



SB 2005  
OFFICE OF THE STATE TREASURER  
*Senate Appropriations Hearing*



January 6, 2023

Chairman Bekkedahl,

Thank you for the opportunity to present our budget to you today. I look forward to working with you and members of the committee and our office is happy to be of assistance to any of you should any questions arise over the course of this session.

SB 2005 is the Budget for the Office of State Treasurer. We have included the requested information regarding agency duties and responsibilities and budget items. We look forward to going through that in more detail with the subsection members as requested.

Over the last few years our team has worked to streamline our operations and improve our technology, while maintaining a very small and simple budget. We worked with Governor Burgum's office and OMB in crafting the executive budget recommendation for our office. We support the recommendation of restoring \$12,000 for our travel expenses and we would appreciate a few additional changes that were not presented to the Governor's office when they were going through their budget process.

Many of you will recall the Prairie Dog bill (HB 1066) from 2019 Legislative Session. One part of that bill includes a reporting requirement where the political subdivisions must report on how they spent those dollars and file said report by November 30<sup>th</sup> of the even numbered year after the biennium. For the 19-21 biennium allocations, those reports needed to be filed by November 30, 2022. As we started receiving these reports, we recognized that the information received isn't formatted in the most usable manner and there are some minor upgrades to our technology that would significantly improve how the infrastructure reports are filed. Simple subscriptions to off the shelf products like Jot Forms, some tweaking to our code to allow PDF submissions, and improve the user login process should make this information much more usable for all and make it much easier for our political subdivisions to file accordingly. We have received some estimates from ITD on what these changes would add to our budget, and I've included a breakdown on the next page.

With regards to the Governor's budget recommendation, beyond the increase for rent and the suggested pay and equity package, you will notice a change from last biennium as requested by our agency was to add \$12,000 to our operating expense line for travel. Last biennium you were kind enough to restore our offices association dues so that we could pay for membership to the National Association of State Treasurers (roughly \$6,500/yr). At the time we didn't know how fast travel would come back post COVID, so we didn't add any more to our travel line beyond the \$3,000 that was there. Travel bounced back faster than many expected, and while I have been able to afford to pay for much of my conference travel personally, that same reality doesn't apply to everyone. The amount added into the Executive Budget recommendations should cover the costs for these conferences and allow our staff the opportunity to meet their counterparts elsewhere and learn from other state's best practices.

Our Director of Finance, Nicole Krivoruchka, and I look forward to discussing further and answering any questions you may have.

Thomas Beadle



Requested Budget Items:

<b>Operating Expenses - 12030</b>		
Operating Fees and Services	\$2,160	Monthly subscription charge for vendor to allow us to build custom and secure online forms for better data collection and utilization. Correlated one-time programming expense listed below.
Travel	\$12,000	Restore funding for travel that was removed during COVID, included in Executive Budget.
	<b>\$14,160</b>	<b>Total additional Operating Expense request</b>
<b>One-Time Expenses</b>		
ITD	\$8,400	Approximately 80 hours of ITD time to reprogram our online reporting and documentation systems to streamline the process for political subdivisions and agencies that utilize it
ITD	\$7,350	Approximately 70 hours of ITD time to reprogram our TDOC system to better handle recurring distributions for cities to be able to handle distributions like Prairie Dog more efficiently
ITD	\$5,250	Approximately 50 hours of ITD time to upgrade our online platform to allow for online form submission process to incorporate automated forms that make data easier to collect and present in a usable format
	<b>\$21,000</b>	<b>Total additional One-Time Expense request</b>

Article V, Section 2, of the North Dakota Constitution created the Office of State Treasurer and provides that the powers and duties of the state treasurer shall be prescribed by law. Chapter 54-11 of the North Dakota Century Code prescribes the powers, duties, and responsibilities of the state treasurer. The mission of the Office of State Treasurer is *“to fulfill our constitutional and statutory responsibilities, to assure sound financial oversight and transparency of all public funds, and to promote prudent practices in government.”*

We have five key management functions within the Office of the Treasurer:

- 1. Cash management** – We collect all deposits and payables from state agencies. It is our expertise that manages the daily cash flow within the state operating fund. The forecasting and cash management done by our agency is necessary to ensure the availability of sufficient funds to cover the obligations/payables while optimizing investment opportunities. The millions and billions invested in the immediate short term are where we work diligently, making wise investment decisions ensuring the State is always “making money.”
- 2. Accounting** – The Office of State Treasurer is responsible for paying all warrants (payables) or checks drawn against the state. We manage over a dozen bank accounts which are reconciled daily to ensure enough funds are available to pay all outstanding warrants/payables. We also process void check requests and stop payments. All state funds/deposits received by state agencies are deposited through the Office of State Treasurer for investment into the operating fund account. Our agency reconciles daily in three primary areas: our accounts held with the Bank of North Dakota to the State’s accounting software, PeopleSoft; state agency deposits to PeopleSoft; and Certificate of Deposit (CD) interest income between our records and the bank’s.
- 3. Investments** – Our agency serves as the custodian for all state funds, and we are responsible for the investment of the state’s general and numerous special funds, including state agriculture commodity groups and the Veterans Postwar Trust.
- 4. Revenue Collection** – The State Treasurer is responsible for the collection of various revenues from political subdivisions. Revenues include, but are not limited to, the Assessed Communications Services Fee, Civil Filing Fees, Criminal Administration Fees, Indigent Defense Administrative Fund, Medical Center Levy, Domestic Violence Prevention Fund, and numerous other district court costs.
- 5. Revenue Distribution** – The State Treasurer is in charge of disbursing over 30 tax distributions to political subdivisions. The office’s web-based, Tax Distribution and Outstanding Checks (TDOC) system, pulls data from a variety of sources, which streamlines our distributions and ensures greater accuracy, transparency, and efficiency.

Revenue distributions assigned to the Office of State Treasurer for distribution to political subdivisions include:

Airline	Disabled Veterans Homestead Tax Credit	Prepaid Wireless E-911 Fee
City Cigarette Tax	Electric Generation Transmission	Senior Mill Levy
City Motor Vehicle Rental Tax	Flood Control	Special Highway
City/County Occupancy Tax	Forest Service	Special Township Road
City/County Restaurant/Lodging Tax	Highway Tax Distribution Fund	State Aid
City & County Sales Tax	Homestead Tax Credit	Taylor Grazing
Coal Conversion Tax	Medical Center Levy	Telecommunication Carriers
Coal Conversion Shortfall	Mineral Management	Township Road & Bridge Fund
Coal Severance Tax	Motorboat	Tribal Cigarette Tax
Coal Severance Shortfall - Tipple Share Reimbursement	Municipal Infrastructure	Tribal Highway Fund
Coronavirus Relief Funds	New Jobs Program	Tribal Sales Tax
County & Township Infrastructure	Oil and Gas Gross Production Tax	
County Aid	Oil Extraction/Gross Production Tax-Tribal	

The Office of State Treasurer provides analysis, data, and education of various tax distributions and state laws to legislators, employees of other state agencies, officials and employees of local political subdivisions, and the general public.

## BOARDS

In addition to the responsibilities of the office, as required by statute or Constitution, the State Treasurer serves on six Boards: State Investment Board, Teachers Fund for Retirement, Board of University and School Lands, State Board of Tax Equalization, State Historical Board, and the State Canvassing Board.

## FINANCIAL AUDIT FINDINGS

Our agency performs all our responsibilities with tremendous pride and accuracy, and we have consistently received a “clean” audit since 2009. Our most recent audit was completed in May of 2022 for the biennium ended June of 2021, with no findings.

## AGENCY ACCOMPLISHMENTS

- **Tax Distributions** – Updated our Tax Distribution Outstanding Checks (TDOC) system to accommodate the legislative changes made to the Oil and Gas Gross Production Tax distribution and smaller changes made to other tax distributions.

- **“Prairie Dog” Funds** – Created and tested the required processes and systems to distribute the newly created “Prairie Dog” funds. Also developed the system needed to accept, compile, and report the required information filings of each recipient political subdivision. With the first reports being filed on November 30, 2022, we have also identified areas where we can improve this process and hope to work with ITD to address those in the coming biennium.
- **Website** – Completed the conversion of our agency website to the state’s website platform to give added flexibility in maintaining the website as well as allow further enhancements to be implemented more cost-effectively and timely. We also added additional dashboards to provide more visual and intuitive data regarding our tax distributions, Legacy Fund deposits, and our operating fund balances. After receiving feedback from some of our political subdivisions around North Dakota, we have identified some areas where we can improve this system and hope to work with ITD to address those in the coming biennium.
- **Process Updates** – Updated all office processes to allow for efficient and effective remote work which provides added flexibility to our team and increases efficiency and effectiveness of the whole office.

#### AGENCY CHALLENGES

- **IT Costs** – One of the major challenges we face relates to our day-to-day IT costs. As I will spell out further during this overview, a large portion of our requested on-going operating expenses are directly related to data processing, communications, and desktop support services provided by ITD. We continue to receive excellent service from ITD, but we want to make you aware that what feels like minor and obvious adjustments to our systems does have a significant impact on our budget.

Throughout session, we will continue to monitor bills that will affect our agency and analyze the potential IT costs which may be associated with implementing a formula change or new distribution.

#### 2023-2025 BUDGET

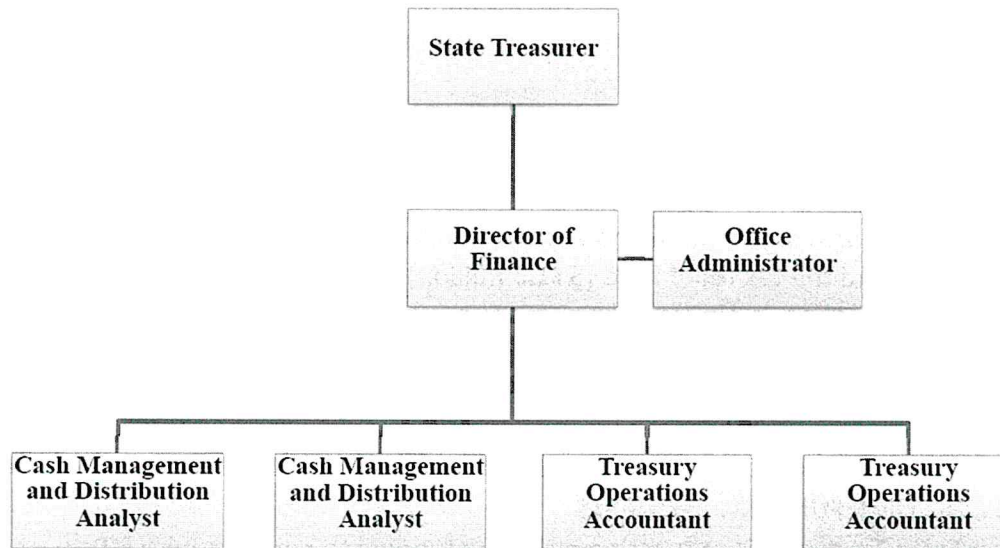
As with prior biennia, the Office of State Treasurer’s budget consists of two major items – salaries and information technology fees. Nearly ninety-eight percent (98%) of our biennium to-date expenditures have fallen into one of those two categories. Our office relies heavily on our people and on the technology needed to help them do their jobs efficiently and effectively.

#### Salaries and wages:

Our agency consists of seven full time employees, including the Treasurer. We are not requesting any adjustments to our number of FTEs this biennium. The current fiscal staff is made up of two Cash Management and Distribution Analysts, two Treasury Operations Accountants, and a Director of Finance. As a testament to the complexity of the work we

perform, all fiscal positions require a minimum of a four-year college degree and varying levels of work experience to be qualified. With the timing and complexity of everything we do in our office, we are very fortunate to have an excellent team with very little turnover.

## OFFICE OF STATE TREASURER ORGANIZATIONAL CHART



With the duties required of our office, this level of staffing is vitally important not only to be able to perform these duties, but also to provide the essential checks and balances so that one person is not handling all stages of a process. This is true not only with daily depositing to and reconciling of the state's checkbook, but also with our revenue distribution processes for all the funds we send out to the political subdivisions.

### Operating expenses:

Our operating expenses consist mainly of amounts paid for data processing and other services provided by ITD. To-date in the current biennium, nearly 85% of our operating expenses have consisted of data processing, desktop support, and telecommunication service charges from ITD. Our office has always been heavily reliant on this technology and improvements over the last few years have allowed for efficient and effective remote work which provides added flexibility to our team and increases efficiency and effectiveness of the whole office. One additional charge we would like to add to our operating line is an ongoing IT subscription for "JOT Forms". Based on our research with ITD this looks like the most cost-effective approach for making the reports filed by political subdivisions populate in a way that is more usable and will be more efficient for all parties. This cost is estimated to be just under \$90/month, and so we are requesting an additional \$2,160 for the biennium and roughly 50 hours of budgeted ITD time to implement that change.

### Coal Severance Shortfall:

As a separate line in our budget, NDCC 57-62-02(5) requires the Office of State Treasurer to include in our biennial budget request funds for the purpose of reimbursing coal-producing counties for 30% of coal severance tax funds paid to non-coal-producing counties from coal-producing counties.

The 2021-23 amount was set at \$118,000. During the 2017 session, the statute pertaining to this payment was modified to reduce the annual amount paid. This phased-in change in statute is now fully implemented. Because of this, the total needed to pay the statutorily mandated amounts has been reduced significantly from previous biennium.

### **2021-2023 ONE-TIME FUNDING REQUESTS**

Our office had no one-time funding requests for the 21-23 biennium. In House Bill No. 1015, the Legislative Assembly provided \$20 million of one-time funding from the state disaster relief fund (\$8.2 million) and the tax relief fund (\$11.8 million) for allocations to townships located in non-oil-producing counties. In House Bill No. 1395, the Legislative Assembly appropriated \$50.16 million of one-time funding from federal local fiscal recovery funds for distributions to political subdivisions. Our office also received a little over \$53 million from ARPA funds for distribution to local communities.

### **2023-2025 ONE-TIME FUNDING REQUESTS**

The Office of State Treasurer is requesting one-time funding to contract with ITD to update our website to incorporate better login processes to improve the experience for our political subdivisions for uploading reports and completing required forms. In consultation with ITD we believe this will require approximately 200 hours of contracted work. As a result, we are requesting an additional \$21,000 for this biennium. As always, we also are monitoring for any potential one-time funding needs related to costs associated with coding changes required by any statutory changes made by the 68th Legislative Assembly in respect to distributions or other activities performed by our office. Substantive changes to distribution formulas generally require some level of rewriting of our Tax Distribution and Outstanding Checks (TDOC) system to comply with the changes made to statute. These would include changes to the oil and gas gross production tax distribution, the highway tax distribution, and any of the other distributions we currently administer. This would also be true for any new distributions added to our statutory responsibilities.

### **AGENCY COLLECTIONS**

Our office is responsible for the collection of various revenues from political subdivisions throughout the state. Mainly court fines and fees collected by the County Clerks of Court and Assessed Communication fees and Medical Center Levy tax revenues collected by County Auditors. Of these, a significant number are deposited directly into the general fund while others are deposited into special funds. Due to the nature of these collections, we do not anticipate any significant changes in revenue amounts for the coming biennium.



**AGENCY REQUEST VS. EXECUTIVE BUDGET**

The final executive recommended budget for the Office of State Treasurer includes the travel adjustment to our Operating Expense as outlined above but does not include the one-time ITD expenses or subscription costs, as we didn't have that information ready to present until the executive budget was presented. The executive budget also includes their proposed salary and benefit package changes along with a new rent schedule for capitol building users.

