

2009 HOUSE APPROPRIATIONS

HB 1022

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1022

House Appropriations Committee  
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: 1/14/09

Recorder Job Number: 6960

Committee Clerk Signature *Tonya Vaegle*

Minutes:

Chairman Delzer opened the hearing on House Bill 1022. Roll call was taken with all members present.

Attached Testimony

Testimony of Sparb Collins- Attachment 1022.1.14.09A

Testimony of Steve Cochrane- Attachment 1022.1.14.09B

Testimony of Ken Tupa- Attachment 1022.1.14.09C

Sparb Collins, Executive Director of the Public Employees Retirement System (PERS), presented written testimony.

**Chairman Delzer:** Those cities that joined, they must have had a fund before. Did that fund get absorbed by PERS?

**Sparb Collins:** When a political subdivision comes into PERS they come in prospectively so from that day forward. If they have their own plan in place we do not absorb their previous plan. Also for example when Grand Forks came in, they had their existing plan and those

members get an opportunity to elect whether to come over to PERS or they can stay in their existing plan but all new employees come to the PERS plan.

**Chairman Delzer:** They cannot do both?

**Sparb Collins:** No.

**Chairman Delzer:** They have to either stay in the plan or come into PERS. What would happen if someone had say six or seven years in and they wanted to come into PERS would they lose that six or seven years?

**Sparb Collins:** That is going to depend upon what the city has. They will make the conditions on how that participation would be in place but generally speaking what would happen is if someone came over to PERS, the benefit in PERS would go forward from there and the benefit in the plan that they had would probably accrued to that point in time and they would be able to draw that sometime in the future.

**Chairman Delzer:** You don't give anyone six years credit.

**Sparb Collins:** We do have provisions in our plan where somebody can buy past service at an actuarial cost. If somebody was giving up their time in the other one and wanted to transfer over, they would have to purchase it from us and that is done in an actuarial cost. What I mean by actuarial cost is the actuary has determined what the cost is to the system to provide that benefit and then provide an individual cost estimate.

**Chairman Delzer:** Did any of the cities buy that?

**Sparb Collins:** The cities didn't but some of the employees did out of their own pocket.

**Chairman Delzer:** That wasn't from their previous retirement?

**Sparb Collins:** It could have been from their previous retirement transferring the funds over from the previous system and it would have been taken out of their account balance.

Mr. Collins continued his testimony explaining the programs in PERS.

**Chairman Delzer:** That is for the payments for that person that is not for the administration of the program?

**Sparb Collins:** That is correct. We don't have any administration fees. It is such a small system there is not much to administer.

**Chairman Delzer:** Why didn't we have this last biennium?

**Sparb Collins:** Last time we didn't have a request for the funds. The reason why was the previous biennium we had a request for some funds. At that time we had three members. Two of those members passed away so the funds that were allocated previously were sufficient enough to get us through the last biennium

**Chairman Delzer:** You didn't have to turn those back? They were General Fund money you should have had to turn those back.

**Sharon Schiermeister:** We did not get any.

**Chairman Delzer:** Then how did you cover this OASIS money last year?

**Sharon Schiermeister:** When the OASIS fund was transferred for us, there were monies that were also transferred to pay the benefits. They are invested in CDs in the State Treasurer's Office. So right now we still have about \$10,000 still available in that money so we have not needed to get any General Fund appropriation. Two bienniums ago when we the three beneficiaries when we projected what those benefits would be we saw that that would deplete the monies that was in reserves for that fund and we would need a General Fund appropriation but two people passed away so we did not need to draw upon that. Now in the next biennium about eight months into the 2009-11 biennium we will run short. That reserve of cash that was transferred to us will be depleted.

**Chairman Delzer:** How is it that you can have a General Fund appropriation and not turn it back even though you put it into that account?

**Lori Laschkewitsch, OMB:** That money was turned back. They didn't need the money two years ago.

**Chairman Delzer:** How did they have General Fund money there for last time if they did not turn it back the time before?

**Lori Laschkewitsch, OMB:** They did not have General Fund money.

**Chairman Delzer:** Then how did you pay for it?

**Sharon Schiermeister:** Out of that original cash transfer that was provided to us.

**Chairman Delzer:** There are two different pots we are talking about here.

**Lori Laschkewitsch, OMB:** Right.

**Chairman Delzer:** If we allow this, and that person passes away, the General Fund money that we are allowing would be turned back.

**Sharon Schiermeister:** That is correct.

**Chairman Delzer:** What would happen if he passes away before that fund is used up?

**Sharon Schiermeister:** That is a good question.

**Chairman Delzer:** Find that out for us please.

**Sharon Schiermeister:** Sure.

Mr. Collins continued his testimony.

**Chairman Delzer:** How much did your ITD fees increase?

**Sparb Collins:** The total amount went down but the actual fee schedule increase would have been the standard increase.

**Chairman Delzer:** What did you do drop off some of your connections?

**Sparb Collins:** Because of our system replacement project we are not doing any enhancements or changes to our existing business system. So our costs right now are closing right now. We are not doing any changes so the overall line item has gone down because of that.

**Chairman Delzer:** I will want to see how you built that line in 05-07, 07-09 and current.

**Sparb Collins:** Sure we have the numbers. I think you will see that it has gone down.

**Chairman Delzer:** I see in 05-07 it was \$351,000 and then \$592,000 then you are going back to \$330,000

Mr. Collins continued explaining the PERS expenditures.

**Chairman Delzer:** What kind of response are you getting on the efforts to save in the postage line?

**Sparb Collins:** Overall I think it has been pretty positive. We have not had any negative feedback when we quit sending out program booklets.

**Chairman Delzer:** How many people have switched to Direct Deposit?

**Sparb Collins:** Offhand I do not know. We can get that for you. One thing I do find is the newer retirees are more likely to take the Direct Deposit.

Mr. Collins continued his testimony on page 20.

**Representative Kempenich:** Is this personal travel or are you using State vehicles?

**Sparb Collins:** When our people travel within state they take a state vehicle. If for some reason someone is traveling on a Thursday and going to Fargo and they are going to stay for the weekend and they take their own personal vehicle, we then only pay them the same rate that we would pay the motor pool.

**Representative Kempenich:** I would like to see a breakdown of that.

**Sparb Collins:** OK

**Chairman Delzer:** When you get a political sub join, do they have to pay a fee to join or do they just join?

**Sparb Collins:** They just join.

**Chairman Delzer:** Is the rate of contribution the same for all political subs?

**Sparb Collins:** Yes. We have a flat fee.

Mr. Collins continued his testimony on page 21.

**Chairman Delzer:** Who do you do background checks on?

**Sparb Collins:** Everybody.

**Chairman Delzer:** Is that a policy decision or is that in the code?

**Sparb Collins:** It is a policy decision. It is now in code so we can get the FBI checks.

**Representative Kempenich:** You don't have to do background checks on everyone every year do you? Or is it just new hires?

**Sparb Collins:** It's just new hires.

**Chairman Delzer:** Does PERS pay for the background checks?

**Sparb Collins:** Yes.

**Chairman Delzer:** Why does it need to be in code to do the FBI one? Why can you not do that as a policy decision?

**Sparb Collins:** I am not sure.

Mr. Collins continued his testimony.

**Chairman Delzer:** Do you have any vacant FTEs?

**Sparb Collins:** No.

**Chairman Delzer:** Have you in the past biennium?

**Sparb Collins:** We did however we filled them right away.

**Chairman Delzer:** Do you expect to have any turnback? I guess yours is all special funds.

What do you do with that money? Does it go back into the fund or do you use it for pay raises?

**Sparb Collins:** It never comes out of the fund. You provide the authority to access those funds if needed. If we do not use that authority the authority expires and the money never comes out of the fund.

**Chairman Delzer:** You are not using it to expand the pay increase for your staff.

**Sparb Collins:** Except as out lined in the bill.

**Chairman Delzer:** When you bring this information back we will want to see your spend down levels to date. The three million of carry over that you were talking about for your computer program that is fund money also?

**Sparb Collins:** Yes.

**Chairman Delzer:** So that is sitting in the fund and there is nothing in the bill that does that.

You are still using the same appropriation language from two sessions ago.

**Sparb Collins:** From last session. As we understand it we will have to go before a committee to request that carry over for the project. The project was originally presented that it will carry over into the next biennium.

**Lori Laschkewitsch, OMB:** The carry over committee.

**Chairman Delzer:** So this fits into that group that is listed coming in front of the carry over committee.

**Lori Laschkewitsch, OMB:** Yes that is correct.

The committee moved on to the Retirement and Investment Office.

Steve Cochrane, Executive Director of the ND Retirement and Investment Office (RIO), presented his written testimony.

**Representative Kempenich:** What kind of timeframe are you looking at payback for the printer with purchasing versus leasing?

**Steve Cochrane:** I am going to refer that question to Connie Flannigan.

**Connie Flanagan:** What we looked at was the period of the lease that was available. It was either four years or five years. We looked at the cost savings in that period of time between the actual lease payments during that period versus an upfront payment to purchase and found that it we would pay out less in that time period by purchasing than by leasing. It includes the maintenance. All of the costs were included in both the lease cost and the purchase costs.

**Representative Kempenich:** That is why I was wondering. If you had like a two year lease versus a five year payback

**Connie Flanagan:** I believe it was a four year lease but it may have been five.

Mr. Cochrane continued his testimony explaining the 2009-11 Budget Highlights.

**Chairman Delzer:** When you go through and do your budgets do you move items between lines?

**Steve Cochrane:** Yes.

**Chairman Delzer:** It looks like you spent some money out of your contingent fund? What was that for?

**Steve Cochrane:** We will explain that in the testimony.

Mr. Cochrane continued his testimony on the budget highlights and one time funding.

**Representative Kempenich:** What we are seeing in these exhibits beginning on page five is not your budget correct?

**Steve Cochrane:** What you are seeing here is the total value of all of the stocks and bonds and real estate and assets that the State Investment Board oversees on behalf of its clients.

**Chairman Delzer:** I think the question is the \$1.15 is that the cost of your budget or the cost of your budget plus payments to outside handlers?

**Connie Flanagan:** This \$1.5million is only the appropriated budget associated with the investment program.

**Representative Kempenich:** What is the percentage that we are paying out to outside vendors?

**Connie Flanagan:** I will get that for you.

**Chairman Delzer:** That is fine.

**Representative Meyer:** Does anyone oversee your investors?

**Steve Cochrane:** Yes. It is a multi-level function. Staff is constantly in contact with the money managers to be sure they are operating within our guidelines. We have an independent consultant Callan Associates and they have the largest roster of public pension plans in the country.

**Representative Kempenich:** Where are they based out of?

**Steve Cochrane:** San Francisco. However, the person in charge of our project is a ND native, graduating from NDSU and he is located in Denver.

Sen. O'Connell gave a description of a bill he will introduce regarding the Retired Teachers Fund.

**Chairman Delzer:** Your understanding is to manage a 13<sup>th</sup> payment for all of them for one time would take this a little over \$5.5million instead of the \$5million that is in there.

**Senator O'Connell:** That is correct.

**Chairman Delzer:** Would you have the information given to the clerk.

**Senator O'Connell:** I believe Ken Tupa has all of that information for you.

**Representative Kempenich:** How are you wording that as far as the appropriation goes?

**Senator O'Connell:** There are two bills. The formula and the appropriation, the money is in the budget and the formula is in the bill.

**Chairman Delzer:** You are going to put a bill in for the formula and then put a bill in for the \$5million.

**Senator O'Connell:** Right.

**Representative Kempenich:** You might have to watch that because it is going to get doubled up.

**Chairman Delzer:** We will take note of this and keep an eye on it before cross over and we decide how we want to handle the money part of this before cross over. It depends on what happens with the bill over in the Senate. The bill also has to pass in the House for the policy issue. We will have to have some discussions on that but what we need to know here is in the end, when this goes to conference or whatever if everything passes it will take a little over the \$5million to handle it. That is the appropriation part.

**Senator O'Connell:** We looked at, regardless how much money is in the bill, we need a formula put in place and that is why the bill is like this.

**Representative Kempenich:** I just wanted to bring it up because I have seen it happen before.

**Chairman Delzer:** We will make a note of that and have that in the discussion before we pass the bill out.

Mr. Cochrane continued testimony by explaining the charts included.

**Chairman Delzer:** Under assets for the management of the State Investment Board, you are at \$5.4billion and your cost is \$1.15million for the budget, under Teachers Retirement you are at \$1.8billion and you are at \$2.29million, what drives the difference in that? I am assuming that the \$2.29million is your share of the budget for handling that .

**Steve Cochrane:** Correct.

**Chairman Delzer:** Why is it so much more to handle the Teachers funds than the other assets?

**Steve Cochrane:** The investment expenses that you see on page five includes the investment expenses for all of the funds that the State Investment Board receives except the Teachers Retirement Fund.

**Chairman Delzer:** What is the \$2.29 than on your chart in number six?

**Connie Flanagan:** When we prepare our budget we have to do it by program. The first chart \$1.15million is the total expenses for the investment program. On page six those are the total expenses for the retirement program. When you add those two numbers together that is our total agency budget.

**Chairman Delzer:** Why does it cost a whole lot more to handle less money under the Teachers Retirement Fund than it does under the other one.

**Connie Flanagan:** The expenses for the State Investment Board as far as the payments that they make to the investment managers and that type of thing, those are under a continuing appropriation. They are not included under the appropriation that we have before you today.

**Chairman Delzer:** Are they included on the TFFR one then?

**Connie Flanagan:** There are continuing appropriations for the TFFR too but their appropriated expenses are higher mainly because they have more FTEs involved with the retirement program. We have 17 FTEs but only about five of them are on the INAUDABLE

**Chairman Delzer:** Again why? They handle a whole lot less money why does it take that much more to do it on the teacher's side than the other side.

**Connie Flanagan:** It is not so much handling the money. It is handling the number of accounts.

**Representative Kempenich:** It looks like the operating is quite a bit higher.

Mr. Cochrane continued explaining the charts.

**Chairman Delzer:** That quarterly report is the period from June to September.

**Steve Cochrane:** That is correct.

**Chairman Delzer:** When will you have the information for the last quarter?

**Steve Cochrane:** The most recent information I have is estimated. What we do for the estimated returns is at the last point where we have reconciled information, we then take the acid allocation of the fund and apply each of the underlying indexes to the ??? performance for example in the stock market for the big US companies we use the SMP 500 stock index and we would say given our acid allocation if we preformed like these indexes what is our return. These estimates work out to be pretty close over time. Our estimated year to date return, this will be from July one through last night, and you all know if you have been watching the stock market since new year's this year is starting off pretty ragged. The pension trust has a negative return of 22.8% so we are kind of back to where we were at a certain spot in December before we had a little bit of a yearend rally.

**Chairman Delzer:** For our revenue forecast for the state, does the investment board or their agents use any economists?

**Steve Cochrane:** Yes and no would be the answer. Yes in terms of that Callan is a highly resourced consulting firm and comes in typically four times a year sometimes more to discuss the investment environment and what they are projecting through the investment environment. We had the president of Callan come to our November State Investment Board meeting to give us his outlook for the capital markets at that time. Most of the investment managers we work with have economists and we like to bring them in to talk with us. One example would be Jim Paulson from Wells Fargo. We have JP Morgan come in as well.

**Chairman Delzer:** Are there minutes of those meetings that are public record?

**Steve Cochrane:** We have recordings. They are summarized and we have attached the presentation that was given. We have not written minutes per say but we can transcribe them if you wish.

**Chairman Delzer:** I don't think you need to do that but can I get a copy of that presentation that was given to the board.

**Steve Cochrane:** I would be glad to. I think the one that you would probably get the most out of would be the presentation we will be seeing next week which is JP Morgan and is a global strategist who can tie together our investment programs specifically. We provide them with the details of our investment program. Recently he has been spending time understanding exactly how we are investing and then matching that to the economic outlook as well as the capital market and how that relates.

**Representative Kempenich:** It looks like that unless a company goes broke or gets sold out we are not looking too bad.

**Steve Cochrane:** We would certainly float. We have been very lucky relative to the default experience. We have resisted selling into weakness. Balancing is an issue for us. We have gone to great lengths to avoid selling good quality fixed income securities. I think from a management stand point we have been trying to do what you are pointing out.

**Representative Kempenich:** This forecasting is becoming more of an art than a science because they indicated in December that they said two weeks and they were pretty close.

**Chairman Delzer:** No doubt you have a real challenge coming up and how it plays out for us makes a difference for the state of North Dakota

**Representative Meyer:** Are you ever forced to sell?

**Steve Cochrane:** One important point is that we have never had to sell to make a payment. We manage with cash allocations so we are able to make our pension payments and regular

administered costs and so forth without affecting the investment portfolio. We have in a couple of instances had to move from one manager to another which caused us to say for example, let's say we asked the Bank of North Dakota one of our fixed income managers, if we could raise a million dollars. What they have been able to so far and if we continue to see deterioration in these markets, I can't say that this will be always the case but so far we have been able to talk to the managers and say we need to raise a million dollars, they look into their portfolio and, this is happening across the board, in order to get face value or close to face value they have to sell the highest quality securities in the portfolio. So we have had a couple of instances where we have asked the fixed income manager to look at where we can raise cash without taking a significant hit. The Bank has been a good source for that. So far we are hanging on and we have an overlay program in place that is preventing us from having to force sells. If we take another dramatic depression like down turn things would be extremely challenging. If we could find coming through some of these government policy implementations it is the ability of the market then I think that it is just a matter of patience.

**Representative Kempenich:** Has the Bank been an asset to you in the last year?

**Steve Cochrane:** Yes. Absolutely. In a couple of aspects. It has been a standing joke in the SIB that the Bank of North Dakota is our best performing fixed income manager when times are bad. Why? Because they have such a high quality investment portfolio. Over most normal times you get paid a little bit more money when you hold the bonds of an IBM or Microsoft as opposed to a US Treasury. But when everybody becomes spirit able and sells their corporate holdings and buys treasury securities then those treasury securities rise in value relative to lower credits. That benefits the portfolio of the Bank of North Dakota. From that prospective they have played a great role over the years for stabilization. Secondly we participate in the Bank of North Dakota match loan program. Which has been recently been bumped up to a

\$200million relationship whereby the Bank makes loans to companies that are expanding operations in North Dakota. They have high quality criteria for these loans. The loans are competitively priced at underlying term structures or treasury rates and then funded by the State Investment Board through the purchase of CDs. These CDs are not market to market which is nice. So you have an instrument that is paying treasury rates that were available at that time that do not fluctuate in market value and can be placed where they seem most appropriate in the portfolios. Those have been criticized because everybody gets used to thinking that the pension fund makes 15 or 18% a year and we are making 5% over here but the fact of the matter is now I wish the entire fund were invested there.

**Chairman Delzer:** Could those things be done by a private bank?

**Steve Cochrane:** We do have the full backing of the state so I don't think that the credit could be exceeded or matched by the private sector. I believe in a number of these cases the way the bank structures them is that they are participating. We will see at the meeting several banks are participating to come in and share in the risk of making a loan to a firm.

**Chairman Delzer:** Lori, I see that you have the \$5million listed under contract services. Why is that?

**Lori Laschkewitsch, OMB:** Normally that would be a continuing appropriation. We put it there just so it was separated out and not part of their operations. Typically their payments are not an appropriated amount.

**Representative Berg:** The TFFR is that a defined benefit?

**Steve Cochrane:** Yes,

**Representative Berg:** You manage the Budget Stabilization fund so you have had many different numbers thrown out on where it is and how much of this ending fund balance we are

going put in there. What is your estimate today? I am assuming that took a hit like the rest of your funds did. Where is that fund today compared to say December?

**Steve Cochrane:** From the latest reconciled information that we have is that there will be a \$200million balance, which is down \$11million.

**Representative Berg:** That is something that we as legislators would probably want to track as we move forward. My other question relates to your interfacing with the North Dakota money managers, North Dakota investors, North Dakota investment options, I want to ensure that we have opportunities for those people to come in and compete for this business. I don't want the legislature to correct you on how you should invest but at the same time I want to make sure that we have opportunities for some of these people to provide services.

**Steve Cochrane:** I appreciate that input. It is difficult (INAUDIBLE) We do have currently, in addition to the Bank of North Dakota being very significant, a firm that goes by the name Invest America that manages two funds. They try and understand that part of your mandate is to try to find capital opportunities here in the state. We participated in the firm that is out east that works with the manipulation of weather patterns. The name is escaping me right now.

**Chairman Delzer:** If I read the budget stabilization right, we are going to have to put enough in there so we end up at 10% of whatever our General Fund appropriations is. If we lose another \$5-10million for that to work it ends up taking that much more out of the General Fund.

**Representative Berg:** Just so we all understand the problem is that the Governor put his budget in and I assume projecting the difference between \$200million and \$311million. So \$111million is available for other spending. Now if that \$200million is really \$189million then the money available for other spending is \$11million less. We kind of need to be aware of that as we are moving forward that we have those reconciled.

**Chairman Delzer:** The trigger date is June 30<sup>th</sup>.

**Steve Cochrane:** I am happy to participate in anything related to this. We do have a meeting set up for February 5<sup>th</sup> where we are bringing in the manager who manages the half of the portfolio that has been more volatile which is Prudential.

**Representative Berg:** If you could just communicate with Legislative Council fiscal staff as we move forward so that they know what that number is.

Ken Tupa, Lobbyist #083 representing the ND Retired Teachers Association, presented his written testimony regarding the one-time \$5million for the purpose of providing a supplemental retirement payment to retired teachers.

**Chairman Delzer:** So what we are looking at would be 5.4million?

**Ken Tupa:** Yes. However that does not include any administrative expenses for administrating this payment. Those would not be significant. I would just like to clarify a question that was asked when Senator O'Connell was here. There is no appropriation in Senator O'Connell's bill. It is just the formula. The appropriations are right here.

Josh Askvig, NDEA, spoke in support of the bill.

Chairman Delzer closed the discussion.

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1022

House Appropriations Committee  
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: 2/6/09

Recorder Job Number: 8928

Committee Clerk Signature

*Tonya Koegel*

Minutes:

Chairman Delzer opened the discussion of amendments on House Bill 1022.

**Chairman Delzer:** I would like an amendment there that would remove the \$5million for the teacher's thirteenth check. I don't really have any comments about the validity of it. The reason I want it removed is that the bill that deals with the policy was put in in the Senate. We have not dealt with that. I don't if the Senate has even dealt with it yet. I would like to have that removed so that if it comes over and passes both houses it will certainly go back in on the Senate side. They received four new FTEs last time in PERS.

**Vice Chairman Thoreson:** So you are just taking the money out because the Senate is dealing with the policy now.

**Representative Glassheim:** If it passes it might come back in later.

**Chairman Delzer:** I would certainly expect that if the policy passes both sides the money would have to be there. We have an Oasis retirement bill on the floor. I think we passed that yesterday as a matter of fact. That is the \$13000, I don't know, Roxanne we were talking about putting language in that if the Oasis money that is appropriated is not needed it is returned to the General Fund.

**Representative Berg:** There can't be many people left in the Oasis fund.

**Chairman Delzer:** There is one. How much has the operating went up? It looks like it went down a bit. That is RIO that is down in operating. Do we have any kind of numbers on turnback from them?

**Representative Kempenich:** PERS all stays in there because they are special funds.

**Chairman Delzer:** That would be all that I would have in this one then. With that committee members, Monday we will have to start taking these up. Hopefully I will get a copy of most of these and if I get a copy of these, if I am around late I will try to get it and lay it on your desks. So if you come in Monday morning you can get it. If I don't it should be available.

**Roxanne Woeste, Legislative Council:** I believe Brady mentioned that you wanted it emailed.

**Chairman Delzer:** That will work.

**Roxanne Woeste, Legislative Council:** We will do that as soon as we have all of the documentation put together.

Chairman Delzer closed the discussion.

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1022

House Appropriations Committee  
Government Operations Division

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Hearing Date: 2/9/09

Recorder Job Number: 8965

Committee Clerk Signature Tonya Voegde

Minutes:

Chairman Delzer gave a rundown on the weekly schedule.

Chairman Delzer opened discussion on House Bill 1022

**Chairman Delzer:** I think the first one we will take up is PERS. I think on the list we have something there that was add a section to require the department to return unused OASIS retirement funding to the General Fund at the end of the biennium. I think that it actually meant that we should put it in code somewhere that if the fund is no longer needed, whatever is in it returns and not necessarily reference the end of the biennium.

**Roxanne Woeste, Legislative Council:** I am not sure if there is a special fund set up for the Oasis money.

**Chairman Delzer:** When we had the discussion, the discussion was that it is kept separate in PERS somewhere. It is about the only General Fund money in PERS.

**Roxanne Woeste, Legislative Council:** That is the only General Fund money in PERS.

**Chairman Delzer:** The issue was that there was nothing anywhere that would tell them what to do when the fund was not needed.

**Roxanne Woeste, Legislative Council:** We can put together something. Do you want it in Century Code or would just a section in their appropriation bill work?

**Chairman Delzer:** Legislative intent. If it is the only General Fund money, somehow there has to be something that allows them to carry that forward, because they are carrying forward funds.

**Roxanne Woeste, Legislative Council:** I do not believe PERS had any General Fund money in 07-09.

**Chairman Delzer:** No but they would have had the OASIS fund before that. This has been funded for quite a while and we have put money into it before.

**Roxanne Woeste, Legislative Council:** I believe this was through Job Service. I think this is a new activity for PERS.

**Chairman Delzer:** Go ahead and get the language drafted. Do you have the language drafted for this already?

**Roxanne Woeste, Legislative Council:** No we do not.

**Representative Berg:** On this Oasis, I think all we want to do is look at it and make sure that if the need is no longer there that that General Fund money is really a turnback to the General Fund. Whatever is simplest?

**Chairman Delzer:** If the rules in general state that then we do not need to put anything on there. The other thing to look at is the \$5million for the teachers fund for the thirteenth check. I think I am the one that asked for this. Somebody else would have to move it since the chair can't move. The reason I asked for this is the House has not dealt with the policy issue on this. Until we deal with the policy issue, it is my opinion that we should put the money in there. That doesn't mean we don't approve or agree with it but in essence if we leave the money there we are approving of the policy before it has a chance to run its course and see where it is going.

**Representative Kempenich:** I think one of the issues that they brought in where you would have to start amending it because they said they needed another half million more. A person should have the policy and the money on this bill together. I think that if they do change numbers because there was two different parts to that bill I think you should have the numbers stick with what it is going to cost to do it instead of trying to amend over here and we don't know exactly where they are winding up with that number.

**Representative Kaldor:** The policy issue, which committee is that going through right now?

**Chairman Delzer:** It is my understanding that it would be going through a policy committee over in the Senate and then to Appropriations in the Senate.

**Representative Glassheim:** It is moving through so if we kill it, it still has a chance.

**Chairman Delzer:** The other issue to me on this, even if the policy goes forward, I agree with people that have been retired for a certain length of time may have qualified need for a thirteenth check but I am not sure I agree with those that have just retired getting it. But that is a policy issue and that is not what we should be looking at. Is there anyone that wishes to do anything with the \$5million?

**Representative Kempenich:** I move we remove the 5million in PERS with the intent of catching up with the policy bill.

**Representative Berg:** Second.

**Chairman Delzer:** We have a motion and a second, any discussion?

**Representative Berg:** It's always frustrating here when we have bills floating between the House and the Senate. I agree I am not totally clear on how this money is to be distributed and really we have not been distributed on why this is a fairness issue and it should be put in here.

On the other hand there is always a risk that if you take it out of this budget, what happens if that bill doesn't come over. Having said that this is obviously a fairly high profile issue that I

don't think is going to go away but again if this money stays in here and the policy bill comes to the house, the money goes to the Senate then we are in the same situation. How do we enhance or reduce or make a decision on that with the money over in the Senate? It is the same as the discussion on the Centers of Excellence. I know that for what ever reason the tradition has been to keep these separate but I think that should be changed and the money should be together with the policy so again as you are dealing with the policy, everyone knows here is the amount of money that is being plugged into that.

**Chairman Delzer:** If the issue makes it over we will see it. The bill is 2277.

**Representative Berg:** This may not be appropriate but there are people that have been tracking this issue in the House and in the Senate, would it be appropriate to get just a brief on what is going on in the Senate or would you prefer not?

**Chairman Delzer:** I don't think I want to go down that road here. The bill is standing on its own over there. The issue before us is whether or not we want to have the money in here or if we want to look at it afterwards. That is what we have conference committees for. If the bill makes it through I am sure there is no problem of making sure the money is there in the end.

**Representative Kaldor:** Just looking at the status it apparently passed GVA in the Senate and has been re referred to Appropriations. So it is possible that they will put the money in the Senate version.

**Chairman Delzer:** My guess is that they will put the money back in RIO when it comes before them.

**Representative Glassheim:** I understand the procedural reasons however I would feel more comfortable if I knew the money was there and if something peculiar happened on April 20<sup>th</sup> where we had to take it out then that is another story but would rather have to vote to take it out than put it in later.

**A motion was made by Representative Kempenich, seconded by Representative Berg to adopt an amendment relating to the \$5million in PERS. The amendment was adopted with a 5-3-0 vote.**

**Chairman Delzer:** Again this is, in my mind, not a vote on the issue. It is a vote on where the money stands.

**Representative Berg:** I think we should have some discussion with the Senate to make sure they are understanding is the same otherwise this will be a mess the whole session. So hopefully that gets communicated to the Senate and we find out if that is acceptable.

**Chairman Delzer:** It will certainly be part of the minutes and when we have a chance to discuss any of this with the Senate Appropriations or whatever we will convey that message. Is there anything further in PERS? The issue with PERS and RIO to me is we have not made any adjustments to their operating. One of the reasons why is because the operating and everything is special funded from within PERS. So any money that they do not use, it is my understanding that the money goes back to the trust funds. It is incumbent up to the lobbyist who just left and everybody else to make sure that the use of that trust fund is as proper as it can be. Roxanne or Tammy is that your understanding of how that funding works? That if there is operating money that they do not use that it goes back to the trust fund.

**Tammy Dolan, OMB:** Yes.

Chairman Delzer closed the discussion of amendments for PERS.

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1022

House Appropriations Committee  
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: 2/16/09

Recorder Job Number: 9500 at 14:20

Committee Clerk Signature

*Tonya Voegeli*

Minutes:

Chairman Delzer opened the discussion of amendments on House Bill 1022.

Chairman Delzer reviewed the amendment.

**A motion was made by Vice Chairman Thoreson, seconded by Representative Dosch to adopt amendment 98022.0104 to House Bill 1022. The amendment was adopted by voice vote.**

**A motion was made by Vice Chairman Thoreson, seconded by Representative Dosch for a DO PASS AS AMENDED recommendation for House Bill 1022 to the House Appropriations Full Committee. The vote was 4 yeas, 3 nays and 1 absent and not voting. The carrier will be Representative Berg.**

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1022

House Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: February 17, 2009

Recorder Job Number: 9626

Committee Clerk Signature

*Carmen Hart*

Minutes:

Rep. Berg: The amendments remove \$5 million on the Teachers' Retirement Fund so that money can be with the formula bill and not separate in this budget bill. I move the amendments.

Rep. Delzer seconded the motion.

A voice vote was taken. Motion carries.

Rep. Berg moved a Do Pass as Amended. Rep. Thoreson seconded the motion.

Rep. Glassheim: It is my understanding that this is still potentially alive in another bill, and if it were voted on as a policy matter, the money would be added somewhere else. Is that correct?

Rep. Delzer: The policy issue is in the Senate. We have not had a discussion on the policy. It would belong in the PERS budget at that time.

Rep. Kempenich: The number is not accurate. That is why we did this.

Rep. Kroeber: Separating the policy from the fiscal end of it doesn't seem like a very good way to run a railroad.

Chm. Svedjan: If we can control where bills are introduced, that would help immensely. We had an inordinate number of them this time where budgets are in one house and policy questions or appropriations or both are in another house.

Rep. Delzer: There is a situation where there is a little gf money in this budget for the Oasis Retirement Fund. We've been told that it resides in the gf until it is used and if it is not needed, it will stay in the gf.

Rep. Ekstrom: This agency has no vacant positions. Would they be subject to the underfunding?

Rep. Delzer: Yes, they would be subject by the number that they would have, 2% or whatever.

**DO PASS AS AMENDED. 19 YEAS, 4 NAYS, 2 ABSENT AND NOT VOTING.** Rep. Berg is the carrier of this bill.

Rep. Kempenich: SB 2277 passed the Senate unanimously.

**2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1022**

House House Appropriations- Government Operations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number "Click here to type Amendment Number"

Action Taken Adopt amendment

☐ Voice Vote

☒ Roll Call

Motion Made By Representative Kempenich: Seconded By Representative Berg:

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	x		Representative Glassheim		x
Vice Chairman Thoreson	x		Representative Meyer		x
Representative Kempenich	x		Representative Kaldor		x
Representative Berg	x				
Representative Dosch	x				

Total (Yes) 5 No 3

Absent 0

Floor Assignment "Click here to type Floor Assignment"

If the vote is on an amendment, briefly indicate intent:

To remove the \$5million from PERS with the intent of catching up with the policy bill that deals with the funds.

**Amendment Adopted**

98022.0104  
Title.  
Fiscal No. 3

*Attachment A*  
*2/17/09*  
Prepared by the Legislative Council staff for  
House Appropriations - Government  
Operations

February 11, 2009

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1022

Page 1, line 2, remove "; and to provide a transfer"

Page 2, line 9, replace the first "5,013,000" with "13,000" and replace the second "5,013,000" with "13,000"

Page 2, line 11, replace "(\$3,652,723)" with "(\$8,652,723)" and replace "14,943,487" with "9,943,487"

Page 2, remove lines 13 through 22

Page 2, remove lines 28 through 31

Page 3, remove lines 1 and 2

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT - LC 98022.0104 FN 3**

**A copy of the statement of purpose of amendment is attached.**

**TATEMENT OF PURPOSE OF AMENDMENT:****House Bill No. 1022 - Summary of House Action**

	<b>Executive Budget</b>	<b>House Changes</b>	<b>House Version</b>
<b>Retirement and Investment Office</b>			
Total all funds	\$8,731,351	(\$5,000,000)	\$3,731,351
Less estimated income	3,731,351	0	3,731,351
General fund	\$5,000,000	(\$5,000,000)	\$0
<b>Public Employees Retirement System</b>			
Total all funds	\$6,212,136	\$0	\$6,212,136
Less estimated income	6,199,136	0	6,199,136
General fund	\$13,000	\$0	\$13,000
<b>Bill total</b>			
Total all funds	\$14,943,487	(\$5,000,000)	\$9,943,487
Less estimated income	9,930,487	0	9,930,487
General fund	\$5,013,000	(\$5,000,000)	\$13,000

**House Bill No. 1022 - Retirement and Investment Office - House Action**

	<b>Executive Budget</b>	<b>House Changes</b>	<b>House Version</b>
Salaries and wages	\$2,724,781		\$2,724,781
Operating expenses	924,570		924,570
Contingencies	82,000		82,000
Transfer - Teachers' Fund for Retirement	5,000,000	(5,000,000)	
Total all funds	\$8,731,351	(\$5,000,000)	\$3,731,351
Less estimated income	3,731,351	0	3,731,351
General fund	\$5,000,000	(\$5,000,000)	\$0
FTE	17.00	0.00	17.00

**Department No. 190 - Retirement and Investment Office - Detail of House Changes**

	<b>Removes General Fund Transfer<sup>1</sup></b>	<b>Total House Changes</b>
Salaries and wages		
Operating expenses		
Contingencies		
Transfer - Teachers' Fund for Retirement	(5,000,000)	(5,000,000)
Total all funds	(\$5,000,000)	(\$5,000,000)
Less estimated income	0	0
General fund	(\$5,000,000)	(\$5,000,000)
FTE	0.00	0.00

This amendment removes Section 4 of the bill relating to a transfer of \$5 million from the general fund to the Teachers' Fund for Retirement for supplemental retirement payments for retired teachers.

**2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1022**

House House Appropriations- Government Operations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 98022.0104

Action Taken Adopt Final Amendment

☒ Voice Vote

☐ Roll Call Vote

Motion Made By Vice Chairman Thoreson: Seconded By Representative Dosch:

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer			Representative Glassheim		
Vice Chairman Thoreson			Representative Meyer		
Representative Kempenich			Representative Kaldor		
Representative Berg					
Representative Dosch					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

If the vote is on an amendment, briefly indicate intent:

Amendment Attached

**Amendment Adopted**

**2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1022**

House House Appropriations- Government Operations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 98022.0104

Action Taken Do Pass As Amended

☐ Voice Vote

☒ Roll Call Vote

Motion Made By Vice Chairman Thoreson: Seconded By Representative Dosch:

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X		Representative Glassheim		X
Vice Chairman Thoreson	X		Representative Meyer		X
Representative Kempenich	X		Representative Kaldor		X
Representative Berg	A				
Representative Dosch	X				

Total (Yes) 4 No 3

Absent 1

Floor Assignment Representative Berg

If the vote is on an amendment, briefly indicate intent:

Date: 2/17/09  
Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1022

Full House Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 98022-0104

Action Taken Adopt .0104

Motion Made By Berg Seconded By Delzer

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Rep. Skarphol			Rep. Kroeber		
Rep. Wald			Rep. Onstad		
Rep. Hawken			Rep. Williams		
Rep. Klein					
Rep. Martinson					
Rep. Delzer			Rep. Glassheim		
Rep. Thoreson			Rep. Kaldor		
Rep. Berg			Rep. Meyer		
Rep. Dosch					
Rep. Pollert			Rep. Ekstrom		
Rep. Bellow			Rep. Kerzman		
Rep. Kreidt			Rep. Metcalf		
Rep. Nelson					
Rep. Wieland					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

If the vote is on an amendment, briefly indicate intent:

*Voices Vote - carries*

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1022

Page 1, line 13, replace "389,872" with "285,689" and replace "2,724,781" with "2,620,598"

Page 1, line 16, replace "378,443" with "274,260" and replace "3,731,351" with "3,627,168"

Page 1, line 22, replace "555,854" with "405,476" and replace "4,302,137" with "4,151,759"

Page 2, line 1, replace "(\$9,031,166)" with "(\$9,181,544)" and replace "6,212,136" with "6,061,758"

Page 2, line 2, replace "(9,044,166)" with "(9,194,544)" and replace "6,199,136" with "6,048,758"

Page 2, line 9, replace the first "5,013,000" with "13,000" and replace the second "5,013,000" with "13,000"

Page 2, line 10, replace "(8,665,723)" with "(8,920,284)" and replace "9,930,487" with "9,675,926"

Page 2, line 11, replace "(\$3,652,723)" with "(\$8,907,284)" and replace "14,943,487" with "9,688,926"

Page 2, remove lines 13 through 22

Page 2, remove lines 28 through 31

Page 3, remove lines 1 and 2

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT - LC 98022.0105 FN 4**

**A copy of the statement of purpose of amendment is attached.**

**STATEMENT OF PURPOSE OF AMENDMENT:****House Bill No. 1022 - Summary of House Action**

	<b>Executive Budget</b>	<b>House Changes</b>	<b>House Version</b>
<b>Retirement and Investment Office</b>			
Total all funds	\$8,731,351	(\$5,104,183)	\$3,627,168
Less estimated income	3,731,351	(104,183)	3,627,168
General fund	\$5,000,000	(\$5,000,000)	\$0
<b>Public Employees Retirement System</b>			
Total all funds	\$6,212,136	(\$150,378)	\$6,061,758
Less estimated income	6,199,136	(150,378)	6,048,758
General fund	\$13,000	\$0	\$13,000
<b>Bill total</b>			
Total all funds	\$14,943,487	(\$5,254,561)	\$9,688,926
Less estimated income	9,930,487	(254,561)	9,675,926
General fund	\$5,013,000	(\$5,000,000)	\$13,000

**House Bill No. 1022 - Retirement and Investment Office - House Action**

	<b>Executive Budget</b>	<b>House Changes</b>	<b>House Version</b>
Salaries and wages	\$2,724,781	(\$104,183)	\$2,620,598
Operating expenses	924,570		924,570
Contingencies	82,000		82,000
Transfer - Teachers' Fund for Retirement	5,000,000	(5,000,000)	
Total all funds	\$8,731,351	(\$5,104,183)	\$3,627,168
Less estimated income	3,731,351	(104,183)	3,627,168
General fund	\$5,000,000	(\$5,000,000)	\$0
FTE	17.00	0.00	17.00

**Department No. 190 - Retirement and Investment Office - Detail of House Changes**

	<b>Removes General Fund Transfer<sup>1</sup></b>	<b>Reduces Funding for Anticipated Salary Savings<sup>2</sup></b>	<b>Removes Salary Equity Funding<sup>3</sup></b>	<b>Total House Changes</b>
Salaries and wages		(\$53,482)	(\$50,701)	(\$104,183)
Operating expenses				
Contingencies				
Transfer - Teachers' Fund for Retirement	(5,000,000)			(5,000,000)
Total all funds	(\$5,000,000)	(\$53,482)	(\$50,701)	(\$5,104,183)
Less estimated income	0	(53,482)	(50,701)	(104,183)
General fund	(\$5,000,000)	\$0	\$0	(\$5,000,000)
FTE	0.00	0.00	0.00	0.00

This amendment removes Section 4 of the bill relating to a transfer of \$5 million from the general fund to the Teachers' Fund for Retirement for supplemental retirement payments for retired teachers.

<sup>2</sup> This amendment reduces salaries and wages funding to recognize anticipated savings from vacant positions and employee turnover.

<sup>3</sup> This amendment removes funding added in the executive budget for state employee salary equity adjustments.

#### House Bill No. 1022 - Public Employees Retirement System - House Action

	Executive Budget	House Changes	House Version
Salaries and wages	\$4,302,137	(\$150,378)	\$4,151,759
Operating expenses	1,659,999		1,659,999
Contingencies	250,000		250,000
Total all funds	\$6,212,136	(\$150,378)	\$6,061,758
Less estimated income	6,199,136	(150,378)	6,048,758
General fund	\$13,000	\$0	\$13,000
FTE	33.00	0.00	33.00

#### Department No. 192 - Public Employees Retirement System - Detail of House Changes

	Reduces Funding for Anticipated Salary Savings <sup>1</sup>	Removes Salary Equity Funding <sup>2</sup>	Total House Changes
Salaries and wages	(\$84,730)	(\$65,648)	(\$150,378)
Operating expenses			
Contingencies			
Total all funds	(\$84,730)	(\$65,648)	(\$150,378)
Less estimated income	(84,730)	(65,648)	(150,378)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

<sup>1</sup> This amendment reduces salaries and wages funding to recognize anticipated savings from vacant positions and employee turnover.

<sup>2</sup> This amendment removes funding added in the executive budget for state employee salary equity adjustments.

Date: 2/17/09  
Roll Call Vote #: 2

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1022

Day 31

Full House Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 0104

Action Taken Dr. Pass as Amended

Motion Made By Berg Seconded By Thoreson

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich	✓				
Rep. Skarphol	✓		Rep. Kroeber		✓
Rep. Wald	✓		Rep. Onstad		✓
Rep. Hawken	✓		Rep. Williams	✓	
Rep. Klein	✓				
Rep. Martinson	✓				
Rep. Delzer	✓		Rep. Glassheim	✓	
Rep. Thoreson	✓		Rep. Kaldor	✓	
Rep. Berg	✓		Rep. Meyer		✓
Rep. Dosch	✓				
Rep. Pollert	✓		Rep. Ekstrom		✓
Rep. Bellew	✓		Rep. Kerzman	✓	
Rep. Kreidt	✓		Rep. Metcalf	✓	
Rep. Nelson	✓				
Rep. Wieland	✓				

Total (Yes) 19 No 4

Absent 2

Floor Assignment Berg

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE**

**HB 1022: Appropriations Committee (Rep. Svedjan, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (19 YEAS, 4 NAYS, 2 ABSENT AND NOT VOTING). HB 1022 was placed on the Sixth order on the calendar.

Page 1, line 13, replace "389,872" with "285,689" and replace "2,724,781" with "2,620,598"

Page 1, line 16, replace "378,443" with "274,260" and replace "3,731,351" with "3,627,168"

Page 1, line 22, replace "555,854" with "405,476" and replace "4,302,137" with "4,151,759"

Page 2, line 1, replace "(\$9,031,166)" with "(\$9,181,544)" and replace "6,212,136" with "6,061,758"

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Page 2, line 9, replace the first "5,013,000" with "13,000" and replace the second "5,013,000" with "13,000"

Page 2, line 10, replace "(8,665,723)" with "(8,920,284)" and replace "9,930,487" with "9,675,926"

Page 2, line 11, replace "(\$3,652,723)" with "(\$8,907,284)" and replace "14,943,487" with "9,688,926"

Page 2, remove lines 13 through 22

Page 2, remove lines 28 through 31

Page 3, remove lines 1 and 2

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT - LC 98022.0105 FN 4**

A copy of the statement of purpose of amendment is on file in the Legislative Council Office.

2009 SENATE APPROPRIATIONS

HB 1022

## 2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1022

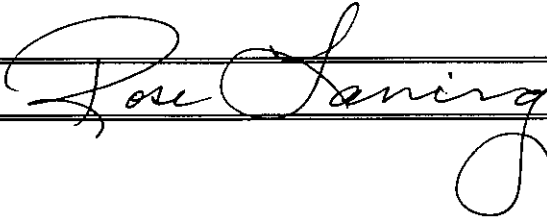
Senate Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: March 5, 2009

Recorder Job Number: 10319

Committee Clerk Signature



Minutes:

**Chairman Holmberg** called the committee hearing to order on HB 1022 which is an appropriation for various state retirement and investment agencies.

The policy bill providing the formula for the supplemental retiree payments is SB 2277 which passed in the Senate a few weeks ago with a \$5.425 million fiscal note. Neither SB 2277 nor HB 1022 includes funding for the supplemental retiree payment provided for in SB 2277.

**David O'Connell, State Senator, District 6**

This bill was put in and a group went to the Governor and asked it to be put into his budget, so that's where part of the monies comes from. Basically what had happened is that we all want to get teacher's salaries higher, and in the realm of things, we forgot about the teachers that taught the teachers, so this is a way to help the people that have been retired the longest.

**Chairman Holmberg:** We did that in a separate bill that we sent over to the House – SB 2277.

**David O'Connell:** It needs to be tweaked just a little bit.

**Chairman Holmberg:** It looks like it was tweaked in the House.

**Sparb Collins, Executive Director, North Dakota Public Employees Retirement System (PERS)**

Testified in favor of HB 1022. Written attached testimony # 1.

**Senator Warner** asked questions about OASIS (Online Account Services Information System), the retirement in the judicial system?

**Senator Warner:** Are there others that see government where we are and paying as we go?

**Sparb Collins:** There is one we administer on administrative services only basis – and that's the one in the court. That predated the judges retirement system that PERS fully administered that we assumed responsibility for in the 80s. That is paid for through the court's budget and then they transfer those funds to us on a monthly basis and we make a payment to those remaining members.

**Senator Robinson:** Did the Highway Patrol have a separate program?

**Sparb Collins:** The Highway Patrol is one of the programs that PERS administers. Yes, it is a separate trust within PERS and has its own separate actuarial valuation and its own separate contribution structure.

**Senator Robinson:** You had an overview of the status of our retirement funds, and since that time the market certainly hasn't gotten any better. Could you give us a one page snapshot for the committee what's happened up to this point?

**Sparb Collins:** I'd be happy to update some of those tables that I showed you. Generally speaking, you are correct, it has gotten worse. The challenges are only greater. We suggested at the beginning of the session, a contribution increase. At that time, we were thinking the worst case scenario was -26%, now the worst case scenario is between 30 and 36 percent. In November, I was doing projections following worse case scenarios at a negative 8, so this situation has continually gotten worse.

**Senator Robinson:** What do we do if this continues and we get into July and we're at 44%?

At some point is there not a call for action? How far can we go before something has to give ASAP?

**Sparb Collins:** I don't know if I can give you an answer. One of the things we brought forth was to increase the contributions for this biennium with the idea that we would be able to start getting action on that. That would also probably get us, with increased contributions, to a level where our contribution income would be sufficient to pay our benefits. Right now we pay out about \$70 M dollars a year and we take in about \$48 M dollars a year in contributions. Every part that we close the gap is less that has to come out of the fund in the near term. I was hoping we were close to the bottom a while ago.

**Senator Krebsbach:** When we put some money in OASIS, was that three or four sessions ago? We must have missed the actuarial mark?

**Sparb Collins:** The OASIS is just set as a pay as you go. That was two sessions ago that money was put in to pay for one more biennium. But what happened is that there are three beneficiaries at that time, and two of the beneficiaries passed away. So we had enough money to make it through this biennium without having to request money and now we're back.

**Senator Krebsbach:** Our current total fund, what is the breakdown? Did I hear you say that it was 60% state and 40% political sub? So this \$70 M payout combines both entities, correct?

**Sparb Collins:** That would be for the whole PERS pool. We have about 6000 retirees. Those retirees come from the state. They come from political subdivisions.

**Senator Mathern:** Do we have any political subdivisions left that are not eligible to join PERS?

**Sparb Collins:** If you had asked that two years ago, I would've probably said no, and then we found out there was some metropolitan planning organizations that were ineligible and the bills moved through this session. History shows that a lot of the political subdivisions have joined PERS, but there are a lot of them that have their own systems.

**Senator Mathern:** Why do we need bills for metropolitan councils?

**Sparb Collins:** Interestingly, they did not meet the definition of a political subdivision. What the statute did, the bill that went through, was to extend the political subdivisions status for the metropolitan planning organizations thereby making eligible for PERS.

**Steve Cochrane, Executive Director, North Dakota Retirement and Investment Office (RIO) and Investment Director to the State Investment Board (SIB)**

Testified in favor of HB 1012. Written attached testimony # 2.

(41:40)

**Chairman Holmberg:** When you look at entire budget, there is the issue of what market has done and what the market is doing. The budget that is in front of us has only one blister point and that has to do with the onetime payment that was removed because the committee is not dealing at this point with the equity and the salary issue. Would I be correct to say that you are happy with the budget? So we'd like to have testimony from folks who are not happy with the removal of the money or the policy bill that the Senate had passed. I hope they will focus on the areas where the blisters are.

**Senator Mathern:** Do we have any blanket insurance to insure a certain value until the market corrects?

**Steve Cochrane:** He's asking if through insurance we cover potential losses in the investment program and from time to time, the board has looked at what is called fiduciary insurance. The general consensus is that during the visitations to that issue is that that insurance is so prohibitively expensive, it's never been pursued.

**Ken Tupa, ND Retired Teachers Association**

Testified in favor of HB 1022. Written attached testimony # 3.

(49:30)

**Senator Mathern:** The payments are based on service and years of retirement, does that have any basis to what people put into the program, either as individuals or school districts?

**Ken Tupa:** Yes, the formula in SB 2277 is based on dollar figures. \$24 multiplied by your years of service credit, plus \$18 multiplied by the number of years you've been retired. That is then subject to IRS limit provisions, to avoid administrative issues and roll fees. It takes into account the number of years you've been retired. It doesn't take into account the work contributions, the individual's contributions into TFFR. And that varies. You can go back to when there were caps on the amounts that teachers could contribute to the fund. That has been changed over the years. Retirement multipliers have changed too. That is the variable that's used to calculate the retirement benefits and it's currently 2.0. Prior to the 2001, it was 1.88, and prior to that it was 1.75 so the lower the multiplier, the lower the annuity.

**Senator Mathern:** Does that mean that those districts and teachers that put more money in are funding those teachers and school districts whose retirement contributions are less?

**Ken Tupa:** I'm not sure I can answer that question. All of the contributions from the employer and employee become part of the total retirement fund and that is what's used to pay the annuities and enhancements. In 2001 and 2002 there were slight enhancements for retirees, but the actives also received that benefit when the multipliers increased. What we are asking here is not money from the fund, this is general fund money.

**Senator Kilzer:** Is there any obligation or requirements that we need to fund such a request?

**Ken Tupa:** No.

**Josh Askvig, North Dakota Education Association**

Testified in favor of HB 1022. Written attached testimony # 4.

**August Schafer, Bismarck, ND**

Testified in favor of HB 1022. No written testimony, but quoted various prices that have risen in today's economy and how it is stretching budgets. He said he's not trying to make money, just trying to stay even.

**Chairman Holmberg** closed the hearing on HB 1022.

## 2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1022

Senate Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: April 2, 2009

Recorder Job Number: 11648

Committee Clerk Signature

*Rose Loring*

Minutes:

Chairman Holmberg opened discussion on HB 1022.

Senator Krebsbach gave update and handed out amendments .0202.

**Senator Krebsbach moved Do Pass amendment .0202.**

**Senator Wardner seconded.**

**Voice vote passed.**

**V. Chair Bowman moved Do Pass as Amended on HB 1022.**

**Senator Robinson seconded.**

**A Roll Call vote was taken. Yea: 13    Nay: 0    Absent: 1**

**Senator Krebsbach will carry the bill.**

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1022

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide an appropriation for defraying the expenses of various state retirement and investment agencies; and to provide a transfer.

**BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

**SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys from special funds derived from income, to the retirement and investment agencies listed in this section for the purpose of defraying their expenses, for the biennium beginning July 1, 2009, and ending June 30, 2011, as follows:

Subdivision 1.

RETIREMENT AND INVESTMENT OFFICE

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$2,334,909	\$389,872	\$2,724,781
Operating expenses	935,999	(11,429)	924,570
Contingencies	<u>82,000</u>	<u>0</u>	<u>82,000</u>
Total special funds	\$3,352,908	\$378,443	\$3,731,351
Full-time equivalent positions	17.00	0.00	17.00

Subdivision 2.

PUBLIC EMPLOYEES RETIREMENT SYSTEM

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$3,746,283	\$555,854	\$4,302,137
Operating expenses	11,247,019	(9,587,020)	1,659,999
Contingencies	<u>250,000</u>	<u>0</u>	<u>250,000</u>
Total all funds	\$15,243,302	(9,031,166)	\$6,212,136
Less estimated income	<u>15,243,302</u>	<u>(9,044,166)</u>	<u>6,199,136</u>
Total general fund	\$0	\$13,000	\$13,000
Full-time equivalent positions	33.00	0.00	33.00

Subdivision 3.

BILL TOTAL

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Grand total general fund	\$0	\$5,438,000	\$5,438,000
Grand total special funds	<u>18,596,210</u>	<u>(8,665,723)</u>	<u>9,930,487</u>
Grand total all funds	\$18,596,210	(9,227,723)	\$15,368,487
Full-time equivalent positions	50.00	0.00	50.00

**SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO SIXTY-SECOND LEGISLATIVE ASSEMBLY.** The following amounts reflect the 2009-11 one-time funding items included in the appropriation in section 1 of this Act:

<u>One-Time Funding Description</u>	<u>2007-09</u>	<u>2009-11</u>
Retirement and investment fund	\$0	\$5,425,000
Total general fund	\$0	\$5,425,000

The 2009-11 one-time funding amounts are not a part of the entity's base budget for the 2011-13 biennium. The retirement and investment office shall report to the appropriations committees of the sixty-second legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2009, and ending June 30, 2011.

**SECTION 3. APPROPRIATION LINE ITEM TRANSFERS.** Upon approval of the respective boards, the retirement and investment office and the public employees retirement system may transfer from their respective contingencies line items in subdivisions 1 and 2 of section 1 of this Act to all other line items. The agencies shall notify the office of management and budget of each transfer made pursuant to this section.

**SECTION 4. APPROPRIATION - TRANSFER - TEACHERS' FUND FOR RETIREMENT.** There is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of \$5,425,000, which the office of management and budget shall transfer on July 1, 2009, to the teachers' fund for retirement for the purpose of making supplemental retirement payments, based on years of service and years of retirement, for the biennium beginning July 1, 2009, and ending June 30, 2011."

Renumber accordingly

Date: 4-2-09  
Roll Call Vote #: 1

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO.

Senate Senate Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number . 0202 amendment

Action Taken ☒ Do Pass ☐ Do Not Pass ☐ Amended

Motion Made By \_\_\_\_\_ Seconded By \_\_\_\_\_

*Vote passed*

Representatives	Yes	No	Representatives	Yes	No
Senator Krebsbach			Senator Seymour		
Senator Fischer			Senator Lindaas		
Senator Wardner			Senator Robinson		
Senator Kilzer			Senator Warner		
V. Chair Bowman			Senator Krauter		
Senator Christmann			Senator Mathern		
V. Chair Grindberg					
Chairman Holmberg					

Total Yes \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

If the vote is on an amendment, briefly indicate intent:

Date: 4-2-09  
Roll Call Vote #: 2

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1022

Senate Senate Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken ☒ Do Pass ☐ Do Not Pass ☒ Amended

Motion Made By Bowman Seconded By Robinson

Representatives	Yes	No	Representatives	Yes	No
Senator Wardner	✓		Senator Robinson	✓	
Senator Fischer	✓		Senator Lindaas	✓	
V. Chair Bowman	✓		Senator Warner	✓	
Senator Krebsbach	✓		Senator Krauter	✓	
Senator Christmann			Senator Seymour	✓	
Chairman Holmberg	✓		Senator Mathern	✓	
Senator Kilzer	✓				
V. Chair Grindberg	✓				

Total Yes 13 No 0

Absent 1

Floor Assignment Krebsbach

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE**

HB 1022, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Engrossed HB 1022 was placed on the Sixth order on the calendar.

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide an appropriation for defraying the expenses of various state retirement and investment agencies; and to provide a transfer.

**BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

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Subdivision 2.

**PUBLIC EMPLOYEES RETIREMENT SYSTEM**

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
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Less estimated income	<u>15,243,302</u>	<u>(9,044,166)</u>	<u>6,199,136</u>
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Subdivision 3.

**BILL TOTAL**

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**SECTION 3. APPROPRIATION LINE ITEM TRANSFERS.** Upon approval of the respective boards, the retirement and investment office and the public employees retirement system may transfer from their respective contingencies line items in subdivisions 1 and 2 of section 1 of this Act to all other line items. The agencies shall notify the office of management and budget of each transfer made pursuant to this section.

**SECTION 4. APPROPRIATION - TRANSFER - TEACHERS' FUND FOR RETIREMENT.** There is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of \$5,425,000, which the office of management and budget shall transfer on July 1, 2009, to the teachers' fund for retirement for the purpose of making supplemental retirement payments, based on years of service and years of retirement, for the biennium beginning July 1, 2009, and ending June 30, 2011."

Renumber accordingly

2009 HOUSE APPROPRIATIONS

CONFERENCE COMMITTEE

HB 1022

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1022

House Appropriations Committee  
Government Operations Division

☒ Check here for Conference Committee

Hearing Date: 4/20/09

Recorder Job Number: 11988

Committee Clerk Signature



Minutes:

**Representative Berg** opened the conference committee on House bill 1022. All conferees were present.

**Senator Krebsbach** explained the Senate changes. They restored the bill back to the Governor's version with one exception. In doing so we reinstated the salaries and the equity. Also we reinstated the supplemental retirement payment for teachers with an addition. The initial bill came in at \$5 million. When the study was done it was proved that we needed \$5.4 million and they requested an additional \$25,000 for administration. This is for a one-time payment to retired teachers.

**Representative Meyer:** Would you clarify for me the \$425,000?

**Senator Krebsbach:** The additional \$400,000 was needed to make the payment in full to the teachers. They found that they had not accurately estimated. The additional \$25,000 is for the administration of this one-time payment.

**Representative Berg:** Are there any other comments?

**Senator Wardner:** One of the other issues that comes up in all of the budgets is the salary and equity. There is also another issue where reduced salary and wages funding to recognize anticipated savings from vacant positions and employee turnover. It is my understanding that

these agencies when they do have vacancies, they are actively trying to find someone. They need that money so that when they are hiring they have that money available. If they don't use it, it goes back and they keep it in a separate fund. It is not used to increase wages for other employees in the department or agency.

**Senator Krebsbach:** I think that this is the area where if they have someone that retires or leaves their employment, they have to get the benefits that they are entitled to upon departure from these types of dollars.

**Representative Berg:** Obviously there are a lot of bigger picture issues here. The key one here is the teachers' supplemental retirement. Not to debate the merits of the money in the bill, when we had this bill in the House we took the money out of here because we didn't want it floating around in two different places. The Senate then passed 2277 & just passed the house last week and how that bill was changed is I believe it was changed as a cut off of date of 2001. So people who retired before 2001 were under a lower multiplier. That number was \$3 to 3 ½ million. We should decide if we want that issue in both these bills. My point is that we should set that aside from our debate because that will be a focus on that other bill. The \$400,000 is new information to me.

**Senator Krebsbach:** I see Faye Kopp here. She would be able to explain that change.

**Representative Berg:** Why don't we cover these other issues? I will go to this vacant FTE pool. Some hard-to-fill positions take several months to find a person. You may have to pay a relocation cost and training cost. Some positions are not filled for 10 years yet we still fund them every year. The concept from the House standpoint is if we have positions that are vacant, that we would roll that money into a pool so that agency could not use that money for other things other than what it was appropriated for.

**Senator Wardner:** The vacant FTE pool and the equity pool, are they two different entities?

**Representative Berg:** Yes. I guess I would like to discuss the equity pool. My personal feeling is that we should fund equity 100% and empower the departments and Central Personnel to ensure we have fairness both vertically and horizontally in state government. With additional money fund 5 and 5. I understand the Governor has about \$23 million in his budget for equity. This is a result of a study by Central Personnel and OMB that is taking these dollars and putting them in every agency at a certain amount. The problems with the equity pool that I see are, if we give the equity pool back to OMB to distribute, they are going to distribute it the same way as was in the bills. What if we felt we want to do more in equity and wanted to add \$5 million? What if we wanted to reduce equity by \$5 million? Where do we take it out? My assumption is it is like Higher Ed. that they have a priority building list. If you have so much money, you stop on the 6<sup>th</sup> or 7<sup>th</sup> project because that is what you have. Some agencies are impacted much higher by the equity than other agencies. Equity in my mind is people that are doing the same job with the same responsibilities throughout state government should be paid approximately the same. Our position on the 5 and 5 is that it is not an automatic 5 and 5 that goes to every employee. A manager has full discretion on how to utilize that money. One of my personal gripes is I think over the years managers have not used their discretion. They've given everyone the same across the board salary increase which causes more disparity in equity as you move forward.

**Senator Krebsbach:** I would agree that we need to see what 2277 is going to do. The reason we put it in here is that the House side killed the bill and we wanted to be sure it is included again because it came out of the Senate with a very strong vote of support. Back to your positions on equity, I feel that central personnel did a very good job in visiting with each agency to determine what they would need in equity. It is probably done more fairly in this session than I have ever seen it being done. If you wanted to add \$5 million, maybe that

could be added to Central Personnel for them to have for extreme cases where there is need for equity rather than try and sprinkle it throughout. If you want to take away 5million, I guess that responsibility would be left on their shoulders as well. I like leaving the equity with the agency.

**Representative Berg:** Are there any other comments?

**Senator Wardner:** I would be in agreement. I would like the equity to stay with the agency. They know their needs. When we look at positions at in state government we are finding the local political subs and our private sector robbing people out of our state employees.

**Representative Berg:** Just so I am on the same page, amendment .0202 is the amendment that was adopted by the Senate?

**Senator Krebsbach:** Yes.

**Representative Berg:** Section 3, you provided a line item transfer. I am just curious what the purpose of that amendment was.

**Sparb:** That was previously in the bill so it is not an amendment to the bill.

**Senator Krebsbach:** Does it not just give you the flexibility to deal with the various things that come up within your agency?

**Sparb:** (inaudible--not speaking into microphone)

**Senator Krebsbach:** Was this just omitted from the original bill and it came to your attention later?

**Representative Berg:** It is almost a reengrossed amendment that includes the original language. I wouldn't mind hearing how the funds are doing.

**Sparb:** Steve would be the best one to do that. We are still 25% down.

**Representative Berg** closed the discussion on House Bill 1022.

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1022

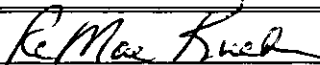
House Appropriations Committee  
Government Operations Division

☒ Check here for Conference Committee

Hearing Date: 4/24/09

Recorder Job Number: 12229

Committee Clerk Signature



Minutes:

**Representative Berg** called the conference committee on House Bill 1022 to order. All conferees were present.

**Representative Berg:** We have an agreement on the equity. The vacant position pool, has that been dealt with in any other budget.

**Senator Wardner:** That will be dealt with in SB 2311. That is in Conference Committee.

**Representative Berg:** That was my understanding I just wanted to make sure. Obviously the supplemental payment has been involved in this bill.

**Representative Dosch:** That is in 2277 and we are trying to work out some of the details on that. We have not quite got to that.

**Senator Krebsbach:** I think that the conference committee is diligently trying to work to make sure we do this. It was in the Governor's budget. It passed on the Senate side. I know you folks passed it in a little different aspect. You cut it back to the 2001 and prior retirees. We have debated that. Where do we take this funding? Do we take it from the General Fund and open the door to a lot of areas seeking money from that fund or do we take it from the TFFR? Some feel it belongs in TFFR but it would be unfair to that fund as it is in dire straits right now

to take it from there without replacing some of the money. We are working on a number of different ways to that. Perhaps an assessment. We are trying to come to resolve.

**Representative Berg:** I guess the only question I have is.... Just to insure that the issue is being dealt with somewhere. Is it necessary to hold these bills for that issue?

**Senator Krebsbach:** I think it would be wise for us to hold on this issue because if it is the only thing we have to deal with, if we could come to some agreement on 2277 it would be quickly dealt with in this committee.

**Representative Berg:** Steve could you recap the markets?

**Steve Cochrane, Executive Director, RIO:** On March 9 the markets hit a new low. We were experiencing a negative in the area of -40%. We are now at a negative 24 ½%. The credit markets are thawing out which is a help to our fund because the freeze in credit has caused devaluation of our fixed income portfolios to fall dramatically. As we see confidence restored in corporate America, we are seeing the valuation of these types of securities rise. I think the recovery of the credit markets needs to precede the recovery in the equity markets. So I have a long term positive outlook. Short term it may be a little choppy.

**Representative Berg** closed the conference committee on House Bill 1022.

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1022

House Appropriations Committee  
Government Operations Division

☒ Check here for Conference Committee

Hearing Date: 4/27/09

Recorder Job Number: 12309

Committee Clerk Signature

Minutes:

Representative Berg called the conference committee on House Bill 1022 to order. All conferees were present.

**Representative Dosch:** As you know what happens in this bill here is kind of tied to what happens in Senate Bill 2277. We keep hoping to resolve that issue before we are here but unfortunately we just had another meeting on it and we have not resolved anything but added a few more wrinkles if you will. We probably aren't in a position to do anything but one thing that I would like the committee to think about is the condition of the teachers fund. We are going to have to do something especially if we go ahead with that 13<sup>th</sup> check. Something is going to have to be done with the fund. One of the proposals that is out there is to increase the employer contribution by .5%. This would help shore up the fund which is defiantly needed. There are some concerns that we didn't have a full hearing on it. It was discussed last session. We looked to go up a whole 1% on the employer contribution and at that time rather than a percent we just went the half percent. Conference committee had determined that last session. The concept was talked about out there and it is something that perhaps we are going to have to do if not this session, next session we may need to see probably a .75% or a full 1% the

longer we wait, this thing isn't getting any better. My thoughts are that even if we do the .5% to help shore up the fund, there is a year delay in implementing this to give the school boards time to get it in their budgets to budget for it. Next session the interim committee will have an opportunity to study it a little bit closer and if that increases adequate enough or if it needs to be further increased at least we would be kind of taking it in two stages rather than one big one if we wait until next session. Although we are not proposing anything at this moment pending the outcome of 2277 I think it is something good for the committee just to consider and start thinking about it since we are running out of time we will have to make that decision in relatively the next day or two. So with that, unless Senator Krebsbach has any comments, she also sits on the conference committee for 2277.

**Representative Berg:** I somewhat apologize. I had intended that we wouldn't meet until the other bill was resolved and I think that the message got to our scheduler assuming that the other bill would resolve if they met one more time. I guess rather than belabor this we will just adjourn and we won't reconvene this committee until we clearly have had action on 2277.

**Senator Wardner:** I do have one question, if we do something like Representative Dosch is taking about, wouldn't the Employees Benefit Committee have to meet and look at this?

**Representative Grande:** (from audience) We have already met on this issue.

**Representative Berg:** My comment would be if 2277 is the vehicle I would like to leave that discussion on 2277. I know we could certainly talk about this for an hour if we got started so I don't want to get started.

**Senator Wardner:** A person gets so tied up in your own conference committee that I wasn't sure if that had to happen with the timing and all of that. I have complete confidence and I am not going to worry about it.

Page 3  
House Appropriations Committee  
Government Operations Division  
Bill/Resolution No. 1022  
Hearing Date: 4/27/09

Representative Berg recessed the conference committee until Senate Bill 2277 is resolved.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1022

That the Senate recede from its amendments as printed on pages 1174 and 1175 of the House Journal and pages 1005 and 1006 of the Senate Journal and that Engrossed House Bill No. 1022 be amended as follows:

Page 1, line 2, after "transfer" insert "; to amend and reenact subsection 1 of section 15-39.1-09 of the North Dakota Century Code, relating to teachers' fund for retirement employer contributions; to provide for application; to provide an effective date; and to provide an expiration date"

Page 2, after line 17, insert:

**"SECTION 3. APPROPRIATION.** There is appropriated out of any moneys in the teachers' fund for retirement, not otherwise appropriated, the sum of \$25,000, or so much of the sum as may be necessary, to the retirement and investment office for the purpose of implementing Senate Bill No. 2277, for the biennium beginning July 1, 2009, and ending June 30, 2011.

**SECTION 4. AMENDMENT.** Subsection 1 of section 15-39.1-09 of the North Dakota Century Code is amended and reenacted as follows:

1. Except as otherwise provided by law, every teacher is a member of the fund and must be assessed upon the teacher's salary seven and seventy-five hundredths percent per annum, which must be deducted, certified, and paid monthly to the fund by the disbursing official of the governmental body by which the teacher is employed. Except as otherwise provided by law, every governmental body employing a teacher shall pay to the fund eight and ~~twenty-five~~ seventy-five hundredths percent per annum of the salary of each teacher employed by it. The disbursing official of the governmental body shall certify the governmental body payments and remit the payments monthly to the fund.

**SECTION 5. APPLICATION.** Section 4 of this Act applies to salaries earned after June 30, 2010.

**SECTION 6. EFFECTIVE DATE.** Section 4 of this Act becomes effective on July 1, 2010.

**SECTION 7. EXPIRATION DATE.** Section 4 of this Act is effective until the ratio of the actuarial value of assets to the actuarial accrued liability of the teachers' fund for retirement increases to ninety percent based upon the actuarial value of assets and expires on the July first that follows the first valuation that shows a ninety percent funded ratio. The board of trustees of the teachers' fund for retirement shall notify the legislative council of the expiration date of section 4 of this Act."

Renumber accordingly

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1022

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Page 2, after line 17, insert:

**"SECTION 3. APPROPRIATION.** If Senate Bill No. 2277 is approved by the sixty-first legislative assembly and becomes effective, there is appropriated out of any moneys in the teachers' fund for retirement, not otherwise appropriated, the sum of \$25,000, or so much of the sum as may be necessary, to the retirement and investment office for the purpose of implementing Senate Bill No. 2277, for the biennium beginning July 1, 2009, and ending June 30, 2011.

**SECTION 4. AMENDMENT.** If Senate Bill No. 2277 is approved by the sixty-first legislative assembly and becomes effective, subsection 1 of section 15-39.1-09 of the North Dakota Century Code is amended and reenacted as follows:

1. Except as otherwise provided by law, every teacher is a member of the fund and must be assessed upon the teacher's salary seven and seventy-five hundredths percent per annum, which must be deducted, certified, and paid monthly to the fund by the disbursing official of the governmental body by which the teacher is employed. Except as otherwise provided by law, every governmental body employing a teacher shall pay to the fund eight and ~~twenty-five~~ seventy-five hundredths percent per annum of the salary of each teacher employed by it. The disbursing official of the governmental body shall certify the governmental body payments and remit the payments monthly to the fund.

**SECTION 5. APPLICATION.** Section 4 of this Act applies to salaries earned after June 30, 2010.

**SECTION 6. EFFECTIVE DATE.** Section 4 of this Act becomes effective on July 1, 2010.

**SECTION 7. EXPIRATION DATE.** Section 4 of this Act is effective until the ratio of the actuarial value of assets to the actuarial accrued liability of the teachers' fund for retirement increases to ninety percent based upon the actuarial value of assets and expires on the July first that follows the first valuation that shows a ninety percent funded ratio. The board of trustees of the teachers' fund for retirement shall notify the legislative council of the expiration date of section 4 of this Act."

Renumber accordingly

VR  
5/1/09  
1064

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1022

That the Senate recede from its amendments as printed on pages 1174 and 1175 of the House Journal and pages 1005 and 1006 of the Senate Journal and that Engrossed House Bill No. 1022 be amended as follows:

Page 1, line 2, remove the second "and" and after "transfer" insert "; to amend and reenact subsection 1 of section 15-39.1-09 of the North Dakota Century Code, relating to teachers' fund for retirement employer contributions; to provide for application; to provide an effective date; and to provide an expiration date"

Page 1, line 13, replace "285,689" with "339,171" and replace "2,620,598" with "2,674,080"

Page 1, line 16, replace "274,260" with "327,742" and replace "3,627,168" with "3,680,650"

Page 1, line 22, replace "405,476" with "490,206" and replace "4,151,759" with "4,236,489"

Page 2, line 1, replace "(\$9,181,544)" with "(\$9,096,814)" and replace "6,061,758" with "6,146,488"

Page 2, line 2, replace "(9,194,544)" with "(9,109,814)" and replace "6,048,758" with "6,133,488"

Page 2, line 10, replace "(8,920,284)" with "(8,757,072)" and replace "9,675,926" with "9,839,138"

Page 2, line 11, replace "(\$8,907,284)" with "(\$8,744,072)" and replace "9,688,926" with "9,852,138"

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**SECTION 4. AMENDMENT.** If Senate Bill No. 2277 is approved by the sixty-first legislative assembly and becomes effective, subsection 1 of section 15-39.1-09 of the North Dakota Century Code is amended and reenacted as follows:

1. Except as otherwise provided by law, every teacher is a member of the fund and must be assessed upon the teacher's salary seven and seventy-five hundredths percent per annum, which must be deducted, certified, and paid monthly to the fund by the disbursing official of the governmental body by which the teacher is employed. Except as otherwise provided by law, every governmental body employing a teacher shall pay to the fund eight and ~~twenty-five~~ seventy-five hundredths percent per annum of the salary of each teacher employed by it. The disbursing official of the governmental body shall certify the governmental body payments and remit the payments monthly to the fund.

2084

**SECTION 5. APPLICATION.** Section 4 of this Act applies to salaries earned after June 30, 2010.

**SECTION 6. EFFECTIVE DATE.** Section 4 of this Act becomes effective on July 1, 2010.

**SECTION 7. EXPIRATION DATE.** Section 4 of this Act is effective until the ratio of the actuarial value of assets to the actuarial accrued liability of the teachers' fund for retirement increases to ninety percent based upon the actuarial value of assets and expires on the July first that follows the first valuation that shows a ninety percent funded ratio. The board of trustees of the teachers' fund for retirement shall notify the legislative council of the expiration date of section 4 of this Act."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT - LC 98022.0207 FN 1**

**A copy of the statement of purpose of amendment is attached.**

3084

**STATEMENT OF PURPOSE OF AMENDMENT:****House Bill No. 1022 - Summary of Conference Committee Action**

	Executive Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Retirement and Investment Office						
Total all funds	\$8,731,351	\$3,627,168	\$78,482	\$3,705,650	\$9,156,351	(\$5,450,701)
Less estimated income	3,731,351	3,627,168	78,482	3,705,650	3,731,351	(25,701)
General fund	\$5,000,000	\$0	\$0	\$0	\$5,425,000	(\$5,425,000)
Public Employees Retirement System						
Total all funds	\$6,212,136	\$6,061,758	\$84,730	\$6,146,488	\$6,212,136	(\$65,648)
Less estimated income	6,199,136	6,048,758	84,730	6,133,488	6,199,136	(65,648)
General fund	\$13,000	\$13,000	\$0	\$13,000	\$13,000	\$0
Bill total						
Total all funds	\$14,943,487	\$9,688,926	\$163,212	\$9,852,138	\$15,368,487	(\$5,516,349)
Less estimated income	9,930,487	9,675,926	163,212	9,839,138	9,930,487	(91,349)
General fund	\$5,013,000	\$13,000	\$0	\$13,000	\$5,438,000	(\$5,425,000)

**House Bill No. 1022 - Retirement and Investment Office - Conference Committee Action**

	Executive Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$2,724,781	\$2,620,598	\$53,482	\$2,674,080	\$2,724,781	(\$50,701)
Operating expenses	924,570	924,570		924,570	924,570	
Contingencies	82,000	82,000		82,000	82,000	
Transfer - Teachers' Fund for Retirement	5,000,000				5,425,000	(\$425,000)
Contingent appropriation			25,000	25,000		25,000
Total all funds	\$8,731,351	\$3,627,168	\$78,482	\$3,705,650	\$9,156,351	(\$5,450,701)
Less estimated income	3,731,351	3,627,168	78,482	3,705,650	3,731,351	(25,701)
General fund	\$5,000,000	\$0	\$0	\$0	\$5,425,000	(\$5,425,000)
FTE	17.00	17.00	0.00	17.00	17.00	0.00

**Department No. 190 - Retirement and Investment Office - Detail of Conference Committee Changes**

	Restores Funding Related to Anticipated Salary Savings <sup>1</sup>	Provides Contingent Appropriation <sup>2</sup>	Total Conference Committee Changes
Salaries and wages	\$53,482		\$53,482
Operating expenses			
Contingencies			
Transfer - Teachers' Fund for Retirement			
Contingent appropriation		25,000	25,000
Total all funds	\$53,482	\$25,000	\$78,482
Less estimated income	53,482	25,000	78,482
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

<sup>1</sup> This amendment restores funding for salaries and wages removed by the House to recognize anticipated savings from vacant positions and employee turnover. This amount was also restored by the Senate.

<sup>2</sup> This amendment appropriates \$25,000 from the Teachers' Fund for Retirement to the Retirement and Investment Office for implementing Senate Bill No. 2277. The appropriation is contingent upon the passage of Senate Bill No. 2277.

This amendment also increases employer retirement contributions contingent upon the passage of Senate Bill No. 2277.

#### House Bill No. 1022 - Public Employees Retirement System - Conference Committee Action

	Executive Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$4,302,137	\$4,151,759	\$84,730	\$4,236,489	\$4,302,137	(\$65,648)
Operating expenses	1,659,999	1,659,999		1,659,999	1,659,999	
Contingencies	250,000	250,000		250,000	250,000	
Total all funds	\$6,212,136	\$6,061,758	\$84,730	\$6,146,488	\$6,212,136	(\$65,648)
Less estimated income	6,199,136	6,048,758	84,730	6,133,488	6,199,136	(65,648)
General fund	\$13,000	\$13,000	\$0	\$13,000	\$13,000	\$0
FTE	33.00	33.00	0.00	33.00	33.00	0.00

#### Department No. 192 - Public Employees Retirement System - Detail of Conference Committee Changes

	Restores Funding Related to Anticipated Salary Savings <sup>1</sup>	Total Conference Committee Changes
Salaries and wages	\$84,730	\$84,730
Operating expenses		
Contingencies		
Total all funds	\$84,730	\$84,730
Less estimated income	84,730	84,730
General fund	\$0	\$0
FTE	0.00	0.00

<sup>1</sup> This amendment restores funding for salaries and wages removed by the House to recognize anticipated savings from vacant positions and employee turnover. This amount was also restored by the Senate.

Action

REPORT OF CONFERENCE COMMITTEE  
(ACCEDE/RECEDE)

Ray 76

Bill Number 1022 (, as (re)engrossed):

Date: 4/30/09

Your Conference Committee Gov. Ops.

For the Senate:

YES / YES / NO

For the House:

YES / YES / NO

<u>Mr. Kubitach</u>	<u>✓</u>	<u>✓</u>		<u>Rep Benz</u>	<u>✓</u>	<u>✓</u>	
<u>Wardner</u>	<u>✓</u>	<u>✓</u>		<u>Rosch</u>	<u>✓</u>	<u>✓</u>	
<u>Seymour</u>	<u>✓</u>	<u>✓</u>		<u>Meeks</u>	<u>✓</u>	<u>✓</u>	

recommends that the (SENATE/HOUSE) (ACCEDE to) (RECEDE from)

the (Senate/House) amendments on (SJ/HJ) page(s) 1174 - 1175

and place \_\_\_\_\_ on the Seventh order.

✓, adopt (further) amendments as follows, and place \_\_\_\_\_ on the Seventh order: . 0206

having been unable to agree, recommends that the committee be discharged and a new committee be appointed.

((Re)Engrossed) \_\_\_\_\_ was placed on the Seventh order of business on the calendar.

DATE: 4/30/09

CARRIER: Rep. Rosch

LC NO.	of amendment
LC NO.	of engrossment
Emergency clause added or deleted	
Statement of purpose of amendment	

MOTION MADE BY: Kubitach

SECONDED BY: Rep. Rosch

VOTE COUNT 6 YES 0 NO 0 ABSENT

Revised 4/1/05

amend by adopting  
. 0206 and return  
the vacant FTEs.

Voices Vote - carries

**REPORT OF CONFERENCE COMMITTEE**

**HB 1022, as engrossed:** Your conference committee (Sens. Krebsbach, Wardner, Seymour and Reps. Berg, Dosch, S. Meyer) recommends that the **SENATE RECEDE** from the Senate amendments on HJ pages 1174-1175, adopt amendments as follows, and place HB 1022 on the Seventh order:

That the Senate recede from its amendments as printed on pages 1174 and 1175 of the House Journal and pages 1005 and 1006 of the Senate Journal and that Engrossed House Bill No. 1022 be amended as follows:

Page 1, line 2, remove the second "and" and after "transfer" insert "; to amend and reenact subsection 1 of section 15-39.1-09 of the North Dakota Century Code, relating to teachers' fund for retirement employer contributions; to provide for application; to provide an effective date; and to provide an expiration date"

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Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT - LC 98022.0207 FN 1**

A copy of the statement of purpose of amendment is on file in the Legislative Council Office.

Engrossed HB 1022 was placed on the Seventh order of business on the calendar.

2009 TESTIMONY

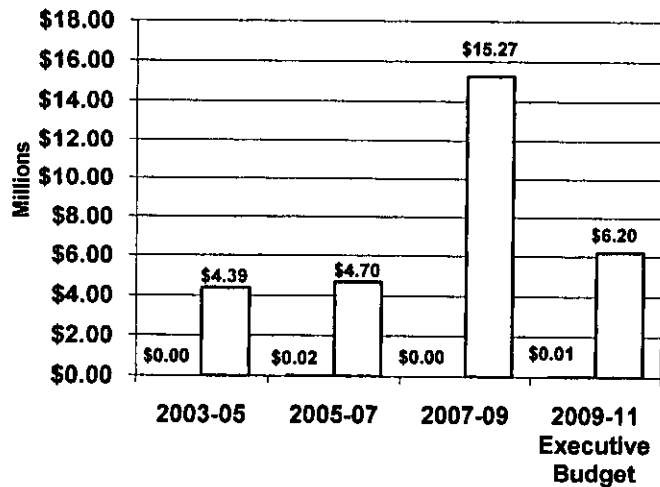
HB 1022

**Department 192 - Public Employees Retirement System  
House Bill No. 1022**

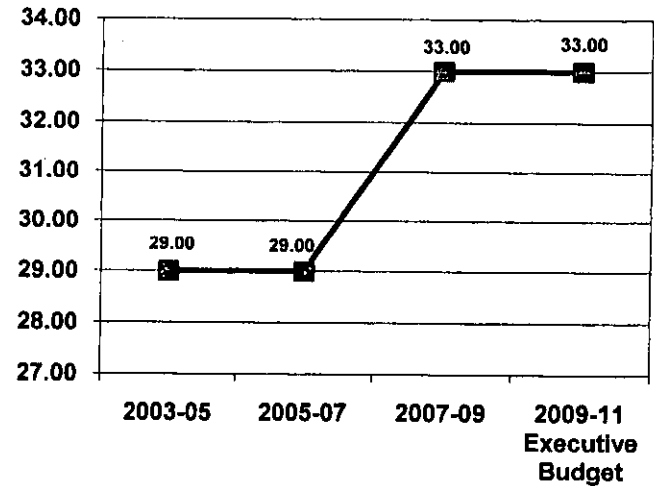
	FTE Positions	General Fund	Other Funds	Total
2009-11 Executive Budget	33.00	\$13,000	\$6,199,136	\$6,212,136
2007-09 Legislative Appropriations	33.00	0	15,273,290	15,273,290 <sup>1</sup>
Increase (Decrease)	0.00	\$13,000	(\$9,074,154)	(\$9,061,154)

<sup>1</sup>The 2007-09 appropriation amounts include \$29,988 of other funds for the agency's share of the \$10 million funding pool appropriated to the Office of Management and Budget for special market equity adjustments for classified employees.

**Agency Funding**



**FTE Positions**



■ General Fund □ Other Funds

**Ongoing and One-Time General Fund Appropriations**

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2009-11 Executive Budget	\$13,000	\$0	\$13,000
2007-09 Legislative Appropriations	0	0	0
Increase (Decrease)	\$13,000	\$0	\$13,000

**Executive Budget Highlights**

	General Fund	Other Funds	Total
1. Provides funding to address salary equity issues, including \$3,126 for the related second-year salary increase		\$65,648	\$65,648
2. Removes funding provided for an information technology project in the 2007-09 biennium		(\$9,594,000)	(\$9,594,000)
3. Removes funding provided for programming expenses related to Department of Career and Technical Education employee participation as provided in House Bill No. 1078 (2007) in the 2007-09 biennium		(\$3,000)	(\$3,000)
4. Provides increased funding for operating expenses, including travel, printing, and supplies, and a statewide indirect cost allocation plan provided by the Office of Management and Budget		\$63,880	\$63,880
5. Provides benefits to the remaining OASIS retirement plan beneficiary, including a 5 percent increase	\$13,000		\$13,000
6. Removes funding for office equipment under \$5,000		(\$26,700)	(\$26,700)
7. Removes funding for maintenance costs paid to the Information Technology Department for the PERSLink project scheduled to be fully implemented by October 2010		(\$259,000)	(\$259,000)

8. Provides funding for the maintenance fee to be paid to the software vendor supporting the PERSLink system after implementation	\$200,000	\$200,000
9. Provides funding for replacement desktop computers	\$20,600	\$20,600
10. Removes funding for information technology software	(\$1,800)	(\$1,800)

### **Other Sections in Bill**

Section 3 provides, upon approval of their respective boards, the Retirement and Investment Office and the Public Employees Retirement System may transfer from their respective contingencies line items to all other line items. The agencies shall notify the Office of Management and Budget of each transfer made pursuant to this section.

### **Continuing Appropriations**

**Public Employees Retirement System** - Various sections of the North Dakota Century Code - For benefit payments, investments, and actuarial/technical consulting for each program area.

### **Major Related Legislation**

**House Bill No. 1070** - Creates a new section to North Dakota Century Code Chapter 18-11, relating to alternate firefighters relief association plan benefits.

**House Bill No. 1120** - Adjusts the premiums for uniform group insurance program coverage for the single plan for retired employees not eligible for Medicare from 150 percent to 130 percent of the active member single plan rate.

**House Bill No. 1121** - Provides a one-time increase in retirement benefits for Public Employees Retirement System and Highway Patrol retirees that is paid for with an increase in employer contributions and provides an appropriation of \$9,931,912, of which \$4,359,866 is from the general fund, to various agencies for the purpose of funding the benefit enhancements contained in the bill.

**House Bill No. 1173** - Provides the Public Employees Retirement System Board the authority to create a trust health care savings plan for all Supreme Court justices and district court judges participating in the Public Employees Retirement System.

**Senate Bill No. 2153** - Amends various sections of the North Dakota Century Code relating to payment of employee contributions and retirement benefits under the Highway Patrolmen's retirement plan and the Public Employees Retirement System, membership of the State Investment Board, purchase of service credit, member refunds, Internal Revenue Code compliance, board elections under the Highway Patrolmen's retirement plan and the Public Employees Retirement System, and participation and employer payments under the uniform group insurance program.

**Senate Bill No. 2154** - Provides an increase in the Public Employees Retirement System retiree health credit from \$4.50 per year service to \$5 funded by an increase in the employer contribution of .14 percent. Additional appropriations are contained in the salary line item of the executive recommendation for state agencies to provide for the increased employer contribution.

**TESTIMONY**  
**OF**  
**SPARB COLLINS**  
**ON HOUSE BILL 1022**

Mr. Chair, members of the committee, good morning my name is Sparb Collins. I am Executive Director of the North Dakota Public Employees Retirement System or PERS. Today I appear before you to give you an overview of our agency, an update on the system replacement project approved last session and our budget request.

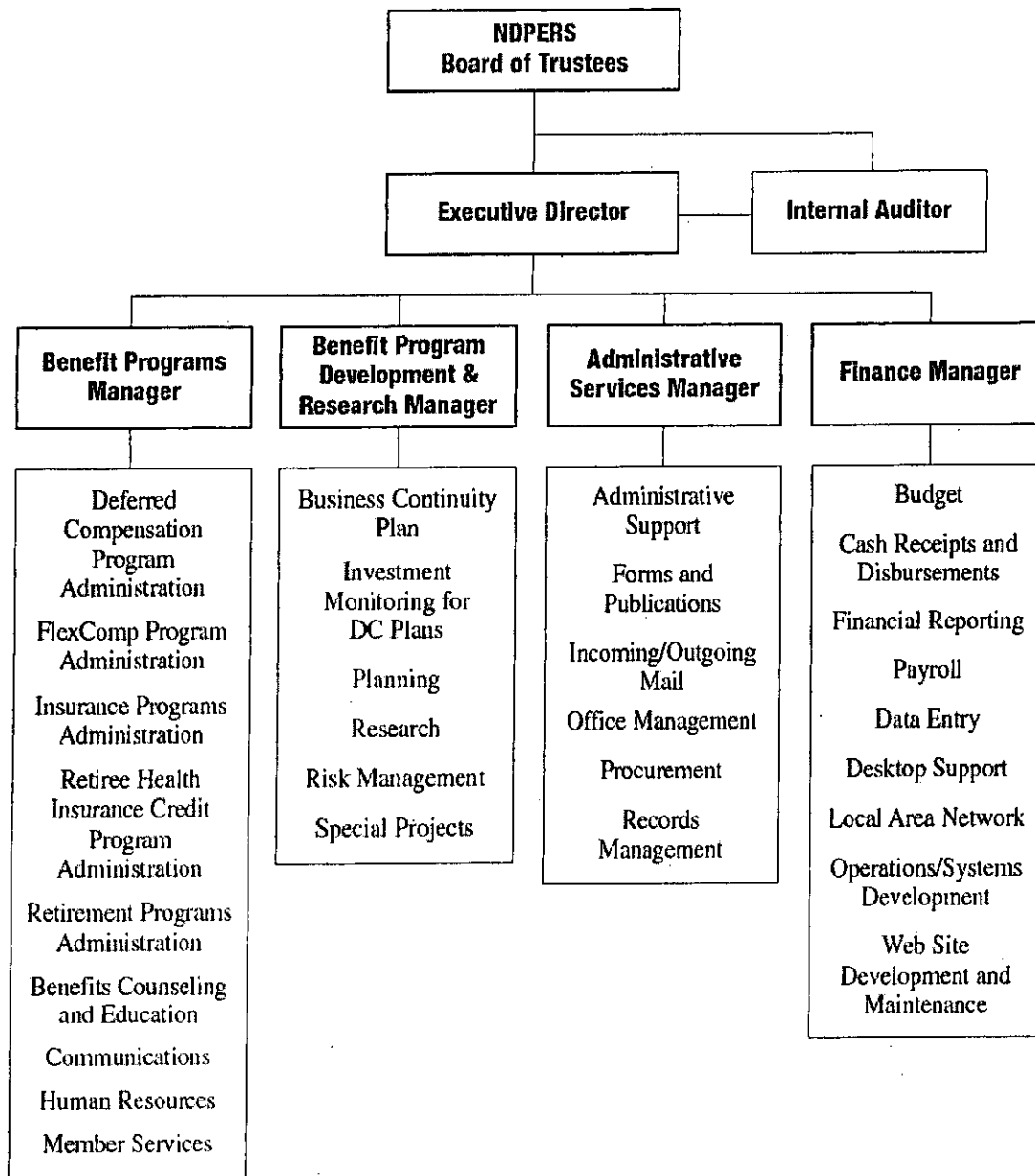
**Agency Overview**

First let me start by providing an overview of our agency. PERS is directed by a board composed of the following members:

Chair (appointed by Governor)  
Appointed by Attorney General  
State Health Officer or Deputy  
Elected  
Elected  
Elected  
Elected

Jon Strinden  
Tom Trenbeath  
Arvy Smith  
Levi Erdmann  
Joan Ehrhardt  
Mike Sandal  
Ron Leingang

Administratively PERS is organized as illustrated:



The PERS program responsibilities fall under two broad categories, retirement and group insurance. Section 54-52-02 states the overall mission for the retirement program as: "...to provide for the payment of benefits to state and political subdivision employees or to their beneficiaries thereby enabling the employees to care for themselves and their dependents and which by its provisions will improve state and political subdivision employment, reduce excessive personnel turnover, and offer career employment to high grade men and women". Similarly state statute establishes the overall mission for the group insurance plan as: "In order to promote the economy and

efficiency of employment in the states service, reduce personnel turnover, and offer an incentive to high grade men and women to enter and remain in state service, there is hereby created a uniform group insurance program". Concerning the retirement programs the following table gives you an overview of the programs and some statistical information:

January 1, 2009

## RETIREMENT PROGRAMS MANAGED AND ADMINISTERED BY NDPERS

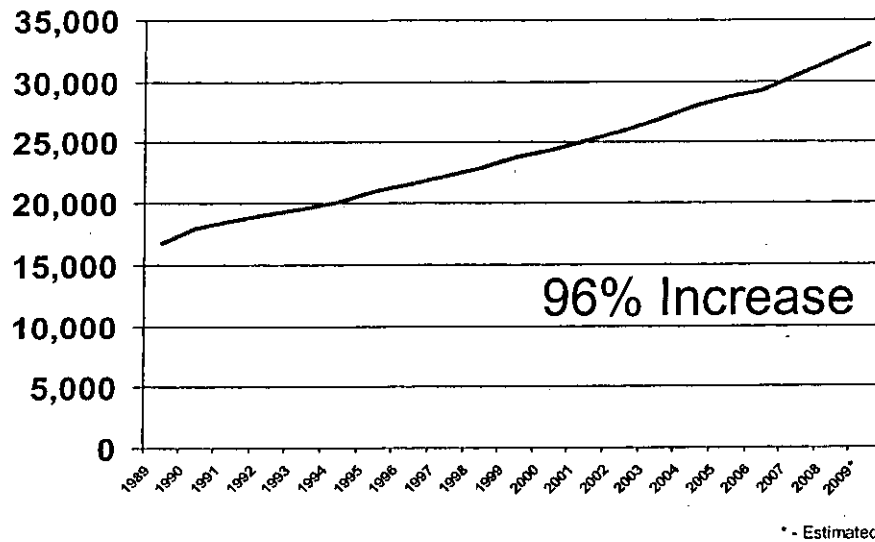
PARTICIPATION	TOTAL RETIREMENT	Main System	D.C. 401(a)	Highway Patrol	Judges	Guard	Law Enforcement	Job Service	DEFERRED COMP	HEALTH CREDIT
<b>AGENCY</b>										
State	96	96	32	1	1	1		1	96	96
Counties	48	48					3		44	48
School Dist	104	104							53	104
Cities	72	72					2		27	72
Others	56	56							27	56
	<b>376</b>								<b>247</b>	<b>376</b>
<b>EMPLOYEES</b>										
State	10,650	10,159	235	130	47	41		38	4,225	10,650
Counties	3,329	3,193					136		1,454	3,329
School Dist	4,875	4,875							556	4,875
Cities	1,225	1,195					30		684	1,225
Others	481	481							249	481
	<b>7,218</b>	<b>6,894</b>	<b>57</b>	<b>105</b>	<b>23</b>	<b>10</b>	<b>11</b>	<b>118</b>	<b>1,584</b>	<b>4,010</b>
	<b>27,778</b>	<b>26,797</b>	<b>292</b>	<b>235</b>	<b>70</b>	<b>51</b>	<b>177</b>	<b>156</b>	<b>8,174</b>	<b>24,570</b>

As you will note our agency is responsible for the administration of about 10 different retirement plans. The Law Enforcement Plan is divided into two plans, those with past service and those without. Also not shown above is the OASIS retirement plan which has one remaining member. Three of the above plans were assigned to our agency by the 2001 legislative session. Those were the Job Service Retirement Plan and the OASIS plan. The other is the Law Enforcement Plans for political subdivisions. The 401(a) plan was assigned to our agency in 1999. The other retirement programs have been a part of PERS since the 1980's. You will note the largest retirement plan we administer is the Main retirement system which provides services to not only the state but also to political subdivisions. In this plan about 55% of the active members are state employees and 45% are political subdivision employees. This last year the cities of Fargo, Grand Forks and Jamestown joined the plan.

Some historical statistics about the retirement plan include membership:

# NDPERS

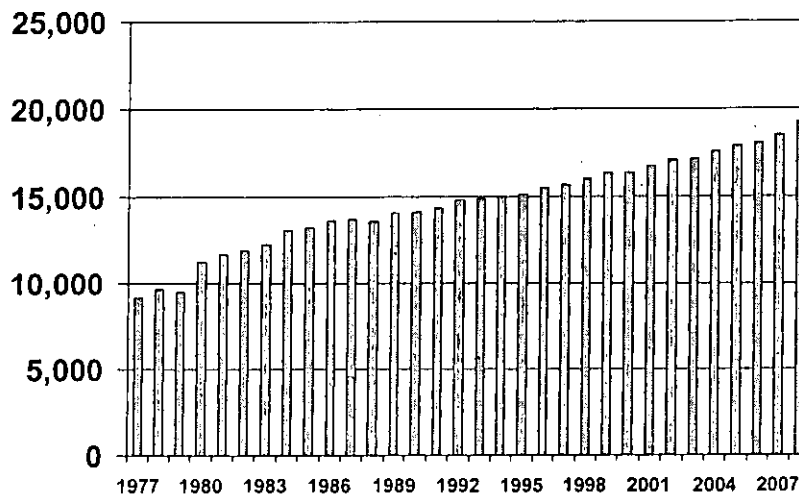
## Retirement Plan Membership



Of this the number of active members has grown:

## NDPERS Retirement Actives

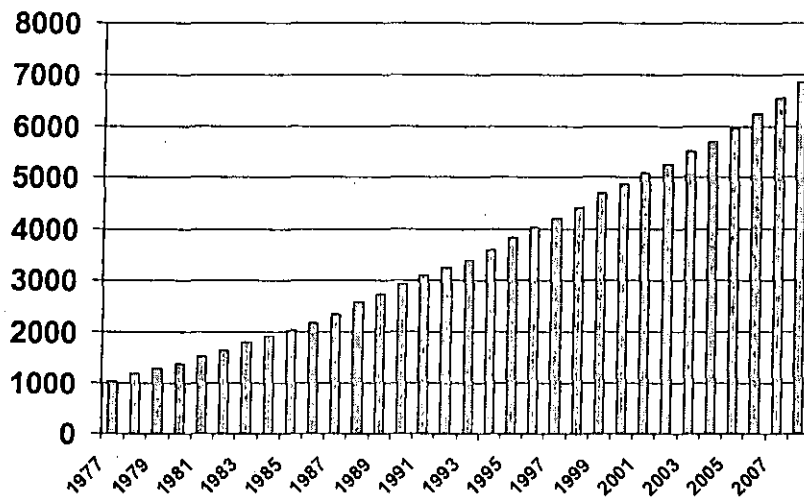
(Main System, Judges, Guard, Law Systems)



The number of retired members has grown as well and at an even greater rate than our active members:

## NDPERS Retirement Retirees

(Main System, Judges, Guard, Law Systems)

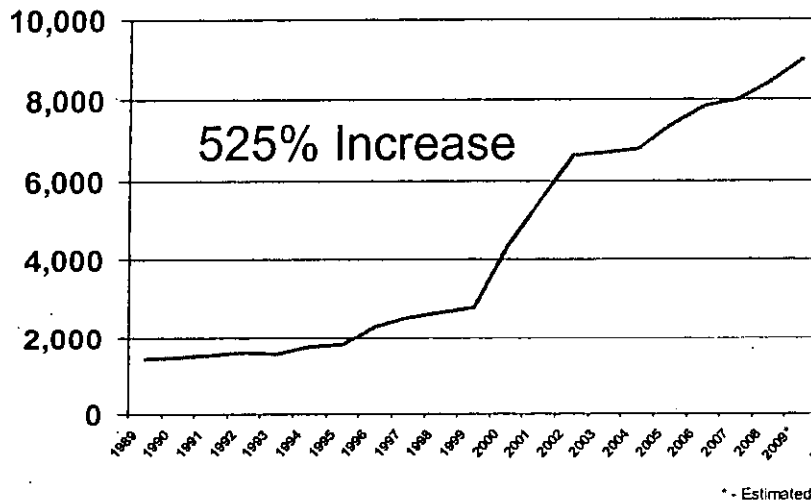


As we look to the future we see the retired membership continuing to grow and the number of active members remaining about the same. Servicing the present and future needs of the retired membership is going to be a growing challenge to NDPERS.

In addition to the administration of the traditional retirement plans, PERS administers the state's supplemental savings program as well. The membership in that program has also grown over the years:

## NDPERS

### Deferred Compensation Plan Membership



We are pleased by this growth since it is important that our members save for retirement. This program offers our members 10 different providers including the PERS Companion Plan (presently with Fidelity) and:

Bank of North Dakota .....  
 AIG Valic .....  
 American Trust Center .....  
 AXA Equitable .....  
 Hartford Life Insurance Company ...  
 Jackson National Life .....  
 Nationwide Life Insurance .....  
 Symetra Life .....  
 Waddell & Reed Financial Services ..

Concerning the group insurance programs the following gives you an overview of the programs and some statistical information:

January 1, 2009

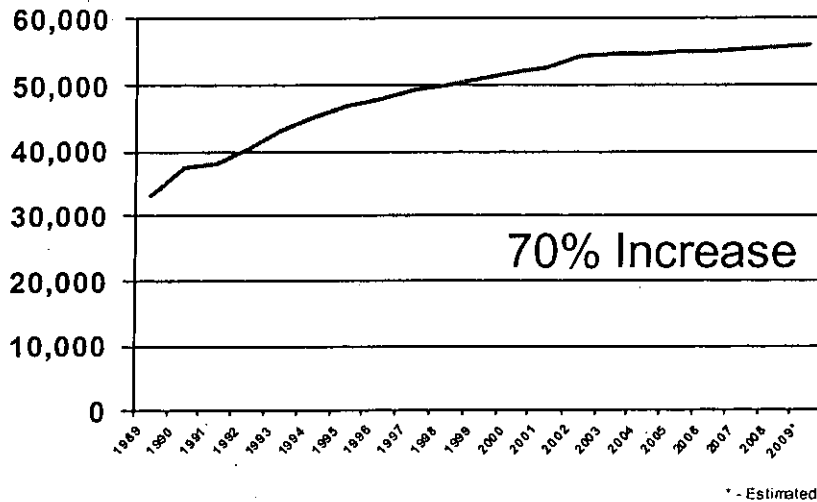
## GROUP INSURANCE PROGRAMS MANAGED AND ADMINISTERED BY NDPERS

<b>PARTICIPATION</b>	<b>HEALTH</b>	<b>LIFE</b>	<b>DENTAL</b>	<b>VISION</b>	<b>EAP</b>	<b>FLEXCOMP</b>	<b>LT Care</b>
<b>AGENCY</b>							
State	97	97	97	97	97	83	97
Counties	39	28					
School Dist	27	5					
Cities	57	22					
Others	64	21					
	<b>284</b>	<b>173</b>	<b>97</b>	<b>97</b>	<b>97</b>	<b>83</b>	<b>97</b>
<b>EMPLOYEES</b>							
State	14,325	15,002	4,421	3,562	15,002	7,800	75
Counties	1,811	2,626					
School Dist	1,207	113					
Cities	996	174					
Others	519	276					
Legislators	125						
Retirees	5,627	2,983	1,306	737			
COBRA	465		43	18			
	<b>25,075</b>	<b>21,174</b>	<b>5,770</b>	<b>4,317</b>	<b>15,002</b>	<b>7,800</b>	<b>75</b>

As you will note the largest responsibility in this area is the health plan. In this program about 59% of members are state employees and 41% are political subdivisions or retirees. The most recent additions in the group insurance area include: the assignment to review and analyze any new health coverage mandates passed by the legislature and to make a recommendation on whether or not it should be a part of all health plans, and the addition of the Medicare Part D process to our retiree medical plan. This last area has resulted in a substantial challenge to the agency in coordinating the billings, enrollment and low income subsidy provisions. While it has been a challenge to us, it has been even more of a challenge to our retirees. The following table shows the history of the membership in the health plan:

# NDPERS

## Health Plan Membership

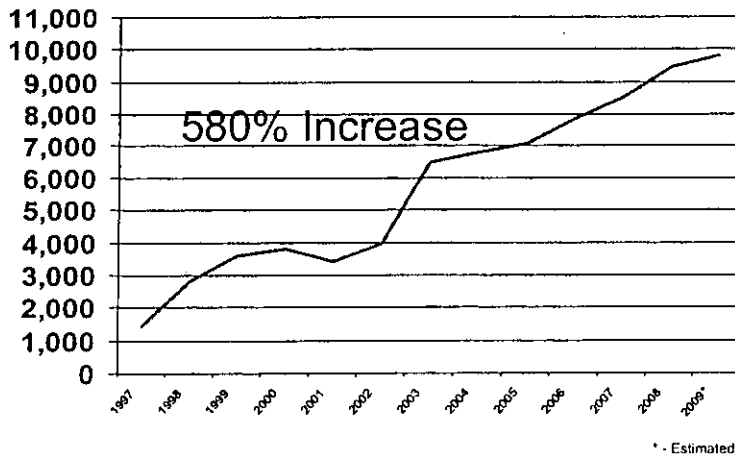


In the late 90's the Employee Assistance Program, Long Term Care Plan, Dental Plan & Vision Plan were added to PERS. The other group insurance programs have been a part of the agency since before 1990. The following table is the history of those programs:

# NDPERS

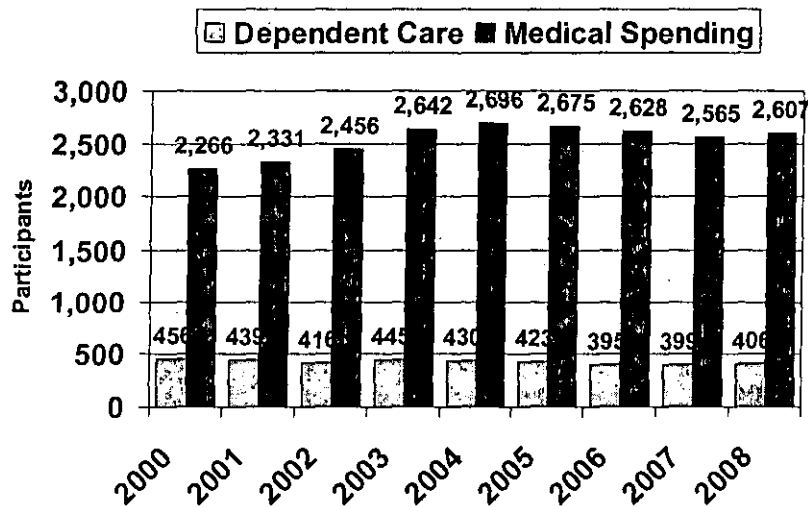
## Voluntary Insurance Plans Membership

(Dental, Vision, Long-Term Care)

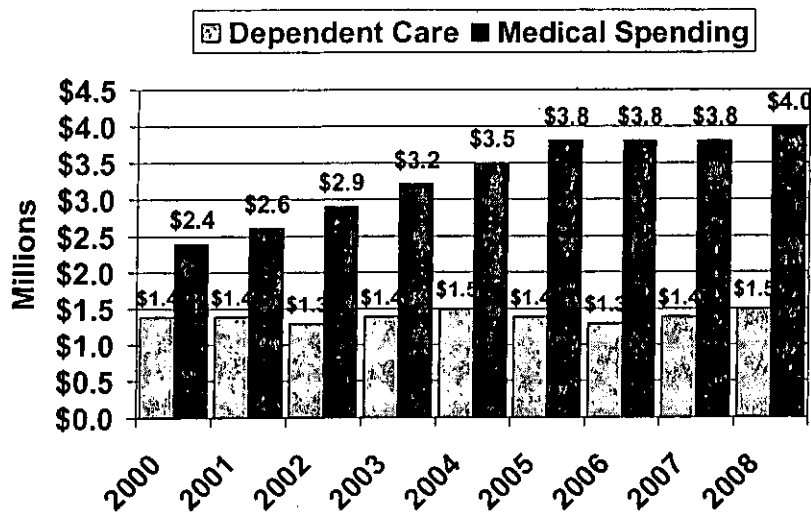


The Flex Comp Program which has been a part of the agency since 1989 allows members to pretax certain insurance premiums, dependent care expenses and medical expenses. Our office processes approximately 16,000 to 17,000 claims a year for this program and maintains the member accounts. The following tables show the history of the number of members and deferrals:

## NDPERS Flexcomp Participation



## NDPERS Flexcomp Participation

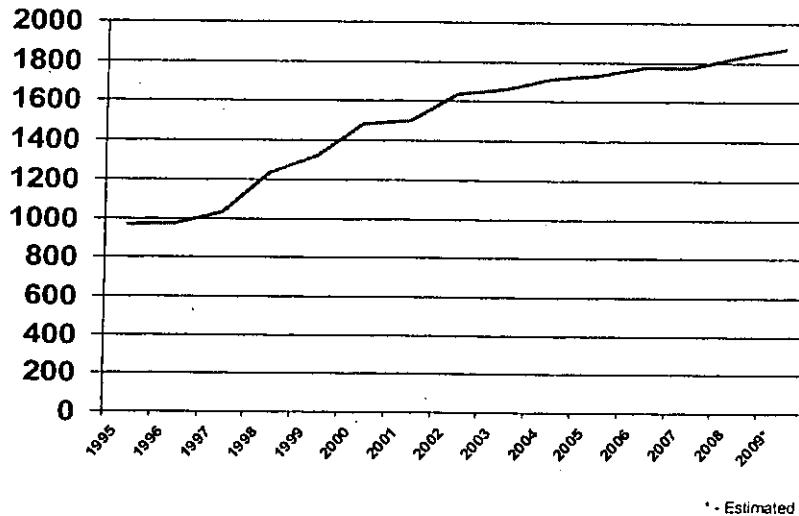


As the above shows the number of members participating in the program has decreased slightly, however, the average deferrals have increased so the numbers of claims we process each year has stayed relatively stable. We expect that in the future as health care costs continue to rise more members will join this program causing our claims level to rise.

While we have been serving more members in more programs over time we have also been serving more employers as they join PERS. The following table shows each employer relationship for each program (an employer in more than one program would count more than once):

# NDPERS

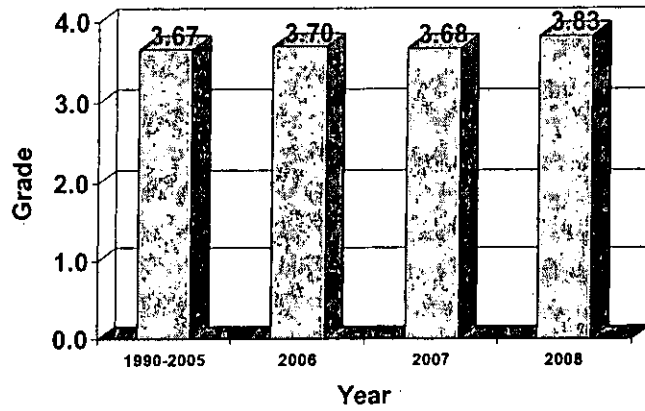
## Participating Employers (All Programs)



As shown above PERS has faced two challenges over the years. First is the growth of program responsibilities. The second is the growing membership needs for assistance. We welcome the legislature's confidence in us by the growing assignments and we have appreciated your support in administering these programs. We have also tried to meet the needs of members and monitor how we are doing by sending to them a rating card. The following are the responses:

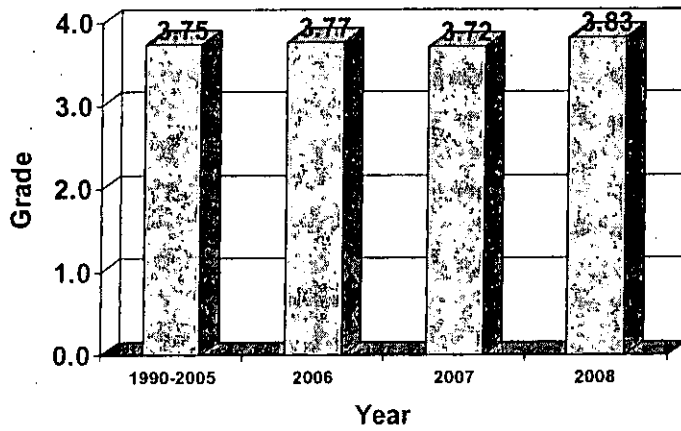
## NDPERS Member Report Cards

Courtesy you received from NDPERS staff?



## NDPERS Member Report Cards

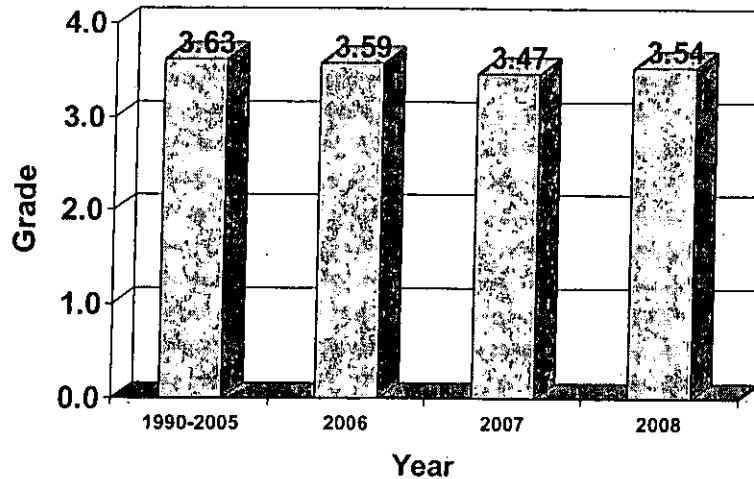
Promptness of NDPERS response to your inquiry?



# NDPERS

## Member Report Cards

Was the information you were given easy to understand?



As the above shows we have been able to maintain and improve slightly on the first two indicators but the last one, "understandability of information", has become more challenging with the growth of the number and complexity of programs. We did see some improvement in the last year and I think that has to do with the additional resources PERS has been able to apply to member services.

We are also concerned with maintaining the quality of what we do. To that extent we have sought national review of our systems and other reviews as noted in the following:

- 1996, 1998, 2000, & 2007 Public Pension Achievement Award
- Certificate of Achievement for Excellence in Financial Reporting 1996-2007
- Unqualified Audit Opinions for over 20 years

## **PERS System Replacement Project**

Last legislative session you approved our request to replace our original business system. That request was for:

1. A 3 year project from July 2007 – October 2010
2. A budget of \$9,594,000 for the new system; for Independent Validation & Verification, Quality Assurance and Oversight Project Management services; for backfile conversion; for hardware and software; and for contingency.

Please note that we will be requesting the carryover of the remaining appropriation for this project into the next biennium to complete this effort as proposed. We are projecting to spend approximately \$5.7 million in the 2007-09 biennium, with the remaining \$3.9 million of appropriation authority carried over to the 2009-2011 biennium. As of December 31, 2008, expenditures for the project are \$3,997,264.

Attachment #1 is from our testimony last session and recaps some of the major administrative challenges we faced and the reason for this project. As noted this project will directly respond to those challenges and inefficiencies. We expect that this project will be finished this next biennium (2009-2011) and fully integrated into the agency during the 2011-2013 biennium.

Here is a brief overview of the PERS System Replacement Project. In October 2007 a Project Team was assembled to begin working on the PERSLink Project. The project team consists of a Project Manager, functional analysts, developers, implementation managers and other experts from Sagitec (the software and implementation vendor selected through a competitive process); an Oversight Project Manager from L.R. Wechsler Ltd. to independently monitor the work of the implementation vendor, review all deliverables and support NDPERS in its implementation effort; 3.5 experienced NDPERS staff members to work on the project with the assistance of other NDPERS staff who expect to spend over 20,000 hours on the development and implementation of the business solution during the project life cycle. NDPERS is also working closely with

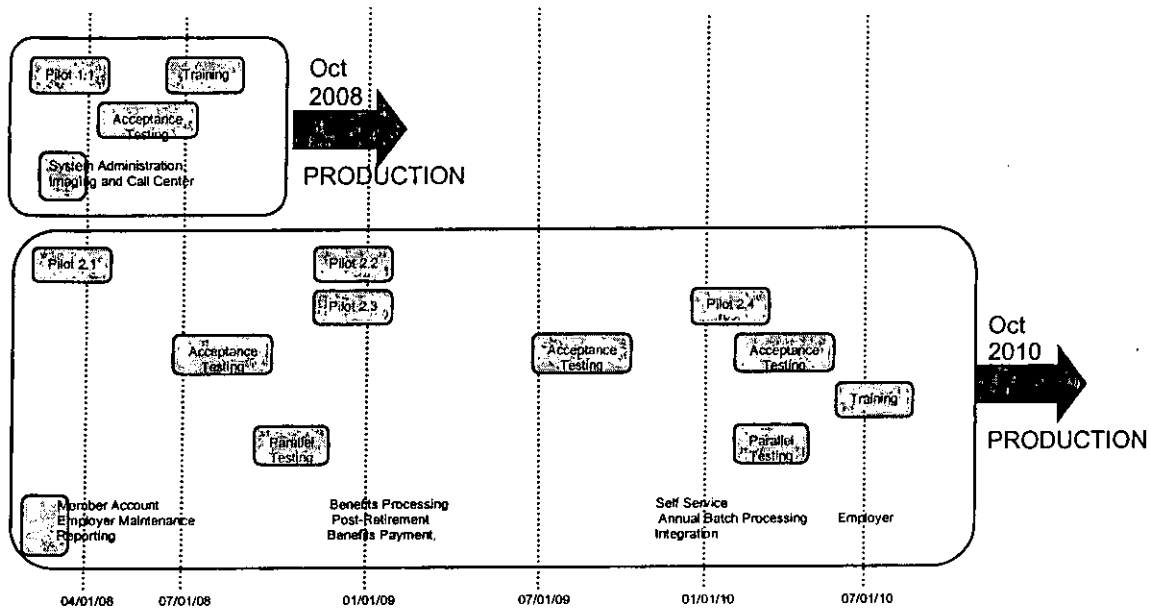
the State's ITD staff for the acquisition and configuration of hardware needed for the new system and for data conversion and interface issues.

A Steering Committee consisting of myself, an ITD Oversight Project Manager, the Sagitec Project Manager and Deputy Project Manager, NDPERS Project Manager, and the Oversight Project Manager was established at the start of the project. The committee meets monthly to review the overall project status, the accomplishments of the team, the project schedule and any slipping tasks, risks, issues and action items, the project budget and plans for the ensuing 30 day period.

The first three months of the project were spent on high level project planning activities including establishing a communications plan, identification of project risks, development of a detailed work plan, publication of a change management plan and quality assurance plan and issuance of statements of work. During this period, the team developed this Mission Statement: "We commit to successfully implement a robust, reliable, secure web-enabled, integrated benefit administration system that improves NDPERS' business operations and service." The team selected Sharepoint to use as a project repository for all project documents and to assist with collaboration of project team members.

At the conclusion of the planning phase, the team provided this overall project schedule:

# Overall Project Schedule



The schedule proposed by the team consists of two production rollouts. The business reasons for having two rollouts includes an earlier use of the new system in two highly visible functional areas; early integration of the imaging system; minimal impact on the existing legacy application; robust acceptance testing and minimization of risks by using parallel testing.

In October 2008, we went live with the first phase of the project which provided our agency with up front imaging of all documents coming into our office and an introduction to the concept of work flow (moving work from one person to another to perform assigned tasks). We have reduced the routing of paper as our source of incoming work and now utilize electronic images to process the day to day work, decreasing the possibility for lost documents. In addition, we now have a contact management system that tracks all of our member contacts in a single repository that is available to all staff. This allows us to add notes on line for responses to member inquiries both verbal and written.

In late summer of 2008, we began the conversion of our old member records from microfiche to electronic images as part of a backfile conversion effort. As part of our agreement with Sagitec, a vendor, FNTI, was hired to perform the required work. Approximately 900,000 member records will be converted to the same format as our other member records. We are utilizing the services of two staff through a temporary staffing company to perform the necessary quality assurance to insure that the converted records are clear and properly coded to the member's account with NDPERS. To date the vendor has converted approximately 700,000 records with the remainder to follow in the next few weeks.

In addition to completing the first production rollout, the team has designed, developed and tested the functionality for member account enrollment and maintenance, set up and maintenance for employers, vendors, banks and providers, employer reporting, service purchases, individual billing services, daily deposits, and aggregation of general ledger transactions.

As of today our project is approximately 40% complete. Planning has begun on the next phases of the project that will include benefit processing, refunds, Domestic Relations Orders, death processing and maintaining various pension payroll deductions. Joint application design sessions are expected to begin in February 2009. User acceptance testing for the remaining system is scheduled to occur in 2010, with final rollout into production scheduled for the Fall of 2010.

## **PERS Budget**

The proposed budget before you today is basically a hold even budget. With the system replacement project and our other efforts, the challenge we face in the next biennium is just keeping up with our existing commitments. Consequently no major new initiatives are proposed in this budget. The following is a summary of the budget compared to this biennium:

	2007-2009 <u>Appropriation</u>	2009-2011 <u>Recommendation</u>	<u>Change</u>
Salaries	\$3,776,271	\$4,302,137	\$525,866
Operating	11,247,019	1,659,999	(9,587,020)
Contingency	<u>250,000</u>	<u>250,000</u>	
Total Base	\$15,273,290	\$6,212,136	(\$9,061,154)

If we look at this comparison and factor out the one-time costs for our system replacement project and HB 1078 for Career & Tech Ed, it shows:

	2007-2009 <u>Appropriation</u>	2009-2011 <u>Recommendation</u>	<u>Change</u>
Salaries	\$3,776,271	\$4,302,137	\$525,866
Operating	1,650,019	1,659,999	9,980
Contingency	<u>250,000</u>	<u>250,000</u>	
Total Base	\$5,676,290	\$6,212,136	\$535,846

Breaking down the recommended budget further by percent we find:

	<u>Recommended Budget</u>	
Salaries	\$4,302,137	69%
Operating	1,659,999	27%
Contingency	<u>250,000</u>	<u>4%</u>
Total Base	\$6,212,136	100%

The salaries and wage line item is 69% of our budget and supports 33 FTE. The reconciliation of this line item from this biennium to the recommended budget is as follows:

2007-2009 budget	\$3,776,271
Payplan changes (second yr 4%, etc)	72,509
Overtime decrease	(5,500)
Gov recommended increase	

Salary Equity	62,522
Salary/Benefits Inc	396,335
2009-2011 recommended	\$ 4,302,137

The operating line item is 27% of our budget and you will note that it has increased slightly from the 07-09 biennium, after subtracting out the one-time expenditures. This increase is primarily the result of a request for \$13,000 from the general fund to continue payments under the OASIS retirement program. Seven line item categories account for 90% of the operating line costs. The following highlights some of the dynamics of these line items:

- The IT line item is 35% of the operating line item and 9.4% of our total budget. This line includes ITD fees for data processing and telephone services and projected maintenance fees for our software vendor to support our new business system. After factoring out the one-time expenditures from the 07-09 biennium, the amount requested for this line item is about \$40,000 less than the current budget. The decrease is due to the reduced level of maintenance for the existing mainframe system as a result of PERSLink project, offset by the maintenance fee that will be paid to Sagitec at the end of the warranty period. As a result of the net IT reduction we were able to absorb the inflationary increases in the OMB central service cost allocation, travel, postage, printing and office rent. Please note that in the past, our data processing costs have been very straightforward. We were able to forecast our expenditures based on past trends, plus/minus rate changes from ITD, plus programming expenses for legislation. For the 09-11 biennium, our costs are not as straightforward. We had to make more assumptions, such as, how the PERSLink project will impact our data processing costs and how legislative programming changes will impact the mainframe system and/or PERSLink costs. We feel the recommended budget request should be sufficient to cover our costs, however, in the event costs are underestimated, the contingency line item may have to be drawn upon.
- The lease/rental line items are 17% of the operating line item and about 4.6% of our total budget. These line items support our office lease and copier rental. We

are proposing a 2% increase for the next biennium primarily to cover an increase in our office rent.

- The postage line item is 13% of the operating line and about 3.4% of our total budget. This line item supports all of our communications with our active and retired members and employers such as, correspondence, monthly pension checks, Flex Comp claim reimbursements, 1099R tax reporting, annual statements, annual enrollment, rate changes, newsletters, billings, enrollments, and disenrollments. In recent years, to reduce the rate of increase in this item we have expanded the information available on the NDPERS web site, encouraged more direct deposits, stopped sending out program booklets, increased use of email for employer and employee communications and encouraged use of the PeopleSoft Portal for viewing Flex Comp account information rather than mailing out quarterly statements. We are proposing a 4% increase primarily to cover postage rate increases.
- The printing line item is 5.6% of the operating line item and about 1.5% of our total budget. To reduce costs in this area, we have expanded the information available on our web site. This initiative has allowed us to stop printing many items including our Summary Plan Descriptions, many of our forms, informational items, employer newsletters, our annual report, investment options booklet and other items. We are proposing a 9% increase in this line item to cover inflationary increases.
- Travel is 5.5% of our operating line item and 1.5% of our total budget. This line supports our entire employer/member outreach program, board and staff education, informational meeting requests, educational seminars and other activities. This biennium we are requesting an increase. We find that with our increasing participation of members from across the state it is more and more of a challenge to meet their needs. At some point PERS may need to consider a branch office but at this time we will continue with our outreach. Initiatives that we have been doing in this area include conducting meetings by using "Go to Meeting", an internet based meeting format; all our board meetings use video conferencing so our board members do not need to travel to Bismarck; and we

have a meeting coordinator so our travel around the state is done so we can go to more than one site per trip if possible. The increase being requested is mainly inflationary to cover the higher fuel costs for in-state and out-of-state travel and the higher volume of travel to provide outreach services to our growing membership.

- Operating fees are 5% of our operating line and 1.4% of our total budget. This line item primarily supports the OMB Statewide Indirect Cost Allocation, advertising costs and payments under the OASIS retirement plan. This retirement plan is a pay as you go plan with one remaining member. The increase being requested is to support the projected increase in the indirect cost allocation and \$13,000 to pay the OASIS benefits for the 09-11 biennium
- Professional Services is 9% of our operating line and 2.4% of our total budget. This line item primarily supports contract labor hired through temporary staffing agencies and the cost of criminal background checks. The budget request for the 09-11 biennium is \$3,300 less than the current biennium as the result of eliminating fees paid for Muzak and off-site storage.

The operating line item also includes funding of \$37,000 for replacing the agency's desktop computers, laptops and printers during the 09-11 biennium. Since we are on a 4 year replacement cycle, these costs are incurred every other biennium.

In summary, the 2009-11 budget request submitted by PERS is a hold even budget pursuant to guidelines provided by OMB, with the exception of the additional \$13,000 in General Funds to provide benefits under the OASIS retirement plan.

Mr. Chairman, members of the committee I would also like to take this opportunity on behalf of PERS to thank you for your past support. Together we have provided to our members valuable benefits that have truly made a significant difference in peoples lives and helped to support the economic health of North Dakota. We look forward to continuing to work with you in the future. Again, thank you and this concludes my testimony.

## **Attachment #1- Business Needs 2007 Testimony**

1. While it is impossible to speculate what new duties could be assigned to PERS legislatively, it is clear that just the existing responsibilities will result in increased workload in the future. As noted in 4.2.1, if existing trends are predictive of the future, the number of retirements could increase by 60% in the next five years. This increases the workload for all programs as people retire and sign up for the other programs. Additional staffing to accommodate these new clients, based upon existing business practices, could be 7 more FTEs at a cost of \$600,000 or more per biennium (4.2.1).
2. It is problematic and will inevitably become more so to maintain this system with the increasing number of retirees (4.2.1) and the near obsolescence of the technology (4.3.4, 4.3.5). This issue was discussed with ITD who also indicated that it would be difficult to maintain this system over time since the language is old, the application has key programs that need to be changed with most maintenance requests, the complexity of the system makes it more difficult to enhance the system, the current system runs on an old technology infrastructure that ITD would like to replace, the current system is not a relational database and the pool of developers is getting smaller.
3. In order to accommodate the workload growth over the years and the limitations of the existing system, PERS has had to develop many workarounds (4.1.2). This lack of integration creates opportunities for errors (4.2.3, 4.3.3).
4. The current system results in: difficulty integrating new applications into the existing system such as program enhancements (4.3.1 & 4.3.11), limitations in adding new programs (4.3.2), limitations on retention of history (4.3.6 & 4.3.8), difficulty with production operations (4.3.7), limitations on edits (4.3.10) and integration of accounting systems (4.3.12).
5. Modern systems would have employers do more entering and verifying of data (4.2.5 & 4.3.9).

1

# Testimony of Sparb Collins On Engrossed House Bill 1022

Mr. Chair, members of the committee, good morning my name is Sparb Collins. I am Executive Director of the North Dakota Public Employees Retirement System or PERS. Today I appear before you to give you an overview of our agency, an update on the system replacement project approved last session and our budget request.

## Agency Overview

First let me start by providing an overview of our agency. PERS is directed by a board composed of the following members:

Chair (appointed by Governor)	Jon Strinden
Appointed by Attorney General	Tom Trenbeath
State Health Officer or Deputy	Arvy Smith
Elected	Levi Erdmann
Elected	Joan Ehrhardt
Elected	Mike Sandal
Elected	Ron Leingang

Administratively PERS is organized as illustrated:

*With exception  
of following pages  
same testimony  
given to House and Senate*

	2007-2009 Appropriation	2009-2011 Executive Budget Recommendation	Change	House Budget	Change Exec Rec
Salaries	\$3,776,271	\$4,302,137	\$525,866	\$4,151,759	(150,378)
Operating	11,247,019	1,659,999	(9,587,020)	1,659,000	
Contingency	250,000	250,000		250,000	
Total Base	\$15,273,290	\$6,212,136	(\$9,061,154)	\$6,061,758	(150,378)

If we look at this comparison and factor out the one-time costs for our system replacement project and HB 1078 for Career & Tech Ed, it shows:

	2007-2009 Appropriation	2009-2011 Exec Rec	Change	House Budget	Change
Salaries	\$3,776,271	\$4,302,137	\$525,866	\$4,151,759	375,488
Operating	1,650,019	1,659,999	9,980	1,659,999	9,980
Contingency	250,000	250,000		250,000	
Total Base	\$5,676,290	\$6,212,136	\$535,846		385,468

Breaking down the recommended budget further by percent we find:

	Executive Recommendation Budget		House Budget	
Salaries	\$4,302,137	69%	\$4,151,759	68.5%
Operating	1,659,999	27%	1,659,999	27.5%
Contingency	250,000	4%	250,000	4.0%
Total Base	\$6,212,136	100%	\$6,061,758	

The salaries and wage line item is approximately 69% of our budget and supports 33 FTE. The reconciliation of this line item from this biennium to the recommended budget is as follows:

2007-2009 budget	\$3,776,271
Pay plan changes (second yr 4%, etc)	72,509
Overtime decrease	(5,500)
Gov recommended increase	
Salary Equity	62,522
Salary/Benefits Inc	396,335
2009-2011 Executive recommendation	\$ 4,302,137
House changes	
Salary Equity	(65,648)
Vacancy Savings	<u>(84,703)</u>
	\$4,151,759

Please note our goal as an agency is retain our staff for the full biennium. Turnover only adds stress, increases our chances for errors and increases everyone's workload. We would be hopeful that in the 209-2011 biennium we would meet that goal and have no turnover. We do note that as we look back we have not been entirely successful.

**Salary line item  
only**

Biennium	Appropriation	Actual Expenditures	Unexpended Appropriation	
2005-2007	2,885,526	2,824,369	61,157	2.12%
2003-2005	2,653,654	2,542,981	110,673	4.17%
2001-2003	2,347,760	2,279,960	67,800	2.89%
1999-2001	1,861,219	1,844,150	17,069	0.92%
1997-1999	1,601,127	1,579,441	21,686	1.35%
1995-1997	1,482,320	1,368,917	113,403	7.65%

As the above shows in the last 6 biennium's we would have been below 2% for 2 out of the 5.

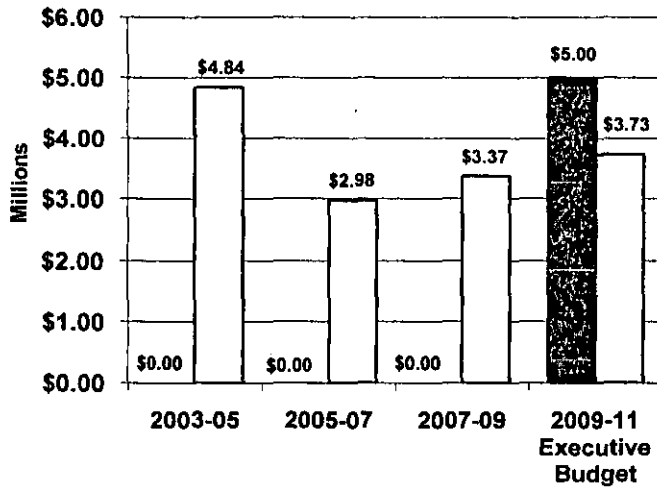
The operating line item is approximately 27% of our budget and you will note that it has increased slightly from the 07-09 biennium, after subtracting out the one-time expenditures. This increase is primarily the result of a request for \$13,000 from the

**Department 190 - Retirement and Investment Office**  
**House Bill No. 1022**

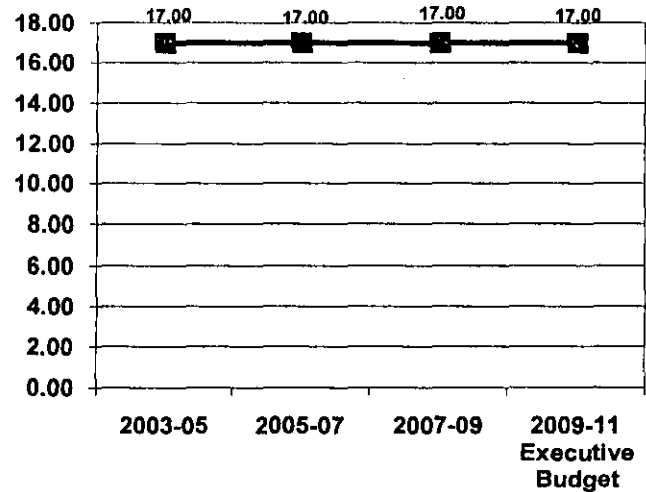
	FTE Positions	General Fund	Other Funds	Total
2009-11 Executive Budget	17.00	\$5,000,000	\$3,731,351	\$8,731,351
2007-09 Legislative Appropriations	17.00	0	3,371,136	3,371,136 <sup>1</sup>
Increase (Decrease)	0.00	\$5,000,000	\$360,215	\$5,360,215

<sup>1</sup>The 2007-09 appropriation amounts include \$18,228 of other funds for the agency's share of the \$10 million funding pool appropriated to the Office of Management and Budget for special market equity adjustments for classified employees.

**Agency Funding**



**FTE Positions**



■ General Fund □ Other Funds

**Ongoing and One-Time General Fund Appropriations**

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2009-11 Executive Budget	\$0	\$5,000,000	\$5,000,000
2007-09 Legislative Appropriations	0	0	0
Increase (Decrease)	\$0	\$5,000,000	\$5,000,000

**Executive Budget Highlights**

	General Fund	Other Funds	Total
1. Provides funding to address salary equity issues, including \$2,414 for the related second-year salary increase		\$50,701	\$50,701
2. Provides one-time funding for a 13 <sup>th</sup> check to retired teachers	\$5,000,000		\$5,000,000

**Other Sections in Bill**

Section 3 provides, upon approval of their respective boards, the Retirement and Investment Office and the Public Employees Retirement System may transfer from their respective contingencies line items to all other line items. The agencies shall notify the Office of Management and Budget of each transfer made pursuant to this section.

Section 4 provides for a one-time transfer from the general fund of \$5 million on July 1, 2009, to the Teachers' Fund for Retirement (TFFR) for the purpose of making supplemental retirement payments, based on years of service and years of retirement.

**Continuing Appropriations**

**Investment expenses** - North Dakota Century Code (NDCC) Section 21-10-06.2 - Investment management, custody, consulting, income offset, and due diligence/education costs.

**Benefits and refunds** - NDCC Section 15-39.1-05.2 - Benefits and refunds from TFFR.

**Administrative charges** - NDCC Section 15-39.1-05.2 - Income offset and TFFR consulting costs.

### **Major Related Legislation**

**House Bill No. 1080** - Makes changes affecting TFFR relating to incorporation of federal law changes, procedure relating to benefit limitations, annual hour limit for retiree reemployment, and disclosure of confidential records under TFFR.

**House Bill No. 1114** - Identifies changes relating to the funds under management of the State Investment Board.

HB 1022  
North Dakota Retirement and Investment Office  
Testimony to House Appropriations Committee  
Government Operations Division  
Steve Cochrane, Executive Director  
January 14, 2009

Good morning. My name is Steve Cochrane and I serve as Executive Director of the North Dakota Retirement and Investment Office (RIO) and as Investment Director to the State Investment Board (SIB).

**RIO Background**

RIO was created twenty years ago by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of two important long-standing state programs – the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the SIB.

TFFR is a qualified defined benefit public pension plan. The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. TFFR serves over 9,500 teachers from 235 employer groups and pays benefits to more than 6,300 retirees and beneficiaries. High quality member services and outreach programs are offered to members and employers as part of the continuing effort to keep them informed about the retirement program.

The SIB is responsible for setting policies and procedures guiding the investment of more than \$4.0 billion in assets for six pension funds and 16 other insurance-type funds. Their investments are divided into two investment trust funds – the Pension Trust and the Insurance Trust. The Pension Trust is made up of only qualified pension funds whose monies must be invested exclusively for the benefit of their participants. The Insurance Trust is made up of mainly insurance-type funds, but also includes funds that do not qualify as pension funds and would like to benefit from the cost savings of being pooled with other funds' assets. All of these funds are invested in accordance with the "Prudent Investor Rule".

The SIB investment program, along with institutional and individual investors globally, has suffered profound declines in asset values. This has affected stocks, bonds, real estate and other related investments. The Pension Trust fell in value by 5.82% in fiscal year 2008. Relative to the universe of all public pension funds measured by the SIB investment consultant, Callan Associates, this represented third quartile performance. However, for the three, five, and ten year periods ended June 30, 2008, the SIB Pension Trust remains in the top quartile. The estimated return of this fund for the first six months of fiscal year 2009 is -21.4%.

**2007-09 Budget Review**

Budget estimates for the current biennium indicate that RIO will have unexpended appropriation in our salary line of \$124,000 and \$86,000 in our operating line. RIO had two positions vacant for portions of the first year of the biennium that contributed to the budget savings. They have both been filled as of July 1, 2008.

Savings in the operating line comes from a variety of sources but some of the major contributors include travel, printing, postage and equipment lease.

- Both the SIB and TFFR Boards consider board member education to be a top priority. Many of the best opportunities for education in the areas of investments and retirement plans are sponsored by national organizations. As a result of this, RIO has requested funding for travel to attend conferences and other training-related events. When planning the current biennium budget, we anticipated a large number of new board members that would require both beginner and on-going education. For a variety of reasons, board members were not able to attend as many of the available education opportunities as was anticipated. Scheduling conflicts tend to be the main reason. To ensure board members are adequately educated, however, outside professionals are brought in frequently to conduct educational sessions during regularly scheduled board meetings, generally at no cost to the funds. We anticipate having approximately \$55,000 remaining in this line item at the end of the current biennium.
- A combination of lower bids received on printing projects and printing fewer copies, due to availability of information on the RIO web site, will save approximately \$11,000 in our printing line item this biennium. We also expect to save approximately that same amount in postage due to reducing the number of mailings and having staff handle some of the mail sorting duties previously contracted to external vendors.
- RIO's 2007-09 biennium request included funds to enter into a new lease for a multi-function printer. Analysis performed during the budget preparation period indicated a slight cost savings from leasing versus purchasing. However, a new state contract was issued with the start of the current biennium that resulted in a cost savings by purchasing instead of leasing. This resulted in a savings of over \$12,000 in that line item this biennium.

RIO did not have any one-time funding requests in the current biennium budget.

### **2009-11 Budget Highlights**

Some of the highlights from RIO's budget request are detailed below:

- RIO's original budget request included a 3.7% increase in salaries and a 1.2% decrease in operating expenses. Within the salaries line, the increase is to continue the current biennium legislative increases as well as to fund a salary increase approved by the State Investment Board for the Executive Director, which is a non-classified position.

RIO's current biennium budget included an appropriation for salary equity adjustments to bring our employees average comp-ratio up to the state-wide average. We distributed those moneys using a formula that incorporated each employee's current comp-ratio. After distributing the equity dollars, our agency's average comp-ratio went from 0.91 to 0.96.

- RIO's operating line request is \$11,429 less than the current biennium appropriation. We were able to make significant decreases in Lease/Rental of Office Equipment, Printing, Travel, and IT Equipment.
- The decision to purchase the new multi-function printer mentioned earlier resulted in no need to budget for lease expenses in the 2009-11 biennium. This resulted in a decrease of \$13,800 in that line item.

- A combination of lower bids received on printing projects and printing fewer copies, due to availability of information on our web site, enabled us to decrease our printing line request by \$11,600.
- Based on the fact that RIO expects to have a large balance in the current biennium travel line, we decided to reduce our request for the 2009-11 biennium. However, with the uncertainty in fuel prices, it was difficult to make a one-for-one reduction. After reviewing the composition of the board, the fact that we have two new staff members, and taking into account the possibility of increased fuel prices, we settled on a reduction in this line item of just over \$14,000.
- The agency's IT Equipment replacement schedule has been modified from a 3 year cycle to a 4 year cycle for personal computers, resulting in no need to budget for those expenses in the 2009-11 biennium. This resulted in a decrease of \$12,850 in that line item.
- Most of the other line items within the operating line had minor adjustments, up and down, based on current circumstances and estimates. The one line item that had a fairly significant increase was the Data Processing line. Due to a miscalculation in storage costs when preparing the 2007-09 budget request, RIO significantly underestimated the amount needed for this purpose. We expect to overspend this line item by approximately \$19,000 in the current biennium. These funds will come from adjusting expenditures in other line items within the operating line. We are requesting an increase in the Data Processing line for 2009-11 of \$29,104, but in reality, this is only a \$10,000 increase over current biennium actual. The \$10,000 increase is due to additional Websphere Application Hosting expenses payable to ITD that are associated with online services for TFFR members and employers.
- RIO is not requesting an increase in our contingency line. We did spend \$11,441 from our contingency line this year. This is the first time since the mid-90's that we have used any contingency dollars. As mentioned earlier, we determined after the start of the current biennium that purchasing a multi-function printer was more cost effective than leasing. But since we had budgeted for the lease costs, we did not have an appropriation to purchase equipment over \$5,000. RIO does have authority to spend out of the contingency line with State Investment Board approval, so the Board approved this expenditure prior to purchase.
- No additional FTE's are being requested.
- The budget submitted by RIO does not include any major agency initiatives or program changes for the 2009-11 biennium.

#### **One Time Funding – TFFR Retiree Supplemental Payments**

As a part of the Governor's budget recommendation, HB 1022 also includes a transfer of \$5,000,000 from the General Fund to the Teachers' Fund for Retirement (TFFR) for the purpose of making supplemental retirement payments based on years of service and years of retirement. Our understanding is that a separate bill will be filed which will address the formula for the supplemental payment. It is expected to be similar to Bill No. 109 studied by the Employee Benefits Programs Committee during the interim which provides supplemental payments to retired teachers in 2009 and 2010 using a formula weighted toward those retirees who have the most service credit and who have been retired the longest. As indicated in HB 1022, this one time funding amount is not part of RIO's base budget.

Please note that a language modification may be required on page 2, line 20. It appears that it should be the Retirement and Investment Office (not the Public Employees Retirement System) who should report to the Appropriations Committees of the 62nd Legislative Assembly on the use of this one-time funding. We have shared this observation with our Budget Analyst at OMB.

### **Long-Term Outlook**

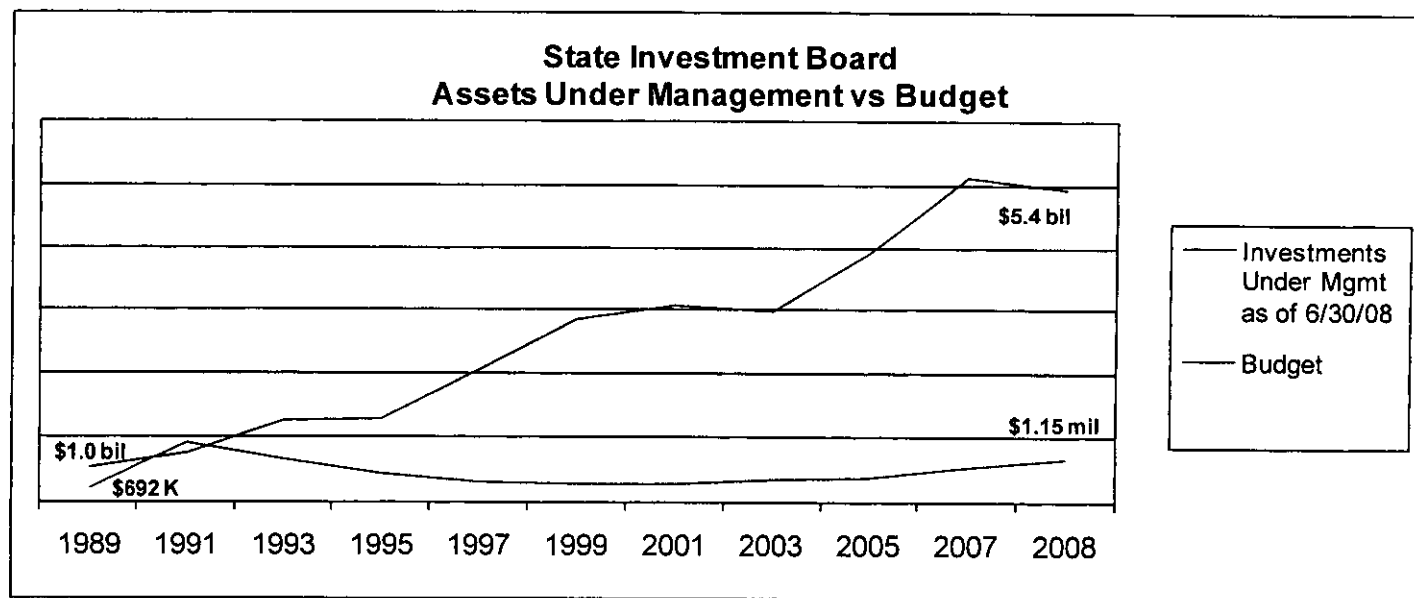
As you all know, we enter this next biennium in uncharted economic and financial waters. We recognize that the TFFR fund was founded in 1913, and has seen many an economic cycle. RIO is now challenged with managing pension administration and investments in an environment of declining asset values, massive global deleveraging, credit market crisis and great uncertainty. Our objective is to maintain our professionalism, flexibility and adaptability in serving the needs of our members and state government. RIO has two related, but distinct missions. The administration of a defined benefit plan in today's environment presents unique challenges which must be met with creativity and reasonableness. As RIO has demonstrated recently, it is sensitive to the needs of working closely with the TFFR board to maintain the long-term viability of benefit provision to new and existing members. Similarly, the SIB operates in a rapidly changing economic and financial environment. While it is very challenging, the SIB is dedicated to the long-term success of the investment program.

### **Conclusion**

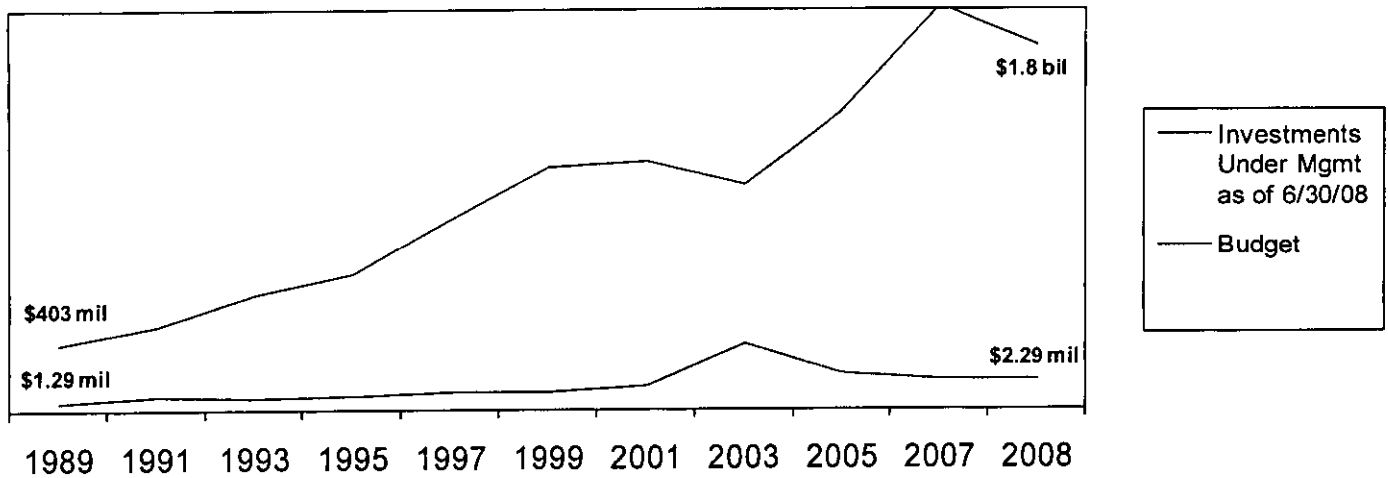
Thank you for the time you have set aside today to consider our budget request. As always, the Retirement and Investment Office strives to provide high quality services to its members and clients in a cost effective and efficient manner. We feel that this budget will allow us to continue to do so. Thank you for your time and consideration.

**ND RETIREMENT AND INVESTMENT OFFICE - DEPT. 190**  
**Budget Summary**

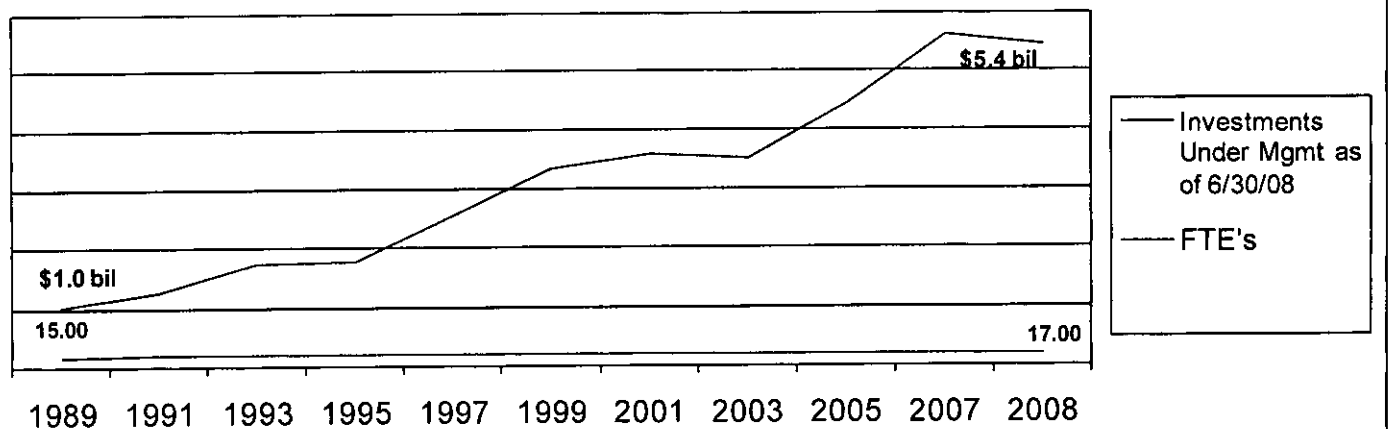
	2005-07 Actual Expenditures	2007-09 Legislative Appropriation	2007-09 Estimated Expenditures or Currently Filled FTE Positions	Variance	2009-11 Executive Recommendation	2009-11 Recommendation Change (Variance) to 2007-09 Legislative Appropriations
Salaries and wages	1,916,624	2,353,137	2,229,116	124,021	2,724,781	371,644
Operating Expenses	709,861	935,999	849,301	86,698	924,570	(11,429)
Contingency	-	82,000	11,441	70,559	82,000	-
Contractual Services	453,031	-	-	-	-	-
<b>Total</b>	<b>3,079,516</b>	<b>3,371,136</b>	<b>3,089,858</b>	<b>281,278</b>	<b>3,731,351</b>	<b>360,215</b>
Special funds	3,079,516	3,371,136	3,089,858	281,278	3,731,351	360,215
General funds-TFRR Benefits	-	-	-	-	5,000,000	5,000,000
FTE	17	17	17	-	17	-



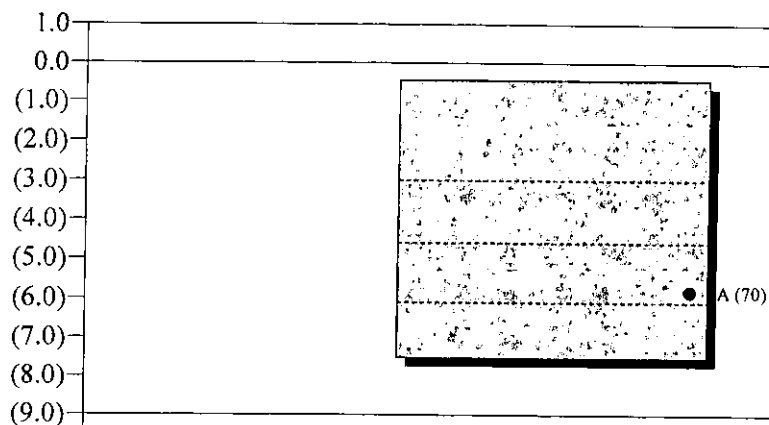
### ND Teachers' Fund for Retirement Assets Under Management vs Budget



### Retirement and Investment Office Assets Under Management vs FTE's



Returns  
for Periods Ended June 30, 2008  
Group: CAI Public Fund Sponsor Database



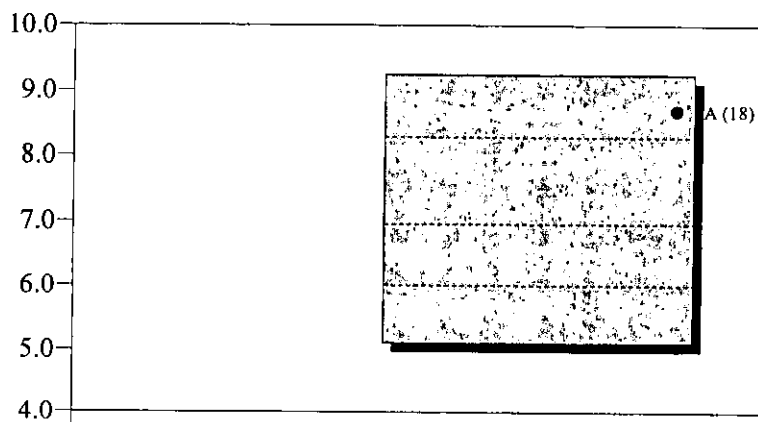
Year Ending 6/30/08

10th Percentile	(0.46)
25th Percentile	(2.99)
Median	(4.59)
75th Percentile	(6.09)
90th Percentile	(7.51)

Member Count 114

ND Pen - Total Fund ● A (5.82)

Returns  
for Periods Ended June 30, 2008  
Group: CAI Public Fund Sponsor Database



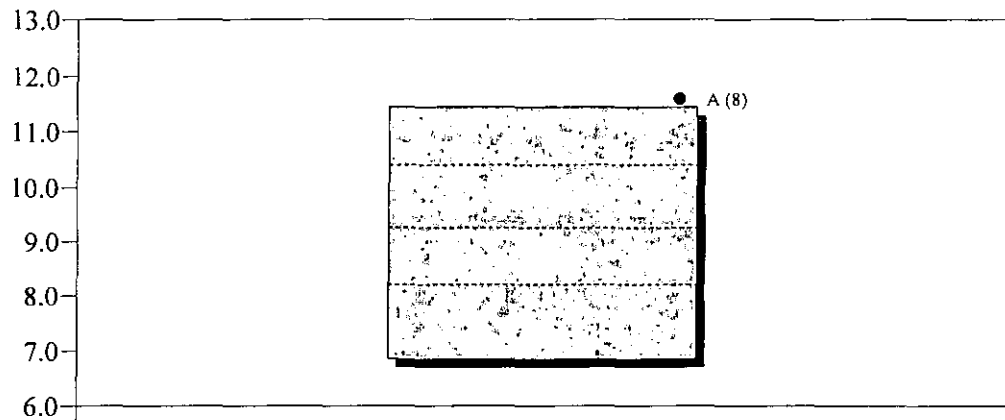
3 Years Ending 6/30/08

10th Percentile	9.25
25th Percentile	8.28
Median	6.96
75th Percentile	6.01
90th Percentile	5.11

Member Count 106

ND Pen - Total Fund ● A 8.70

Returns  
for Periods Ended June 30, 2008  
Group: CAI Public Fund Sponsor Database



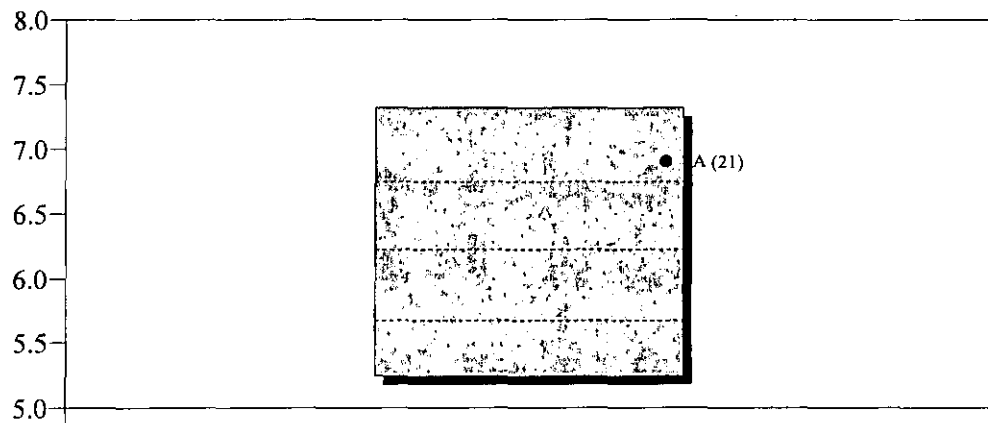
5 Years Ending 6/30/08

10th Percentile	11.45
25th Percentile	10.40
Median	9.26
75th Percentile	8.21
90th Percentile	6.86

Member Count 104

ND Pen - Total Fund ● A 11.60

Returns  
for Periods Ended June 30, 2008  
Group: CAI Public Fund Sponsor Database



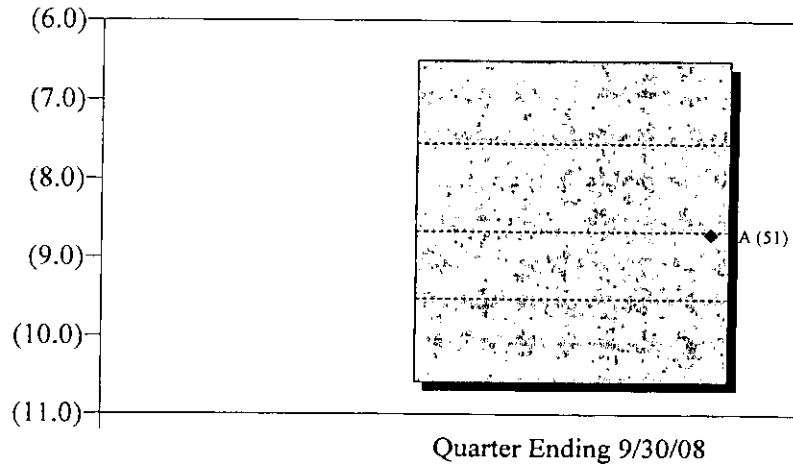
10 Years Ending 6/30/08

10th Percentile	7.32
25th Percentile	6.75
Median	6.23
75th Percentile	5.67
90th Percentile	5.25

Member Count 84

ND Pen - Total Fund ● A 6.91

Returns  
for Periods Ended September 30, 2008  
Group: CAI Public Fund Sponsor Database



10th Percentile	(6.50)
25th Percentile	(7.55)
Median	(8.66)
75th Percentile	(9.53)
90th Percentile	(10.58)
Member Count	108
ND Pen - Total Fund ♦ A	(8.70)

**Engrossed HB 1022**  
**North Dakota Retirement and Investment Office**  
**Testimony to Senate Appropriations Committee**  
**Steve Cochrane, Executive Director**  
**March 5, 2009**

Good afternoon. My name is Steve Cochrane and I serve as Executive Director of the North Dakota Retirement and Investment Office (RIO) and as Investment Director to the State Investment Board (SIB).

**RIO Background**

RIO was created twenty years ago by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of two important long-standing state programs – the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the SIB.

TFFR is a qualified defined benefit public pension plan. The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. TFFR serves over 9,500 teachers from 235 employer groups and pays benefits to more than 6,300 retirees and beneficiaries. High quality member services and outreach programs are offered to members and employers as part of the continuing effort to keep them informed about the retirement program.

The SIB is responsible for setting policies and procedures guiding the investment of more than \$4.0 billion in assets for six pension funds and 16 other insurance-type funds. Their investments are divided into two investment trust funds – the Pension Trust and the Insurance Trust. The Pension Trust is made up of only qualified pension funds whose monies must be invested exclusively for the benefit of their participants. The Insurance Trust is made up of mainly insurance-type funds, but also includes funds that do not qualify as pension funds and would like to benefit from the cost savings of being pooled with other funds' assets. All of these funds are invested in accordance with the "Prudent Investor Rule".

The SIB investment program, along with institutional and individual investors globally, has suffered profound declines in asset values. This has affected stocks, bonds, real estate and other related investments. The Pension Trust fell in value by 5.82% in fiscal year 2008. Relative to the universe of all public pension funds measured by the SIB investment consultant, Callan Associates, this represented third quartile performance. However, for the three, five, and ten year periods ended June 30, 2008, the SIB Pension Trust remains in the top quartile. The estimated return of this fund for the first eight months of fiscal year 2009 is -32.9%.

**2007-09 Budget Review**

Budget estimates for the current biennium indicate that RIO will have unexpended appropriation in our salary line of \$124,000 and \$86,000 in our operating line. RIO had two positions vacant for portions of the first year of the biennium that contributed to the budget savings. They have both been filled as of July 1, 2008.

Savings in the operating line comes from a variety of sources but some of the major contributors include travel, printing, postage and equipment lease.

- Both the SIB and TFFR Boards consider board member education to be a top priority. Many of the best opportunities for education in the areas of investments and retirement plans are sponsored by national organizations. As a result of this, RIO has requested funding for travel to attend conferences and other training-related events. When planning the current biennium budget, we anticipated a large number of new board members that would require both beginner and on-going education. For a variety of reasons, board members were not able to attend as many of the available education opportunities as was anticipated. Scheduling conflicts tend to be the main reason. To ensure board members are adequately educated, however, outside professionals are brought in frequently to conduct educational sessions during regularly scheduled board meetings, generally at no cost to the funds. We anticipate having approximately \$55,000 remaining in this line item at the end of the current biennium.
- A combination of lower bids received on printing projects and printing fewer copies, due to availability of information on the RIO web site, will save approximately \$10,000 in our printing line item this biennium. We also expect to save approximately that same amount in postage due to reducing the number of mailings and having staff handle some of the mail sorting duties previously contracted to external vendors.
- RIO's 2007-09 biennium request included funds to enter into a new lease for a multi-function printer. Analysis performed during the budget preparation period indicated a slight cost savings from leasing versus purchasing. However, a new state contract was issued with the start of the current biennium that resulted in a cost savings by purchasing instead of leasing. This resulted in a savings of over \$12,000 in that line item this biennium.

RIO did not have any one-time funding requests in the current biennium budget.

### **2009-11 Budget Highlights**

Some of the highlights from RIO's budget request are detailed below:

- RIO's original budget request included a 3.7% increase in salaries and a 1.2% decrease in operating expenses. Within the salaries line, the increase is to continue the current biennium legislative increases as well as to fund a salary increase approved by the State Investment Board for the Executive Director, which is a non-classified position.

RIO's current biennium budget included an appropriation for salary equity adjustments to bring our employees' average comp-ratio up to the state-wide average. We distributed those moneys using a formula that incorporated each employee's current comp-ratio. After distributing the equity dollars, our agency's average comp-ratio went from 0.91 to 0.96.

- RIO's operating line request is \$11,429 less than the current biennium appropriation. We were able to make significant decreases in Lease/Rental of Office Equipment, Printing, Travel, and IT Equipment.
- The decision to purchase the new multi-function printer mentioned earlier resulted in no need to budget for lease expenses in the 2009-11 biennium. This resulted in a decrease of \$13,800 in that line item.

- A combination of lower bids received on printing projects and printing fewer copies, due to availability of information on our web site, enabled us to decrease our printing line request by \$11,600.
- Based on the fact that RIO expects to have a large balance in the current biennium travel line, we decided to reduce our request for the 2009-11 biennium. However, with the uncertainty in fuel prices, it was difficult to make a one-for-one reduction. After reviewing the composition of the board, the fact that we have two new staff members, and taking into account the possibility of increased fuel prices, we settled on a reduction in this line item of just over \$14,000.
- The agency's IT Equipment replacement schedule has been modified from a 3 year cycle to a 4 year cycle for personal computers, resulting in no need to budget for those expenses in the 2009-11 biennium. This resulted in a decrease of \$12,850 in that line item.
- Most of the other line items within the operating line had minor adjustments, up and down, based on current circumstances and estimates. The one line item that had a fairly significant increase was the Data Processing line. Due to a miscalculation in storage costs when preparing the 2007-09 budget request, RIO significantly underestimated the amount needed for this purpose. We expect to overspend this line item by approximately \$19,000 in the current biennium. These funds will come from adjusting expenditures in other line items within the operating line. We are requesting an increase in the Data Processing line for 2009-11 of \$29,104, but in reality, this is only a \$10,000 increase over current biennium actual. The \$10,000 increase is due to additional Websphere Application Hosting expenses payable to ITD that are associated with online services for TFFR members and employers.
- RIO is not requesting an increase in our contingency line. We did spend \$11,441 from our contingency line this year. This is the first time since the mid-90's that we have used any contingency dollars. As mentioned earlier, we determined after the start of the current biennium that purchasing a multi-function printer was more cost effective than leasing. But since we had budgeted for the lease costs, we did not have an appropriation to purchase equipment over \$5,000. RIO does have authority to spend out of the contingency line with State Investment Board approval, so the Board approved this expenditure prior to purchase.
- No additional FTE's are being requested.
- The budget submitted by RIO does not include any major agency initiatives or program changes for the 2009-11 biennium, and no general funds were requested.

#### **One Time Funding – TFFR Retiree Supplemental Payments**

As part of Governor Hoeven's budget recommendations, HB1022 originally included a transfer of \$5 million from the State's General Fund to TFFR for the purpose of making supplemental retiree payments using a formula weighted toward those TFFR retirees who have the most service credit and who have been retired the longest. The \$5 million was removed by the House Appropriations Committee prior to passage of HB1022.

The policy bill providing the formula for the supplemental retiree payments is SB2277 which passed in the Senate a few weeks ago with a \$5.425 million fiscal note. Neither SB2277 nor HB1022 includes funding for the supplemental retiree payment provided for in SB2277.

Consequently, I believe the ND Retired Teachers' Association will be asking your committee to include \$5.425 million in this appropriation bill to fund the supplemental payment.

### **Long-Term Outlook**

As you all know, we enter this next biennium in uncharted economic and financial waters. We recognize that the TFFR fund was founded in 1913, and has seen many an economic cycle. RIO is now challenged with managing pension administration and investments in an environment of declining asset values, massive global deleveraging, credit market crisis and great uncertainty. Our objective is to maintain our professionalism, flexibility and adaptability in serving the needs of our members and state government. RIO has two related, but distinct missions. The administration of a defined benefit plan in today's environment presents unique challenges which must be met with creativity and reasonableness. As RIO has demonstrated recently, it is sensitive to the needs of working closely with the TFFR board to maintain the long-term viability of benefit provision to new and existing members. Similarly, the SIB operates in a rapidly changing economic and financial environment. While it is very challenging, the SIB is dedicated to the long-term success of the investment program.

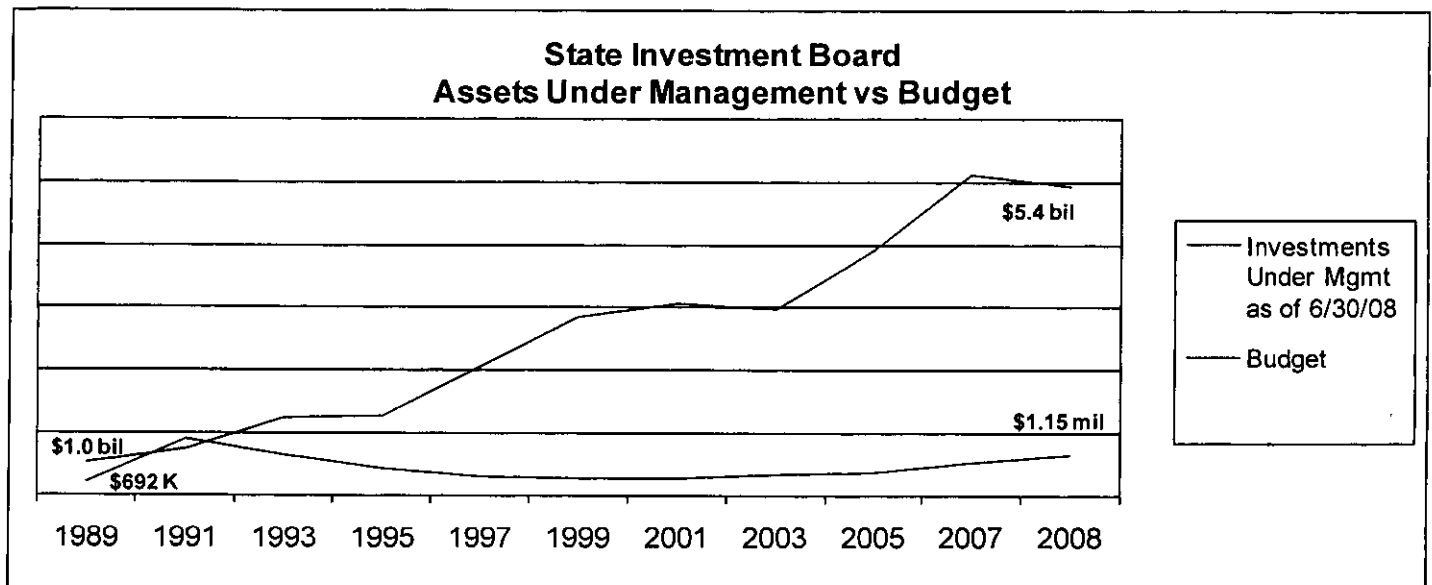
### **Conclusion**

Thank you for the time you have set aside today to consider our budget request. As always, the Retirement and Investment Office strives to provide high quality services to its members and clients in a cost effective and efficient manner. We feel that this budget will allow us to continue to do so. Thank you for your time and consideration.

**ND RETIREMENT AND INVESTMENT OFFICE - DEPT. 190**  
**Budget Summary**

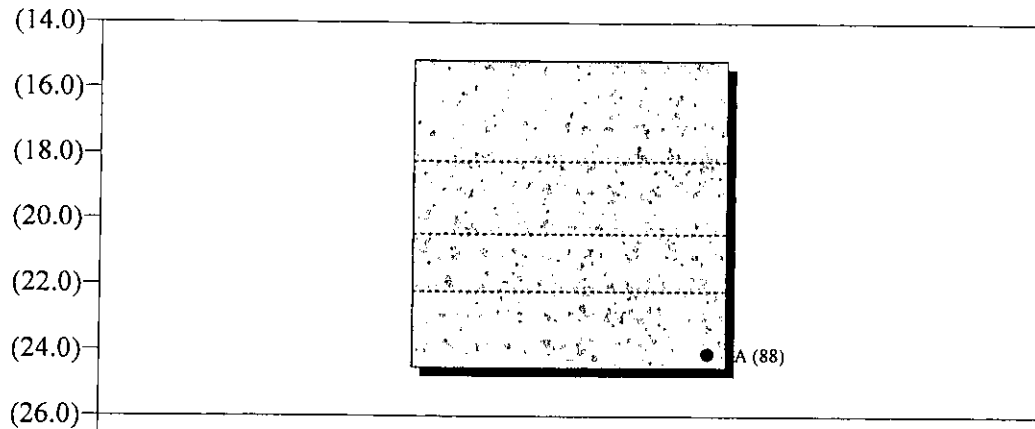
	2005-07 Actual Expenditures	2007-09 Legislative Appropriation	2007-09 Estimated Expenditures or Currently Filled FTE Positions	Variance	2009-11 Executive Recommendation	2009-11 Recommendation Change (Variance) to 2007-09 Legislative Appropriations
Salaries and wages	1,916,624	2,353,137	2,229,116	124,021	2,724,781	371,644
Operating Expenses	709,861	935,999	849,301	86,698	924,570	(11,429)
Contingency	-	82,000	11,441	70,559	82,000	-
Contractual Services	453,031	-	-	-	-	-
Total	3,079,516	3,371,136	3,089,858	281,278	3,731,351	360,215
Special funds	3,079,516	3,371,136	3,089,858	281,278	3,731,351	360,215
FTE	17	17	17	-	17	-

The following charts are based on budget amounts as submitted by the agency and investment values as of June 30, 2008.



*See testimony 1-14-09  
 Same charts given to House/Senate*

Returns  
for Periods Ended December 31, 2008  
Group: CAI Public Fund Sponsor Database



2 Quarters Ending 12/31/08

10th Percentile	(15.15)
25th Percentile	(18.23)
Median	(20.47)
75th Percentile	(22.20)
90th Percentile	(24.52)

Member Count	97
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ND Pen - Total Fund	● A	(24.10)
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# History of TFFR Retirement Plan Changes

July 1	Plan Changes	Benefit Formula	Retiree Benefit Increase	Average \$ Increase	Average % Increase	Average Monthly Benefit
1993	<ul style="list-style-type: none"> <li>Disability retirement formula changed to coincide with retirement formula.</li> </ul>	Multiplier increased to 1.55% FAS X 1.55% X years of service	10% of current benefit or leveling benefit increase based on retirement date and years of service. (Maximum of \$100/mo)	\$75.00	13.80%	1993-\$547 1992-\$549
1991	<ul style="list-style-type: none"> <li>Provisions for military service credit under Veterans' Reemployment Rights Act (VRRA) added.</li> </ul>	Multiplier increased to 1.39% FAS X 1.39% X years of service	10% of current benefit or leveling benefit increase based on retirement date and years of service. (Maximum of \$75/mo)	\$63.24	14.66%	1991-\$513 1990-\$415
1989	<ul style="list-style-type: none"> <li>"Pop-up" to single life annuity for joint and survivor options.</li> <li>Level income with Social Security.</li> <li>"Rule of 85" replaced the "Rule of 90."</li> <li>Employer and employee contributions increased to 6.75%.</li> </ul>	Multiplier increased to 1.275% FAS x 1.275% X years of service	Increase equal to \$.05 X years of service X number of years since member's retirement.	\$18.30	5.2%	1989-\$361 1988-\$352
1987	<ul style="list-style-type: none"> <li>Eligibility for disability benefits changed to one year of service and disability benefit improved.</li> <li>Vesting for retirement benefits reduced from 10 to 5 years.</li> </ul>	Multiplier increased to 1.22% FAS X 1.22% X years of service	\$1.50/mo increase for every year since member's retirement. Members receiving benefits under 1967 & 1969 formulas rec'd \$15/mo bonus (Max \$75/mo)	\$27.25	9.1%	1987-\$327 1986-\$312
1985	<ul style="list-style-type: none"> <li>Partial retirement possible at age 62.</li> <li>Dual membership for vesting of benefits for members under TFFR, PERS, and Highway Patrol Retirement System.</li> </ul>	Multiplier increased to 1.15% FAS X 1.15% X years of service	1% increase in benefits for every year since member's retirement. (Max of 10% or \$40)	\$17.88	7.39%	1985-\$269 1984-\$242
1983	<ul style="list-style-type: none"> <li>"Rule of 90" (age + service = 90) approved.</li> <li>Employer payment of member assessments allowed.</li> <li>School day for TFFR purposes set at 4 duty hours.</li> <li>FAS changed to high 3 years of career.</li> </ul>	Multiplier increased to 1.05% FAS X 1.05% X years of service	15% increase in current benefit to all retirees. (Max of \$45/mo)	\$29.78	15.93%	1983-\$221 1982-\$187
1981	<ul style="list-style-type: none"> <li>Early retirement age reduced to age 55.</li> <li>Eligibility for disability benefits reduced from 15 to 10 years.</li> </ul>	No Change	No Increase	-0-	-0-	1981-\$182 1980-\$174
1979	<ul style="list-style-type: none"> <li>New benefit formula using multiplier, years of service and final average salary (high 5 of last 10 years).</li> <li>Normal retirement @ 65 w/10 yrs or age 60 w/35 yrs service</li> <li>Employee and employer contribution rate increased from 5% to 6.25% each.</li> </ul>	Established multiplier of 1.0% FAS X 1.0% X years of service	No Increase	-0-	-0-	1979-\$171 1978-\$165

# History of TFFR Retirement Plan Changes

July 1	Plan Changes	Benefit Formula	Retiree Benefit Increase	\$ Average Increase	% Average Increase	Average Monthly Benefit
2007	<p>Effective 7-01-07</p> <ul style="list-style-type: none"> <li>Require employer contributions of 7.75% on re-employed retirees.</li> </ul> <p>Effective 7-01-08</p> <ul style="list-style-type: none"> <li>Increase employer contributions from 7.75% to 8.25% on active and retired members' salaries (until TFFR reaches 90% funded level).</li> <li>Create new tier of reduced member benefits: <ul style="list-style-type: none"> <li>Tier 1 – Rule of 85, 3 yr vesting, 3 yr FAS</li> <li>Tier 2 – Rule of 90, 5 yr vesting, 5 yr FAS</li> </ul> </li> </ul>	No Change	No Increase	-0-	-0-	2007-\$1434 2006-\$1383
2005	<ul style="list-style-type: none"> <li>None.</li> </ul>	No Change	No Increase	-0-	-0-	2005-\$1309 2004-\$1255
2003	<ul style="list-style-type: none"> <li>Clarified definition of salary.</li> <li>Updated dual membership guidelines.</li> <li>Added 20 year term certain and partial lump sum distribution (PLSO) options.</li> <li>Expanded refund &amp; rollover options to purchase service credit.</li> <li>Allow employers to purchase service credit on behalf of members.</li> </ul>	No Change	No Increase	-0-	-0-	2003-\$1203 2002-\$1152
2001	<ul style="list-style-type: none"> <li>Modified retiree employment provisions by adding exceptions for critical shortage areas and educational foundation donations, and improved recalculation of retiree benefits after returning to teach.</li> </ul>	Multiplier increased to 2.00% FAS X 2.00% X years of service	Increase equal to \$2 month X member's years of service credit + \$1 month X number of years since member's retirement plus 0.75% annual adjustment for 7-1-01 and 7-1-02.	\$78.00	7.8%	2001-\$995 2000-\$970
1999	<ul style="list-style-type: none"> <li>Vesting and eligibility for benefits reduced from 5 to 3 years.</li> <li>Early retirement reduction changed from age 65 to earlier of age 65 or Rule of 85.</li> <li>Purchase of service credit modified; air time and leave of absence added.</li> <li>Member's spouse required to be beneficiary and spousal consent to choice of benefit option.</li> </ul>	Multiplier increased to 1.88% FAS X 1.88% X years of service	Increase equal to \$2 month X member's years of service credit + \$1 month X number of years since member's retirement.	\$70.00	8.5%	1999-\$833 1998-\$810
1997	<ul style="list-style-type: none"> <li>Employer and employee contributions increased to 7.75%.</li> <li>Allow rollovers to purchase service credit.</li> <li>Expand TFFR Board to 7 members.</li> </ul>	Multiplier increased to 1.75% FAS X 1.75% X years of service	\$30-month increase.	\$30.00	4.1%	1997-\$729 1996-\$719
1995	<ul style="list-style-type: none"> <li>Allow members to rollover refunds from TFFR to IRA or qualified plan.</li> </ul>	No Change	No Increase	-0-	-0-	1995-\$690 1994-\$663

## Testimony

### HB 1022 – House Appropriations Government Operations Division Representative Jeff Delzer, Chairman

January 14, 2009

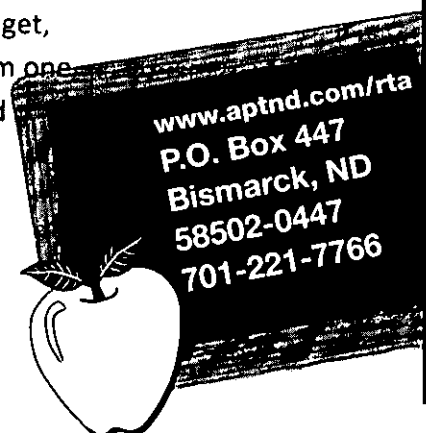
Chairman Delzer, members of the House Appropriations Government Operations Division, I am Ken Tupa representing the ND Retired Teachers Association. Thank you for the opportunity to provide testimony this morning in support of the \$5 million appropriation in HB 1022 for the purpose of providing a supplemental retirement payment to retired teachers.

Addressed earlier, the \$5 million is a general fund appropriation that would be transferred to TFFR to provide the supplemental payment. This supplemental payment began as Bill No. 109 in the interim providing a supplemental payment in 2009 and again in 2010 based on a formula of years of service credit and years of retirement. This formula is similar to one that has been used in the past when ad hoc, ongoing adjustments were provided to retirees\*. The appropriation included in HB 1022 addresses the purpose for the funding however it does not address the formula for disbursing the supplemental retiree payment. Consistent with the Bill No. 109 reviewed by the interim Employee Benefits Programs Committee, a bill is drafted for introduction (Senator O'Connell) in the Senate that provides the formula of:

\$24 multiplied by years of service  
plus  
\$18 multiplied by years of retirement

for one supplemental payment to be made to retired teachers in December, 2009. The original actuarial analysis of the interim bill with payments in 2009 and 2010 estimated a cost of \$10.9 million, with 2009 estimated at \$5.4 million and 2010 at \$5.5 million (2010 included one additional year of retirement). Additionally, the supplemental payment is subject to the limitation of the greater of 10% of the annuitants annual benefit or \$750 (IRS exemption amounts for supplemental annuity payments).

While we are certainly grateful for the \$5 million included in the budget, we would appreciate your consideration for fully funding at minimum one payment in 2009, increasing the appropriation to the level estimated for one payment in 2009.



North Dakota Retired Teachers Association

March 5, 2009  
Josh Askvig- NDEA  
Testimony on HB1022  
Senate Appropriations Committee

Chairman Holmberg, members of the Senate Appropriations Committee, for the record my name is Josh Askvig and I represent the North Dakota Education Association Retired. I am testifying today in support of HB1022 and would ask that you consider an amendment.

As you may remember, this committee and the full Senate unanimously passed SB2277 before the crossover break. SB2277 will provide current Teachers Fund For Retirement (TFFR) annuitants with a onetime additional payment as a cost-of-living adjustment. The fiscal impact of this payment according to the Retirement and Investment Office is \$5,425,000 (see attached FN from SB2277).

When HB1022 was originally introduced the Governor had requested \$5,000,000 to fund "making supplemental retirement payments based on years of service and years of retirement..." (see attached original bill starting on line 28 of page 2). The intent was to fund an additional payment in accordance with the formula laid out in SB2277 and the funds were a good faith effort to provide the payment. Unfortunately, when the House considered this legislation they decided to remove the \$5,000,000 from this legislation. If SB2277 is signed into law and no funding is added to HB1022 it could potentially create an unfunded mandate for the TFFR Board.

The NDEA would respectfully ask that you amend this bill to fund the cost (\$5,425,000) of the Senate passed SB2277. Our retired teachers are living on incomes that have been fixed since 2002. In that time we have seen skyrocketing fuel costs, grocery prices, medical expenses, and other costs of living. These retirees taught our state's future, maybe even some of us in this room. They deserve an extra payment to help them in these difficult times.

Mr. Chairman, members of the committee, I appreciate your time and would be happy to answer any questions.

## Testimony

HB 1022 - Senate Appropriations Committee

Senator Ray Holmberg, Chairman

March 5, 2009

Chairman Holmberg, members of the Senate Appropriations Committee, I am Ken Tupa representing the ND Retired Teachers Association. Thank you for the opportunity to provide testimony today on HB 1022.

HB 1022, as introduced, included \$5 million in the Governor's budget from the general fund for the "purpose of making supplemental payments, based on years of service and years of retirement.." This appropriation was to be transferred from the general fund to TFR on July 1, 2009. HB 1022 provided the appropriation, while SB 2277, heard in this committee on Feb. 9, 2009, provides the formula for TFFR to administer and distribute the supplemental payments to retired teachers (\$24 X years of service credit, plus \$18 X years retired, subject to the IRS provision limits).

In a letter from the TFFR actuary on October 16, 2008 to the Employee Benefits Programs Committee, it was estimated the cost for one supplemental payment in 2009 as provided in SB 2277 to be \$5.4 million. The fiscal note for SB 2277 shows \$5.425 million: \$5.4 million for the supplemental payments to retired teachers, and \$25,000 for TFFR administrative expenses to implement the payment.

The North Dakota Retired Teachers Association appreciates your support for SB 2277, and we would request your consideration to restore the appropriation to HB 1022 for the \$5.425 million to fund a supplemental payment for ND retired teachers.

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*North Dakota Retired Teachers Association*

**EMPLOYEE BENEFITS PROGRAMS COMMITTEE  
REPORT TO THE 61<sup>ST</sup> LEGISLATIVE ASSEMBLY  
REGARDING PROPOSED AMENDMENTS TO  
ENGROSSED HOUSE BILL NO. 1022 (98022.0205)**

**Date:** April 30, 2009

**Sponsor:** Representative Bette B. Grande

**Proposal:** Increases the Teachers' Fund for Retirement employer contribution from 8.25 percent to 8.75 percent of the salary of each teacher and appropriates \$25,000 to the Retirement and Investment Office to implement Senate Bill No. 2277

**System Affected:** Teachers' Fund for Retirement

**Actuarial Analysis:** Increases the available margin in the Teachers' Fund for Retirement from -.99 percent to -.58 percent or .41 percent

**Committee Report:** Favorable recommendation



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April 29, 2009

Rep. Bette Grande, Chairman  
Employee Benefit Programs Committee  
c/o Jeff Nelson  
ND Legislative Council  
State Capitol  
600 East Boulevard  
Bismarck, ND 58505-0360

**Re: Actuarial Analysis: Amendments to SB 2277 – 13<sup>th</sup> Check**

Dear Rep. Grande:

This is a follow up to our earlier letters dated March 12, 2009 and April 24, 2009.

This morning, Fay Kopp, Deputy Executive Director, North Dakota Retirement & Investment Office, asked us to prepare analyses of three possible amendments to SB 2277. SB 2277 is a bill that would provide for a special one-time payment to annuitants of the Teachers' Fund for Retirement (TFFR). We understand that the amendments are currently being drafted, so we have not reviewed them; we have relied on Ms. Kopp's description of the proposals.

#### **Proposed Amendments**

Under each of these three proposals, each annuitant—retiree, disabled retiree, or beneficiary receiving a benefit—who retired before January 1, 2009 and who is still receiving benefits as of December 1, 2009, would receive a special one-time payment. (Some prior proposed amendments would have limited the class of eligible annuitants to just those retired before July 1, 2001, but that is not true of any of these amendments.) In each case, the payment would be structured as:

- \$m times the member's years of service, and
- \$n times the number of years the member has been retired

The amount of the one-time payment is limited to no more than 10% of the member's annual retirement benefit or \$750.00, whichever is larger. This payment would be made in December 2009.

When SB 2277 was introduced, \$m was \$24.00 and \$n was \$18.00. The three possible amendments change \$m and \$n, respectively, to (a) \$20.00 and \$15.00, (b) \$18.00 and \$14.00, and \$16.00 and \$12.00. Call these, respectively, Proposal \$20/\$15, Proposal \$18/\$14, and Proposal \$16/\$12.

TFFR would not receive any money from the State's general fund to pay for the one-time payment. However, each of the proposed amendments would incorporate the language in 98022.0204, an amendment to HB 1022, which would increase the employer contribution rate by 0.50%, from 8.25% to 8.75%, effective July 1, 2010. The 0.50% increase in the employer contribution rate would

Rep. Bette Grande, Chairman  
April 29, 2009  
Page 3

changes and/or contribution increases during the 2011 session, even if the additional .50% increase in the employer contribution rate is enacted.

Based on recent projections taking into account losses for the current fiscal year, we believe it is unlikely that the increased 0.50% contribution rate would sunset anytime within the next 20-30 years. These projections reflect current contribution and benefit provisions, so do not reflect other actions that future legislatures may take in response to the recent market losses.

#### **Other Comments**

Our analyses were prepared using the same member and financial data and the same actuarial methods and assumptions that were used in preparing the July 1, 2008 actuarial valuation and the March 12<sup>th</sup> and April 24<sup>th</sup> letter. The technical comments and the comments about the rollover issue made in the March 12<sup>th</sup> letter continue to apply.

We are not attorneys, and nothing in this letter should be construed as providing legal, tax, or investment advice. No statement in this letter is intended to be interpreted as a recommendation in favor of the change or in opposition to them. Please feel free to call if you have any questions about this information.

Sincerely,



J. Christian Conradi  
Senior Consultant

Enclosure

cc: Ms. Fay Kopp, Deputy Executive Director, North Dakota Retirement & Investment Office  
j:\2039\2008\LEG\Bill 109 (One Time Retiree Payment)\SB2277Amend042909.doc