

FISCAL NOTE
Requested by Legislative Council
02/01/2013

Revised
 Bill/Resolution No.: HB 1304

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$2,203,553	\$0	\$321,846
Appropriations	\$0	\$0	\$0	\$283,553	\$0	\$300,846

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties	\$0	\$0	\$0
Cities	\$0	\$55,000	\$8,050
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

In order to comply with the language in HB1304, the SIB would require assistance from a consultant with expertise in identifying these companies and internal staff resources to perform the on-going analysis and reporting at both the board and legislative levels.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

HB1304 would require the State Investment Board (SIB) to follow specific procedures for identifying, analyzing, engaging, monitoring and divesting in companies subject or liable to sanctions. In order to identify these companies, the SIB would require assistance from a consultant with expertise in this area. The estimated cost of this type of consulting relationship is \$10,000+ per year. Per NDCC 21-10-06.2, this expenditure would fall under continuing appropriation authority. Additionally, once the companies are identified, internal staff time would be required to provide analysis of the companies reported by the consultant to the SIB, engage these companies directly, monitor and analyze the responses received from these companies, provide reports to the SIB and legislative management, and supervise the divestment process to ensure transaction costs are minimized. Based on information received from other states' investment offices, it is estimated that up to 25% of an FTE's time would be required to ensure compliance with this bill. The SIB has recently discussed the anticipated need for additional staff for the investment program at RIO. Testimony provided on HB1022 (RIO budget bill) to the House Appropriations-Government Operations Committee on January 16, 2013, included discussion regarding this anticipated need in the near future, based on the significant growth of the Legacy Fund in addition to the overall growth of the assets under management (AUM) of the SIB. The SIB program appropriation request currently funds 5.75 FTEs responsible for current AUM of just over \$6 billion. Estimates indicate AUM to be over \$8 billion by the end of the 2013-15 biennium. RIO did not request an additional FTE in the budget request in HB1022, preferring to wait until the vacant Executive Director/CIO position is filled, but if HB1304 were passed, the current 5.75 FTEs would not have the capacity to absorb the additional responsibilities as described. Unfortunately, the requirements within HB1304 to meet certain deadlines would not provide the luxury of waiting to assess staffing needs until that time. RIO would therefore request an additional FTE to provide the necessary staff to properly implement HB1304 as well as to provide support for the anticipated growth in AUM over the next biennium. Estimated salary and benefits for this position are \$265,400 for the 2015-17 biennium and \$291,500 for the 2015-17 biennium. Estimated additional operating expenses for this position are approximately \$18,200 for the 2015-17 biennium and \$9,300 for the 2015-17 biennium. Additional costs: There are no pre-established screening criteria or industry lists that fully comply with this

bill's language. The development of a customized analysis was not possible within the timelines established for this fiscal note's completion, so RIO relied upon a survey of other state retirement plans that restrict investment in companies with Iranian ties with exceptions for humanitarian providers. Accordingly, additional companies could meet the parameters set forth in this bill. Transactions costs of divestment cannot be estimated with precision given the uncertainty surrounding divestment activity needed to comply with HB 1304. Most SIB clients invest a large portion of their assets in equity markets, and in international securities, which would likely be most impacted by the divestment bill. Based on a survey of other state retirement plans, approximately 7.5% of the public equity portfolio and 1% of the fixed income portfolio may be subject to divestment. Using a midpoint of transaction costs provided by California, Florida and Ohio pension officials, the transaction costs for selling the scrutinized companies and purchasing replacement securities is estimated to be \$1.9 million.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

While the variety of provisions in the divestment bills among various retirement systems make developing a rule of thumb nearly impossible, estimates of lost investment earnings range from no impact to approximately 30 basis points per annum.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Dept. 190/Fund 207 - 2013-15 Biennium Total Appropriated Expenditures \$283,553 (See detail attached) Outside Consulting Service(continuing appropriation)\$20,000 Total Expenditures 2013-15 Biennium \$303,553 As per 2B above - there are additional transaction and opportunity costs that are difficult to estimate. An additional \$1.9 million in continuing appropriation for these types of costs are used for estimation purposes. Dept. 190/Fund 207 - 2015-175 Biennium Total Appropriated Expenditures \$300,846(See detail attached) Outside Consulting Service(continuing appropriation)\$21,000 Total Expenditures 2013-15 Biennium \$321,846

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Dept. 190/Fund 207 - 2013-15 Biennium Total Appropriated Expenditures \$283,553 (See detail attached) Outside Consulting Service(continuing appropriation)\$20,000 Total Expenditures 2013-15 Biennium \$303,553 As per 2B above - there are additional transaction and opportunity costs that are difficult to estimate. An additional \$1.9 million in continuing appropriation for these types of costs are used for estimation purposes. Dept. 190/Fund 207 - 2015-175 Biennium Total Appropriated Expenditures \$300,846(See detail attached) Outside Consulting Service(continuing appropriation)\$21,000 Total Expenditures 2013-15 Biennium \$321,846

Name: Connie Flanagan

Agency: Retirement and Investment

Telephone: 328-9892

Date Prepared: 02/06/2013

Fiscal Impact of HB 1304
Department 190/Fund 207

	2013-15 <u>Biennium</u>	2015-17 <u>Biennium</u>
Outside Consulting Services	20,000.00	21,000.00
Salary (1 additional FTE)	205,000.00	226,012.50
Benefits	60,395.87	65,543.63
Total Salaries and Benefits Appropriation	<u>265,395.87</u>	<u>291,556.13</u>
Operating		
Telecom	960.00	988.80
ITD Data Processing	2,547.00	2,651.22
Travel	4,000.00	4,200.00
Software	600.00	-
Professional Development	1,000.00	1,000.00
Operating Fees (advertising)	300.00	300.00
Office Supplies	150.00	150.00
IT Equipment <\$5000	2,650.00	-
Other Equipment <\$5000	5,950.00	-
Total Operating Appropriation	<u>18,157.00</u>	<u>9,290.02</u>
Total Appropriated Expenditures Dept. 190/Fund 207	283,552.87	300,846.15
Total Continuing Appropriation Expenditures	<u>20,000.00</u>	<u>21,000.00</u>
Total Expenditures	303,552.87	321,846.15
Est. investment transaction costs related to divestiture	1,900,000.00	