



North Dakota House of Representatives

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Minority Leader

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HB 1275 Testimony House Appropriations Committee

Good afternoon Chair Delzer and members of the committee,

HB 1275 is legislation proposing a legacy that benefits North Dakotans first, in every community throughout the state. The proposal balances investing in priorities to support working families, students, diversifying the state's economy and supporting economic development, while stabilizing a strong future for North Dakota by reinvesting a portion of the earnings into the principle of the Legacy Fund, as well as creating dedicated savings account to protect services to our state's most vulnerable citizens from future budget allotments.

Senator Heckaman and I introduced a similar proposal to the interim Legacy Fund Earnings committee last February in hopes that the committee would be able to spend the year prioritizing how Legacy Fund earnings would be allocated. Shortly after the committee's meeting in Watford City, everything quickly changed as our state and local communities began responding to the COVID-19 virus impacts. So, the committee's work became much more focused on the percent of market value proposal that will be discussed this session. The proposals found in HB 1275 are based off input provided by individual citizens, community leaders, educators, industry trade groups, association and nonprofits who presented to the Legacy Fund earnings committee and in ongoing discussions over the past several years.

Mr. Chairman, I will walk the committee through the various sections of the legislation. Let's start with section 7, which creates the Legacy Earnings Fund, which would be the primary bucket that receives the earnings determined by the percent of market value (POMV) formula that will hopefully be decided by this legislative assembly. Subsection 2 authorizes the Treasurer to transfer the earnings, which are designated by the state Constitution to be transferred to the General Fund on the last day of the biennium, to be transferred to this newly created Legacy Earnings Fund. Subsection 3 requires that any earnings that are not allocated based on the POMV, remain in the Legacy Earnings Fund as a reserve for future biennia that may not have enough earnings available to meet the total amount determined by the POMV.

For the purposes of HB 1275, we established the POMV to be seven percent of the five-year average value of the legacy fund assets, based on what the assets are at the end of each fiscal year. Since we are in the 2021 fiscal year, the end of the 2020 fiscal year and the preceding four fiscal years would put the seven POMV to be \$380,601,200 available for allocation. Since the estimated amount of total earnings through November 30, 2020 is \$497.3 million, that would leave \$116.7

million in the Legacy Earnings Fund reserve. Attached to my testimony is a schedule put together by Legislative Council that breaks this down for the committee.

The approach we took with HB 1275 was one that created seven buckets that addressed Legacy opportunities for working families and communities throughout the state. Our goal was to have the funds be flexible to meet the growing and diverse needs facing our state, rather than earmark for today's specific projects. This will allow this legislative assembly and future ones to allocate the funds as needed for Legacy projects that support new initiatives, try new ways of delivering services that can save General Fund dollars for the long-term and allow communities to recruit workforce and businesses that meet their vision of the future. The focus of HB 1275 is two-fold, invest in North Dakotans first and stabilize our state's future for our citizens.

Our citizens are our most important resource and when we invest in them, we know that our families are stronger, our communities are resilient, and our state is more competitive. The common thing we hear from industry leaders and employers is they want an educated and skilled workforce, which the Legacy Fund will allow us to do a better job of investing in.

These programs will support North Dakotans, diversity our economy and make our communities more resilient for the time when earnings will need to be reprioritized due to a dramatic shift in our state's revenue sources.

Our state's economy is driven by commodity-based industries that require us to build a more resilient budget to ensure that we can provide for North Dakotans when they need it most. We learned in 2015 that outside forces can dramatically impact our state's budget, which in turn hits our state's most vulnerable citizens hardest. The wisdom of legislators in the 1980s established the Foundation Aid Stabilization Fund which helped support K-12 education when the rest of the state's budgets were significantly cut. However, due to much of our state's human services and health budget being comprised of Federal dollars that require state matches, we learned that when we cut funding to human services and health programs, those services feel twice and in some cases three times the impact of budget cuts making it very challenging for our nursing homes, independent living service providers and nonprofits providing essential services to North Dakotans to absorb budget cuts.

Based on current projections, these two funds will fill in three to four biennia, thus returning an additional 10% of earnings to the principle of the Legacy Fund allowing the fund to grow even faster and additional resources to address innovation in delivering health and human services.

Mr. Chairman and members of the committee, if you look at the second attachment to my testimony, I will highlight the buckets and the potential for how they can serve a Legacy to North Dakotans and our state.

Finally, Mr. Chairman, I ask the committee to adopt the emergency clause amendment I've handed out to allow the funds to be allocated as part of the 2021-23 budget.

Let's work together to meet this moment and provide opportunity to invest in North Dakotans first and stabilize for our state's future.

I can answer any questions you may have.

The schedules below provide preliminary estimates for legacy fund earnings in the 2019-21 and 2021-23 bienniums and the estimated allocations based on the provisions of bill draft [21.0668.02000], including consideration to amend the bill draft to include an emergency clause. Bill draft [21.0668.02000] establishes a percent of market value (POMV) calculation based on 7 percent of the 5-year average of legacy fund assets. The amounts are preliminary estimates, and the actual amounts may vary significantly based on investment performance.

June 30, 2021 Legacy Fund Earnings (Preliminary Estimates)	
	7% POMV
2019-21 biennium legacy fund earnings through November 30, 2020	\$497,343,544
Available for spending in the 2021-23 biennium	380,601,200
Estimated balance retained in the legacy earnings fund as a reserve	\$116,742,344
Appropriations or transfers	
25 percent to the infrastructure bonding repayment fund	\$95,150,300
15 percent to the research and innovation fund	57,090,180
15 percent to the human services and public health stabilization fund	57,090,180
15 percent to the regional economic development infrastructure fund	57,090,180
10 percent to the workforce development and lifelong education fund	38,060,120
10 percent to the arts and culture endowment fund	38,060,120
10 percent to the student meal and support services fund	38,060,120
Total appropriations or transfers	\$380,601,200

June 30, 2023 Legacy Fund Earnings (Preliminary Estimates)	
	7% POMV
Estimated amount available for spending in the 2023-25 biennium	\$479,900,000
Appropriations or transfers	
25 percent to the infrastructure bonding repayment fund	\$119,975,000
15 percent to the research and innovation fund	71,985,000
15 percent to the human services and public health stabilization fund	71,985,000
15 percent to the regional economic development infrastructure fund	71,985,000
10 percent to the workforce development and lifelong education fund	47,990,000
10 percent to the arts and culture endowment fund	47,990,000
10 percent to the student meal and support services fund	47,990,000
Total appropriations or transfers	\$479,900,000



North Dakota Legislative Council

Prepared for Representative Boschee

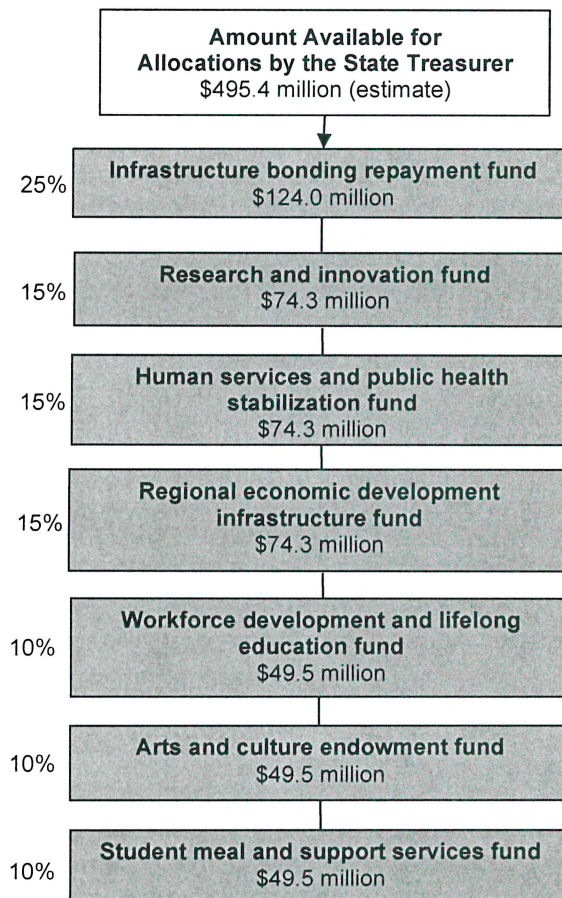
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February 2021

PROPOSED LEGACY FUND EARNINGS ALLOCATIONS - HOUSE BILL NO. 1275

This memorandum provides information on the estimated transfers from a legacy earnings fund to other funds based on the provisions of House Bill No. 1275 as introduced. Beginning with legacy fund earnings at the end of the 2021-23 biennium, the bill provides for the earnings of the legacy fund to be transferred to a legacy earnings fund. The amount available for appropriation or transfer from the legacy earnings fund during the subsequent biennium is based on 7 percent of the 5-year average of the legacy fund assets. From the amount available for appropriation or transfer, the funding is allocated by the State Treasurer to various state funds as shown below.

2023-25 BIENNIUM ALLOCATIONS



NOTE: The amounts reflected on this schedule are preliminary estimates for the 2023-25 biennium based on projections for the balance of the legacy fund and legacy fund earnings. The actual amounts for the balance of the legacy fund and legacy fund earnings may vary significantly from these amounts.

HB 1275 proposes a Legacy that benefits North Dakotans first in every community throughout the state. The proposal balances investing in priorities to support working families, students, diversifying our state's economy and supporting economic development for rural communities, while stabilizing a strong future for North Dakota by reinvesting a portion of the earnings into the principle of the Legacy Fund, as well as creating a dedicated savings account to protect services to our state's most vulnerable citizens from future budget allotments

Investing in North Dakotans First

Our citizens are our most important resource and when we invest in them, we know that our families are stronger, our communities are resilient, and our state is more competitive. The common thing we hear from industry leaders and employers is they want an educated and skilled workforce, which the Legacy Fund will allow us to do a better job of investing in.

These programs will support North Dakotans, diversity our economy and make our communities more resilient for the time when earnings will need to be reprioritized due to a dramatic shift in our state's revenue sources.

- **Workforce Development and Lifelong Education Fund**

- 10% of earnings, approximately \$38 million available on June 30, 2021.
- Support statewide infrastructure for North Dakota's workforce including childcare support, early childhood education, after school programs, development and operation of a paid family leave program and skill development/job retraining programs.
- Support the development and/or enhancement of certificate, associate degree and bachelor's degree program delivered through K12 and NDUS for hard to fill and high demand occupations.
- Support collaborative inter-agency systems to increase retention and completion of high school diploma, certificate programs, adult education, English language education, associate degree and bachelor's degree that align with the PK-12 Education Strategic Vision Framework and ND University System's strategic plan.

- **Research and Innovation Fund**

- 15% of earnings, approximately \$57 million available on June 30, 2021.
- Support college and university level research that can be leveraged to secure additional research funding from the Federal government, foundations and private-public partnerships to improve the quality of life of North Dakotans and diversify the state's economy.
- Can be used for collaborative curriculum development and delivery amongst the state's institutions of higher education, including Tribal colleges, to support growth in established and new industries throughout the state at all levels of institutions.

- **Regional Economic Development Infrastructure Fund**

- 15% of earnings, approximately \$57 million available on June 30, 2021.
- Minimum of 50% of the fund to be committed to rural and Tribal communities.
- Support the development of broadband internet delivery to every community throughout the state to reach 100% connectivity through grants and loans to support local economies.
- Support the development of infrastructure to deliver energy to communities for the purposes of economic and community development through grants and loans.
- Support the development of value-added agriculture projects
- Support local and regional tourism infrastructure through grants and loans.

- **Student Meal and Support Services Fund**

- 10% of earnings, approximately \$38 million available on June 30, 2021.

- Supports school nutrition programs, students with IEPs, ELL education and behavioral wellness services.
- **Infrastructure Bonding Repayment Fund**
 - 25% of earnings, approximately \$95 million available on June 30, 2021.
 - Transferring earnings to the Fund will provide a dedicate source of funding for the Dem-NPL caucus' bonding bill (SB 2040) which prioritizes affordable housing, K-12 and higher ed building construction/renovation and much needed funding for water projects, roads and bridges.

Stabilizing For Our Future

Using the Percent of Market Value (POMV) to determine the five-year rolling average of the Legacy Fund's earnings, will allow us to better plan for available funds at the end of each biennium. Our proposal of 7% POMV allows any excess earnings to be retained in the principle of the Legacy Fund to allow for greater growth and a reserve if earnings are less than the 7% POMV formula provides for. Based on recent projections, this would lead to approximately \$117 million being returned to the principle of the Legacy Fund as an opportunity to continue to grow the Fund.

Our state's economy is driven by commodity-based industries that require us to build a more resilient budget to ensure that we can provide for North Dakotans when they need it most. We learned in 2015 that outside forces can dramatically impact our state's budget, which in turn hits our state's most vulnerable citizens hardest. The wisdom of legislators in the 1980s established the Foundation Aid Stabilization Fund which helped support K-12 education when the rest of the state's budgets were significantly cut. However, due to much of our state's human services and health budget being comprised of Federal dollars that require state matches, we learned that when we cut funding to human services and health programs, those services feel twice and in some cases three times the impact of budget cuts making it very challenging for our nursing homes, independent living service providers and nonprofits providing essential services to North Dakotans to absorb budget cuts.

Based on current projections, these two funds will fill in three to four biennia, thus returning an additional 25% of earnings to the principle of the Legacy Fund allowing the fund to grow even faster to meet the evolving needs of our state's future.

- **Human Services & Health Stabilization Fund**
 - 15% of earnings, approximately \$57 million available on June 30, 2021.
 - Caps at 15% of Dept of Human Services & Health General Fund budget
 - Approx. \$1.5B in General Fund for both budgets. 15% = \$225M which would be reached just over two biennia of transfers.
 - Interest can be used to leverage pay for success financing to identify service delivery to improve outcomes, increase efficiencies and reduce costs to the General Fund. Based on 2% return, this would be \$4.5 million per year.
 - Once cap is reached, additional funds will roll back into the Legacy Fund principle.
- **ND Arts & Culture Endowment Fund**
 - 10% of earnings, approximately \$38 million available on June 30, 2021.
 - Transferred to Cultural Endowment Fund which is invested by the State Investment Board
 - Earnings will be used to support the delivery of arts programming and cultural education and exploration throughout North Dakota through the ND Council of the Arts, Prairie Public Broadcasting, ND Humanities Council, ND Indian Affairs, State Historical Society and the ND Studies program.
 - Builds up to \$200 million, additional funds will roll back into the Legacy Fund principle.

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1275

Page 1, line 11, remove "and"

Page 1, line 11, after "transfer" insert "; and to declare an emergency"

Page 8, after line 8, insert:

"SECTION 12. EMERGENCY. This Act is declared to be an emergency
measure."

Renumber accordingly