

House Finance and Tax Committee:

HB 1425

Mr. Chairman and members of the Committee,

My name is Robert Harms. I am a taxpayer and one of a handful of taxpayers that helped to formulate and urged the public to approve the Legacy Fund in 2010. I will be brief. I oppose this bill because:

1. It does not meet the overriding policy objective as outlined in the attached policy framework we developed 2 years ago (to provide a revenue stream for the future, when oil revenues decline).
2. It is contrary to the express words of the Constitution which says the State Investment Board shall invest the principal. (It does not give the Legislature to authority to dictate how the State Investment Board shall invest). And if the Legislature chooses to invade the principal and direct how that principal would be invested or spent, then it needs at least two-thirds majority of the members of each house of the Legislature.

I agree with the notion that part of the Legacy Fund should be invested in North Dakota. But, that policy should be left to the good judgment of the State Investment Board, and should embrace the prudent investor rule. (The bill is likely to waste precious public resources in the hopes of finding sufficient investments in North Dakota as mandated by the bill u--- that are otherwise safely in the Legacy Fund and managed by the State Investment Board.

This is one of many bills you will see in hopes of cracking the Legacy Fund. We should be very cautious and look to solid facts with which to make these policy decisions that will impact future generations. A quick summary of some of the reasons for caution follows, as we look at Legacy Fund bills this Session.

Robert W. Harms

Bismarck, North Dakota

North Dakota will need the Legacy Fund earnings

The Legislature is considering whether we should spend Legacy Fund earnings. They've heard many spending ideas. The Fund has \$6.8 billion today.

The Legacy Fund was approved by the voters in 2010. It was designed to convert oil revenue, into cash and create a permanent fund for future generations. In 2010, we told the public that, ***"The Legacy Fund would secure North Dakota's financial future by providing a consistent state revenue stream for our children and grandchildren, long after the oil industry takes a downturn."***

The oil industry pays 50% of all taxes paid to the state; 70% goes into various state funds and local governments and 30% is saved in the Legacy Fund.

Today, the General Fund is \$4.8 billion. 27% comes from ONE source-- oil production and extraction taxes. The State's budget is reliant on one revenue stream ... oil. And State officials project oil production will peak in about five years. We will need a new revenue source then—the Legacy Fund.

Our group has offered suggestions regarding the fund we helped to craft. They are:

- Don't spend any principle ... except in case of a catastrophic event.
- Don't spend earnings until they are banked.
- Save 75% of the earnings and re-invest them in the Fund.
- Avoid permanent commitments of Legacy Fund earnings.
- Beneficiaries must have financial commitment of their own money (no "free money").
- Spending based upon long-term strategic planning, not short-term spending demands.

North Dakota has seen wild swings of state revenues based on oil production and prices (1980s and 2015). In 2015 we used all savings accounts to balance the budget, and cut \$1.7 billion the following year. Oil prices dropped \$20 since January and lost 30% more on Monday! When will we learn? The Legacy Fund was created to mitigate against these wild swings in state revenues.

Governor Burgum declared, the number one priority of the Legacy Fund is to protect ourselves from declining oil revenues. He's right. Norway has a \$1 trillion fund. They don't spend more than 3% of the fund. Alaska's oil trust fund is \$65 billion. They advise to save most of the earnings. In 2014, the Great Plains Institute assembled people from across North Dakota to study the Legacy Fund, and also recommended saving 75% of the earnings. Our parents taught us the power of compound interest. Take their advice on the Legacy Fund and save it.

The Legislature should answer these questions, before deciding how much we should spend.

1. How much will the general fund grow in 30 years?
2. How much will be from oil taxes?
3. When will oil taxes begin to decline?
4. What will legacy fund earnings be if we save 25, 50, 75 or 100% of earnings until oil declines?

We shouldn't spend ANY earnings without these answers.

Governor Link, said in relation to the one-time harvest of coal, "And when.....the landscape is quiet again ... and the last patch of barren earth has been seeded to grass or grain, let those who follow and repopulate the land be able to say, our grandparents did their job well..... Only if they can say this, will we be worthy of the rich heritage of our land and its resources."

Oil is also a one-time harvest, so the same can be said of the Legacy Fund and how we manage it ... "only then will we be worthy of the rich heritage of our land and its resources."