Legislative Council
600 East Boulevard Avenue, Bismarck, ND 58505

# GOVERNMENT FINANCE COMMITTEE

Wednesday, April 27, 2022
Room 327B, State Capitol
Bismarck, North Dakota

Representative Michael Howe, Chairman, called the meeting to order at 10:00 a.m.

**Members present:** Representatives Michael Howe, Pamela Anderson, Jeff Delzer, Jared C. Hagert, Gary Kreidt*, Lisa Meier, Corey Mock, Dave Nehring, Gary Paur, Mike Schatz, Jim Schmidt, Steve Vetter, Don Vigesaa; Senators Brad Bekkedahl, Richard Marcellais, Ronald Sorvaag

**Members absent:** None

**Others present:** Representatives Glenn Bosch, Bismarck, and Kim Koppelman, West Fargo, members of the Legislative Management
See Appendix A for additional persons present.
**Attended remotely*

**It was moved by Representative Meier, seconded by Representative Mock, and carried on a voice vote that the minutes of the February 9, 2022, meeting, be approved as distributed.**

## STATE BUDGET UPDATE

Mr. Joe Morrissette, Director, Office of Management and Budget, presented a report (Appendix B) on the status of the general fund, balances of selected state special funds, the status of federal funds, and the development of the new state budgeting system. He noted:

- General fund revenues for the biennium to date through March 2022 exceeded the November 2021 legislative forecast by $203.7 million or 13.1 percent;
- The Office of Management and Budget is waiting for the United States Department of the Treasury to approve the state's plan for grants from the federal Coronavirus Relief Capital Projects Fund; and
- The new statewide budgeting software system is on schedule and is anticipated to be completed in May 2022.

## CLASSIFIED STATE EMPLOYEE COMPENSATION SYSTEM STUDY

Ms. Marcia Havens, Labor Market Information Manager, Job Service North Dakota, presented an overview (Appendix C) of labor market information in North Dakota, including comparisons to state employee compensation levels and comparisons to labor markets in other states. She noted the average annual wage in North Dakota is $53,380 compared to $60,480 in Minnesota and $46,810 in South Dakota.

Mr. Lynn Hart, Classification and Compensation Manger, Human Resource Management Services Division, Office of Management and Budget, presented information (Appendix D) regarding classification and reclassification requests since July 1, 2020, for selected state agencies. He noted the Department of Human Services had 204 classifications and reclassifications for the 18-month period following the classification system changes in July 2020 compared to 130 for the 18-month period before the classification system changes while the Information Technology Department had 68 classifications and reclassifications for the 18-month period following the classification system changes compared to 23 for the 18-month period before the changes.

Ms. Marcie Wuitschick, Human Resources Director, Department of Human Services, presented information (Appendix E) regarding classification and reclassification requests since July 1, 2020, under the revised classification system, including the reasons for the changes and the costs and benefits of the changes. She noted

the classification system changes provided the agency with flexibility for maximum salary pay ranges but did not address compression issues.

Ms. Shelly Miller, Operations Director, Information Technology Department, presented information (Appendix F) regarding classification and reclassification requests since July 1, 2020, under the revised classification system, including the reasons for the changes and the costs and benefits of the changes. She noted the agency reclassified many positions before the implementation of the classification system changes in July 2020, but found the compensation ratios are less relevant with the broader pay ranges based on employee feedback.

Mr. Travis Engelhardt, Human Resources Director, Department of Corrections and Rehabilitation, presented information (Appendix G) regarding classification and reclassification requests since July 1, 2020, under the revised classification system, including the reasons for the changes and the costs and benefits of the changes. He noted the department anticipates fewer classification requests because of the simplifications and flexibility provided by the classification system changes in July 2020.

In response to a committee member question, Mr. Engelhardt noted the turnover rate for correctional officers is approximately 30 percent, and the primary reason correctional officers leave is related to a higher salary with another employer.

Ms. Janilyn Murtha, Executive Director, Retirement and Investment Office, and Mr. Scott Anderson, Chief Investment Officer, Retirement and Investment Office, presented information (Appendix H) regarding classification and reclassification requests since July 1, 2020, under the revised classification system, including the reasons for the changes and the costs and benefits of the changes.

Ms. Murtha noted the agency restructured staff responsibilities resulting in more classification and reclassification requests compared to prior years.

Mr. Anderson noted the agency is developing plans to manage investments within the agency rather than through external managers which could result in a request for 42 new full-time equivalent positions.

## CASH MANAGEMENT STUDY

Ms. Connie Flanagan, Chief Financial Officer, Retirement and Investment Office, and Mr. Anderson provided comments (Appendix I) regarding the role of the Retirement and Investment Office in the cash management process, including current cash management practices, challenges with the timing of state revenues and expenditures, investment of state funds, investment returns, investment expenses, and suggestions for alternative cash management practices.

Ms. Flanagan noted the cashflows for the pension funds are based on the regular timing of employee payroll contributions, investment returns, and distributions to beneficiaries while other funds, such as the legacy fund, are based on variable revenue sources and periodic distributions. Mr. Anderson noted grouping the investments from multiple funds into investment pools could create efficiencies by lowering manger fees and simplifying the administration of the investments.

Mr. Michael Shackelford, Investment Director, Department of Trust Lands, provided comments (Appendix J) regarding the role of the Department of Trust Lands in the cash management process, including current cash management practices, challenges with the timing of state revenues and expenditures, investment of state funds, investment returns, investment expenses, and suggestions for alternative cash management practices. He noted:

- A portion of the common schools trust fund is temporarily invested in a transition account as a new asset allocation plan is implemented resulting in a larger cash balance compared to the asset allocation plan; and
- The strategic investment and improvements fund is invested in short-term bonds, but could be invested in bonds with a longer duration if the timing of the fund's appropriations were more certain.

In response to a committee member question, Mr. Shackelford noted the Theodore Roosevelt Presidential Library and Museum endowment fund had a balance of approximately $56 million as of March 2022, and the distributions from the fund will be based on 4 percent of the 3-year average fund balance.

Representative Bosch noted the Retirement and Investment Office and the Department of Trust Lands should consider opportunities for collaboration with the investments under management to reduce manager fees and increase the returns for the state.

Mr. Morrissette provided comments (Appendix K) regarding the role of the Office of Management and Budget in the cash management process, including current cash management practices, challenges with the timing of state revenues and expenditures, investment of state funds, investment returns, investment expenses, and suggestions for alternative cash management practices. He noted the agency has a limited role in the cash management process but agency staff assist with the development of the cashflow forecast for the general fund and coordinate cashflows with other state agencies.

## TAX UPDATES

Mr. Brian Kroshus, Tax Commissioner, presented information (Appendix L) regarding the status of the income tax credit authorized in House Bill No. 1515 (2021) and the potential impact of the oil extraction tax "trigger." He noted:

- The estimated fiscal impact of the tax credit under House Bill No. 1515 was $211 million for the 2021-23 biennium, including $104 million for fiscal year 2022 and $107 million for fiscal year 2023;
- Through April 26, 2022, $96 million of tax credits were claimed with approximately 253,000 tax returns eligible for a full or partial credit out of 380,000 returns filed; and
- Oil extraction tax collections would increase by approximately 20 percent if the oil extraction tax "trigger" becomes effective and increases the tax rate from 5 to 6 percent.

## ENVIRONMENTAL SOCIAL GOVERNANCE REPORT

Dr. James Leiman, Commissioner, Department of Commerce, presented information (Appendix M) regarding the Department of Commerce's study of environmental, social, and governance policies pursuant to Senate Bill No. 2291 (2021). He noted:

- Most of the major capital investments planned in North Dakota now include an environmental, social, or governance component;
- Environmental, social, and governance policies may present challenges for the energy industry in North Dakota; and
- Carbon capture projects and other value-added opportunities may help North Dakota address challenges related to environmental, social, and governance policies.

Mr. Thomas Beadle, State Treasurer, provided comments (Appendix N) regarding environmental, social, and governance policies. He noted some ratings agencies have started to include environmental, social, and governance factors in their ratings for states, which could impact North Dakota's credit rating in the future.

No further business appearing, Chairman Howe adjourned the meeting at 3:10 p.m.

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Adam Mathiak
Senior Fiscal Analyst

ATTACH:14