

**2017 HOUSE APPROPRIATIONS**

**HB 1022**

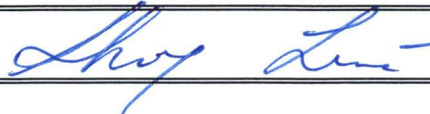
# 2017 HOUSE STANDING COMMITTEE MINUTES

## Appropriations Committee - Government Operations Division Medora Room, State Capitol

HB1022  
1/5/2017  
Recording Job# 26585

☐ Subcommittee  
☐ Conference Committee

Committee Clerk Signature



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

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide for a transfer.

### Minutes:

Attachments A through D

**Chairman Brandenburg:** Opened the hearing on HB1022 and HB1082.

**David Hunter, Executive Director/CIO, ND Retirement and Investment Office:** See testimony attachment A.

**Representative Nathe:** What is the return rate on these accounts?

**David Hunter:** See attachment B.,

**Representative Nathe:** Are the other funds tracking the same as the Legacy Fund?

David Hunter continued with his testimony from attachment B.

**Representative Nathe:** How do these rate of returns compare with the industry standard around the country?

**David Hunter:** If you would look at the returns for PERS and TFFR for the 5 year period ending 09/30/16, it's in the 30 to 35 percentile. It's tough to do comparisons because not every state as the same asset allocation policy.

**Representative Nathe:** So there's a little bit of strategy.

**David Hunter:** Absolutely.

**David Hunter:** I appreciate the comments and we look forward to continue to work with the committees and the boards to develop a plan going forward. We refer to that \$160 million as the estimated realized gains and losses in investment income. It doesn't include unrealized gains and losses.



**Chairman Brandenburg:** What if those gains go down?

**David Hunter:** That's the reason we only focus on realized gains and losses in addition to investment income.

**Chairman Brandenburg:** If you don't bring it to market, will you lose that gain?

**David Hunter:** Possibly.

**Representative Vigesaa:** What is the health of the TFFR? What does the trend look like going forward?

**David Hunter:** Sixty-two percent is the funded status. For fiscal years 2015 and 2016 we did not hit our 7.75% return target. We earned about 3.5% in fiscal 2015 and about .3% for fiscal year 2016. Whenever that happens it hurts our funded status over a 5 year period.

**Fay Kopp, Chief Retirement Officer, ND Retirement and Investment Office:** As far as future projections, if the plan would earn only long term 7.75%, we would estimate that we would be about 90% funded in approximately 30 years. Once the plan does reach full funding, then contribution rates will be reduced at that time down to 7.75% for members and employers. Future funding trend lines are positive, it's going to take a long time. If returns are better than 7.75% over the long term, we will reach that target sooner.

**Representative Vigesaa:** Do you use the calendar year for the return? Has 2016 been finalized?

**Fay Kopp:** No, the plan uses a fiscal year ending 6/30/16. Any projections and information are as of July 1, 2016. We anticipate that our funding weather is going to remain flat for 1 or 2 years because we have to roll in gains and losses that we've experienced over the last 5 years. See testimony attachment C.

**Representative Nathe:** What's considered fully funded? Is it 100%, 80%?

**Fay Kopp:** When I say fully funded I mean 100% funded.

**Representative Nathe:** We're at 62% now, if it goes down to 82% would the contributions get smaller as it goes along?

**Fay Kopp:** No. Contribution rates will remain at this high rate until we reach that target goal of 100% funded. They will be reduced at that time automatically.

**Representative Vigesaa:** We have had growth in students K-12, so I assume we've had more teachers added. How do those figure in? How does that affect the funding status a considerable amount of new staff coming on board?

**Fay Kopp:** I would say that positive active membership increases are a positive sign for TFFR.

**Representative Delmore:** A number of baby boomers have waited for retirement and that has probably saved more money as well as put more money into the account?

**Fay Kopp:** Yes. The baby boomers who are eligible to retire, many of them have delayed their retirement.

**Representative Brabandt:** Are there any states that are 100% funded? If so, how many?

**Fay Kopp:** There are states that are 100% funded; I can get that information to you.

**Representative Brabandt:** When do you anticipate there being as many retired teachers as there are active teachers?

**Fay Kopp:** At this point we have 1.3 active members for every one retiree. Thirty years ago it was 2 :1. In the future, we're looking at 30+ years before it's possible of having a 1:1 ratio.

**Representative Vigesaa:** I assume then that these new teachers are coming in at a much higher contribution rate; that's why it's a positive? Because retirees now began contributing at a much lower rate.

**Fay Kopp:** While that is true, they are all paying 11.75% and employers are paying 12.75% of their salaries. The retiree benefit levels are set. The increase is certainly helping.

**Representative Nathe:** Did you have any conversation with the Governor in regards to his speech?

**David Hunter:** Yes. We have had discussions with Governor Bergum and Lt. Governor Sanford and other members of the transition team. It was more about the state investment board and RIO; than about hedging oil.

**Representative Nathe:** If we were to do that, would your office be the one that would have to handle it?

**David Hunter:** It's outside the scope of what we do at this point. We report to the state investment board. We serve them as well as our 23 other clients.

**Chairman Brandenburg:** In order to get these realized gains, what would it cost us to close out our positions?

**David Hunter:** We are continuously opening and closing positions.

**Chairman Brandenburg:** How many do you have?

**David Hunter:** Hundreds of thousands.

**Chairman Brandenburg:** So that \$160 million, can we close any of those positions?



**David Hunter:** See attachment D.

**Representative Delzer:** How are you going to come up with the number that you put into the general fund? When are you going to have it? Is it going to be such that we'll see it or have a pretty good estimate before the end? The constitution is pretty plain that the interest earnings from July 1, 2017 to June 30, 2019 are supposed to go to the general fund.

**David Hunter:** The constitution states that earnings must be transferred to the general fund at the end of each biennium. We have a very good process for auditing our results and coming up with the amount.

**Representative Delzer:** When are you going to be able to give us a pretty good estimate of what you're going to do? What time frame will you give us a pretty fair shot of what you're going to do? You don't have a choice of what you put in their; it's our choice of what we do with that. We need to know that number.

**David Hunter:** If we are requested to provide a number by April 1, we will give the best available number that's available at that time. If we have the ability to set the number based on historical events; it's very easy to come up with that amount.

**Representative Delzer:** That's something you better check with Council about whether or not we would have the authority to do that.

**Chairman Brandenburg:** That's what we're trying to wrap our arms around.

**Representative Delzer:** I understand that, but, they have the constitutional ability to do a certain thing. The question is what authority do we have to change that?

**Representative Kempenich:** The decision was that we invest everything as we invest it and we deal with the earnings issue as it comes. That's why we're looking at whether we're going to use a fixed number to do this.

**Representative Delzer:** What I'm getting at is that we need to get some legal advice from the Council to make sure what you can do; whether you can legally do that or not.

**Representative Kempenich:** We researched that. It's in statute what earnings are.

**David Hunter:** There's about \$3 billion in the Legacy Fund today. We assume that an annuity income string is about 2% a year. You would take \$4 billion times 2% which equals \$80 million per year and multiply it by 2 years; that's \$160 million.

**Chairman Brandenburg:** That's how you reached that number.

**David Hunter:** We're trying to be conservative and estimate on the lower side.

**Representative Delzer:** Is that going to qualify for constitutional muster? Is someone going to challenge this and say you actually made 4% and you need to put that much in?

David Hunter continued with his testimony.

**Representative Kempenich:** We do ask about the cost of our investments.

**David Hunter:** We spend about \$45 million on investment answer fees and expenses.

David Hunter continued with his testimony.

**Representative Kempenich:** Did the Governor ask voluntarily for you to reduce your budget?

**David Hunter:** We met with the Governor's office and stated that we were going to do everything we could to operate efficiently. We have to provide the level of service that's required. We're managing over \$11 billion and overseeing benefits for 19,000 active and retiree beneficiaries.

**Representative Nathe:** With your discussions with the Governor, were there any discussions as far as centralizing IT?

**David Hunter:** High level discussions, nothing in detail. I have not been a party to any individual IT discussions.

**Representative Nathe:** There was no discussion in centralizing or anything else you could tighten up?

**David Hunter:** We use IT services. We have two IT individuals; there's been no detailed discussions about this.

**Chairman Brandenburg:** Closed the hearing on HB1022.

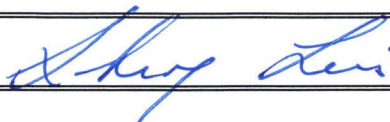
## 2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division  
Medora Room, State Capitol

HB1022  
1/16/2017  
Recording Job# 26885

☐ Subcommittee  
☐ Conference Committee

Committee Clerk Signature



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

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide for a transfer.

### Minutes:

Attachments A through C

**Chairman Brandenburg:** Opened the hearing on HB1022 and HB1082

**Dave Hunter, Director, Chief Investment Officer, ND Retirement and Investment Office:**  
See testimony attachment A.

**Representative Nathe:** So the \$290,000.00 that he's under budget, is that as a result of the allotment?

**Dave Hunter:** No. We had one staff position that was not fully staffed throughout the full year. We have not used as much IT expenses as we have in the past.

**Chairman Brandenburg:** I was thinking that you had some FTE's where maybe someone retired. You didn't fill one or two. Is that what happened?

**Dave Hunter:** We had a little bit of turn over in the IT area and it took a little while to get that position filled. The focus is around one FTE in the IT area. We've never spent as much as our budget.

**Chairman Brandenburg:** So basically one FTE and expenses for IT?

**Dave Hunter:** Yes.

**Representative Kempenich:** Do you have any long term employees that are retiring?

**Dave Hunter:** I sure hope not.

**Representative Kempenich:** I was just wondering because it becomes a budgeting issue also.



**Dave Hunter:** We have wonderful tenure in our staff; particularly at the senior levels. We haven't added a person on the retirement side for over 15 years. Where we have had increases is on the investment side. We went from just having a CIO to a CIO and a deputy.

**Vice Chairman Boehning:** You said you didn't have an IT person for some time. What is involved in the IT services contract? Is that a person or is it just computers and software?

**Dave Hunter:** The biggest component of IT is the amount we're paying to ITD. We also have a retirement system software. So it's really software and monthly service charges on the systems that we have.

**Vice Chairman Boehning:** So with those IT contract services. Are there any personnel involved in that line item or is that just for computers, etc?

**Dave Hunter:** The latter.

**Representative Nathe:** I see there's a big savings in travel. Could you explain that?

**Dave Hunter:** We try to be really mindful of our travel budget. We also have expenses for the state investment board and if they're going to travel on professional development or if they're traveling to and from meetings; a good portion of it is where the individual numbers are located and how long it takes them to travel to and from a mileage perspective.

**Representative Nathe:** Do you foresee those travel expenses and the number of trips you and your staff go on to stay the same, be reduced or go up? How do you see that going down the road?

**Dave Hunter:** A lot of expenses we have that are investment related transfer into their state investment board clients; because it's a part of investment management. Where we do have savings is we've tried to be a little more conservation with regards to trips for state investment board managers to go to conferences.

**Representative Nathe:** With the printing costs we see that you're about \$7,000.00 more than you figured.

**Dave Hunter:** I really think it's ink.

Dave Hunter continued with his testimony. See attachment B.

**Representative Kempenich:** As long as the operating platforms work, it doesn't make much sense to keep chasing it. Even though you didn't have to go through a reduction process, did you go through that process? If you needed to take 6.5% of your budget away, where would you go? Special funded, specific funded, agencies have the ability to compete with other agencies within the government. We drive each other's costs because of it.

**Dave Hunter:** We are a special agency, our budget is \$5.5 million. We spend \$45 million on investment management fees and expenses. In the last fiscal year alone we saved \$5.5



million by reducing our fees; that pays for our budget. I think it's important to keep our funding levels where they are at; at the \$5.5 million.

**Chairman Brandenburg:** Other agencies want to be special like you. That's where we run into the issue of what do we do here.

**Dave Hunter:** Totally understood,

Dave Hunter continued with his testimony.

**Chairman Brandenburg:** The difference between HB1022 and HB1082 is basically there's \$164,000.00 in there for enhancements and adjustments. Why do you have to have that?

**Dave Hunter:** It's about a \$82,000.00 difference. The main component of that is the 1% salary and the health care expenses. Otherwise, we're holding even.

**Representative Vigesaa:** Under the TFFR program, there's an \$18,000.00 for temporary salaries. Could you explain the need in that particular program?

**Dave Hunter:** One of the places we have spent more time has been on the audit side. We worked to have an internal auditor come on an internship basis this past year. It helped us to improve our ability to monitor our audits of our TFFR school district. That increase is for the intern.

**Representative Kempenich:** I think what we've decided on is to use \$160 million as a base. Because the constitution says the earnings have to be deposited; if it's over that, it will go into the next biennium.

**Chairman Brandenburg:** I think that number is real and that's what everyone will work with.

**Representative Nathe:** So the \$160 million would come out of the total earnings since 2012 with \$321 million. Whatever we don't use goes back into the fund?

**Chairman Brandenburg:** I don't think the mechanics have been figured out yet.

**Representative Kempenich:** You have real and unrealized earnings. Can you explain?

Dave Hunter continued with his testimony. See attachment C.

**Representative Nathe:** So you project \$160 million, but it comes in at \$200 million; what happens to the other \$40 million?

**Dave Hunter:** We will do whatever the North Dakota Century Code says. If it's \$200 million, we will transfer \$200 million.

**Representative Nathe:** So if we budget for \$160 million and it's \$200 million, the legislature decides where that \$40 million?

**Representative Kempenich:** The \$160 million we can put aside; the rest of it we figure out through the year so that we don't tear apart investments. At the end of the biennium, anything over and above the \$160 million will go into the Budget Stabilization Fund.

**Representative Nathe:** The legislature will decide what to do if there is an excess?

**Representative Kempenich:** I think what will happen is that it will go into the Budget Stabilization Fund. The constitution says that all earnings have to go into the general fund.

**Chairman Brandenburg:** It sounds like it's going to work and it's legal. Is that a fair statement?

**Dave Hunter:** We will follow the law of the North Dakota Century Code, knowing that those earnings as defined have to go into the general fund.

**Representative Vigesaa:** Are the Legacy funds invested by themselves in a basket? Are they comingled with all of the other retirement funds as far as an investment strategy?

**Dave Hunter:** We have 24 clients, the Legacy Fund is the largest. It's a separate account that we have for the Legacy Fund and it's because of its size. We have a pension trust for pension clients and an insurance trust for many of our insurance clients. The Legacy Fund is a standalone; it's managed by itself. When we benefit from fees and overall strategic planning, we take into account the other things we do with out clients.

**Representative Vigesaa:** Is the Legacy Fund managed a little more conservatively than the retirement funds?

**Dave Hunter:** Yes. The reason why is it's 50% equity, 35% fixed income and 15% diversified real assets. There's a little more risk in the pension trust; because in the pension trust the two largest clients are trying to earn 7% to 8%. The target return for the Legacy Fund is about 6.4%.

**Vice Chairman Boehning:** Out of your 19 FTE's, is everything filled currently?

**Dave Hunter:** Yes. We have 19 FTE's; approximately 7 are investment, 12 are retirement.

**Vice Chairman Boehning:** Of that \$4 billion in assets in the Legacy Fund, how much of that is actual cash that comes into the fund?

**Dave Hunter:** Referenced attachment C.

**Vice Chairman Boehning:** Does that \$400 million include the increase in the funds that you've invested in?

**Dave Hunter:** That's correct.

**Chairman Brandenburg:** You're almost \$400 million since that all started in income. Does that include interest?

**Dave Hunter:** Interest dividend, realized and unrealized gains and losses.

**Representative Kempenich:** People don't realize the size of this money.

**Chairman Brandenburg:** I think this is a good plan. We do this mechanism to move this \$160 million; I don't foresee it would take any FTE's or any other work. Am I correct?

**Dave Hunter:** That's correct.

**Representative Vigesaa:** Our funds are going to continue to grow. Down the road would you foresee any need for additional FTE's because of the size of the fund?

**Dave Hunter:** Yes. If we have growth, I think it's prudent to fund the staffing to support it.

**Chairman Brandenburg:** Closed the hearing.



# 2017 HOUSE STANDING COMMITTEE MINUTES

## Appropriations Committee - Government Operations Division Medora Room, State Capitol

HB1022  
2/6/2017  
Recording Job# 27912

☐ Subcommittee  
☐ Conference Committee

Committee Clerk Signature

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

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide for a transfer.

### Minutes:

Attachments A and B

**Chairman Brandenburg:** Opened the hearing on HB1022 and HB1082.

**Representative Brabandt:** Discussed attachment A.

**Chairman Brandenburg:** Discussed attachment B.

**Dave Hunter, Director, Chief Investment Officer, ND Retirement and Investment Office:**  
Discussed attachment A.

**Representative Vigesaa:** With regard to the operating expenses, I believe the total reduction is \$200,000.00. It wouldn't be an additional \$200,000.00; the governor had already taken off \$90,000.00. It looks like the total is now \$200,000.00. Is that correct?

**Dave Hunter:** That's correct.

**Chairman Brandenburg:** Continued discussing attachment B.

**Representative Vigesaa:** Burgum's suggestion was to reduce by 2%; which is \$109,000.00. We'll be approximately where Burgum was except the contingency funding will be reduced further. Would that be correct?

**Dave Hunter:** We're cutting overall about \$142,000.00.

**Representative Nathe:** Out of the salaries and wages we just back out the health care costs.

**Representative Brabandt:** We're talking about a total for the 2017-2019 budget of \$5,271,537.00. That includes putting the 5% health care back in.

**Chairman Brandenburg:** Closed the hearing.

# 2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division  
Medora Room, State Capitol

HB1022  
2/7/2017  
Recording Job# 27978

☐ Subcommittee  
☐ Conference Committee

Committee Clerk Signature



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

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide for a transfer.

## Minutes:

Attachments A and B

**Chairman Brandenburg:** Opened the hearing on HB1022 and HB1082.

**Representative Brabandt:** Explained amendment 17.0507.01001. See attachment A and B.

**Representative Brabandt:** Made a motion to move 17.0507.01001.

**Vice Chairman Boehning:** Seconded the motion.

**Voice Vote made.**

**Motion Carried.**

**Lori Laschkewitsch, Fiscal Analyst, Office of Management and Budget:** I'm not certain if section 2 is being included.

**Vice Chairman Boehning:** Withdrew his second.

**Representative Brabandt:** Withdrew his motion.

**Representative Brabandt:** Further amended his motion to include section 2 in the amendment.

**Vice Chairman Boehning:** Seconded the motion.

**Voice Vote made.**

**Motion Carried.**



**Representative Brabandt:** Made a motion for a "Do Pass as Amended".

**Vice Chairman Boehning:** Seconded the motion.

**Roll Call Vote:** 7 Yeas 0 Nays 0 Absent

**Motion Carried.**

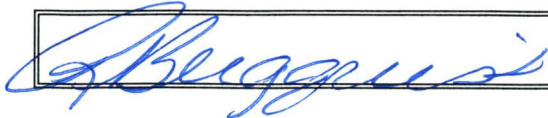
**Chairman Brandenburg:** Closed the hearing.

# 2017 HOUSE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Roughrider Room, State Capitol

HB1022  
2/15/2017  
Recording Job# 28411

☐ Subcommittee  
☐ Conference Committee



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

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide for a transfer.

**Minutes:**

**Representative Brabandt:** Explained HB1022.

**Chairman Delzer:** So why are we doing that? Why are we paying a new hire more than somebody who is retiring?

**Representative Brabandt:** This is having to raise the salaries of the existing employees.

**Chairman Delzer:** Over and above what? Are we giving them merit pay or what are we doing?

**Representative Brabandt:** These people were hired at a higher than normal rate.

**Chairman Delzer:** Are these classified or unclassified?

**Vice Chairman Kempenich:** They serve at the pleasure of the board.

**Chairman Delzer:** This is all special funded?

**Representative Brabandt:** Yes.

**Chairman Delzer:** It comes out of the retirement plans?

**Representative Brabandt:** Yes it does. That was the \$34,583.00; if you add those two together you get \$80,959.00.

Representative Brabandt continued with his explanation.

**Representative J. Nelson:** Did I understand you correctly when you talked about the reductions in the operating expense area? We have no expectation for professional development with the employees?

**Representative Brabandt:** All has been eliminated for travel and professional support.

**Representative Brabandt:** Made a motion to move amendment 17.0507.01001.

**Representative Brandenburg:** Seconded the motion.

**Voice Vote made.**

**Motion Carried.**

**Representative Brabandt:** Made a motion for a "Do Pass as Amended".

**Representative Boehning:** Seconded the motion.

**Representative Pollert:** I see there are 19 FTE's. Were any of them vacant?

**Representative Brabandt:** They're full.

**Representative Pollert:** Where they full forever?

**Representative Brabandt:** Yes.

**Representative Pollert:** No reductions or talk of reductions?

**Representative Brandenburg:** We've squeezed this budget as hard as we can.

**Chairman Delzer:** Why did we have to add the FTE two or three sessions ago?

**Vice Chairman Kempenich:** Five or six years ago, we didn't have a deputy; we just had a chief investment officer. After the former chief investment officer left, they hired an interim; he became the deputy and we hired the chief investment officer that we have today.

**Chairman Delzer:** Did you have any discussion about whether or not the board should be changed?

**Vice Chairman Kempenich:** We had a bill in the system. My personal feeling is that it should be changed.

**Chairman Delzer:** There is a bill out there dealing with that? Has it been voted on yet?

**Vice Chairman Kempenich:** The House passed it. I don't know if it will survive the Senate. There's two legislators to the board.

**Representative Streyle:** Why don't we do something in this budget? Why don't we amend that language in here also?

**Vice Chairman Kempenich:** There were attempts in the last four sessions. Senator Christman had a bill that established the advisory board. That bill started out to remove some of the people on the investment board and add some legislators; that didn't work and was amended into the advisory board.

**Representative Sanford:** How many managers are employed now?

**Vice Chairman Kempenich:** In the Legacy Fund itself there's probably over 100 managers they hire. They have the pension fund and the insurance fund; the Legacy Fund is in the insurance side of it. They do have a lot of players coming in looking for investments. I think there is some talk of a bill on the Senate side to have North Dakota investors get into play.

**Representative Sanford:** I remember there were 25 managers when we were running between \$5 billion and \$6 billion.

**Chairman Delzer:** There has been some discussion about trying to get some of that instate. The issue with the board, the problem has been that if the legislature gives up their discretion and gives it to the executive branch, it's extremely difficult to ever get it back.

Chairman Delzer commented on the agency.

**Chairman Delzer:** How long since we've had a performance audit?

**Vice Chairman Kempenich:** I'm not sure.

**Roll Call Vote:** 13 Yeas 4 Nays 4 Absent

**Motion Carried.**

Representative Brabandt carried the bill.

**Chairman Delzer:** Closed the discussion.



ONE  
2/15/17  
143

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1022

Page 1, replace lines 10 through 13 with:

"Salaries and wages	\$4,340,551	\$88,959	\$4,429,510
Operating expenses	990,874	(200,847)	790,027
Contingencies	<u>82,000</u>	<u>(30,000)</u>	<u>52,000</u>
Total special funds	\$5,413,425	(\$141,888)	\$5,271,537"

Page 1, after line 14, insert:

**"SECTION 2. HEALTH INSURANCE INCREASE.** The salaries and wages line item in Section 1 of this Act includes the sum of \$54,376 from special funds for increases in employee health insurance premiums from \$1,130 to \$1,249 per month."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

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

	Base Budget	House Changes	House Version
Salaries and wages	\$4,340,551	\$88,959	\$4,429,510
Operating expenses	990,874	(200,847)	790,027
Contingencies	<u>82,000</u>	<u>(30,000)</u>	<u>52,000</u>
Total all funds	\$5,413,425	(\$141,888)	\$5,271,537
Less estimated income	<u>5,413,425</u>	<u>(141,888)</u>	<u>5,271,537</u>
General fund	\$0	\$0	\$0
FTE	19.00	0.00	19.00

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

	Adjusts Funding for Base Payroll Changes <sup>1</sup>	Adds Funding for Health Insurance Increases <sup>2</sup>	Reduces Funding for Operating Expenses <sup>3</sup>	Reduces Funding for Contingencies <sup>4</sup>	Total House Changes
Salaries and wages	\$34,583	\$54,376			\$88,959
Operating expenses			(200,847)		(200,847)
Contingencies				(30,000)	(30,000)
Total all funds	\$34,583	\$54,376	(\$200,847)	(\$30,000)	(\$141,888)
Less estimated income	<u>34,583</u>	<u>54,376</u>	<u>(200,847)</u>	<u>(30,000)</u>	<u>(141,888)</u>
General fund	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00

<sup>1</sup> Funding is added for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes.

<sup>2</sup> Funding is added for increases in employee health insurance premiums from \$1,130 to \$1,249 per month.

<sup>3</sup> Funding for operating expenses, including travel and professional development, is reduced by \$200,847 to provide total operating expenses funding of \$790,027.

<sup>4</sup> Funding for contingencies is reduced by \$30,000 to provide total contingencies funding of \$52,000.

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This amendment also adds a section detailing the amount of funding provided to the agency for employee health insurance premium increases.



Date: 2-7-17  
Roll Call Vote #: 1

2017 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1022

House Appropriations - Government Operations Division Committee

☐ Subcommittee

Amendment LC# or Description: 17.0502.01001

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 Rep Brabandt Seconded By Vice Chairman Boehning

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg			Representative Delmore		
Vice Chairman Boehning					
Representative Brabandt					
Representative Nathe					
Representative Kempenich					
Representative Vigasaa					

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

Absent \_\_\_\_\_

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

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

Motion Carried

Date: 2-7-17  
Roll Call Vote #: 2

2017 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. HB1022

House Appropriations - Government Operations Division Committee

☐ Subcommittee

Amendment LC# or Description: Further Amend to include section 2

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 Rep Brabandt Seconded By Vice Chairman Boehning

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg			Representative Delmore		
Vice Chairman Boehning					
Representative Brabandt					
Representative Nathe					
Representative Kempenich					
Representative Vigasaa					

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

Absent \_\_\_\_\_

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

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

Motion Carried

**2017 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. HB1022**

House Appropriations - Government Operations Division 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 Representative Brabandt Seconded By Vice Chairman Boehning

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg	X		Representative Delmore	X	
Vice Chairman Boehning	X				
Representative Brabandt	X				
Representative Nathe	X				
Representative Kempenich	X				
Representative Vigesaa	X				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Representative Brabandt

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



Date: 2/15/2017  
Roll Call Vote #: 1

**2017 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1017**

House Appropriations Committee

☐ Subcommittee

Amendment LC# or Description: 17.0507.01001

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 Representative Brabandt Seconded By Representative Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer					
Representative Kempenich			Representative Streyle		
Representative: Boehning			Representative Vigesaa		
Representative: Brabandt					
Representative Brandenburg					
Representative Kading			Representative Boe		
Representative Kreidt			Representative Delmore		
Representative Martinson			Representative Holman		
Representative Meier					
Representative Monson					
Representative Nathe					
Representative J. Nelson					
Representative Pollert					
Representative Sanford					
Representative Schatz					
Representative Schmidt					

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

Absent \_\_\_\_\_

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

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

**MOTION CARRIES**

**2017 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. HB1022**

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 Representative Brabandt Seconded By Representative Boehning

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer		X	Rep. Schatz	A	
Vice Chairman Kempenich	X		Rep. Schmidt	X	
Rep. Boehning	X		Rep. Streyle		X
Rep. Brabandt	X		Rep. Vigesaa	X	
Rep. Brandenburg	X		Rep. Boe		X
Rep. Kading	A		Rep. Delmore	X	
Rep. Kreidt	A		Rep. Holman	X	
Rep. Martinson	X				
Rep. Meier	X				
Rep. Monson	X				
Rep. Nathe	A				
Rep. Nelson		X			
Rep. Pollert	X				
Rep. Sanford	X				

Total (Yes) 13 No 4

Absent 4

Floor Assignment Representative Brabandt

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

**REPORT OF STANDING COMMITTEE**

**HB 1022: Appropriations Committee (Rep. Delzer, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 4 NAYS, 4 ABSENT AND NOT VOTING). HB 1022 was placed on the Sixth order on the calendar.

Page 1, replace lines 10 through 13 with:

"Salaries and wages	\$4,340,551	\$88,959	\$4,429,510
Operating expenses	990,874	(200,847)	790,027
Contingencies	82,000	(30,000)	52,000
Total special funds	\$5,413,425	(\$141,888)	\$5,271,537"

Page 1, after line 14, insert:

**"SECTION 2. HEALTH INSURANCE INCREASE.** The salaries and wages line item in Section 1 of this Act includes the sum of \$54,376 from special funds for increases in employee health insurance premiums from \$1,130 to \$1,249 per month."

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

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

	Base Budget	House Changes	House Version
Salaries and wages	\$4,340,551	\$88,959	\$4,429,510
Operating expenses	990,874	(200,847)	790,027
Contingencies	82,000	(30,000)	52,000
Total all funds	\$5,413,425	(\$141,888)	\$5,271,537
Less estimated income	5,413,425	(141,888)	5,271,537
General fund	\$0	\$0	\$0
FTE	19.00	0.00	19.00

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

	Adjusts Funding for Base Payroll Changes <sup>1</sup>	Adds Funding for Health Insurance Increases <sup>2</sup>	Reduces Funding for Operating Expenses <sup>3</sup>	Reduces Funding for Contingencies <sup>4</sup>	Total House Changes
Salaries and wages	\$34,583	\$54,376			\$88,959
Operating expenses			(200,847)		(200,847)
Contingencies				(30,000)	(30,000)
Total all funds	\$34,583	\$54,376	(\$200,847)	(\$30,000)	(\$141,888)
Less estimated income	34,583	54,376	(200,847)	(30,000)	(141,888)
General fund	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00

<sup>1</sup> Funding is added for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes.

<sup>2</sup> Funding is added for increases in employee health insurance premiums from \$1,130 to \$1,249 per month.

<sup>3</sup> Funding for operating expenses, including travel and professional development, is reduced by \$200,847 to provide total operating expenses funding of \$790,027.



<sup>4</sup> Funding for contingencies is reduced by \$30,000 to provide total contingencies funding of \$52,000.

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This amendment also adds a section detailing the amount of funding provided to the agency for employee health insurance premium increases.

**2017 SENATE APPROPRIATIONS**

**HB 1022**

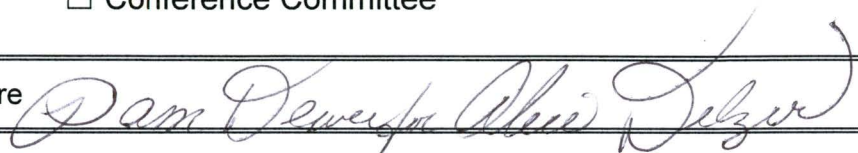
# 2017 SENATE STANDING COMMITTEE MINUTES

## Appropriations Committee Harvest Room, State Capitol

HB 1022  
3/7/2017  
JOB # 28785

- ☐ Subcommittee  
☐ Conference Committee

Committee Clerk Signature



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

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office (RIO), and to provide for a transfer.

### Minutes:

1. Testimony of David Hunter, Executive Director/CIO of RIO

**Chairman Holmberg:** Called the Committee to order on HB 1022. All committee members were present except Senator Hogue and Senator Wanzek. Michael Johnson, Legislative Council and Stephanie Gullickson, OMB were also present.

**(0.1.15)-David Hunter, Executive Director/CIO (RIO)** testified in favor of HB 1022 with an amendment that they would like to have added and provided written testimony # 1 – which explains RIO Programs overview, Teachers' Fund for Retirement (TFFR), State Investment Board (SIB) and how these programs work. **(0.05.10)** He explained the Legacy Fund chart that is found on page 15 of testimony. He then jumped back to page 1 of testimony to emphasis a few key points, stating RIO is all special funds. On page 4 is the list of 24 clients.

**Senator Mathern: (0.08.06)** The public employees have some options, the defined benefit plan, defined contribution plan. I am wondering when you note your performance, do you have control on all that money. Isn't some controlled by the individual employee? If that matches what you control or is it better or worse? Is that in here somewhere?

**Director Hunter:** There are two ways to save for retirement. One is the defined benefit plan or pension plan. The other is a defined contribution plan; like a 401K or 401A. PERS allows employees to have pensions participate in the in the pension plan. They also have deferred savings account that they can use. Those monies that are managed by the individuals are not included in these assets. **(0.09.18)** Those assets are managed by the individuals. **(0.09.33)** He continued testimony on page 4. I am going to ask to jump to page 12 and that highlights the House approved budget. I am asking for two things: request the senate appropriation committee to increase the salaries and wages line; the second line item is in operating expenses.



**Senator Grabinger:** I am looking at the House improved budget for HB? and it shows an increase of \$90,000 in salaries and wages. Can you explain that increase?

**Director Hunter:** Yes, when we have a budget approved by the legislature, and to continue the cost in the next biennium, you have to increase your pay. Not by a percentage, but build in total. If you stay at 103, the biggest chunk of that relates to cost to continue. The other significant component was the health care costs in the \$90,000. The 3<sup>rd</sup> component, the \$90,000 we pulled out; in the end we removed an internship for about \$18,000.

**Senator Oehlke:** Your state investment board has 11 members. When you travel, are these the people you are talking about? When you travel, do you want them to be more aware of what is going on? So the question, should their agency be paying for their travel? Or should your agency be paying for their travel? (0.16.11)

**Director Hunter:** It's related to the Investment Board, and hopefully they get one trip to engage in board education. sometimes we bring people in to present to the board to save money. Short answer is, yes. It relates to both board and staff members. We have 19 staff members and 11 board members. There are 7 members on the Teachers retirement board as well.

**Senator Oehlke:** Do you pay for your staff and the agencies pay the other travel?

**Director Hunter:** If they are a member of the State Investment Board, they would be included in our budget.

**Senator Oehlke:** TFFR and PERS. I seem to remember a change where if a teacher gets hired, they could get a choice of PERS or TFFR. Is that right?

**Director Hunter:** If you are a teacher, you would be covered by the TFFR. There is not an option. (01.18.29) He continued: the big picture is we worked well with the House. On page 12, again, is the increase to fund the critical staff and board travel. If you turn to page 14, a diagram of the Overview of State Investment Board Process. This page the 15 boards that are there. When we are serving these boards, we have a good representation. Each year we send out a survey and ask how we are doing. Overall, I think things are going pretty well. I do know that there were some specific questions that were covered in the letter. (0.20.30)

**Senator Dever:** About 4 or 5 years ago in an employee benefits committee one of the members asked, why we don't invest in the energy industry that is doing business in ND? The investments that you do handle, seems to me that the budgets that we are considering are based on the economy in ND. But they are based on the economy elsewhere. They are outperforming the ND economy currently, right?

**Director Hunter:** That is correct.

**Senator Dever:** So if we are talking about operating expenses, they should be based on the economy you are dealing with.?

**Director Hunter:** Yes. When the State Investment Board oversees each of our 14 clients, they set their own asset allocation. They decide how much risk they want to accept. How much return they are willing to seek; and how much liquidity they need. **(0.22.05)** When you are making decisions, for our clients, we want to make sure we diversified globally, and we do not have risky oil and gas commodities. The state has so much exposure to oil and gas, we do not want to invest in that as well. We want a balanced portfolio.

**Chairman Holmberg:** Anyone else that wants to testify on 1022? If not, we will close the hearing on 1022. We will take it under advisement. We still have the PERS bill to hear at a later date.

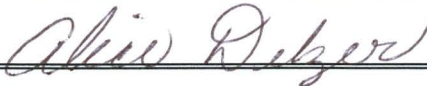
# 2017 SENATE STANDING COMMITTEE MINUTES

## Appropriations Committee Harvest Room, State Capitol

HB 1022  
3/23/2017  
JOB 29624

- ☐ Subcommittee  
☐ Conference Committee

Committee Clerk Signature



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

A DO PASS AS AMENDED on HB 1022 (RIO)

### Minutes:

1. Proposed Amendment # 17.0507.02001

Chairman Holmberg opened the Hearing on HB 1022. All committee members were present. Michael Johnson, Legislative Council and Lori Laschkewitsch, OMB were also present. There are amendments for this bill. # 17.0507.02001.

**V. Chairman Krebsbach:** Does this include the \$87,750 request from Mr. Hunter?

**Chairman Holmberg:** No. There was discussion that they had communication with the House. The House never returned the call. So I thought "lets go with it". There is a difference because of this amendment. If the House feels passionate about that particular change then they can not concur and then the conference committee could respond. Could we have a motion on the amendment?

**V. Chairman Krebsbach:** I would move the amendment #17.0507.02001 to 1022. 2<sup>nd</sup> by V. Chairman Bowman.

**Chairman Holmberg:** Discussion. Would you call the roll on the amendment?

**A Roll Call vote was taken on the amendment to 1022. Yea: 14; Nay: 0; Absent: 0.**

**V. Chairman Krebsbach:** Moved a Do Pass as Amended. 2<sup>nd</sup> by Senator Robinson.

**Chairman Holmberg:** Call the roll on a Do Pass as Amended on HB 1022.

**A Roll Call vote was taken. Yea: 14; Nay: 0; Absent: 0. V. Chairman Krebsbach will carry the bill.**

The hearing was closed on HB 1022



PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1022

Page 1, replace lines 10 through 13 with:

"Salaries and wages	\$4,340,551	\$85,019	\$4,425,570
Operating expenses	990,874	(200,847)	790,027
Contingencies	<u>82,000</u>	<u>(30,000)</u>	<u>52,000</u>
Total special funds	\$5,413,425	(\$145,828)	\$5,267,597"

Page 1, line 16, replace "\$54,376" with "\$50,436"

Page 1, line 17, replace "\$1,249" with "\$1,241"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$4,340,551	\$4,429,510	(\$3,940)	\$4,425,570
Operating expenses	990,874	790,027		790,027
Contingencies	<u>82,000</u>	<u>52,000</u>		<u>52,000</u>
Total all funds	\$5,413,425	\$5,271,537	(\$3,940)	\$5,267,597
Less estimated income	<u>5,413,425</u>	<u>5,271,537</u>	<u>(3,940)</u>	<u>5,267,597</u>
General fund	\$0	\$0	\$0	\$0
FTE	19.00	19.00	0.00	19.00

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

	Adjusts Funding for Health Insurance Increases <sup>1</sup>	Total Senate Changes
Salaries and wages	(\$3,940)	(\$3,940)
Operating expenses		
Contingencies		
Total all funds	(\$3,940)	(\$3,940)
Less estimated income	<u>(3,940)</u>	<u>(3,940)</u>
General fund	\$0	\$0
FTE	0.00	0.00

<sup>1</sup> Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is also changed to reflect the revised premium rate.

Date: 3-23-17Roll Call Vote #: 1

**2017 SENATE STANDING COMMITTEE**  
**ROLL CALL VOTES**  
BILL/RESOLUTION NO. 1022

Senate Appropriations Committee☐ SubcommitteeAmendment LC# or Description: 17.0507.02001

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 Krebsbach Seconded By Bowman

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	<input checked="" type="checkbox"/>		Senator Mathern	<input checked="" type="checkbox"/>	
Vice Chair Krebsbach	<input checked="" type="checkbox"/>		Senator Grabinger	<input checked="" type="checkbox"/>	
Vice Chair Bowman	<input checked="" type="checkbox"/>		Senator Robinson	<input checked="" type="checkbox"/>	
Senator Erbele	<input checked="" type="checkbox"/>				
Senator Wanzek	<input checked="" type="checkbox"/>				
Senator Kilzer	<input checked="" type="checkbox"/>				
Senator Lee	<input checked="" type="checkbox"/>				
Senator Dever	<input checked="" type="checkbox"/>				
Senator Sorvaag	<input checked="" type="checkbox"/>				
Senator Oehlke	<input checked="" type="checkbox"/>				
Senator Hogue	<input checked="" type="checkbox"/>				

Total (Yes) 14 No 0Absent 0

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

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

Date: 3-23-17Roll Call Vote #: 2

**2017 SENATE STANDING COMMITTEE**  
**ROLL CALL VOTES**  
BILL/RESOLUTION NO. 1022

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 Krebsbach Seconded By Robinson

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Mathern	✓	
Vice Chair Krebsbach	✓		Senator Grabinger	✓	
Vice Chair Bowman	✓		Senator Robinson	✓	
Senator Erbele	✓				
Senator Wanzek	✓				
Senator Kilzer	✓				
Senator Lee	✓				
Senator Dever	✓				
Senator Sorvaag	✓				
Senator Oehlke	✓				
Senator Hogue	✓				

Total (Yes) 14 No 0Absent 0Floor 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** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1022  
was placed on the Sixth order on the calendar.

Page 1, replace lines 10 through 13 with:

"Salaries and wages	\$4,340,551	\$85,019	\$4,425,570
Operating expenses	990,874	(200,847)	790,027
Contingencies	<u>82,000</u>	<u>(30,000)</u>	<u>52,000</u>
Total special funds	\$5,413,425	(\$145,828)	\$5,267,597"

Page 1, line 16, replace "\$54,376" with "\$50,436"

Page 1, line 17, replace "\$1,249" with "\$1,241"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

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

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$4,340,551	\$4,429,510	(\$3,940)	\$4,425,570
Operating expenses	990,874	790,027		790,027
Contingencies	<u>82,000</u>	<u>52,000</u>		<u>52,000</u>
Total all funds	\$5,413,425	\$5,271,537	(\$3,940)	\$5,267,597
Less estimated income	<u>5,413,425</u>	<u>5,271,537</u>	<u>(3,940)</u>	<u>5,267,597</u>
General fund	\$0	\$0	\$0	\$0
FTE	19.00	19.00	0.00	19.00

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

	Adjusts Funding for Health Insurance Increases <sup>1</sup>	Total Senate Changes
Salaries and wages	(\$3,940)	(\$3,940)
Operating expenses		
Contingencies		
Total all funds	(\$3,940)	(\$3,940)
Less estimated income	<u>(3,940)</u>	<u>(3,940)</u>
General fund	\$0	\$0
FTE	0.00	0.00

<sup>1</sup> Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is also changed to reflect the revised premium rate.

**2017 CONFERENCE COMMITTEE**

**HB 1022**

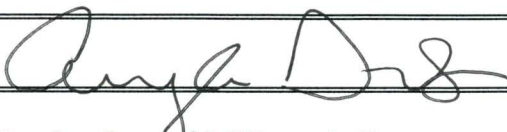
# 2017 HOUSE STANDING COMMITTEE MINUTES

## Appropriations Committee – Government Operations Division Medora Room, State Capitol

HB1022  
4/11/2017  
Job 30064

☐ Subcommittee  
☒ Conference Committee

Committee Clerk Signature



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

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide for a transfer.

### Minutes:

Attachments A-B

**Chairman Boehning:** Opened the conference committee on HB1022.

**Senator Krebsbach:** Explained the changes made by the Senate. See attachment A.

**Dave Hunter, Executive Director and Chief Investment Officer for ND Retirement and Investment Office:** There was a desire to reinstate about half of the funds that were cut.

**Chairman Boehning:** When the Senate had the bill, did you bring up that you wanted some of that money reinstated at that time?

**Dave Hunter:** That is correct. There was a challenge and it being so busy, it was hard for the Senate and House to connect on that manner.

**Chairman Boehning:** When you were in their committee hearings, did you mention that you wanted more money put back into that line?

**Dave Hunter:** Yes, we made a request to reinstate \$87,750.00.

**Chairman Boehning:** Why didn't the Senate reinstate that at that time?

**Senator Krebsbach:** We had a message that the House was willing to put back 50% of the \$141,888. Somehow it didn't get adjusted in our bill.

**Representative Brabandt:** I have \$392 million in Legacy Fund earnings. Is that correct?

**Dave Hunter:** \$382 million as of February 28, 2017. Actual Legacy Fund earnings to date through February 28, 2017 is \$574 million.



**Senator Dever:** I'd like to make the point that the revenue that funds this office is not tax dollars. We're dealing with situations associated with the economy in North Dakota; but they're dealing with the economy across the country. If they need the funds to do their job, we could support that.

**Senator Dever:** I move that the Senate recede and further amend to add the \$87,000.00.

**Chairman Boehning:** I would not be able to support that \$87,000.00 at this time. You had \$141,000 for travel and the rest was for professional development?

**Dave Hunter:** See testimony attachment B.

**Representative Brabandt:** Whether you get the \$87,750.00 or \$72,000.00, what does it do for your office?

**Dave Hunter:** It allows us to perform better professional education and travel expenses.

**Representative Brabandt:** So it's for travel?

**Dave Hunter:** It's travel and professional development.

**Chairman Boehning:** Closed the conference committee.

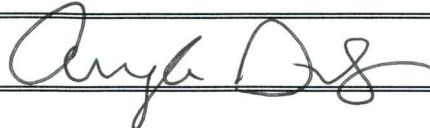
# 2017 HOUSE STANDING COMMITTEE MINUTES

## Appropriations Committee – Government Operations Division Medora Room, State Capitol

HB1022  
4/12/2017  
Job 30085

☐ Subcommittee  
☒ Conference Committee

Committee Clerk Signature



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

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide for a transfer.

### Minutes:

**Chairman Boehning:** Opened the conference committee on HB1022.

**Representative Vigesaa:** Made a motion to restore \$72,000.00 to the operating line.

**Senator Krebsbach:** My math shows that half would be \$72,914.00.

**Senator Dever:** I'm confused with the numbers. At one point we were talking \$87,000.00.

**Representative Vigesaa:** I think it was \$141,000.00, but then there was some additional savings with the health insurance that the Senate did. The final number was \$145,828.00 so exactly half would be \$72,914.00.

**Senator Krebsbach:** We could make it for \$73,000.00. I would second the motion to \$73,000.00. Would Representative Vigesaa consider changing his motion to \$72,914.00?

**Representative Vigesaa:** I'm going to remain at \$72,000.00; that's my motion.

**Chairman Boehning:** Second.

**Senator Krebsbach:** If you're not going to go with the 50%, I can't support the motion.

**Roll Call Vote:** 3 Yeas, 3 Nays, 0 Absent.

**Motion Failed.**

**Senator Bowman:** Made a motion to restore \$72,914.00 to the operating line.

**Senator Dever:** Seconded the motion.

**Senator Dever:** I appreciated the comment that the Senate should agree to the \$914.00 reduction. I think reciprocally, the House should agree to the \$914.00.

**Roll Call Vote: 3 Yeas, 3 Nays, 0 Absent.**

**Chairman Boehning:** Closed the conference committee.



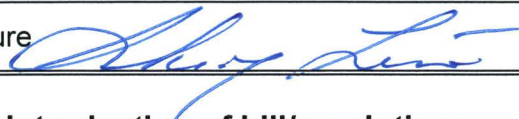
# 2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division  
Medora Room, State Capitol

HB1022  
4/13/2017  
Recording Job# 30105

☐ Subcommittee  
☒ Conference Committee

Committee Clerk Signature



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

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office; and to provide for a transfer.

## Minutes:

--

**Chairman Boehning:** Opened the conference committee on HB1022.

**Representative Vigesaa:** Made a motion to restore half of the \$145,828.00 which would be \$72,914.00.

**Senator Dever:** Seconded the motion.

**Chairman Boehning:** I thought it was \$72,457.00.

**Senator Dever:** Rescinded the second.

**Representative Vigesaa:** Rescinded the motion.

**Representative Vigesaa:** Made a motion to restore \$72,457.00 to the operating expenses.

**Representative Krebsbach:** If you were going to half; that would not be half.

**Chairman Boehning:** That's what we discussed yesterday.

**Representative Vigesaa:** Yesterday we agreed to compromise on this number.

**Representative Krebsbach:** My understanding was that you were going to agree to the \$72,914.00.

**Representative Vigesaa:** I may have misspoke but we agreed to split the difference between the two numbers.

**Representative Krebsbach:** Seconded the motion.

**Roll Call Vote:** 6 Yeas 0 Nays 0 Absent.

**Motion Carried.**

**Representative Vigesaa:** Made a motion for the Senate to recede from the Senate amendments and further amend.

**Senator Krebsbach:** Seconded the motion.

**Roll Call Vote:** 6 Yeas 0 Nays 0 Absent.

**Motion Carried.**

**Chairman Boehning:** Closed the conference committee.

4/18/17 DP  
1082

**PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1022**

That the Senate recede from its amendments as printed on pages 1163 and 1164 of the House Journal and pages 895 and 896 of the Senate Journal and that Engrossed House Bill No. 1022 be amended as follows:

Page 1, replace lines 10 through 13 with:

"Salaries and wages	\$4,340,551	\$85,019	\$4,425,570
Operating expenses	990,874	(128,390)	862,484
Contingencies	<u>82,000</u>	<u>(30,000)</u>	<u>52,000</u>
Total special funds	\$5,413,425	(\$73,371)	\$5,340,054"

Page 1, line 16, replace "\$54,376" with "\$50,436"

Page 1, line 17, replace "\$1,249" with "\$1,241"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

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

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$4,340,551	\$4,429,510	(\$3,940)	\$4,425,570	\$4,425,570	
Operating expenses	990,874	790,027	72,457	862,484	790,027	72,457
Contingencies	<u>82,000</u>	<u>52,000</u>		<u>52,000</u>	<u>52,000</u>	
Total all funds	\$5,413,425	\$5,271,537	\$68,517	\$5,340,054	\$5,267,597	\$72,457
Less estimated income	<u>5,413,425</u>	<u>5,271,537</u>	<u>68,517</u>	<u>5,340,054</u>	<u>5,267,597</u>	<u>72,457</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	19.00	19.00	0.00	19.00	19.00	0.00

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

	Adjusts Funding for Health Insurance Increases <sup>1</sup>	Adds Funding for Operating Expenses <sup>2</sup>	Total Conference Committee Changes
Salaries and wages	(\$3,940)		(\$3,940)
Operating expenses		72,457	72,457
Contingencies			
Total all funds	(\$3,940)	\$72,457	\$68,517
Less estimated income	<u>(3,940)</u>	<u>72,457</u>	<u>68,517</u>
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00



4/19/17 DF  
2 of 2

<sup>1</sup> Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is also changed to reflect the revised premium rate.

<sup>2</sup> Funding is restored for a portion of the \$200,847 reduction to operating expenses made by the House.

Date: 4/12/2017

Roll Call Vote #: 1

## 2017 HOUSE CONFERENCE COMMITTEE

BILL/RESOLUTION NO. HB1022 as (re) engrossed

**House Appropriations – Government Operations Division Committee**

**Action Taken**

- ☐ HOUSE accede to Senate Amendments
- ☐ HOUSE accede to Senate Amendments and further amend
- ☐ SENATE recede from Senate amendments
- ☐ SENATE recede from Senate amendments and amend as follows
- ☒ *Adapt Amendment*
- ☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Rep. Vigesaa      Seconded by: Rep. Boehning

Representatives	4/12			Yes	No		Senators	4/12			Yes	No
Chairman Boehning	X			X			Senator Krebsbach	X				X
Representative Brabandt	X			X			Senator Dever	X				X
Representative Vigesaa	X			X			Senator Bowman	X				X
Total Rep. Vote				3	0		Total Senate Vote				0	3

Vote Count	Yes: 3	No: 3	Absent: 0
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House Carrier Senate Carrier

LC Number . of amendment

LC Number . of engrossment

Emergency clause added or deleted

### Statement of purpose of amendment

Restore \$72,000.00 to the operating line

Date: 4/12/2017  
Roll Call Vote #: 2

## 2017 HOUSE CONFERENCE COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. HB1022 as (re) engrossed

**House Appropriations – Government Operations Division Committee**

**Action Taken**

- ☐ HOUSE accede to Senate Amendments
- ☐ HOUSE accede to Senate Amendments and further amend
- ☐ SENATE recede from Senate amendments
- ☐ SENATE recede from Senate amendments and amend as follows
- ☒ *Adopt amendment*
- ☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Sen. Bowman                      Seconded by: Sen. Dever

Representatives	4/12			Yes	No		Senators	4/12			Yes	No
Chairman Boehning	X				X		Senator Krebsbach	X			X	
Representative Brabandt	X				X		Senator Dever	X			X	
Representative Vigesaa	X				X		Senator Bowman	X			X	
Total Rep. Vote				0	3		Total Senate Vote				3	0

Vote Count      Yes: 3      No: 3      Absent: 0

House Carrier Senate Carrier

LC Number . of amendment

LC Number . of engrossment

Emergency clause added or deleted

### Statement of purpose of amendment

Restore \$72,914.00 to the operating line



Date: 4/13/2017  
Roll Call Vote #: 1

**2017 HOUSE CONFERENCE COMMITTEE  
ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1022 as (re) engrossed

**House Appropriations – Government Operations Division Committee**

- Action Taken**
- ☐ HOUSE accede to Senate Amendments
  - ☐ HOUSE accede to Senate Amendments and further amend
  - ☐ SENATE recede from Senate amendments
  - ☐ SENATE recede from Senate amendments and amend as follows
  - ☒ *Adopt amendment*
  - ☐ Unable to agree, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Representative Vigesaa Seconded by: Senator Krebsbach

Representatives	4/11	4/12	4/13	Yes	No		Senators	4/11	4/12	4/13	Yes	No
Chairman Boehning	X	X	X	X			Senator Krebsbach	X	X	X	X	
Representative Brabandt	X	X	X	X			Senator Dever	X	X	X	X	
Representative Vigesaa	X	X	X	X			Senator Bowman	X	X	X	X	
Total Rep. Vote							Total Senate Vote					

Vote Count      Yes: 6      No: 0      Absent: 0

House Carrier Representative Boehning Senate Carrier Senator Krebsbach

LC Number \_\_\_\_\_ of amendment

LC Number 17.0507.03000 of engrossment

Emergency clause added or deleted

Statement of purpose of amendment  
To restore \$72,457.00 to the operating expenses.

Date: 4/13/2017  
Roll Call Vote #: 2

**2017 HOUSE CONFERENCE COMMITTEE  
ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1022 as (re) engrossed

**House Appropriations – Government Operations Division Committee**

- Action Taken**    ☐ **HOUSE accede to Senate Amendments**  
                         ☐ **HOUSE accede to Senate Amendments and further amend**  
                         ☐ **SENATE recede from Senate amendments**  
                         ☒ **SENATE recede from Senate amendments and amend as follows**
- ☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Representative Vigesaa      Seconded by: Senator Krebsbach

<b>Representatives</b>	4/11	4/12	4/13	<b>Yes</b>	<b>No</b>		<b>Senators</b>	4/11	4/12	4/13	<b>Yes</b>	<b>No</b>
Chairman Boehning	X	X	X	X			Senator Krebsbach	X	X	X	X	
Representative Brabandt	X	X	X	X			Senator Dever	X	X	X	X	
Representative Vigesaa	X	X	X	X			Senator Bowman	X	X	X	X	
Total Rep. Vote							Total Senate Vote					

Vote Count              Yes: 6                      No: 0                      Absent: 0

House Carrier    Representative Boehning    Senate Carrier    Senator Krebsbach

LC Number                      .                      of amendment

LC Number              17.0507.03000                      .              04000                      of engrossment

Emergency clause added or deleted

Statement of purpose of amendment  
Do Pass as Amended

Insert LC: 17.0507.02002  
House Carrier: Boehning  
Senate Carrier: Krebsbach

**REPORT OF CONFERENCE COMMITTEE**

**HB 1022, as engrossed:** Your conference committee (Sens. Krebsbach, Dever, Bowman and Reps. Boehning, Brabandt, Vigesaa) recommends that the **SENATE RECEDE** from the Senate amendments as printed on HJ pages 1163-1164, adopt amendments as follows, and place HB 1022 on the Seventh order:

That the Senate recede from its amendments as printed on pages 1163 and 1164 of the House Journal and pages 895 and 896 of the Senate Journal and that Engrossed House Bill No. 1022 be amended as follows:

Page 1, replace lines 10 through 13 with:

"Salaries and wages	\$4,340,551	\$85,019	\$4,425,570
Operating expenses	990,874	(128,390)	862,484
Contingencies	<u>82,000</u>	<u>(30,000)</u>	<u>52,000</u>
Total special funds	\$5,413,425	(\$73,371)	\$5,340,054"

Page 1, line 16, replace "\$54,376" with "\$50,436"

Page 1, line 17, replace "\$1,249" with "\$1,241"

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**STATEMENT OF PURPOSE OF AMENDMENT:**

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	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$4,340,551	\$4,429,510	(\$3,940)	\$4,425,570	\$4,425,570	
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Contingencies	<u>82,000</u>	<u>52,000</u>		<u>52,000</u>	<u>52,000</u>	
Total all funds	\$5,413,425	\$5,271,537	\$68,517	\$5,340,054	\$5,267,597	\$72,457
Less estimated income	<u>5,413,425</u>	<u>5,271,537</u>	<u>68,517</u>	<u>5,340,054</u>	<u>5,267,597</u>	<u>72,457</u>
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	19.00	19.00	0.00	19.00	19.00	0.00

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

	Adjusts Funding for Health Insurance Increases <sup>1</sup>	Adds Funding for Operating Expenses <sup>2</sup>	Total Conference Committee Changes
Salaries and wages	(\$3,940)		(\$3,940)
Operating expenses		72,457	72,457
Contingencies			
Total all funds	(\$3,940)	\$72,457	\$68,517
Less estimated income	<u>(3,940)</u>	<u>72,457</u>	<u>68,517</u>
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

<sup>1</sup> Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is also changed to reflect the revised premium rate.



**Insert LC: 17.0507.02002**  
**House Carrier: Boehning**  
**Senate Carrier: Krebsbach**

<sup>2</sup> Funding is restored for a portion of the \$200,847 reduction to operating expenses made by the House.

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

**2017 TESTIMONY**

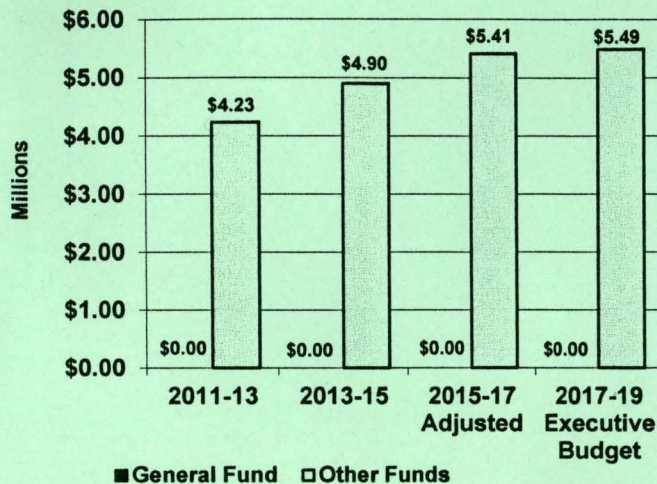
**HB 1022**

**Department 190 - Retirement and Investment Office**  
**House Bill Nos. 1022 and 1082**

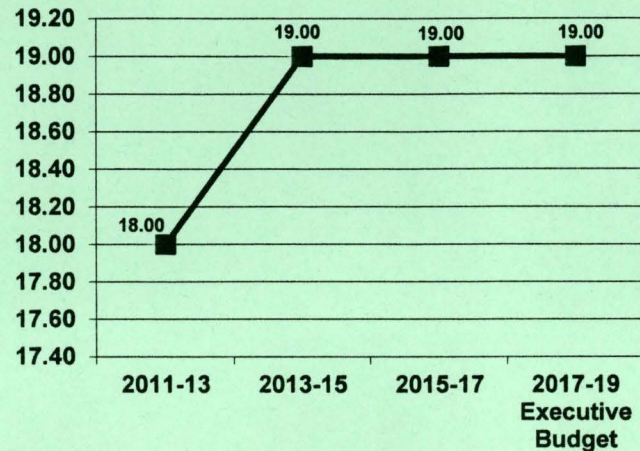
**Executive Budget Comparison to Prior Biennium Appropriations**

	FTE Positions	General Fund	Other Funds	Total
2017-19 Executive Budget	19.00	\$0	\$5,494,506	\$5,494,506
2015-17 Adjusted Legislative Appropriations	19.00	0	5,413,425	5,413,425
Increase (Decrease)	0.00	\$0	\$81,081	\$81,081

**Agency Funding**



**FTE Positions**



**Executive Budget Comparison to Base Level**

	General Fund	Other Funds	Total
2017-19 Executive Budget	\$0	\$5,494,506	\$5,494,506
2017-19 Base Level	0	5,413,425	5,413,425
Increase (Decrease)	\$0	\$81,081	\$81,081

**Executive Budget Highlights**

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases, of which \$19,091 is for salary increases and \$54,376 is for health insurance increases	\$0	\$73,467	\$73,467
2. Reduces funding for various operating expenses		(\$90,795)	(\$90,795)
3. Adds funding for a copier replacement		\$9,000	\$9,000

**Other Bill Sections Recommended to be Added in the Executive Budget**  
**(As Detailed in House Bill No. 1082)**

**Contingencies line item** - Section 2 provides, upon approval of the board, the Retirement and Investment Office may transfer from the contingencies line item in section 1 of the bill to all other line items.

**Continuing Appropriations**

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

**Benefits and refunds** - Section 15-39.1-05.2 - Benefits and refunds from the Teachers' Fund for Retirement.

**Administrative charges** - Section 15-39.1-05.2 - Income offset and Teachers' Fund for Retirement consulting costs.

**Significant Audit Findings**

The audit for the Retirement and Investment Office conducted by CliftonLarsonAllen LLP, for the period ending June 30, 2015, identified one significant accounting policy change related to GASB Statement Nos. 68 and 71.



The schedule of employer allocations and pension amounts by employer prepared for the Retirement and Investment Office and audited by CliftonLarsonAllen LLP for the period ending June 30, 2015, did not identify any significant audit findings.

### **Major Related Legislation**

At this time, no major related legislation has been introduced affecting this agency.



**Retirement and Investment Office - Budget No. 190****House Bill Nos. 1022 and 1082****Base Level Funding Changes**

	Executive Budget Recommendation			
	FTE Position	General Fund	Other Funds	Total
2017-19 Biennium Base Level	19.00	\$0	\$5,413,425	\$5,413,425
2017-19 Ongoing Funding Changes				
Base payroll changes			\$91,409	\$91,409
Salary increase - Performance			19,091	19,091
Health insurance increase			54,376	54,376
Adjusts funding for operating expenses			(90,795)	(90,795)
Adds funding for capital assets - Copier replacement			9,000	9,000
Reduce contingency funding			(2,000)	(2,000)
Total ongoing funding changes	0.00	\$0	\$81,081	\$81,081
One-time funding items				
No one-time funding items				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	\$0	\$81,081	\$81,081
2017-19 Total Funding	19.00	\$0	\$5,494,506	\$5,494,506

**Other Sections in Retirement and Investment Office - Budget No. 190**

<b>Executive Budget Recommendation</b>	
Contingencies line item transfers	Section 2 provides, upon approval of the State Investment Board, the Retirement and Investment Office may transfer from the contingencies line item in section 1 of the bill to all other line items.

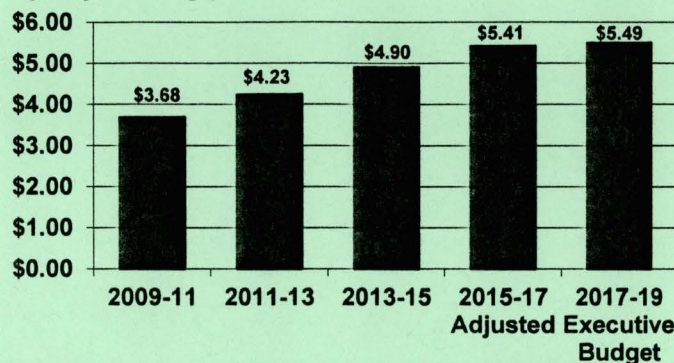


## Department 190 - Retirement and Investment Office

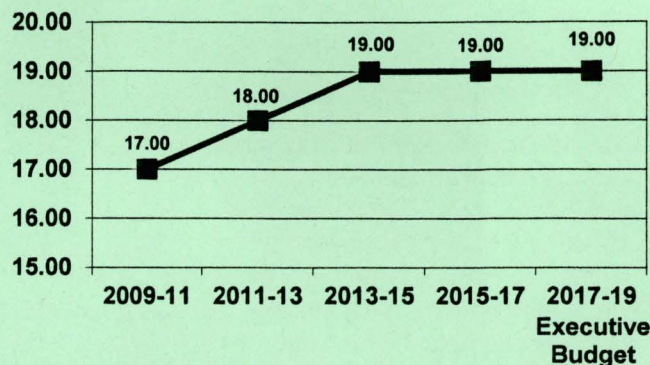
## Historical Appropriations Information

### Ongoing Other Funds Appropriations Since 2009-11

Agency Funding (in Millions)



FTE Positions



Ongoing Other Funds Appropriations					
	2009-11	2011-13	2013-15	2015-17 Adjusted	2017-19 Executive Budget
Total fund appropriations	\$3,680,650	\$4,232,954	\$4,899,369	\$5,413,425	\$5,494,506
Increase (decrease) from previous biennium	N/A	\$552,304	\$666,415	\$514,056	\$81,081
Percentage increase (decrease) from previous biennium	N/A	15.0%	15.7%	10.5%	1.5%
Cumulative percentage increase (decrease) from 2009-11 biennium	N/A	15.0%	33.1%	47.1%	49.3%

### Major Increases (Decreases) in Total Fund Appropriations

#### 2011-13 Biennium

- Added 1 deputy chief investment officer FTE position \$316,824

#### 2013-15 Biennium

- Added funding for 1 investment analyst FTE position, and related operating costs \$283,553

#### 2015-17 Biennium

- No major changes

#### 2017-19 Biennium (Executive Budget Recommendation)

- Reduce funding for various operating expenses (\$90,795)
- Adds funding for a copier replacement \$9,000

January 5, 2016

HB1022 / HB1082

Attachment A

## House Bills 1022 and 1082

### North Dakota Retirement and Investment Office (RIO) Testimony to the House Appropriations Government Operations Committee David Hunter, Executive Director/CIO

January 5, 2017

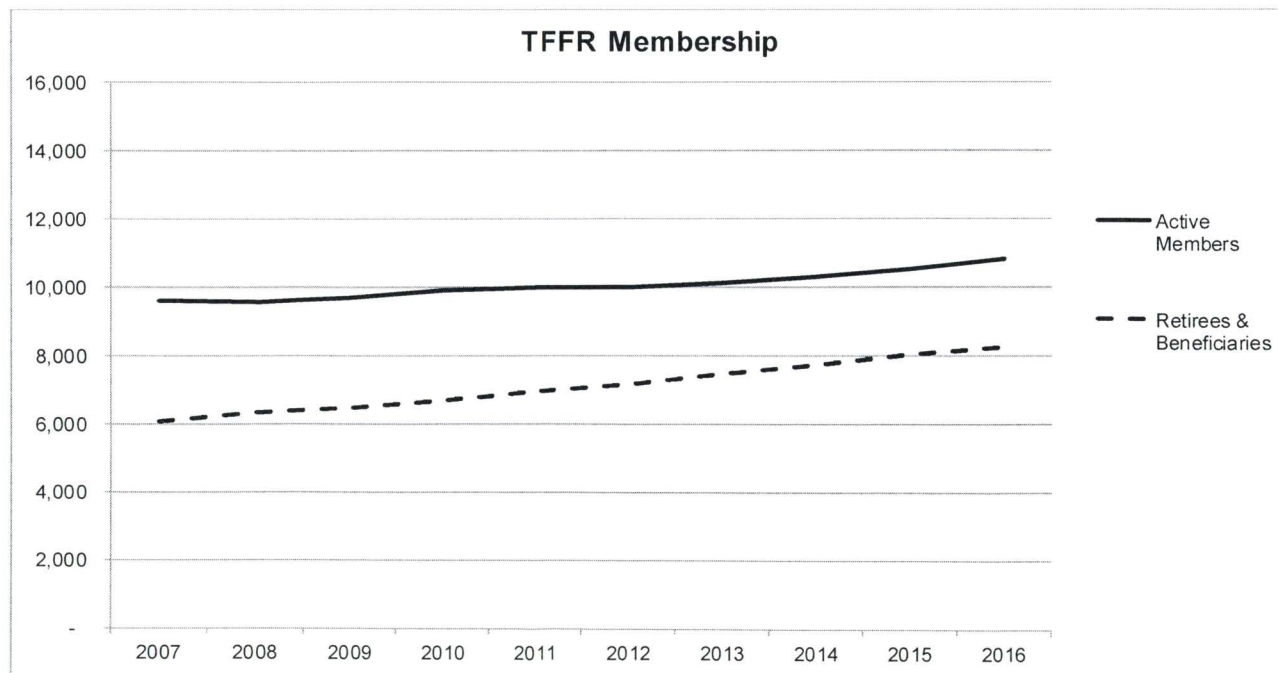
#### RIO Programs Overview

RIO was created 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 State Investment Board (SIB). RIO is a Special Fund agency and receives no General Fund appropriation. All appropriated expenditures for TFFR are paid from contributions collected from members and employers and from invested assets/earnings. All appropriated expenditures for SIB are allocated directly to the client funds and paid out of their invested assets/earnings.

- **Teachers' Fund for Retirement (TFFR)**

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven member board of trustees which consists of the State Treasurer, State Superintendent, and five active and retired teachers and administrators appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. During the past decade, active membership has increased 12.6% from 9,600 to over 10,800 participants, while retirees and beneficiaries have increased 35.7% from less than 6,100 to over 8,200.





For Fiscal Year 2016 there were 214 participating TFFR employers comprised as follows:

School Districts	176
Special Ed Units	19
Vocational Centers	5
Counties	6
State Agencies/Institutions	5
Other – Closed groups	<u>3</u>
<b>2015-16 Total Employers</b>	<b>214</b>

The \$3.1 million requested in the RIO budget relating to the TFFR program includes salaries, benefits and administrative overhead costs for 12.05 Full Time Equivalents (FTEs) who manage the day-to-day operations of the fund and deliver high quality services and outreach programs to members and employers. Examples of activities included in the administration of the TFFR program are detailed in the following table, based on the fiscal year ended June 30, 2016.

Activity	# of Members
Monthly collection of contributions from 214 Employers	10,813
Maintenance of Membership Records	21,442
New Retirement & Disability Claims Processed	359
Deaths Processed	207
Refunds/Rollovers Processed	275
Service Purchase Inquiries Processed	232
New Member Enrollments Processed	1,148
Monthly Benefit Payments Processed	8,249
Educational Outreach Programs Attended	973

Additional administrative activities include periodic newsletters for both active and retired members, maintenance of the website, maintenance of the retirement administration software system that houses all of the TFFR member data, internal audits to verify accuracy of contributions and benefit payments, and staff training and education to ensure all necessary regulatory and financial reporting requirements are being met.

Benefit payments to retirees or their beneficiaries totaled \$180.6 million in fiscal year 2016. Another \$5.4 million was paid out in refunds of account values. These payments, in addition to amounts paid to actuarial, investment and other consultants, are included in a continuing appropriation under ND Century Code section 15-39.1-05.

- **State Investment Board (SIB)**

The SIB is responsible for the investment of over \$11.3 billion in assets for seven pension funds and 17 other non-pension funds. The following table shows the most currently available fair value of assets by fund.

	<b>Fair Value as of 11/30/16 (unaudited)</b>
<b>PENSION POOL PARTICIPANTS</b>	
Teachers' Fund for Retirement	\$2,121,977,081
Public Employees Retirement System	2,529,110,991
Bismarck City Employee Pension Fund	84,550,487
Bismarck City Police Pension Fund	34,946,181
City of Grand Forks Pension Fund	57,657,238
City of Grand Forks Park District Pension Fund	5,791,155
Subtotal Pension Pool Participants	4,834,033,133
<b>INSURANCE POOL PARTICIPANTS</b>	
Workforce Safety & Insurance Fund	1,820,602,991
State Fire and Tornado Fund	22,786,241
State Bonding Fund	3,280,900
Petroleum Tank Release Fund	7,119,729
Insurance Regulatory Trust Fund	1,256,673
State Risk Management Fund	6,178,980
State Risk Management Workers Comp	5,678,623
Cultural Endowment Fund	400,327
Budget Stabilization Fund	203,527,737
ND Association of Counties (NDACo) Fund	4,122,281
City of Bismarck Deferred Sick Leave	654,041
PERS Group Insurance	37,425,556
State Board of Medicine	2,247,755
City of Fargo FargoDome Permanent Fund	35,297,219
Subtotal Insurance Pool Participants	2,150,579,053
<b>INDIVIDUAL INVESTMENT ACCOUNTS</b>	
Legacy Fund	4,095,509,386
Retiree Health Insurance Credit Fund	105,009,323
Job Service of North Dakota Pension Fund	94,839,045
Tobacco Prevention and Control Trust Fund	51,144,757
<b>TOTAL</b>	<b>\$11,331,114,697</b>



The 11-member State Investment Board includes the Lt. Governor, State Treasurer, State Insurance Commissioner, State Land Commissioner, Workforce Safety & Insurance designee, three PERS board members, and three TFFR board members. All the funds are invested in accordance with the “Prudent Investor Rule”.

Investment guidelines and asset allocations are determined by the governing bodies of the individual funds (with assistance from consultants and/or RIO staff) and then turned over to the SIB for implementation. The SIB selects investment managers to manage different types of portfolios within each asset class with the goal of maximizing return within the clients’ acceptable risk levels. Similar client funds are pooled together when possible to achieve efficiencies in staff monitoring and to receive lower fees from investment managers.

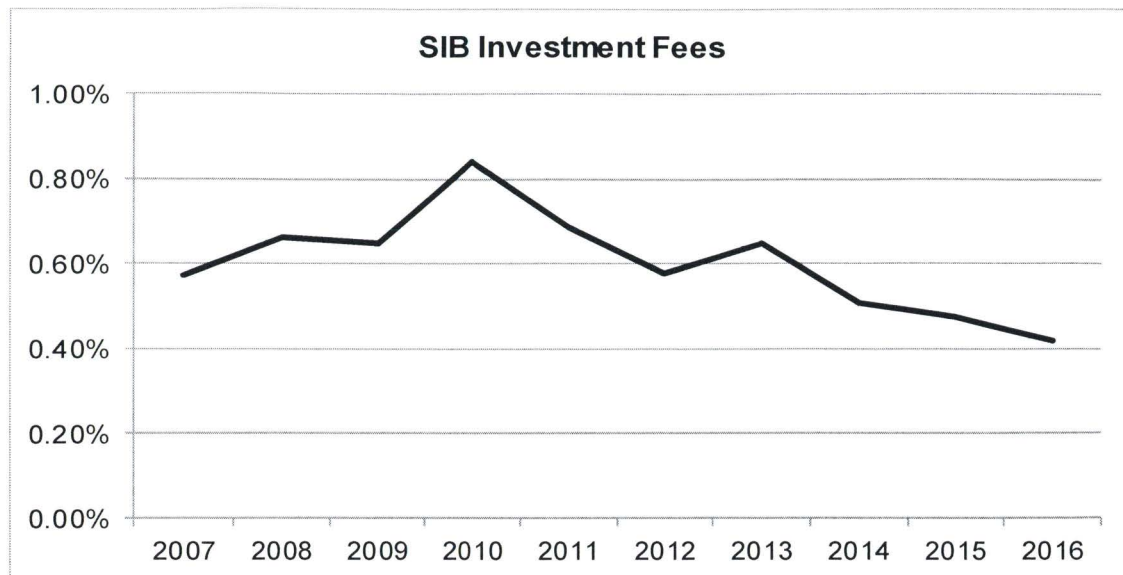
The nearly \$2.4 million requested in the RIO budget relating to the SIB investment program includes salaries, benefits and administrative overhead for the 6.95 FTEs who are responsible for the day-to-day operations of the program.

The staff of RIO administers the day-to-day operations of the investment program by assisting client funds with asset/liability studies; conducting investment manager searches; monitoring guidelines and asset allocations of each client fund; managing the consultant, custodian and investment manager relationships; conducting initial and continuing due diligence on the investment managers; researching new investment and risk management options; and maintaining separate monthly accounting and investment performance data for all client funds. Statistics regarding the number of investment clients/managers/accounts, etc., are shown in the following table.

Client Funds	24
Asset Class Pools/Groups	31
Investment Manager Relationships	36
Investment Manager Accounts	103
Custodian Banks	2
Investment Consultants	3

The SIB has continuing appropriation authority under ND Century Code section 21-10-06.2 to pay for investment related costs of the program such as investment management fees, custodial fees, performance measurement fees, and fees associated with manager searches and onsite reviews of investment managers. These costs are allocated directly to the client funds affected by the expense and paid out of invested assets/earnings.

We are happy to report that investment fees have continued to decrease, from 0.47% (47 basis points) in fiscal 2015 to 0.42% (42 basis points) for the fiscal year ended June 30, 2016. This 5 basis point decrease in fees on \$11 billion in assets equates to an annual savings of approximately \$5.5 million. The following chart shows the downward trend in investment fees over the past few years.



### **RIO Budget Request**

We are here this morning to ask your approval of the RIO budget request as presented in House Bill 1082. A summary of that request is shown below.

	TFFR	SIB	TOTAL REQUEST	BASE LEVEL	CHANGE
Salaries and Wages	\$2,368,977	\$2,136,450	\$4,505,427	\$4,340,551	\$164,876
Operating Expenses	706,192	193,887	900,079	990,874	(90,795)
Capital Assets	9,000	0	9,000	0	9,000
Contingency	40,000	40,000	80,000	82,000	(2,000)
Totals	\$3,124,169	\$2,370,337	\$5,494,506	\$5,413,425	\$81,081
FTEs	12.05	6.95	19	19	0

As you can see, the major component of RIO's base level budget is salaries and wages. That component makes up 80.2% of our entire base level budget. Within the operating expenses line, the major components are data processing from ITD, lease of office space and IT contractual services (mainly for the retirement administration software system for the TFFR program). Those three line items make up over 50% of the operating expenses request.

The budget request, as originally submitted, was essentially a hold even budget (slight increase of \$7,614). After including the salary and benefit increases from the Executive Budget, RIO's request before you today is a modest 1.5% increase.

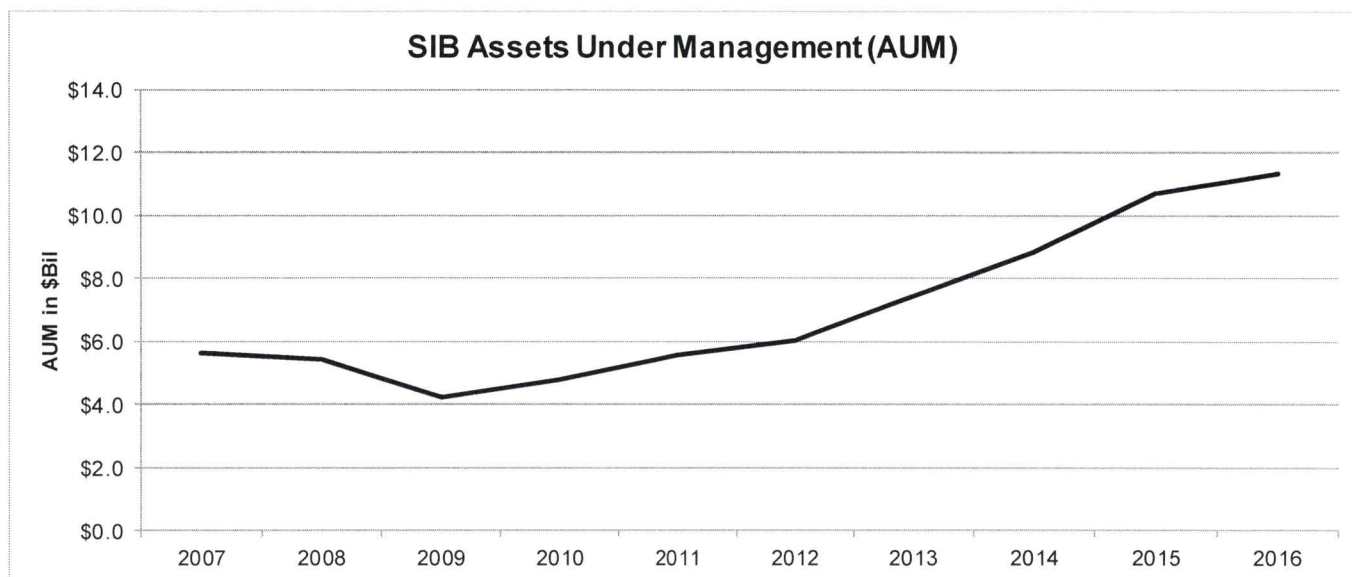
#### *Salaries and Wages*

In preparing this Special Fund budget request, RIO staff reviewed both programs to determine if there were any areas that could be reduced or discontinued. After careful consideration of the growth and importance of each program, it was determined that current staffing levels were needed. It was only



recently (2011 and 2013 sessions) that the Legislature approved an increase to RIO investment staff; and the retirement program has not had an increase in staff in 15 years. Staff has worked hard to utilize technology and identify operational efficiencies in an effort to continue to increase the level of services without increasing staffing levels. The addition of those two FTEs in the investment program and a \$50,000 salary equity increase package approved last session are the only major ongoing funding increases that the Legislature has recently approved for the agency.

With the continued growth of the Legacy Fund and the addition of new client funds, assets under management (AUM) have grown significantly, and with it the need for quality investment staff to effectively manage the program. The following chart shows the growth in AUM over the past ten years. Overall, assets have increased by \$5.7 billion (over 100%) in those ten years, with the Legacy Fund contributing nearly \$4.1 billion of that increase.



The Executive Budget recommended an increase of approximately \$73,500 to the salaries and wages line for continued full funding of health insurance premiums plus a one percent salary increase for the second year of the biennium. RIO is also requesting additional funding in salaries and wages that includes \$50,080 in costs to continue the salary increases from the second year of the current biennium and \$18,000 to fund a temporary intern position for both years of the biennium. RIO began an intern program during the summer of 2016 and found it to be very successful.

#### *Operating Expenses*

RIO staff next went line by line through the operating expenses for each program and was able to reduce the request for that category by nearly \$91,000 or 9.2%. That decrease is slightly offset by the request for \$9,000 in the Capital Assets line for a new printer/copier machine. The current machine was purchased in 2007 and has produced more than one million copies.

The largest contributors to the decrease in the Operating line were Travel, IT Contractual Services, IT Equipment Under \$5,000, and Professional Development.

**Travel** - It was determined that based on actual travel costs over the past few biennia, the travel line could be reduced by \$44,500 (32.5%). Travel costs include travel reimbursement for the following areas:

- Retirement Program Staff traveling around the state to provide retirement benefits counseling and training to TFFR members and employers.
- TFFR and SIB board members traveling from outside of Bismarck-Mandan to attend board meetings (approximately 12 TFFR meetings, 20 SIB meetings and 8 SIB Audit Committee meetings per biennium).
- TFFR and SIB board member travel to national conferences and/or other training opportunities to enhance their knowledge in retirement and investment related topics to better prepare them for their responsibilities on the boards.
- RIO staff travel to national conferences and/or other training opportunities related to their job duties within the agency.

In our effort to comply with the Former Governor Dalrymple's request to decrease spending, we looked carefully at the travel line item, which has been one of the larger line items within our operating expenses. Although RIO finds tremendous value in providing training/education opportunities to board members and staff in order to ensure they are fulfilling their fiduciary duties to their members and clients, we also understand that we need to be as frugal as possible during these challenging years for the state. Therefore we feel we can reduce spending for travel at this time while continuing to provide the necessary education to our board members and staff.

**IT Contractual Services** - The IT Contractual Services line is decreasing by \$21,708 or 12.0%. The majority of this decrease is in the maintenance contract for the retirement administration software system. Although RIO has chosen to decrease this line in light of current budget circumstances, it may need to be increased again in the future in order to continue to make the necessary updates needed to provide the services expected by our TFFR members and employers.

**IT Equipment Under \$5,000** - The IT Equipment Under \$5,000 line is decreasing by 51.6% or \$21,290. In the 2015-17 biennium RIO requested \$11,290 in additional funding for video conferencing hardware and related items with the intention of investigating the use of this technology for board meetings and possibly virtual benefits counseling sessions. Due to a vacancy in our IT Division during the first year of the biennium, this initiative was pushed back in favor of higher priority projects. These funds were not used and are not being requested in the 2017-19 biennium in light of budget constraints. We hope to reinstate this initiative in the future as budgets allow. The remaining decrease of \$10,000 relates to laptop computers, monitors and desktop printers that were replaced in the 2015-17 biennium according to replacement schedules and will not be needed in the 2017-19 biennium.



**Professional Development** - The Professional Development line is decreasing by \$12,940 or 23.3%. This decrease is related to the decrease in the travel line as we will not be sending board members and staff to as many national conferences and/or other training opportunities.

It is also important to note that RIO did recognize the need for, and requested funds in an optional package relating to, cyber risk insurance that was not included in the Executive Budget recommendation. We understand that funding for this type of insurance for all state agencies will be considered in another bill and therefore we are not asking for that funding to be reinstated in our request at this time. We fully support the idea of funding for this type of insurance to protect our members, our agency and the State of North Dakota against the rising threat of cyber theft.

#### **Other items requested by the Committee**

In the letter that was sent out with the agenda for this meeting, the Chairman asked that a few other items be addressed within this testimony. Most of those items are not directly applicable as RIO receives neither General Funds nor Federal Funds. I would like to point out, however, that RIO has not had any financial audit findings in the most recent audit (June 30, 2016) nor in any financial audits going back to 2010.

#### **Conclusion**

In summary, the RIO budget request of \$5.5 million for the 2017-19 biennium represents an approximately \$81,000 increase (1.5%) over the base level budget. Although RIO receives no General Fund dollars, we understand the importance of joining with the rest of ND State government in doing more with less and providing the best services we can in the most efficient manner possible. We feel this budget will allow us to continue to provide the services our clients expect. Thank you for your time and consideration.



January 5, 2017

HB 1022 / 1082

Attachment B

## Legacy Fund

Active Management has Improved Net Investment Returns by **\$85 million** since inception on Sep. 7, 2011.

LEGACY FUND		1 Year Ended 9/30/2016	3 Years Ended 9/30/2016	5 Years Ended 9/30/2016
Total Fund Return - Net	a	10.18%	4.74%	3.49%
Policy Benchmark Return	b	8.85%	3.77%	2.52%
Excess Return	a - b	1.34%	0.97%	0.97%
Excess Return (in dollars)		\$50 million	\$75 million	\$85 million

### Excess Returns Calculation Estimates for the 1-, 3- and 5- years ended 9/30/2016

1-Year = \$3.8 billion (Fund Assets) x 1.34% (Excess Return) = \$50 million

3-Years = \$2.6 billion (Fund Assets) x 0.97% (Excess Return) x 3 yrs. = \$75 million

5-Years = \$1.76 billion (Fund Assets) x 0.97% (Excess Return) x 5 yrs. = \$85 million



## PERS and TFFR Net Investment Returns Exceed 9% for 1- and 5-years ended Sep. 30, 2016

	Current FYTD 9/30/2016	1 Yr Ended 9/30/2016	3 Yrs Ended 9/30/2016	5 Yrs Ended 9/30/2016	Risk 5 Yrs Ended 9/30/2016	Risk Adj Excess Return 5 Yrs Ended 9/30/2016
<b>PERS - \$2.55 billion</b>						
Total Fund Return - Net	3.68%	9.49%	6.12%	9.46%	5.7%	0.36%
Policy Benchmark Return	3.61%	9.21%	5.46%	8.85%	5.5%	
Excess Return	0.07%	0.28%	0.66%	0.60%	103%	
<b>TFFR - \$2.15 billion</b>						
Total Fund Return - Net	3.69%	9.43%	6.14%	9.64%	5.7%	0.42%
Policy Benchmark Return	3.52%	9.11%	5.45%	8.87%	5.5%	
Total Relative Return	0.17%	0.32%	0.68%	0.77%	104%	

**Key Point:** PERS and TFFR investments have averaged \$4 billion over the last 5-years and Excess Return has exceeded 0.60% per annum. Based on these values, active management has enhanced net returns of PERS and TFFR by \$120 million for the 5-years ended Sep. 30, 2016 (or \$4 billion x 0.60% = \$24 million x 5 years = \$120 million).

## Investment Fees and Expenses – Summary

During the last three-years, investment management fees and expenses as a % of average assets under management declined from **0.65%** in fiscal 2013 to **0.51%** in fiscal 2014 to **0.48%** in fiscal 2015 and to approximately **0.42%** in fiscal 2016.

<u>All State Investment Board Clients</u>	<u>Investment Fees and Expenses</u> a	<u>Average "Assets Under Management"</u> b	<u>% of "AUM"</u> a / b
Fiscal Year Ended June 30, 2013	\$45 million	\$6.9 billion	0.65%
Fiscal Year Ended June 30, 2014	\$44 million	\$8.6 billion	0.51%
Fiscal Year Ended June 30, 2015	\$48 million	\$10.1 billion	0.48%
Fiscal Year Ended June 30, 2016	\$46 million	\$10.9 billion	0.42%

**Key Point: Based on \$10 billion of investments, this 20+ bps decline between fiscal 2013 and fiscal 2016 translates into over \$20 million of annual savings.**

➤ RIO will diligently work to prudently manage all SIB client investment fees and expenses, but acknowledges it will be challenging to reduce fees and expenses below 45 bps (0.45%) per annum in future years. Current fiscal years results were materially impacted by low incentive performance fees.

*A basis point (or "bp") is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points ("bps") is equivalent to 1%.*



**ND RETIREMENT AND INVESTMENT OFFICE  
ND STATE INVESTMENT BOARD  
INVESTMENT PERFORMANCE SUMMARY  
AS OF SEPTEMBER 30, 2016**

Investment Performance (net of fees)

Fund Name	Market Values as of 9/30/16	Quarter Ended				FYTD 2017	Fiscal Years ended June 30					Periods ended 6/30/16 (annualized)							
		9/30/16	12/31/16	3/31/17	6/30/17		2016	2015	2014	2013	2012	3 Years	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years	
<b>Pension Trust Fund</b>																			
Teachers' Fund for Retirement (TFFR)	2,144,533,865	3.69%				3.69%	0.28%	3.52%	16.53%	13.57%	-1.12%	6.55%	6.32%	4.45%	5.51%	6.48%	7.48%	7.73%	
Public Employees Retirement System (PERS)	2,548,430,036	3.68%				3.68%	0.28%	3.53%	16.38%	13.44%	-0.12%	6.51%	6.48%	4.81%	5.84%	6.88%	7.86%	7.89%	
City of Bismarck Employees Pension	85,179,534	3.33%				3.33%	0.82%	3.69%	14.56%	12.41%	1.57%	6.20%	6.46%	5.16%	5.84%	6.86%	7.79%	*	
City of Bismarck Police Pension	35,180,238	3.53%				3.53%	0.32%	3.56%	15.27%	13.03%	1.31%	6.19%	6.52%	5.02%	5.73%	6.71%	7.68%	*	
City of Grand Forks Employees Pension	58,778,547	3.61%				3.61%	0.11%	3.53%	16.33%	14.01%	1.09%	6.43%	6.80%	*	*	*	*	*	
Park District of the City of Grand Forks Pension	5,834,315	3.51%				3.51%	0.36%	4.22%	16.44%	14.43%	0.86%	6.80%	7.05%	*	*	*	*	*	
Subtotal Pension Trust Fund	4,877,936,536																		
<b>Insurance Trust Fund</b>																			
Workforce Safety & Insurance (WSI)	1,860,023,835	2.82%				2.82%	3.58%	3.26%	11.71%	8.31%	6.17%	6.11%	6.56%	5.66%	5.58%	6.78%	7.39%	*	
State Fire and Tornado Fund	24,853,937	3.20%				3.20%	2.67%	3.16%	12.78%	10.59%	4.93%	6.10%	6.75%	5.87%	5.65%	6.43%	6.58%	*	
State Bonding Fund	3,329,117	1.02%				1.02%	3.48%	1.25%	4.06%	2.96%	5.31%	2.92%	3.40%	2.07%	3.24%	4.60%	5.17%	*	
Petroleum Tank Release Compensation Fund	7,214,431	0.94%				0.94%	3.17%	1.13%	3.68%	2.47%	4.84%	2.65%	3.05%	1.82%	2.97%	4.47%	*	*	
Insurance Regulatory Trust Fund	1,232,868	2.59%				2.59%	1.46%	2.04%	9.88%	8.49%	2.82%	4.39%	4.88%	4.63%	4.75%	5.67%	5.68%	*	
State Risk Management Fund	6,208,850	2.74%				2.74%	4.46%	4.08%	12.29%	10.19%	7.63%	6.88%	7.68%	6.59%	5.86%	*	*	*	
State Risk Management Workers Comp Fund	5,680,663	3.01%				3.01%	4.21%	4.57%	13.68%	11.61%	7.40%	7.40%	8.23%	6.74%	*	*	*	*	
Cultural Endowment Fund	398,147	3.96%				3.96%	2.18%	5.22%	16.94%	15.58%	4.65%	7.93%	8.75%	6.33%	*	*	*	*	
Budget Stabilization Fund	578,309,532	0.42%				0.42%	1.82%	1.86%	1.94%	1.87%	2.03%	1.88%	1.91%	2.11%	*	*	*	*	
ND Association of Counties (NDACo) Fund	4,167,501	2.98%				2.98%	2.76%	2.77%	11.61%	9.46%	1.69%	5.63%	5.58%	4.73%	4.97%	*	*	*	
Bismarck Deferred Sick Leave Account	661,908	3.12%				3.12%	3.26%	2.95%	12.32%	9.83%	5.69%	6.09%	6.75%	6.08%	5.86%	*	*	*	
City of Fargo FargoDome Permanent Fund	35,386,219	4.23%				4.23%	1.19%	3.38%	16.34%	13.46%	3.14%	6.76%	7.33%	5.97%	*	*	*	*	
State Board of Medicine Fund	2,248,565	1.83%				1.83%	1.63%	2.70%	*	*	*	*	*	*	*	*	*	*	
PERS Group Insurance Account	37,239,691	0.06%				0.06%	1.49%	0.01%	0.06%	0.27%	0.24%	0.52%	0.41%	1.25%	1.64%	*	*	*	
Subtotal Insurance Trust Fund	2,566,955,263																		
Legacy Fund	4,070,189,950	4.21%				4.21%	1.06%	3.31%	6.64%	1.15%	*	3.65%	*	*	*	*	*	*	
Job Service of North Dakota Pension	96,325,192	0.92%				0.92%	5.45%	3.30%	13.54%	11.71%	3.09%	7.34%	7.33%	6.00%	6.11%	7.57%	*	*	
Tobacco Control and Prevention Fund	52,785,217	0.32%				0.32%	*	*	*	*	*	*	*	*	*	*	*	*	
PERS Retiree Health Insurance Credit Fund	105,505,466	3.62%				3.62%	0.72%	3.06%	16.53%	12.71%	2.62%	6.55%	6.95%	5.13%	5.23%	6.40%	7.17%	*	
Total Assets Under SIB Management	\$ 11,769,697,624																		

\* These funds do not have the specified periods of history under SIB management.

Note: Asset allocation largely drives investment performance. Each fund has a unique allocation that takes into consideration return objectives, risk tolerance, liquidity constraints, and unique circumstances. Such considerations must be taken into account when comparing investment returns. All figures are preliminary and subject to revision.



January 3, 2017

4101002 / 1101002

Attachment C



The ND Teachers' Fund for Retirement plan (ND TFFR) provides ND educators with a financial foundation for the future that includes a secure and stable retirement. This is possible due to TFFR's plan design, professional plan management, strong investment performance, and outstanding customer service.



**MEMBERS**  
10,813 ACTIVE MEMBERS  
8,249 RETIRED MEMBERS  
214 EMPLOYERS

Member Stats	Actives	Retirees
Avg. Annual Salary/Benefit	\$57,986	\$22,698
Avg. Service Credit	12.1 yrs	27.4 yrs
Avg. Current Age	42.3 yrs	71.0 yrs

MEMBER/EMPLOYER SATISFACTION: 3.8 (4.0 Scale)

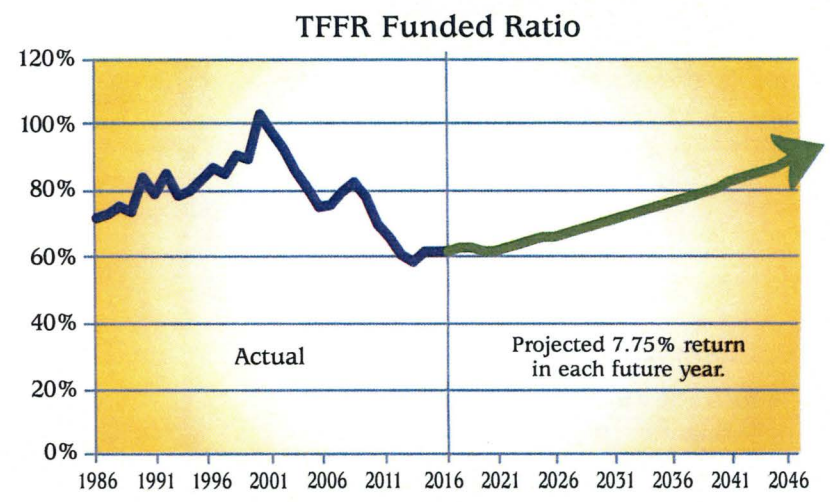
**83%**  
of benefits are paid to ND residents.

To positively impact the state's economy,  
**\$181 million**  
was distributed to retirees in FY 2016.



**Investment Returns**  
1 year 0.28%  
5 year 6.32%  
30 year 7.73%

**62% of BENEFITS are PREFUNDED**



**TFFR's long-term funding outlook is positive, and benefits are secure for past, present, and future ND educators.**



# ND TFFR PLAN SUMMARY

**Tier 1 is a member who had service credit in the TFFR plan prior to 7/1/08.**

- Tier 1 Grandfathered member was less than 10 years away from retirement eligibility as of 6/30/13. Grandfathered member was vested, and either age 55 or had a combined total of service credit and age equal to or greater than 65 on 6/30/13.
- Tier 1 Non-Grandfathered member was more than 10 years away from retirement eligibility as of 6/30/13. Non-grandfathered member was less than age 55 and had a combined total of service credit and age which was less than 65 on 6/30/13.

**Tier 2 is a member who began participation in the TFFR plan on 7/1/08 or after.**

*\*Contribution rates are in effect until TFFR reaches 100% funded level, then rates reduce to 7.75% each.*

(2)

## Employee Contribution Rates (active and re-employed retirees)

	Tier 1 Grandfathered Member	Tier 1 Non- Grandfathered Member	Tier 2 Member
7/1/10 – 6/30/12	7.75%	7.75%	7.75%
7/1/12 – 6/30/14	9.75%	9.75%	9.75%
*7/1/14 ongoing	11.75%	11.75%	11.75%

## Employer Contribution Rates

	Tier 1 Grandfathered Member	Tier 1 Non- Grandfathered Member	Tier 2 Member
7/1/10 – 6/30/12	8.75%	8.75%	8.75%
7/1/12 – 6/30/14	10.75%	10.75%	10.75%
*7/1/14 ongoing	12.75%	12.75%	12.75%

## Vesting Period

Tier 1 Grandfathered Member	Tier 1 Non- Grandfathered Member	Tier 2 Member
3 yrs	3 yrs	5 yrs

## Unreduced Retirement Eligibility

	Tier 1 Grandfathered Member	Tier 1 Non- Grandfathered Member	Tier 2 Member
Minimum Age	No	60	60
<b>AND</b> Rule	Rule 85	Rule 90	Rule 90
<b>OR</b> Normal Retirement Age	65	65	65

## Reduced Retirement Eligibility

	Tier 1 Grandfathered Member	Tier 1 Non- Grandfathered Member	Tier 2 Member
Minimum Age	55	55	55
Reduction Factor	6%	8%	8%

## Retirement Formula Multiplier

	Tier 1 Grandfathered Member	Tier 1 Non- Grandfathered Member	Tier 2 Member
X Final Average Salary	3 yr FAS	3 yr FAS	5 yr FAS
X Service Credit	Total years	Total years	Total years

## Disability Retirement

	Tier 1 Grandfathered Member	Tier 1 Non- Grandfathered Member	Tier 2 Member
Disability Retirement	Yes	Yes	Yes
Retirement Formula Multiplier (2%) X Final Average Salary (FAS) X Total Service Credit			

## Death/Survivor Benefits

	Tier 1 Grandfathered Member	Tier 1 Non- Grandfathered Member	Tier 2 Member
Death/Survivor Benefits	Yes	Yes	Yes
Refund of account value or Life Annuity to survivor based on member's vesting status.			



January 5, 2017

HB 1022 / HB 1082

Attachment

ND Legacy Fund  
Summary of Deposits, Earnings and Net Position  
As of November 30, 2016

	Deposits	Total Net Earnings	Net Increase/ (Decrease)	Ending Net Position	Earnings as defined in NDCC 21-10-12
FY2012	396,585,658	2,300,225	398,885,883	398,885,883	2,571,475
FY2013	791,126,479	4,216,026	795,342,505	1,194,228,388	15,949,089
FY2014	907,214,971	113,153,662	1,020,368,633	2,214,597,021	50,033,655
FY2015	1,011,343,040	99,895,650	1,111,238,690	3,325,835,711	95,143,905
FY2016	434,853,950	45,851,680	480,705,630	3,806,541,341	65,326,673
FY2017*	158,931,203	127,088,697	286,019,900	4,092,561,241	92,541,116
Totals	<u>3,700,055,301</u>	<u>392,505,940</u>	<u>4,092,561,241</u>	<u>4,092,561,241</u>	<u>321,565,913</u>

\* FY2017 amounts are preliminary and unaudited.

①

January 16, 2017

HB 1022 / AB 1082

Attachment A

# Retirement and Investment Office (HB 1022/1082)

## Spend Down Report as of December 31, 2016

	2015-2017 Biennium Approved Budget	2015-2017 Actual Expenses as of 12/31/16	Projected Remaining Expenses	Total Actual Plus Projected Expenses	Projected (Over)/Under Budget
	<u>RIO Total</u>	<u>as of 12/31/16</u>	<u>Expenses</u>	<u>Projected Expenses</u>	<u>Budget</u>
511000 SALARIES	3,195,036.00	2,326,295.16	810,000.00	3,136,295.16	58,740.84
513000 TEMP	10,005.00	8,021.25	-	8,021.25	1,983.75
516000 BENEFITS	1,137,515.00	809,393.11	288,000.00	1,097,393.11	40,121.89
<b>TOTAL SALARIES &amp; BENEFITS</b>	<b>4,342,556.00</b>	<b>3,143,709.52</b>	<b>1,098,000.00</b>	<b>4,241,709.52</b>	<b>100,846.48</b>
601000 IT - DATA PROCESSING	176,068.00	110,775.75	45,613.54	156,389.29	19,678.71
602000 IT - COMMUNICATIONS	20,040.00	13,034.13	5,366.99	18,401.12	1,638.88
521000 TRAVEL	137,173.00	58,967.74	24,945.77	83,913.51	53,259.49
531000 SUPPLIES - IT SOFTWARE	6,525.00	503.90	3,110.80	3,614.70	2,910.30
541000 POSTAGE	97,020.00	64,014.89	24,290.41	88,305.30	8,714.70
603000 IT CONTRACT SERVICES	181,002.00	42,130.20	128,516.55	170,646.75	10,355.25
582000 LEASE/RENT - BLDG./LAND	163,776.00	123,879.30	40,643.10	164,522.40	(746.40)
611000 PROFESSIONAL DEV.	55,460.00	33,168.50	14,645.00	47,813.50	6,646.50
621000 OPERATING FEES & SERV.	33,397.00	25,266.07	13,274.12	38,469.24	(5,072.24)
591000 REPAIRS	1,000.00	115.50	500.00	615.50	384.50
623000 PROFESSIONAL SERVICES	24,470.00	16,661.00	6,490.00	23,151.00	1,319.00
571000 INSURANCE	1,463.00	1,269.56	-	1,269.56	193.44
536000 OFFICE SUPPLIES	7,460.00	3,042.42	1,252.76	4,295.18	3,164.82
542000 PRINTING	29,670.00	22,351.05	14,268.83	36,619.88	(6,949.88)
532000 PROF. SUPPLIES	3,000.00	1,410.18	900.00	2,310.18	689.82
535000 MISC. SUPPLIES	4,860.00	928.91	5,721.79	6,650.70	(1,790.70)
551000 IT EQUIPMENT < \$5000	41,290.00	2,182.38	29,200.00	31,382.38	9,907.62
552000 OTHER EQUIPMENT < \$5000	473.00	472.00	-	472.00	1.00
553000 OFFICE EQUIP & FURNITURE < \$5000	6,727.00	1,617.98	1,600.00	3,217.98	3,509.02
<b>TOTAL OPERATING</b>	<b>990,874.00</b>	<b>521,791.46</b>	<b>360,339.67</b>	<b>882,060.18</b>	<b>107,813.82</b>
<b>TOTAL BEFORE CONTINGENCY</b>	<b>5,333,430.00</b>	<b>3,665,500.98</b>	<b>1,458,339.67</b>	<b>5,123,769.70</b>	<b>208,660.30</b>
<b>CONTINGENCY</b>	<b>82,000.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>82,000.00</b>
<b>TOTAL BUDGET</b>	<b>5,415,430.00</b>	<b>3,665,500.98</b>	<b>1,458,339.67</b>	<b>5,123,769.70</b>	<b>290,660.30</b>

## House Bills 1022 and 1082

North Dakota Retirement and Investment Office (RIO)  
Testimony to the House Appropriations Government Operations Committee  
David Hunter, Executive Director/CIO

January 5, 2017

**RIO Programs Overview**

RIO was created 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 State Investment Board (SIB). RIO is a Special Fund agency and receives no General Fund appropriation. All appropriated expenditures for TFFR are paid from contributions collected from members and employers and from invested assets/earnings. All appropriated expenditures for SIB are allocated directly to the client funds and paid out of their invested assets/earnings.

- **Teachers' Fund for Retirement (TFFR)**

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven member board of trustees which consists of the State Treasurer, State Superintendent, and five active and retired teachers and administrators appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. During the past decade, active membership has increased 12.6% from 9,600 to over 10,800 participants, while retirees and beneficiaries have increased 35.7% from less than 6,100 to over 8,200.





For Fiscal Year 2016 there were 214 participating TFFR employers comprised as follows:

School Districts	176
Special Ed Units	19
Vocational Centers	5
Counties	6
State Agencies/Institutions	5
Other – Closed groups	<u>3</u>
<b>2015-16 Total Employers</b>	<b>214</b>

The \$3.1 million requested in the RIO budget relating to the TFFR program includes salaries, benefits and administrative overhead costs for 12.05 Full Time Equivalents (FTEs) who manage the day-to-day operations of the fund and deliver high quality services and outreach programs to members and employers. Examples of activities included in the administration of the TFFR program are detailed in the following table, based on the fiscal year ended June 30, 2016.

Activity	# of Members
Monthly collection of contributions from 214 Employers	10,813
Maintenance of Membership Records	21,442
New Retirement & Disability Claims Processed	359
Deaths Processed	207
Refunds/Rollovers Processed	275
Service Purchase Inquiries Processed	232
New Member Enrollments Processed	1,148
Monthly Benefit Payments Processed	8,249
Educational Outreach Programs Attended	973

Additional administrative activities include periodic newsletters for both active and retired members, maintenance of the website, maintenance of the retirement administration software system that houses all of the TFFR member data, internal audits to verify accuracy of contributions and benefit payments, and staff training and education to ensure all necessary regulatory and financial reporting requirements are being met.

Benefit payments to retirees or their beneficiaries totaled \$180.6 million in fiscal year 2016. Another \$5.4 million was paid out in refunds of account values. These payments, in addition to amounts paid to actuarial, investment and other consultants, are included in a continuing appropriation under ND Century Code section 15-39.1-05.

- **State Investment Board (SIB)**

The SIB is responsible for the investment of over \$11.3 billion in assets for seven pension funds and 17 other non-pension funds. The following table shows the most currently available fair value of assets by fund.

	<b>Fair Value as of 11/30/16 (unaudited)</b>
<b>PENSION POOL PARTICIPANTS</b>	
Teachers' Fund for Retirement	\$2,121,977,081
Public Employees Retirement System	2,529,110,991
Bismarck City Employee Pension Fund	84,550,487
Bismarck City Police Pension Fund	34,946,181
City of Grand Forks Pension Fund	57,657,238
City of Grand Forks Park District Pension Fund	5,791,155
Subtotal Pension Pool Participants	4,834,033,133
<b>INSURANCE POOL PARTICIPANTS</b>	
Workforce Safety & Insurance Fund	1,820,602,991
State Fire and Tornado Fund	22,786,241
State Bonding Fund	3,280,900
Petroleum Tank Release Fund	7,119,729
Insurance Regulatory Trust Fund	1,256,673
State Risk Management Fund	6,178,980
State Risk Management Workers Comp	5,678,623
Cultural Endowment Fund	400,327
Budget Stabilization Fund	203,527,737
ND Association of Counties (NDACo) Fund	4,122,281
City of Bismarck Deferred Sick Leave	654,041
PERS Group Insurance	37,425,556
State Board of Medicine	2,247,755
City of Fargo FargoDome Permanent Fund	35,297,219
Subtotal Insurance Pool Participants	2,150,579,053
<b>INDIVIDUAL INVESTMENT ACCOUNTS</b>	
Legacy Fund	4,095,509,386
Retiree Health Insurance Credit Fund	105,009,323
Job Service of North Dakota Pension Fund	94,839,045
Tobacco Prevention and Control Trust Fund	51,144,757
<b>TOTAL</b>	<b>\$11,331,114,697</b>



The 11-member State Investment Board includes the Lt. Governor, State Treasurer, State Insurance Commissioner, State Land Commissioner, Workforce Safety & Insurance designee, three PERS board members, and three TFFR board members. All the funds are invested in accordance with the "Prudent Investor Rule".

Investment guidelines and asset allocations are determined by the governing bodies of the individual funds (with assistance from consultants and/or RIO staff) and then turned over to the SIB for implementation. The SIB selects investment managers to manage different types of portfolios within each asset class with the goal of maximizing return within the clients' acceptable risk levels. Similar client funds are pooled together when possible to achieve efficiencies in staff monitoring and to receive lower fees from investment managers.

The nearly \$2.4 million requested in the RIO budget relating to the SIB investment program includes salaries, benefits and administrative overhead for the 6.95 FTEs who are responsible for the day-to-day operations of the program.

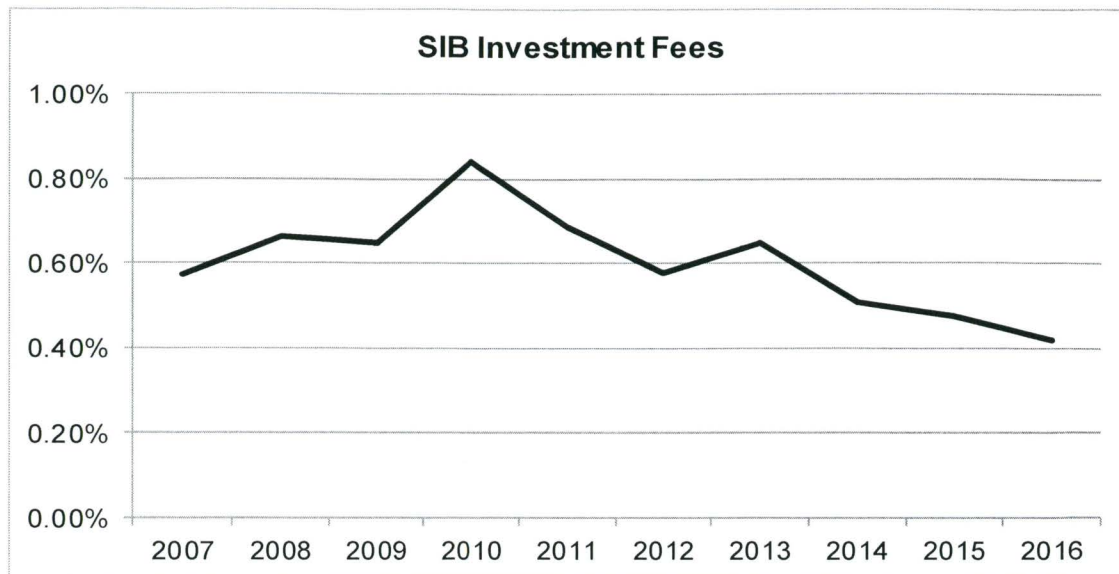
The staff of RIO administers the day-to-day operations of the investment program by assisting client funds with asset/liability studies; conducting investment manager searches; monitoring guidelines and asset allocations of each client fund; managing the consultant, custodian and investment manager relationships; conducting initial and continuing due diligence on the investment managers; researching new investment and risk management options; and maintaining separate monthly accounting and investment performance data for all client funds. Statistics regarding the number of investment clients/managers/accounts, etc., are shown in the following table.

Client Funds	24
Asset Class Pools/Groups	31
Investment Manager Relationships	36
Investment Manager Accounts	103
Custodian Banks	2
Investment Consultants	3

The SIB has continuing appropriation authority under ND Century Code section 21-10-06.2 to pay for investment related costs of the program such as investment management fees, custodial fees, performance measurement fees, and fees associated with manager searches and onsite reviews of investment managers. These costs are allocated directly to the client funds affected by the expense and paid out of invested assets/earnings.

We are happy to report that investment fees have continued to decrease, from 0.47% (47 basis points) in fiscal 2015 to 0.42% (42 basis points) for the fiscal year ended June 30, 2016. This 5 basis point decrease in fees on \$11 billion in assets equates to an annual savings of approximately \$5.5 million. The following chart shows the downward trend in investment fees over the past few years.





### **RIO Budget Request**

We are here this morning to ask your approval of the RIO budget request as presented in House Bill 1082. A summary of that request is shown below.

	TFFR	SIB	TOTAL REQUEST	BASE LEVEL	CHANGE
Salaries and Wages	\$2,368,977	\$2,136,450	\$4,505,427	\$4,340,551	\$164,876
Operating Expenses	706,192	193,887	900,079	990,874	(90,795)
Capital Assets	9,000	0	9,000	0	9,000
Contingency	40,000	40,000	80,000	82,000	(2,000)
Totals	\$3,124,169	\$2,370,337	\$5,494,506	\$5,413,425	\$81,081
FTEs	12.05	6.95	19	19	0

As you can see, the major component of RIO's base level budget is salaries and wages. That component makes up 80.2% of our entire base level budget. Within the operating expenses line, the major components are data processing from ITD, lease of office space and IT contractual services (mainly for the retirement administration software system for the TFFR program). Those three line items make up over 50% of the operating expenses request.

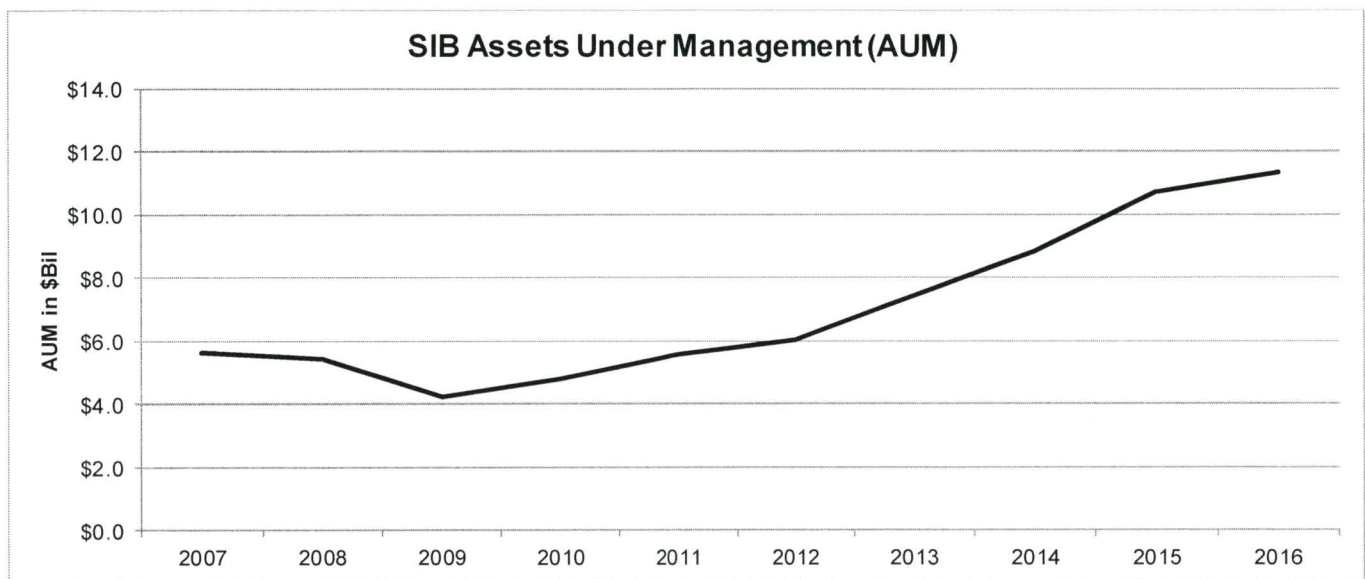
The budget request, as originally submitted, was essentially a hold even budget (slight increase of \$7,614). After including the salary and benefit increases from the Executive Budget, RIO's request before you today is a modest 1.5% increase.

#### *Salaries and Wages*

In preparing this Special Fund budget request, RIO staff reviewed both programs to determine if there were any areas that could be reduced or discontinued. After careful consideration of the growth and importance of each program, it was determined that current staffing levels were needed. It was only

recently (2011 and 2013 sessions) that the Legislature approved an increase to RIO investment staff; and the retirement program has not had an increase in staff in 15 years. Staff has worked hard to utilize technology and identify operational efficiencies in an effort to continue to increase the level of services without increasing staffing levels. The addition of those two FTEs in the investment program and a \$50,000 salary equity increase package approved last session are the only major ongoing funding increases that the Legislature has recently approved for the agency.

With the continued growth of the Legacy Fund and the addition of new client funds, assets under management (AUM) have grown significantly, and with it the need for quality investment staff to effectively manage the program. The following chart shows the growth in AUM over the past ten years. Overall, assets have increased by \$5.7 billion (over 100%) in those ten years, with the Legacy Fund contributing nearly \$4.1 billion of that increase.



The Executive Budget recommended an increase of approximately \$73,500 to the salaries and wages line for continued full funding of health insurance premiums plus a one percent salary increase for the second year of the biennium. RIO is also requesting additional funding in salaries and wages that includes \$50,080 in costs to continue the salary increases from the second year of the current biennium and \$18,000 to fund a temporary intern position for both years of the biennium. RIO began an intern program during the summer of 2016 and found it to be very successful.

#### *Operating Expenses*

RIO staff next went line by line through the operating expenses for each program and was able to reduce the request for that category by nearly \$91,000 or 9.2%. That decrease is slightly offset by the request for \$9,000 in the Capital Assets line for a new printer/copier machine. The current machine was purchased in 2007 and has produced more than one million copies.

The largest contributors to the decrease in the Operating line were Travel, IT Contractual Services, IT Equipment Under \$5,000, and Professional Development.



**Travel** - It was determined that based on actual travel costs over the past few biennia, the travel line could be reduced by \$44,500 (32.5%). Travel costs include travel reimbursement for the following areas:

- Retirement Program Staff traveling around the state to provide retirement benefits counseling and training to TFFR members and employers.
- TFFR and SIB board members traveling from outside of Bismarck-Mandan to attend board meetings (approximately 12 TFFR meetings, 20 SIB meetings and 8 SIB Audit Committee meetings per biennium).
- TFFR and SIB board member travel to national conferences and/or other training opportunities to enhance their knowledge in retirement and investment related topics to better prepare them for their responsibilities on the boards.
- RIO staff travel to national conferences and/or other training opportunities related to their job duties within the agency.

In our effort to comply with the Former Governor Dalrymple's request to decrease spending, we looked carefully at the travel line item, which has been one of the larger line items within our operating expenses. Although RIO finds tremendous value in providing training/education opportunities to board members and staff in order to ensure they are fulfilling their fiduciary duties to their members and clients, we also understand that we need to be as frugal as possible during these challenging years for the state. Therefore we feel we can reduce spending for travel at this time while continuing to provide the necessary education to our board members and staff.

**IT Contractual Services** - The IT Contractual Services line is decreasing by \$21,708 or 12.0%. The majority of this decrease is in the maintenance contract for the retirement administration software system. Although RIO has chosen to decrease this line in light of current budget circumstances, it may need to be increased again in the future in order to continue to make the necessary updates needed to provide the services expected by our TFFR members and employers.

**IT Equipment Under \$5,000** - The IT Equipment Under \$5,000 line is decreasing by 51.6% or \$21,290. In the 2015-17 biennium RIO requested \$11,290 in additional funding for video conferencing hardware and related items with the intention of investigating the use of this technology for board meetings and possibly virtual benefits counseling sessions. Due to a vacancy in our IT Division during the first year of the biennium, this initiative was pushed back in favor of higher priority projects. These funds were not used and are not being requested in the 2017-19 biennium in light of budget constraints. We hope to reinstate this initiative in the future as budgets allow. The remaining decrease of \$10,000 relates to laptop computers, monitors and desktop printers that were replaced in the 2015-17 biennium according to replacement schedules and will not be needed in the 2017-19 biennium.



**Professional Development** - The Professional Development line is decreasing by \$12,940 or 23.3%. This decrease is related to the decrease in the travel line as we will not be sending board members and staff to as many national conferences and/or other training opportunities.

It is also important to note that RIO did recognize the need for, and requested funds in an optional package relating to, cyber risk insurance that was not included in the Executive Budget recommendation. We understand that funding for this type of insurance for all state agencies will be considered in another bill and therefore we are not asking for that funding to be reinstated in our request at this time. We fully support the idea of funding for this type of insurance to protect our members, our agency and the State of North Dakota against the rising threat of cyber theft.

#### **Other items requested by the Committee**

In the letter that was sent out with the agenda for this meeting, the Chairman asked that a few other items be addressed within this testimony. Most of those items are not directly applicable as RIO receives neither General Funds nor Federal Funds. I would like to point out, however, that RIO has not had any financial audit findings in the most recent audit (June 30, 2016) nor in any financial audits going back to 2010.

#### **Conclusion**

In summary, the RIO budget request of \$5.5 million for the 2017-19 biennium represents an approximately \$81,000 increase (1.5%) over the base level budget. Although RIO receives no General Fund dollars, we understand the importance of joining with the rest of ND State government in doing more with less and providing the best services we can in the most efficient manner possible. We feel this budget will allow us to continue to provide the services our clients expect. Thank you for your time and consideration.

January 16, 2017

HB1022 / HB1082

Attachment C

## Legacy Fund Net Earnings at Nov. 30, 2016 versus NDCC 21-10-02 "Earnings" Comparison

LEGACY FUND Fiscal Year/Period Ended:	Net Investment Earnings	NDCC 21-10-02 "Earnings"
June 30, 2012	\$ 2,300,225	\$ 2,571,475
June 30, 2013	\$ 4,216,026	\$ 15,949,089
June 30, 2014	\$ 113,153,662	\$ 50,033,655
June 30, 2015	\$ 99,895,650	\$ 95,143,905
June 30, 2016	\$ 45,851,680	\$ 65,326,673
July 1 to Nov. 30, 2016	\$ 127,088,697	\$ 92,541,116
Inception to Nov. 30, 2016	\$ 392,505,940	\$ 321,565,913

Per NDCC 21-10-02: For the purposes of section 26 of article X of the Constitution of North Dakota, the term "earnings" means net income in accordance with generally accepted accounting principles, excluding any unrealized gains or losses.



# Legacy Fund – Investment Balances

## Funding, Income and Disbursements – Nov. 30, 2016

### Legacy Fund

Through November 30, 2016

	New Money In	Net Increase	Distributions Out	Net Assets End of Period
FY2012 (Initial Funding - Sept. 2011)	396,585,658	2,300,225	-	398,885,883
FY2013	791,126,479	4,216,026	-	1,194,228,388
FY2014	907,214,971	113,153,662	-	2,214,597,021
FY2015	1,011,343,040	99,895,650	-	3,325,835,711
FY2016	434,853,950	45,851,680	-	3,806,541,341
FY2017	158,931,203	127,088,697	-	4,092,561,241
	<u>3,700,055,301</u>	<u>392,505,940</u>	-	
Net Increase - Inception to Date	<u>392,505,940</u>			
November 30, 2016 Market Value	<u>4,092,561,241</u>			

**The Legacy Fund exceeded  
\$4 billion as of Nov. 30, 2016.**

Note: Amounts are preliminary, unaudited and subject to change.



# HB 1022 – RIO Budget Request

RIO serves: 1) the Teachers' Fund for Retirement board that oversee the retirement program for 10,800+ teachers and 8,200+ retirees and beneficiaries; and 2) the State Investment Board which oversee \$11.4 billion of investments on behalf of 24 clients and 14 board including Legacy Fund, PERS, TFFR and Workforce Safety & Insurance.

RIO Budget Summary	2015-17 Base Level		Adjustments		2017-19 Request	Change
Salaries & Wages	4,340,551	+	88,959	=	4,429,510	2%
Operating Expenses	990,874	+	(200,847)	=	790,027	-20%
Contingencies	82,000	+	(30,000)	=	52,000	-37%
Total Special Funds	5,413,425	+	(141,888)	=	5,271,537	-3%

## Adjustments Cut RIO's Budget by 3% for the 2017-19 Biennium:

- 1) Salaries & Wages increased by 2% largely due to increased health care costs (\$54,736) noting that all pay raises, performance bonuses and temporary salaries were eliminated for the entire biennium.
- 2) Operating Expenses were cut 20% by effectively eliminating all travel and professional development for staff and board members (which will need to be reinstituted in the future to maintain necessary service levels).
- 3) Contingencies were cut 37% noting that the remaining amount represents average usage the last four biennia.

## Key Considerations in Support of RIO's Budget Recommendation:

- 1) RIO has received strong client satisfaction survey ratings (3.6 to 3.8 on a 4.0 scale) each of the past three years.
- 2) Every SIB client has beat their investment performance benchmark over the last 5-years. This has generated over \$220 million of incremental income for our SIB clients including \$85 million for the Legacy Fund.
- 3) RIO has reduced investment fees for SIB clients by over \$20 million per year during the last 3 fiscal years.
- 4) SIB investments have increased by 33% the last 3-years and approximate \$11.4 billion as of December 31, 2016.



# The SIB Oversees \$11 billion for 14 Clients and 24 Funds

	Market Values as of 9/30/16 <sup>(1)</sup>	Market Values as of 6/30/16 <sup>(2)</sup>	Market Values as of 9/30/15 <sup>(1)</sup>
<b>1. Pension Trust Fund</b>			
Public Employees Retirement System (PERS)	2,548,430,036	2,459,388,086	2,297,953,486
Teachers' Fund for Retirement (TFFR)	2,144,533,865	2,082,183,640	1,986,019,289
Job Service of North Dakota Pension			92,671,408
City of Bismarck Employees Pension	85,179,534	82,441,003	78,265,663
City of Grand Forks Employees Pension	58,778,547	57,975,758	54,988,439
City of Bismarck Police Pension	35,180,238	33,983,598	34,180,733
Grand Forks Park District	5,834,315	5,720,245	5,736,838
City of Fargo Employees Pension			1,250
<b>Subtotal Pension Trust Fund</b>	<b>4,877,936,536</b>	<b>4,721,692,330</b>	<b>4,549,817,105</b>
<b>2. Insurance Trust Fund</b>			
Workforce Safety & Insurance (WSI)	1,860,023,835	1,832,104,203	1,722,726,573
Budget Stabilization Fund	578,309,532	575,918,381	575,697,144
PERS Group Insurance Account	37,239,691	37,715,356	36,093,259
City of Fargo FargoDome Permanent Fund	35,386,219	38,782,721	37,545,105
State Fire and Tornado Fund	24,853,937	24,091,203	22,737,348
Petroleum Tank Release Compensation Fund	7,214,431	7,149,512	7,176,956
State Risk Management Fund	6,208,850	6,534,801	6,116,849
State Risk Management Workers Comp Fund	5,680,663	5,516,177	5,614,318
ND Association of Counties (NDACo) Fund	4,167,501	4,048,863	3,836,386
State Bonding Fund	3,329,117	3,296,372	3,186,910
ND Board of Medicine	2,248,565	2,208,667	2,138,284
Insurance Regulatory Trust Fund	1,232,868	1,085,836	2,567,559
Bismarck Deferred Sick Leave Account	661,908	642,265	850,301
Cultural Endowment Fund	398,147	386,452	366,207
<b>Subtotal Insurance Trust Fund</b>	<b>2,566,955,264</b>	<b>2,539,480,809</b>	<b>2,426,653,198</b>
<b>3. Legacy Trust Fund</b>			
Legacy Fund	4,070,189,950	3,809,485,177	3,328,631,897
PERS Retiree Insurance Credit Fund	105,505,466	101,623,224	92,663,350
Job Service of North Dakota Pension	96,325,192	96,588,333	
ND Tobacco Prevention and Control Trust Fund	52,785,217	54,366,538	47,300,013
<b>4. Total Assets Under SIB Management</b>	<b>11,769,697,625</b>	<b>11,323,236,410</b>	<b>10,445,065,563</b>

<sup>(1)</sup> 9/30/16 and 9/30/15 market values are unaudited and subject to change.

<sup>(2)</sup> 6/30/16 market values as stated in the Comprehensive Annual Financial Report.

- The Pension Trust consists of six (6) investment clients (including PERS and TFFR) with nearly \$4.9 billion of assets as of September 30, 2016. The Pension Trust posted a net return of 9.43% in the last year. During the last 5-years, the Pension Trust earned a net annualized return of 9.44% surpassing a performance benchmark of 8.83%.**
- The Insurance Trust consists of 14 investment funds (including WSI and the Budget Stabilization Fund) with over \$2.5 billion in assets as of September 30, 2016. The Insurance Trust earned a net return of 7.04% in the last year. During the last 5-years, the Trust posted a net annualized return of 5.79% versus a policy benchmark of 4.38%.**
- The Legacy Fund exceeds \$4 billion and earned a net return of 10.18% for the year ended September 30, 2016. Since inception (on 9/7/2016), the Legacy Fund has earned a net annualized return of 3.49% exceeding the performance benchmark of 2.62%.**
- The SIB and RIO oversee the external investment management of \$11.7 billion for 14 client boards as of September 30, 2016. SIB client assets grew by over 12% (or \$1.3 billion) in the last year with the Legacy Fund creating the largest asset growth of \$742 million primarily due to tax collections. SIB clients asset have doubled over the last 5-years.**

February 6, 2017

HB1022 / HB1072

Attachment B

Retirement and Investment Office - Budget No. 190  
House Bill No. 1022  
Base Level Funding Changes

	Bergum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)				House Version				House Changes to Revised Executive Budget Increase (Decrease)			
	FTE Position	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2017-19 Biennium Base Level	19.00	\$0	\$5,413,425	\$5,413,425	19.00	\$0	\$5,413,425	\$5,413,425	0.00	\$0	\$0	\$0
2017-19 Ongoing Funding Changes												
Base payroll changes			\$91,409	\$91,409				\$0			(\$91,409)	(\$91,409)
Salary increase - Performance				0				0				0
Health insurance increase			54,376	54,376				0			(54,376)	(54,376)
Employee portion of health insurance			(28,485)	(28,485)				0			28,485	28,485
Adjusts funding for operating expenses			(90,795)	(90,795)				0			90,795	90,795
Adds funding for capital assets - Copier replacement			9,000	9,000				0			(9,000)	(9,000)
Reduce contingency funding			(2,000)	(2,000)				0			2,000	2,000
Reduce appropriations by 2 percent			(109,890)	(109,890)				0			109,890	109,890
Total ongoing funding changes	0.00	\$0	(\$76,385)	(\$76,385)	0.00	\$0	\$0	\$0	0.00	\$0	\$76,385	\$76,385
One-time funding items												
No one-time funding items				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	\$0	(\$76,385)	(\$76,385)	0.00	\$0	\$0	\$0	0.00	\$0	\$76,385	\$76,385
2017-19 Total Funding	19.00	\$0	\$5,337,040	\$5,337,040	19.00	\$0	\$5,413,425	\$5,413,425	0.00	\$0	\$76,385 1.4%	\$76,385 1.4%

Other Sections in Retirement and Investment Office - Budget No. 190

	(Changes to Dalrymple Budget in Bold)
Contingencies line item transfers	Section 2 provides, upon approval of the State Investment Board, the Retirement and Investment Office may transfer from the contingencies line item in section 1 of the bill to all other line items.



February 7, 2017

HB1022/HB10P2

Attachment A

17.0507.01001  
Title.  
Fiscal No. 1

Prepared by the Legislative Council staff for  
Representative Brabandt  
February 6, 2017

# PROPOSED AMENDMENTS TO HOUSE BILL NO. 1022

Page 1, replace lines 10 through 13 with:

"Salaries and wages	\$4,340,551	\$88,959	\$4,429,510
Operating expenses	990,874	(200,847)	790,027
Contingencies	<u>82,000</u>	<u>(30,000)</u>	<u>52,000</u>
Total special funds	\$5,413,425	(\$141,888)	\$5,271,537"

Page 1, after line 14, insert:

**"SECTION 2. HEALTH INSURANCE INCREASE.** The salaries and wages line item in Section 1 of this Act includes the sum of \$54,376 from special funds for increases in employee health insurance premiums from \$1,130 to \$1,249 per month."

Renumber accordingly

## STATEMENT OF PURPOSE OF AMENDMENT:

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

	Base Budget	House Changes	House Version
Salaries and wages	\$4,340,551	\$88,959	\$4,429,510
Operating expenses	990,874	(200,847)	790,027
Contingencies	<u>82,000</u>	<u>(30,000)</u>	<u>52,000</u>
Total all funds	\$5,413,425	(\$141,888)	\$5,271,537
Less estimated income	<u>5,413,425</u>	<u>(141,888)</u>	<u>5,271,537</u>
General fund	\$0	\$0	\$0
FTE	19.00	0.00	19.00

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

	Adjusts Funding for Base Payroll Changes <sup>1</sup>	Adds Funding for Health Insurance Increases <sup>2</sup>	Reduces Funding for Operating Expenses <sup>3</sup>	Reduces Funding for Contingencies <sup>4</sup>	Total House Changes
Salaries and wages	\$34,583	\$54,376			\$88,959
Operating expenses			(200,847)		(200,847)
Contingencies				(30,000)	(30,000)
Total all funds	\$34,583	\$54,376	(\$200,847)	(\$30,000)	(\$141,888)
Less estimated income	<u>34,583</u>	<u>54,376</u>	<u>(200,847)</u>	<u>(30,000)</u>	<u>(141,888)</u>
General fund	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00

<sup>1</sup> Funding is added for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes.

<sup>2</sup> Funding is added for increases in employee health insurance premiums from \$1,130 to \$1,249 per month.

<sup>3</sup> Funding for operating expenses, including travel and professional development, is reduced by \$200,847 to provide total operating expenses funding of \$790,027.

<sup>4</sup> Funding for contingencies is reduced by \$30,000 to provide total contingencies funding of \$52,000.

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This amendment also adds a section detailing the amount of funding provided to the agency for employee health insurance premium increases.

February 7, 2017

HB 1022 / HB 1012

Attachment 8

Retirement and Investment Office - Budget No. 190  
House Bill No. 1022  
Base Level Funding Changes

	Bergum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)				House Version				House Changes to Revised Executive Budget Increase (Decrease)			
	FTE Position	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2017-19 Biennium Base Level	19.00	\$0	\$5,413,425	\$5,413,425	19.00	\$0	\$5,413,425	\$5,413,425	0.00	\$0	\$0	\$0
2017-19 Ongoing Funding Changes												
Base payroll changes			\$91,409	\$91,409			\$34,583	\$34,583			(\$56,826)	(\$56,826)
Salary increase - Performance				0				0				0
Health insurance increase			54,376	54,376			54,376	54,376				0
Employee portion of health insurance			(28,485)	(28,485)				0			28,485	28,485
Adjusts funding for operating expenses			(90,795)	(90,795)			(200,847)	(200,847)			(110,052)	(110,052)
Reduce appropriations by 2 percent			(109,890)	(109,890)				0			109,890	109,890
Adds funding for capital assets - Copier replacement			9,000	9,000				0			(9,000)	(9,000)
Reduce contingency funding			(2,000)	(2,000)			(30,000)	(30,000)			(28,000)	(28,000)
Total ongoing funding changes	0.00	\$0	(\$76,385)	(\$76,385)	0.00	\$0	(\$141,888)	(\$141,888)	0.00	\$0	(\$65,503)	(\$65,503)
One-time funding items												
No one-time funding items				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	\$0	(\$76,385)	(\$76,385)	0.00	\$0	(\$141,888)	(\$141,888)	0.00	\$0	(\$65,503)	(\$65,503)
2017-19 Total Funding	19.00	\$0	\$5,337,040	\$5,337,040	19.00	\$0	\$5,271,537	\$5,271,537	0.00	\$0	(\$65,503)	(\$65,503)
											-1.2%	-1.2%

Other Sections in Retirement and Investment Office - Budget No. 190

	(Changes to Dalrymple Budget in Bold)
Contingencies line item transfers	Section 2 provides, upon approval of the State Investment Board, the Retirement and Investment Office may transfer from the contingencies line item in section 1 of the bill to all other line items.

1.

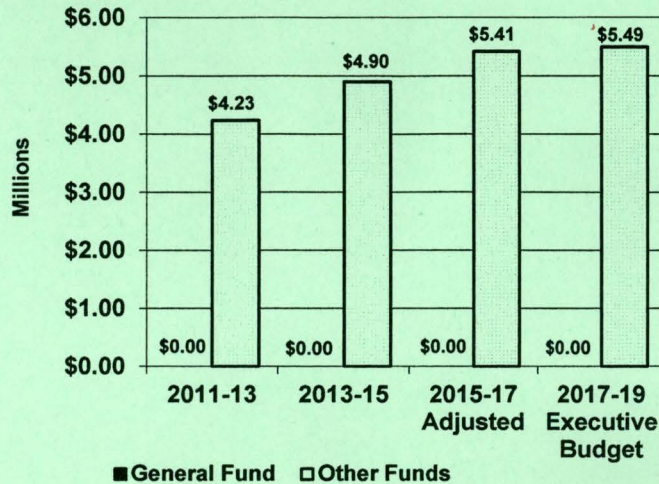


**Department 190 - Retirement and Investment Office**  
**House Bill No. 1022**

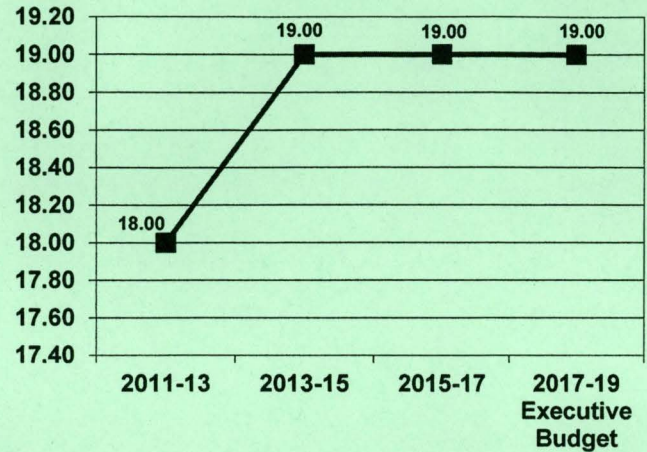
**Dalrymple Executive Budget Comparison to Prior Biennium Appropriations**

	FTE Positions	General Fund	Other Funds	Total
2017-19 Dalrymple Executive Budget	19.00	\$0	\$5,494,506	\$5,494,506
2015-17 Adjusted Legislative Appropriations	19.00	0	5,413,425	5,413,425
Increase (Decrease)	0.00	\$0	\$81,081	\$81,081

**Agency Funding**



**FTE Positions**



**Dalrymple Executive Budget Comparison to Base Level**

	General Fund	Other Funds	Total
2017-19 Dalrymple Executive Budget	\$0	\$5,494,506	\$5,494,506
2017-19 Base Level	0	5,413,425	5,413,425
Increase (Decrease)	\$0	\$81,081	\$81,081

**First House Action**

Attached is a comparison worksheet detailing first house changes to base level funding and the executive budget.

**Dalrymple and Burgum Executive Budget Highlights  
 (With First House Changes in Bold)**

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases, of which \$19,091 is for salary increases and \$54,376 is for health insurance increases. (The Burgum budget removed funding for salary increases and provided for employees to pay for a portion of health insurance.) <b>The House removed funding for the salary increases.</b>	\$0	\$73,467	\$73,467
2. Reduces funding for various operating expenses. <b>The House reduced funding by an additional \$110,052 to provide a total reduction of \$200,847.</b>		(\$90,795)	(\$90,795)
3. Adds funding for a copier replacement. <b>The House did not include funding for copier replacement.</b>		\$9,000	\$9,000
4. The Burgum budget reduced the agency appropriation by 2 percent. <b>The House did not make this reduction.</b>		(\$109,890)	(\$109,890)

**Other Sections in House Bill No. 1022**

**Health insurance increase** - Section 2 identifies the amount included in the agency appropriations relating to increases in employee health insurance premiums from \$1,130 to \$1,249 per month.

**Contingencies line item** - Section 3 provides, upon approval of the board, the Retirement and Investment Office may transfer from the contingencies line item in section 1 of the bill to all other line items.



### **Continuing Appropriations**

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

**Benefits and refunds** - Section 15-39.1-05.2 - Benefits and refunds from the Teachers' Fund for Retirement.

**Administrative charges** - Section 15-39.1-05.2 - Income offset and Teachers' Fund for Retirement consulting costs.

### **Significant Audit Findings**

The audit for the Retirement and Investment Office conducted by CliftonLarsonAllen LLP, for the period ending June 30, 2015, identified one significant accounting policy change related to GASB Statement Nos. 68 and 71.

The schedule of employer allocations and pension amounts by employer prepared for the Retirement and Investment Office and audited by CliftonLarsonAllen LLP for the period ending June 30, 2015, did not identify any significant audit findings.

### **Major Related Legislation**

**House Bill No. 1175** - Adds two legislators to the State Investment Board.



# Retirement and Investment Office - Budget No. 190

## House Bill No. 1022

### Base Level Funding Changes

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)				House Version			
	FTE Position	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total
2017-19 Biennium Base Level	19.00	\$0	\$5,413,425	\$5,413,425	19.00	\$0	\$5,413,425	\$5,413,425
2017-19 Ongoing Funding Changes								
Base payroll changes			\$91,409	\$91,409			\$34,583	\$34,583
<b>Salary increase - Performance</b>				<b>0</b>				<b>0</b>
Health insurance increase			54,376	54,376			54,376	54,376
<b>Employee portion of health insurance</b>			<b>(28,485)</b>	<b>(28,485)</b>				<b>0</b>
Adjusts funding for operating expenses			(90,795)	(90,795)			(200,847)	(200,847)
<b>Reduce appropriations by 2 percent</b>			<b>(109,890)</b>	<b>(109,890)</b>				<b>0</b>
Adds funding for capital assets - Copier replacement			9,000	9,000				<b>0</b>
Reduce contingency funding			(2,000)	(2,000)			(30,000)	(30,000)
Total ongoing funding changes	0.00	\$0	(\$76,385)	(\$76,385)	0.00	\$0	(\$141,888)	(\$141,888)
One-time funding items								
No one-time funding items				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	\$0	(\$76,385)	(\$76,385)	0.00	\$0	(\$141,888)	(\$141,888)
2017-19 Total Funding	19.00	\$0	\$5,337,040	\$5,337,040	19.00	\$0	\$5,271,537	\$5,271,537

### Other Sections in Retirement and Investment Office - Budget No. 190

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)		House Version	
Health insurance increase			Section 2 identifies the amount included in the agency appropriation relating to increases in employee health insurance premiums from \$1,130 to \$1,249 per month.	
Contingencies line item transfers	Section 2 provides, upon approval of the State Investment Board, the Retirement and Investment Office may transfer from the contingencies line item in Section 1 of the bill to all other line items.		Section 3 provides, upon approval of the State Investment Board, the Retirement and Investment Office may transfer from the contingencies line item in Section 1 of the bill to all other line items.	

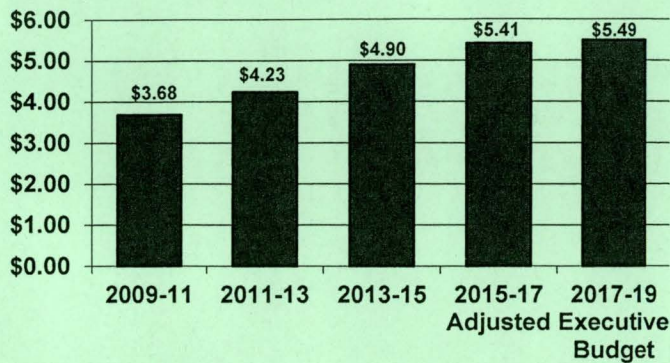


## Department 190 - Retirement and Investment Office

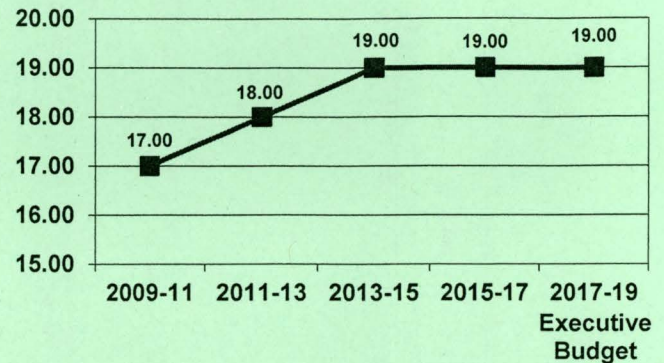
## Historical Appropriations Information

### Ongoing Other Funds Appropriations Since 2009-11

Agency Funding (in Millions)



FTE Positions



Ongoing Other Funds Appropriations					
	2009-11	2011-13	2013-15	2015-17 Adjusted	2017-19 Dalrymple Executive Budget
Total fund appropriations	\$3,680,650	\$4,232,954	\$4,899,369	\$5,413,425	\$5,494,506
Increase (decrease) from previous biennium	N/A	\$552,304	\$666,415	\$514,056	\$81,081
Percentage increase (decrease) from previous biennium	N/A	15.0%	15.7%	10.5%	1.5%
Cumulative percentage increase (decrease) from 2009-11 biennium	N/A	15.0%	33.1%	47.1%	49.3%

### Major Increases (Decreases) in Total Fund Appropriations

#### 2011-13 Biennium

- Added 1 FTE deputy chief investment officer position \$316,824

#### 2013-15 Biennium

- Added funding for 1 FTE investment analyst position, and related operating costs \$283,553

#### 2015-17 Biennium

- No major changes

#### 2017-19 Biennium (Dalrymple and Burgum Executive Budget Recommendations)

- Reduce funding for various operating expenses. The House reduced funding by an additional \$110,052 to provide a total reduction of \$200,847. (\$90,795)
- Adds funding for a copier replacement. The House did not include funding for copier replacement. \$9,000



House Bill 1022

North Dakota Retirement and Investment Office (RIO)  
Testimony to the Senate Appropriations Committee  
David Hunter, Executive Director/CIO

March 7, 2017

AB 1022 #1  
3-7-17 p1

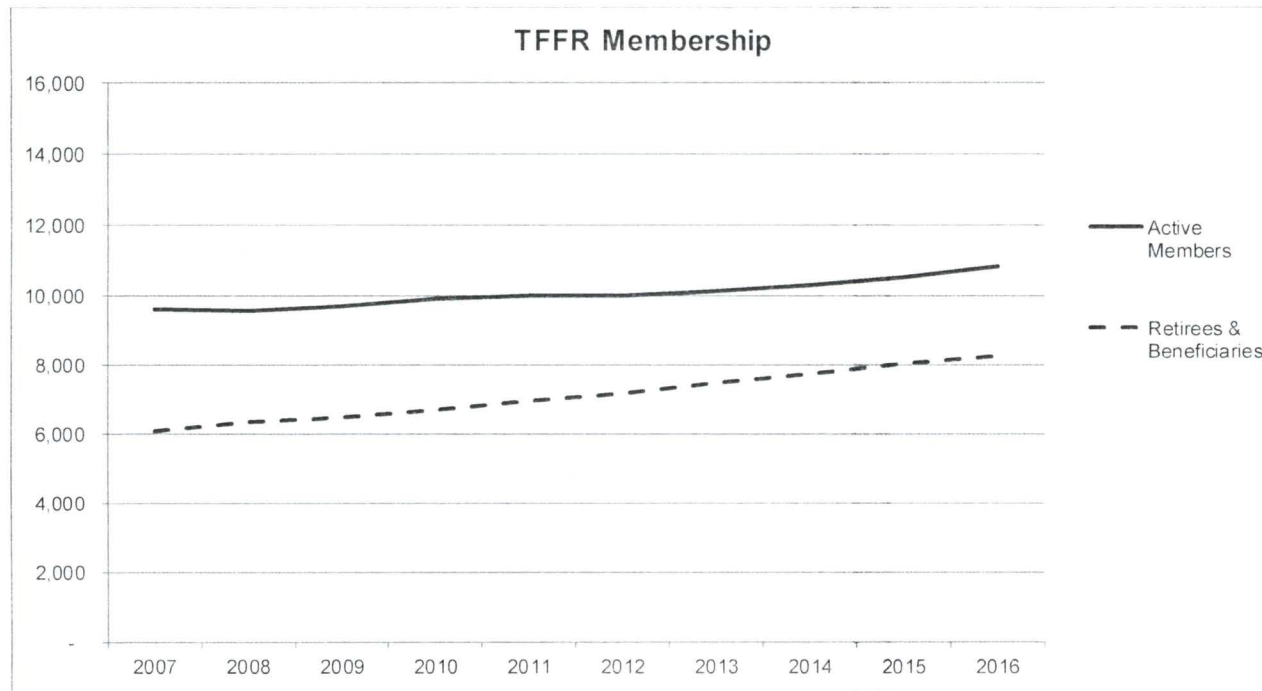
RIO Programs Overview

RIO was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of two long-standing state programs – the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the State Investment Board (SIB). Since 1989, RIO's client base has increased dramatically as TFFR membership has increased by over 21% in the last decade (from 15,700 to 19,000), while the number of investment funds being managed by the SIB has grown from two to 24. **SIB client investments have grown dramatically in recent years and nearly doubled from \$6 billion at June 30, 2012, to over \$11.5 billion as of January 31, 2017.** Despite this strong growth, SIB and TFFR customer satisfaction survey ratings remain consistently strong ranging from 3.6 to 3.8 on a 4.0 scale (roughly equivalent to an A- letter grade). It is also important to note that the SIB and RIO have been diligent with regards to fees and expense noting our overall investment fee ratio declined from 0.65% in fiscal 2013 to 0.42% in fiscal 2016. **Based on more than \$10 billion of investments, this 0.23% expense reduction translates into over \$23 million of annual fee savings.** Fee reduction initiatives have also improved investment returns. As such, **RIO is pleased to report that every single one of our SIB clients have beat their respective performance benchmarks for the 5-years ended December 31, 2016. This above benchmark performance increased the Legacy Funds' net investment income by \$60 million, from \$240 million to over \$300 million, in just the last year (of 2016). During the last 5-years, RIO estimates that actual investment returns of our SIB clients have surpassed their respective performance expectations by over \$250 million.** This strong return on investment is particularly noteworthy noting that all of RIO's fees and expenses are charged backed to their clients and have minimal impact, if any, on our general funds since RIO is a Special Fund agency and receives no General Fund appropriation. All appropriated expenditures for TFFR are paid from contributions collected from members and employers and from invested assets/earnings. All appropriated expenditures for SIB are allocated directly to the client funds and paid out of their invested assets/earnings.

• **Teachers' Fund for Retirement (TFFR)**

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven member board of trustees which consists of the State Treasurer, State Superintendent, and five active and retired teachers and administrators appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. During the past decade, active membership has increased 12.6% from 9,600 to over 10,800 participants, while retirees and beneficiaries have increased 35.7% from less than 6,100 to over 8,200.



For Fiscal Year 2016 there were 214 participating TFFR employers comprised as follows:

School Districts	176
Special Ed Units	19
Vocational Centers	5
Counties	6
State Agencies/Institutions	5
Other – Closed groups	<u>3</u>
<b>2015-16 Total Employers</b>	<b>214</b>



The approximate \$3 million requested in the RIO budget relating to the TFFR program includes salaries, benefits and administrative overhead costs for 12.05 Full Time Equivalents (FTEs) who manage the day-to-day operations of the fund and deliver high quality services and outreach programs to members and employers. Examples of activities included in the administration of the TFFR program are detailed in the following table, based on the fiscal year ended June 30, 2016.

Activity	# of Members
Monthly collection of contributions from 214 Employers	10,813
Maintenance of Membership Records	21,442
New Retirement & Disability Claims Processed	359
Deaths Processed	207
Refunds/Rollovers Processed	275
Service Purchase Inquiries Processed	232
New Member Enrollments Processed	1,148
Monthly Benefit Payments Processed	8,249
Educational Outreach Programs Attended	973

Additional administrative activities include periodic newsletters for both active and retired members, maintenance of the website, maintenance of the retirement administration software system that houses all of the TFFR member data, internal audits to verify accuracy of contributions and benefit payments, and staff training and education to ensure all necessary regulatory and financial reporting requirements are being met.

Benefit payments to retirees or their beneficiaries totaled \$180.6 million in fiscal year 2016. Another \$5.4 million was paid out in refunds of account values. These payments, in addition to amounts paid to actuarial, investment and other consultants, are included in a continuing appropriation under ND Century Code section 15-39.1-05.

### **State Investment Board (SIB)**

The SIB oversees the investment management of over \$11 billion in assets for 24 clients including seven pension funds and 17 other non-pension funds. The following table shows the fair market value of assets by fund as of December 31, 2016.

<u>Fund Name</u>	<u>Market Values as of 12/31/16 <sup>(1)</sup></u>
<b>Pension Trust Fund</b>	
Public Employees Retirement System (PERS)	2,563,018,948
Teachers' Fund for Retirement (TFFR)	2,147,574,445
City of Bismarck Employees Pension	85,523,410
City of Grand Forks Employees Pension	58,008,561
City of Bismarck Police Pension	35,374,745
Grand Forks Park District	5,871,117
<b>Subtotal Pension Trust Fund</b>	<b>4,895,371,226</b>
<b>Insurance Trust Fund</b>	
Workforce Safety & Insurance (WSI)	1,825,110,509
Budget Stabilization Fund	103,537,937
PERS Group Insurance Account	36,834,347
City of Fargo FargoDome Permanent Fund	33,312,203
State Fire and Tornado Fund	22,545,969
Petroleum Tank Release Compensation Fund	6,842,054
State Risk Management Fund	6,246,768
State Risk Management Workers Comp Fund	5,748,688
ND Association of Counties (NDACo) Fund	4,164,771
State Bonding Fund	3,292,172
ND Board of Medicine	2,258,841
Insurance Regulatory Trust Fund	1,477,615
Bismarck Deferred Sick Leave Account	661,093
Cultural Endowment Fund	406,389
<b>Subtotal Insurance Trust Fund</b>	<b>2,052,439,356</b>
<b>Legacy Fund</b>	<b>4,189,334,992</b>
PERS Retiree Insurance Credit Fund	106,879,605
Job Service of North Dakota Pension	95,685,427
ND Tobacco Prevention and Control Trust Fund	50,509,542
<b>Total Assets Under SIB Management</b>	<b>11,390,220,148</b>

<sup>(1)</sup> 12/31/16 market values are unaudited and subject to change.

- ▶ **SIB client assets totaled approximately \$11.4 billion as of December 31, 2016, based on unaudited valuations.**
- ▶ **The Pension Trust posted a net return of 7.06% in the last year. During the last 5-years, the Pension Trust generated a net annualized return of 8.48%, exceeding the performance benchmark of 7.86%.**
- ▶ **The Insurance Trust generated a net return of 6.05% in the last year. During the last 5-years, the Insurance Trust posted a net annualized return of 5.18%, exceeding the performance benchmark of 3.64%.**
- ▶ **The Legacy Fund generated a net investment gain of 8.15% for the year ended December 31, 2016, exceeding its performance benchmark. Since inception, the Legacy Fund has generated a net annualized return of 3.43% (over the last 5 ¼ years) exceeding the performance benchmark of 2.52%.**
- ▶ **SIB client assets grew by nearly \$600 million (or 5.5%) in the last year largely due to Legacy Fund tax deposits of \$365 million plus Legacy Fund net investment earnings of \$300+ million.**



The 11-member State Investment Board includes the Lt. Governor, State Treasurer, State Insurance Commissioner, State Land Commissioner, Workforce Safety & Insurance designee, three PERS board members, and three TFFR board members. All the funds are invested in accordance with the "Prudent Investor Rule".

Investment guidelines and asset allocations are determined by the governing bodies of the individual funds (with assistance from consultants and/or RIO staff) and then turned over to the SIB for implementation. The SIB selects investment managers to manage different types of portfolios within each asset class with the goal of maximizing return within the clients' acceptable risk levels. Similar client funds are pooled together when possible to achieve efficiencies in staff monitoring and to receive lower fees from investment managers.

The approximate \$2.3 million requested in the RIO budget relating to the SIB investment program includes salaries, benefits and administrative overhead for the 6.95 FTEs who are responsible for the day-to-day operations of the program.

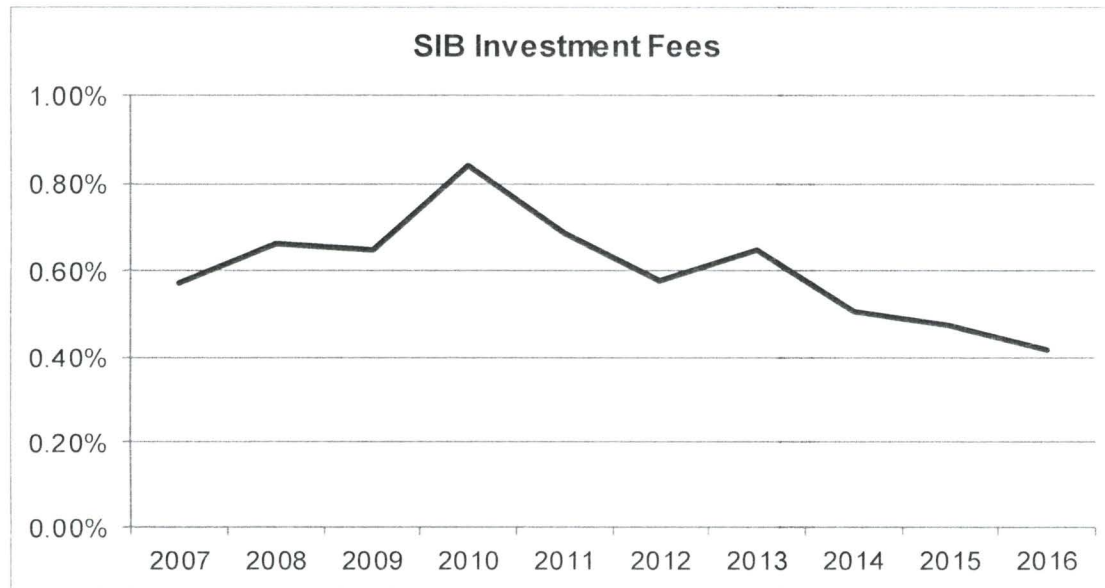
The staff of RIO administers the day-to-day operations of the investment program by assisting client funds with asset/liability studies; conducting investment manager searches; monitoring guidelines and asset allocations of each client fund; managing the consultant, custodian and investment manager relationships; conducting initial and continuing due diligence on the investment managers; researching new investment and risk management options; and maintaining separate monthly accounting and investment performance data for all client funds. Statistics regarding the number of investment clients/managers/accounts, etc., are shown in the following table.

Client Funds	24
Asset Class Pools/Groups	31
Investment Manager Relationships	36
Investment Manager Accounts	103
Custodian Banks	2
Investment Consultants	3

The SIB has continuing appropriation authority under ND Century Code section 21-10-06.2 to pay for investment related costs of the program such as investment management fees, custodial fees, performance measurement fees, and fees associated with manager searches and onsite reviews of investment managers. These costs are allocated directly to the client funds affected by the expense and paid out of invested assets/earnings.



We are happy to report that investment fees have continued to decrease, from 0.47% (47 basis points) in fiscal 2015 to 0.42% (42 basis points) for the fiscal year ended June 30, 2016. This 5 basis point decrease in fees on \$11 billion in assets equates to an annual savings of approximately \$5.5 million. The following chart shows the downward trend in investment fees over the past few years.



#### RIO Budget Request for HB 1082: Executive Budget

A comparison of RIO's Original Budget Request as presented in House Bill 1082 is shown below in comparison to RIO's 2015-17 Base Level budget.

	TFFR	SIB	TOTAL REQUEST	BASE LEVEL	CHANGE
Salaries and Wages	\$2,368,977	\$2,136,450	\$4,505,427	\$4,340,551	\$164,876
Operating Expenses	706,192	193,887	900,079	990,874	(90,795)
Capital Assets	9,000	0	9,000	0	9,000
Contingency	40,000	40,000	80,000	82,000	(2,000)
Totals	\$3,124,169	\$2,370,337	\$5,494,506	\$5,413,425	\$81,081
FTEs	12.05	6.95	19	19	0

As you can see, the major component of RIO's base level budget is salaries and wages. That component makes up 80.2% of our entire base level budget. Within the operating expenses line, the major components are data processing from ITD, lease of office space and IT contractual services (mainly for the retirement administration software system for the TFFR program). Those three line items make up over 50% of the operating expenses request.

We were asked to compare RIO's Current 2015-17 Base Level Budget to the Executive Recommendation Budget (HB 1082) and highlight the changes versus the Original RIO Budget Request as shown below.

<b>HB 1082 - RIO Budget</b>		Adjustments		
<b>HB 1082 Summary: Salaries up 4% Operating cut 9% Contingency cut 2%</b>	<b>Current 2015-17 Base Level Biennium Budget</b>	<b>Original RIO Request</b>	<b>1st Executive Budget</b>	<b>HB 1082 RIO Budget Request to House</b>
Salaries and wages	4,340,551	91,409	73,467	4,505,427
Operating expenses	990,874	(90,795)	-	900,079
Capital assets	-	9,000	-	9,000
Contingencies	82,000	(2,000)	-	80,000
Total special funds	<b>5,413,425</b>	<b>7,614</b>	<b>73,467</b>	<b>5,494,506</b>
<i>FTE positions</i>	<b>19</b>	-	-	<b>19</b>

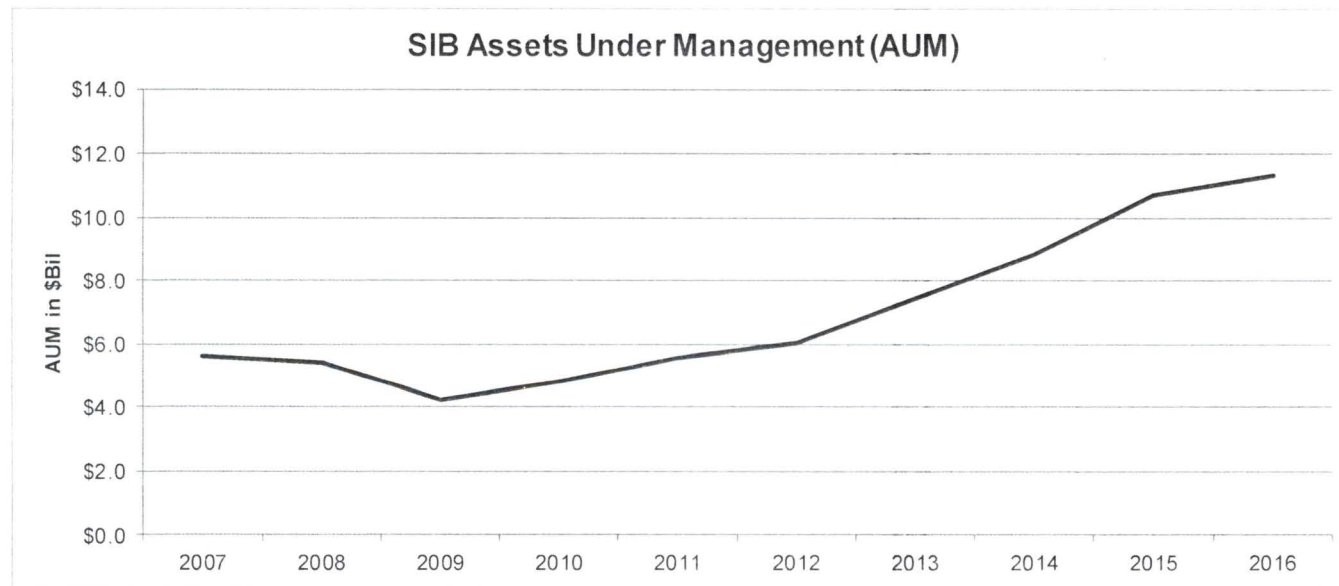
The budget request, as originally submitted, was essentially a hold even budget (slight increase of **\$7,614**). After including the salary and benefit increases from the Executive Budget, RIO's original request represented a modest 1.5% increase or **\$81,081** (the sum of **\$7,614** and **\$73,467**).

#### *Salaries and Wages*

In preparing this Special Fund budget request, RIO reviewed both programs to determine if there were any areas that could be reduced or discontinued. After careful consideration of the growth and importance of each program, it was determined that current staffing levels were needed. It was only recently (2011 and 2013 sessions) that the Legislature approved an increase to RIO investment staff; and the retirement program has not had an increase in staff in 15 years. RIO has worked hard to utilize technology and identify operational efficiencies in an effort to

continue to increase the level of services without increasing staffing levels. The addition of two FTEs in the investment program and a **\$50,000** salary equity increase package approved last session are the only major ongoing funding increases recently approved by the Legislator.

With the continued growth of the Legacy Fund and the addition of new client funds, assets under management (AUM) have grown significantly, and with it the need for quality investment staff to effectively manage the program. The following chart shows the growth in AUM the decade. Overall, assets have increased by **\$5.7 billion** (over 100%) in 10 years, with the Legacy Fund contributing nearly **\$4.1 billion** of that increase.



The Executive Budget recommended an increase of **\$73,467** to the salaries and wages for continued full funding of health insurance premiums plus a 1% salary increase for the second year of the biennium. RIO is also requesting additional funding in salaries and wages that includes **\$50,080** in costs to continue the salary increases from the second year of the current biennium and **\$18,000** to fund a temporary intern position for both years of the biennium. RIO began an intern program during the summer of 2016 and found it to be very successful.

#### *Operating Expenses*

RIO staff next went line by line through the operating expenses for each program and was able to reduce the request for that category by nearly **\$91,000** or 9.2%. That decrease is slightly offset by the request for \$9,000 in the Capital Assets line for a new printer/copier machine. The current machine was purchased in 2007 and has produced more than one million copies.



The largest contributors to the decrease in the Operating line were Travel, IT Contractual Services, IT Equipment Under \$5,000, and Professional Development.

**Travel** - It was determined that based on actual travel costs over the past few biennia, the travel line could be reduced by **\$44,500** (32.5%). Travel costs include travel reimbursement for the following areas:

- Retirement Program Staff traveling around the state to provide retirement benefits counseling and training to TFFR members and employers.
- TFFR and SIB board members traveling from outside of Bismarck-Mandan to attend board meetings (approximately 12 TFFR meetings, 20 SIB meetings and 8 SIB Audit Committee meetings per biennium).
- TFFR and SIB board member travel to national conferences and/or other training opportunities to enhance their knowledge in retirement and investment related topics to better prepare them for their responsibilities on the boards.
- RIO staff travel to national conferences and/or other training opportunities related to their job duties within the agency.

In our effort to comply with the Former Governor Dalrymple's request to decrease spending, we looked carefully at the travel line item, which has been one of the larger line items within our operating expenses. Although RIO finds tremendous value in providing training/education opportunities to board members and staff in order to ensure they are fulfilling their fiduciary duties to their members and clients, we also understand that we need to be as frugal as possible during these challenging years for the state. Therefore we feel we can reduce spending for travel at this time while continuing to provide the necessary education to our board members and staff.

**IT Contractual Services** - The IT Contractual Services line is decreasing by **\$21,708** or 12.0%. The majority of this decrease is in the maintenance contract for the retirement administration software system. Although RIO has chosen to decrease this line in light of current budget circumstances, it may need to be increased again in the future in order to continue to make the necessary updates needed to provide the services expected by our TFFR members and employers.

**IT Equipment Under \$5,000** - The IT Equipment Under \$5,000 line is decreasing by 51.6% or **\$21,290**. In the 2015-17 biennium RIO requested \$11,290 in additional funding for video conferencing hardware and related items with the intention of investigating the use of this

technology for board meetings and possibly virtual benefits counseling sessions. Due to a vacancy in our IT Division during the first year of the biennium, this initiative was pushed back in favor of higher priority projects. These funds were not used and are not being requested in the 2017-19 biennium in light of budget constraints. We hope to reinstate this initiative in the future as budgets allow. The remaining decrease of \$10,000 relates to laptop computers, monitors and desktop printers that were replaced in the 2015-17 biennium according to replacement schedules and will not be needed in the 2017-19 biennium.

**Professional Development** - The Professional Development line is decreasing by **\$12,940** or 23.3%. This decrease is related to the decrease in the travel line as we will not be sending board members and staff to as many national conferences and/or other training opportunities.

It is also important to note that RIO did recognize the need for, and requested funds in an optional package relating to, cyber risk insurance that was not included in the Executive Budget recommendation. We understand that funding for this type of insurance for all state agencies will be considered in another bill and therefore we are not asking for that funding to be reinstated in our request at this time. We fully support the idea of funding for this type of insurance to protect our members, our agency and the State of North Dakota against the rising threat of cyber theft.

#### Other items requested by the Committee

In the letter that was sent out with the agenda for this meeting, the Chairman asked that a few other items be addressed within this testimony. Most of those items are not directly applicable as RIO receives neither General Funds nor Federal Funds. I would like to point out, however, that RIO has not had any financial audit findings in the most recent audit (June 30, 2016) nor in any financial audits going back to 2010.

#### **Budget presentations should include:**

1. **RIO's 2015-17 budget and the effects of budget reductions approved during the August 2016 special legislative session on the 2015-17 budget.** Answer: RIO routinely seeks to control costs noting that we expect to be at least \$150,000 below budget for 2015-17. In the last three fiscal years, RIO has reduced investment fees as a % of assets under management by 0.23% (from 0.65% in fiscal 2013 to 0.42% in fiscal 2016) thereby savings SIB clients over \$23 million per year (assuming SIB client assets exceed \$10 billion). Please note that RIO is a Special Fund agency. [RIO's 2015-17 budget is compared to 2017-19 on page 12.](#)



2. **RIO's estimated 2015-17 spending and the status of one-time funding items.** Answer: RIO estimates that actual spending will be at least \$150,000 below budget due to various cost reduction initiatives (mostly relating to travel) and staff vacancies which were not filled until February of 2016. RIO did not have any one-time funding items.
3. **RIO's 2017-19 budget changes are compared to the current (adjusted) 2015-17 biennium appropriation level and 2017-19 one-time funding needs.** Answer: RIO's 2017-19 budget is compared to our current 2015-17 budget on the next page. RIO did not have any one-time funding needs for 2017-19.
4. **Please identify any changes in the level of federal funding to be received by RIO.** Answer: RIO does not receive federal funding.
5. **Please address each of the following four items:**
  - a. **A listing of the proposed budget reductions identified by RIO to meet the Governor's 90% budget request deadline.** Answer: See response to item 1 on the prior page. Please note that RIO is a Special Fund agency.
  - b. **A comparison of the optional adjustment requests made by RIO to those included in the executive recommendation.** Answer: Please refer to page 7.
  - c. **A summary of changes recommended by Governor Burgum and those made by the House.** Answer: Governor Burgum's budget eliminated a 1% pay raise in year 2 (\$22,000) and required staff to pay 5% of insurance premiums (\$28,000). In order to meet additional budget cuts by OMB (on behalf of Governor Burgum), RIO eliminated our internship program (\$18,000), reduced non-critical travel (\$53,000), further reduced contingencies (\$28,000) and removed a copier purchase (\$9,000). Additional House reductions included temporary salaries (\$8,500) and nearly all remaining travel and professional development (\$57,000).
  - d. **An itemized list of any changes that RIO is asking the committee to make to our budget.** Answer: Answer: Please refer to page 12.

## Conclusion

In summary, the RIO budget request of \$5.36 million for the 2017-19 biennium represents an approximate \$54,000 (or 1%) decrease compared to our current 2015-17 base level budget. Although RIO receives no General Fund dollars, we understand the importance of joining with the rest of ND State government in doing more with less and providing the best services we can in the most efficient manner possible. We feel this budget will allow us to continue to provide the services our clients expect. Thank you for your time and consideration.



# RIO's Budget Request to Senate Appropriations Committee

HB 1022 RIO Budget Request to Senate					
	Current 2015-17 Base Level Biennium Budget	House Approved Budget for 2017-19 HB 1022	RIO's Amend- ment Request to Senate	RIO Budget Request Amendment to Senate (c)	% Change to House
Salaries and wages	4,340,551	4,429,510	8,541 a	4,438,051	0.2%
Operating expenses	990,874	790,027	79,209 b	869,236	10.0%
Capital assets	-	-	-	-	-
Contingencies	82,000	52,000	-	52,000	-
Total special funds	5,413,425	5,271,537	87,750	5,359,287	1.7%
FTE positions	19	19	-	19	-
<b>Summary of Changes to House Approved Budget:</b> (a) Salary and wages increased by \$8,541 for Temporary Salaries. (b) Operating Expenses increased by \$79,209 to maintain "critical" staff and board travel and professional development. (c) RIO's request of \$5,359,287 is a 1% decrease to our 2015-17 budget and a 1.7% increase to the House approved bill.					

HB 1082 - RIO Budget		Adjustments					House Approved Budget for 2017-19 HB 1022	RIO's Amend- ment Request to Senate	RIO Budget Request Amendment to Senate (c)	% Change to House
Key Expense Cuts:	Current 2015-17 Base Level Biennium Budget	Original RIO Request	1st Executive Budget	HB 1082 RIO Budget Request to House	2nd Executive Budget	Additional Cuts approved by the House (1)				
Operating cut 12%										
Contingency cut 37%										
Salaries and wages	4,340,551	91,409	73,467	4,505,427	(67,376)	(8,541)	4,429,510	8,541	a 4,438,051	0.2%
Operating expenses	990,874	(90,795)	-	900,079	(53,090)	(56,962)	790,027	79,209	b 869,236	10.0%
Capital assets	-	9,000	-	9,000	(9,000)	-	-	-	-	-
Contingencies	82,000	(2,000)	-	80,000	(28,000)	-	52,000	-	52,000	-
Total special funds	5,413,425	7,614	73,467	5,494,506	(157,466)	(65,503)	5,271,537	87,750	c 5,359,287	1.7%
FTE positions	19	-	-	19	-	-	19	-	19	-

**Original RIO Request of \$7,614** included a \$91,409 increase for costs to continue (\$54,000), temporary salaries (\$18,000) and Other (\$20,000). Operating Expenses were cut by **\$90,795** due to decreased in travel (\$45,000), IT (\$43,000) and professional development (\$12,940). Capital assets increased \$9,000 for a new copier.

**1st Executive Budget of \$73,467** included pay raises and continued full funding of health insurance premiums.

**2nd Executive Budget of (\$157,466)** eliminated pay raises and increased health care **(\$67,376)**, eliminated non-critical travel and professional development **(\$53,090)**.

Capital assets were reduced **(\$9,000)** by removing a copier purchase in 2017-19. Contingencies were reduced by **\$28,000** to approx. averages of the last 4 biennia.

**Additional Cuts approved by the House of \$65,503** included **\$8,541** for a further reduction of Temporary Salaries and a **\$56,962** elimination of all travel and professional development for RIO staff and SIB / TFFR board members.

<sup>(1)</sup> Assumes state will continue to pay 100% of health insurance premiums. If not, an additional \$28,485 could be reduced from salaries/wages.

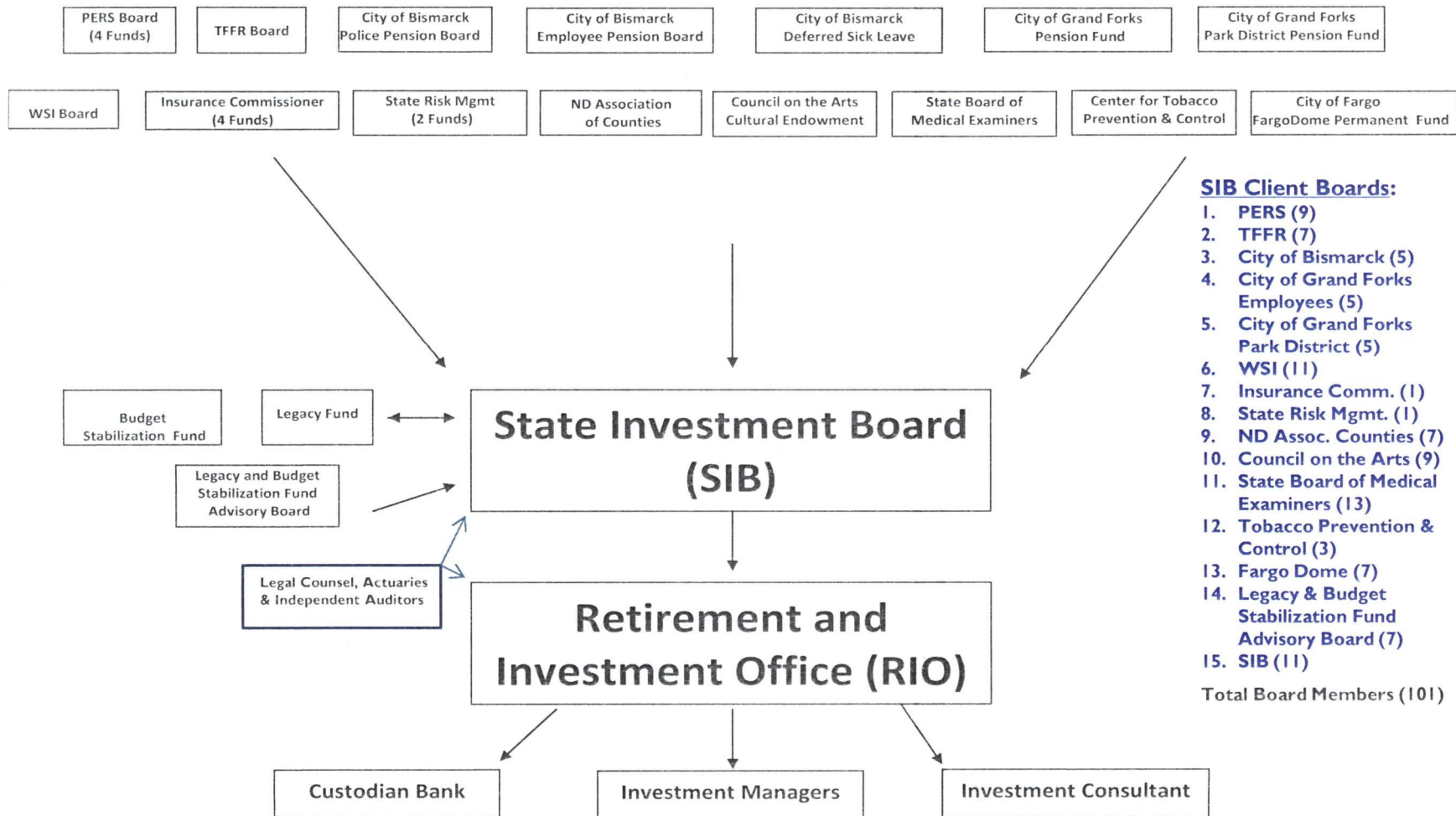
(a) Salary and wages increased by **\$8,541** to properly reflect "costs to continue" after eliminating internship program (for Temporary Salaries).

(b) Operating Expenses increased by **\$79,209** to maintain "critical" staff and board travel and professional development.

(c) RIO's Budget Request of **\$5,359,287** represents a 1% decrease from RIO's current 2015-17 Budget and 1.7% increase to the House approved budget.



# Overview of State Investment Board Process





# Legacy Fund – Actual vs Expected Results

## Net Returns Exceed Policy Benchmark - December 31, 2016

### LEGACY FUND

	1 Yr Ended 12/31/2016 %	5 Yrs Ended 12/31/2016 %	1 Yr Ended 12/31/2016 \$	Since Inception \$
Actual Net Return	8.1%	3.6%	\$300 million	\$450 million
Expected Policy Benchmark Return	6.4%	2.6%	\$240 million	\$325 million
Excess Return (Actual > Expected)	1.7%	1.0%	\$60 million	\$125 million

Legacy Fund Policy Benchmark (Asset Allocation): 50% Equity (30% U.S./20% International), 15% Real Assets (TIPS, Real Estate and Infrastructure) and 35% Bonds noting the Equity and Real Asset benchmarks were up 8.5% and Bonds were up 2.5% in 2016.

Legacy Fund's Actual Net Return was 8.1% in 2016 exceeding the Expected Policy Benchmark of 6.4% by 1.7%. Net Investment Income (on a \$ basis) was \$300 million in 2016 including \$240 million from asset allocation and Excess Return of \$60 million from active management.

For the 5-Years Ended 12/31/16, Legacy earned a Net Return of 3.6% exceeding the Policy Benchmark of 2.6% and creating Excess Return of 1.0%. Legacy has earned \$450 million since inception including \$325 million based on asset allocation and Excess Return of \$125 million.

Note: Interim returns as of December 31, 2016 are unaudited and subject to change.

## Pension Trust Return & Risk Summary – Dec. 31, 2016

**Returns:** Every Pension client generated positive Excess Return for the 5-years ended 12/31/16.

**Risk:** Excess Return was achieved while adhering to prescribed risk metrics (e.g. within 115% of the Policy Benchmark the last 5-years) and with positive Risk Adjusted Excess Returns.

	Current FYTD 12/31/2016	1 Yr Ended 12/31/2016	3 Yrs Ended 12/31/2016	5 Yrs Ended 12/31/2016	Risk 5 Yrs Ended 12/31/2016	Risk Adj Excess Return 5 Yrs Ended 12/31/2016
<b>PERS - \$2.56 billion</b>						
Total Fund Return - Net	4.19%	7.13%	4.50%	8.57%	5.6%	0.26%
Policy Benchmark Return	4.39%	7.19%	4.09%	7.90%	5.3%	
Excess Return	-0.19%	-0.06%	0.41%	0.67%	105%	
<b>TFFR - \$2.15 billion</b>						
Total Fund Return - Net	4.14%	6.99%	4.48%	8.61%	5.6%	0.32%
Policy Benchmark Return	4.17%	6.95%	4.04%	7.90%	5.3%	
Excess Return	-0.04%	0.04%	0.44%	0.71%	105%	

1. PERS & TFFR Returns approximated 7% for 1-year and 8.6% for the 5-years ended 12/31/16.
2. Active management enhanced PERS and TFFR income by over **\$100 million** for the 5-years ended 12/31/2016. This is based on average invested assets of \$4 billion x 0.50% of annual excess return = \$20 million/year x 5 years = \$100 million.

Note: Current year returns are unaudited and subject to change.



## Non-Pension Trust Return & Risk Summary – Dec. 31, 2016

Note: Current year returns are unaudited and subject to change.

	Current FYTD 12/31/2016	1 Yr Ended 12/31/2016	3 Yrs Ended 12/31/2016	5 Yrs Ended 12/31/2016	Risk 5 Yrs Ended 12/31/2016	Risk Adj Excess Return 5 Yrs Ended 12/31/2016
<b>WSI - \$1.8 billion</b>						
Net Investment Return	2.51%	7.00%	5.06%	6.88%	3.5%	1.3%
Policy Benchmark Return	0.97%	4.84%	4.01%	4.86%	3.1%	
Excess Return	1.54%	2.15%	1.06%	2.02%	OK	
<i>Estimated Incremental Income: Last 1-Year = \$35 million    Last 5-Years = \$150 million</i>						
<b>Budget Stabilization - \$103 million</b>						
Net Investment Return	0.47%	2.36%	1.72%	1.90%	0.69%	0.8%
Policy Benchmark Return	-0.18%	1.20%	0.80%	0.62%	0.50%	
Excess Return	0.65%	1.16%	0.92%	1.28%	OK	
<i>Estimated Incremental Income: Last 1-Year = \$5 million    Last 5-Years = \$25 million</i>						

WSI = \$1.5 billion x 2% = \$30 million/year x 5 years = \$150 million.    Budget Stabilization = \$400 million x 1.25% = \$5 million/year x 5 years = \$25 million.

**Returns and Risk:** Every Non-Pension Trust client generated positive “Excess Return” for the 5-years ended 12/31/16. These returns were achieved while adhering to reasonable risk levels which were within 1% of policy levels.

WSI's Policy Benchmark is approximately 53% Bonds, 25% Equities, 21% Diversified Real Assets and 1% Cash.

The Policy Benchmark for the Budget Stabilization Fund is 100% Short Term Fixed Income (High Quality S/T Bonds).



## Client and SIB Responsibilities

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**Client Responsibilities:** (Per NDCC 21-10-02.1) The governing body of each fund (client) shall establish policies on investment goals and objectives and asset allocation that must include:

- Acceptable rates of return, liquidity and levels of risk
- Long-range asset allocation goals

**State Investment Board Responsibilities:** (Per NDCC 21-10):

- Accept and implement client asset allocations
- Apply Prudent Investor Rule when investing for fund under its supervision
- Approve general types of securities for investment
- Set policies and procedures regulating securities transactions on behalf of the clients
- Select custodian servicer
- Select investment director and/or investment consulting service
- Create investment pools

# RIO, Manager and Custodian Bank Responsibilities

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## **Retirement and Investment Office (RIO) Responsibilities (on behalf of SIB):**

- Administer overall investment strategy
- Advise SIB on ways to maximize risk/return opportunities within each asset class
- Act as liaison between SIB and managers, consultant and custodian
- Monitor individual clients' investment guidelines and asset allocations
- Maintain separate accounting for client accounts

## **Investment Manager Responsibilities:**

- Accept and implement specific mandates or "investment missions"
- Make buy/sell decisions based on investment guidelines
- Report to RIO Staff on regular basis
- Provide education to SIB

## **Custodian Bank Responsibilities:**

- Safe-keep assets
- Settle trades
- Record-keeper

## Other Important Responsibilities

### Investment Consultant Responsibilities:

- Performance measurement of investment managers
- Manager search assistance
- Provide education to SIB
- Special projects

### Others Experts:

- Legal Counsel
- Independent Actuaries and Auditors
- Specialists in custody and fee reviews and/or transaction cost analyses

#### RIO's Public Website

Investment performance for all SIB clients, including manager level returns and balances, are generally posted to RIO's website within 30 to 45 days after month-end. In addition, the following website links provide additional information relating to SIB governance, meeting materials and our audit committee.

1. SIB Governance Manual - accessed by clicking on "SIB Governance Manual" under the "SIB / Board" section  
<http://www.nd.gov/rio/SIB/Board/GovernanceManual/default.htm>
2. SIB Meeting Materials - accessed by clicking on "Meeting Materials" under the "SIB / Board" section  
<http://www.nd.gov/rio/SIB/Board/SIB%20Meeting%20Materials/default.htm>
3. SIB Audit Committee Charter and Meeting Materials - accessed by clicking on "SIB Audit Charter" or "Meeting Materials" under the "SIB Audit" section <http://www.nd.gov/rio/SIB%20Audit/Board/default.htm>



PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1022

Page 1, replace lines 10 through 13 with:

"Salaries and wages	\$4,340,551	\$85,019	\$4,425,570
Operating expenses	990,874	(200,847)	790,027
Contingencies	<u>82,000</u>	<u>(30,000)</u>	<u>52,000</u>
Total special funds	\$5,413,425	(\$145,828)	\$5,267,597"

Page 1, line 16, replace "\$54,376" with "\$50,436"

Page 1, line 17, replace "\$1,249" with "\$1,241"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$4,340,551	\$4,429,510	(\$3,940)	\$4,425,570
Operating expenses	990,874	790,027		790,027
Contingencies	<u>82,000</u>	<u>52,000</u>		<u>52,000</u>
Total all funds	\$5,413,425	\$5,271,537	(\$3,940)	\$5,267,597
Less estimated income	<u>5,413,425</u>	<u>5,271,537</u>	<u>(3,940)</u>	<u>5,267,597</u>
General fund	\$0	\$0	\$0	\$0
FTE	19.00	19.00	0.00	19.00

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

	Adjusts Funding for Health Insurance Increases <sup>1</sup>	Total Senate Changes
Salaries and wages	(\$3,940)	(\$3,940)
Operating expenses		
Contingencies		
Total all funds	(\$3,940)	(\$3,940)
Less estimated income	<u>(3,940)</u>	<u>(3,940)</u>
General fund	\$0	\$0
FTE	0.00	0.00

<sup>1</sup> Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is also changed to reflect the revised premium rate.

Retirement and Investment Office - Budget No. 190  
House Bill No. 1022  
Base Level Funding Changes

	House Version				Senate Version				Senate Changes to House Version			
	FTE Position	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2017-19 Biennium Base Level	19.00	\$0	\$5,413,425	\$5,413,425	19.00	\$0	\$5,413,425	\$5,413,425	0.00	\$0	\$0	\$0
2017-19 Ongoing Funding Changes												
Base payroll changes			\$34,583	\$34,583			\$34,583	\$34,583				\$0
Health insurance increase			54,376	54,376			50,436	50,436			(3,940)	(3,940)
Adjusts funding for operating expenses			(200,847)	(200,847)			(200,847)	(200,847)				0
Reduce contingency funding			(30,000)	(30,000)			(30,000)	(30,000)				0
Total ongoing funding changes	0.00	\$0	(\$141,888)	(\$141,888)	0.00	\$0	(\$145,828)	(\$145,828)	0.00	\$0	(\$3,940)	(\$3,940)
One-time funding items												
No one-time funding items				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	\$0	(\$141,888)	(\$141,888)	0.00	\$0	(\$145,828)	(\$145,828)	0.00	\$0	(\$3,940)	(\$3,940)
2017-19 Total Funding	19.00	\$0	\$5,271,537	\$5,271,537	19.00	\$0	\$5,267,597	\$5,267,597	0.00	\$0	(\$3,940)	(\$3,940)

Other Sections in Retirement and Investment Office - Budget No. 190

	House Version	Senate Version
Health insurance increase	Section 2 identifies the amount included in the agency appropriation relating to increases in employee health insurance premiums from \$1,130 to \$1,249 per month.	Section 2 identifies the amount included in the agency appropriation relating to increases in employee health insurance premiums from \$1,130 to \$1,241 per month.
Contingencies line item transfers	Section 3 provides, upon approval of the State Investment Board, the Retirement and Investment Office may transfer from the contingencies line item in Section 1 of the bill to all other line items.	Section 3 provides, upon approval of the State Investment Board, the Retirement and Investment Office may transfer from the contingencies line item in Section 1 of the bill to all other line items.



April 11, 2017

HB 1022

Attachment B

HB 1022 Conference Committee  
Retirement and Investment Office - Budget  
April 11, 2017

### RIO Programs Overview

RIO was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of two long-standing state programs – the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the State Investment Board (SIB). RIO has experienced significant growth in recent years with SIB investments nearly doubling from \$6 billion in 2012 to over \$11.7 billion in 2017 and TFFR membership increasing to over 19,000 members. **RIO continues to receive high scores from its customers and has been awarded the Government Finance Officers Association Certificate for Excellence in Financial Reporting for 19 consecutive years and "clean" (or "unqualified") audit opinions for over 20 years.** Investment performance has also been strong with every SIB client exceeding their performance expectations for the 5-years ended Dec. 31, 2016. The SIB and RIO have also been diligent with regards to cost cutting noting that investment fees have declined by 0.23% the last three years. **This 0.23% expense reduction translates into over \$25 million of annual fee savings for SIB clients (based on \$11 billion of assets).**

RIO serves the SIB which provides investment oversight of 24 different funds for 14 separate boards including TFFR, PERS and Workforce Safety Insurance. The largest single investment client is the Legacy Fund with a \$4.3 billion market value at Feb. 28, 2017. Since inception, the Legacy Fund has earned over \$574 million of net investment income including \$308 million for the 8 months ended Feb. 28, 2017. **RIO estimates that actual investment returns of our clients have surpassed their respective performance expectations by over \$250 million since 2012 thereby increasing total net investment income for our SIB clients to over \$2 billion the last 5-years.** This strong return on investment is noteworthy given that RIO's expenses are billed to their clients as RIO is a Special Fund agency and receives no General Funds. All appropriated expenditures for TFFR are paid from contributions collected from members and employers and from invested assets/earnings. All appropriated expenditures for SIB are allocated directly to the client funds and paid out of their invested assets/earnings.

RIO is requesting ½ of \$145,828 cut from our Base Level budget be reinstated to maintain our ability to prudently manage \$11.7 billion of investments for numerous State agencies.

		Adjustments or	
	<u>Base Level</u>	<u>Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$4,340,551	\$85,019	\$4,425,570
Operating expenses	990,874	(200,847)	790,027
Contingencies	<u>82,000</u>	<u>(30,000)</u>	<u>52,000</u>
Total special funds	\$5,413,425	(\$145,828)	\$5,267,597
Full-time equivalent positions	19.00	0.00	19.00