

Rep. Mike Lefor

Testimony – HB 1380

Good morning, Chairman Delzer and members of the House Appropriations Committee, for the record my name is Mike Lefor and I represent District 37 – Dickinson in the House. Today, I bring HB 1380 for your consideration.

When I began to work on this legislation, I incorporated the thoughts of numerous individuals and entities on a plan to utilize a portion of the Legacy fund earnings to benefit the citizens of the state of North Dakota. It is designed for flexibility, which is why they are called funding “streams” as they are always subject to change or updates. There is nothing in this legislation which could not be changed other than the bonding portion to meet any obligations put forward by the legislature.

As everyone knows, few things in life remain static, the world is always changing, I firmly believe we need to embrace change. That is one of the best attributes of the bill, the streams can be changed, the percentages can be made higher, lower or eliminated. They can have caps or have a sunset attached to them.

The public is looking to the legislative assembly for leadership on how we are going to deal with the legacy fund going forward. The streams can take pressure off of the general fund when it comes to appropriating dollars. Additionally, we would be able to leverage more fed funds. This bill does not appropriate any dollars and does not take affect until 2023, it is a concept. Each one of these streams are real issues we will have to deal with sooner or later, they are not going away.

I will briefly go through the contents of the bill. First, there is created in code, the legacy earnings fund. The dollar amount equal to seven percent of the five-year rolling average would be deposited into the fund. The last year in the calculation would be an even numbered year. This means the legislative assembly would know how much could be allocated for the next biennium even though the total funds are not deposited until the following year.

Contained in my testimony, is an attachment with the title “Legacy Fund Streams” which is an example of how this might work. You will note the actual and projected five year rolling average would about \$7.1 billion and 7% for the biennium would be just under \$500 million.

The earnings, at 5% would be around \$800 million. In it’s current form, the excess dollars would go into a reserve fund. There are several options that may be done, including capping the reserve fund, return it to the principal of the legacy fund or utilize the dollars for a pressing need down the road. There are 14 proposed streams and approximate dollar amounts listed on the attachment as an example. The theme is to invest in our state’s citizens.

Legacy Earnings Streams

1. Legacy Sinking and Interest Fund – The moneys in this stream would be spent by the public finance authority pursuant to legislative appropriations to meet debt service obligations. This would include the possibility of a bond which is being considered this session. In the current environment, as proposed this amount supports over \$1 billion in bonds or allows for early payoff bonds.
2. Highway Tax Distribution Fund – Utilizing the existing funding formula to provide additional funding support to our roads, bridges and transportation infrastructure which would give state and local political subdivisions the ability to address needs sooner. This will protect lives and enhance our communities with better infrastructure while keeping costs lower for taxpayers.
3. Legacy Projects – Working with the people of North Dakota to create legacy projects throughout the state. I believe that as a legislative body we have a responsibility to listen to the people of North Dakota and invest in unique projects that enhance, enrich and ensure a brighter future for the state.
4. School Construction Assistance Revolving Loan Fund. – This fund would be capped at \$500 million in the bill. This would increase our capacity to loan dollars to school districts to lower the cost of their projects. The dollars going into this fund would follow the same criteria of the current program.
5. Infrastructure Revolving Loan Fund – which provides infrastructure funding for local political subdivisions following the current terms and requirements.
6. LIFT Fund – to support technology advancement in the state. This is the innovation loan fund through the department of commerce and would follow the current guidelines.
7. Behavioral Health Support Fund – Moneys in this fund would be spent by the Department of Human Services pursuant to legislative appropriations. The intent would be to serve areas that are underserved in the state. I have spoken to judges, social workers and addiction counselors who state there is a high percentage of repeat offenders due to not getting the treatment they need. Hopefully, this would assist in lowering repeat offenders.
8. Public Employees Retirement Plan – this stream would go to reducing the unfunded liability in the fund. At present, we have an estimated \$1.44 billion in unfunded liability, we are among the lowest in the country with 68.3% of our plan funded.
9. Career and Tech Education Support Fund – The dollars would be allocated for career and technical educational centers and programs.
10. State Building Maintenance and Project Fund – this would allow us to maintain and improve the state's own facilities for the betterment of everyone who utilizes them. It would also accelerate those investments to reduce maintenance costs.
11. Economic Diversification Research Fund – this provides grants to our higher education system through a committee which includes the president of the Bank of North Dakota, four appointees with venture capital experience and members of the higher education

system. The purpose of the grants would be to stimulate economic activity across the state through innovation of new technology, concepts and products. To promote job creation and career and wage growth. Finally, the committee is required to develop reporting outcomes assessing performance outcomes relating to the grants.

12. Clean Sustainable Energy Fund – the fund is created to provide for investment in innovation in the energy sector. Our state is blessed with an abundance of natural resources. How do we efficiently and effectively remove them from the ground and create by-products.
13. Information Technology Cybersecurity Fund – The state of North Dakota faces over 2.1 billion cyberattacks every year. As we continue to move into a more digital and online way of doing business, it is imperative that we invest to protect the citizens and state's information.
14. Housing Incentive Fund – to provide for investment in the housing investment fund for housing projects and programs throughout the state as the fund currently does.

As you can see, through the streams as proposed we are making a difference for our citizens with the Legacy Fund. The streams include savings for our citizens, both through investments in funding for infrastructure and support programs that improve the quality of life for North Dakotan's.

They support the ability to appropriate levels of bonding to move projects forward more rapidly. The streams invest more than \$65 million in research, innovation and technology to help diversify our economy and this would be a big step toward driving more investment capital into our state.

Chairman Delzer and members of the committee, as I stated previously, this concept is designed for flexibility and change. When implemented, the dollars would not be allocated until the 2023-2025 biennium, however, it could serve as a foundation to share with the people of the state of North Dakota how the legacy fund is being used for future ideas and concepts to better serve the citizens of North Dakota.

I thank you for your time and consideration of HB 1380. I would be happy to answer any questions.

LEGACY STREAMS 2023-2025 Biennium

Assumptions:

Five Year Rolling Average

<u>Fiscal Year</u>	<u>Legacy Fund Balance</u>
June 30, 2018	\$5.577 Billion (Actual)
June 30, 2019	\$6.581 Billion (Actual)
June 30, 2020	\$7.000Billion (Actual)
June 30, 2021	\$7.900 Billion (Forecast)
<u>June 30, 2022</u>	<u>\$8.600 Billion (Forecast)</u>
Five Year Total	\$35.658 Billion
Five Year Average	\$ 7.131 Billion

Return

<u>5% Annual Earnings</u>	
Total Earnings -	\$800 million
Less: Streams	\$499.2 million
Earnings Returned	\$300.8 million

Biennium: 7.0%

Total Dollars available for the Biennium from Legacy Earnings \$7.131 Billion x .07 = \$499.2 million

Proposed Streams

Debt Service – Bonds	26%	129.79 million
Department of Transportation	14%	69.88 million
Legacy Projects	10%	49.92 million
Low Interest Loan Fund School Construction	8%	39.36 million Cap at \$500m
Low Interest Loan Fund City Infrastructure	5%	24.96 million Cap at \$500m
LIFT Fund	5%	24.96 million
Behavioral Health Programs	5%	24.96 million
PERS Retirement	5%	24.96 million Cap at 90%
Deferred Maintenance - State Buildings/Grounds	4%	19.96 million
Economic Diversification Fund	4%	19.96 million
Career and Tech Projects	4%	19.96 million
Clean Sustainable Energy Fund	4%	19.96 million
Legacy Cybersecurity Fund	3%	14.97 million
Housing Incentive Fund	3%	14.97 million