

**2015 HOUSE APPROPRIATIONS**

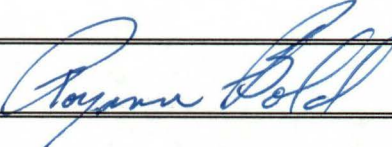
**HB 1066**

# 2015 HOUSE STANDING COMMITTEE MINUTES

## Appropriations Committee Roughrider Room, State Capitol

HB 1066  
1/20/2015  
22176

- ☐ Subcommittee  
☐ Conference Committee



### Explanation or reason for introduction of bill/resolution:

Relating to the balance of and transfers to the budget stabilization fund; to provide an effective date; and to declare an emergency

### Minutes:

Attachments: 1

**Chairman Jeff Delzer** opened the hearing on HB 1066

**North Dakota State Treasurer and State Investment Board member Kelly Schmidt** made a presentation on HB 1066.

### **Chairman Jeff Delzer**

Mostly timing, so that you don't have to sell CD's or whatever, it really doesn't change anything?

**Schmidt:** that's correct

### **Chairman Jeff Delzer**

We will have to have a discussion of the balance of the budget stabilization fund. We should look at 10% instead of 9.5%. Would you be upset about us putting that in this bill?

**Schmidt:** No.

### **Vice Chairman Keith Kempenich**

How many managers do we have on the budget stabilization fund? How many transactions does it take to sell that out?

**Schmidt:** that's a really difficult question to answer, because what we could be holding could be different at any point in time, so a number I could tell you today based on the asset allocation that you have, we have dollars invested in certain buckets and depending on where those buckets are it could be upward or downward. I don't know if we can quantify an absolute number.

Chairman Jeff Delzer

How many different managers do you use for each of the funds?

Schmidt: I would defer to our Executive Director and Chief Investment Officer of the funds to answer that question.

**Dave Hunter Executive Director and Chief investment Officer State Investment Board for the North Dakota Retirement Investment Office**

For budget stabilization fund; we have three managers that we use in that particular fund. Overall we have 35 investment managers that we use the various state investment board clients.

**Vice Chairman Keith Kempenich**

Yes, I was wondering because you end up paying on both ends.

**Hunter:**

There are opportunity costs, if you had to liquidate an investment and couldn't get back in at the same price, which is hard to quantify. There is hard cost of pulling money out and putting it back in, it's very inefficient.

**Chairman Jeff Delzer**

Do you have an estimate on what this bill will save?

**Hunter:**

No hard estimates; in the neighborhood of 5-10 basis points.

No further testimony was given.

**Chairman Jeff Delzer**

We will hold this bill till this afternoon as we have Allen Knudson of Legislative Council here to answer questions about how amendments are put together.

**Chairman Jeff Delzer**

Closed the hearing on HB 1066.

# 2015 HOUSE STANDING COMMITTEE MINUTES

## Appropriations Committee Roughrider Room, State Capitol

HB 1066  
1/20/2015  
22185

- ☐ Subcommittee  
☐ Conference Committee



### Explanation or reason for introduction of bill/resolution:

Relating to the balance of and transfers to the budget stabilization fund; to provide an effective date; and to declare an emergency

### Minutes:

No testimony, No attachments

**Chairman Jeff Delzer** called the hearing to order on HB1066.

Offered remarks about whether or not we stay at 9.5% or go back up to 10%. We always hear the average number should be at about 10% for budget stabilization fund. Looking at the revenue forecasts we're dealing with now, we have chance that if we fund it off of that, we'll quite likely trigger the use of it. Also with looking at oil prices we will need discussion on where our funding may end up.

We could adjust toward the end of the session as well. I would hate to lose this bill to put an amendment in. I think 10% is a sound number.

### Representative Pollert

When we've had good times, we couldn't hold 10% and we had to make an amendment to go to 9.5%. We know we are going to be reducing our spending vs. other bienniums. Even if the triggers don't kick, I love to go to 10%, but do you make that decision today or is that something that could put on the OMB budget as we see how our reductions go?

### Chairman Jeff Delzer

It certainly could be held till later on in the session. We'll probably be in the middle of March when we get the next OMB revenue forecast.

### Representative Skarphol

I think it's premature to try to set a number at this time.

### Vice Chairman Keith Kempenich

This is self-controlled; budget stabilization is a statutory fund that by a vote of the majority of this committee could put the whole works up on the table if you wanted to. It probably is a little early yet, but we will have to figure out where we want to be.

**Chairman Jeff Delzer**

The discussion's good. We need to see if we'll have a structural deficit facing us two years from now.

**Representative Monson**

That OMB bill gets so cumbersome and we tack things into it, then we wonder what's in here. We asked the State Treasurer if she had a problem with that and she didn't. This may not be a bad place to put it. The last bill to pass is the one that really counts, so we could put it in here and if it looks like we have problems with it, it can be tweaked in the OMB budget.

**Chairman Jeff Delzer**

I doubt this is the last time we see the budget stabilization language in front of us. We might be well to wait a little. We may want to find a bill to put this on before crossover, Good to get the discussion started. We could easily put it in the land board or a number of other places before crossover.

**Vice Chairman Keith Kempenich**

Made a motion for a Do Pass (with no amendments) on HB 1066.

**Representative Skarphol**

Seconded the motion.

No further discussion.

The motion carried; 23 Yes, 0 No, 0 Absent.

**Vice Chairman Keith Kempenich** will carry the bill.

Date: 1/20/15  
Roll Call Vote #: 1

**2015 HOUSE STANDING COMMITTEE**  
**ROLL CALL VOTES**  
BILL/RESOLUTION NO. 1066

House Appropriations Committee

☐ Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation: ☐ Adopt Amendment  
☒ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation  
☐ As Amended ☐ Rerefer to Appropriations  
☐ Place on Consent Calendar  
Other Actions: ☐ Reconsider ☐ \_\_\_\_\_

Motion Made By Kempenich Seconded By Skarphol

Representatives	Yes	No	Representatives	Yes	No
Chairman Jeff Delzer	✓		Representative Boe	✓	
Vice Chairman Keith Kempenich	✓		Representative Glassheim	✓	
Representative Bellew	✓		Representative Guggisberg	✓	
Representative Brandenburg	✓		Representative Hogan	✓	
Representative Boehning	✓		Representative Holman	✓	
Representative Dosch	✓				
Representative Kreidt	✓				
Representative Martinson	✓				
Representative Monson	✓				
Representative Nelson	✓				
Representative Pollert	✓				
Representative Sanford	✓				
Representative Schmidt	✓				
Representative Silbernagel	✓				
Representative Skarphol	✓				
Representative Streyle	✓				
Representative Thoreson	✓				
Representative Vigesaa	✓				

Total (Yes) 23 No 0

Absent 0

Floor Assignment Kempenich

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

**REPORT OF STANDING COMMITTEE**

**HB 1066: Appropriations Committee (Rep. Delzer, Chairman)** recommends **DO PASS**  
(23 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1066 was placed on the  
Eleventh order on the calendar.

**2015 SENATE APPROPRIATIONS**

**HB 1066**



# 2015 SENATE STANDING COMMITTEE MINUTES

## Appropriations Committee Harvest Room, State Capitol

HB 1066  
3/13/2015  
Job # 24788

- ☐ Subcommittee  
☐ Conference Committee

Committee Clerk Signature



### Explanation or reason for introduction of bill/resolution:

Relating to the balance of and transfers to the budget stabilization fund.

### Minutes:

Attachment 1

Legislative Council - Brady Larson  
OMB - Tammy Dolan

**Chairman Holmberg** called the committee to order on HB 1066.

### **Kelly Schmidt, North Dakota State Treasurer:**

Testified in favor of HB 1066. Attachment 1.

This bill relates to the budget stabilization fund and the process in which my office coordinates with the State Investment Board of the Retirement Investment Office as we work together to try and find efficiencies that save us time, talent and dollars. The state budget stabilization fund is 9 ½% of the general fund budget which is set aside in the budget stabilization fund or better known as the rainy day fund. This bill would bring some clarity to this process in the fact that it would identify a timeline at which we look at the balance of the budget stabilization fund. Then it would adjust transfers as it relates to the general fund. What happens now is we take a look at the budget stabilization fund and determine if it is over the threshold of where it needs to be as far as the requirement of dollars on deposit with RIO (Retirement and Investment Office). Then RIO moves dollars into the general fund and then at the end of the fiscal year, we look at how much more needs to go back into the budget stabilization fund based on your current budget. So we are liquidating assets with RIO and selling off investments, moving them to the general fund and then when we calculate the numbers, we're taking those same numbers and moving them back to RIO into the budget stabilization fund. This bill will tell us the timeline of when we need to take that snapshot of "OK, this is when we're going to look at this fund". Right now there is nothing and we typically do it in June. This will identify that. Secondly, instead of having those dollars going back and forth, we're going to leave them at RIO until the calculation is done. Then, at that time, will assets be liquidated that have to come back into the general fund. We're saving time; we're saving investment dollars because there are calculation fees and investment fees that happen with this, so we're retaining those dollars in the fund rather than having to re-invest. David Hunter is here from the

Retirement and Investment's office and is our CIO with the State Investment Board. He supports the legislation and I'm sure if you have questions for him or for I, we will be available.

**Senator Heckaman** (wanted to ask Kelly Schmidt a question relating to HB 1033).  
What percent of your investments that you do are put into ND institutions for investment and how many dollars is that?

**Kelly Schmidt:** I don't have a number for you, but I can tell you that we have a process. That process does not prohibit members of the State of North Dakota or state North Dakota institutions from working through that process. I look forward to the discussion on Tuesday at which I will have prepared testimony, and I'm sure Mr. Hunter will also to be able to answer some questions that came up during that hearing.

**Senator Carlisle:** You put a lot of money into CDs in North Dakota banks, don't you?

**Kelly Schmidt:** I do and what is disappointing in that is I have hundreds of thousands of dollars to which I am trying to invest in local North Dakota banks and I am not getting the response that I am hoping to get and have had to put additional dollars into the Bank of North Dakota at reduced rates because I'm not getting that response.

**Senator Robinson moved Do Pass on HB 1066.**  
**Senator Erbele seconded.**

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

**Senator Robinson will carry the bill on the floor.**

Date: 3-13-15  
Roll Call Vote #: 1

**2015 SENATE STANDING COMMITTEE**  
**ROLL CALL VOTES**  
BILL/RESOLUTION NO. 1066

Senate Appropriations Committee

☐ Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation: ☐ Adopt Amendment  
☒ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation  
☐ As Amended ☐ Rerefer to Appropriations  
☐ Place on Consent Calendar

Other Actions: ☐ Reconsider ☐ \_\_\_\_\_

Motion Made By Robinson Seconded By Erbele

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Heckaman	✓	
Senator Bowman	✓		Senator Mathern	✓	
Senator Krebsbach	✓		Senator O'Connell	✓	
Senator Carlisle	✓		Senator Robinson	✓	
Senator Sorvaag	✓				
Senator G. Lee	✓				
Senator Kilzer	✓				
Senator Erbele	✓				
Senator Wanzek	✓				

Total (Yes) 13 No 0

Absent 0

Floor Assignment Robinson

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

**REPORT OF STANDING COMMITTEE**

**HB 1066: Appropriations Committee (Sen. Holmberg, Chairman)** recommends **DO PASS** (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1066 was placed on the Fourteenth order on the calendar.

**2015 TESTIMONY**

**HB 1066**



STATE OF NORTH DAKOTA  
**OFFICE OF STATE TREASURER**  
Kelly L. Schmidt, State Treasurer

HB 1066  
1/20/15  
House Approp.  
-1-

HB 1066

House Appropriations

Kelly Schmidt

State Treasurer

Established by the legislature in 1987, the Budget Stabilization Fund contains funds that may be used to offset a revenue shortfall as provided in Chapter 54-27.2.

NDCC: 54-27.2 states:

The budget stabilization fund is a special fund in the state treasury. The state investment board shall supervise investment of the budget stabilization fund in accordance with chapter 21-10, any interest or other budget stabilization fund earnings must be deposited in the fund. Any amounts provided by law for deposit in the fund and any interest or earnings of the fund which would bring the balance in the fund to an amount greater than nine and one-half percent of the current biennial state general fund budget, as finally approved by the most recently adjourned special or regular session of the legislative assembly, may not be deposited or retained in the fund but must be deposited instead in the state general fund.

The State Investment Board (SIB) is responsible for the investment of the Budget Stabilization Fund. The Fund cap for the 2013-15 biennium is \$583,545,799. To meet this cap amount the State Treasurer transferred \$181,060,585 from the General Fund at the beginning of the 2013-15 biennium.

The current language is not specific as to the time frame in which the balance cannot exceed nine and one-half percent of the current general fund budget. To date, a review is done in June of each fiscal year and a transfer is made of the appropriate amount to the general fund. This may require the liquidating of investments. Every two years, when the general fund budget is finalized, the

Office of State Treasurer transfers back an additional amount to meet the nine and one-half percent requirement.

What actually occurs in the second year of the biennium is the SIB transfers the earnings to the general fund in June and the State Treasurer transfers the funds back to the SIB in August to meet the requirements of this section.

This bill would clarify the timeframe in which the balance is reviewed and would allow the biennial transfers between this fund and the general fund to be netted to avoid liquidating assets and subsequently reinvesting them. This **process** change would create cost savings in transaction costs and potential investment returns.

Note: Treasurer Schmidt is a member of the State Investment Board.





STATE OF NORTH DAKOTA  
**OFFICE OF STATE TREASURER**  
Kelly L. Schmidt, State Treasurer

HB 1066  
3-13-15  
#1

In Support of  
HB 1066  
Senate Appropriations  
Kelly Schmidt  
State Treasurer

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