oversight of approximately \$18 billion of investments for 27 different client funds including TFFR and PERS within the nearly \$7 billion Pension Pool and WSI in the nearly \$3 billion Insurance Pool in addition to more than \$8 billion in the Legacy Fund. Funding for administration of the SIB Investment Program comes directly from investment clients’ invested assets (both statutory and contracted).

The TFFR Board of Trustees is responsible for oversight and administration of the TFFR retirement program. TFFR is a qualified defined benefit public pension plan for K-12 North Dakota educators. Funding for administration of the TFFR plan comes from member and employer contributions (43%) and investment earnings (57%).

RIO currently has 25 full-time FTEs across the two programs and four divisions along with two temporary positions and an intern. The four divisions include Investment, Retirement Services, Fiscal Services, and Internal Audit. The two temporary positions are directly attributable to additional workforce needs during the development and implementation of a large IT project for the TFFR program. The hiring of an intern position reflects an intent to consciously develop a

robust internship program at RIO that will provide an opportunity to college and graduate students studying in North Dakota to participate in investment, accounting, benefit services, and public policy processes within the public sector.

RIO's revised approach to workforce development over the last biennium has resulted in the successful recruitment of highly skilled team members within competitive industries. 13 of our current team members have been onboarded since Q3 2021.

II. RIO's Core Priorities

RIO has undergone many changes during the course of the last biennium. The impetus for these changes was the recognition that while the agency had been doing very well for many years managing the growth in both the investment and retirement programs, future growth couldn't be supported under the current governance structures or with the current infrastructure, technology or processes.

The RIO team worked closely with the SIB and TFFR Boards to evolve the governance structure of both the Boards and Board staff relations to establish a foundation of governance that supported program growth. During this past biennium the State Investment Board established two new committees to support this growth including a Governance and Policy Review Committee as well as an Investment Committee to better support the needs of the program. As well as expanding the scope of the Executive Review Committee to an Executive Review and Compensation Committee. These committees are in addition to a Securities Litigation Committee as well as an Audit Committee that provides internal audit oversight of both the SIB and TFFR programs. The TFFR Board also created a standing Governance and Policy Review Committee. These changes occurred over the course of many meetings of both boards during the biennium; the SIB needed to evolve its own governance to provide the agility and ability needed to manage a growing amount of assets in complex investment strategies; while the TFFR Board recognized changes to governance was needed to respond to increasing membership and information dissemination needs.

One critical change the SIB approved during this time was to approve the split of the Executive Director and Chief Investment Officer (ED/CIO) roles into two different positions. This position had been combined for many years at RIO. Subsequent to the departure of our prior ED/CIO Dave Hunter in June 2021, the SIB recognized that investment program growth over the last 10 years necessitated splitting the roles and allowing a Chief Investment Officer to focus on investments. The Board voted to approve the split of these positions in Q3 2021; filling the Executive Director position permanently in Q4 2021 followed by filling the Chief Investment Officer position in Q1 2022.

While our Board were undertaking a review and evolution of their governance, a similar review was occurring inside the agency. RIO's technology processes, infrastructure, and communications efforts had changed little since agency inception in 1989. The ability to accommodate growth without change was accomplished largely because of the low turnover rate of employees (i.e. the majority of our workforce was comprised of employees with 10 to 25 years of experience within the agency). In Q1 and Q2 2020, however, both the Deputy Executive Director- Chief Retirement Officer, and the Retirement Services manager within 60 days of each after decades of experience with the agency. This was followed by the departure of the Executive Director – Chief Investment

Officer and the Deputy Chief Investment Officer in Q2 and Q3 of 2021. In addition to the loss of these team members, many long-term employees became eligible and subsequently retired in 2021. The turnover in team members coincided with the start of major program initiatives. The departures in Retirement Services staff occurred towards the start of a long-term large IT project to modernize our current pension administration system. While the departures in Investment staff occurred at the start of the launch of the in-state investment program.

The loss of institutional knowledge from these departures coinciding with the large of major program initiatives highlighted the need for the agency to establish a strategic planning process. During the course of this biennium, RIO team members across all four divisions participated in planning sessions resulting in the creation of RIO's strategic plan. The strategic plan resulted in the identification of the following core priorities for the agency: Communication, Infrastructure, Organizational Culture, Talent Management and Technology Enabled Processes. This strategic plan was presented to the Governor's office, the SIB, and TFFR Board in March 2022. Each of the budget initiatives we are submitting for your consideration and approval support these core priorities and are consistent with furthering RIO's strategic plan.

III. State Investment Board (SIB)

The State Investment Board has the statutory responsibility to administer the investment program for 27 funds including the Legacy Fund, TFFR, PERS, and WSI. It also maintains contractual relationships for the investment management of multiple political subdivisions and governmental funds. Currently SIB is responsible for the investment of the Legacy Fund, seven pension funds and 19 other non-pension funds for a total of 27 separate client funds with an overall fund value of roughly \$18 billion as of October 31, 2022.

With the passage of H.B. 1425 during the 2021 Legislative Session, an in-state investment program was codified and RIO has been working on implementing that program during the course of the biennium. Additional FTE's were approved during the November 2021 Special Legislative session to help support investment program growth. With almost \$300 million committed, the North Dakota in-state investment program is already one of the largest in-state investment programs in the nation.

IV. Teachers' Fund For Retirement

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, 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 16.4% from 10,138 to over 11,800 participants, while retirees and beneficiaries have increased 26.0% from 7,489 to over 9,400.

Our 2022 actuarial valuation projects the TFFR plan to reach 100% fully funded status by 2044. The successful funding path is largely attributable to the statutory changes to the plan, including the creation of a tiered benefit structure and increase in contributions passed by the Legislature in 2011.

We are also in the midst of pension system modernization project to replace our current system. This is ongoing and is estimated to be complete in Q4 of 2024. Carry-over funding for the Pension Administration System Modernization Project (TFFR “Pioneer” Project) is included and the anticipated implementation date is 4th quarter 2024. New costs associated with the TFFR “Pioneer” Project are included in an optional request that includes temporary costs due to the increased workload and agency partner assistance (such as Procurement and NDIT unification costs) required to implement along with some new ongoing cost associated with the software solution. Upon completion of the “Pioneer” Project it is anticipated there will be significant efficiencies gained through the leveraging of the new enhanced technology. Through this leveraging, TFFR anticipates being able to hold flat FTE growth due to the reallocation of staff time that are presently required to maintain the antiquated software to upcoming initiatives such as compliance measures that would otherwise require growth in staffing numbers.

V. Budget Overview

The salary and benefits line represents funding for 25.0 FTE. 11.15 FTE of that total is dedicated to and responsible for administering the TFFR retirement program, down from 11.70 previously due to agency restructuring and NDIT unification. The remaining 13.85 FTE (up from 8.3 previously) provide all the accounting, financial and administrative support, and investment performance services for the funds under management.

The operating funds are split between TFFR and the investment program. The significant expenditures needed to administer both the TFFR retirement program and the SIB investment program include NDIT data processing, IT contracts, building rent, staff and board travel and education, and professional development.

Within the investment program, significant resources have been allocated to the in-state investment initiative and management of the Legacy Fund as a result of H.B. 1425 and H.B. 1380 (2021 Legislative Session).

Historically, contingency funds were requested in case of an unexpected budget shortfall, generally related to turnover of executive staff and the need to perform an executive search. As part of our budget request, we are asking to move our base contingency amount into our operating line to cover some of the necessary increases we have identified. Based on recent experience, however, we fully understand the need to have these contingency funds available in specific scenarios and as such we are requesting additional contingency funding as part of an additional ask in Initiative #1.

We will go into much more detail about our additional funding requests, but as you see highlighted on the slide, what we are proposing will conservatively generate cost savings in multiples of any of the additional costs incurred.

VI. RIO Agency Initiatives

As we worked through our strategic planning process, there were several key areas we identified which required changes or enhancements to accomplish the goals we have set out for RIO and support the growth in both programs. We have consolidated our additional asks of the legislature into three key initiatives. As you will see, these three initiatives range from incremental to evolutionary.

A. Initiative #1 – Organizational Culture/Workforce

As an addition to our base budget request, we are requesting specific funding in a few key areas to ensure we are able to continue performing our statutory responsibilities at a very high level. We consider these requests to be a vital part of our organizational culture and workforce initiative.

During the current biennium, RIO went through a thorough reorganization that led to several position changes throughout the agency. The ED/CIO position was split into two positions to reflect the workload more accurately for each position as the investment program continues to grow exponentially. The salary attributable to the previously combined position was assigned to the Chief Investment Officer role, which resulted in a lack of salary budgeted for the Executive Director position. We have been able to pay the ED salary during the current biennium due to roll-up funding resulting from vacancies but the full salary amount is not covered by the proposed base budget. In addition, the CFO position was restructured into the CFO/COO position, and an accounting was used to create an accounting manager position to support the CFO/COO combine role. We reclassified a vacant position in the Retirement Services division into a retirement accountant position which is now included under the Fiscal division. We also reorganized administrative support services, which had previously been under a separate Administrative Services division and instead assigned each administrative support position to an individual division (ie Retirement Services, Fiscal/Investment, and the Executive Administrative Assistant which supports the four executive team members and all the Boards and committees). While the cost of the reorganization of most of these positions could be covered by our base budget request, we are asking for additional salaries and wages to cover board member salaries as well as to support our commitment to a robust internship program within the agency.

An additional FTE for administrative support is requested to provide assistance to the new investment FTEs granted during the last special legislative session. We currently have three full-time and one temporary administrative team members supporting the entire agency. One administrative support FTE currently supports both the entirety of the Fiscal and Investment Divisions and we recognize that with the growth of the investment team, additional administrative support is needed.

Agency reorganization/restructuring and our new strategic plan requires many employees to pursue or maintain professional certifications relevant to the performance of their duties and the associated increase in cost of agency reimbursed certifications is reflected in this proposal as well.

Additional cost for work related travel due to both inflation and the increased need for continuing education of existing FTEs requires an increased allocation to this line item. Work related travel is necessary not only for investment and retirement program operations but also for continuing education for positions to maintain certifications relevant to the performance of their duties.

While the agency is committed to a hybrid work environment, such a work environment does require the availability of some additional office space to support the growing and increasingly collaborative teams during the implementation of aforementioned initiatives for both retirement and investment programs and the cost of some additional equipment and space is included in this proposal.

Finally, within this request we are asking for contingency funding to support at least two executive searches during a biennium. During the last two biennium's the agency lost its top two managers in both the retirement and investment programs within 60 days of each other (respectively for each program) and while turnover of these positions is not planned in the short term, prudence requires preparing for what is not an unusual event.

The total ask of this package is \$760,000. Of which, roughly \$350,000 was included in the executive recommendation.

B. Initiative #2 – “Pioneer” Project

The second of our additional funding request packages seeks to support the TFFR Pension System Modernization Project (TFFR “Pioneer” Project) for the development and deployment of the modernized pension administration system pursuant to its authority under NDCC 15-39.1-05.2. The project is currently in the development and implementation of the vendor solution phase (the third and final phase). While our project is currently on time with an expected completion date of 4th quarter 2024, the agency must continue to utilize its current system until the new system is ready and program efficiencies can be realized. This package is intended to provide necessary interim support and resources for the agency until the new system is ready to deploy such as: an increase for personnel costs of existing staff as it relates to additional workload and overtime; continuing cost for temporary FTEs to support the manual processes needed to make the existing system work until it can be retired; and the funding needed for ongoing hosting and support fees associated with the new software vendor solution.

The implementation project will be completed using existing FTEs; however, continued funding for two temporary employees is necessary to sustain operations under the existing pension administration system while the new system is being developed and the time of permanent FTE's can be dedicated to that development and launch. The current system is quite antiquated and requires significant manual data entry; these processes will be significantly improved with the new system and therefore the services of the temporary employees will no longer be needed subsequent to the launch of the new system. Overtime costs are needed for current non-exempt staff, and temporary increases for current exempt staff, due to the increased work hours and workload involved in the development and implementation of the system. It is expected that these additional costs, including limited term employee costs will be eliminated upon implementation of the new pension administration system; while the hosting and support fees will be ongoing.

The total ask of this package is \$1,602,319. Of which, \$1,552,319 was included in the executive recommendation.

C. Initiative #3 – Internal Investment/Talent Management

The third and final additional request is predicated on the exponential growth of our investment program. The assets under management by the RIO investment division have grown from about \$4 billion to nearly \$20 billion from the year 2010 to the beginning of the year 2022 and continue to grow from investment returns and contributions to the Legacy Fund, pension plans, and insurance funds. The combination of the growth of AUM, the number of individually managed funds, and the complexity of mandates such as the Legacy Fund have increased the need for staff resources, infrastructure and new scalable investment processes that can enhance the performance of client funds while reducing the net cost of management of those funds when manager fees are considered.

There is an opportunity to create significant benefits from the scale advantages of the growth of \$20 billion of assets under management. A typical public fund with similar assets under management as RIO has more internal investment management which creates the opportunity of better investment returns while decreasing costs from the advantages of more internal management versus money placed with external managers.

Generally, investment management costs fall within the scope of continuing appropriation authority granted by the legislature in NDCC 21-10-06.2; however because this proposal involves cost savings achieved by internalizing investment operations through additional permanent FTE's and infrastructure it falls within the scope of NDCC 54-52.5-03.

Our proposal includes five investment professionals, one fiscal operations professional, and one administrative staff to manage approximately \$3 billion of assets internally. Implementing this proposal can lower the net costs for RIO investments by \$8 million per year and create opportunities for better liquidity management and rebalancing that may result in up to another \$8 million in savings per year, for a conservative estimate of approximately \$16 million in savings per year that as a special fund agency directly benefits our client funds. The net costs and opportunities grow with assets under management and with the amount of assets managed internally. We have discussed this proposal with many of our client funds and have received positive feedback and support from our clients for this initiative.

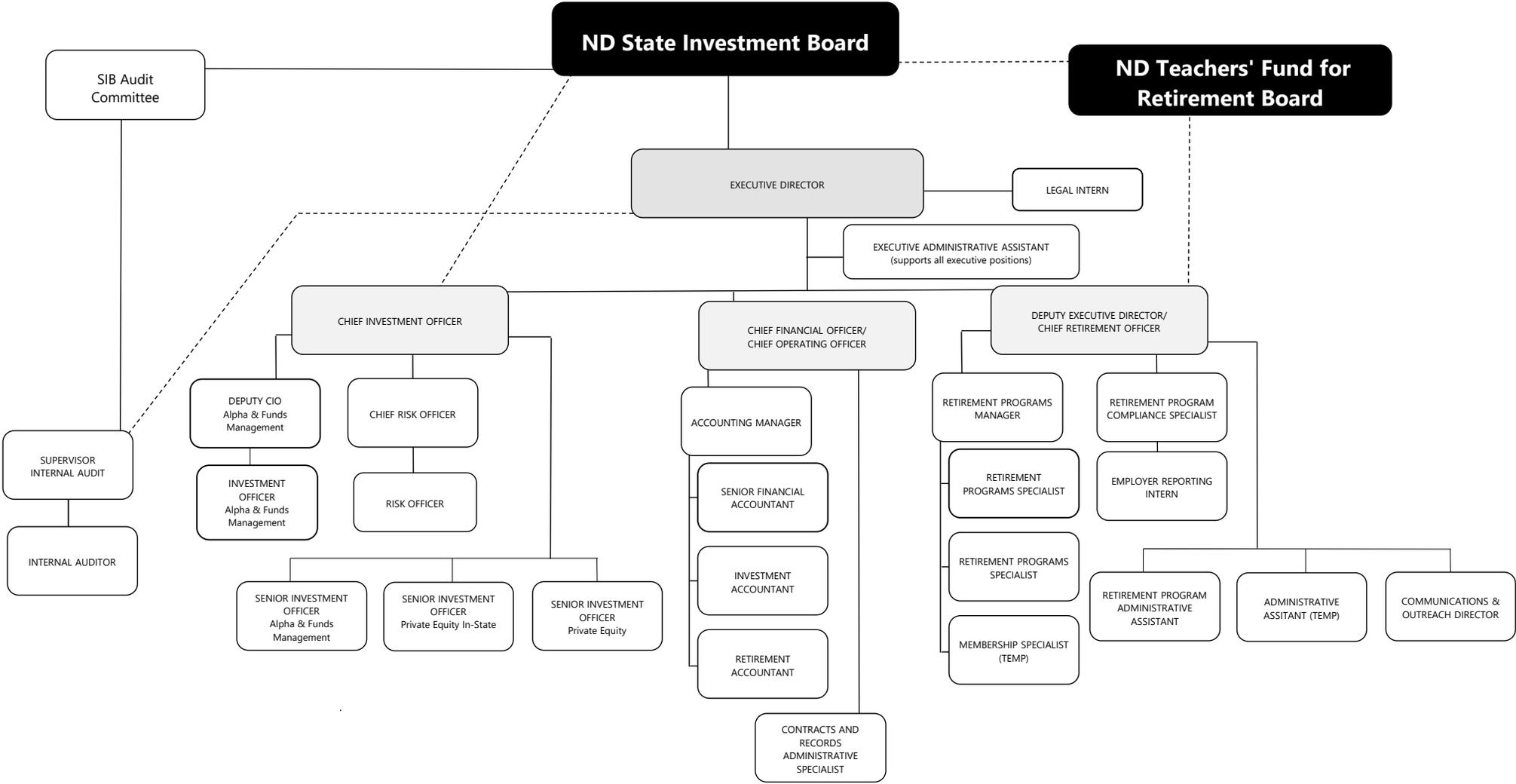
Due to the complexity of this plan, we are only asking for a salary budget for one year of the biennium for these additional staff as we believe it would take significant time to receive the necessary classification approvals and fill the positions.

Additionally, the market for investment professionals shows they typically receive both a market-based salary and incentive compensation even in the public sector. A well-designed incentive compensation system, based on fair criteria, can stimulate employees to deliver quality work, reach set targets, and maintain motivation and productivity. For investment managers, it provides incentives to make smart and risk-appropriate investment choices that result in an appreciation of

invested assets. The incentive system also aligns the risk of the investment manager's compensation with the risk of the underlying assets being managed, thus acting as a control mechanism incentivizing good risk/return choices. Lastly, an incentive system is good for investment plan beneficiaries in that the incentive is paid when there is superior investment performance and not paid when there is not superior investment performance. As a result, a well-designed incentive compensation system results in added net investment performance and reduces the overall cost of compensation by paying only when the benefits exceed the cost. The incentive compensation plan would assume a targeted bonus of 50% of salary and a max of 100% of salary and would only pay out when benefits exceed costs. This proposal is contingent on an incentive compensation plan approved by the legislature and administered by the State Investment Board. During our subsequent hearing we would like to request an amendment to our budget that would provide the necessary authority to implement incentive compensation under Initiative #3 if approved.

We estimate the cost of this proposal for the first biennium to be \$1,671,836. This includes one year of salaries and benefits for each of the new positions as well as the necessary operational costs to support them. In addition, we would ask for specific statutory language changes to facilitate the incentive compensation plan including exemptions from the state's classified system.

RETIREMENT AND INVESTMENT OFFICE



ND TFFR Fast Facts

FY End 6/30/2021

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

11,627 ACTIVE MEMBERS
9,262 RETIRED MEMBERS
210 EMPLOYERS

Member Stats	Actives	Retirees
Avg. Annual Salary/Benefit	\$64,455	\$26,064
Avg. Service Credit	11.4 yrs	27.2 yrs
Avg. Current Age	41.4 yrs	72.8 yrs

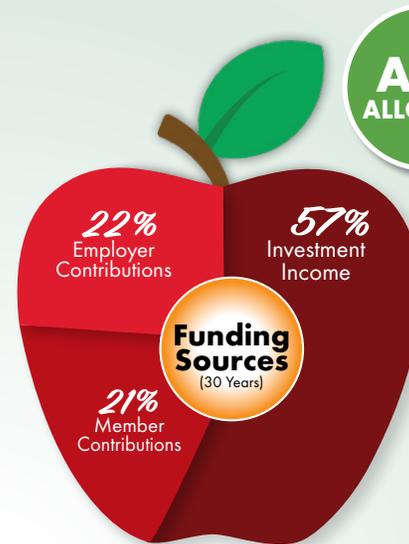
MEMBER/EMPLOYER SATISFACTION: 3.9 (4.0 Scale)

84%

of benefits are paid to ND residents.

\$235 million was distributed to retirees in FY 2021.

Net Asset Value of TFFR **\$3.28 billion**



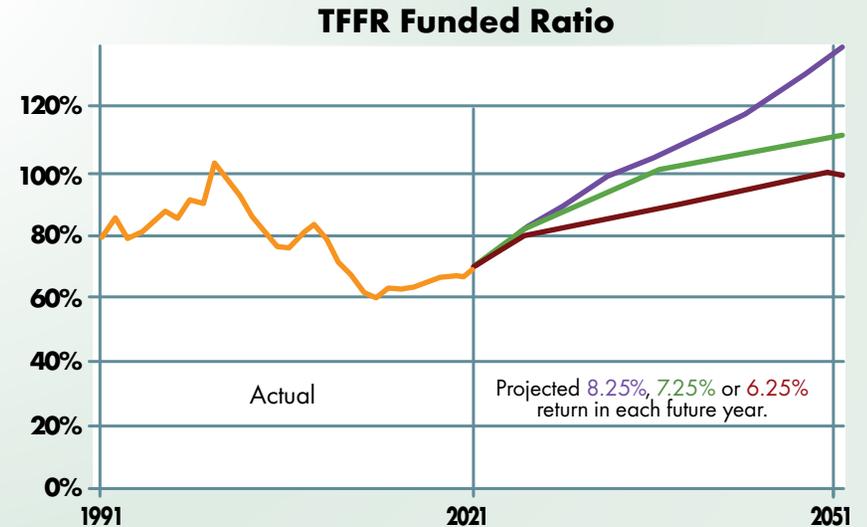
ASSET ALLOCATION



Investment Returns
 (net of fees)

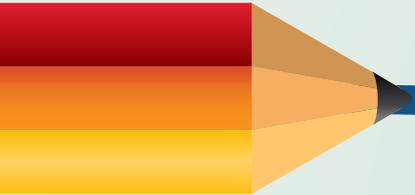
1 year 26.54%
 5 year 11.22%
 30 year 8.10%

69% of BENEFITS are PREFUNDED



TFFR's long-term funding outlook is positive, and benefits are secure for past, present, and future ND educators.

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**

Employee Contribution Rates (active and re-employed retirees)

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%

Employer Contribution Rates

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%

Vesting Period

3 yrs	3 yrs	5 yrs
-------	-------	-------

Unreduced Retirement Eligibility

Minimum Age	No	60	60
AND Rule	Rule 85	Rule 90	Rule 90
OR Normal Retirement Age	65	65	65

Reduced Retirement Eligibility

Minimum Age	55	55	55
Reduction Factor	6%	8%	8%

Retirement Formula Multiplier

	2%	2%	2%
X Final Average Salary	3 yr FAS	3 yr FAS	5 yr FAS
X Service Credit	Total years	Total years	Total years

Disability Retirement

Yes	Yes	Yes
-----	-----	-----

Retirement Formula Multiplier (2%) X Final Average Salary (FAS) X Total Service Credit

Death/Survivor Benefits

Yes	Yes	Yes
-----	-----	-----

Refund of account value or Life Annuity to survivor based on member's vesting status.

HB 1425

- The Legacy Fund in-state investment program and in-state investment manager preference is part of code.
- Requires up to 20% of Legacy Fund be directed toward in-state investments.
- 10% Fixed Income + 10% Equity
- BND is in-state fixed income manager with \$191 million in capital committed.
- 50 South is in-state equity manager with \$100 million in capital committed.
- With almost \$300 million committed North Dakota has one of the largest in-state investment programs in the nation.
- The Legacy & Budget Stabilization Fund Advisory Board continues its work to improve the Legacy Fund asset allocation implementation.
- RIO continues its outreach to coordinate opportunities with in-state financial institutions.

HB 1380

- Created Legacy Earnings Fund
- Created a percent of market value (POMV) spending rule without amending definition of earnings.
- POMV of 7% for current biennium is \$486 million.
- Earnings includes realized gains and losses. The amount of earnings available for transfer will be in flux through May 2023.

SB 2291

- Prohibits social investing i.e.: investment or divestment of funds for purposes other than the *exclusive benefit* of the beneficiaries of a fund.
- SIB client funds are managed by external managers.
- RIO staff meets with each manager biennially and confirms:
- Funds are managed for the *exclusive benefit* of client funds by maximizing total return for a prudent level of risk as set by a defined benchmark.
- Managers are instructed to vote proxies to maintain or improve shareholder value for the *exclusive benefit* of client fund.

WHAT WE'RE PROUD OF

Agency Accomplishment

30+ Years of Unmodified Audit Opinions.

Agency Accomplishment

Investment Program more than Quadrupled since 2010.
High of nearly \$20 Billion in Fiscal Year 2022 prior to transfer of Legacy earnings.

Agency Accomplishment

TFFR Plan projected to achieve 100% Funded Status by 2044.

WHAT WE DO



State Investment Program – SIB

The SIB ensures rigorous attention to all aspects of the investment program by following an established investment process that includes investment policy development/modification, implementation/monitoring, and evaluation.



Teachers' Fund for Retirement-

The TFFR Program provides ND educators with a financial foundation for the future that includes a secure and stable retirement.

HOW WE MEASURE SUCCESS

Client & Member Satisfaction Surveys

Excess Returns Net of Fees

Attendance at Outreach Activities

Awards & Recognition for Transparency & Excellence in Administration and Financial Reporting

Senate Bill 2022
North Dakota Retirement and Investment Office (RIO)
Testimony before Senate Appropriations – Human Resources Division
Senator Dick Dever, Chair

Janilyn Murtha, JD, MPAP – Executive Director
Chad Roberts, MAC – Deputy Executive Director/Chief Retirement Officer
Scott Anderson, CFA, MBA – Chief Investment Officer
Ryan Skor, CPA, MBA – Chief Financial Officer/Chief Operating Officer

I. RIO Statutory Authority and Responsibilities

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).

II. State Investment Board (SIB)

The State Investment Board is responsible for oversight of nearly \$19 billion of investments for 28 different client funds including TFFR and PERS within the over \$7 billion Pension Pool and WSI in the nearly \$3 billion Insurance Pool in addition to more than \$8.5 billion in the Legacy Fund. Funding for administration of the SIB Investment Program comes directly from investment clients’ invested assets (both statutory and contracted).

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.

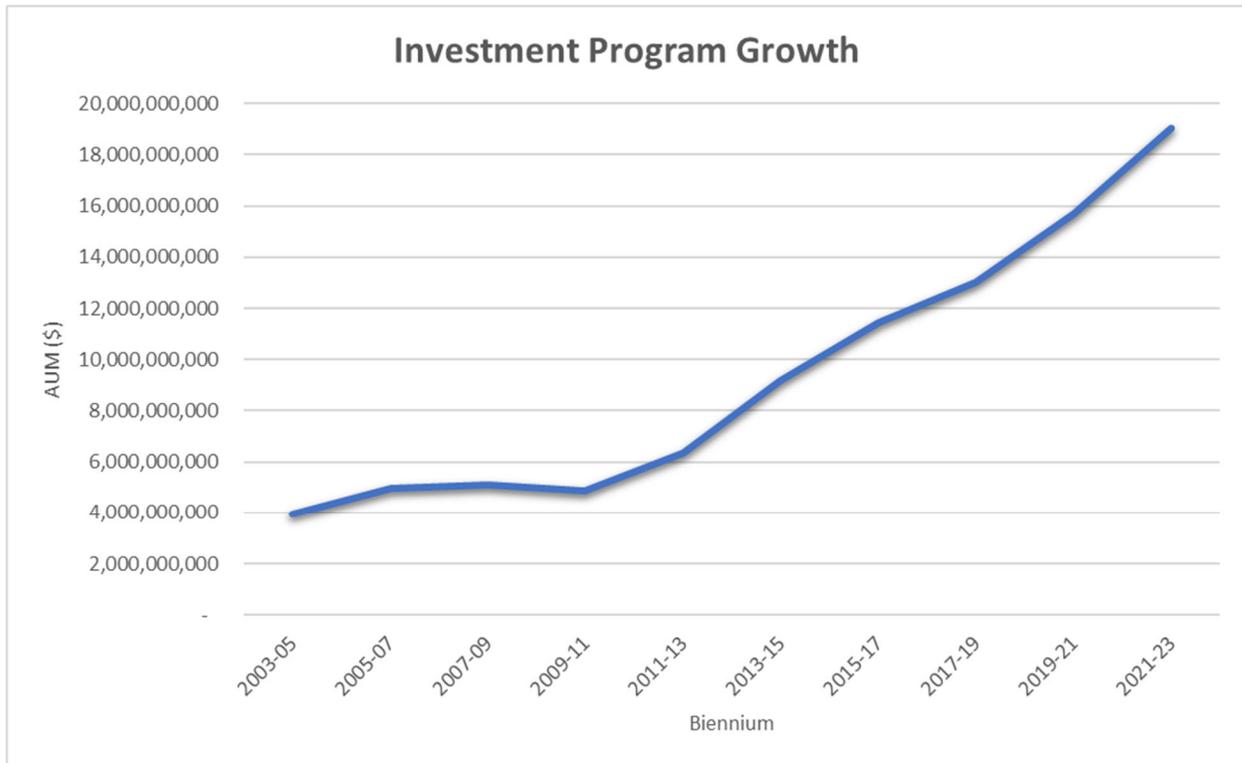
Investment guidelines and asset allocations are established by the governing bodies of the individual funds, with assistance from consultants and/or RIO staff, and subject to review and approval by the SIB prior to implementation. The SIB selects investment managers to manage different types of portfolios within each asset class with the goal of maximizing return within the clients’ acceptable risk levels.

	Fair Value (as of 11/30/22)
PENSION POOL PARTICIPANTS	
Teachers’ Fund for Retirement	\$3,020,572,488
Public Employees Retirement System	3,784,833,438
Bismarck City Employee Pension Fund	121,362,655
Bismarck City Police Pension Fund	49,535,582
City of Grand Forks Pension Fund	72,377,252
Grand Forks Park District Pension Fund	8,539,500
Subtotal Pension Pool Participants	\$7,057,220,915
INSURANCE POOL PARTICIPANTS	
Workforce Safety & Insurance Fund	\$2,024,412,186
State Fire and Tornado Fund	19,634,332
State Bonding Fund	3,583,709
Petroleum Tank Release Fund	5,883,077
Insurance Regulatory Trust Fund	1,187,663
State Risk Management Fund	3,613,522
State Risk Management Workers Comp	2,542,778
Cultural Endowment Fund	538,719
Budget Stabilization Fund	716,784,865
ND Assoc. of Counties (NDACo) Fund	6,886,387
City of Bismarck Deferred Sick Leave	751,278
PERS Group Insurance	57,989,586
State Board of Medicine	3,127,522
City of Fargo FargoDome Permanent Fund	41,125,558
Lewis & Clark Interpretive Center Endowment	804,710
Attorney General Settlement Fund	2,348,881
Veterans’ Cemetery Trust Fund	432,423
ND University System Capital Building Fund	1,605,124
Arts Across the Prairie Maintenance Fund	1,002,029
Subtotal Insurance Pool Participants	\$2,894,254,350
INDIVIDUAL INVESTMENT ACCOUNTS	
Legacy Fund	8,583,989,914
Retiree Health Insurance Credit Fund	156,903,188
Job Service of North Dakota Pension Fund	84,568,987
TOTAL	\$18,776,937,353

(Amounts are unaudited)

Similar client funds are pooled together when possible to receive lower fees and better terms from investment managers and achieve efficiencies in staff monitoring.

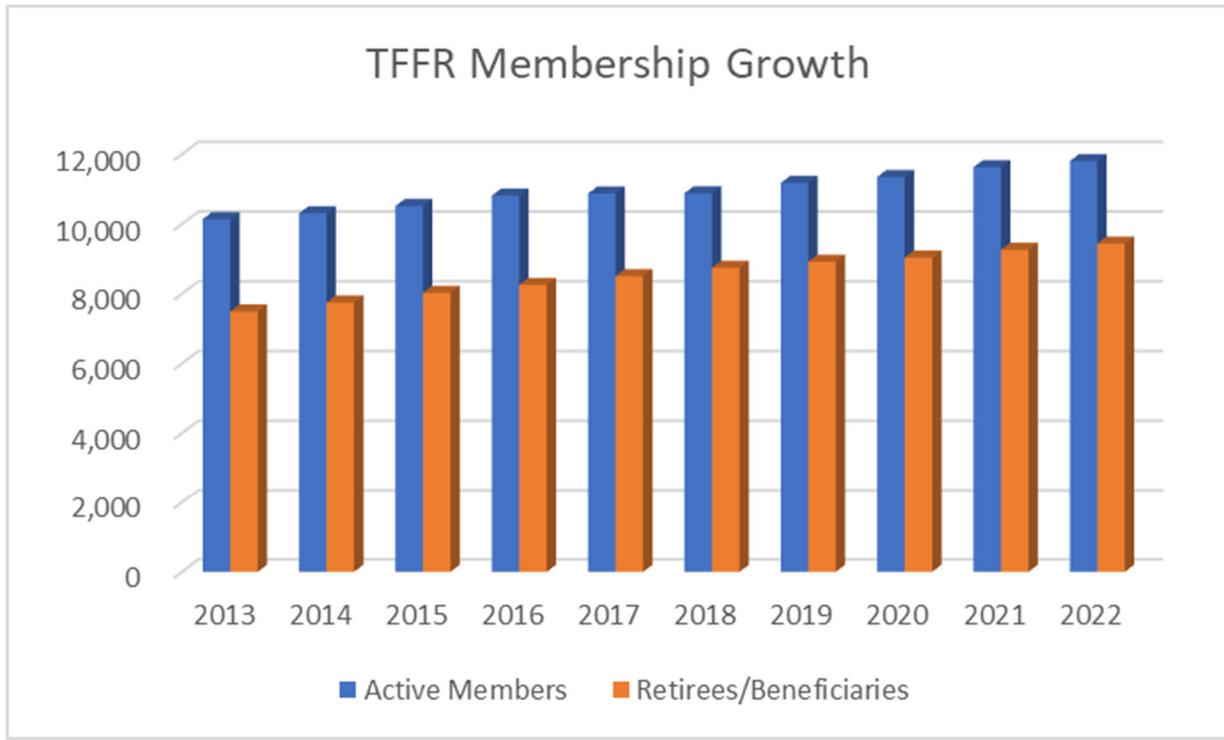
Over the past two decades, the average assets under management (AUM) of the investment program have nearly quadrupled in size. Amounts have grown from an average of roughly \$4 billion during the 2003-2005 biennium to an average of over \$19 billion during the current 2021-2023 biennium.



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, 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 16.4% from 10,138 to over 11,800 participants, while retirees and beneficiaries have increased 26.0% from 7,489 to over 9,400.



The mission of TFFR, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members, North Dakota k-12 educators, in a manner consistent with its fiduciary obligations and approved resource allocation.

The TFFR Board reaffirmed its commitment to evolving governance to respond to program growth by establishing a Governance and Policy Review committee that is tasked with reviewing program policies and public policy affecting statutes and administrative rules to make recommendations to the full Board for making policy or requesting changes from the Legislature.

The TFFR program is currently in Phase 3 of 3 of a multi-year large IT Pension Administration Modernization Project (TFFR “Pioneer” Project) that will provide a better ROI for the agency and improve the member and employer experience with TFFR while aligning with state-wide initiatives to better utilize technology enabled processes.

TFFR plan is designed to provide lifetime normal retirement benefits, disability benefits, and death benefits for ND public school educators and certain state teachers. It 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.

The TFFR plan is an important feature in the recruitment and retention of high-quality teachers and administrators in North Dakota, and not lose these quality individuals to out of state programs.

IV. RIO Organizational Chart

(See attached)

RIO currently has 25 full-time FTEs across the two programs and four divisions along with two temporary positions and an intern. The four divisions include Investment, Retirement Services, Fiscal Services, and Internal Audit. The two temporary positions are directly attributable to additional workforce needs during the development and implementation of a large IT project for the TFFR program. The hiring of an intern position reflects an intent to consciously develop a robust internship program at RIO that will provide an opportunity to college and graduate students studying in North Dakota to participate in investment, accounting, benefit services, and public policy processes within the public sector.

V. Audit Findings

RIO has received no financial audit findings in the past 20+ years.

VI. 2021-23 Accomplishments and Challenges

RIO accomplishments during the 2021-2023 biennium have included:

1. Creating and beginning implementation of a new agency strategic plan identifying core priorities and transformational initiatives.
2. Reorganizing agency to achieve greater economies of scale and support new strategic plan.
3. Developing and implementing intra-agency communication and training plan to support organizational culture as a core agency priority.
4. Posting, filling, and onboarding over ten new employees in the last fiscal year including two interns and three part time employees for an agency with twenty-five approved FTE.
5. Assisting governing boards with the creation of three new standing committees to create governance that supports program growth: a Governance & Policy Review committee of the SIB; an Investment Committee of the SIB; and a Governance & Policy Review committee of the TFFR Board (previously and ad hoc committee, standing committee status pending second reading).
6. Continuing to implement an in-state investment initiative with the creation of the ND Growth Fund, increasing funding of the BND match loan program, and supporting a Legacy Fund Asset Allocation Study project commissioned by the Legacy and Budget Stabilization Advisory Board.
7. Completing two out of three phases of the TFFR Pension Administration System Modernization Project (TFFR “Pioneer” Project), with the third and final phase underway.

VII. 2023-25 Goals and Plans

Goals for RIO during the 2023-2025 biennium include:

TFFR Investment and Funding Goals

1. Improve the Plan’s funding status to protect and sustain current and future benefits.

2. Minimize the employee and employer contributions needed to fund the Plan over the long term.
3. Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.

TFFR Service Goals

1. Create and implement an enhanced Outreach and Communication Plan for our members, employers, and other stakeholder groups related to the program in general and the TFFR "Pioneer" Project specifically.
2. Administer an accurate, efficient, and responsive pension benefits program.
3. Deliver high quality, friendly service to members and employers.

SIB Strategic Investment Plan

1. Reaffirm our organizational commitment to the importance of continuing board education and strong board governance to create and maintain an innovative and agile investment program. The SIB has moved forward with the creation of two new standing committees within the last year to support this goal: a Governance and Policy Review committee and an Investment committee.
2. Enhance understanding of our core goals and beliefs while enhancing overall transparency.
 - a. Remain steadfast in our commitment to the prudent use of active investment management.
 - b. Expand awareness to downside risk management which is essential to achieving our long-term investment goals.
 - c. Given actual and projected growth of SIB client assets and the heightened public awareness of the Legacy Fund, align our investment platforms to promote greater clarity and efficiency in reporting and implementing client investment policies.
3. Expand RIO's influence and ability to create positive and sustainable change by building deeper relationships with existing clients, organizations, and legislative leaders.
 - a. Enhance community outreach to build upon public awareness and confidence.
 - b. Develop concise presentations which highlight our overall risk, return and cost control framework including our progress towards attaining our long-term goals.
 - c. Continue to implement an in-state investment initiative and provide education and outreach efforts consistent with the roll-out of that initiative.
4. Encourage employee participation in staff meetings, offer team members more opportunities to impact RIO's change initiatives and improve the office environment for staff and clients.
5. Enhance our internal control environment by improving use of proven risk management solutions relating to fraud risk assessments, investment risk management and overall enterprise risk management.
 - a. A robust risk management framework serves as a foundation to support a sound internal control environment and lessen downside risks.
 - b. Broaden stakeholder awareness of the challenges faced in estimating Legacy Fund earnings for future budget planning.
 - c. Evaluate and expand the efficient use of technology in our investment program activities including risk management, compliance monitoring, client satisfaction surveys, website design and communications.

RIO Strategic Plan

1. Continue to develop our organization culture as a recruitment and retention tool to develop a growth mindset and encourage employee engagement.
2. Create, develop, and maintain a robust internship program across both programs.
3. Continue to identify additional process areas where efficiencies can be gained through technology enabled processes and implement such processes.

VIII. Comparison between base and request budgets

Line Item Description	2021-23 Base Budget	2023-25 Executive Recommendation	2023-25 Total Agency Request
Salaries and Wages	\$ 6,785,839	\$ 8,744,148	\$ 10,696,123
Operating Expenses	1,323,528	2,570,347	2,869,937
Contingencies	100,000	100,000	200,000
Total Special Funds	\$ 8,209,367	\$ 11,414,495	\$ 13,766,060
		-	-
FTE	25.0	25.0	34.0

During the current 2021-23 biennium, RIO has a base budget of \$8.2 million. The vast majority of which consists of salaries and benefits for the 25 FTE and temporary team members.

The 2023-25 executive recommendation leaves the FTE count at 25 but includes cost to continue salary amounts for investment positions that were appropriated during the November 2021 special session and only funded for a portion of the current biennium. It also includes the executive compensation recommendation. The majority of the increase in the operating line is related to the continuation of our pension administration system modernization project and the related IT costs.

The 2023-25 total agency request includes added funding for an additional administrative support FTE as well as a fiscal operations FTE to support the investment team as it is currently structured. It also includes 7 FTE related to our strategic internal investment request package to make up the total 34 FTE.

IX. Budget Summary

The Retirement and Investment Office (RIO) serves two important program boards: the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR) Board. As such, its agency budget is separated into two separate programs, both of which are regarded as special funds.

Investment Program (SIB)

Funding for administration of the SIB Investment Program comes directly from investment clients' invested assets (both statutory and contracted).

Salary and benefits represent funding for 13.85 FTEs, which provide all the accounting, financial and administrative support, and investment performance services for the funds under management.

Operating funds needed to administer the SIB investment program include building rent, staff and board travel and education, and NDIT data processing.

Retirement Program (TFFR)

Funding for administration of the TFFR Pension Plan comes from member and employer contributions and investment earnings.

Salary and benefits represent funding for 11.15 FTEs responsible for administering the TFFR retirement program, down from 11.70 previously due to agency restructuring and NDIT unification.

The operating funds required to administer the TFFR retirement program include NDIT data processing, IT contracts, building rent, staff and board travel and professional development.

Carry-over funding for the Pension Administration System Modernization Project (TFFR "Pioneer" Project) is included and the anticipated implementation date is 4th quarter 2024. New costs associated with the TFFR "Pioneer" Project are included in a decision package including one-time costs due to the increased workload and agency partner assistance (such as Procurement and NDIT unification costs) required to implement and some new ongoing cost associated with the software solution.

Historically contingency funds were requested in case of unexpected budget shortfall, generally related to turnover of executive staff and the need to perform an executive search. No contingency funds are included in the base budget request for 2023-25, though a contingency funding request is included as a decision package request.

Due to restructuring/reorganization of the agency in the last biennium some FTE were reclassified and the corresponding salaries and equity adjustments for other team members increased the salary line in the base budget.

**ND RETIREMENT AND INVESTMENT OFFICE
BUDGETED EXPENDITURE REPORT
AS OF DECEMBER 31, 2022**

	BIENNIUM TO - DATE INVESTMENT	BIENNIUM TO - DATE RETIREMENT	BIENNIUM TO - DATE TOTAL
<u>BUDGETED EXPENDITURES</u>			
1. SALARIES & BENEFITS			
SALARIES	1,682,575	1,112,627	2,795,202
OVERTIME/TEMPORARY	35,410	72,274	107,684
TERMINATION SALARY & BENEFITS	4,149	3,569	7,718
FRINGE BENEFITS	509,726	425,308	935,034
TOTAL SALARY & BENEFITS	2,231,861	1,613,778	3,845,639
2. OPERATING EXPENDITURES			
TRAVEL	28,171	24,679	52,850
IT - SOFTWARE/SUPPLIES	103	82	185
PROFESSIONAL SUPPLIES & MATERIALS	641	1,680	2,321
MISCELLANEOUS SUPPLIES	1,072	541	1,613
OFFICE SUPPLIES	846	1,370	2,216
POSTAGE SERVICES	3,886	28,140	32,027
PRINTING	410	8,008	8,417
IT EQUIPMENT UNDER \$5000	419	385	805
OFFICE EQUIP. & FURNITURE UNDER \$5000	524	986	1,509
INSURANCE	1,234	1,198	2,432
BUILDING/LAND RENT & LEASES	69,454	84,998	154,451
REPAIR SERVICE	311	343	654
IT DATA PROCESSING	109,161	384,689	493,850
IT COMMUNICATIONS	7,173	7,299	14,472
IT - CONTRACTUAL SERVICES	3,060	205,173	208,233
DUES & PROF. DEVELOPMENT	7,754	20,818	28,571
OPERATING FEES & SERVICES	23,163	19,284	42,447
PROFESSIONAL SERVICES	1,840	341,841	343,681
TOTAL OPERATING EXPENDITURES	259,221	1,131,514	1,390,736
3. CAPITAL ASSETS	0	1,434,489	1,434,489
4. CONTINGENCY	85,832	0	85,832
TOTAL BUDGETED EXPENDITURES	2,576,914	4,179,781	6,756,695

2023-2025 Budget Request:

Line Item Description	Base Budget	Cost to Continue/Other Adjustments	Executive Recommendation Pay Package	Adjusted Base	Workforce Initiative #1	Pioneer Project #2	Internal Investment #3	Total Agency Request
Salaries and Wages	\$ 6,785,839	890,933	549,864	\$ 8,226,636	578,491	486,000	1,404,996	\$ 10,696,123
Operating Expenses	1,323,528	(37,000)	-	1,286,528	200,250	1,116,319	266,840	2,869,937
Contingencies	100,000	(100,000)	-	-	200,000	-	-	200,000
Total Special Funds	\$ 8,209,367	753,933	549,864	\$ 9,513,164	978,741	1,602,319	1,671,836	\$ 13,766,060
FTE	25.0	-	-	25.0	2.0	-	7.0	34.0

Request package #1 - Workforce Initiative

As an addition to our base budget request, we are requesting specific funding in a few key areas to ensure we are able to continue performing our statutory responsibilities at a very high level. We consider these requests to be a vital part of our organizational culture and workforce initiative.

During the current biennium, RIO went through a thorough reorganization that led to several position changes throughout the agency. The ED/CIO position was split into two positions to reflect the workload more accurately for each position as the investment program continues to grow exponentially. The salary attributable to the previously combined position was assigned to the Chief Investment Officer role, which resulted in a lack of salary budgeted for the Executive Director position. We have been able to pay the ED salary during the current biennium due to roll-up funding resulting from vacancies, but the full salary amount is not covered by the proposed base budget. In addition, the CFO position was restructured into the CFO/COO position, and an accounting manager position was created to support the CFO/COO combined role. We reclassified a vacant position in the Retirement Services division into a retirement accountant position which is now included under the Fiscal division. We also reorganized administrative support services, which had previously been under a separate Administrative Services division and instead assigned each administrative support position to an individual division (i.e. Retirement Services, Fiscal/Investment, and the Executive Administrative Assistant which supports the four executive team members and all the Boards and committees). While the cost of the reorganization of most of these positions could be covered by our base budget request, we are asking for additional salaries and wages to cover additional board member salaries as well as to support our commitment to a robust internship program within the agency.

To support the 6 new FTE granted during the November 2021 special session we are requesting two additional FTE. One additional administrative support FTE and one additional fiscal/operations FTE. Currently, one administrative support FTE supports both the entirety of the Fiscal and Investment Divisions and we recognize that with the growth of the investment team, additional administrative support is needed. The onboarding of the new investment team members during the biennium has created abundant opportunities to enhance our investment operations and, subsequently, increase the investment returns for all client funds. However, these enhancements require administrative and operational support to be fully realized. Adding these two FTE will further enhance the ability of the investment team to be more agile and effective in managing investment strategies and provide significant benefit to all of our client funds.

Agency reorganization/restructuring and our new strategic plan requires many employees to pursue or maintain professional certifications relevant to the performance of their duties and the associated increase in cost of agency reimbursed certifications is reflected in this proposal as well.

Additional cost for work related travel due to both inflation and the increased need for continuing education of existing FTE requires an increased allocation to this line item. Work related travel is necessary not only for investment and retirement program operations but also for continuing education for positions to maintain certifications relevant to the performance of their duties.

While the agency is committed to a hybrid work environment, such a work environment does require the availability of some additional office space to support the growing and increasingly collaborative teams during the implementation of aforementioned initiatives for both retirement and investment programs and the cost of some additional equipment and space is included in this proposal.

Finally, within this request, we are asking for contingency funding to support at least two executive searches during a biennium. During the last two biennium the agency lost its top two managers in both the retirement and investment programs within 60 days of each other (respectively for each program) and while turnover of these positions is not planned in the short term, prudence requires preparing for what is not an unusual event.

The total ask of this package is \$978,741. Of which, \$349,012 was included in the executive recommendation.

	Total Agency			Total Special Funds	Executive Recommend	Difference
	Salaries & Benefits	Operating Expenses	Contingency			
#1: Workforce Request						
Fully fund salaries after completion of reorganization, compensation for additional board members, fund internship program	203,870	-	-	203,870	81,512	122,358
Addition of an administrative support FTE to support investment personnel added during special session	154,886	-	-	154,886		154,886
Addition of a fiscal/operations FTE to support investment personnel	219,735	-	-	219,735		219,735
Increased travel for board & staff	-	74,000	-	74,000	74,000	-
Governance manual codification & update software	-	30,000	-	30,000	30,000	-
IT equipment for hoteling	-	5,000	-	5,000	5,000	-
Rent for hoteling	-	15,000	-	15,000	15,000	-
Staff development/certifications/dues	-	25,750	-	25,750	8,000	17,750
Increased SWCAP (as determined by OMB)	-	35,500	-	35,500	35,500	-
Communications subscriptions	-	15,000	-	15,000		15,000
Contingency for Exec Searches	-	-	200,000	200,000	100,000	100,000
	578,491	200,250	200,000	978,741	349,012	629,729

NOTES:

- Adds Investment Admin to support new team members added in Special Session
- Adds Fiscal/Operations FTE to support new investment team members added in Special Session
- Additional funding for salaries (fully funds reorganization adjustments, a continuing intership program, and additional board member pay)

Request package #2 - Pioneer Project

The second of our additional funding request packages seeks to support the TFFR Pension System Modernization Project (TFFR “Pioneer” Project) for the development and deployment of the modernized pension administration system pursuant to its authority under NDCC 15-39.1-05.2. The project is currently in the development and implementation of the vendor solution phase (the third and final phase). While our project is currently on time with an expected completion date of 4th quarter 2024, the agency must continue to utilize its current system until the new system is ready and program efficiencies can be realized. This package is intended to provide necessary interim support and resources for the agency until the new system is ready to deploy such as: an increase for personnel costs of existing staff as it relates to additional workload and overtime; continuing cost for temporary FTE to support the manual processes needed to make the existing system work until it can be retired; and the funding needed for ongoing hosting and support fees associated with the new software vendor solution.

The implementation project will be completed using existing FTE; however, continued funding for two temporary employees is necessary to sustain operations under the existing pension administration system while the new system is being developed and the time of permanent FTE can be dedicated to that development and launch. The current system is quite antiquated and requires significant manual data entry; these processes will be significantly improved with the new system and therefore the services of the temporary employees will no longer be needed subsequent to the launch of the new system. Overtime costs are needed for current non-exempt staff, and temporary increases for current exempt staff, due to the increased work hours and workload involved in the development and implementation of the system.

For example, between September 8, 2022, and December 15, 2022, each staff member assigned to the new pension administration project participated in as many as 185 hours of meetings and development sessions directly attributable to the project. Those 185 hours attributed to the project account for 33% of the 552 total normal work hours for that period based on 8-hour days and 69 workdays during the period. Because the work the staff does daily could not be deferred, this required a significant additional effort from the assigned staff. As a further example, for the period of January 9, 2023, through May 11, 2023, there are 86 working days for a total of 688 regular work hours. During this time assigned staff will be participating in as many as 225 hours of meetings and development sessions related to the project. This again represents a 33% increase in required time from staff to complete both their normal work duties and the duties they have on the project. This increased tempo and workload will continue through the end of the project which is scheduled for the 4th quarter of the 2024 calendar year.

It is expected that these additional costs, including limited term employee costs will be eliminated upon implementation of the new pension administration system, while the hosting and support fees will be ongoing. As an offset of the increased hosting and support fees, the one-time increase for NDIT charges for unified staff support should also decrease substantially after the implementation of the project. This expectation is due to the conclusion of the NDIT staff in PAS meetings and development sessions, and due to the modernization and automation of processes that NDIT staff presently support daily in the antiquated system being replaced.

The total ask of this package is \$1,602,319. Of which, \$1,552,319 was included in the executive recommendation.

	Total Agency				Executive Recommend	Difference
	Salaries & Benefits	Operating Expenses	Contingency	Total Special Funds		
#2: Pension System Continuation						
Temp Increases & Temp Salaries	270,000	-	-	270,000	220,000	50,000
Overtime for Pension Staff	216,000	-	-	216,000	216,000	-
Postage for educational mailers	-	5,000	-	5,000	5,000	-
Printing for educational mailers	-	1,900	-	1,900	1,900	-
Increased NDIT charges for unified staff	-	132,000	-	132,000	132,000	-
Increased hosting and support fees	-	937,419	-	937,419	937,419	-
New contract to track membership	-	40,000	-	40,000	40,000	-
NOTES:	486,000	1,116,319	-	1,602,319	1,552,319	50,000
- Temp increases and funding for temp positions to finish designing and implementation of new PAS system - Increase in hosting/support costs for new system - \$40K for PBI for death audit solutions						

Request package #3 - Internal Investment

The third and final additional request is predicated on the exponential growth of our investment program. The assets under management by the RIO investment division have grown from about \$4 billion to nearly \$20 billion from the year 2010 to the beginning of the year 2022 and continue to grow from investment returns and contributions to the Legacy Fund, pension plans, and insurance funds. The combination of the growth of AUM, the number of individually managed funds, and the complexity of mandates such as the Legacy Fund have increased the need for staff resources, infrastructure, and new scalable investment processes that can enhance the performance of client funds while reducing the net cost of management of those funds when manager fees are considered.

There is an opportunity to create significant benefits from the scale advantages of the growth of nearly \$20 billion of assets under management. A typical public fund with similar assets under management as RIO has more internal investment management which creates the opportunity of better investment returns while decreasing costs from the advantages of more internal management versus money placed with external managers. Some additional benefits of an internal asset management program include:

- Enhanced liquidity management, better fund rebalancing processes, and the ability to manage risk exposures for improvement of return/risk and lower cost;
- Improved investment capabilities at RIO rather than outsourcing those capabilities;
- Scalable savings that grow with the assets under management or with a larger portion of assets under management
- Additional flexibility and agility to implement new investment strategies or respond to market or international events as the assets are controlled locally;
- Attraction of top talent with a remote hybrid workforce where some senior, more expert investment officers can be located remotely if they choose yet still train more junior talent

that are local. RIO has been able to attract top talent with this approach. Internal investment management will increase the number of professional opportunities with RIO to be the employer of choice.

- Attraction of local talent from universities using internship programs where talent can be trained to be the next generation of leaders, bootstrapping a market for investment talent in North Dakota.

Generally, investment management costs fall within the scope of continuing appropriation authority granted by the legislature in NDCC 21-10-06.2; however, because this proposal involves cost savings achieved by internalizing investment operations through additional permanent FTE and infrastructure it falls within the scope of NDCC 54-52.5-03.

Our proposal includes five investment professionals, one fiscal operations professional, and one administrative staff to manage approximately \$3 billion of assets internally. Implementing this proposal can lower the net costs for RIO investments by \$8 million per year and create opportunities for better liquidity management and rebalancing that may result in up to another \$8 million in savings per year, for a conservative estimate of approximately \$16 million in savings per year that as a special fund agency directly benefits our client funds. The net costs and opportunities grow with assets under management and with the amount of assets managed internally. We have discussed this proposal with many of our client funds and have received positive feedback and support from our clients for this initiative.

Additionally, the market for investment professionals shows they typically receive both a market-based salary and incentive compensation even in the public sector. A well-designed incentive compensation system, based on fair criteria, can stimulate employees to deliver quality work, reach set targets, and maintain motivation and productivity. For investment managers, it provides incentives to make smart and risk-appropriate investment choices that result in an appreciation of invested assets. The incentive system also aligns the risk of the investment manager's compensation with the risk of the underlying assets being managed, thus acting as a control mechanism incentivizing good risk/return choices. Lastly, an incentive system is good for investment plan beneficiaries in that the incentive is paid when there is superior investment performance and not paid when there is not superior investment performance. As a result, a well-designed incentive compensation system results in added net investment performance and reduces the overall cost of compensation by paying only when the benefits exceed the cost. The incentive compensation plan would assume a targeted bonus of 50% of salary and a max of 100% of salary and would only pay out when benefits exceed costs. This proposal is contingent on an incentive compensation plan approved by the legislature and administered by the State Investment Board.

Due to the complexity of this plan, we are only asking for a salary budget for one year of the biennium for these additional staff as we believe it would take significant time to receive the necessary classification approvals and fill the positions.

We estimate the cost of this proposal for the first biennium to be \$1,671,836 or approximately 10% of the cost savings from implementation. This includes one year of salaries and benefits for each of the new positions as well as the necessary operational costs to support them. In addition, we

would ask for specific statutory language changes to facilitate the incentive compensation plan including exemptions from the state’s classified system.

#3: Internal Investment Plan	Total Agency				Executive Recommend	Difference
	Salaries & Benefits	Operating Expenses	Contingency	Total Special Funds		
Item Description						
7 new FTE (5 investment/1 fiscal/1 admin) (1/2 biennium)	1,173,326	-	-	1,173,326	-	1,173,326
Equity Increases for current Investment Staff	231,670	-	-	231,670	-	231,670
Advertising	-	17,500	-	17,500	-	17,500
Travel	-	53,000	-	53,000	-	53,000
Software/Data Processing/Telephone	-	44,240	-	44,240	-	44,240
Office Furniture/Supplies	-	12,600	-	12,600	-	12,600
Rent for new offices	-	86,500	-	86,500	-	86,500
Prof Development	-	3,000	-	3,000	-	3,000
Pay Study	-	50,000	-	50,000	-	50,000
NOTES:	1,404,996	266,840	-	1,671,836	-	1,671,836
- 5 Investment positions (2 Sr. Portfolio Mgrs/2 Inv. Analysts/1Inv. Funds Mgr) - 1 Admin to assist investment professionals - 1 Investment accountant - Operating costs to support additional team members						

X. Purpose and use of one-time funding in current biennium

Although there was no one-time funding specified in our budget for the 2021-2023 biennium, we did request to carryover unexpended one-time funding appropriated in the prior biennium to continue work on our pension administration system (PAS) modernization project. As this project is in progress and not expected to be completed until 2024, we will be requesting to carryover all remaining one-time funding related to this project into the 2023-2025 biennium.

ND RETIREMENT AND INVESTMENT OFFICE PENSION ADMINISTRATION SYSTEM EXPENDITURE REPORT AS OF DECEMBER 31, 2022						
	2019-2021 Biennium Approved Budget	2019-2021 Biennium Actual	Carryover to 2021-2023 Biennium	2021-2023 Biennium Actual	Total PAS Project to Date	Remaining PAS Budget
TEMPORARY SALARIES	50,000	0	50,000	0	0	50,000
IT - DATA PROCESSING (NDIT PROJECT MGMT)	775,000	34,025	740,975	78,457	112,483	662,517
PROFESSIONAL SERVICES	1,875,000	297,099	1,577,901	444,377	741,476	1,133,524
CAPITAL ASSETS	6,300,000	0	6,300,000	1,434,489	1,434,489	4,865,511
TOTAL PAS PROJECT BUDGET	9,000,000	331,125	8,668,875	1,957,324	2,288,448	6,711,552

XI. Identify and justify need for any one-time funding requested

We are requesting carryover authority for unexpended one-time funding related to our PAS modernization project that is expected to be completed in the 4th quarter of 2024.

In addition, we are requesting one-time funding for temporary salary increases to team members engaged in the development of the new system along with temporary salary dollars for continuation of our temporary employees that are currently supporting TFFR's legacy system while we design and develop the new system. The nature of the building of the new system requires significant institutional knowledge of the plan and current structure such that hiring temporary employees from outside the agency to design the system would not be feasible. This requires current team members to put in extra time and effort into design meetings while still completing their daily duties. Thus, the need for temporary workload increases and overtime.

XII. Agency collections deposited in general or special fund

Not applicable to RIO.

XIII. Need for any other sections requested to be included

As part of our strategic investment plan and our desire to move forward with an internal investment program at RIO, we are requesting to be excluded from the state's classified system. This would require an amendment to NDCC 54-44.3-20 to add "Officers and employees of the state retirement and investment office" to the list of positions excluded from classified service.

Additionally, as discussed in the internal investment request package, we feel an appropriate incentive compensation plan is vital for the success of our investment team. And, as such, we are requesting legislative approval to move forward on designing and implementing a plan that would be annually approved by the SIB.

Finally, we are requesting exemption language be added to our bill similar to last biennium to allow for the carryover of any unexpended funds related to the pension administration system project to allow for the planned implementation of the new system in 2024.

XIV. Any other bills being considered and potential impact on our budget

RIO reviews all submitted bills to monitor for potential impact on the agency. Through the first couple weeks of the session, we have identified several bills that may impact our agency and/or budget including, but not limited to (see attached for complete current list of tracked bills):

- HB 1039/1040 – Closure of the PERS DB Plan
- HB 1088 – SIB Membership Changes
- HB 1150 – Veteran Opt-out from TFFR
- HB 1219 – TFFR Program Changes
- HB 1227 – Legacy Fund/Requiring Cost-Benefit Analysis
- HB 1271 – Retired Teachers Return to Service/TFFR
- HB 1278 – Requiring Contracts to Include Written Support of Fossil Fund and ND Ag Industries
- HB 1368 – Prohibiting Investment and Contracts with Companies that Boycott Israel
- HB 1379 – Legacy Fund Earnings Streams
- HB 1400 – Common Schools Trust Fund Investments
- SB 2239 – Contributions to PERS Main Plan

- SB 2258 – Retired Teachers Benefits if Returning to Teach
- SB 2330 – Legacy Fund Advisory Board/Legacy Fund Earnings Definition

Potential fiscal impacts of these bills are still being determined. Some minor changes may require small amounts of monitoring and compliance and require just a few thousand dollars of temporary salaries. While others may have a more pronounced effect on RIO and require full scale effort on behalf of the investment team requiring upwards of \$10 - \$15 million in extra agency costs. We will continue to monitor these and numerous other bills to determine if any additional budget action would be necessary.

XV. One-page itemized listing of changes we're requesting to the executive recommendation

(See attached)

XVI. Comparison of major requests to those recommended in executive budget

(See section IX above for specific amounts included in executive budget)

The executive budget included portions of our major requests as follows:

- Workforce initiative (#1)
 - Included:
 - Portion of additional salaries for board members/interns
 - Increased travel for board and staff
 - Increased SWCAP
 - Additional hoteling rent & IT equipment
 - Staff development and certifications
 - Additional request:
 - Fully fund reorganized salaries
 - 2 FTE to support investment team (admin & fiscal)
 - Additional staff development/certifications/dues/subscriptions
 - Additional contingency funds for one more executive search
- Pioneer project (#2)
 - Included:
 - Portion of temporary increases and temporary salaries
 - Overtime for pension staff
 - Postage/Printing for educational mailers on new system
 - NDIT hosting, support, and staff charges
 - Contract for membership death tracking
 - Additional request:
 - \$50K of temporary salary dollars
- Internal investment (#3)
 - Included
 - None included in exec recommendation
 - Additional request:
 - 7 FTE (5 investment/1 fiscal/1 admin) for one year of biennium

- Equity increases for current investment staff
- Advertising/travel/professional development costs
- Software and data processing costs
- Office rent/furniture/supplies
- Pay study

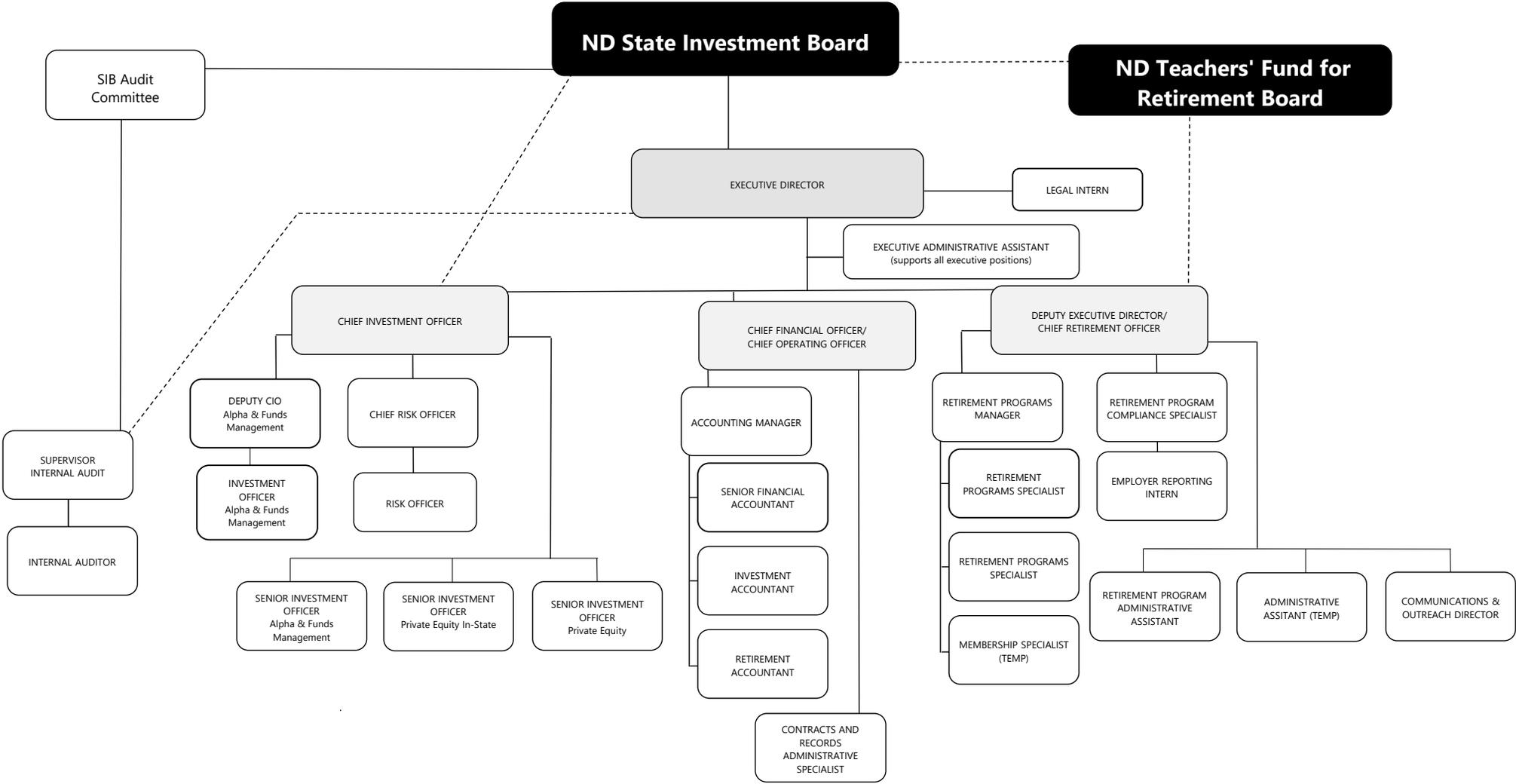
XVII. Federal State Fiscal Recovery Funding

RIO was not appropriated any federal state fiscal recovery funds during the November 2021 special legislative session.

XVIII. Federal Funding available

RIO does not have, nor does it anticipate having any federal funding available for the 2023-2025 biennium.

RETIREMENT AND INVESTMENT OFFICE



North Dakota Retirement and Investment Office
Changes requested in addition to executive recommendation

	Salaries & Benefits	Operating	Contingency	Total	FTE
Legislative Base Budget	6,785,839	1,323,528	100,000	8,209,367	25.0
Base Budget Changes	143,721	(43,721)	(100,000)	-	-
Executive Recommendations					
Cost to continue salary increases	41,345			41,345	
Increase funding for FTE approved during special session	506,929			506,929	
Salary package increase	549,864			549,864	
Health insurance increase	128,580			128,580	
Increase funding for salary equity increases	151,870			151,870	
Increase funding for ITD rates		6,721		6,721	
Operating expense inflationary increase (part of optional request #1)		167,500		167,500	
Contingency funds for executive search expenses (part of optional request #1)			100,000	100,000	
Funding for pension administration software fees (optional request #2)		977,419		977,419	
One-Time: Pension administration software implementation (part of optional request #2)	436,000	138,900		574,900	
Total included in executive recommendation	8,744,148	2,570,347	100,000	11,414,495	25.0
Additional Agency Requests					
Remainder of request package #1 (Workforce Initiative)				-	
Fully fund salaries after completion of reorganization, compensation for additional board members, fund internship program	122,358			122,358	
Addition of 2 FTE to support investment personnel added during special session	374,621			374,621	2.0
Additional staff development/certifications/dues		17,750		17,750	
Additional communications subscriptions/memberships to support strategic communications plan		15,000		15,000	
Contingency funds for one additional executive search			100,000	100,000	
Total additional for request package #1	496,979	32,750	100,000	629,729	2.0
Remainder of request package #2 ("Pioneer" Pension System continuation)					
Additional funding for temporary increases and temporary salaries	50,000			50,000	
Total additional for request package #2	50,000	-	-	50,000	-
Request package #3 (Internal Investment Management)					
7 new FTE (5 investment/1 fiscal/1 admin) (1/2 biennium)	1,173,326			1,173,326	7.0
Equity increases for current investment staff	231,670			231,670	
Advertising		17,500		17,500	
Travel		53,000		53,000	
Software/data processing/telephone		44,240		44,240	
Office furniture/supplies		12,600		12,600	
Rent for new offices		86,500		86,500	
Professional development		3,000		3,000	
Pay study		50,000		50,000	
Total additional for request package #3	1,404,996	266,840	-	1,671,836	7.0
Total Requested Appropriation	10,696,123	2,869,937	200,000	13,766,060	34.0

SECTION 1. AMENDMENT. Section 54-44.3-20 of the North Dakota Century Code is amended and reenacted as follows:

54-44.3-20. Categories of positions in the state service.

All positions in the state service are included in the classified service, except:

1. Each official elected by popular vote and each person appointed to fill vacancies in an elective office, one principal assistant, and one private secretary.
2. Members of boards and commissions required by law.
3. Administrative heads of departments required by law, other than the superintendent of North Dakota vision services - school for the blind, the superintendent of the school for the deaf, and the state librarian.
4. Officers and employees of the legislative branch of government.
5. Members of the judicial branch of government of the state of North Dakota and their employees and jurors.
6. Persons temporarily employed in a professional or scientific capacity as consultants or to conduct a temporary and special inquiry, investigation, or examination for the legislative branch of government or a department of the state government.
7. Positions deemed to be inappropriate to the classified service due to the special nature of the position as determined by the division and approved by the board.
8. Employees of the institutions of higher education under the control of the state board of higher education.
9. Members and employees of occupational and professional boards.
10. Officers and employees of the North Dakota mill and elevator association.
11. Positions referred to under law as serving at the pleasure of or at the will of the appointing authority.
12. Licensed teachers engaged in teaching at the North Dakota youth correctional center, North Dakota vision services - school for the blind, and the school for the deaf.
13. Officers of workforce safety and insurance.
14. Officers and employees of the department of commerce.
15. Attorneys employed by the insurance commissioner.
16. Engineers, engineering technicians, and geologists employed by the director of mineral resources.
17. Officers and employees of the Bank of North Dakota.
18. Officers and employees of the state retirement and investment office.

SECTION 2. AMENDMENT. Section 54-52.5-03 of the North Dakota Century Code is amended and reenacted as follows:

54-52.5-03. State retirement and investment fund – Cost of operation of agency.

A special fund known as the "state retirement and investment fund" is established for the purpose of defraying administrative expenses of the state retirement and investment office. The actual amount of administrative expenses incurred by the state retirement and investment office must be paid from the respective funds listed under section 21-10-06 and are hereby appropriated to the state retirement and investment fund in proportion to the services rendered for each fund as estimated by the state investment board. The amount necessary to pay all administrative expenses of the state retirement and investment office must be paid from the state retirement and investment fund in accordance with the agency's appropriation authority and earnings lawfully available for such purposes. Any interest income earned on the state retirement and investment fund must be credited to the fund.

SECTION 3. AMENDMENT. Section 54-52.5-04 of the North Dakota Century Code is created and enacted as follows:

For the purposes of this section, "incentive compensation program" means a program approved by the state investment board with provisions that promote profitability, productivity, and responsible fund management. Any incentive compensation program approved by the state investment board must include provisions that ensure no payouts are made unless conditions are met that the investment program has added value when compared to pre-determined opportunity cost policy benchmarks.

2023-2025 Legislative Session RIO Bill Tracker

Bill #	Topic	Description	Sponsor	Hearing Date	Committee	Status
HB 1039	Closing DB Plan	Closing DB Plan (eff. 12/31/23)	Legislative Management: Weisz, Bosch, Boschee, Lefor, Mitskog, Vigesaa, Burckhard, Klein, Piepkorn, Schaible, Wanzek	1/13 - 9:15am	House GVA	
HB 1040	Closing DB Plan	Closing DB Plan (eff. 12/31/24)	Legislative Management: Weisz, Bosch, Boschee, Lefor, Mitskog, Vigesaa, Burckhard, Klein, Piepkorn, Schaible, Wanzek	1/13 - 8:30a.m.	House GVA	
HB 1088	SIB	SIB Membership changes	Government and Veterans Affairs: Schauer, Satrom, Bahl, Cory, Hoverson, Johnson, Karls, Louser, McLeod, Rohr, Schneider, Steiner, Vetter	1/12 - 10:15am	House GVA	
HB 1147	Legacy Earnings	Creating a county and township bridge fund from legacy earnings	Rep. Thomas, Rep. Anderson, Rep. Hagert, Rep. Lefor, Rep. Mitskog, Rep. Monson, Sen. Myrdal, Rep. Pyle, Sen. Sorvaag, Rep. Stemen, Sen. Vedaa	1/18 - 10:30am	House Approps	
HB 1150	Veteran Exemption for TFFR	Allows veterans with at least 20 years of military service to opt out of the TFFR in their first year of teaching	Thomas, Bekkedahl, Heinert, Meyer, O'Brien, Pyle, Richter, Ruby, Schaible, Schreiber-Beck, Vedaa	1/16 - 4:00pm	House Education	
HB 1183	PERS retirement for law enforcement	Amends description of participants.	Rep. Porter, Sen. Axtman, Rep. Dockter, Rep. Heinert, Rep. Karls, Rep. Kasper, Sen. Larson, Rep. Louser, Rep. Motschenbacher, Rep. Ostlie, Rep. Ruby, Rep. Schauer	1/20 - 8:30am	House GVA	
HB 1201	Employee recruiting	Prohibiting a state entity from employing an individual under contract with a school district	Reps. Heinert, Hauck, Koppelman, Meier, Porter, M. Ruby, Toman Sens. Larsen, Meyer, Schaible	1/18 - 2:00pm (3rd)	House Education	
HB 1216	ND Development Fund	Commerce Dept. funds to promote economic development.	Rep, Nathe	1/16- 9:00am	House IBL	
HB 1219	TFFR	TFFR Changes	Reps. Kempenich, Conmy, Kreidt Sen. Schaible	1/20 - 9:15am	House GVA	

HB 1227	Legacy Fund	Requiring a cost-benefit analysis for a measure or policy affecting the Legacy Fund.	Reps. Kempenich, Bosch, Cory, Mock, Swiontek, Thomas, Vigesaa Sens. Klein, Meyer, Patten	1/18 - 9:00am	House Finance & Tax	
HB 1251	Salaries for school superintendents	Capping salaries for school superintendents	Rep. Ruby, Sen. Cleary, Rep. Heilman, Rep. Heinert, Sen. Hogue, Sen. Krebsbach, Sen. Kreun, Rep. Lefor, Sen. Meyer, Rep. Schreiber-Beck		House Education	
HB 1271	TFFR	Opt-out for retired teachers returning to service from having to contribute to TFFR	Reps. Schatz, Hauck, D. Ruby, Strinden Sen. Myrdal		House Education	
HB 1278	SIB	Requiring contracts with custodians/managers include required written support of fossil fuel and ag industries in state.	Reps. Satrom, Grueneich, Headland, Lefor, S. Olson, Ostlie, Schauer, Steiner Sens. Conley, Wanzek		House GVA	
HB 1283	Financial Industry	Impacting and creating a list of banks that develop stances on ESG	Rep. Novak, Rep. Dyk, Rep. Kempenich, Rep. Lefor, Sen. Myrdal, Sen. Rummel, Rep. Steiner, Rep. Tveit	1/17- 2:30pm	House IBL	
HB 1285	Agency	Prohibiting executive branch agency bill submissions without legislator or legislative committee sponsor.	Reps. Toman, Christensen, Heilman, Henderson, Prichard		House GVA	
HB 1309	PERS	Plan design changes for law enforcement	Rep. Boschee, Sen. Braunberger, Sen. Cleary, Sen. Dever, Rep. Heinert, Rep. Martinson, Rep. Nathe, Sen. Roers, Rep. Ruby, Rep. Schneider		House GVA	
HB 1321	PERS Board	Changing PERS Board makeup	Reps. Kasper, Dockter, Lefor, Louser, D. Ruby, M. Ruby, Steiner, Vigesaa, Weisz Sen. Hogue	1/18 - 2:30pm	House IBL	
HB 1345	Procurement	All coontracts between a state entity and a vendor must include a provision of the vendor supporting the state's agriculture and energy industries	Reps. Satrom, Grueneich, Hagert, Headland, Kiefert, Ostlie, Steiner Sen. Conley, Erbele, Lemm, Wanzek	1/20 - 9:00am	House Agriculture	

HB 1347	Banking	State treasurer and financial institutions engaged in boycotts of energy companies	Reps. Satrom, Grueneich, Ostlie, Schauer, Strinden Sens. Clemens, Conley	1/18 - 2:30pm (4th)	House IBL	
HB 1368	Investments	Prohibiting investments and contracts with companies that boycott Israel.	Reps. K. Anderson, Bellew, M. Ruby, Strinden, Timmons, Tveit Sens. Clemens, Kannianen, Myrdal		House IBL	
HB 1379	Legacy Earnings Streams	Modifies Legacy Fund Earnings streams	Reps. Lefor, Bosch, Dockter, Headland, Nathe, Novak, O'Brien Sens. Bekkedahl, Hogue, Rummel, Sorvaag		House Approps	
HB 1400	Investing Land Assets	Allows Land to use SIB for Investment purposes			House IBL	
SB 2022	Budget bill	RIO's Budget	Senate Appropriations	1/19 - 10:00am	Senate Approps - Human Resources	
SB 2070	Teacher Permitting	Extends the length of time non-certified teachers can be permitted	Senate State and Local Govt - Roers, Barta, Braunberger, Cleary, Estenson, Lee	1/17 - 2:00pm	Senate Education	
SB 2164	PERS Board	Changing how legislative members of PERS Board are appointed	Sen. Dever Reps. Brandenburg, Hatlestad, D. Johnson, Monson, Schauer	1/19 - 9:30am	Senate State & Local	
SB 2165	Energy Commission	Funds to clean sustainable energy fund/ BND	Sen. Patten, Rep. Bosch, Sen. Kannianen, Sen. Kessel, Rep. Novak, Rep. Porter	1/19-10am	Senate Energy and Natural Resources	
SB 2196	Infrastructure Revolving Loan Fund	Resets terms of the infrastructure revolving loan fund.	Sen. Patten, Sen. Beard, Sen. Bekkedahl, Sen. Kannianen, Rep. Olson, Rep. Richter	1/19-10:30am	Senate Energy and Natural Resources	
SB 2220	Legacy Earnings	Adding a Housing Incentive Fund bucket to Legacy stream	Sens. Kreun, Barta, Hogan, Mathern Reps. Ista, O'Brien		Senate Finance & Taxation	
SB 2233	BND	Auditing practices of certain funds under management of BND	Sen. Klein, Sen. Bekkedahl, Sen. Hogue, Rep. Lefor, Rep. Vigasaa		Senate IBL	
SB 2239	PERS Plan	Changing PERS contribution rates and appropriating \$250M to the fund	Sens. Cleary, Dever Rep. Boschee		Senate State & Local	
SB 2258	TFFR	Expands scope of Critical Shortage area qualification for rehired retirees	Sens. Paulson, Beard Reps. Heilman, Hoverson, Louser		Senate Education	
SB 2330	Legacy Fund	Legacy earnings definition and change in Legacy Fund IPS percentages.	Sens. Klein, Hogan, Meyer Reps. Bosch, Kreidt		Senate IBL	

Senate Bill 2022
Senate Appropriations
Human Resources Division
Senator Dever, Chair

January 19, 2023

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1

NORTH DAKOTA RETIREMENT AND INVESTMENT SUPPORTS TWO SPECIAL FUND PROGRAMS

NORTH Dakota
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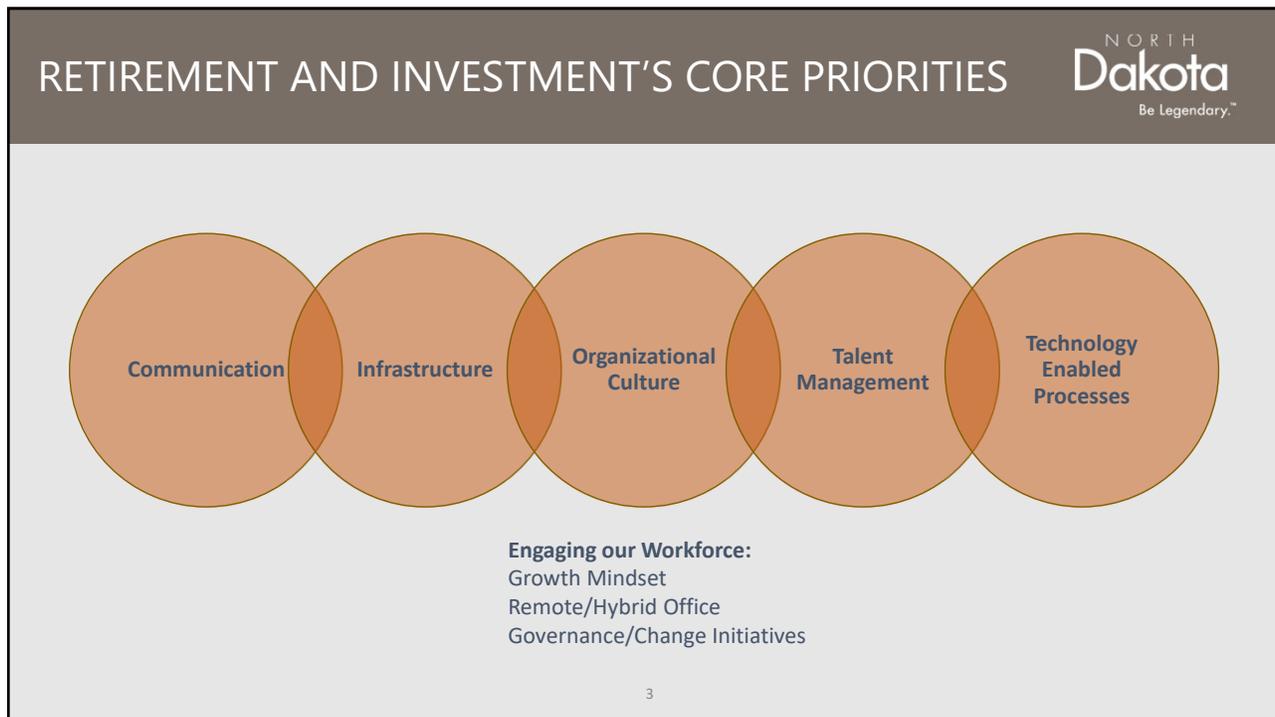
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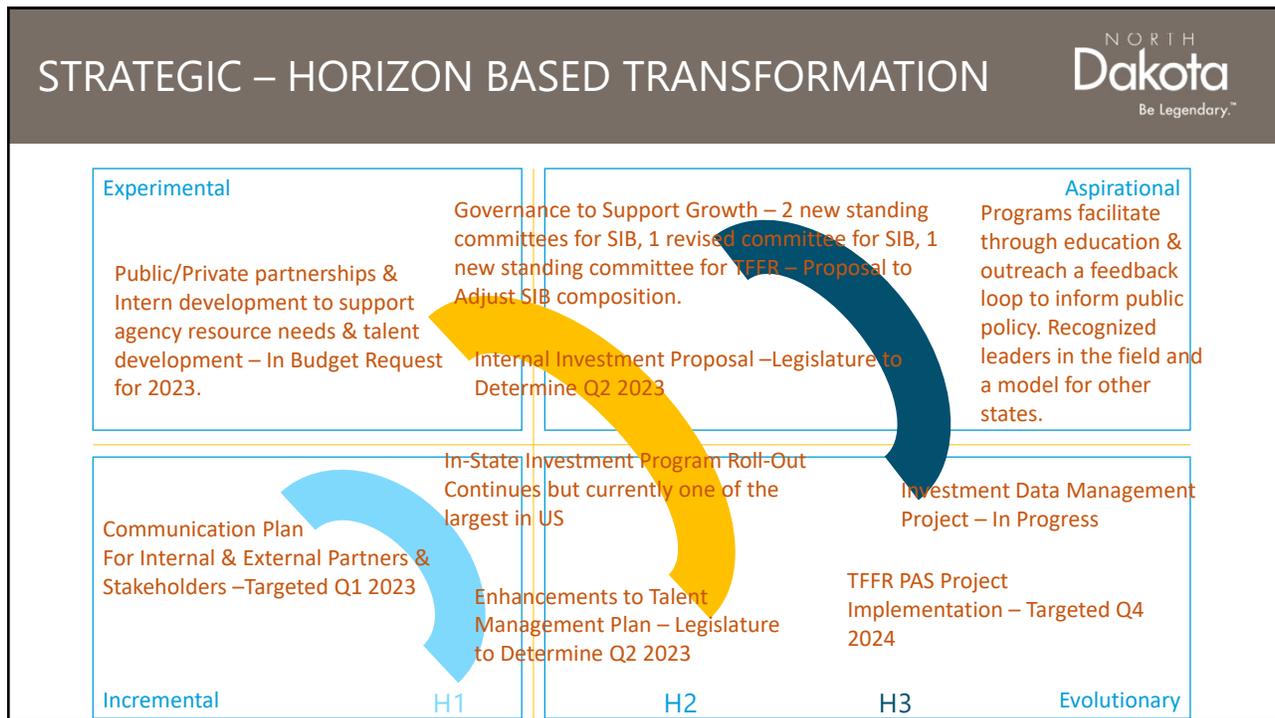
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- 28 client funds
- 43 fund managers

Fund/Pool	AUM (11/30/22)
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Insurance Pool	\$2.89B
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Other Funds	\$0.24B

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6

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BUDGET REQUEST SUMMARY



Line Item	Base Level	Cost to Continue/ Other Adj.	Executive Pay Package	Adjusted Base	Workforce Initiative	Pension System Upgrade	Internal Investment*	Total Request
Salaries & Benefits	\$6,785,839	890,933	549,864	8,226,636	578,491	486,000	1,404,996	\$9,035,591
Operating Expenses	1,323,528	(37,000)		1,286,528	200,250	1,116,319	266,840	3,006,937
Contingencies	100,000	(100,000)		-	200,000	-	-	200,000
Total Special Funds	8,209,367	753,933	549,864	9,513,164	978,741	1,602,319	1,671,836	12,242,528
(Included in Exec. Recom.)					349,012	1,552,319	-	
FTEs	25.0	-	-	25.0	2.0		7.0	34.0

* Amounts represent only 2nd year of biennium.
Requires authorization for performance pay within internal investment plan.



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RIO AGENCY INITIATIVES





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ORGANIZATION CULTURE – WORKFORCE INITIATIVE

SALARIES

- ED/CIO SPLIT AND OTHER AGENCY RE-ORGANIZATION INCLUDING ACCOUNTING MANAGER, CFO-COO.
- Support Intern Program.

SUPPORT

- 1 ADDITIONAL ADMIN TO SUPPORT NEW INVESTMENT FTE'S.
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TEMP STAFF TO ASSIST WITH MANUAL PROCESSES UNTIL NEW SYSTEM LAUNCH.

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INCREASED NDIIT SUPPORT COSTS.

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POST LAUNCH: ROI REALIZED.

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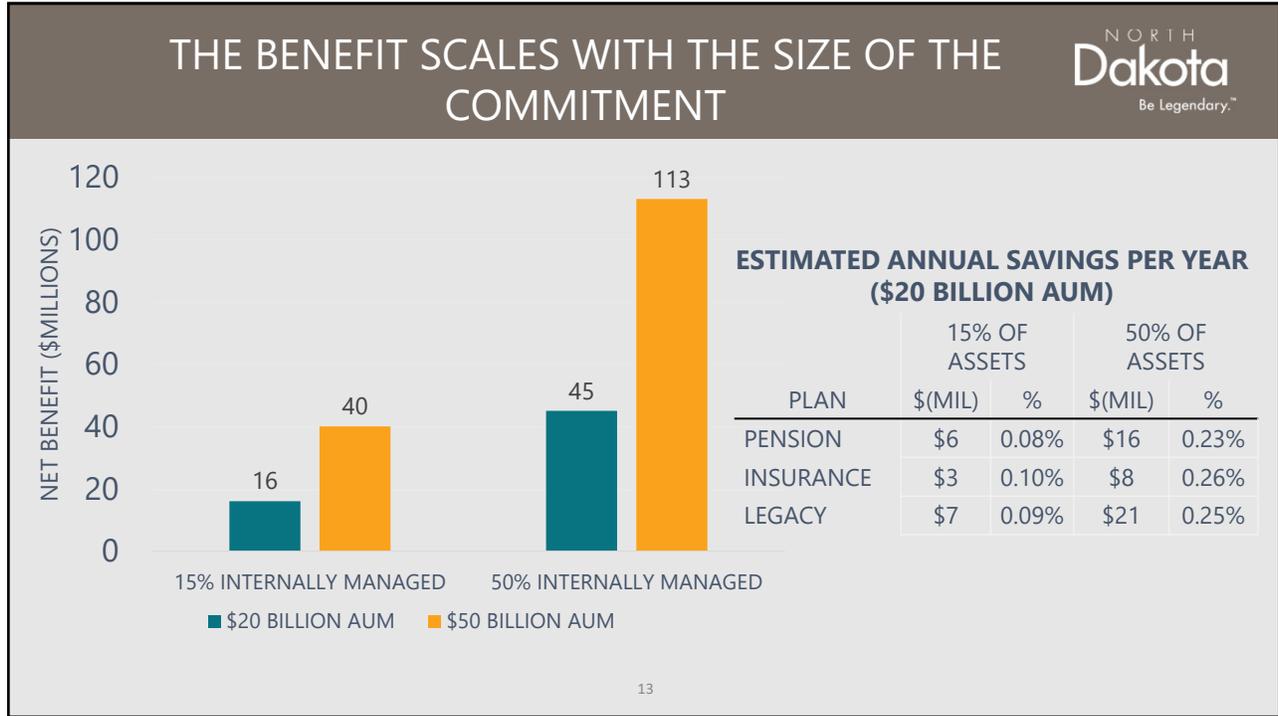
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INTERNAL INVESTMENT/ TALENT MANAGEMENT

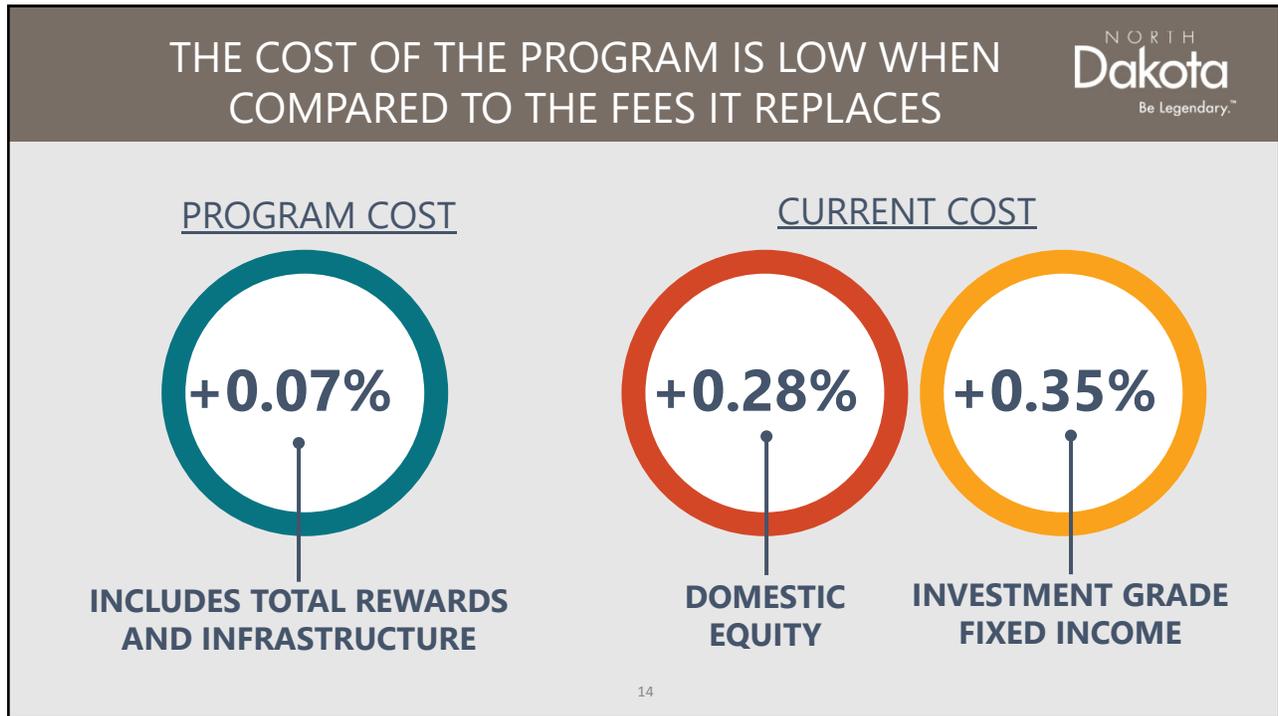
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MINIMAL REQUIREMENTS WHEN COMPARED TO THE BENEFITS^{1,2,3}

NORTH
Dakota
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TALENT MANAGEMENT:

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ESTIMATED TOTAL COSTS FOR INVESTMENTS (INCLUDES CONTINUING APPROPRIATIONS)

NORTH
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Be Legendary.™

	CURRENT		INTERNAL INVESTMENT		TOTAL	
	\$ ²	PER \$AUM	\$ ³	PER \$AUM	\$	PER \$AUM ⁴
SALARIES/BENEFITS	2.6	1.4	1.4	0.7	4	2.1
OPERATING COSTS	0.9	0.5	0.8	0.4	1.7	0.9
TOTAL	3.5	1.9 BP	2.2	1.2 BP	5.7	3.0 BP
NET SAVINGS					16	8.5 BP

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3. INCLUDE ESTIMATED \$500,000 OF CONTINUING APPROPRIATIONS
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EXAMPLE STATES WITH INTERNAL INVESTMENT MANAGEMENT AND INCENTIVE COMPENSATION



ARIZONA
 FLORIDA
 NEW MEXICO
 NORTH CAROLINA
 OHIO
 SOUTH DAKOTA
 TEXAS
 VIRGINIA
 WISCONSIN

18

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Questions?

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1/19/2023

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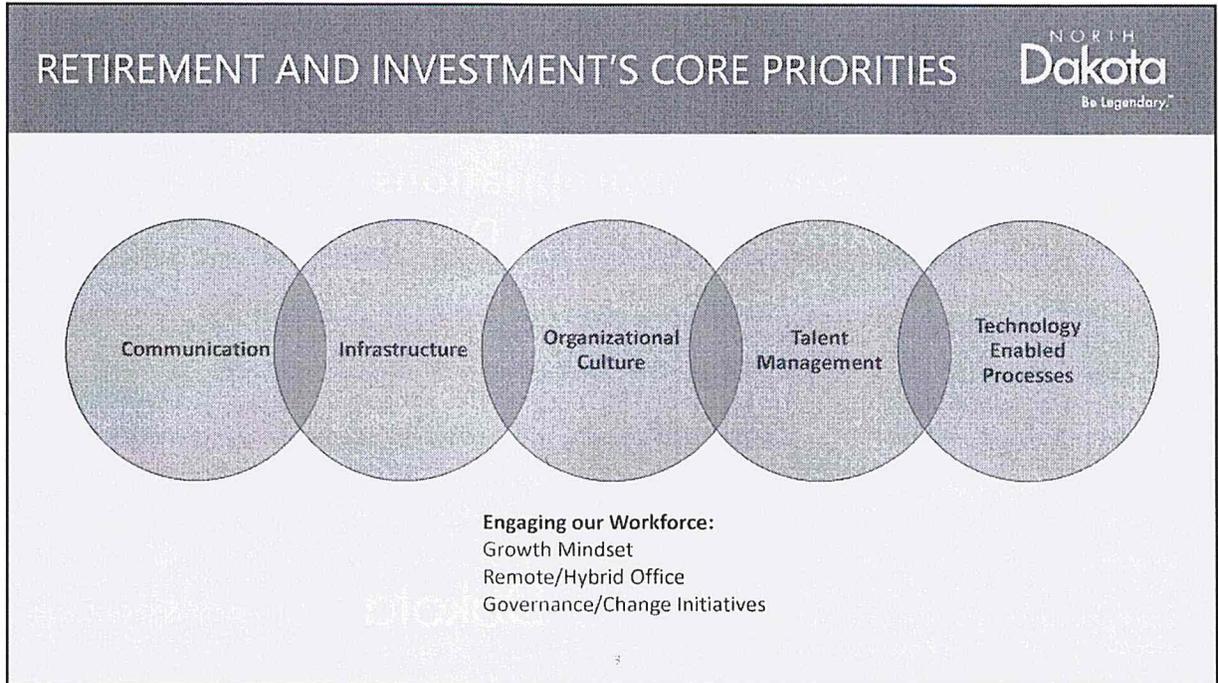
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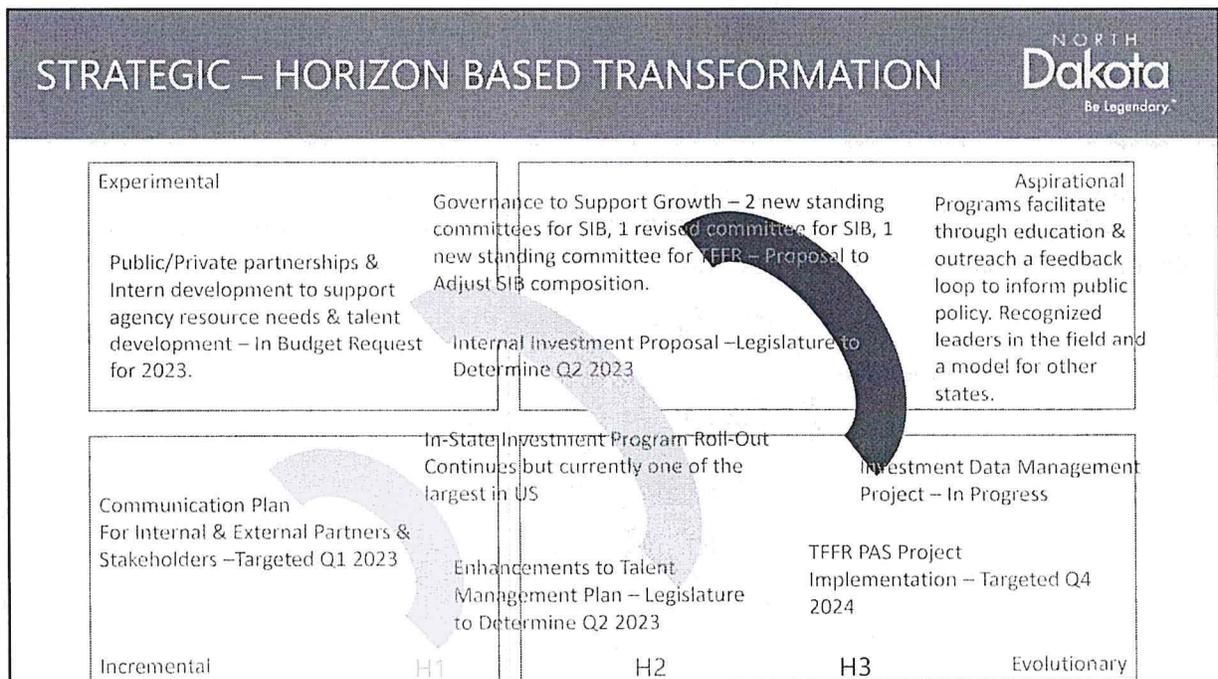
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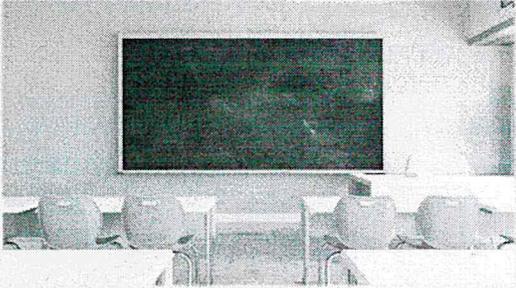
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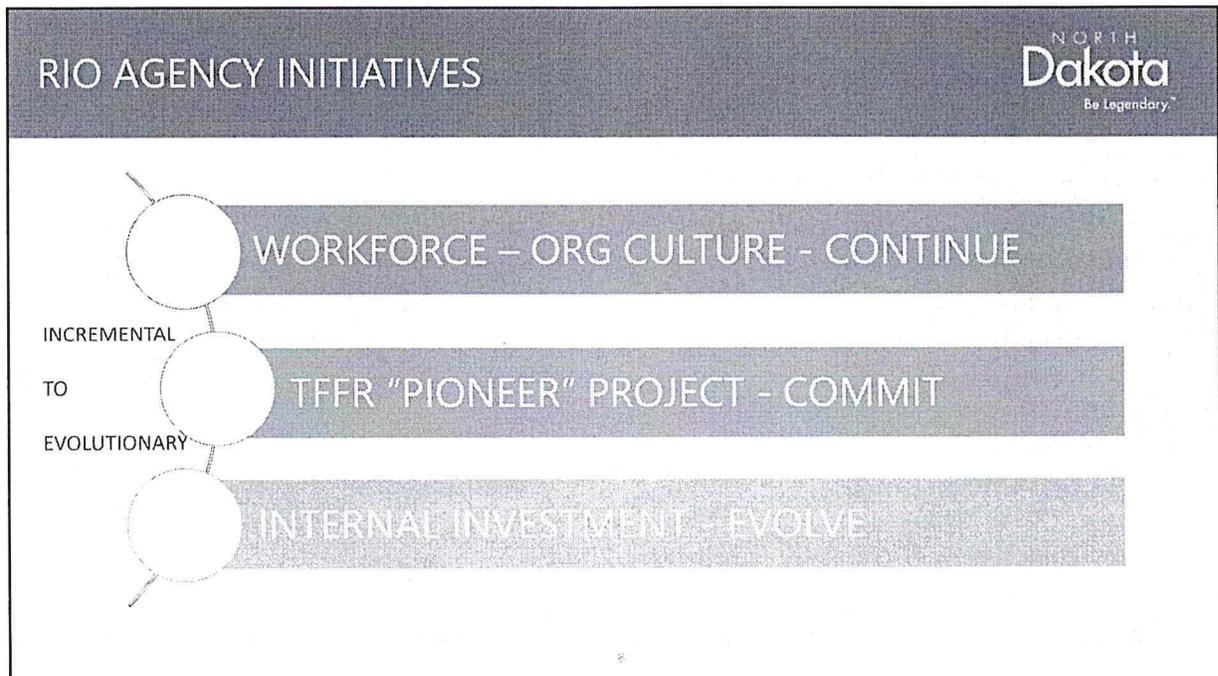


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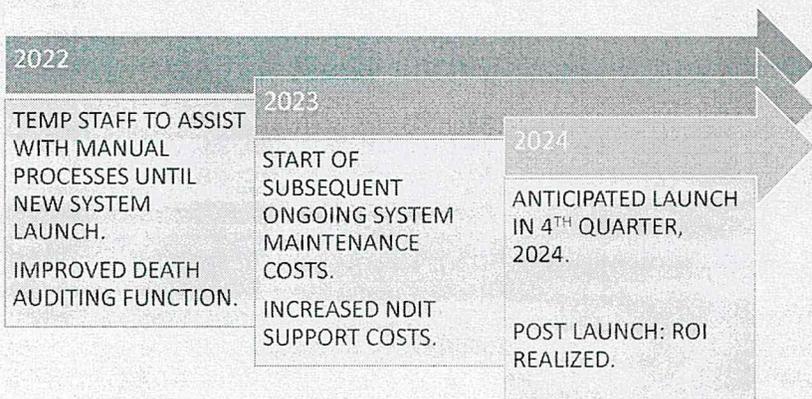


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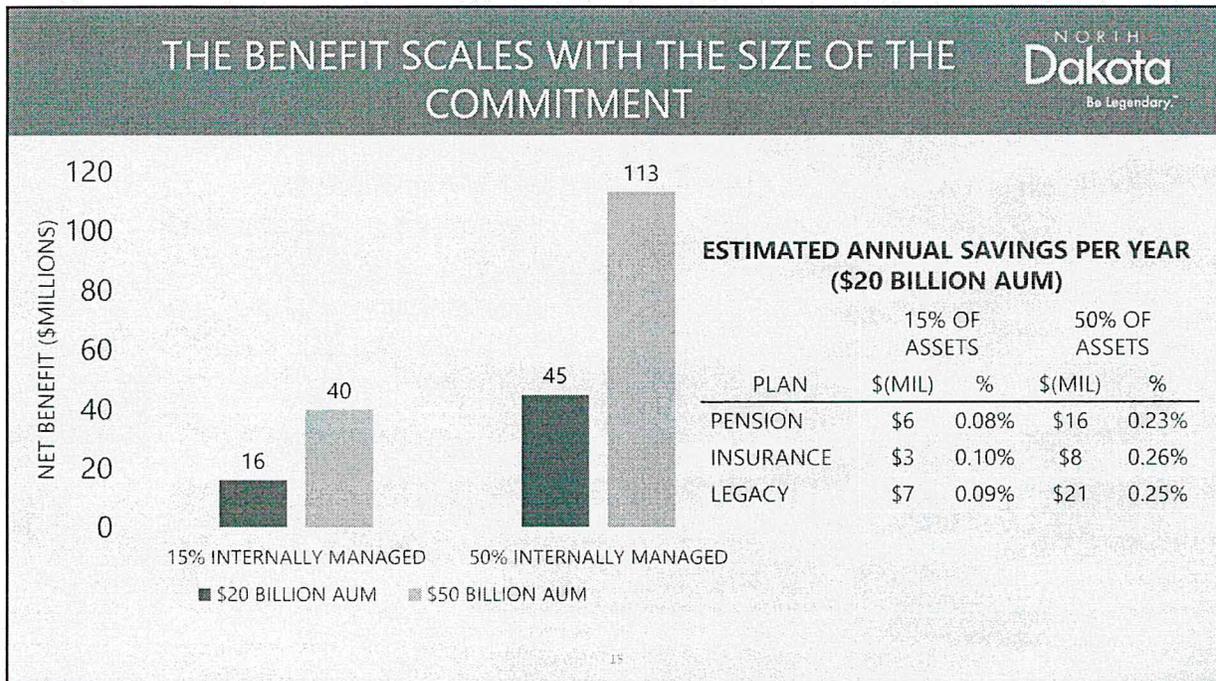
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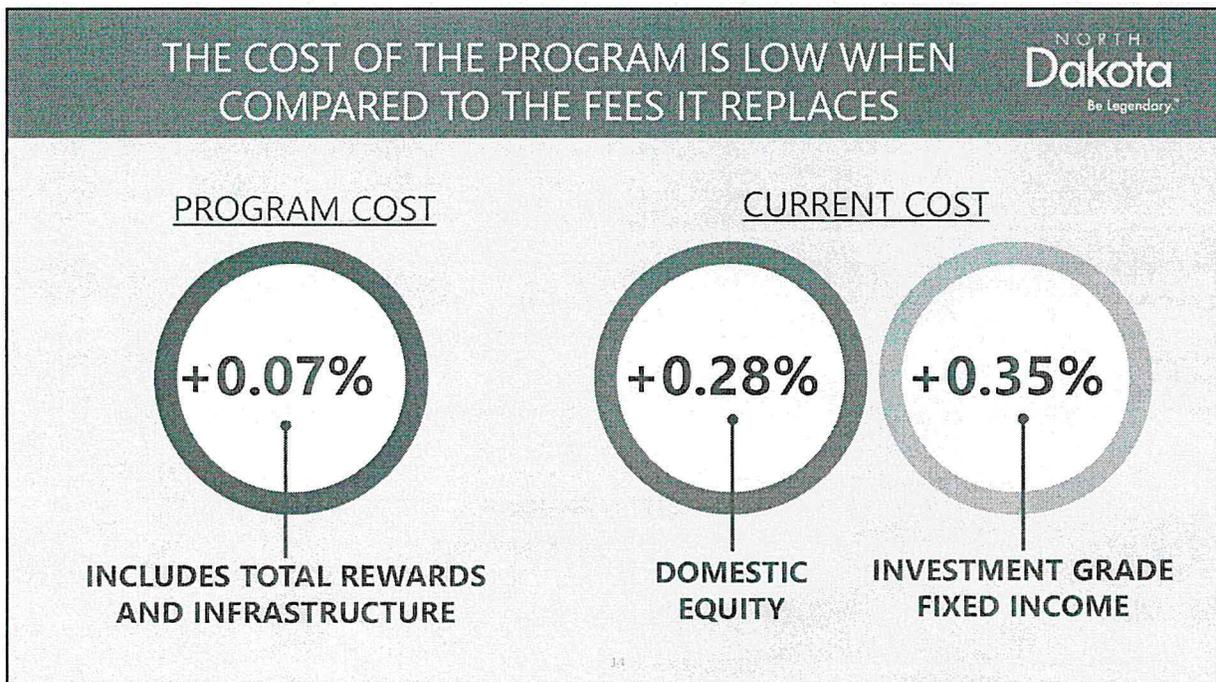
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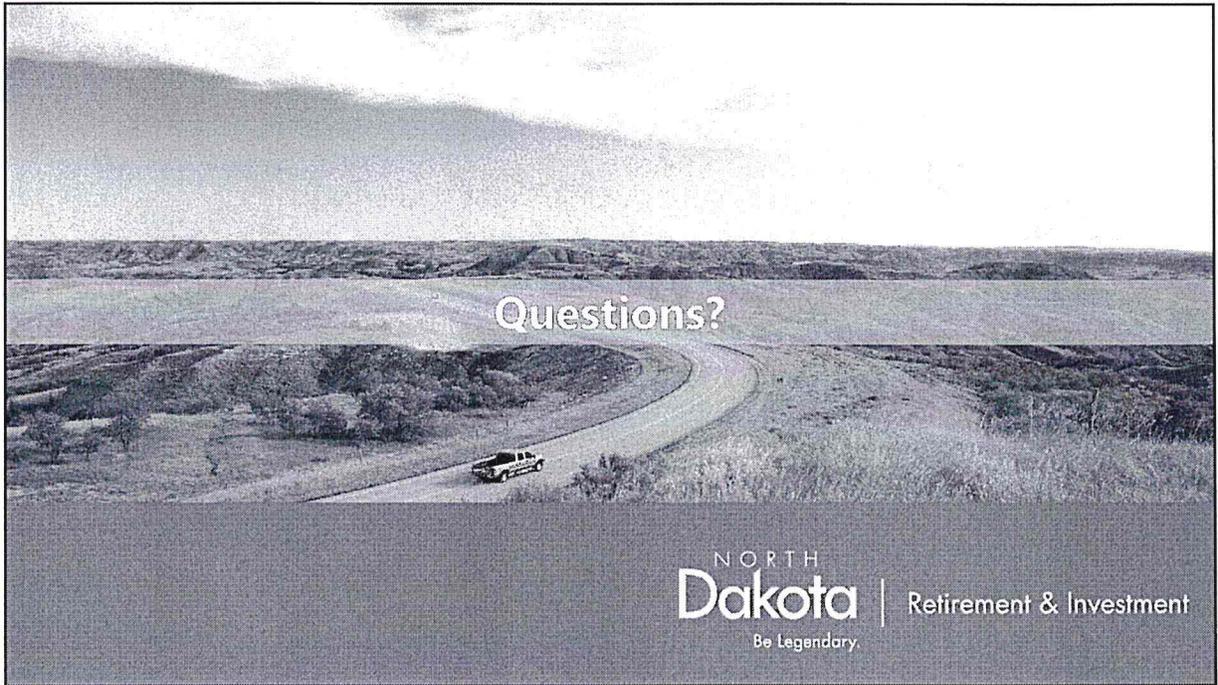
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SOUTH DAKOTA
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WISCONSIN

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23.0276.01001
Title.

Prepared by the Legislative Council staff for
the Senate Appropriations - Human Resources
Division Committee

Fiscal No. 1

February 16, 2023

PROPOSED AMENDMENTS TO SENATE BILL NO. 2022

Page 1, line 2, after "office" insert "; to create and enact a new subsection to section 54-44.3-20 and a new section to chapter 54-52.5 of the North Dakota Century Code, relating to exemptions from the state employee classification system and an incentive compensation program; to amend and reenact section 54-52.5-03 of the North Dakota Century Code, relating to operating costs of the retirement and investment office; and to provide an exemption"

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	\$6,785,839	\$3,764,387	\$10,550,226
Operating expenses	1,323,528	1,546,409	2,869,937
Contingencies	<u>100,000</u>	<u>100,000</u>	<u>200,000</u>
Total special funds	\$8,209,367	\$5,410,796	\$13,620,163
Full-time equivalent positions	25.00	9.00	34.00

SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO THE SIXTY-NINTH LEGISLATIVE ASSEMBLY. The following amounts reflect the one-time funding items approved by the sixty-seventh legislative assembly for the 2021-23 biennium and the 2023-25 biennium one-time funding items included in the appropriation in section 1 of this Act:

<u>One-Time Funding Description</u>	<u>2021-23</u>	<u>2023-25</u>
Pension administration software implementation	\$0	\$574,900
Temporary salaries	<u>0</u>	<u>50,000</u>
Total special funds	\$0	\$624,900

The 2023-25 biennium one-time funding amounts are not a part of the entity's base budget for the 2025-27 biennium. The retirement and investment office shall report to the appropriations committees of the sixty-ninth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2023, and ending June 30, 2025.

SECTION 3. A new subsection to section 54-44.3-20 of the North Dakota Century Code is created and enacted as follows:

Investment positions of the state retirement and investment office.

SECTION 4. AMENDMENT. Section 54-52.5-03 of the North Dakota Century Code is amended and reenacted as follows:

54-52.5-03. State retirement and investment fund - Cost of operation of agency.

A special fund known as the "state retirement and investment fund" is established for the purpose of defraying administrative expenses of the state retirement and investment office. The actual amount of administrative expenses incurred by the

state retirement and investment office must be paid from the respective funds listed under section 21-10-06 and are hereby appropriated to the state retirement and investment fund in proportion to the services rendered for each fund as estimated by the state investment board. The amount necessary to pay all administrative expenses of the state retirement and investment office must be paid from the state retirement and investment fund in accordance with the agency's appropriation authority and earnings lawfully available for such purposes. Any interest income earned on the state retirement and investment fund must be credited to the fund.

SECTION 5. A new section to chapter 54-52.5 of the North Dakota Century Code is created and enacted as follows:

Incentive compensation program.

The state retirement and investment office may develop an incentive compensation program for full-time equivalent investment positions related to the internal management of the investment of funds under the control of the state investment board. The program must promote profitability, productivity, and responsible fund management. The provisions of the program must be approved annually by the state investment board. The provisions must ensure that the payouts do not occur unless the risk-based performance of the investments that are internally managed exceed the risk-based performance of policy benchmarks.

SECTION 6. EXEMPTION - PENSION ADMINISTRATION SYSTEM

PROJECT. The sum of \$9,000,000 appropriated in section 1 of chapter 47 of the 2019 Session Laws and continued into the 2021-23 biennium pursuant to section 3 of chapter 22 of the 2021 Session Laws for the pension administration system is not subject to the provisions of section 54-44.1-11 and any unexpended funds are available for completing the project during the biennium beginning July 1, 2023, and ending June 30, 2025."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Retirement and Investment Office - Senate Action

	Base Budget	Senate Changes	Senate Version
Salaries and wages	\$6,785,839	\$3,764,387	\$10,550,226
Operating expenses	1,323,528	1,546,409	2,869,937
Contingencies	100,000	100,000	200,000
Total all funds	\$8,209,367	\$5,410,796	\$13,620,163
Less estimated income	8,209,367	5,410,796	13,620,163
General fund	\$0	\$0	\$0
FTE	25.00	9.00	34.00

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

	Adds Funding for Cost to Continue Salaries ¹	Adds Funding for Salary and Benefit Increases ²	Adds FTE Positions ³	Adds Funding for Other Salary Adjustments ⁴	Transfers Funding from Operating to Salaries ⁵	Adds Funding for Operating Expenses ⁶
Salaries and wages	\$41,345	\$532,547	\$1,547,947	\$1,012,827	\$143,721	
Operating expenses					(143,721)	\$1,551,230
Contingencies						
Total all funds	\$41,345	\$532,547	\$1,547,947	\$1,012,827	\$0	\$1,551,230
Less estimated income	41,345	532,547	1,547,947	1,012,827	0	1,551,230
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	9.00	0.00	0.00	0.00

	Increases Funding for Contingencies ⁷	Adds One-Time Funding Items ⁸	Total Senate Changes
Salaries and wages		\$486,000	\$3,764,387
Operating expenses		138,900	1,546,409
Contingencies	\$100,000		100,000
Total all funds	\$100,000	\$624,900	\$5,410,796
Less estimated income	100,000	624,900	5,410,796
General fund	\$0	\$0	\$0
FTE	0.00	0.00	9.00

¹ Funding derived from the income of funds under management is added for cost to continue salary increases.

² The following funding is added for 2023-25 biennium salary adjustments of 4 percent on July 1, 2023, and 4 percent on July 1, 2024, and increases in health insurance premiums from \$1,429 to \$1,643 per month:

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Salary increase	\$0	\$401,009	\$401,009
Health insurance increase	0	131,538	131,538
Total	\$0	\$532,547	\$532,547

³ Funding of \$1,547,947 derived from the income of funds under management and FTE positions are added as follows:

- \$374,621 for 2 FTE investment assistant positions.
- \$1,173,326 for 7 FTE positions, including 5 investment positions, 1 fiscal position, and 1 administrative position. The funding is only for the 2nd year of the biennium.

⁴ Funding of \$1,012,827 derived from the income of funds under management is added for other salary adjustments as follows:

- \$506,929 for FTE positions approved during the November 2021 special legislative session.
- \$383,540 for salary equity increases.
- \$122,358 for other salary increases and internships.

⁵ Funding of \$143,721 is transferred from the operating expenses line item to the salaries and wages line item related to cost-savings from operating expenses and increases in salaries.

⁶ Funding of \$1,551,230 derived from the income of funds under management is added for operating expenses as follows:

- \$6,721 for Information Technology Department rate increases.
- \$100,000 for executive search expenses.
- \$167,500 for inflationary increases.
- \$977,419 for pension administration software fees.
- \$32,750 for staff development and marketing materials.
- \$266,840 for other operating expense increases related to rent, travel, and data processing.

⁷ Funding derived from the income of funds under management is increased by \$100,000 for contingencies to provide total funding of \$200,000.

⁸ One-time funding of \$624,900 derived from the income of funds under management is added as follows:

- \$436,000 for temporary salaries to implement new pension administration software.
- \$50,000 for additional temporary salaries.
- \$138,900 for operating expenses related to the implementation of new pension administration software.

This amendment also adds sections to:

- Amend Section 54-44.3-20 to exempt the investment staff of the Retirement and Investment Office from the state employee classification system.
- Amend Section 54-52.5-03 to clarify the Retirement and Investment Office administrative expenses are from the earnings available from the funds under management.
- Create a new section to Chapter 54-52.5 relating to an incentive compensation program.
- Provide an exemption for a pension administration information technology project to continue any unexpended 2019-21 biennium funds into the 2023-25 biennium, which are estimated to be \$6.7 million.

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; to create and enact a new subsection to section 54-44.3-20 and a new
 3 section to chapter 54-52.5 of the North Dakota Century Code, relating to exemptions from the
 4 state employee classification system and an incentive compensation program; to amend and
 5 reenact section 54-52.5-03 of the North Dakota Century Code, relating to operating costs of the
 6 retirement and investment office; and to provide an exemption.

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

8 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
 9 as may be necessary, are appropriated out of any moneys from special funds derived from
 10 income, to the retirement and investment office for the purpose of defraying the expenses of the
 11 retirement and investment office, for the biennium beginning July 1, 2023, and ending June 30,
 12 2025, as follows:

Governor's			
	Base Level	Recommendation	Appropriation
Salaries and wages	\$6,785,839	\$8,744,148	\$6,785,839
Operating expenses	1,323,528	2,570,347	1,323,528
Contingencies	100,000	100,000	100,000
Total special funds	\$8,209,367	\$11,414,495	\$8,209,367
Full-time equivalent positions	25.00	25.00	25.00
Adjustments or			
	Base Level	Enhancements	Appropriation
Salaries and wages	\$6,785,839	\$3,764,387	\$10,550,226
Operating expenses	1,323,528	1,546,409	2,869,937
Contingencies	100,000	100,000	200,000

1	<u>Total special funds</u>	<u>\$8,209,367</u>	<u>\$5,410,796</u>	<u>\$13,620,163</u>
2	<u>Full-time equivalent positions</u>	<u>25.00</u>	<u>9.00</u>	<u>34.00</u>

3 **SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO THE**
4 **SIXTY-NINTH LEGISLATIVE ASSEMBLY.** The following amounts reflect the one-time funding
5 items approved by the sixty-seventh legislative assembly for the 2021-23 biennium and the
6 2023-25 biennium one-time funding items included in the appropriation in section 1 of this Act:

7	<u>One-Time Funding Description</u>	<u>2021-23</u>	<u>2023-25</u>
8	Pension administration software implementation	\$0	\$574,900
9	Temporary salaries	0	50,000
10	Total special funds	\$0	\$624,900

11 The 2023-25 biennium one-time funding amounts are not a part of the entity's base budget
12 for the 2025-27 biennium. The retirement and investment office shall report to the
13 appropriations committees of the sixty-ninth legislative assembly on the use of this one-time
14 funding for the biennium beginning July 1, 2023, and ending June 30, 2025.

15 **SECTION 3.** A new subsection to section 54-44.3-20 of the North Dakota Century Code is
16 created and enacted as follows:

17 Investment positions of the state retirement and investment office.

18 **SECTION 4. AMENDMENT.** Section 54-52.5-03 of the North Dakota Century Code is
19 amended and reenacted as follows:

20 **54-52.5-03. State retirement and investment fund - Cost of operation of agency.**

21 A special fund known as the "state retirement and investment fund" is established for the
22 purpose of defraying administrative expenses of the state retirement and investment office. The
23 actual amount of administrative expenses incurred by the state retirement and investment office
24 must be paid from the respective funds listed under section 21-10-06 and are hereby
25 appropriated to the state retirement and investment fund in proportion to the services rendered
26 for each fund as estimated by the state investment board. The amount necessary to pay all
27 administrative expenses of the state retirement and investment office must be paid from the
28 state retirement and investment fund in accordance with the agency's appropriation authority
29 and earnings lawfully available for such purposes. Any interest income earned on the state
30 retirement and investment fund must be credited to the fund.

1 **SECTION 5.** A new section to chapter 54-52.5 of the North Dakota Century Code is created
2 and enacted as follows:

3 **Incentive compensation program.**

4 The state retirement and investment office may develop an incentive compensation
5 program for full-time equivalent investment positions related to the internal management of the
6 investment of funds under the control of the state investment board. The program must promote
7 profitability, productivity, and responsible fund management. The provisions of the program
8 must be approved annually by the state investment board. The provisions must ensure that the
9 payouts do not occur unless the risk-based performance of the investments that are internally
10 managed exceed the risk-based performance of policy benchmarks.

11 **SECTION 6. EXEMPTION - PENSION ADMINISTRATION SYSTEM PROJECT.** The sum
12 of \$9,000,000 appropriated in section 1 of chapter 47 of the 2019 Session Laws and continued
13 into the 2021-23 biennium pursuant to section 3 of chapter 22 of the 2021 Session Laws for the
14 pension administration system is not subject to the provisions of section 54-44.1-11 and any
15 unexpended funds are available for completing the project during the biennium beginning
16 July 1, 2023, and ending June 30, 2025.

23.0276.01001

Sixty-eighth
Legislative Assembly
of North Dakota

SENATE BILL NO. 2022

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; to create and enact a new subsection to section 54-44.3-20 and a new
 3 section to chapter 54-52.5 of the North Dakota Century Code, relating to exemptions from the
 4 state employee classification system and an incentive compensation program; to amend and
 5 reenact section 54-52.5-03 of the North Dakota Century Code, relating to operating costs of the
 6 retirement and investment office; and to provide an exemption.

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

8 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
 9 as may be necessary, are appropriated out of any moneys from special funds derived from
 10 income, to the retirement and investment office for the purpose of defraying the expenses of the
 11 retirement and investment office, for the biennium beginning July 1, 2023, and ending June 30,
 12 2025, as follows:

<u>Governor's</u>			
	<u>Base Level</u>	<u>Recommendation</u>	<u>Appropriation</u>
<u>Salaries and wages</u>	<u>\$6,785,839</u>	<u>\$8,744,148</u>	<u>\$6,785,839</u>
<u>Operating expenses</u>	<u>1,323,528</u>	<u>2,570,347</u>	<u>1,323,528</u>
<u>Contingencies</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
<u>Total special funds</u>	<u>\$8,209,367</u>	<u>\$11,414,495</u>	<u>\$8,209,367</u>
<u>Full-time equivalent positions</u>	<u>25.00</u>	<u>25.00</u>	<u>25.00</u>
<u>Adjustments or</u>			
	<u>Base Level</u>	<u>Enhancements</u>	<u>Appropriation</u>
<u>Salaries and wages</u>	<u>\$6,785,839</u>	<u>\$3,764,387</u>	<u>\$10,550,226</u>
<u>Operating expenses</u>	<u>1,323,528</u>	<u>1,546,409</u>	<u>2,869,937</u>
<u>Contingencies</u>	<u>100,000</u>	<u>100,000</u>	<u>200,000</u>

1	<u>Total special funds</u>	<u>\$8,209,367</u>	<u>\$5,410,796</u>	<u>\$13,620,163</u>
2	<u>Full-time equivalent positions</u>	<u>25.00</u>	<u>9.00</u>	<u>34.00</u>

3 **SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO THE**
4 **SIXTY-NINTH LEGISLATIVE ASSEMBLY.** The following amounts reflect the one-time funding
5 items approved by the sixty-seventh legislative assembly for the 2021-23 biennium and the
6 2023-25 biennium one-time funding items included in the appropriation in section 1 of this Act:

7	<u>One-Time Funding Description</u>	<u>2021-23</u>	<u>2023-25</u>
8	Pension administration software implementation	\$0	\$574,900
9	Temporary salaries	<u>0</u>	<u>50,000</u>
10	Total special funds	\$0	\$624,900

11 The 2023-25 biennium one-time funding amounts are not a part of the entity's base budget
12 for the 2025-27 biennium. The retirement and investment office shall report to the
13 appropriations committees of the sixty-ninth legislative assembly on the use of this one-time
14 funding for the biennium beginning July 1, 2023, and ending June 30, 2025.

15 **SECTION 3.** A new subsection to section 54-44.3-20 of the North Dakota Century Code is
16 created and enacted as follows:

17 Investment positions of the state retirement and investment office.

18 **SECTION 4. AMENDMENT.** Section 54-52.5-03 of the North Dakota Century Code is
19 amended and reenacted as follows:

20 **54-52.5-03. State retirement and investment fund - Cost of operation of agency.**

21 A special fund known as the "state retirement and investment fund" is established for the
22 purpose of defraying administrative expenses of the state retirement and investment office. The
23 actual amount of administrative expenses incurred by the state retirement and investment office
24 must be paid from the respective funds listed under section 21-10-06 and are hereby
25 appropriated to the state retirement and investment fund in proportion to the services rendered
26 for each fund as estimated by the state investment board. The amount necessary to pay all
27 administrative expenses of the state retirement and investment office must be paid from the
28 state retirement and investment fund in accordance with the agency's appropriation authority
29 and earnings lawfully available for such purposes. Any interest income earned on the state
30 retirement and investment fund must be credited to the fund.

1 **SECTION 5.** A new section to chapter 54-52.5 of the North Dakota Century Code is created
2 and enacted as follows:

3 **Incentive compensation program.**

4 The state retirement and investment office may develop an incentive compensation
5 program for full-time equivalent investment positions related to the internal management of the
6 investment of funds under the control of the state investment board. The program must promote
7 profitability, productivity, and responsible fund management. The provisions of the program
8 must be approved annually by the state investment board. The provisions must ensure that the
9 payouts do not occur unless the risk-based performance of the investments that are internally
10 managed exceed the risk-based performance of policy benchmarks.

11 **SECTION 6. EXEMPTION - PENSION ADMINISTRATION SYSTEM PROJECT.** The sum
12 of \$9,000,000 appropriated in section 1 of chapter 47 of the 2019 Session Laws and continued
13 into the 2021-23 biennium pursuant to section 3 of chapter 22 of the 2021 Session Laws for the
14 pension administration system is not subject to the provisions of section 54-44.1-11 and any
15 unexpended funds are available for completing the project during the biennium beginning
16 July 1, 2023, and ending June 30, 2025.

Prepared for the Senate Appropriations Committee

Department 190 - Retirement and Investment Office
Senate Bill No. 2022

Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2023-25 Executive Budget	\$0	\$11,414,495	\$11,414,495
2023-25 Base Level	0	8,209,367	8,209,367
Increase (Decrease)	\$0	\$3,205,128	\$3,205,128

Selected Budget Changes Recommended in the Executive Budget

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases of which \$549,864 is for salary increases and \$128,580 is for health insurance increases	\$0	\$678,444	\$678,444
2. Increases funding for new FTE positions approved during the November 2021 special legislative session (\$506,929) and salary equity adjustments (\$151,870)	\$0	\$658,799	\$658,799
3. Transfers \$143,721 of special funds authority from the operating expense line item to the salaries and wages line item	\$0	\$0	\$0
4. Increases funding for operating expenses related to executive staff recruitment searches (\$100,000), inflationary increases (\$157,500), and pension administration software fees (\$977,419)	\$0	\$1,244,919	\$1,244,919
5. Adds one-time funding for pension software implementation, including \$436,000 for temporary staff and \$138,900 for IT fees	\$0	\$574,900	\$574,900

A summary of the executive budget changes to the agency's base level appropriations is attached as an appendix.

A copy of the draft appropriations bill containing the executive budget recommendations is attached as an appendix.

Selected Bill Sections Recommended in the Executive Budget

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

Information technology project exemption - Section 4 would provide an exemption for a pension administration IT project to continue any unexpended 2019-21 biennium funds into the 2023-25 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.

Deficiency Appropriations

There are no deficiency appropriations for this agency.

Significant Audit Findings

The audit for the Retirement and Investment Office conducted by CliftonLarsonAllen LLP, Certified Public Accountants, for the period ending June 30, 2021, did not identify any significant audit findings.

The *Schedules 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, 2021, did not identify any significant audit findings.

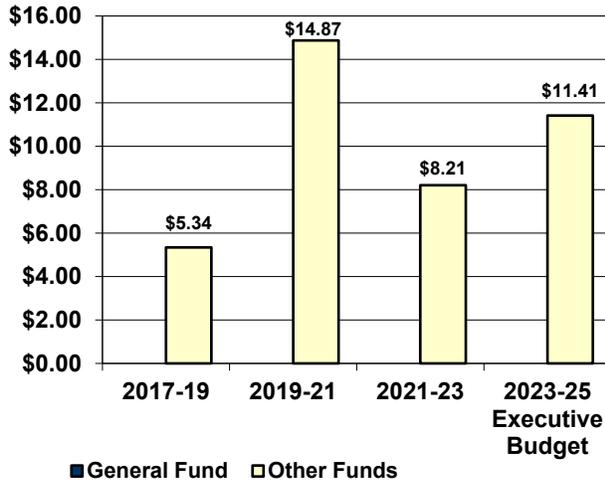
Major Related Legislation

At this time, no major related legislation has been introduced affecting this agency.

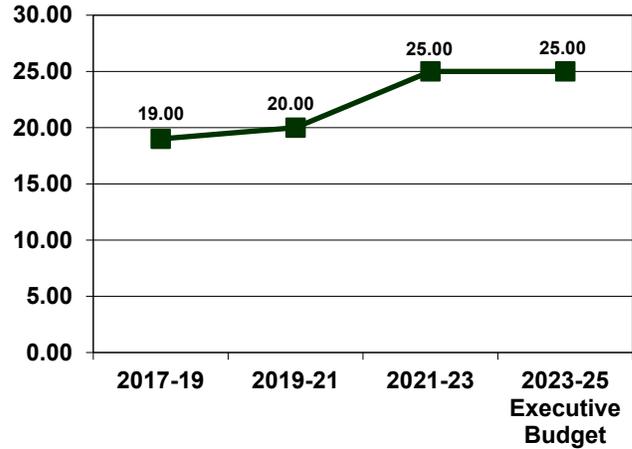
Historical Appropriations Information

Agency Appropriations and FTE Positions

Agency Funding (Millions)



FTE Positions



Ongoing Other Funds Appropriations

	2015-17	2017-19	2019-21	2021-23	2023-25 Executive Budget
Ongoing other funds appropriations	\$5,413,425	\$5,340,054	\$5,869,164	\$8,209,367	\$10,839,595
Increase (decrease) from previous biennium	N/A	(\$73,371)	\$529,110	\$2,340,203	\$2,630,228
Percentage increase (decrease) from previous biennium	N/A	(1.4%)	9.9%	39.9%	32.0%
Cumulative percentage increase (decrease) from 2015-17 biennium	N/A	(1.40%)	8.4%	51.6%	100.2%

Major Increases (Decreases) in Ongoing Other Funds Appropriations

2017-19 Biennium

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

2019-21 Biennium

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

2021-23 Biennium

- Added funding for 4 FTE investment professional positions (\$1,180,653), 1 FTE investment accountant position (\$155,951), and 1 FTE program outreach coordinator position (\$184,183); related operating expenses for the new FTE positions (\$75,000); and salary equity funding (\$211,075) \$1,806,862
- Added 1 FTE investment program analyst position, including \$210,000 for salaries and wages and \$15,000 for operating expenses \$225,000

2023-25 Biennium (Executive Budget Recommendation)

- Increases funding for new FTE positions approved during the November 2021 special legislative session (\$506,929) and salary equity adjustments (\$151,870) \$658,799
- Increases funding for operating expenses related to executive staff recruitment searches (\$100,000), inflationary increases (\$157,500), and pension administration software fees (\$977,419) \$1,244,919

One-Time Other Funds Appropriations

	2015-17	2017-19	2019-21	2021-23	2023-25 Executive Budget
One-time other funds appropriations	\$0	\$0	\$9,000,000	\$0	\$574,900

Major One-Time Other Funds Appropriations

2017-19 Biennium

1. None \$0

2019-21 Biennium

1. Pension administration system project \$9,000,000

2021-23 Biennium

1. None \$0

2023-25 Biennium (Executive Budget Recommendation)

1. Pension software implementation, including \$436,000 for temporary staff and \$138,900 for IT fees \$574,900

Retirement and Investment Office - Budget No. 190
Senate Bill No. 2022
Base Level Funding Changes

	Executive Budget Recommendation			
	FTE Positions	General Fund	Other Funds	Total
2023-25 Biennium Base Level	25.00	\$0	\$8,209,367	\$8,209,367
2023-25 Ongoing Funding Changes				
Cost to continue salary increases			\$41,345	\$41,345
Salary increase			549,864	549,864
Health insurance increase			128,580	128,580
Increases funding for ITD rates			6,721	6,721
Increases funding for FTE positions approved during the 2021 special session			506,929	506,929
Adds funding for salary equity increases			151,870	151,870
Transfers \$143,721 from operating expenses to salaries				0
Adds funding for executive search expenses			100,000	100,000
Adds funding for operating expense inflationary increases			167,500	167,500
Adds funding for pension administration software fees			977,419	977,419
Total ongoing funding changes	0.00	\$0	\$2,630,228	\$2,630,228
One-time funding items				
Adds one-time funding for pension administration software implementation			\$574,900	\$574,900
Total one-time funding changes	0.00	\$0	\$574,900	\$574,900
Total Changes to Base Level Funding	0.00	\$0	\$3,205,128	\$3,205,128
2023-25 Total Funding	25.00	\$0	\$11,414,495	\$11,414,495
<i>Federal funds included in other funds</i>			\$0	
<i>Total ongoing changes as a percentage of base level</i>	0.0%		32.0%	32.0%
<i>Total changes as a percentage of base level</i>	0.0%		39.0%	39.0%

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

Line item transfers

Executive Budget Recommendation

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

IT project exemption

Section 4 would provide an exemption for a pension administration IT project to continue any unexpended 2019-21 biennium funds into the 2023-25 biennium.

**SENATE BILL NO. 2022
 (Governor’s Recommendation)**

Introduced by

Appropriations Committee

(At the request of the Governor)

A bill for an act to provide an appropriation for defraying the expenses of the state retirement and investment office; to provide for an exemption; and to provide for a transfer.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

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, 2023, and ending June 30, 2025, as follows:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and Wages	\$6,860,839	\$1,883,309	\$8,744,148
Operating Expenses	1,248,528	1,321,819	2,570,347
Contingencies	<u>100,000</u>	<u>0</u>	<u>100,000</u>
Total All Funds	\$8,209,367	\$3,205,128	\$11,414,495
Less Estimated Income	<u>8,209,367</u>	<u>3,205,128</u>	<u>11,414,495</u>
Total General Fund	\$ 0	\$ 0	\$ 0
Full-time Equivalent Positions	25.00	0.00	25.00

SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET – REPORT TO SIXTY-NINTH LEGISLATIVE ASSEMBLY. The following amounts reflect the 2023-25 one-time funding items included in the appropriation in section 1 of this Act:

<u>One-Time Funding Description</u>	<u>2021-23</u>	<u>2023-25</u>
PASS project	<u>\$0</u>	<u>\$ 574,900</u>
Total Special Funds	\$0	\$ 574,900

The 2023-25 one-time funding amounts are not a part of the entity's base budget for the 2025-27 biennium. The retirement and investment office shall report to the appropriations committees of the sixty-ninth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2023 and ending June 30, 2025.

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, 2023 and ending June 30, 2025.

Senate Bill 2022
North Dakota Retirement and Investment Office (RIO)
Testimony before House Appropriations – Government Operations Division
Representative David Monson, Chair

Janilyn Murtha, JD, MPAP – Executive Director
Chad Roberts, MAc – Deputy Executive Director/Chief Retirement Officer
Scott Anderson, CFA, MBA – Chief Investment Officer
Ryan Skor, CPA, MBA – Chief Financial Officer/Chief Operating Officer

I. RIO Statutory Authority and Responsibilities

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).

II. Organization of RIO

A. State Investment Board (SIB)

The State Investment Board is responsible for oversight of over \$19.2 billion of investments for 28 different client funds including TFFR and PERS within the over \$7.1 billion Pension Pool and WSI in the nearly \$3 billion Insurance Pool in addition to more than \$8.9 billion in the Legacy Fund. Funding for administration of the SIB Investment Program comes directly from investment clients’ invested assets (both statutory and contracted).

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.

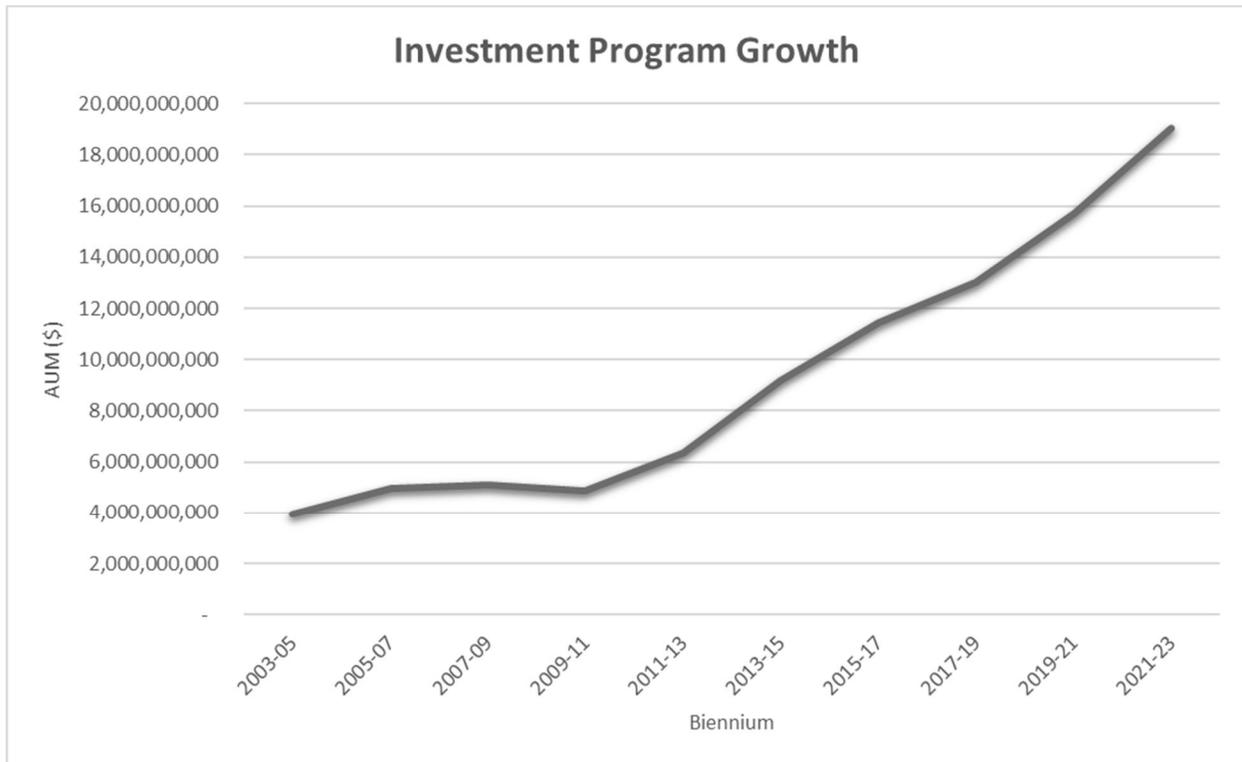
Investment guidelines and asset allocations are established by the governing bodies of the individual funds, with assistance from consultants and/or RIO

	Fair Value (as of 1/31/23)
PENSION POOL PARTICIPANTS	
Teachers' Fund for Retirement	\$3,054,871,192
Public Employees Retirement System	3,824,867,335
Bismarck City Employee Pension Fund	120,312,963
Bismarck City Police Pension Fund	49,560,526
City of Grand Forks Pension Fund	72,494,392
Grand Forks Park District Pension Fund	8,659,023
Subtotal Pension Pool Participants	\$7,130,765,431
INSURANCE POOL PARTICIPANTS	
Workforce Safety & Insurance Fund	\$2,062,833,767
State Fire and Tornado Fund	19,770,634
State Bonding Fund	3,659,254
Petroleum Tank Release Fund	5,999,227
Insurance Regulatory Trust Fund	1,215,001
State Risk Management Fund	3,705,092
State Risk Management Workers Comp	2,604,596
Cultural Endowment Fund	537,772
Budget Stabilization Fund	729,591,022
ND Assoc. of Counties (NDACo) Fund	7,091,568
City of Bismarck Deferred Sick Leave	774,217
PERS Group Insurance	58,537,398
State Board of Medicine	3,212,527
City of Fargo FargoDome Permanent Fund	41,552,979
Lewis & Clark Interpretive Center Endowment	830,396
Attorney General Settlement Fund	2,390,812
Veterans' Cemetery Trust Fund	443,257
ND University System Capital Building Fund	1,633,778
Arts Across the Prairie Maintenance Fund	1,027,341
Subtotal Insurance Pool Participants	\$2,947,410,637
INDIVIDUAL INVESTMENT ACCOUNTS	
Legacy Fund	8,920,407,820
Retiree Health Insurance Credit Fund	161,487,115
Job Service of North Dakota Pension Fund	85,271,626
TOTAL	\$19,245,342,628

(Amounts are unaudited)

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.

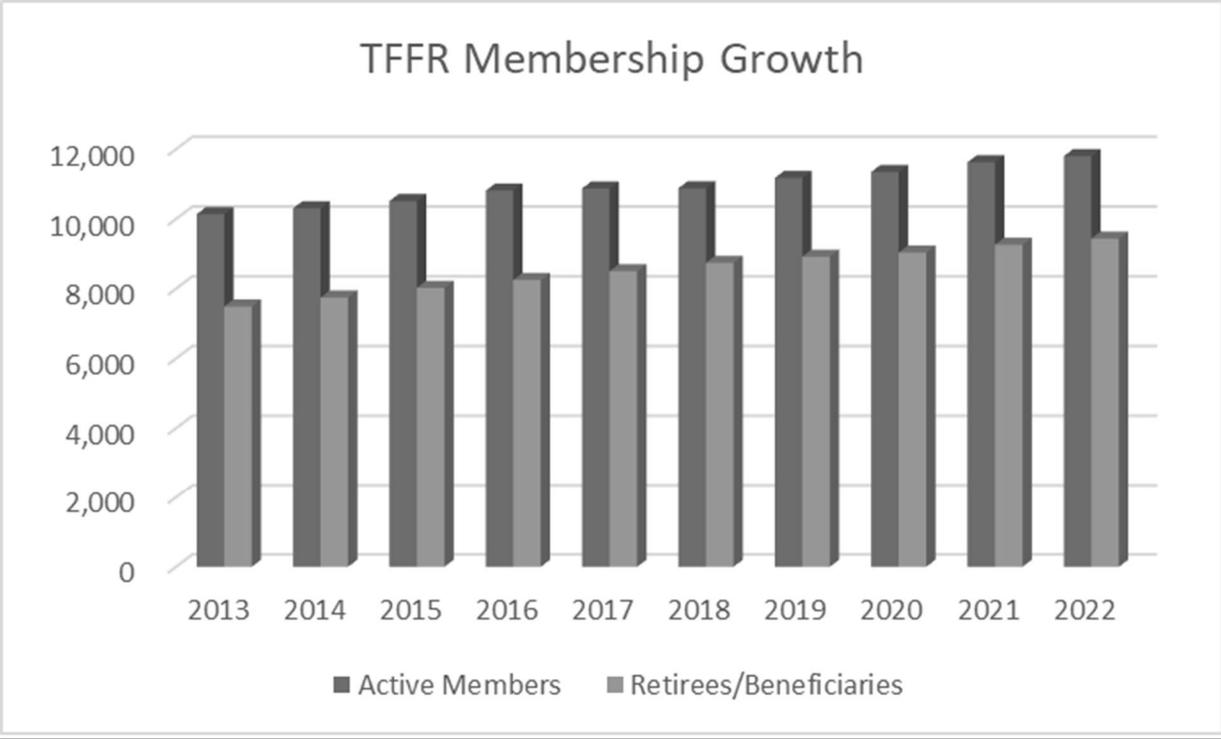
Over the past two decades, the average assets under management (AUM) of the investment program have nearly quadrupled in size. Amounts have grown from an average of roughly \$4 billion during the 2003-2005 biennium to an average of over \$19 billion during the current 2021-2023 biennium.



B. 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, 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 16.4% from 10,138 to over 11,800 participants, while retirees and beneficiaries have increased 26.0% from 7,489 to over 9,400.



The mission of TFFR, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members, North Dakota k-12 educators, in a manner consistent with its fiduciary obligations and approved resource allocation.

The TFFR Board reaffirmed its commitment to evolving governance to respond to program growth by establishing a Governance and Policy Review committee that is tasked with reviewing program policies and public policy affecting statutes and administrative rules to make recommendations to the full Board for making policy or requesting changes from the Legislature.

The TFFR program is currently in Phase 3 of 3 of a multi-year large IT Pension Administration Modernization Project (TFFR “Pioneer” Project) that will provide a better ROI for the agency and improve the member and employer experience with TFFR while aligning with state-wide initiatives to better utilize technology enabled processes.

TFFR plan is designed to provide lifetime normal retirement benefits, disability benefits, and death benefits for ND public school educators and certain state teachers. It 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.

The TFFR plan is an important feature in the recruitment and retention of high-quality teachers and administrators in North Dakota, and not lose these quality individuals to out of state programs.

C. RIO Organizational Chart

(See attached)

RIO currently has 25 full-time FTEs across the two programs and four divisions along with two temporary positions and an intern. The four divisions include Investment, Retirement Services, Fiscal Services, and Internal Audit. The two temporary positions are directly attributable to additional workforce needs during the development and implementation of a large IT project for the TFFR program. The hiring of an intern position reflects an intent to consciously develop a robust internship program at RIO that will provide an opportunity to college and graduate students studying in North Dakota to participate in investment, accounting, benefit services, and public policy processes within the public sector.

III. Audit Findings

RIO has received no financial audit findings in the past 20+ years.

IV. 2021-23 Accomplishments and Challenges

RIO accomplishments during the 2021-2023 biennium have included:

1. Creating and beginning implementation of a new agency strategic plan identifying core priorities and transformational initiatives.
2. Reorganizing agency to achieve greater economies of scale and support new strategic plan.
3. Developing and implementing intra-agency communication and training plan to support organizational culture as a core agency priority.
4. Posting, filling, and onboarding over ten new employees in the last fiscal year including two interns and three part time employees for an agency with twenty-five approved FTE.
5. Assisting governing boards with the creation of three new standing committees to create governance that supports program growth: a Governance & Policy Review committee of the SIB; an Investment Committee of the SIB; and a Governance & Policy Review committee of the TFFR Board (previously and ad hoc committee, standing committee status pending second reading).
6. Continuing to implement an in-state investment initiative with the creation of the ND Growth Fund, increasing funding of the BND match loan program, and supporting a Legacy Fund Asset Allocation Study project commissioned by the Legacy and Budget Stabilization Advisory Board.
7. Completing two out of three phases of the TFFR Pension Administration System Modernization Project (TFFR “Pioneer” Project), with the third and final phase underway.

2023-25 Goals and Plans

Goals for RIO during the 2023-2025 biennium include:

TFFR Investment and Funding Goals

1. Improve the Plan’s funding status to protect and sustain current and future benefits.

2. Minimize the employee and employer contributions needed to fund the Plan over the long term.
3. Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.

TFFR Service Goals

1. Create and implement an enhanced Outreach and Communication Plan for our members, employers, and other stakeholder groups related to the program in general and the TFFR "Pioneer" Project specifically.
2. Administer an accurate, efficient, and responsive pension benefits program.
3. Deliver high quality, friendly service to members and employers.

SIB Strategic Investment Plan

1. Reaffirm our organizational commitment to the importance of continuing board education and strong board governance to create and maintain an innovative and agile investment program. The SIB has moved forward with the creation of two new standing committees within the last year to support this goal: a Governance and Policy Review committee and an Investment committee.
2. Enhance understanding of our core goals and beliefs while enhancing overall transparency.
 - a. Remain steadfast in our commitment to the prudent use of active investment management.
 - b. Expand awareness to downside risk management which is essential to achieving our long-term investment goals.
 - c. Given actual and projected growth of SIB client assets and the heightened public awareness of the Legacy Fund, align our investment platforms to promote greater clarity and efficiency in reporting and implementing client investment policies.
3. Expand RIO's influence and ability to create positive and sustainable change by building deeper relationships with existing clients, organizations, and legislative leaders.
 - a. Enhance community outreach to build upon public awareness and confidence.
 - b. Develop concise presentations which highlight our overall risk, return and cost control framework including our progress towards attaining our long-term goals.
 - c. Continue to implement an in-state investment initiative and provide education and outreach efforts consistent with the roll-out of that initiative.
4. Encourage employee participation in staff meetings, offer team members more opportunities to impact RIO's change initiatives and improve the office environment for staff and clients.
5. Enhance our internal control environment by improving use of proven risk management solutions relating to fraud risk assessments, investment risk management and overall enterprise risk management.
 - a. A robust risk management framework serves as a foundation to support a sound internal control environment and lessen downside risks.
 - b. Broaden stakeholder awareness of the challenges faced in estimating Legacy Fund earnings for future budget planning.
 - c. Evaluate and expand the efficient use of technology in our investment program activities including risk management, compliance monitoring, client satisfaction surveys, website design and communications.

RIO Strategic Plan

1. Continue to develop our organization culture as a recruitment and retention tool to develop a growth mindset and encourage employee engagement.
2. Create, develop, and maintain a robust internship program across both programs.
3. Continue to identify additional process areas where efficiencies can be gained through technology enabled processes and implement such processes.

V. Comparison between base budget and Senate approved budget

Line Item Description	2021-23 Base Budget	Senate Changes	2023-25 Total Senate Budget
Salaries and Wages	\$ 6,785,839	\$ 3,764,387	\$ 10,550,226
Operating Expenses	1,323,528	1,546,409	2,869,937
Contingencies	100,000	100,000	200,000
Total Special Funds	\$ 8,209,367	\$ 5,410,796	\$ 13,620,163
		-	-
FTE	25.0	9.0	34.0

During the current 2021-23 biennium, RIO has a base budget of \$8.2 million. The vast majority of which consists of salaries and benefits for the 25 FTE and temporary team members.

The Senate approved budget includes added funding for an additional administrative support FTE as well as a fiscal operations FTE to support the investment team as it is currently structured. It also includes funding for 7 FTE related to our strategic internal investment request package to make up the total 34 FTE.

The majority of the increase in the operating line is related to the continuation of our pension administration system modernization project and the related IT costs.

VI. Budget Summary

The Retirement and Investment Office (RIO) serves two important program boards: the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR) Board. As such, its agency budget is separated into two separate programs, both of which are paid for with special funds.

Investment Program (SIB)

Funding for administration of the SIB Investment Program comes directly from investment clients' invested assets (both statutory and contracted).

Salary and benefits represent funding for 13.85 FTEs, which provide all the accounting, financial and administrative support, and investment performance services for the funds under management.

Operating funds needed to administer the SIB investment program include building rent, staff and board travel and education, and NDIT data processing.

Retirement Program (TFFR)

Funding for administration of the TFFR Pension Plan comes from member and employer contributions and investment earnings.

Salary and benefits represent funding for 11.15 FTEs responsible for administering the TFFR retirement program, down from 11.70 previously due to agency restructuring and NDIT unification.

The operating funds required to administer the TFFR retirement program include NDIT data processing, IT contracts, building rent, staff and board travel and professional development.

Carry-over funding for the Pension Administration System Modernization Project (TFFR "Pioneer" Project) is included and the anticipated implementation date is 4th quarter 2024. New costs associated with the TFFR "Pioneer" Project are included in a decision package including one-time costs due to the increased workload and agency partner assistance (such as Procurement and NDIT unification costs) required to implement and some new ongoing cost associated with the software solution.

Historically contingency funds were requested in case of unexpected budget shortfall, generally related to turnover of executive staff and the need to perform an executive search. An increase in contingency fund appropriation is included in the Senate approved budget for 2023-25 as part of one of our decision package requests.

Due to restructuring/reorganization of the agency in the last biennium some FTE were reclassified and the corresponding salaries and equity adjustments for other team members increased the salary line in the base budget.

**ND RETIREMENT AND INVESTMENT OFFICE
BUDGETED EXPENDITURE REPORT
AS OF January 31, 2023**

	BIENNIUM TO - DATE INVESTMENT	BIENNIUM TO - DATE RETIREMENT	BIENNIUM TO - DATE TOTAL
<u>BUDGETED EXPENDITURES</u>			
1. SALARIES & BENEFITS			
SALARIES	1,811,174	1,191,764	3,002,938
OVERTIME/TEMPORARY	38,676	78,738	117,414
TERMINATION SALARY & BENEFITS	4,401	3,687	8,089
FRINGE BENEFITS	551,782	454,941	1,006,723
TOTAL SALARY & BENEFITS	2,406,034	1,729,129	4,135,163
2. OPERATING EXPENDITURES			
TRAVEL	28,176	24,679	52,855
IT - SOFTWARE/SUPPLIES	103	82	185
PROFESSIONAL SUPPLIES & MATERIALS	641	1,680	2,321
MISCELLANEOUS SUPPLIES	1,178	594	1,771
OFFICE SUPPLIES	892	1,408	2,300
POSTAGE SERVICES	4,074	33,619	37,693
PRINTING	500	11,307	11,806
IT EQUIPMENT UNDER \$5000	419	385	805
OFFICE EQUIP. & FURNITURE UNDER \$5000	524	986	1,509
INSURANCE	1,234	1,198	2,432
BUILDING/LAND RENT & LEASES	73,594	89,691	163,284
REPAIR SERVICE	438	446	884
IT DATA PROCESSING	112,659	407,334	519,993
IT COMMUNICATIONS	7,742	7,770	15,512
IT - CONTRACTUAL SERVICES	3,141	217,238	220,379
DUES & PROF. DEVELOPMENT	7,972	21,036	29,007
OPERATING FEES & SERVICES	23,178	19,342	42,520
PROFESSIONAL SERVICES	1,840	359,537	361,377
TOTAL OPERATING EXPENDITURES	268,305	1,198,329	1,466,635
3. CAPITAL ASSETS	0	1,456,202	1,456,202
4. CONTINGENCY	85,832	0	85,832
TOTAL BUDGETED EXPENDITURES	2,760,171	4,383,660	7,143,831

2023-2025 Budget Request:

Line Item Description	Base Budget	Agency Requested Adjustments	Cost to Continue/ Legislative Pay Package	Adjusted Base	Workforce Initiative #1	Pioneer Project #2	Internal Investment #3	Total Agency Request
Salaries and Wages	\$ 6,785,839	143,721	1,151,179	\$ 8,080,739	578,491	486,000	1,404,996	\$ 10,550,226
Operating Expenses	1,323,528	(43,721)	6,721	1,286,528	200,250	1,116,319	266,840	2,869,937
Contingencies	100,000	(100,000)	-	-	200,000	-	-	200,000
Total Special Funds	\$ 8,209,367	-	1,157,900	\$ 9,367,267	978,741	1,602,319	1,671,836	\$ 13,620,163
FTE	25.0	-	-	25.0	2.0	-	7.0	34.0

Request package #1 - Workforce Initiative

As an addition to our base budget, the Senate included specific funding for a few key areas to ensure we are able to continue performing our statutory responsibilities at a very high level. We consider these requests to be a vital part of our organizational culture and workforce initiative.

During the current biennium, RIO went through a thorough reorganization that led to several position changes throughout the agency. The ED/CIO position was split into two positions to reflect the workload more accurately for each position as the investment program continues to grow exponentially. The salary attributable to the previously combined position was assigned to the Chief Investment Officer role, which resulted in a lack of salary budgeted for the Executive Director position. We have been able to pay the ED salary during the current biennium due to roll-up funding resulting from vacancies, but the full salary amount is not covered by the base budget. In addition, the CFO position was restructured into the CFO/COO position, and an accounting manager position was created to support the CFO/COO combined role. We reclassified a vacant position in the Retirement Services division into a retirement accountant position which is now included under the Fiscal division. We also reorganized administrative support services, which had previously been under a separate Administrative Services division and instead assigned each administrative support position to an individual division (i.e. Retirement Services, Fiscal/Investment, and the Executive Administrative Assistant which supports the four executive team members and all the Boards and committees). While the cost of the reorganization of most of these positions is covered by our base budget request, we are asking for additional salaries and wages to cover additional board member salaries as well as to support our commitment to a robust internship program within the agency.

To support the 6 new FTE granted during the November 2021 special session the Senate included two additional FTE. One additional administrative support FTE and one additional fiscal/operations FTE. Currently, one administrative support FTE supports both the entirety of the Fiscal and Investment Divisions and we recognize that with the growth of the investment team, additional administrative support is needed. The onboarding of the new investment team members during the biennium has created abundant opportunities to enhance our investment operations and, subsequently, increase the investment returns for all client funds. However, these enhancements require administrative and operational support to be fully realized. Adding these two FTE will further enhance the ability of the investment team to be more agile and effective in managing investment strategies and provide significant benefit to all of our client funds.

Agency reorganization/restructuring and our new strategic plan requires many employees to pursue or maintain professional certifications relevant to the performance of their duties and the associated increase in cost of agency reimbursed certifications is reflected in this proposal as well.

Additional cost for work related travel due to both inflation and the increased need for continuing education of existing FTE requires an increased allocation to this line item. Work related travel is necessary not only for investment and retirement program operations but also for continuing education for positions to maintain certifications relevant to the performance of their duties.

While the agency is committed to a hybrid work environment, such a work environment does require the availability of some additional office space to support the growing and increasingly collaborative teams during the implementation of aforementioned initiatives for both retirement and investment programs and the cost of some additional equipment and space is included in this proposal.

Finally, within this request, the Senate included contingency funding to support at least two executive searches during a biennium. During the last two biennium the agency lost its top two managers in both the retirement and investment programs within 60 days of each other (respectively for each program) and while turnover of these positions is not planned in the short term, prudence requires preparing for what is not an unusual event.

The total appropriation increase for this package is \$978,741.

	Total Agency			
	Salaries & Benefits	Operating Expenses	Contingency	Total Special Funds
#1: Workforce Request				
Fully fund salaries after completion of reorganization, compensation for additional board members, fund internship program	203,870	-	-	203,870
Addition of an administrative support FTE to support investment personnel added during special session	154,886	-	-	154,886
Addition of a fiscal/operations FTE to support investment personnel	219,735	-	-	219,735
Increased travel for board & staff	-	74,000	-	74,000
Governance manual codification & update software	-	30,000	-	30,000
IT equipment for hoteling	-	5,000	-	5,000
Rent for hoteling	-	15,000	-	15,000
Staff development/certifications/dues	-	25,750	-	25,750
Increased SWCAP (as determined by OMB)	-	35,500	-	35,500
Communications subscriptions	-	15,000	-	15,000
Contingency for Exec Searches	-	-	200,000	200,000
	578,491	200,250	200,000	978,741

NOTES:

- Adds Investment Admin to support new team members added in Special Session
- Adds Fiscal/Operations FTE to support new investment team members added in Special Session
- Additional funding for salaries (fully funds reorganization adjustments, a continuing intership program, and additional board member pay)

Request package #2 - Pioneer Project

The second of our additional funding packages is to support the TFFR Pension System Modernization Project (TFFR “Pioneer” Project) for the development and deployment of the modernized pension administration system pursuant to its authority under NDCC 15-39.1-05.2. The project is currently in the development and implementation of the vendor solution phase (the third and final phase). While our project is currently on time with an expected completion date of 4th quarter 2024, the agency must continue to utilize its current system until the new system is ready and program efficiencies can be realized. This package is intended to provide necessary interim support and resources for the agency until the new system is ready to deploy such as: an increase for personnel costs of existing staff as it relates to additional workload and overtime; continuing cost for temporary FTE to support the manual processes needed to make the existing system work until it can be retired; and the funding needed for ongoing hosting and support fees associated with the new software vendor solution.

The implementation project will be completed using existing FTE; however, continued funding for two temporary employees is necessary to sustain operations under the existing pension administration system while the new system is being developed and the time of permanent FTE can be dedicated to that development and launch. The current system is quite antiquated and requires significant manual data entry; these processes will be significantly improved with the new system and therefore the services of the temporary employees will no longer be needed subsequent to the launch of the new system. Overtime costs are needed for current non-exempt staff, and temporary increases for current exempt staff, due to the increased work hours and workload involved in the development and implementation of the system.

For example, between September 8, 2022, and December 15, 2022, each staff member assigned to the new pension administration project participated in as many as 185 hours of meetings and development sessions directly attributable to the project. Those 185 hours attributed to the project account for 33% of the 552 total normal work hours for that period based on 8-hour days and 69 workdays during the period. Because the work the staff does daily could not be deferred, this required a significant additional effort from the assigned staff. As a further example, for the period of January 9, 2023, through May 11, 2023, there are 86 working days for a total of 688 regular work hours. During this time assigned staff will be participating in as many as 225 hours of meetings and development sessions related to the project. This again represents a 33% increase in required time from staff to complete both their normal work duties and the duties they have on the project. This increased tempo and workload will continue through the end of the project which is scheduled for the 4th quarter of the 2024 calendar year.

It is expected that these additional costs, including limited term employee costs will be eliminated upon implementation of the new pension administration system, while the hosting and support fees will be ongoing. As an offset of the increased hosting and support fees, the one-time increase for NDIT charges for unified staff support should also decrease substantially after the implementation of the project. This expectation is due to the conclusion of the NDIT staff in PAS meetings and development sessions, and due to the modernization and automation of processes that NDIT staff presently support daily in the antiquated system being replaced.

The total appropriation increase for this package is \$1,602,319.

	Total Agency			Total Special Funds
	Salaries & Benefits	Operating Expenses	Contingency	
#2: Pension System Continuation				
Temp Increases & Temp Salaries	270,000	-	-	270,000
Overtime for Pension Staff	216,000	-	-	216,000
Postage for educational mailers	-	5,000	-	5,000
Printing for educational mailers	-	1,900	-	1,900
Increased NDIT charges for unified staff	-	132,000	-	132,000
Increased hosting and support fees	-	937,419	-	937,419
New contract to track membership	-	40,000	-	40,000
NOTES:	486,000	1,116,319	-	1,602,319
- Temp increases and funding for temp positions to finish designing and implementation of new PAS system				
- Increase in hosting/support costs for new system				
- \$40K for PBI for death audit solutions				

Request package #3 - Internal Investment

The third and final additional request is predicated on the exponential growth of our investment program. The assets under management by the RIO investment division have grown from about \$4 billion to nearly \$20 billion from the year 2010 to the beginning of the year 2022 and continue to grow from investment returns and contributions to the Legacy Fund, pension plans, and insurance funds. The combination of the growth of AUM, the number of individually managed funds, and the complexity of mandates such as the Legacy Fund have increased the need for staff resources, infrastructure, and new scalable investment processes that can enhance the performance of client funds while reducing the net cost of management of those funds when manager fees are considered.

There is an opportunity to create significant benefits from the scale advantages of the growth of nearly \$20 billion of assets under management. A typical public fund with similar assets under management as RIO has more internal investment management which creates the opportunity of better investment returns while decreasing costs from the advantages of more internal management versus money placed with external managers. Some additional benefits of an internal asset management program include:

- Enhanced liquidity management, better fund rebalancing processes, and the ability to manage risk exposures for improvement of return/risk and lower cost;
- Improved investment capabilities at RIO rather than outsourcing those capabilities;
- Scalable savings that grow with the assets under management or with a larger portion of assets under management
- Additional flexibility and agility to implement new investment strategies or respond to market or international events as the assets are controlled locally;

- Attraction of top talent with a remote hybrid workforce where some senior, more expert investment officers can be located remotely if they choose yet still train more junior talent that are local. RIO has been able to attract top talent with this approach. Internal investment management will increase the number of professional opportunities with RIO to be the employer of choice.
- Attraction of local talent from universities using internship programs where talent can be trained to be the next generation of leaders, bootstrapping a market for investment talent in North Dakota.

Generally, investment management costs fall within the scope of continuing appropriation authority granted by the legislature in NDCC 21-10-06.2; however, because this proposal involves cost savings achieved by internalizing investment operations through additional permanent FTE and infrastructure it falls within the scope of NDCC 54-52.5-03.

Our proposal includes five investment professionals, one fiscal operations professional, and one administrative staff to manage approximately \$3 billion of assets internally. Implementing this proposal can lower the net costs for RIO investments by \$8 million per year and create opportunities for better liquidity management and rebalancing that may result in up to another \$8 million in savings per year, for a conservative estimate of approximately \$16 million in savings per year that as a special fund agency directly benefits our client funds. The net costs and opportunities grow with assets under management and with the amount of assets managed internally. We have discussed this proposal with many of our client funds and have received positive feedback and support from our clients for this initiative.

Additionally, the market for investment professionals shows they typically receive both a market-based salary and incentive compensation even in the public sector. A well-designed incentive compensation system, based on fair criteria, can stimulate employees to deliver quality work, reach set targets, and maintain motivation and productivity. For investment managers, it provides incentives to make smart and risk-appropriate investment choices that result in an appreciation of invested assets. The incentive system also aligns the risk of the investment manager's compensation with the risk of the underlying assets being managed, thus acting as a control mechanism incentivizing good risk/return choices. Lastly, an incentive system is good for investment plan beneficiaries in that the incentive is paid when there is superior investment performance and not paid when there is not superior investment performance. As a result, a well-designed incentive compensation system results in added net investment performance and reduces the overall cost of compensation by paying only when the benefits exceed the cost. The incentive compensation plan would assume a targeted bonus of 50% of salary and a max of 100% of salary and would only pay out when benefits exceed costs. This proposal is contingent on an incentive compensation plan approved by the legislature and administered by the State Investment Board.

Due to the complexity of this plan, we are only asking for a salary budget for one year of the biennium for these additional staff as we believe it would take significant time to receive the necessary classification approvals and fill the positions.

We estimate the cost of this proposal for the first biennium to be \$1,671,836 or approximately 10% of the cost savings from implementation. This includes one year of salaries and benefits for each

of the new positions as well as the necessary operational costs to support them. In addition, we would ask for specific statutory language changes to facilitate the incentive compensation plan including exemptions from the state’s classified system.

The total appropriation increase for this package is \$1,671,836.

#3: Internal Investment Plan	Total Agency			
	Salaries & Benefits	Operating Expenses	Contingency	Total Special Funds
Item Description				
7 new FTE (5 investment/1 fiscal/1 admin) (1/2 biennium)	1,173,326	-	-	1,173,326
Equity Increases for current Investment Staff	231,670	-	-	231,670
Advertising	-	17,500	-	17,500
Travel	-	53,000	-	53,000
Software/Data Processing/Telephone	-	44,240	-	44,240
Office Furniture/Supplies	-	12,600	-	12,600
Rent for new offices	-	86,500	-	86,500
Prof Development	-	3,000	-	3,000
Pay Study	-	50,000	-	50,000
NOTES:	1,404,996	266,840	-	1,671,836
- 5 Investment positions (2 Sr. Portfolio Mgrs/2 Inv. Analysts/1Inv. Funds Mgr)				
- 1 Admin to assist investment professionals				
- 1 Investment accountant				
- Operating costs to support additional team members				

VII. Purpose and use of one-time funding in current biennium

Although there was no one-time funding specified in our budget for the 2021-2023 biennium, we did request to carryover unexpended one-time funding appropriated in the prior biennium to continue work on our pension administration system (PAS) modernization project. As this project is in progress and not expected to be completed until 2024, we will be requesting to carryover all remaining one-time funding related to this project into the 2023-2025 biennium.

ND RETIREMENT AND INVESTMENT OFFICE PENSION ADMINISTRATION SYSTEM EXPENDITURE REPORT AS OF JANUARY 31, 2023						
	2019-2021		Carryover to 2021-2023 Biennium	2021-2023 Biennium Actual	Total PAS Project to Date	Remaining PAS Budget
	2019-2021 Approved Budget	2019-2021 Actual				
TEMPORARY SALARIES	50,000	0	50,000	0	0	50,000
IT - DATA PROCESSING (NDIT PROJECT MGMT)	775,000	34,025	740,975	78,457	112,483	662,517
PROFESSIONAL SERVICES	1,875,000	297,099	1,577,901	486,947	784,046	1,090,954
CAPITAL ASSETS	6,300,000	0	6,300,000	1,456,202	1,456,202	4,843,799
TOTAL PAS PROJECT BUDGET	9,000,000	331,125	8,668,875	2,021,606	2,352,731	6,647,269

VIII. Identify and justify need for any one-time funding requested

We are requesting carryover authority for unexpended one-time funding related to our PAS modernization project that is expected to be completed in the 4th quarter of 2024. This authorization is currently included as section 6 of this bill as approved by the Senate.

In addition, we are requesting one-time funding for temporary salary increases to team members engaged in the development of the new system along with temporary salary dollars for continuation of our temporary employees that are currently supporting TFFR's legacy system while we design and develop the new system. The nature of the building of the new system requires significant institutional knowledge of the plan and current structure such that hiring temporary employees from outside the agency to design the system would not be feasible. This requires current team members to put in extra time and effort into design meetings while still completing their daily duties. Thus, the need for temporary workload increases and overtime.

IX. Agency collections deposited in general or special fund

Not applicable to RIO.

X. Need for any other sections requested to be included

As part of our strategic investment plan and our desire to move forward with an internal investment program at RIO, we are requesting to have our investment-related positions excluded from the state's classified system. This would require an amendment to NDCC 54-44.3-20. This amendment has been included as section 3 of this bill as approved by the Senate.

Additionally, as discussed in the internal investment request package, we feel an appropriate incentive compensation plan is vital for the success of our investment team. And, as such, we are requesting legislative approval to move forward on designing and implementing a plan that would be annually approved by the SIB. Statutory language required to implement such plan has been included as sections 4 and 5 of the bill as approved by the Senate.

Finally, we are requesting exemption language be added to our bill similar to last biennium to allow for the carryover of any unexpended funds related to the pension administration system project to allow for the planned implementation of the new system in 2024. This language has been included as section 6 of the Senate approved version of this bill.

XI. Any other bills being considered and potential impact on our budget

RIO reviews all submitted bills to monitor for potential impact on the agency. We have identified several bills that may impact our agency and/or budget including, but not limited to (see attached for complete current list of tracked bills):

- HB 1040 – Closure of the PERS DB Plan
- HB 1088 – SIB Membership Changes
- HB 1150 – Veteran Opt-out from TFFR
- HB 1219 – TFFR Program Changes

- HB 1227 – Legacy Fund/Requiring Cost-Benefit Analysis
- HB 1278 – Relating to contracts and ESG monitoring requirements
- HB 1368 – Prohibiting Investment and Contracts with Companies that Boycott Israel
- HB 1379 – Legacy Fund Earnings Streams
- SB 2239 – Contributions to PERS Main Plan
- SB 2258 – Retired Teachers Benefits if Returning to Teach
- SB 2330 – Legacy Fund Advisory Board/Legacy Fund Earnings Definition

Potential fiscal impacts of these bills vary. Some minor changes may require small amounts of monitoring and compliance and require just a few thousand dollars of temporary salaries. While others may have a more pronounced effect. We will continue to monitor these and numerous other bills to determine if any additional budget action would be necessary.

XII. One-page itemized listing of changes we’re requesting to the Senate approved budget

None being requested.

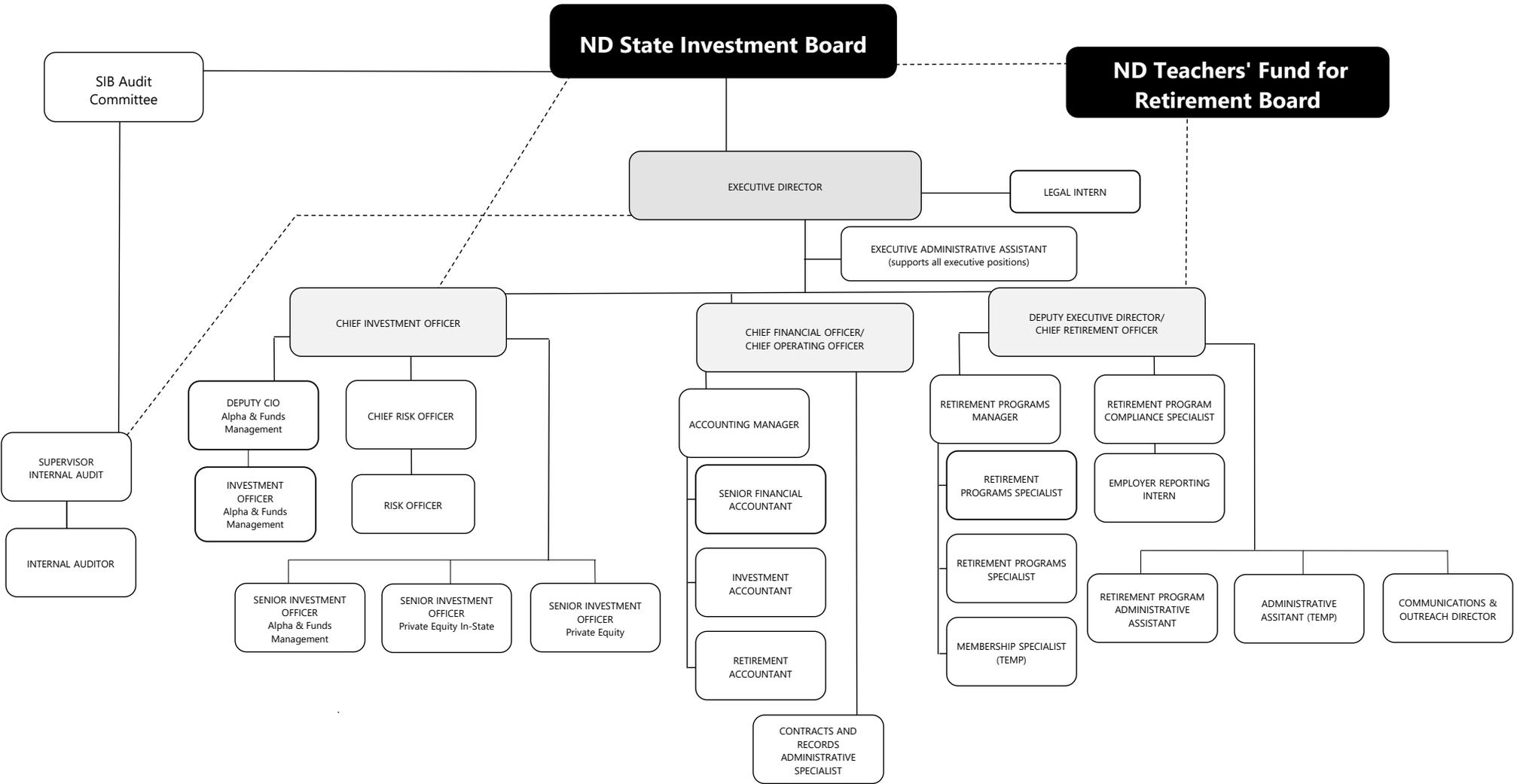
XIII. Federal State Fiscal Recovery Funding

RIO was not appropriated any federal state fiscal recovery funds during the November 2021 special legislative session.

XIV. Federal Funding available

RIO does not have, nor does it anticipate having any federal funding available for the 2023-2025 biennium.

RETIREMENT AND INVESTMENT OFFICE



2023-2025 Legislative Session RIO Bill Tracker

Bill #	Topic	Description	Sponsor	Hearing Date	Committee	Status
HB 1040	Closing DB Plan	Closing DB Plan (eff. 12/31/24)	Legislative Management: Weisz, Bosch, Boschee, Lefor, Mitskog, Vigesaa, Burckhard, Klein, Piepkorn, Schaible, Wanzek	3/9 - 10:30am	Senate State & Local	Passed House 2/22 77 years / 16 nays
HB 1088	SIB	SIB Membership changes	SIB	3/6 - 2:15pm	Senate I&B	Amended by House.Reduced experts to 1 from 2, changed experience language; Legacy Advisory Board would be a voting member; and two legislative members. Passed House 1/25 80 years/ 11 nays. 2/8
HB 1150	Veteran Exemption for TFFR	Allows veterans with at least 20 years of military service to opt out of the TFFR in their first year of teaching	Thomas, Bekkedahl, Heinert, Meyer, O'Brien, Pyle, Richter, Ruby, Schaible, Schreiber-Beck, Vedaa	3/9 - 9am	Senate State & Local	Passed House 1/19 54 years/ 37 nays- 2/13 Referred to Senate State & Local
HB 1183	PERS retirement for law enforcement	Amends description of participants.	Rep. Porter, Sen. Axtman, Rep. Dockter, Rep. Heinert, Rep. Karls, Rep. Kasper, Sen. Larson, Rep. Louser, Rep. Motschenbacher, Rep. Ostlie, Rep. Ruby, Rep. Schauer	3/9 - 10am	Senate State & Local	2/22 Passed House 84 years 7 nays
HB 1216	ND Development Fund	Commerce Dept. funds to promote economic development.	Rep, Nathe	3/7 -10:30am	Senate I&B	Passed House 1/25 91 years 0 nays. 2/13 Referred to Senate I&B
HB 1219	TFFR	TFFR Changes	Reps. Kempenich, Conmy, Kreidt Sen. Schaible	3/9 - 9:30am	Senate State & Local	Passed House 2/7 94 years/0 nays. 2/13 Referred to Senate State&Local
HB 1227	Legacy Fund	Requiring a cost-benefit analysis for a measure or policy affecting the Legacy Fund.	Reps. Kempenich, Bosch, Cory, Mock, Swiontek, Thomas, Vigesaa Sens. Klein, Meyer, Patten	3/7 - 10:45am	Senate I&B	Passed House 1/20 89 years/ 0 nays. 2/13 Referred to Senate I&B
HB 1278	SIB	Requiring contracts with custodians/managers include required written support of fossil fuel and ag industries in state.	Reps. Satrom, Grueneich, Headland, Lefor, S. Olson, Ostlie, Schauer, Steiner Sens. Conley, Wanzek		Senate I&B	Passed House 2/20 92 years / 1 nays. Amended to support investment program.
HB 1285	Agency	Prohibiting executive branch agency bill submissions without legislator or legislative committee sponsor.	Reps. Toman, Christensen, Heilman, Henderson, Prichard		Senate State & Local	Passed House 2/21 80 years / 14 nays

<u>HB 1309</u>	PERS	Plan design changes for law enforcement	Rep. Boschee, Sen. Braunberger, Sen. Cleary, Sen. Dever, Rep. Heinert, Rep. Martinson, Rep. Nathe, Sen. Roers, Rep. Ruby, Rep. Schneider	3/9 - 2pm	Senate State & Local	Passed House 2/21. 87 years, 7 nays.
<u>HB 1321</u>	PERS Board	Changing PERS Board makeup	Reps. Kasper, Dockter, Lefor, Louser, D. Ruby, M. Ruby, Steiner, Vigesaa, Weisz Sen. Hogue		Senate I&B	Passed House 2/21 79 years / 15 nays
<u>HB 1345</u>	Procurement	State may give priority to companies that support state's ag & energy industries when procuring contracts.	Reps. Satrom, Grueneich, Hagert, Headland, Kiefert, Ostlie, Steiner Sen. Conley, Erbele, Lemm, Wanzek		Senate Ag & Veterans Affairs	Passed House 2/20 85 years / 8 nays
<u>HB 1368</u>	Investments	Prohibiting investments and contracts with companies that boycott Israel.	Reps. K. Anderson, Bellew, M. Ruby, Strinden, Timmons, Tveit Sens. Clemens, Kannianen, Myrdal		Senate I&B	Passed House 2/20 86 years / 7 nays
<u>HB 1379</u>	Legacy Earnings Streams	Modifies Legacy Fund Earnings streams	Reps. Lefor, Bosch, Dockter, Headland, Nathe, Novak, O'Brien Sens. Bekkedahl, Hogue, Rummel, Sorvaag		Senate Approps	Passed House 2/22 77 years / 16 nays
<u>HB 1429</u>	SIB	ESG Boycott/ Contract Restrictions/SIB list	Reps. Novak, Koppelman, Louser, J. Olson, S. Olson, M. Ruby, Thomas, Sen. Elkin, Magrum, Rummel		Senate I&B	Passed House 93 years / 0 nays
<u>SB 2015</u>	Budget bill	OMB Budget Bill	Senate Appropriations	3/7 - 8:30am & 2:15pm	House Approps	Passed Senate 2/21 40 years / 6 nays
<u>SB 2022</u>	Budget bill	RIO's Budget	Senate Appropriations	3/9 - 2:15pm	House-Approps	Passed Senate 2/20 45 years / 2 nays
<u>SB 2070</u>	Teacher Permitting	Extends the length of time non-certified teachers can be permitted	Senate State and Local Govt - Roers, Barta, Braunberger, Cleary, Estenson, Lee	3/1 - 2pm	House Education	Amended. Passed Senate 1/26 47 years/ 0 nays
<u>SB 2164</u>	PERS Board	Changing how legislative members of PERS Board are appointed	Sen. Dever Reps. Brandenburg, Hatlestad, D. Johnson, Monson, Schauer	3/3 - 9am	House GVA	Passed Senate 1/30 47 years / 0 nays
<u>SB 2165</u>	Energy Commission	Funds to clean sustainable energy fund/ BND	Sen. Patten, Rep. Bosch, Sen. Kannianen, Sen. Kessel, Rep. Novak, Rep. Porter	3/10 - 9am	House Energy & Natural Resources	Passed Senate 2/21 40 years / 6 nays
<u>SB 2196</u>	Infrastructure Revolving Loan Fund	Resets terms of the infrastructure revolving loan fund.	Sen. Patten, Sen. Beard, Sen. Bekkedahl, Sen. Kannianen, Rep. Olson, Rep. Richter	3/3 at 9am	House Energy & Natural Resources	Passed Senate 1/23 47 years/ 0 nays
<u>SB 2233</u>	BND	Auditing practices of certain funds under management of BND	Sen. Klein, Sen. Bekkedahl, Sen. Hogue, Rep. Lefor, Rep. Vigesaa		House IBL	Passed Senate 1/24 46 years/ 0 nays
<u>SB 2239</u>	PERS Plan	Changing PERS contribution rates and appropriating \$250M to the fund	Sens. Cleary, Dever Rep. Boschee	3/10 - 9am	House GVA	Passed Senate 2/21 34 years / 13 nays

<u>SB 2258</u>	TFFR	Expands scope of Critical Shortage area qualification for rehired retirees	Sens. Paulson, Beard Reps. Heilman, Hoverson, Louser	3/6 - 3pm	House Education	Passed Senate 2/1 47 yeas 0 nays
<u>SB 2330</u>	Legacy Fund	Legacy earnings definition and change in Legacy Fund IPS percentages.	Sens. Klein, Hogan, Meyer Reps. Bosch, Kreidt		House Finance & Taxation	Passed Senate 2/15 43 yeas / 3 nays

HB 1425

- The Legacy Fund in-state investment program and in-state investment manager preference is part of code.
- Requires up to 20% of Legacy Fund be directed toward in-state investments.
- 10% Fixed Income + 10% Equity
- BND is in-state fixed income manager with \$191 million in capital committed.
- 50 South is in-state equity manager with \$100 million in capital committed.
- With almost \$300 million committed North Dakota has one of the largest in-state investment programs in the nation.
- The Legacy & Budget Stabilization Fund Advisory Board continues its work to improve the Legacy Fund asset allocation implementation.
- RIO continues its outreach to coordinate opportunities with in-state financial institutions.

HB 1380

- Created Legacy Earnings Fund
- Created a percent of market value (POMV) spending rule without amending definition of earnings.
- POMV of 7% for current biennium is \$486 million.
- Earnings includes realized gains and losses. The amount of earnings available for transfer will be in flux through May 2023.

SB 2291

- Prohibits social investing i.e.: investment or divestment of funds for purposes other than the *exclusive benefit* of the beneficiaries of a fund.
- SIB client funds are managed by external managers.
- RIO staff meets with each manager biennially and confirms:
- Funds are managed for the *exclusive benefit* of client funds by maximizing total return for a prudent level of risk as set by a defined benchmark.
- Managers are instructed to vote proxies to maintain or improve shareholder value for the *exclusive benefit* of client fund.

WHAT WE'RE PROUD OF

Agency Accomplishment
30+ Years of Unmodified Audit Opinions.

Agency Accomplishment
Investment Program more than Quadrupled since 2010.
High of nearly \$20 Billion in Fiscal Year 2022 prior to transfer of Legacy earnings.

Agency Accomplishment
TFFR Plan projected to achieve 100% Funded Status by 2044.

WHAT WE DO



State Investment Program – SIB
The SIB ensures rigorous attention to all aspects of the investment program by following an established investment process that includes investment policy development/modification, implementation/monitoring, and evaluation.



Teachers' Fund for Retirement-
The TFFR Program provides ND educators with a financial foundation for the future that includes a secure and stable retirement.

HOW WE MEASURE SUCCESS

Client & Member Satisfaction Surveys

Excess Returns Net of Fees

Attendance at Outreach Activities

Awards & Recognition for Transparency & Excellence in Administration and Financial Reporting



RETIREMENT AND INVESTMENT OFFICE WORKFORCE

The North Dakota Retirement and Investment Office engages in highly skilled financial management, investment, and pension administration functions that require candidate expertise uniquely different than most any other state agency. Our workforce has highly translatable skillsets to private industries expanding our competitive field for staff.

WHAT HAPPENS IF WE CAN'T DO OUR JOB...

Financial Stability

RIO serves all citizens of ND through the various financial and investment programs managed. Workforce challenges create risk to stable fiscal management and financial security.



Impact on Education

Providing a financially secure retirement for ND educators is a key piece to recruitment and retention for school systems. Staffing shortages in the TFFR program can impact the ND education system.



Risk to Investments

Staff shortages and vacancies at RIO directly impact the agility and responsiveness of the agency to the volatility of the economy and markets. This can lead to a financial impact on all of North Dakota



CURRENT AGENCY TEAM MEMBER STATS

22

Full-time team members

3

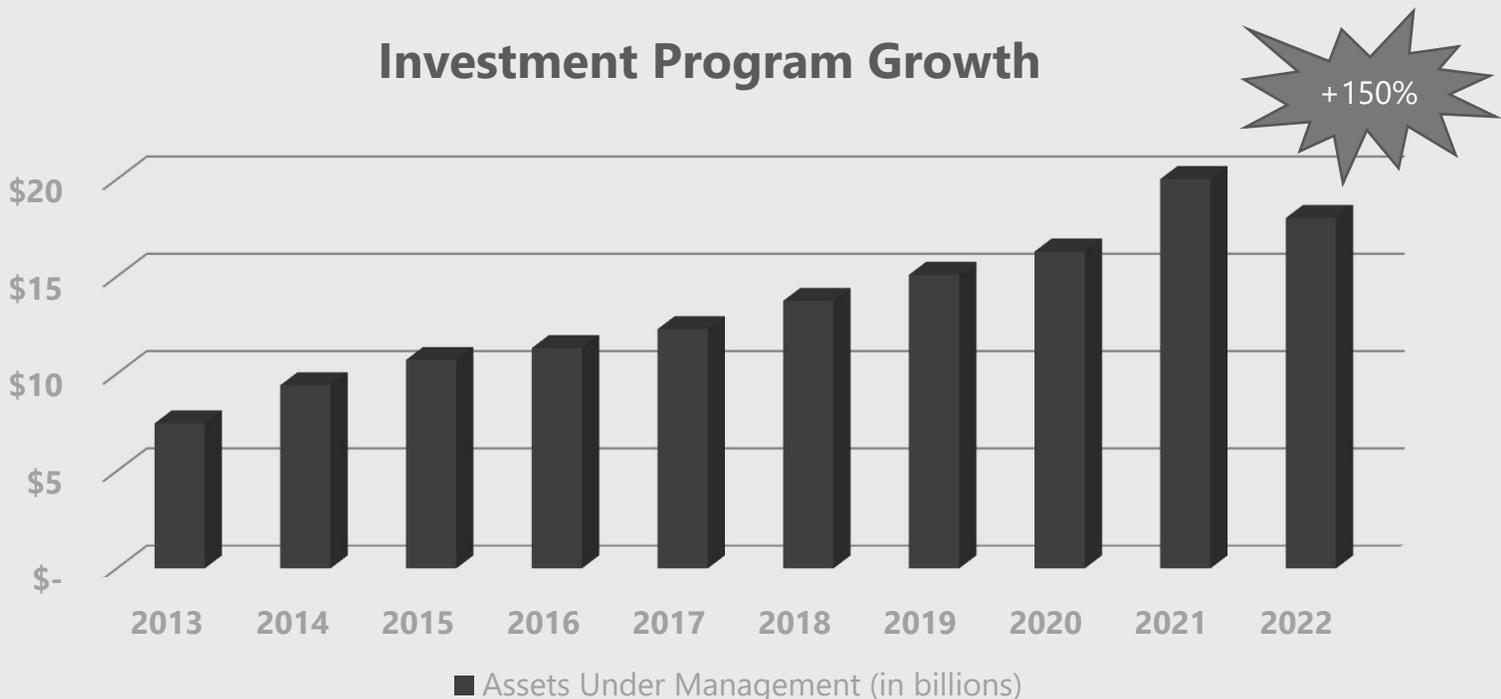
Number of vacancies

8.3

average years of service

WORKLOAD INCREASE – LAST 10 YEARS

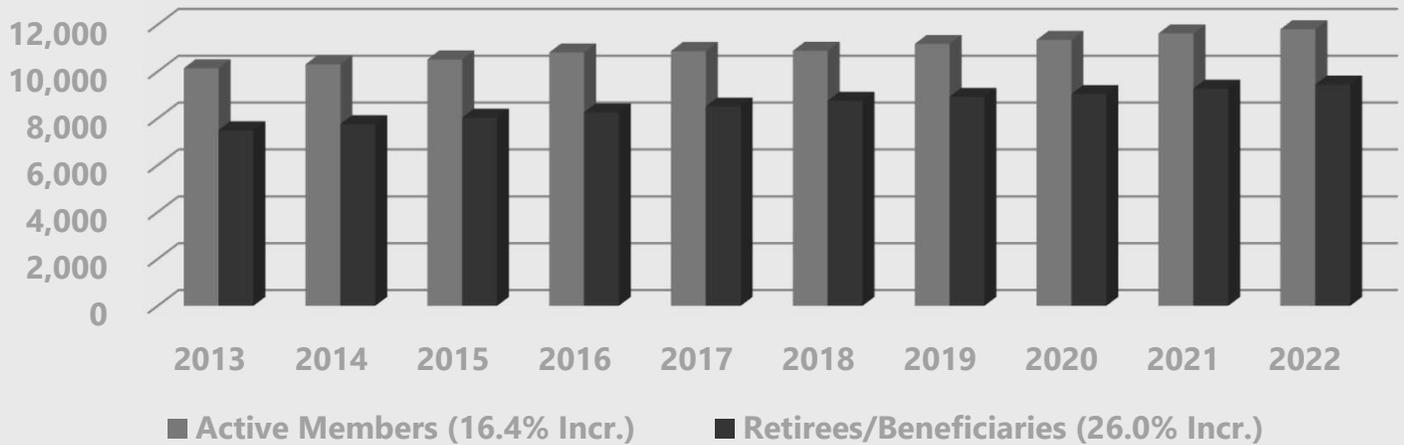
Investment Program Growth



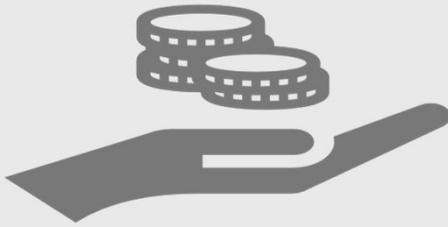
RETIREMENT AND INVESTMENT OFFICE WORKFORCE

WORKLOAD INCREASE – LAST 10 YEARS (CONT'D)

TFFR Membership Growth



COST OF TURNOVER



The services provided by RIO in the areas of investment and pension administration are highly skilled and nuanced. Recruitments often take several stages of interviews to assess the skills, knowledge, and abilities of candidates. This leads to prolonged vacancy times in open positions. After a hire is made, due to the complexity of the operations involved in the business model, the onboarding and training process also involves a significant investment of time from both the new hire and existing staff.

WORKFORCE COMPETITION



Fiscal Management Competition

The RIO Fiscal Management division is in competition with both the public accounting sector and government accounting sector. Critical shortages exist in the accounting field nationwide.



Admin Support Competition

As a translatable skillset, administrative support is in high demand across all sectors. RIO competes with not only other government agencies but all aspects of the private sector for these positions.



TFFR Competition

The management of the TFFR program requires a skillset in pension administration, a unique field with limited candidate pools. Direct competition is both the public and private pension sector with increasing compensation packages.



Investment Competition

Private sector employers provide higher compensations for investment roles and are direct competitors for the RIO Investment program. Performance bonuses and other perks are commonly offered in the private and public sectors.

INDUSTRY OUTLOOK: For Fiscal Management, the struggle to recruit qualified individuals is increasing as the number of accounting professionals is decreasing nationwide. According to *The CPA Journal* in an article published in November of 2022, the number of college graduates in accounting has decreased by 4% while many public firms are seeing up to 75% of accountants retire in the same timeframe. If afforded the ability to offer more competitive compensation packages, the Investment Program is likely to recruit highly qualified candidates as large layoffs have been announced as recently as January 5th, 2023, in the private sector from firms such as Goldman Sachs and a government position could offer a sense of security for professionals in the field.

ND TFFR Fast Facts

FY End 6/30/2021

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

11,627 ACTIVE MEMBERS
9,262 RETIRED MEMBERS
210 EMPLOYERS

Member Stats	Actives	Retirees
Avg. Annual Salary/Benefit	\$64,455	\$26,064
Avg. Service Credit	11.4 yrs	27.2 yrs
Avg. Current Age	41.4 yrs	72.8 yrs

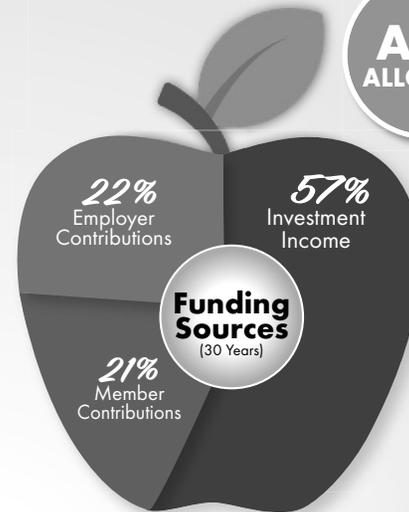
MEMBER/EMPLOYER SATISFACTION: 3.9 (4.0 Scale)

84%

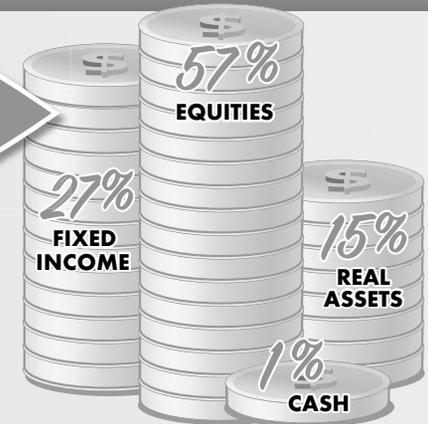
of benefits are paid to ND residents.

\$235 million was distributed to retirees in FY 2021.

Net Asset Value of TFFR **\$3.28 billion**



ASSET ALLOCATION

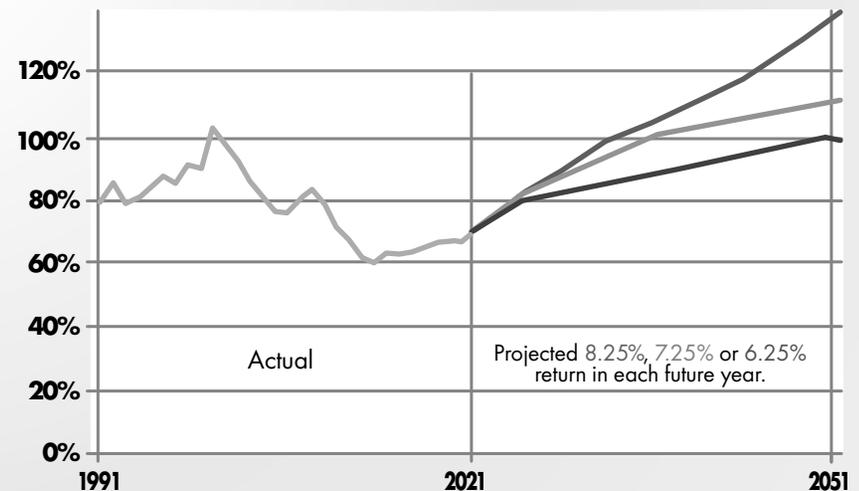


Investment Returns
 (net of fees)

1 year 26.54%
 5 year 11.22%
 30 year 8.10%

69% of BENEFITS are PREFUNDED

TFFR Funded Ratio



TFFR's long-term funding outlook is positive, and benefits are secure for past, present, and future ND educators.

ND TFFR PLAN SUMMARY

**Tier 1
Grandfathered
Member**

**Tier 1 Non-
Grandfathered
Member**

**Tier 2
Member**

Employee Contribution Rates (active and re-employed retirees)

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%

Employer Contribution Rates

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%

Vesting Period

3 yrs

3 yrs

5 yrs

Unreduced Retirement Eligibility

Minimum Age	No	60	60
AND Rule	Rule 85	Rule 90	Rule 90
OR Normal Retirement Age	65	65	65

Reduced Retirement Eligibility

Minimum Age	55	55	55
Reduction Factor	6%	8%	8%

Retirement Formula Multiplier

2%

2%

2%

X Final Average Salary	3 yr FAS	3 yr FAS	5 yr FAS
X Service Credit	Total years	Total years	Total years

Disability Retirement

Yes

Yes

Yes

Retirement Formula Multiplier (2%) X Final Average Salary (FAS) X Total Service Credit

Death/Survivor Benefits

Yes

Yes

Yes

Refund of account value or Life Annuity to survivor based on member's vesting status.

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.



Senate Bill 2022
House Appropriations
Government Operations Division
Representative Monson, Chair

March 9th, 2023

Jan Murtha, JD, MPAP – Executive Director

Chad Roberts, MAc – Deputy Executive Director/Chief Retirement Officer

Scott M Anderson, CFA, MBA – Chief Investment Officer

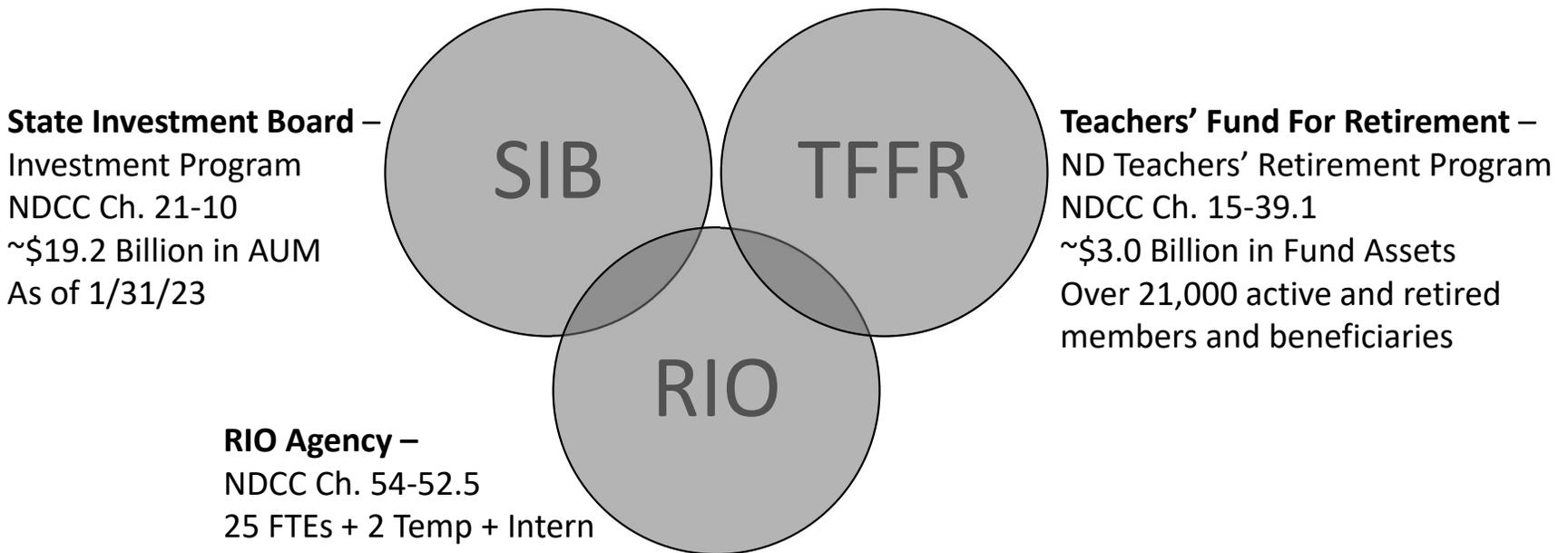
Ryan Skor, CPA, MBA – Chief Financial Officer/Chief Operating Officer

NORTH
Dakota
Be Legendary.

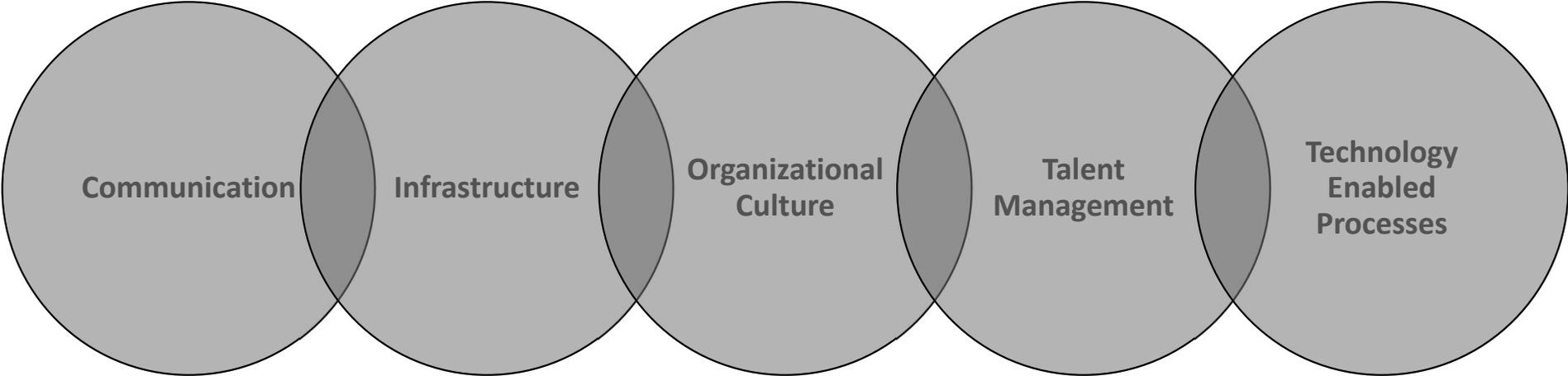
Retirement & Investment

NORTH DAKOTA RETIREMENT AND INVESTMENT SUPPORTS TWO SPECIAL FUND PROGRAMS

RIO was established in 1989 to coordinate the activities of the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR). The SIB is the oversight board for RIO and TFFR Board is responsible for the administration of the TFFR benefits program.



RETIREMENT AND INVESTMENT'S CORE PRIORITIES



Engaging our Workforce:
Growth Mindset
Remote/Hybrid Office
Governance/Change Initiatives

WE CHOSE TO LEARN

- Spring 2020: Top 2 Managers in Retirement Program left within 60 days (Including Deputy Executive Director).
- Summer 2021: Top 2 Managers in Investment Program left within 60 days (including Executive Director).
- Fall 2021: additional retirements resulted in a significant staff reduction from 19 to a low of 13 filled FTE's to support both programs – contributing to *significant operational risk*.
- Spring of 2023: 25 FTE's (24 filled) + 2 Temp + 1 Intern.

“Kites rise highest against the wind - not with it.”

- Winston Churchill

Courtesy of www.brainyquote.com

WE CHOSE TO LISTEN

- Fall 2021 Gallup Results - Increase in team member engagement over the prior year despite strain on agency resources.
- Significant Increase in Mission/Purpose.

Gallup Q¹² Items

Questions	Total N	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q00: Overall Satisfaction	12	4.00	3.69	▲+0.31	46	3.69
Q01: Know What's Expected	12	4.08	4.06	+0.02	18	4.19
Q02: Materials and Equipment	12	4.33	4.31	+0.02	58	4.03
Q03: Opportunity to do Best	12	3.92	4.00	-0.08	31	3.89
Q04: Recognition	12	4.17	4.06	+0.11	68	3.41
Q05: Cares About Me	12	4.58	4.19	▲+0.39	68	4.07
Q06: Development	12	4.17	4.00	+0.17	55	3.75
Q07: Opinions Count	12	4.00	3.69	▲+0.31	54	3.52
Q08: Mission/Purpose	12	4.92	4.19	▲+0.73	93	3.91
Q09: Committed to Quality	12	4.42	4.50	-0.08	66	3.95
Q10: Best Friend	11	3.55	3.63	-0.08	39	3.28
Q11: Progress	12	4.08	3.94	+0.14	49	3.69
Q12: Learn and Grow	12	4.42	4.13	▲+0.29	65	3.88

▲ shown if n < 4 for Mean, Top Box, Verbatim Responses, and Sentiment, n < 10 for Frequency, or data is unavailable.
 Scores are not available due to data suppression. Respondents can select multiple responses for multi-select questions.
 Percentile Rank in Gallup Overall Database ■ < 25th Percentile ■ 25-49th Percentile ■ 50-74th Percentile ■ 75-89th Percentile ■ ≥ 90th Percentile

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GALLUP

WE CHOOSE TO LISTEN

- Fall 2022 Gallup Results -.
- Statistically Significant Increases in 8 of 12 categories.
- Decrease in Mission/Purpose.
- Let's talk Mission/Vision.

EMPLOYEE ENGAGEMENT REPORT | Q12 ENGAGEMENT SURVEY - TRENDING - REGULAR STAFF - OCTOBER 2022

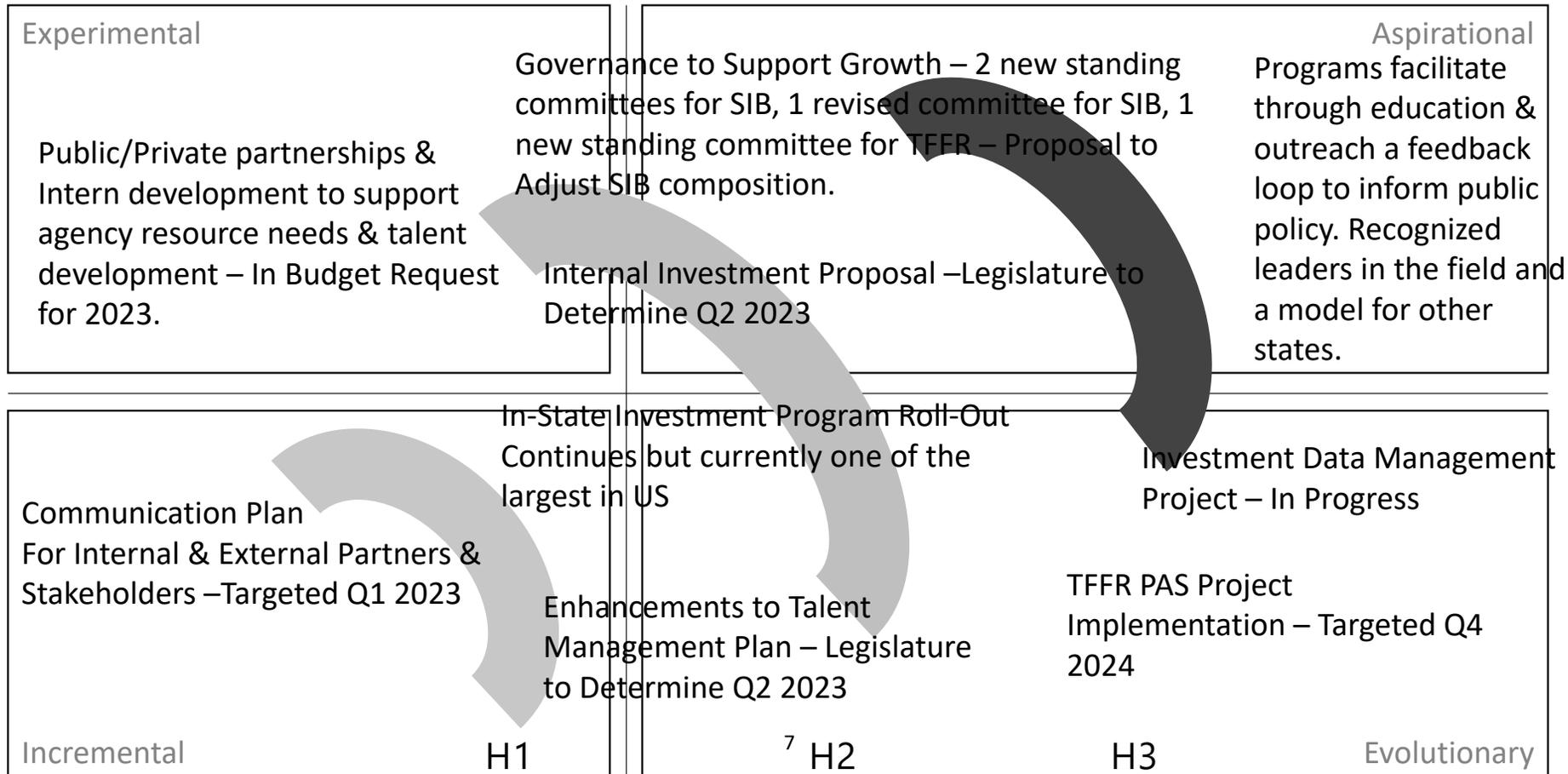
Q12 Mean	Respondents	Engagement Mean	Change	Mean Percentile Rank - Gallup Overall	Engagement Index
The Gallup Q12 score represents the average, combined score of the 12 elements that measure employee engagement. Each element has consistently been linked to better business outcomes.	12	4.42	↑ +0.20	76	Engagement Index is unavailable for the currently selected scorecard.

	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q00: On a five-point scale, where 5 means extremely satisfied and 1 means extremely dissatisfied, how satisfied are you with your agency as a place to work?	12	4.17	4.00	0.17	53	3.72
Q01: I know what is expected of me at work.	12	4.25	4.08	0.17	30	4.21
Q02: I have the materials and equipment I need to do my work right.	12	4.33	4.33	0.00	58	4.04
Q03: At work, I have the opportunity to do what I do best every day.	12	4.17	3.92	↑ +0.25	48	3.90
Q04: In the last seven days, I have received recognition or praise for doing good work.	12	4.42	4.17	↑ +0.25	80	3.37
Q05: My manager, or someone at work, seems to care about me as a person.	12	4.92	4.58	↑ +0.34	90	4.08
Q06: There is someone at work who encourages my development.	12	4.42	4.17	↑ +0.25	71	3.77
Q07: At work, my opinions seem to count.	12	4.00	4.00	0.00	56	3.54
Q08: The mission or purpose of my agency makes me feel my job is important.	12	4.58	4.92	↓ -0.34	77	3.92
Q09: My coworkers are committed to doing quality work.	12	4.67	4.42	↑ +0.25	82	3.96
Q10: I have a best friend at work.	11	3.91	3.55	↑ +0.36	59	3.22
Q11: In the last six months, someone at work has talked to me about my progress.	12	4.58	4.08	↑ +0.50	77	3.65
Q12: This last year, I have had opportunities at work to learn and grow.	12	4.83	4.42	↑ +0.41	91	3.90

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GALLUP 2

STRATEGIC – HORIZON BASED TRANSFORMATION



STATE INVESTMENT BOARD – INVESTMENT PROGRAM



- State Investment Board (SIB) has the statutory responsibility for the administration of the investment program of several funds including:
 - TFFR, PERS, WSI, Legacy Fund
- SIB also maintains contractual relationships for investment management with multiple political subdivisions and governmental funds

- Currently over \$19.2 Billion in Assets Under Management (AUM)
- 28 client funds
- 43 fund managers

Fund/Pool	AUM (1/31/23)
Pension Pool	\$7.13B
Insurance Pool	\$2.95B
Legacy Fund	\$8.92B
Other Funds	\$0.25B

TEACHERS' FUND FOR RETIREMENT

- Qualified defined benefit public pension plan for North Dakota public school teachers and administrators providing them with a foundation for retirement security.
- **11,800+ Active Members**
 - 16.4% increase over past decade
- **9,400+ Retired Members and Beneficiaries**
 - 26.0% increase over past decade
- **~\$3.05B Fund balance**
- **On-track to be 100% fully funded by 2044**
- **New Pension Administration System in development (est. Q4 2024)**

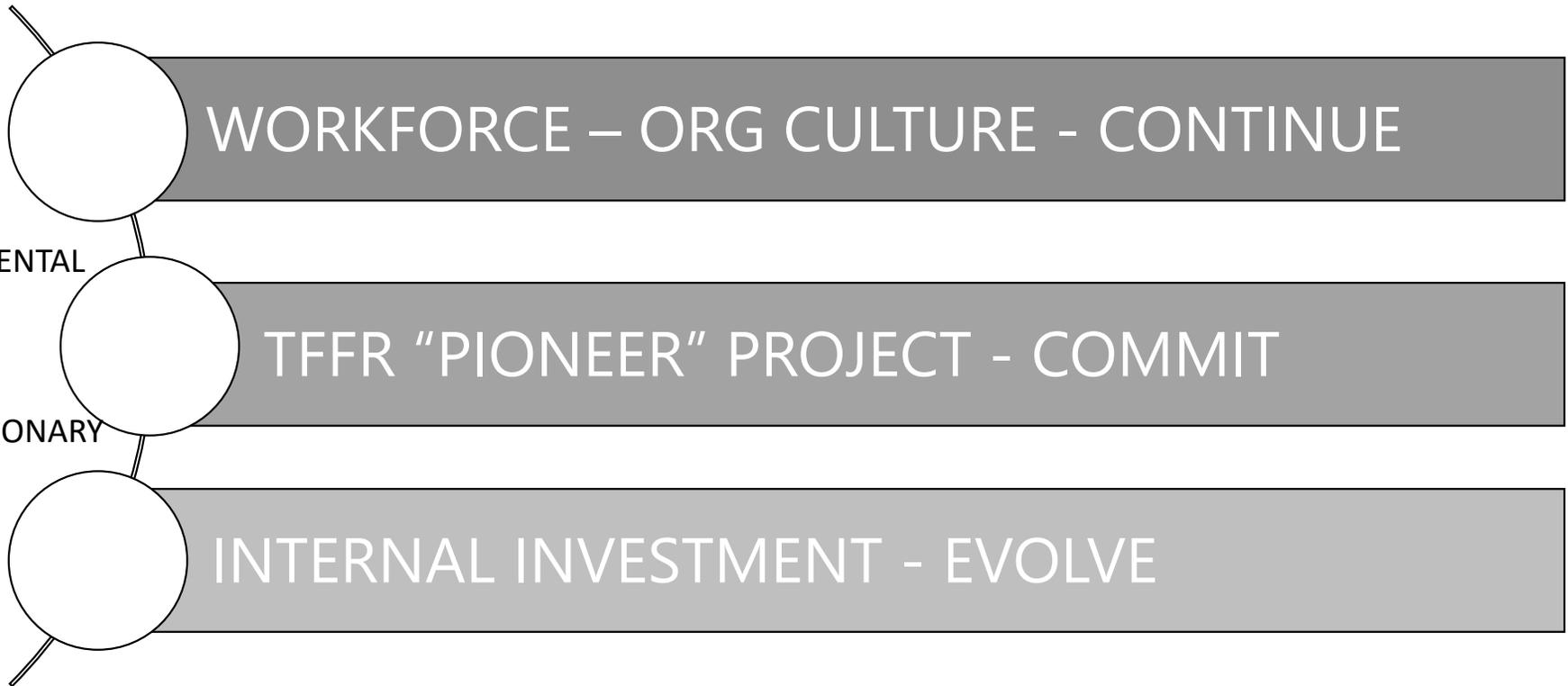


BUDGET REQUEST SUMMARY

Line Item	Base Level	Agency Requested Adjustments	Cost to Continue/ Leg. Pay	Adjusted Base	Workforce Initiative	Pension System Upgrade	Internal Investment*	Total Request
Salaries & Benefits	\$6,785,839	143,721	1,151,179	8,080,739	578,491	486,000	1,404,996	\$10,550,226
Operating Expenses	1,323,528	(43,721)	6,721	1,286,528	200,250	1,116,319	266,840	2,869,937
Contingencies	100,000	(100,000)		-	200,000	-	-	200,000
Total Special Funds	8,209,367	-	1,157,900	9,367,267	978,741	1,602,319	1,671,836	13,620,163
FTEs	25.0	-	-	25.0	2.0	-	7.0	34.0

* Amounts represent only 2nd year of biennium.
Requires authorization for performance pay within internal investment plan.

Estimated cost savings = \$16M+/year



ORGANIZATION CULTURE – WORKFORCE INITIATIVE

SALARIES

- ED/CIO SPLIT AND OTHER AGENCY RE-ORGANIZATION INCLUDING ACCOUNTING MANAGER, CFO-COO.
- SUPPORT INTERN PROGRAM.

SUPPORT

- 1 ADDITIONAL ADMIN TO SUPPORT NEW INVESTMENT FTE'S.
- CURRENTLY HAVE 3 FULL TIME AND 1 TEMP PART-TIME TO SUPPORT 17.
- 1 ADDITIONAL FISCAL OPERATIONS POSITION TO FACILITATE INVESTMENT OPERATION ENHANCEMENTS.

CERTS.

- COST OF PROFESSIONAL CERTIFICATIONS THAT ARE EITHER REQUIRED OR ENCOURAGED TO PERFORM DUTIES
- SUPPORT HIGH PERFORMANCE AND GROWTH MINDSET.

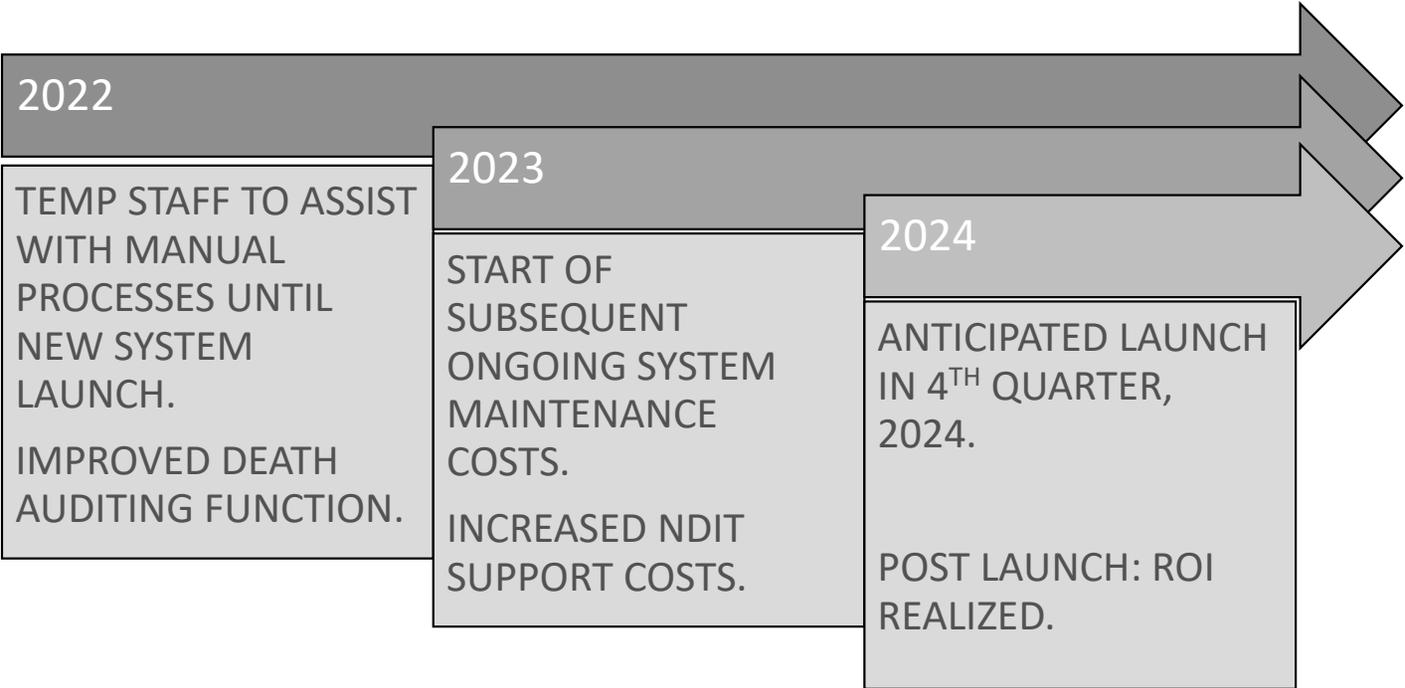
INFLATION

- COST OF TRAVEL, TRAINING, AND SUPPORT OF A HYBRID/REMOTE WORKPLACE.

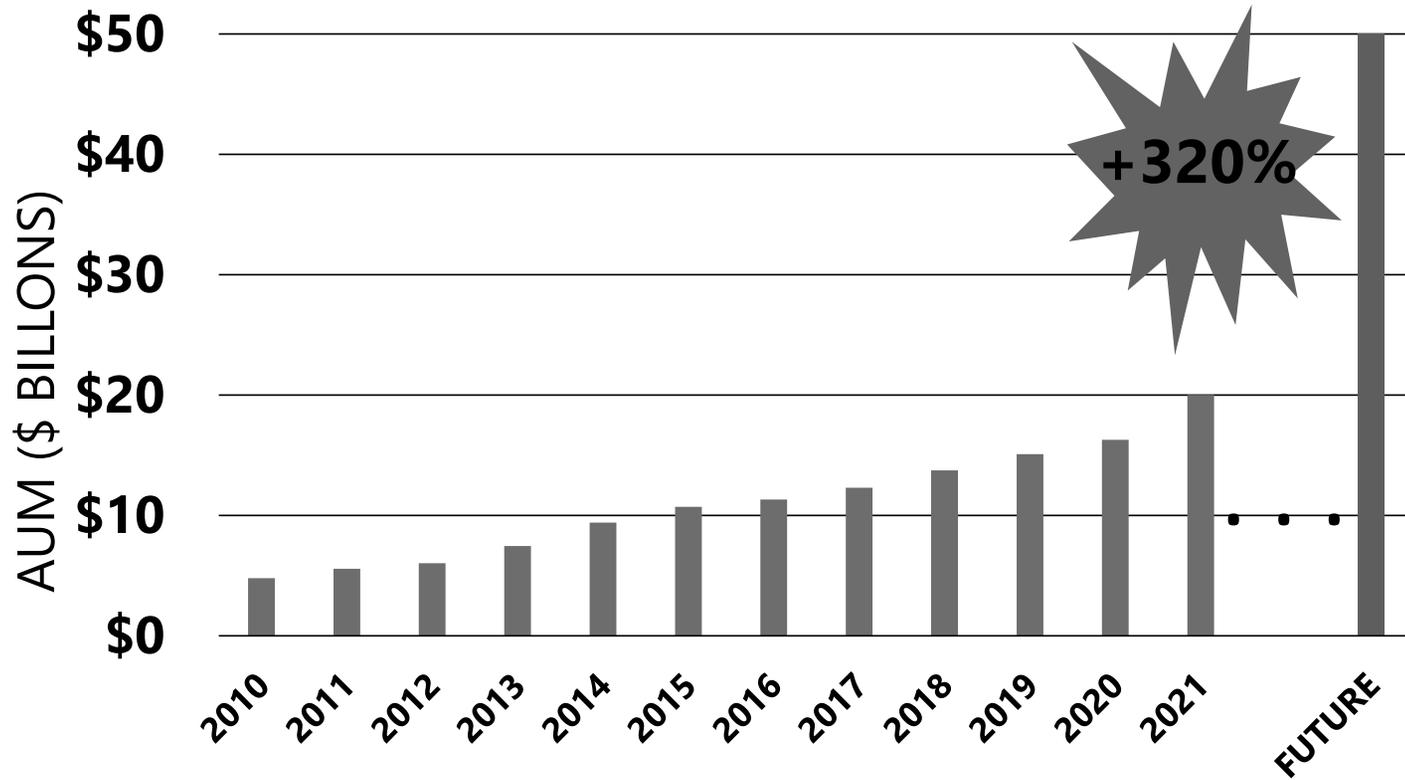
CONTINGENCY

- REQUEST FOR CONTINGENCY FUNDS.

INFRASTRUCTURE/TECHNOLOGY ENABLED PROCESSES- TFFR PIONEER PROJECT INITIATIVE

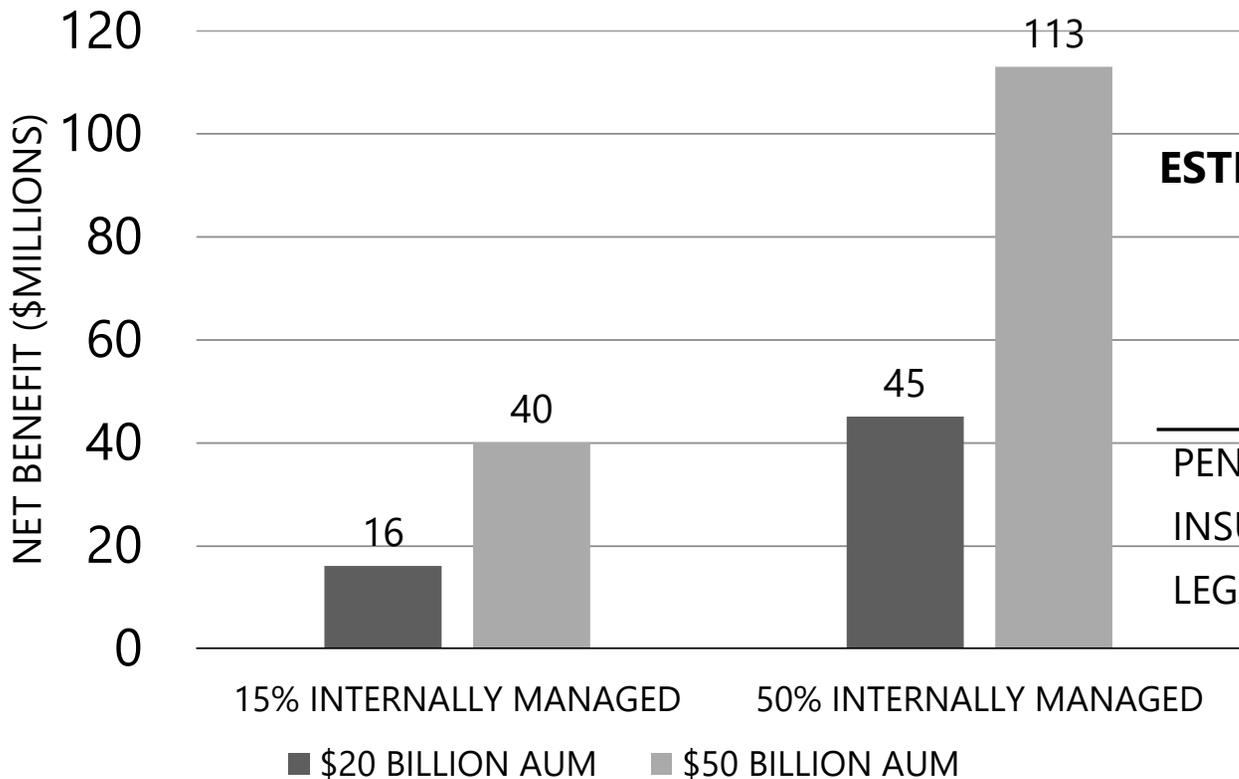


ASSETS UNDER MANAGEMENT GROWTH



- LOWER COST THAN WITH EXTERNAL MANAGERS
- APPLIED WHERE THERE IS A COST/BENEFIT
- ENABLES ENHANCED LIQUIDITY MANAGEMENT, REBALANCING AND EXPOSURE MANAGEMENT

THE BENEFIT SCALES WITH THE SIZE OF THE COMMITMENT

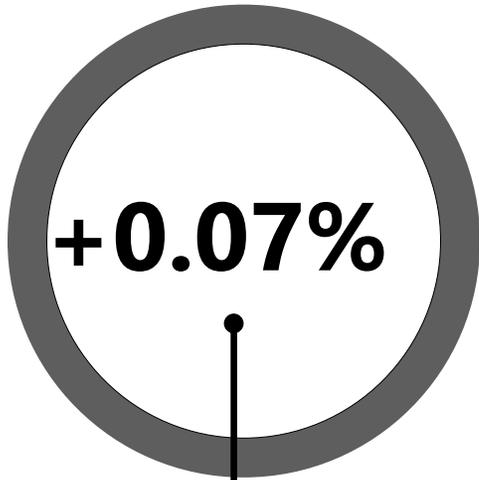


ESTIMATED ANNUAL SAVINGS PER YEAR (\$20 BILLION AUM)

PLAN	15% OF ASSETS		50% OF ASSETS	
	\$(MIL)	%	\$(MIL)	%
PENSION	\$6	0.08%	\$16	0.23%
INSURANCE	\$3	0.10%	\$8	0.26%
LEGACY	\$7	0.09%	\$21	0.25%

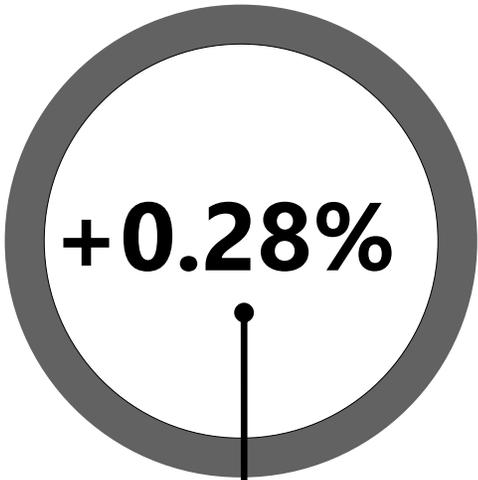
THE COST OF THE PROGRAM IS LOW WHEN COMPARED TO THE FEES IT REPLACES

PROGRAM COST

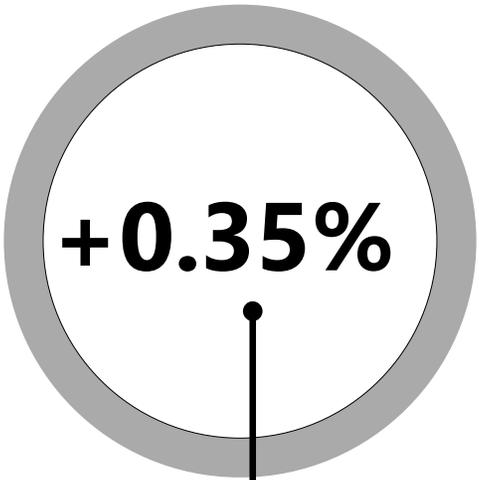


**INCLUDES TOTAL REWARDS
AND INFRASTRUCTURE**

CURRENT COST



**DOMESTIC
EQUITY**



**INVESTMENT GRADE
FIXED INCOME**

MINIMAL REQUIREMENTS WHEN COMPARED TO THE BENEFITS^{1,2,3}

5 INVESTMENT PROFESSIONALS¹:

2 X SENIOR PORTFOLIO MANAGERS

3 X INVESTMENT ANALYSTS

2 X INVESTMENT OPS



TALENT MANAGEMENT:

- ADEQUATE CLASSIFICATION OF ROLES
- INCENTIVE COMPENSATION FUNDED ON A CONTINUING BASIS (Ex: OHIO, WISCONSIN, SOUTH DAKOTA, NORTH CAROLINA)

THE STRATEGY AND STRUCTURE WOULD EVOLVE
WITH THE SIZE OF THE PROGRAM

- 1. The cost of staff is estimated to be approximately 10% of the total net cost savings.**
- 2. Positive Client Fund feedback.**
- 3. Supports greater control over investment strategies.**

ESTIMATED TOTAL COSTS FOR INVESTMENTS (INCLUDES CONTINUING APPROPRIATIONS)

\$MILLIONS/BP ¹	CURRENT		INTERNAL INVESTMENT		TOTAL	
	\$ ²	PER \$AUM	\$ ³	PER \$AUM	\$	PER \$AUM ⁴
SALARIES/BENEFITS	2.6	1.4	1.4	0.7	4	2.1
OPERATING COSTS	0.9	0.5	0.8	0.4	1.7	0.9
TOTAL	3.5	1.9 BP	2.2	1.2 BP	5.7	3.0 BP
NET SAVINGS					16	8.5 BP

1. ONE BASIS POINT (BP) = 0.01%
2. INCLUDE \$750,000 OF CONTINUING APPROPRIATIONS
3. INCLUDE ESTIMATED \$500,000 OF CONTINUING APPROPRIATIONS
4. THE 3 BP OF TOTAL COST COMPARES TO 60 BP OF FEES TO EXTERNAL MANAGERS

SOME ADDITIONAL BENEFITS

- IMPROVED INVESTMENT CAPABILITIES VERSUS OUTSOURCING THOSE CAPABILITIES
- SCALABLE SAVINGS THAT GROW WITH THE ASSETS UNDER MANAGEMENT
- ADDITIONAL FLEXIBILITY AND AGILITY TO MARKET OR INTERNATIONAL EVENTS AS THE ASSETS ARE CONTROLLED LOCALLY
- ATTRACTION OF TOP TALENT WITH A REMOTE HYBRID WORKFORCE AND THE ABILITY TO MANAGE SOME ASSETS INTERNALLY
- ATTRACTION OF LOCAL TALENT FROM UNIVERSITIES USING INTERNSHIP PROGRAMS - BOOTSTRAPPING A MARKET FOR INVESTMENT TALENT IN NORTH DAKOTA

EXAMPLE STATES WITH INTERNAL INVESTMENT MANAGEMENT AND INCENTIVE COMPENSATION

ARIZONA
FLORIDA
NEW MEXICO
NORTH CAROLINA
OHIO
SOUTH DAKOTA
TEXAS
VIRGINIA
WISCONSIN



Questions?

NORTH
Dakota
Be Legendary.

Retirement & Investment

Retirement and Investment Office - Budget No. 190
Senate Bill No. 2022
Base Level Funding Changes

	Executive Budget Recommendation				Senate Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2023-25 Biennium Base Level	25.00	\$0	\$8,209,367	\$8,209,367	25.00	\$0	\$8,209,367	\$8,209,367
2023-25 Ongoing Funding Changes								
Cost to continue salary increases			\$41,345	\$41,345				\$0
Salary increase			549,864	549,864				0
Health insurance increase			128,580	128,580				0
Increases funding for ITD rates			6,721	6,721				0
Increases funding for FTE positions approved during the 2021 special session			506,929	506,929				0
Adds funding for salary equity increases			151,870	151,870				0
Transfers \$143,721 from operating expenses to salaries				0				0
Adds funding for executive search expenses			100,000	100,000				0
Adds funding for operating expense inflationary increases			167,500	167,500				0
Adds funding for pension administration software fees			977,419	977,419				0
Total ongoing funding changes	0.00	\$0	\$2,630,228	\$2,630,228	0.00	\$0	\$0	\$0
One-Time Funding Items								
Adds one-time funding for pension administration software implementation			\$574,900	\$574,900				0
Total one-time funding changes	0.00	\$0	\$574,900	\$574,900	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	\$0	\$3,205,128	\$3,205,128	0.00	\$0	\$0	\$0
2023-25 Total Funding	25.00	\$0	\$11,414,495	\$11,414,495	25.00	\$0	\$8,209,367	\$8,209,367
<i>Federal funds included in other funds</i>			\$0				\$0	
<i>Total ongoing changes as a percentage of base level</i>	0.0%		32.0%	32.0%	0.0%		0.0%	0.0%
<i>Total changes as a percentage of base level</i>	0.0%		39.0%	39.0%	0.0%		0.0%	0.0%

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

	Executive Budget Recommendation	Senate Version
Line item transfers	Section 3 would allow the Retirement and Investment Office to transfer from the contingencies line item in Section 1 of the bill to all other line items, upon approval of the State Investment Board.	
IT project exemption	Section 4 would provide an exemption for a pension administration IT project to continue any unexpended 2019-21 biennium funds into the 2023-25 biennium.	

Retirement and Investment Office - Budget No. 190
Senate Bill No. 2022
Base Level Funding Changes

	Executive Budget Recommendation				Senate Version				Senate Changes to Executive Budget				
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	Increase (Decrease) - Executive Budget				
									FTE Positions	General Fund	Other Funds	Total	
2023-25 Biennium Base Level	25.00	\$0	\$8,209,367	\$8,209,367	25.00	\$0	\$8,209,367	\$8,209,367	0.00	\$0	\$0	\$0	\$0
2023-25 Ongoing Funding Changes													
Cost to continue salary increases			\$41,345	\$41,345			\$41,345	\$41,345					\$0
Salary increase			549,864	549,864			401,009	401,009				(\$148,855)	(\$148,855)
Health insurance increase			128,580	128,580			131,538	131,538				2,958	2,958
Increases funding for FTE positions approved during the 2021 special session			506,929	506,929			506,929	506,929					0
Adds funding for salary equity increases			151,870	151,870			151,870	151,870					0
Transfers \$143,721 from operating expenses to salaries				0				0					0
Increases funding for ITD rates			6,721	6,721			6,721	6,721					0
Adds funding for executive search expenses			100,000	100,000			100,000	100,000					0
Adds funding for operating expense inflationary increases			167,500	167,500			167,500	167,500					0
Adds funding for pension administration software fees			977,419	977,419			977,419	977,419					0
1 - Adds funding for salary adjustments and internships				0			122,358	122,358				122,358	122,358
1 - Adds FTE investment assistant positions				0	2.00		374,621	374,621	2.00			374,621	374,621
1 - Adds funding for staff development and marketing				0			32,750	32,750				32,750	32,750
1 - Increases funding for contingencies				0			100,000	100,000				100,000	100,000
3 - Adds FTE internal investment positions				0	7.00		1,173,326	1,173,326	7.00			1,173,326	1,173,326
3 - Adds salary equity funding				0			231,670	231,670				231,670	231,670
3 - Increases operating expenses for rent, travel, and data processing				0			266,840	266,840				266,840	266,840
Total ongoing funding changes	0.00	\$0	\$2,630,228	\$2,630,228	9.00	\$0	\$4,785,896	\$4,785,896	9.00	\$0	\$2,155,668	\$2,155,668	
One-Time Funding Items													
Adds one-time funding for pension administration software implementation			\$574,900	\$574,900			\$574,900	\$574,900					\$0
2 - Adds one-time funding for temporary salaries				0			50,000	50,000				\$50,000	\$50,000
Total one-time funding changes	0.00	\$0	\$574,900	\$574,900	0.00	\$0	\$624,900	\$624,900	0.00	\$0	\$50,000	\$50,000	
Total Changes to Base Level Funding	0.00	\$0	\$3,205,128	\$3,205,128	9.00	\$0	\$5,410,796	\$5,410,796	9.00	\$0	\$2,205,668	\$2,205,668	
2023-25 Total Funding	25.00	\$0	\$11,414,495	\$11,414,495	34.00	\$0	\$13,620,163	\$13,620,163	9.00	\$0	\$2,205,668	\$2,205,668	
<i>Federal funds included in other funds</i>			\$0				\$0				\$0		
<i>Total ongoing changes as a percentage of base level</i>	0.0%		32.0%	32.0%	36.0%		58.3%	58.3%					
<i>Total changes as a percentage of base level</i>	0.0%		39.0%	39.0%	36.0%		65.9%	65.9%					

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

	Executive Budget Recommendation	Senate Version
Line item transfers	Section 3 would allow the Retirement and Investment Office to transfer from the contingencies line item in Section 1 of the bill to all other line items, upon approval of the State Investment Board.	
IT project exemption	Section 4 would provide an exemption for a pension administration IT project to continue any unexpended 2019-21 biennium funds into the 2023-25 biennium.	Section _ provides an exemption for a pension administration IT project to continue any unexpended 2019-21 biennium funds into the 2023-25 biennium.
Incentive compensation		Section _ amends North Dakota Century Code Section 54-44.3-20 to exempt the Retirement and Investment Office staff from the state employee classification system. Section _ creates a new section to Chapter 54-52.5 relating to an incentive compensation program.

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

Agency operating costs

Executive Budget Recommendation

Senate Version

Section _ amends Section 54-52.5-03 to clarify the Retirement and Investment Office administrative expenses are from the earnings available from the funds under management.

Retirement and Investment Office - Budget No. 190
Senate Bill No. 2022
Base Level Funding Changes

	Executive Budget Recommendation				Senate Version				Senate Changes to Executive Budget Increase (Decrease) - Executive Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2023-25 Biennium Base Level	25.00	\$0	\$8,209,367	\$8,209,367	25.00	\$0	\$8,209,367	\$8,209,367	0.00	\$0	\$0	\$0
2023-25 Ongoing Funding Changes												
Cost to continue salary increases			\$41,345	\$41,345			\$41,345	\$41,345				\$0
Salary increase			549,864	549,864			401,009	401,009			(\$148,855)	(148,855)
Health insurance increase			128,580	128,580			131,538	131,538			2,958	2,958
Adds FTE investment assistant positions				0	2.00		374,621	374,621	2.00		374,621	374,621
Adds FTE internal investment positions				0	7.00		1,173,326	1,173,326	7.00		1,173,326	1,173,326
Increases funding for FTE positions approved during the 2021 special session			506,929	506,929			506,929	506,929				0
Adds funding for salary adjustments and internships				0			122,358	122,358			122,358	122,358
Adds funding for salary equity increases			151,870	151,870			151,870	151,870				0
Adds funding for additional salary equity increases				0			231,670	231,670			231,670	231,670
Transfers \$143,721 from operating expenses to salaries				0				0				0
Increases funding for Information Technology Department rates			6,721	6,721			6,721	6,721				0
Adds funding for executive search expenses			100,000	100,000			100,000	100,000				0
Adds funding for operating expense inflationary increases			167,500	167,500			167,500	167,500				0
Adds funding for pension administration software fees			977,419	977,419			977,419	977,419				0
Adds funding for staff development and marketing				0			32,750	32,750			32,750	32,750
Increases operating expenses for rent, travel, and data processing				0			266,840	266,840			266,840	266,840
Increases funding for contingencies				0			100,000	100,000			100,000	100,000
Total ongoing funding changes	0.00	\$0	\$2,630,228	\$2,630,228	9.00	\$0	\$4,785,896	\$4,785,896	9.00	\$0	\$2,155,668	\$2,155,668
One-Time Funding Items												
Adds one-time funding for pension administration software implementation			\$574,900	\$574,900			\$574,900	\$574,900				\$0
Adds one-time funding for temporary salaries				0			50,000	50,000			\$50,000	50,000
Total one-time funding changes	0.00	\$0	\$574,900	\$574,900	0.00	\$0	\$624,900	\$624,900	0.00	\$0	\$50,000	\$50,000
Total Changes to Base Level Funding	0.00	\$0	\$3,205,128	\$3,205,128	9.00	\$0	\$5,410,796	\$5,410,796	9.00	\$0	\$2,205,668	\$2,205,668
2023-25 Total Funding	25.00	\$0	\$11,414,495	\$11,414,495	34.00	\$0	\$13,620,163	\$13,620,163	9.00	\$0	\$2,205,668	\$2,205,668
<i>Federal funds included in other funds</i>			\$0	\$0			\$0	\$0			\$0	\$0
<i>Total ongoing changes as a percentage of base level</i>	0.0%		32.0%	32.0%	36.0%		58.3%	58.3%				
<i>Total changes as a percentage of base level</i>	0.0%		39.0%	39.0%	36.0%		65.9%	65.9%				

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

	Executive Budget Recommendation	Senate Version
Line item transfers	Section 3 would allow the Retirement and Investment Office to transfer from the contingencies line item in Section 1 of the bill to all other line items, upon approval of the State Investment Board.	
Incentive compensation		Section 3 amends Section 54-44.3-20 to exempt investment positions of the Retirement and Investment Office staff from the state employee classification system. Section 5 creates a new section to Chapter 54-52.5 relating to an incentive compensation program.
Agency operating costs		Section 4 amends Section 54-52.5-03 to clarify the Retirement and Investment Office administrative expenses are from the earnings available from the funds under management.

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

IT project exemption

Executive Budget Recommendation

Section 4 would provide an exemption for a pension administration IT project to continue any unexpended 2019-21 biennium funds into the 2023-25 biennium.

Senate Version

Section 6 provides an exemption for a pension administration IT project to continue any unexpended 2019-21 biennium funds into the 2023-25 biennium.

EXAMPLE OF BENEFIT OF \$100 INVESTED IN THREE TYPES OF SAVINGS



<u>Illustration</u>	INTERNAL INVESTMENT	EXTERNAL INVESTMENT	BENEFIT /\$100	# OF \$100	BENEFIT
DOLLARS INVESTED	100	100			
ALLOCATION RETURN	7.0	7.0			
ACTIVE RETURN	0.54	0.54			
COST/FEES ¹	-0.07	-0.34			
TOTAL VALUE	107.47	107.2	0.27	30,000,000 ⁴	\$ 8,100,000.00
CASH INVESTED	100	100			
RETURN ²	7.0	2.75			
TOTAL VALUE	107.0	102.75	4.25	1,000,000 ⁴	\$ 4,250,000.00
REBALANCE BENEFIT ³	100.02	100	0.02	200,000,000 ⁴	\$ 4,000,000.00
					\$ 16,350,000.00

1. Based on 2021 ACFR Fees and weights of lower fee strategies being managed internally first (conservative).

2. Based on Callan Capital Market Assumptions.

3. Based on monthly drift of a 60/40 allocation. This is conservative compared to past history. 2022 would have had a benefit that is much larger.

4. Based on 15% of fund managed internally, 0.5% of assets in cash, all of plan assets subject to rebalance benefits 18

SECTION 5. AMENDMENT. A new section to chapter 54-52.5 of the North Dakota Century Code is created and enacted as follows:

Incentive compensation program

The state retirement and investment office may develop an incentive compensation program for full-time equivalent investment related ~~positions related to the internal management of necessary for~~ the investment of funds under the control of the state investment board. The program must promote profitability, productivity, and responsible fund management. The provisions of the program must be approved annually by the state investment board. The provisions must ensure that the payouts do not occur unless the risk-based performance of the investments that are internally managed exceed the risk-based performance of policy benchmarks. Any amounts paid under this program shall be considered compensation and not personal profit on behalf of the employee.

23.0276.02001
Title.

Prepared by the Legislative Council staff for
the House Appropriations - Government
Operations Division Committee
March 27, 2023

Fiscal No. 1

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2022

Page 1, replace lines 15 through 19 with:

"Salaries and wages	\$6,785,839	\$2,124,208	\$8,910,047
Operating expenses	1,323,528	1,546,409	2,869,937
Contingencies	<u>100,000</u>	<u>100,000</u>	<u>200,000</u>
Total special funds	\$8,209,367	\$3,770,617	\$11,979,984
Full-time equivalent positions	25.00	9.00	34.00"

Page 2, line 11, after "Investment" insert "and fiscal operations"

Page 2, line 11, after "office" insert "necessary for the management of the investment of funds under the control of the state investment board"

Page 2, line 29, after "investment" insert "and fiscal operations"

Page 2, line 29, replace "related to the internal" with "necessary for the"

Page 3, line 3, after "benchmarks" insert ". Any amounts paid under this program must be considered compensation and not personal profit on behalf of the employee"

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Retirement and Investment Office - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$6,785,839	\$10,550,226	(\$1,640,179)	\$8,910,047
Operating expenses	1,323,528	2,869,937		2,869,937
Contingencies	<u>100,000</u>	<u>200,000</u>		<u>200,000</u>
Total all funds	\$8,209,367	\$13,620,163	(\$1,640,179)	\$11,979,984
Less estimated income	<u>8,209,367</u>	<u>13,620,163</u>	<u>(1,640,179)</u>	<u>11,979,984</u>
General fund	\$0	\$0	\$0	\$0
FTE	25.00	34.00	0.00	34.00

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

	Adjusts Funding for Salary and Benefit Increases¹	Removes Salary Funding for Funding Pool²	Total House Changes
Salaries and wages	\$145,897	(\$1,786,076)	(\$1,640,179)
Operating expenses			
Contingencies			
Total all funds	\$145,897	(\$1,786,076)	(\$1,640,179)
Less estimated income	<u>145,897</u>	<u>(1,786,076)</u>	<u>(1,640,179)</u>
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ Salaries and wages funding is adjusted for 2023-25 biennium salary increases of 6 percent on July 1, 2023, and 4 percent on July 1, 2024, and for adjustments to health insurance premium rates as follows:

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Salary increase	\$0	\$148,855	\$148,855
Health insurance adjustment	<u>0</u>	<u>(2,958)</u>	<u>(2,958)</u>
Total	\$0	\$145,897	\$145,897

The Senate provided salary adjustments of 4 percent on July 1, 2023, and 4 percent on July 1, 2024.

² Funding for new FTE positions and estimated savings from vacant FTE positions is removed as shown below. These amounts are available to the agency if needed by submitting a request to the Office of Management and Budget for a transfer from the new and vacant FTE funding pool.

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
New FTE positions	\$0	(\$1,547,947)	(\$1,547,947)
Vacant FTE positions	<u>0</u>	<u>(238,129)</u>	<u>(238,129)</u>
Total	\$0	(\$1,786,076)	(\$1,786,076)

The Senate did not remove funding for a new and vacant FTE funding pool.

This amendment amends two sections allowing fiscal operations positions, along with investment positions, to be exempt from the state employee classification system and to be eligible for a newly created incentive compensation program. The Senate exempted investment positions from the classification system and authorized investment positions to be eligible for a newly created incentive compensation program.

23.0276.02002
Title.

Prepared by the Legislative Council staff for
the House Appropriations - Government
Operations Division Committee

Fiscal No. 2

March 31, 2023

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2022

Page 1, line 6, remove the second "and"

Page 1, line 6, after "exemption" insert "; to provide a report; and to declare an emergency"

Page 1, replace lines 15 through 19 with:

"Salaries and wages	\$6,785,839	\$2,124,208	\$8,910,047
Operating expenses	1,323,528	1,546,409	2,869,937
Contingencies	<u>100,000</u>	<u>100,000</u>	<u>200,000</u>
Total special funds	\$8,209,367	\$3,770,617	\$11,979,984
Full-time equivalent positions	25.00	9.00	34.00"

Page 2, line 11, after "Investment" insert "and fiscal operations"

Page 2, line 11, after "office" insert "necessary for the management of the investment of funds under the control of the state investment board"

Page 2, line 27, after "**program**" insert "**- Report to legislative management**"

Page 2, line 29, after "investment" insert "and fiscal operations"

Page 2, line 29, replace "related to the internal" with "necessary for the"

Page 3, line 3, after "benchmarks" insert ". Any amounts paid under this program must be considered compensation and not personal profit on behalf of the employee. Each interim, the state retirement and investment office shall provide at least one report to the legislative management regarding the status of the program, including the provisions of the program; the total amount of incentives paid out to employees each year; and the minimum, maximum, and average payout per eligible full-time equivalent position"

Page 3, after line 9, insert:

"SECTION 7. REPORT TO BUDGET SECTION. Prior to the implementation of the incentive compensation program under section 5 of this Act and after approval of the program by the state investment board, the state retirement and investment office shall provide a report to the budget section regarding the provisions of the program, during the period beginning with the effective date of this Act and ending June 30, 2025.

SECTION 8. EMERGENCY. Section 7 of this Act is declared to be an emergency measure."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Retirement and Investment Office - House Action

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Salaries and wages	\$6,785,839	\$10,550,226	(\$1,640,179)	\$8,910,047

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Less estimated income	8,209,367	13,620,163	(1,640,179)	11,979,984
General fund	\$0	\$0	\$0	\$0
FTE	25.00	34.00	0.00	34.00

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

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Vacant FTE positions	0	(238,129)	(238,129)
Total	\$0	(\$1,786,076)	(\$1,786,076)

The Senate did not remove funding for a new and vacant FTE funding pool.

This amendment also:

- Amends two sections allowing fiscal operations positions, along with investment positions, to be exempt from the state employee classification system and to be eligible for a newly created incentive compensation program. The Senate exempted investment positions from the classification system and authorized investment positions to be eligible for a newly created incentive compensation program.
- Adds a sections to require the Retirement and Investment Office to provide a report to the Budget Section prior to the implementation of the incentive compensation program and to include an emergency clause related to the report. The Senate did not include any reporting requirements for the program.

EXAMPLE OF BENEFIT OF \$100 INVESTED IN THREE TYPES OF SAVINGS

NORTH
Dakota
Be Legendary™

<u>Illustration</u>	INTERNAL INVESTMENT	EXTERNAL INVESTMENT	BENEFIT /\$100	# OF \$100	BENEFIT
DOLLARS INVESTED	100	100			
ALLOCATION RETURN	7.0	7.0			
ACTIVE RETURN	0.54	0.54			
COST/FEES ¹	-0.07	-0.34			
TOTAL VALUE	107.47	107.2	0.27	30,000,000 ⁴	\$ 8,100,000.00
CASH INVESTED	100	100			
RETURN ²	7.0	2.75			
TOTAL VALUE	107.0	102.75	4.25	1,000,000 ⁴	\$ 4,250,000.00
REBALANCE BENEFIT ³	100.02	100	0.02	200,000,000 ⁴	\$ 4,000,000.00
					\$ 16,350,000.00

1. Based on 2021 ACFR Fees and weights of lower fee strategies being managed internally first (conservative).

2. Based on Callan Capital Market Assumptions.

3. Based on monthly drift of a 60/40 allocation. This is conservative compared to past history. 2022 would have had a benefit that is much larger.

4. Based on 15% of fund managed internally, 0.5% of assets in cash, all of plan assets subject to rebalance benefits 18

23.0276.02002
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March 31, 2023

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