

2019 SENATE APPROPRIATIONS

SB 2022

2019 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Harvest Room, State Capitol

SB 2022
1/8/2019
Job # 30526

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Rose Laning/Marne Johnson
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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

Minutes:

Testimony Attached # 1

Legislative Council: Levi Kinnischtzke
OMB: Becky Deichert

Chairman Holmberg called to order the hearing on SB 2022.

David Hunter, Executive Director/CIO, North Dakota Retirement and Investment Office (RIO)

Testimony Attached # 1 (RIO Programs Overview)

(4:16) **Senator Dever:** We heard from the treasurer yesterday, she's responsible for the Veterans Postwar Trust Fund. That's not invested through you?

David Hunter: Correct. We do not have investment oversight of the Veterans Postwar Trust Fund.

Senator Dever: So the treasurer has oversight of that fund? Answer – yes.

(9:45) Page 6 – 2019-2021 Biennium Budget Request –

(17:40) Fay Kopp – Deputy Executive Director/CRO, North Dakota Retirement and Investment Office (RIO)

Starting on page 10 – TFFR Pension Administration Software Modernization Study

(26:21) **Senator Sorvaag:** Is this a tested system that you're looking at? We've had a lot of problems where the \$9M is just a down payment.

Fay Kopp: We will need to go through RFP to find an appropriate vendor for this particular implementation, to find the right pension administration system. We know our current vendor

has a product that would work for us, we could upgrade. Likely we could upgrade for less than \$9M. It might be less, we know they have it, we know other clients from C-PAS (current pension administration software), from our current vendor that use that; it's tried and tested. But let's say that, in ensuring that we are providing everyone a fair and equitable ability to bid on this project, others will be able to bid as well. The vendor that has the PERS system in addition to others. We've looked at the PERS system, we know that the vendor has provided something that would work for us, and there are some products that would need to be customized and implemented appropriately. I believe we have the product and the staff and the support of ITD & procurement to assist us in those areas to ensure that it could be a very successful project.

(34:52) **Chairman Holmberg:** The major issue, the heavy lift issue, will be the modernization. We will have a subcommittee to look at this. The rest of your ask is already in the executive budget. The subcommittee will be **Senator Poolman, Chair, Senator Wanzek, and Senator Robinson**. This is one of those issues if the Senate decides it's a good deal doesn't necessarily mean the House will decide it's a good deal.

No further questions.

Dave Hunter: Thanked his staff and the Appropriations Committee for their hard work.

Chairman Holmberg: Monday at 5:00 is last day for additional bills with appropriations to be filed.

Closed the hearing on SB 2022.

2019 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Harvest Room, State Capitol

SB 2022
1/23/2019
Job # 31279

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Rose Laning / Marne Johnson
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Explanation or reason for introduction of bill/resolution:

AN ACT to provide an appropriation for defraying the expenses of the retirement and investment office; to provide for a report to the legislative assembly; and to provide for transfers.

Minutes:

No Attachments

SB 2018 – Historical Society (sub-committee: Erbele, Krebsbach, Mathern)

- \$500,000 in private funds to support historic sites. Heavy lift for local & friend's groups.
- Whitestone Battlefield Monument – more fitting monument for Native Americans – revisit & hoping for \$200,000
- Need \$260,000 – Comstock litigation (legal fees)
- SB 2146 Pioneer Village location. Are they asking to build turnkey museum? New building would not be part of the emergency.

SB 2019 – Parks and Recreation (sub-committee: Sorvaag, Bekkedahl, Mathern)

- Request for \$5M for the Peace Gardens – Canada hasn't contributed much.
- \$1.8 capital projects
- Line item transfer
- Dept manages a lot of land that produces oil revenue. Does the law allow them to put that into their budget and use it? Are we evading the legacy trust fund because it's being sent directly to the agency?

SB 2020 – Water Commission (sub-committee: Lee, Sorvaag, Robinson)

- Hold off on anything with Fargo Diversion – meet with them tomorrow

- New money available for projects with January revenue forecast - \$350.7M.
- Requests were \$700M.
- Governor's recommendations to be added to the executive budget – Authorizes the agency to transfer money between lines (line item transfer). Section 5
- Different purposes of how water is allocated.
- Amount of money being carried over and not being used. \$308.3M carryover

SB 2021 – Workforce Safety and Insurance (sub-committee: Oehlke, Hogue, Grabinger)

- Coverage for volunteer firemen – would like to see in separate bill for policy
- WSI could do better job of letting people know how much coverage they have.
- Shifting 12 FTEs to IT
- Process used in independent reviews – are suspect.

SB 2022 – Retirement and Investment Office (sub-committee: Poolman, Wanzek, Robinson)

- Software Update

SB 2023 – NDPERS (sub-committee: Krebsbach, Poolman, Robinson)

- Restore the program for an FTE at \$186,000
- Discontinuing 2 program areas in order to meet 90% budget reduction, but recommend that at least one be restored and ½ of funding they requested be restored.
- Have some temporary help & dollars restored
- Maybe a self-funded plan.
- Governor's health insurance plan proposal for 3 different options.
- Pension plan recovery

SB 2024 – Deficiency (sub-committee: Dever, Lee, Mathern)

- The legislature has moved away from wanting to pay back DAPL loan.

2019 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Harvest Room, State Capitol

SB 2022
2/13/2019
Job # 32676

☒ Subcommittee
☐ Conference Committee

Committee Clerk: Rose Laning/ Mary Jo Wocken
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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.

Minutes:

Legislative Council:
OMB: Becky Deichert

Senator Poolman: Called the sub-committee to order on SB 2022. Senator Wanzek: and Senator Robinson: were present.

Senator Poolman: \$9M on upgrade on software. I think that is the only thing we need to be talking about today. If you could talk a little bit about that and here is my number one question. Why would the tech guy, the Governor, not put that in? That is sort of my big question today.

David Hunter, Executive Director/CIO, North Dakota Retirement and Investment Office (RIO): There are so many things going on given the cyber security risks. Having said that I think we've done a really good job outlining it.

Fay Kopp – Deputy Executive Director/CRO, North Dakota Retirement and Investment Office (RIO): We do understand that there were some questions earlier as to if we'd save any money if we used the same vendor as PERS did? Obviously, PERS runs their own pension administration software, TFFR were both separate agencies. We have different members and what not. So the question was, have you checked into getting a better deal if you use the same vendor as PERS? PERS is our sister organization. We share as many resources as possible, we learn a lot from one another and we communicate a lot with one another. At the end of the day, we are required by law to put out an RFP. So we can't just negotiate with one vendor whether it's our own current vendor or whether it's a PERS vendor. They are both state vendors at this point in time. We can't just negotiate with them to what kind of deal that we can get. We need to offer this to everyone. That to me is the one big thing that we need to say, we have to put this out. The question and am just thinking about it, could we get a better deal? We think the one place we could actually get a better deal that is less than \$9M, a lesser cost. Maybe this won't. \$9Million is kind of a high end of this range. When we worked with a consulting firm and we looked at like what projects like this would

cost, if we were going out to the market, the estimate was less contingencies and project management and consulting. It would be right around \$9 Million. That is what they estimated it. But we know as does ITD and we've talked with ITD a lot about this is that if we were to go with an upgrade with our current vendor, our costs would be less. Our current vendor has a product that we could use and we demonstrated that and we've seen it just like we went over and looked at what the PERS has with the vendor that they have utilized. They both have good products. One place we actually configured a better deal is if used that one, but again, we need, to put this out on a RFP and see what everybody can do. So could this cost be less. It will be less than \$9 Million. Can the PERS vendor, can they cut a better deal because they (3:30) would have to separate installations in the state? I guess we would have to find out through an RFP. We believe it, it is possible but again at the end of the day also PERS and TFFR we've got separate employers, our members are different, we're two separate agencies. It is not an enterprise solution that every agency. I mean there are two, but it is certainly not an enterprise we would configuration, the installation, it is a completely separate implementation. We would have to go through a complete conversion from our current product over to that which is one of the reasons like you use your own vendor as an upgrade it will likely be cheaper because you're going from one known data base to another known. Again, it would likely cost less because it would be simpler, less risk, it would likely take less time, so it is most likely. So even when we provide testimony to we said, you know that \$9 Million is the high end, I wonder if it's only \$6 Million. We don't know that \$6 M, I just through that out as an example. It could be less.

Senator Poolman: Did you throw out the number \$7M during testimony?

Fay Kopp: I threw out \$6 Million. \$9 million is what we requested but if for example it was only \$6 Million, and that is what is included. In answer to why, the Governor's upside down, I believe those were the main questions as it was related to PERS and costs.

Senator Poolman: That makes a lot of sense.

Senator Poolman: Are there any questions that the committee may have? As you know we've been doing 2% and 3%, on the salaries and full health insurance. We haven't been including the discretionary line item piece that he included in some of his budget but other than that I think that we're looking at doing exactly what the Governor has done and the committee will have to discuss what we want to do with just this piece. That's the only factor that we need to discuss. What are the committee's thoughts?

Senator Wanzek: Rob, is he the president of TFFR. He is vice chair for the state investment board as well. I know he sent me a message about a month ago, and is in favor of this funding and saying how it's been like 13 years. When I hear 13 years, I look at our modern day farm equipment and anything 5 years old doesn't work anymore. I am trying to decide should we be putting this back in even though it wasn't included into the Executive Budget. It's not like we're spending general fund money.

Fay Kopp: This would come out of Special Funds – retirement funds. Teachers retirement money.

Senator Wanzek: So why wouldn't we do it?

Senator Robinson: I thought you had a powerful presentation in January on the need for this system. Given the discussion today, it reinforces my belief that we must invest and keep things state of the art as we can. There is a lot of money on the line here, but there is a greater amount of money that you folks are responsible for. I think in an effort to keep up to date with a system that is efficient and so on as can be, I would suggest that we make this investment and again it could be \$8 or \$9 but let's hope that it comes in at \$6 or \$7. That's my feeling. I've been on the technology committee forever and I am the last person to be on the technology committee. That would be my suggestion.

Senator Poolman: Is that a motion?

Senator Robinson: Moved to do the upgrade.

Senator Wanzek: I am prepared to 2nd that but may be question that is the motion for \$9Million or are we? I guess a question of Fay, as you were laying out and I get why we have to do the bidding process and the RFP, and all that, but there are times that sometimes seems like it hinders us or ties our hands in seeking a better situation? But do you think with the RFP's you can maybe flush that out, that the vendor that PERS was using. Do you think that would be flushed out in a RFP?

Fay Kopp: – I certainly believe that the RFP process is excellent. This is exactly what we really need to do it and I think want to do to insure, one, any vendors get the opportunity in a fair and competitive way to bid on this deal and two, to really flesh out what would the cost be. Not just for the implementation but what are the 6 and 10 year costs that we need to look at. We can get an implementation for certain costs, but if the implementation is going to be blank and your other costs your 6 and 10year costs are going to be higher than another vendor, we need to look at the big picture. That's what we will do through this RFP process. It is not just how much it's going to cost to implement, how much is going to cost us to use this system over time.

Senator Wanzek: I am ready to 2nd it, but I am not sure are we seconding the \$9 Million or what was the cost? Would even \$7 Million help?

Senator Robinson: What if the bid came in at \$7.9M and given the implementation. I would suggest that they have "up to" and "not to" go above the \$9Million.

Senator Wanzek: Seconded the motion. 10:10

A Voice Vote Was Taken and Motion Carried.

Senator Poolman: Are there any other points of discussion that anybody else wanted to make about the budget otherwise I would just have the amendments drawn up just as we have for all of the other budgets.

Senator Wanzek: My motion would be that we basically take all the Governor's recommendations except for salaries and the insurance and we are going to add the request of \$9 million to it.

2nd Senator Robinson

Senator Poolman: It's been moved and 2nd, all those in favor say aye. On the final motion on the budget as we have just outlined by Senator Wanzek.

Roll call vote:

Senator Poolman: Yes

Senator Wanzek: Yes

Senator Robinson: Yes

Hearing adjourned.

2019 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Harvest Room, State Capitol

SB 2022
2/14/2019
Job # 32733

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Rose Laning

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.

Minutes:

Amendment 19.0235.01001

Legislative Council: Chris Kadrmas
OMB: Becky Keller

Chairman Holmberg called the committee to order on SB 2022.

Senator Poolman: Moved and explained amendment 19.0235.01001.

Senator Robinson: Seconded the motion.

Voice vote carried.

Senator Wanzek: moved Do Pass as Amended on SB 2022.

Senator Robinson: Seconded the motion.

A Roll Call Vote was taken: Yes: 14 No: 0 Absent: 0.
Motion carried.

Senator Poolman will carry the bill.

Chairman Holmberg: Closed the hearing on SB 2022.

SK
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PROPOSED AMENDMENTS TO SENATE BILL NO. 2022

Page 1, line 2, after the semicolon insert "; to provide for a report to the legislative assembly;"

Page 1, replace lines 8 through 14 with:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$4,425,570	\$560,938	\$4,986,508
Operating expenses	862,484	2,676,450	3,538,934
Capital assets	0	6,300,000	6,300,000
Contingencies	<u>52,000</u>	<u>30,000</u>	<u>82,000</u>
Total special funds	\$5,340,054	\$9,567,388	\$14,907,442
Full-time equivalent positions	19.00	1.00	20.00

SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO SIXTY-SEVENTH LEGISLATIVE ASSEMBLY. The following amounts reflect the one-time funding items approved by the sixty-fifth legislative assembly for the 2017-19 biennium and the one-time funding items included in the appropriation in section 1 of this Act:

<u>One-Time Funding Description</u>	<u>2017-19</u>	<u>2019-21</u>
Pension administration system project	\$0	\$9,000,000
Total other funds	\$0	\$9,000,000

The 2019-21 biennium one-time funding amounts are not a part of the entity's base budget for the 2021-23 biennium. The retirement and investment office shall report to the appropriations committees of the sixty-seventh legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2019, and ending June 30, 2021."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Retirement and Investment Office - Senate Action

	<u>Base Budget</u>	<u>Senate Changes</u>	<u>Senate Version</u>
Salaries and wages	\$4,425,570	\$560,938	\$4,986,508
Operating expenses	862,484	2,676,450	3,538,934
Capital assets		6,300,000	6,300,000
Contingencies	<u>52,000</u>	<u>30,000</u>	<u>82,000</u>
Total all funds	\$5,340,054	\$9,567,388	\$14,907,442
Less estimated income	<u>5,340,054</u>	<u>9,567,388</u>	<u>14,907,442</u>
General fund	\$0	\$0	\$0
FTE	19.00	1.00	20.00

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Department 190 - Retirement and Investment Office - Detail of Senate Changes

	Adjusts Funding for Base Payroll Changes ¹	Adds 1 FTE Investment Analyst Position ²	Adds Funding for Salary and Benefit Increases ³	Adds Funding for Microsoft Office 365 License Expenses ⁴	Adds Funding for Contingencies ⁵	Adds One- Time Funding for Teachers' Fund for Retirement Pension Project ⁶
Salaries and wages	(\$15,251)	\$294,996	\$231,193			\$50,000
Operating expenses		14,450		\$12,000		2,650,000
Capital assets						6,300,000
Contingencies					\$30,000	
Total all funds	(\$15,251)	\$309,446	\$231,193	\$12,000	\$30,000	\$9,000,000
Less estimated income	(15,251)	309,446	231,193	12,000	30,000	9,000,000
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	1.00	0.00	0.00	0.00	0.00

	Total Senate Changes
Salaries and wages	\$560,938
Operating expenses	2,676,450
Capital assets	6,300,000
Contingencies	30,000
Total all funds	\$9,567,388
Less estimated income	9,567,388
General fund	\$0
FTE	1.00

¹ Funding is adjusted for base payroll changes.

² One FTE investment analyst position and related operating expenses are added:

	Other Funds
Salary and wages	\$294,996
Operating expenses	14,450
Total	\$309,446

³ The following funding is added for 2019-21 biennium salary adjustments of 2 percent on July 1, 2019, and 3 percent on July 1, 2020, and increases in health insurance premiums from \$1,241 to \$1,427 per month:

	Other Funds
Salary increase	\$141,951
Health insurance increase	89,242
Total	\$231,193

⁴ Funding of \$12,000 is added for Microsoft Office 365 license expenses.

⁵ Funding of \$30,000 is added for contingencies to provide a total appropriation of \$82,000.

⁶ One-time funding of \$9 million is added from the retirement and investment fund for a Teachers' Fund for Retirement pension administration project.

Date: 2-13-2019Roll Call Vote #: 1

**2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES**

BILL/RESOLUTION NO. 2022Senate Appropriations

Committee

☒ Subcommittee

Amendment LC# or Description:

to do \$9M upgrade

Recommendation:

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

Other Actions:

☐ Reconsider

Motion Made By

Robinson

Seconded By

Wanzek

Senators	Yes	No	Senators	Yes	No
Senator Holmberg			Senator Mathern		
Senator Krebsbach			Senator Grabinger		
Senator Wanzek			Senator Robinson		
Senator Erbele					
Senator Poolman					
Senator Bekkedahl					
Senator G. Lee					
Senator Dever					
Senator Sorvaag					
Senator Oehlke					
Senator Hogue					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

*Voice Vote
Carried*

Date: 2-13-2019Roll Call Vote #: 2

**2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2022**

Senate Appropriations

Committee

☒ SubcommitteeAmendment LC# or Description: take all of Gov. recommendations except for
Salaries & health ins. & add the request of \$9M

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 Wanzek Seconded By Robinson

Senators	Yes	No	Senators	Yes	No
Senator Holmberg			Senator Mathern		
Senator Krebsbach			Senator Grabinger		
Senator Wanzek	X		Senator Robinson	X	
Senator Erbele					
Senator Poolman	X				
Senator Bekkedahl					
Senator G. Lee					
Senator Dever					
Senator Sorvaag					
Senator Oehlke					
Senator Hogue					

Total (Yes) 3 No 0Absent 0

Floor Assignment _____

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

Date: 2-14-19
Roll Call Vote #: 1

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2022

Senate Appropriations Committee

☐ Subcommittee

Amendment LC# or Description: 19.0235.01001

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 Poolman Seconded By Robinson

Senators	Yes	No	Senators	Yes	No
Senator Holmberg			Senator Mathern		
Senator Krebsbach			Senator Grabinger		
Senator Wanzek			Senator Robinson		
Senator Erbele					
Senator Poolman					
Senator Bekkedahl					
Senator G. Lee					
Senator Dever					
Senator Sorvaag					
Senator Oehlke					
Senator Hogue					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

*Voice Vote
Carrot*

Date: 2/14/19
Roll Call Vote #: 2

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2022

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 Wanzek Seconded By Robinson

Senators	Yes	No	Senators	Yes	No
Senator Holmberg	✓		Senator Mathern	✓	
Senator Krebsbach	✓		Senator Grabinger	✓	
Senator Wanzek	✓		Senator Robinson	✓	
Senator Erbele	✓				
Senator Poolman	✓				
Senator Bekkedahl	✓				
Senator G. Lee	✓				
Senator Dever	✓				
Senator Sorvaag	✓				
Senator Oehlke	✓				
Senator Hogue	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Poolman

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

REPORT OF STANDING COMMITTEE

SB 2022: 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). SB 2022 was placed on the Sixth order on the calendar.

Page 1, line 2, after the semicolon insert "; to provide for a report to the legislative assembly;"

Page 1, replace lines 8 through 14 with:

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ReNUMBER accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Retirement and Investment Office - Senate Action

	<u>Base Budget</u>	<u>Senate Changes</u>	<u>Senate Version</u>
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General fund	\$0	\$0	\$0
FTE	19.00	1.00	20.00

Department 190 - Retirement and Investment Office - Detail of Senate Changes

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General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	1.00	0.00	0.00	0.00	0.00

Salaries and wages
Operating expenses
Capital assets
Contingencies

Total all funds
Less estimated income
General fund

FTE

Total Senate Changes	
	\$560,938
	2,676,450
	6,300,000
	30,000
	\$9,567,388
	9,567,388
	\$0
	1.00

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2019 HOUSE APPROPRIATIONS

SB 2022

2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division Medora Room, State Capitol

SB2022
3/6/2019
Recording Job# 33278

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Sheri Lewis

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 transfers.

Minutes:

Attachments A through C

Chairman Vigesaa: Opened the hearing on SB2022.

Roll Call taken.

Fay Kopp, Deputy Executive Director/Chief Retirement Officer, ND Retirement and Investment Office: See testimony attachment A.

Representative Kempenich: Are there other political subdivisions than just Bismarck and Grand Forks?

Fay Kopp: When I was referring to the TFFR plan, the employers and political subs are on page 2.

Fay Kopp continued with her testimony.

Darren Schulz, Deputy Chief Investment Officer, ND Retirement and Investment Office: See testimony attachment A.

Representative Bellew: What is the prudent investor role?

Darren Schulz: It's a standard of conduct and care that you're managing the assets appropriately for the sole benefit of the individual client. It's a fiduciary standard of excellence.

Representative Bellew: Who checks on you to make sure you're following that role? Who audits you?

Darren Schulz: That's part of Clifton Larson Allan; they test us that we are operating in accordance to that standard.

Darren Schulz continued with his testimony.

Representative Kempenich: When you break those out, you keep them dollar for dollar for the cost?

Darren Schulz: That's correct.

Darren Schulz continued with his testimony.

Chairman Vigesaa: We had a conversation with regard to the trust lands budget about integrating those funds into this board to have a larger to work with; thereby lowering these expenses. When we're at a number like this with the dollar volume we have, does it have to be a significantly larger volume to drive fees lower or is it just incrementally? Is it always up for negotiation?

Darren Schulz: It's always up for negotiation. We feel that we can always make improvements. We're always looking at ways with existing dollars that we have to invest.

Darren Schulz continued with his testimony.

Representative Bellew: Is your budget a part of these fees or are the fees separate?

Darren Schulz: Investment manager fees are a continuing appropriation out of the budget.

Representative Bellew: Does your budget come out of these fees or do you charge an additional fee for your budget?

Darren Schulz: That's part of the continuing appropriation; is our agency budget. For fiscal year 2018 it was .42% was the investment expenses.

Representative Kempenich: Part of the continuing appropriation is that you do take a piece of all these funds for SIB's operating expenses. Out of the \$14 billion you take a percentage of that number

Darren Schulz: Yes.

Representative Kempenich: Does the board go through that or does the staff put that together?

Connie Flanagan, Chief Financial Officer, ND Retirement and Investment Office: The way that we handle all of the expenses for the office are based on the prorata share of total asset value. The larger the size of the fund, the higher percentage that they are allocated of the expenses. It's only the expenses that apply to those funds.

Darren Schulz continued with his testimony.

Representative Bellew: Who sets the policy bench marks?

Darren Schulz: Those policy benchmarks are set by staff and the consultants. We present those to the board.

Representative Bellew: Then the board approves them?

Darren Schulz: The board doesn't technically approve our benchmarks; it's really a staff consultant driven process.

Representative Bellew: What happens if you don't meet that benchmark? Do you readjust it or how do you deal with that?

Darren Schulz: We look at relative performance in excess of 3 years. We strive to set industry standard benchmarks that are believed to be a guide.

Chairman Vigesaa: How often do you talk to the managers?

Darren Schulz: We look to have, with most of our managers, updates quarterly. Our goal is to meet with managers at least every other year.

Representative Kempenich: One of the things that's key to this is a succession plan.

Darren Schulz: We do look at the size of our assets and the money that we're looking to place.

Chairman Vigesaa: How often are you contacted by investment firms wanting your business?

Darren Schulz: It's daily.

Chairman Vigesaa: How much lower can the fees go?

Darren Schulz: I think we may be able to squeeze a little more out. I think there will be a natural slow reduction as legacy dollars flow in, particular, in the absence of spending beyond just the earnings in the biennium.

Chairman Vigesaa: What's our percentage of funded on our TFRR right now?

Fay Kopp: See testimony C.

Connie Flanagan: See testimony attachment A.

Representative Bellew: This is from the legacy fund, you said as of January 31 it's \$308 million that could go to the general fund.

Connie Flanagan: There are two definitions of earnings. There's the total earnings from an accounting standpoint; which includes realized earnings and unrealized gains and losses.

The unrealized fluctuation of the value of the assets within the portfolio. For purposes of earnings that are transferrable to the general fund, we do not include unrealized gains and losses in that calculation.

Vice Chairman Brandenburg: That would be the evaluations of the portfolio we have?

Connie Flanagan: That's correct.

Vice Chairman Brandenburg: If the markets went south on us, it very easily could be \$200 million.

Connie Flanagan: That's correct.

Vice Chairman Brandenburg: What's the safe amount? Is it 70% or 50%?

Representative Kempenich: When you get closer you have a better idea.

Vice Chairman Brandenburg: You can take the earnings from one month but what about when you lose money the next month?

Representative Kempenich: If you let the earnings become earnings and then you spend them that's the easy button.

Connie Flanagan continued with her testimony.

Fay Kopp: See testimony attachment C.

Representative Kempenich: What company do you have in mind or who has been advising you?

Fay Kopp: Our current vendor that provides our software CPAS. They won the bid in 2003/2004. They have a product that could be utilized; that we could upgrade to their web based version. There are many other software vendors out there. We need to put that on an RFP and find out who the best vendor is for the best price.

Representative Kempenich: What is your timeline if you did this?

Fay Kopp: The first thing we would need to do is hire an outside consultant, working with ITD, to help manage this program. Our goal is to re-engineer business practices. Once that person is onboard, they would assist us with developing the RFP; hopefully later this year. Depending on who gets the bid, if it's an upgrade of our current vendor, we think the project would last in that 18 to 24 month range. If it's a brand new implementation, it would be close to a 3 year project.

Representative Kempenich: You're going to go through next session, so a report isn't really necessary to the budget section of where you're at with this.

Fay Kopp: There are required quarterly reports that would be going to ZITECH and the state legislative IT committee.

Fay Kopp continued with her testimony.

Representative Kempenich: What if we appropriated the \$6 million and later you would come back with the actual cost? If it's over that, we'll have to address it at the time.

Fay Kopp: Appropriating a dollar amount that's less than \$9 million is your option. From a practical perspective, if it's enough that we think it's worth our time to send out the RFP, if the RFP comes back we would have to identify if we have enough there to start the project or not.

Fay Kopp continued with her testimony.

Vice Chairman Brandenburg: On SB2017 for \$15 million, what's going on there?

Connie Flanagan: We are aware of the bill and we have had some short discussions about if there would be any issues with them becoming a client of the state investment board. There's not an issue with that. We'd work with them to see what type of assets they have. We have not received any specifics beyond that.

Vice Chairman Brandenburg: Where's it coming from?

Connie Flanagan: We are not aware of the circumstances that had them put that into their bill.

Attachment B was handed out but not discussed.

Chairman Vigesaa: Closed the hearing.

2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division
Medora Room, State Capitol

SB2022
3/15/2019
Recording Job# 33793

☐ Subcommittee
☐ Conference Committee

Committee Clerk:

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 transfers.

Minutes:

Chairman Vigesaa: Opened the discussion on SB2022.

Chairman Vigesaa: Discussed the green sheet.

Representative Bellew: One of their line items says adds funding for contingencies for \$30,000.00.

Levi Kinnischtzke, Fiscal Analyst, ND Legislative Council: They have had that line item for many sessions. My understanding is that the amount used to be \$82,000.00. During the 2017 session it was reduced to \$52,000.00 and so they are asking for \$30,000.00 to be added back to the contingencies line item to put it back in line with what it was prior to the 2017 session.

Chairman Vigesaa: That was in this current biennium? We're talking about Mr. Hunter; he's been the director hasn't he?

Levi Kinnischtzke: I don't know how long Mr. Hunter has been the executive director. They used some contingency money in 2010 and 2013.

Chairman Vigesaa: Closed the discussion.

2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division Medora Room, State Capitol

SB2022
3/20/2019
Recording Job# 34029

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Sheri Lewis

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 transfers.

Minutes:

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Chairman Vigesaa: Opened the discussion on SB2022.

Representative Kempenich: Discussed the green sheet.

Representative Bellew: Why does it take so long to do that stuff?

Representative Kempenich: Do we have a list of projects that have been approved by us?

Levi Kinnischtzke, Fiscal Analyst, ND Legislative Council: We can get that information to you.

Representative Bellew: I think we should remove that and let the conference committee settle it.

Chairman Vigesaa: Was that requested through the governor and he denied it?

Levi Kinnischtzke: That's correct. The request was a little bit more than \$9 million. I believe it was \$9,139,000.00 and the Senate put it in at an even \$9 million.

Chairman Vigesaa: The governor did hear their request, contemplated it, and did not move it forward; but the Senate did.

Levi Kinnischtzke: That's correct.

Chairman Vigesaa: Is it necessary to have another employee when you just have more money on the screen?

Representative Kempenich: It is more of seeing what's going on with these money managers.

Chairman Vigesaa: With the increase in funds, does that generally mean more funds, additional diversification because of the volume of dollars?

Representative Kempenich: I think it's just the knowledge of what you're doing.

Chairman Vigesaa: Based on your expertise with the SIB and your involvement with the legacy fund, what's your thought on the FTE? Would you recommend keeping it in there?

Representative Kempenich: I think I would.

Chairman Vigesaa: With regard to the IT project, the timeframe is pretty extensive. If we took it out, there would be a chance of it going to conference and cutting back on the dollars; because we know they'll never spend those dollars in the next biennium. I personally wouldn't have any problem removing it.

Representative Bellew: What about section 3 of the bill that the Senate passed over?

Chairman Vigesaa: Is that a traditional section in the budget and what is their contingency line item?

Representative Bellew: Why do they need it?

Levi Kinnischtzke: Historically the amount has been \$82,000.00 for several bienniums. Last session it was reduced by \$30,000.00 down to \$52,000.00. RIO is just asking to bring back up to the level it used to be. One example of using the contingency is hiring the executive director in 2010 and the new one in 2013. There were some costs associated in consulting fees.

Representative Kempenich: The board can probably pull some money out of their budget without having it in there.

Representative Beadle: They still have \$52,000.00 remaining as of March 15, 2019.

Representative Bellew: Made a motion to remove the contingency line.

Vice Chairman Brandenburg: Seconded the motion.

Representative Kempenich: This is a special funded agency so they can come to the emergency commission.

Representative Bellew: It doesn't go into their budget; it goes back into the retirement fund.

Voice Vote made.

Motion Failed.

Representative Beadle: Made a motion to remain at \$52,000.00 for the contingency line item.

Representative Howe: Seconded the motion.

Voice Vote made.

Motion Carried.

Representative Bellew: Made a motion to remove the software project of \$9 million.

Vice Chairman Brandenburg: Seconded the motion.

Representative Beadle: I just assumed that we would cut it down to \$3 million.

Voice Vote made.

Motion Carried.

Chairman Vigesaa: Closed the discussion.

2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division Medora Room, State Capitol

SB2022
4/1/2019
Recording Job# 34399

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Sheri Lewis

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 transfers.

Minutes:

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Chairman Vigesaa: Opened the discussion on SB2022.

Chairman Vigesaa: Discussed the green sheet.

Chairman Vigesaa: The contingencies are to replace some money they used when they hired their executive director?

Levi Kinnischtzke, Fiscal Analyst, ND Legislative Council: The reason for that increase is that their line item for contingencies used to be \$82,000.00; and during the 2016 special session with the allotments they reduced it down to \$52,000.00. That's where it's remained. The agency had requested to bring it back up to \$82,000.00; the executive budget and the Senate increase provided that increase. The latest discussion was to remove \$30,000.00 and provide \$52,000.00 total.

Chairman Vigesaa continued with the green sheet.

Chairman Vigesaa: There are a lot of agencies that have contingencies; but they don't all have that language in there.

Levi Kinnischtzke: There are a few agencies that have had that language. It has been in their bill for some time.

Chairman Vigesaa: Is there any reason why some agencies have this language and some don't?

Becky Keller, Budget Analyst, ND Legislative Council: I really don't know.

Representative Howe: Made a motion to adopt the changes.

Representative Mock: Seconded the motion.

Voice Vote made.

Motion Carried.

Representative Howe: Made a motion for a “Do Pass as Amended”.

Representative Mock: Seconded the motion.

Roll Call Vote made.

4 Yeas 0 Nays 3 Absent.

Motion Carried.

Chairman Vigesaa: Closed the discussion.

2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee Roughrider Room, State Capitol

SB 2022
4/4/2019
34536

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Risa Bergquist

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 transfers.

Minutes:

Chairman Delzer: Called the meeting to order for SB 2022, this is the bill for retirement and investment office.

Representative Kempenich: Make a Motion to adopt amendment 19.235.02001.

Representative Vigesaa: Second

Representative Kempenich: This is the state investment board operating budget. They were requesting 1 FTE for the increase in the amount of investments, we gave them one of those and the other part is they wanted 9 million for a computer project and we took that out. We got the salaries and wages of 4.4 million, the base budget we went to the house version.

Chairman Delzer: They hire managers to do it all, why do they need another FTE?

Representative Kempenich: With the increasing they send manager out into the field.

Chairman Delzer: And yet your operating expenses doesn't hardly go up.

Representative Kempenich: When they send these managers out they try to bunch them up so that they spend a little more time in an area.

Chairman Delzer: Salaries goes up but the operating part didn't go up at all.

Representative Kempenich: They are all funded out of these funds, but I think they are all classified employees.

6:00 Representative J. Nelson: I am curious about the 9-million-dollar special project, there's no general fund money in this budget so I am assuming the investment income is where that 9 million dollars would have come from for the computer project.

Representative Kempenich: Teacher's retirement fund and it was an upgrade. The system they have is basically a file tracking format. The last upgrade was 9 years ago, they are trying to go with the same system and same company so they could roll some of that over.

Representative J. Nelson: Not having it, will that affect the growth of funds or are we just delaying the inedible?

Representative Kempenich: Yes, we are, it was 8.1 was the final number, it's going to need to be replaced.

Chairman Delzer: You're still trying to get information on the actual cost so it's not an inflated cost?

Representative Kempenich: They said 8.1 is what it's going to take but they haven't bid it yet either.

Representative Vigesaa: If they go to a new vender on this it could be up to a three-year project so rather than appropriate all 9 million up front we thought take it out and they can come back with a number to get them started.

Representative J. Nelson: Is the expectations they may come in with a smaller number in conference and start this this biennium?

Representative Vigesaa: I think that was part of our thinking, see if we can come up with a number that they would spend in the next biennium.

Chairman Delzer: Further discussion on the motion to amend? **Voice vote, All in Favor, Motion Carries.** Further amendments for SB 2022?

Representative Kempenich: I'll make a Motion for a Do Pass as Amended.

Representative Vigesaa: Second.

Chairman Delzer: We have a motion for a Do Pass as amended. Further discussion? Seeing none we will call the roll.

A Roll Call vote was taken. Yea: 17 Nay: 1 Absent: 3

Motion Carries, Representative Kempenich will carry the bill.

Chairman Delzer: With that we will close this meeting.

DD 4/3/19
1082

Fiscal No. 1

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2022

Page 1, line 2, remove "to provide for a report to the legislative assembly;"

Page 1, replace lines 8 through 15 with:

	Base Level	Adjustments or Enhancements	Appropriation
Salaries and wages	\$4,425,570	\$502,660	\$4,928,230
Operating expenses	862,484	26,450	888,934
Capital assets	0	0	0
Contingencies	52,000	0	52,000
Total special funds	\$5,340,054	\$529,110	\$5,869,164
Full-time equivalent positions	19.00	1.00	20.00"

Page 1, remove lines 16 through 24

Page 2, remove lines 1 and 2

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Retirement and Investment Office - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$4,425,570	\$4,986,508	(\$58,278)	\$4,928,230
Operating expenses	862,484	3,538,934	(2,650,000)	888,934
Capital assets		6,300,000	(6,300,000)	
Contingencies	52,000	82,000	(30,000)	52,000
Total all funds	\$5,340,054	\$14,907,442	(\$9,038,278)	\$5,869,164
Less estimated income	5,340,054	14,907,442	(9,038,278)	5,869,164
General fund	\$0	\$0	\$0	\$0
FTE	19.00	20.00	0.00	20.00

Department 190 - Retirement and Investment Office - Detail of House Changes

	Adjusts Funding for Salary Increases ¹	Adjust Funding for Contingencies	Removes One-Time Funding for Teachers' Fund for Retirement Project ¹	Total House Changes
Salaries and wages	(\$8,278)		(\$50,000)	(\$58,278)
Operating expenses			(2,650,000)	(2,650,000)
Capital assets			(6,300,000)	(6,300,000)
Contingencies		(\$30,000)		(30,000)
Total all funds	(\$8,278)	(\$30,000)	(\$9,000,000)	(\$9,038,278)
Less estimated income	(8,278)	(30,000)	(9,000,000)	(9,038,278)
General fund	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00

¹ Funding is adjusted to provide employee salary increases of 2 percent on July 1, 2019, with a minimum monthly increase of \$120 and a maximum monthly increase of \$200, and 2.5 percent salary increase on July 1, 2020, to

provide a total of \$133,673 for state employee salary increases. The Senate provided funding for a 2 percent salary increase on July 1, 2019, and a 3 percent salary increase on July 1, 2020, to provide a total of \$141,951 for state employee salary increases.

80 8/3/19
Z. J. 2

² Funding of \$30,000 for contingencies added by the Senate is removed by the House to provide a total contingencies appropriation of \$52,000.

³ One-time funding of \$9 million is removed for a Teachers' Fund for Retirement pension administration project that was included in the Senate version.

**2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB2022**

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 Bellew Seconded By Vice Chairman
Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Chairman Vigesaa			Representative Mock		
Vice Chairman Brandenburg					
Representative Beadle					
Representative Bellew					
Representative Howe					
Representative Kempenich					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:
A motion to remove the contingency line.
Motion Failed.

**2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB2022**

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 Beadle Seconded By Representative Howe

Representatives	Yes	No	Representatives	Yes	No
Chairman Vigessaa			Representative Mock		
Vice Chairman Brandenburg					
Representative Beadle					
Representative Bellew					
Representative Howe					
Representative Kempenich					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:
To have the contingency line remain at \$52,000.00
Motion Carried.

**2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB2022**

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 Bellew Seconded By Vice Chairman
Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Chairman Vigesaa			Representative Mock		
Vice Chairman Brandenburg					
Representative Beadle					
Representative Bellew					
Representative Howe					
Representative Kempenich					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:
Motion to remove the \$9 million IT project.
Motion Carried.

**2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB2022**

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 Howe Seconded By Representative Mock

Representatives	Yes	No	Representatives	Yes	No
Chairman Vigesaa			Representative Mock		
Vice Chairman Brandenburg					
Representative Beadle					
Representative Bellew					
Representative Howe					
Representative Kempenich					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:
Motion to adopt amendment.
Motion Carried.

**2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB2022**

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 Howe Seconded By Representative Mock

Representatives	Yes	No	Representatives	Yes	No
Chairman Vigesaa	X		Representative Mock	X	
Vice Chairman Brandenburg					
Representative Beadle	X				
Representative Bellew					
Representative Howe	X				
Representative Kempenich					

Total (Yes) 4 No 0

Absent 3

Floor Assignment Representative Kempenich

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

Date: 4/4/2019
Roll Call Vote #: 1

**2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2022**

House Appropriations Committee

☐ Subcommittee

Amendment LC# or Description: 19.0235.02001

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 Representative Kempenich Seconded By Representative Vigesaa

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer					
Representative Kempenich					
Representative Anderson			Representative Schobinger		
Representative Beadle			Representative Vigesaa		
Representative Bellew					
Representative Brandenburg					
Representative Howe			Representative Boe		
Representative Kreidt			Representative Holman		
Representative Martinson			Representative Mock		
Representative Meier					
Representative Monson					
Representative Nathe					
Representative J. Nelson					
Representative Sanford					
Representative Schatz					
Representative Schmidt					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

Voice Vote/Motion Carries

Date: 4/4/2019
Roll Call Vote #: 2

**2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2022**

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 Kempenich Seconded By Representative Vigesaa

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X				
Representative Kempenich	X				
Representative Anderson	X		Representative Schobinger	X	
Representative Beadle	X		Representative Vigesaa	X	
Representative Bellew		X			
Representative Brandenburg	X				
Representative Howe	X		Representative Boe	X	
Representative Kreidt	X		Representative Holman	X	
Representative Martinson	X		Representative Mock	A	
Representative Meier	X				
Representative Monson	A				
Representative Nathe	X				
Representative J. Nelson	X				
Representative Sanford	X				
Representative Schatz	X				
Representative Schmidt	A				

Total (Yes) 17 No 1

Absent 3

Floor Assignment Representative Kempenich

Motion Carries

REPORT OF STANDING COMMITTEE

SB 2022, as engrossed: Appropriations Committee (Rep. Delzer, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (17 YEAS, 1 NAYS, 3 ABSENT AND NOT VOTING). Engrossed SB 2022 was placed on the Sixth order on the calendar.

Page 1, line 2, remove "to provide for a report to the legislative assembly;"

Page 1, replace lines 8 through 15 with:

	Base Level	Adjustments or Enhancements	Appropriation
Salaries and wages	\$4,425,570	\$502,660	\$4,928,230
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Total special funds	\$5,340,054	\$529,110	\$5,869,164
Full-time equivalent positions	19.00	1.00	20.00"

Page 1, remove lines 16 through 24

Page 2, remove lines 1 and 2

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Retirement and Investment Office - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$4,425,570	\$4,986,508	(\$58,278)	\$4,928,230
Operating expenses	862,484	3,538,934	(2,650,000)	888,934
Capital assets		6,300,000	(6,300,000)	
Contingencies	52,000	82,000	(30,000)	52,000
Total all funds	\$5,340,054	\$14,907,442	(\$9,038,278)	\$5,869,164
Less estimated income	5,340,054	14,907,442	(9,038,278)	5,869,164
General fund	\$0	\$0	\$0	\$0
FTE	19.00	20.00	0.00	20.00

Department 190 - Retirement and Investment Office - Detail of House Changes

	Adjusts Funding for Salary Increases ¹	Adjust Funding for Contingencies ²	Removes One-Time Funding for Teachers' Fund for Retirement Project ³	Total House Changes
Salaries and wages	(\$8,278)		(\$50,000)	(\$58,278)
Operating expenses			(2,650,000)	(2,650,000)
Capital assets			(6,300,000)	(6,300,000)
Contingencies		(\$30,000)		(30,000)
Total all funds	(\$8,278)	(\$30,000)	(\$9,000,000)	(\$9,038,278)
Less estimated income	(8,278)	(30,000)	(9,000,000)	(9,038,278)
General fund	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00

¹ Funding is adjusted to provide employee salary increases of 2 percent on July 1, 2019, with a minimum monthly increase of \$120 and a maximum monthly increase of \$200, and 2.5 percent salary increase on July 1, 2020, to provide a total of \$133,673 for state employee salary increases. The Senate provided funding for a 2 percent salary increase on July 1, 2019, and a 3 percent salary increase on July 1, 2020, to provide a total of \$141,951 for state employee salary increases.

² Funding of \$30,000 for contingencies added by the Senate is removed by the House to

provide a total contingencies appropriation of \$52,000.

³ One-time funding of \$9 million is removed for a Teachers' Fund for Retirement pension administration project that was included in the Senate version.

2019 CONFERENCE COMMITTEE

SB 2022

2019 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Harvest Room, State Capitol

SB 2022
4/17/2019
JOB # 34810

☐ Subcommittee
☒ Conference Committee

Committee Clerk: Alice Delzer / Marne Johnson

Explanation or reason for introduction of bill/resolution:

A Conference Committee Hearing for the Retirement and Investment Office (RIO)

Minutes:

1.Base Level Funding Changes 2.Statement of Purpose of Amendment

Senators: Chair Poolman, Wanzek, Robinson.

Representatives: Kempenich, Bellew, Howe

Danielle Foster and Levi Kinnischtzke, Legislative Council
Becky Deichert, OMB

Danielle Foster: Distributed Attachment # 1. Base Level Funding Changes and Attachment # 2. Statement of Purpose of Amendment. (These documents were never discussed during the hearing.)

Chair Poolman: Called the Conference Committee to order at 2:30 pm in the Harvest Room. Roll call was taken. All committee members were present.

Chair Poolman: We'll have the House go through the changes they made. There were only two changes.

Representative Kempenich: We added one FTE. Basically it was an investment analyst position. They made a good case for it. The other one is the Teachers Fund for Retirement Pension Project. The Pension administration system project for \$9 million. We looked at part of it to be funded, we basically took it out. We would have more conversations about the ITD project. He also made a comment regarding the investment the teachers make towards the teacher's retirement program.

Chair Poolman: We also had added that FTE. The main point, you removed some contingencies that we added. Do you feel it is the wrong number or is the House saying we don't want to do this at this time?

Representative Kempenich: Commented about some contingencies being phased in. He also stated that phasing in some of these projects get tough to do. The \$8.1 million came at

the end of their meeting. He stated it got left on the table and they zeroed it out. **(The Recorder was started at this time. The clerk failed to start the recorder at the beginning of the hearing)** They made a good case of moving forward with this. The indication was they were trying to use the same platform basically as what's existing, so that was one of the conversations too. I don't think we are strong either way on it. Is it needed, all needed up front, or is it part of it? That is kind of where we ended up at on the conversation.

Senator Wanzek: I guess I can understand you questioning the cost. I received emails from some superintendents and teachers from my area that said this program is thirteen years old, it could be very beneficial to them. It is their money, if this is what they want, and if this is how they want to spend their money, I'm less objectionable to that. Maybe another description if we might on how they arrived at the cost?

Ms. Fay Kopp, PERS Office: To answer the question how we arrived at the original \$9.1 million figure, we had worked with an outside consulting firm, that did a market analysis for us, they suggested that the total project cost for an upgrade or a complete replacement of the plan would be about \$9.4 million. We took a look at that, and when we made our initial proposal as it related to our budget, we submitted it at \$9.1 million; and then Senate approved funding for \$9 million. That includes not just the implementation and the software licensing, but also any consulting costs, project management with ITD, server costs, all of the infrastructure changes that would need to be made to go from a client server based system to a web based system, which is where we believe the efficiencies and the functionality improvements will really allow us to reap savings down the road in the future.

Representative Bellew: How long will it take you to do this project?

Ms. Kopp: First we need to hire a consultant to assist us, we need to put an RFP for the consultant, then they would assist us with the procurement process. Then, depending upon if our current vendor, who we anticipate will bid on this project as an upgrade, or another vendor, which would be a complete system replacement, depending upon who would receive that bid, that would affect the time frame. If the current vendor wins the bids, we are looking at 18-24 months, if it's a complete outside vendor, maybe 2 to 3 years. We believe that if we are able to proceed promptly, it should be nearly completed at the end of the biennium.

Representative Bellew: The \$ 9 million will take care of that for 2 or 3 years?

Ms. Kopp: We believe that the \$ 9 million will provide funding for all of those costs. With that said, I would like to note that the TFRP board and our staff will do everything that we can to come at an amount much less than that. I would hope that we can come back to you two years from now and return some money. That's the goal, but we do have to plan for the contingencies that ITD have warned us about.

Senator Robinson: First of all, I think there is no question about the need to improve efficiency and functionality. We have an agency with a lot of credibility, they've done great work, they have a board that oversees the work that they do. Their numbers are growing; I've heard from teachers that are very supportive of this move. On one hand, we ask our agencies to be efficient, get things done, move on this stuff. They are coming to us with requests to accomplish that. I'd like to see us support that. 24 months is a long time, if we delay this, until

we get back here in January of 2021, we just push it that much further down the road. I think we should move on this. If it were general fund, I'd be a little hesitant, but this is their money, if we can improve the operation of the system and improve efficiencies and so on, I think it's the right thing to do, and I'd like to see us move now. I have every bit of confidence, I know these people, they've done good work over the years and they have a lot of credibility in my book.

Representative Bellew: I want to restore the \$9 million.

Chair Poolman: To clarify, that is for the Teachers Fund for Retirement Pension administration project, the way it was in the Senate. You are going to recede and further amend.

Representative Bellew: We only want to recede from the \$9 million.

Chair Poolman: You have to recede from the whole thing, and then further amend. You do not want the contingency. **The House is moving to recede from their amendments and further amend as follows:** to restore the \$9 million that they had removed from the Teachers Fund for Retirement Pension administration project, and they will also have to amend the salary structure that we disagreed upon. That also needs to go back in there. They do not want to put back the \$30,000 for contingencies.

Representative Bellew: That is what I move.

Representative Howe: I second.

Senator Wanzek: We are receding from the House amendments, and further amend back in the \$30,000?

Chair Poolman: No, you want to recede from your amendments, but you want to put back the salary fix that you made, and you want to put back the \$9 million, but you do not want to put back the \$30,000.

A Roll Call vote was taken. Yea: 6; Nay: 0; Absent: 0. Motion passes.

Carriers: Senator Poolman and Representative Kempenich.

Chair Poolman: That means we get to adjourn.

SK
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4/1

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2022

That the House recede from its amendments as printed on pages 1445 and 1446 of the Senate Journal and pages 1578 and 1579 of the House Journal and that engrossed Senate Bill No. 2022 be amended as follows:

Page 1, replace lines 10 through 15 with:

"Salaries and wages	\$4,425,570	\$552,660	\$4,978,230
Operating expenses	862,484	2,676,450	3,538,934
Capital assets	0	6,300,000	6,300,000
Contingencies	52,000	0	52,000
Total special funds	\$5,340,054	\$9,529,110	\$14,869,164
Full-time equivalent positions	19.00	1.00	20.00"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Retirement and Investment Office - Conference Committee Action

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Salaries and wages	\$4,425,570	\$4,986,508	(\$8,278)	\$4,978,230	\$4,928,230	\$50,000
Operating expenses	862,484	3,538,934		3,538,934	888,934	2,650,000
Capital assets		6,300,000		6,300,000		6,300,000
Contingencies	52,000	82,000	(30,000)	52,000	52,000	
Total all funds	\$5,340,054	\$14,907,442	(\$38,278)	\$14,869,164	\$5,869,164	\$9,000,000
Less estimated income	5,340,054	14,907,442	(38,278)	14,869,164	5,869,164	9,000,000
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	19.00	20.00	0.00	20.00	20.00	0.00

Department 190 - Retirement and Investment Office - Detail of Conference Committee Changes

	Adjusts Funding for Salary Increases ¹	Adjusts Funding for Contingencies ²	Total Conference Committee Changes
Salaries and wages	(\$8,278)		(\$8,278)
Operating expenses			
Capital assets			
Contingencies		(\$30,000)	(30,000)
Total all funds	(\$8,278)	(\$30,000)	(\$38,278)
Less estimated income	(8,278)	(30,000)	(38,278)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ Funding is adjusted to provide employee salary increases of 2 percent on July 1, 2019, with a minimum monthly increase of \$120 and a maximum monthly increase of \$200, and 2.5 percent salary increase on July 1, 2020, to provide a total of \$133,673 for state employee salary increases, the same as provided in the House version. The Senate provided funding for a 2 percent salary increase on July 1, 2019, and a 3 percent salary increase on July 1, 2020, to provide a total of \$141,951 for state employee salary increases.

² Funding of \$30,000 for contingencies added by the Senate is removed to provide a total contingencies appropriation of \$52,000, the same as provided in the House version.

The Conference Committee provided \$9 million of special funds for the pension administrative system project, the same as the Senate version. The House had removed this funding.

**2019 SENATE CONFERENCE COMMITTEE
ROLL CALL VOTES**

BILL/RESOLUTION NO. SB 2022 as (re) engrossed

Senate Appropriations Committee

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

Motion Made by: Representative Bellew Seconded by: Representative Howe

Senators	4/17			Yes	No		Representatives	4/17			Yes	No
Senator Poolman	x			x			Representative Kempenich	x			x	
Senator Wanzek	x			x			Representative Bellew	x			x	
Senator Robinson	x			x			Representative Howe	x			x	
Total Senate Vote				3	0		Total Rep. Vote				3	0

Vote Count Yes: 6 No: 0 Absent: 0

Senate Carrier Senator Poolman House Carrier Representative Kempenich

LC Number 19.0235 . 02002 of amendment

LC Number 19.0235 . 04000 of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

To restore the \$9 million that they had removed from the Teachers Fund for Retirement Pension administration project, include the changes in the salary package and remove the \$30,000 for contingencies.

Insert LC: 19.0235.02002
Senate Carrier: Poolman
House Carrier: Kempenich

REPORT OF CONFERENCE COMMITTEE

SB 2022, as engrossed: Your conference committee (Sens. Poolman, Wanzek, Robinson and Reps. Kempenich, Bellew, Howe) recommends that the **HOUSE RECEDE** from the House amendments as printed on SJ pages 1445-1446, adopt amendments as follows, and place SB 2022 on the Seventh order:

That the House recede from its amendments as printed on pages 1445 and 1446 of the Senate Journal and pages 1578 and 1579 of the House Journal and that engrossed Senate Bill No. 2022 be amended as follows:

Page 1, replace lines 10 through 15 with:

"Salaries and wages	\$4,425,570	\$552,660	\$4,978,230
Operating expenses	862,484	2,676,450	3,538,934
Capital assets	0	6,300,000	6,300,000
Contingencies	52,000	0	52,000
Total special funds	\$5,340,054	\$9,529,110	\$14,869,164
Full-time equivalent positions	19.00	1.00	20.00"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Retirement and Investment Office - Conference Committee Action

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Salaries and wages	\$4,425,570	\$4,986,508	(\$8,278)	\$4,978,230	\$4,928,230	\$50,000
Operating expenses	862,484	3,538,934		3,538,934	888,934	2,650,000
Capital assets		6,300,000		6,300,000		6,300,000
Contingencies	52,000	82,000	(30,000)	52,000	52,000	
Total all funds	\$5,340,054	\$14,907,442	(\$38,278)	\$14,869,164	\$5,869,164	\$9,000,000
Less estimated income	5,340,054	14,907,442	(38,278)	14,869,164	5,869,164	9,000,000
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	19.00	20.00	0.00	20.00	20.00	0.00

Department 190 - Retirement and Investment Office - Detail of Conference Committee Changes

	Adjusts Funding for Salary Increases ¹	Adjusts Funding for Contingencies ²	Total Conference Committee Changes
Salaries and wages	(\$8,278)		(\$8,278)
Operating expenses			
Capital assets			
Contingencies		(\$30,000)	(30,000)
Total all funds	(\$8,278)	(\$30,000)	(\$38,278)
Less estimated income	(8,278)	(30,000)	(38,278)
General fund	\$0	\$0	\$0
FTE	0.00	0.00	0.00

¹ Funding is adjusted to provide employee salary increases of 2 percent on July 1, 2019, with a minimum monthly increase of \$120 and a maximum monthly increase of \$200, and 2.5 percent salary increase on July 1, 2020, to provide a total of \$133,673 for state employee salary increases, the same as provided in the House version. The Senate provided funding for a 2 percent salary increase on July 1, 2019, and a 3 percent salary increase on July 1, 2020, to provide a total of \$141,951 for state employee salary increases.

² Funding of \$30,000 for contingencies added by the Senate is removed to provide a total

Insert LC: 19.0235.02002
Senate Carrier: Poolman
House Carrier: Kempenich

contingencies appropriation of \$52,000, the same as provided in the House version.

The Conference Committee provided \$9 million of special funds for the pension administrative system project, the same as the Senate version. The House had removed this funding.

Engrossed SB 2022 was placed on the Seventh order of business on the calendar.

2019 TESTIMONY

SB 2022

Department 190 - Retirement and Investment Office
Senate Bill No. 2022

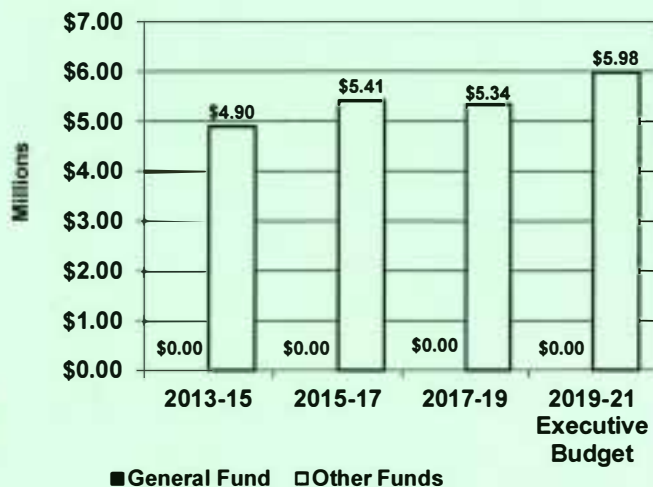
Executive Budget Comparison to Prior Biennium Appropriations

	FTE Positions	General Fund	Other Funds	Total
2019-21 Executive Budget	20.00	\$0	\$5,981,230	\$5,981,230
2017-19 Legislative Appropriations	19.00	0	5,340,054	5,340,054
Increase (Decrease)	1.00	\$0	\$641,176	\$641,176

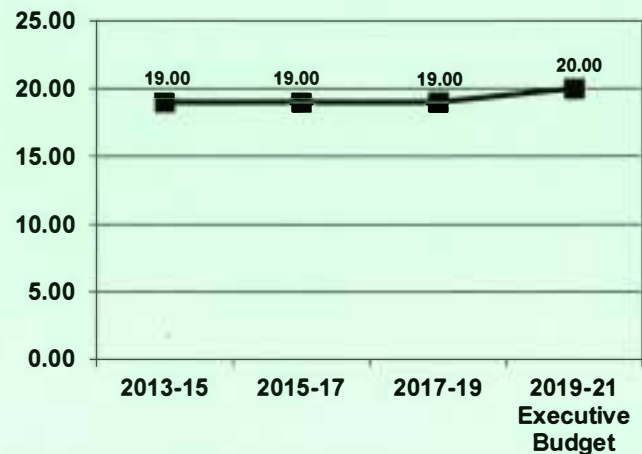
Ongoing and One-Time Other Funds Appropriations

	Ongoing Other Funds Appropriation	One-Time Other Funds Appropriation	Total Other Funds Appropriation
2019-21 Executive Budget	\$5,981,230	\$0	\$5,981,230
2017-19 Legislative Appropriations	5,340,054	0	5,340,054
Increase (Decrease)	\$641,176	\$0	\$641,176

Agency Funding



FTE Positions



Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2019-21 Executive Budget	\$0	\$5,981,230	\$5,981,230
2019-21 Base Level	0	5,340,054	5,340,054
Increase (Decrease)	\$0	\$641,176	\$641,176

Attached as an appendix is a detailed comparison of the executive budget to the agency's base level appropriations.

Executive Budget Highlights

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases, of which \$202,668 is for salary increases, \$75,579 is for health insurance increases, and \$26,734 is for retirement increases	\$0	\$304,981	\$304,981
2. Adds 1 FTE investment analyst position (\$294,996) and related operating expenses of \$14,450		\$309,446	\$309,446
3. Adds funding for Microsoft Office 365 license expenses		\$12,000	\$12,000
4. Adds funding for contingencies to provide a total of \$82,000		\$30,000	\$30,000

Other Sections Recommended to be Added in the Executive Budget
(As Detailed in the Attached Appendix)

Contingencies line item - Section 2 would provide, 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.

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, 2018, did not identify any significant audit findings.

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, 2017, 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**Senate Bill No. 2022****Base Level Funding Changes**

	Executive Budget Recommendation			
	FTE Position	General Fund	Other Funds	Total
2019-21 Biennium Base Level	19.00	\$0	\$5,340,054	\$5,340,054
2019-21 Ongoing Funding Changes				
Base payroll changes			(\$15,251)	(\$15,251)
Salary increase			202,668	202,668
Health insurance increase			75,579	75,579
Retirement contribution increase			26,734	26,734
Adds 1 FTE investment analyst position	1.00		309,446	309,446
Adds funding for Microsoft Office 365 license expenses			12,000	12,000
Adds funding for contingencies			30,000	30,000
Total ongoing funding changes	1.00	\$0	\$641,176	\$641,176
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	1.00	\$0	\$641,176	\$641,176
2019-21 Total Funding	20.00	\$0	\$5,981,230	\$5,981,230

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

Contingencies line item transfers

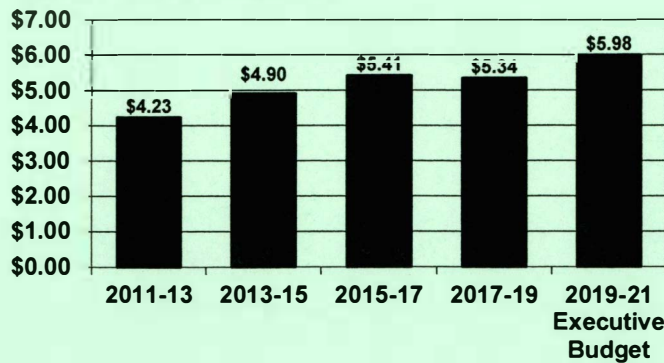
Executive Budget Recommendation

Section 2 would provide, 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.

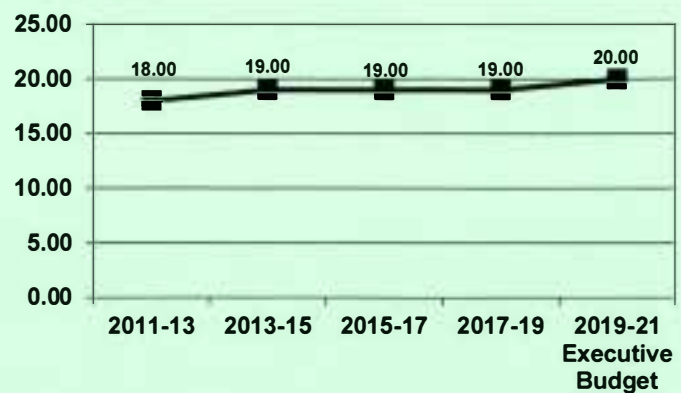
Department 190 - Retirement and Investment Office

Historical Appropriations Information**Ongoing Total Fund Appropriations Since 2011-13**

Agency Funding (in Millions)



FTE Positions



Ongoing Total Funds Appropriations					
	2011-13	2013-15	2015-17	2017-19	2019-21 Executive Budget
Ongoing total fund appropriations	\$4,232,954	\$4,899,369	\$5,413,425	\$5,340,054	\$5,981,230
Increase (decrease) from previous biennium	N/A	\$666,415	\$514,056	(\$73,371)	\$641,176
Percentage increase (decrease) from previous biennium	N/A	15.7%	10.5%	(1.4%)	12.0%
Cumulative percentage increase (decrease) from 2011-13 biennium	N/A	15.7%	27.9%	26.2%	41.3%

Major Increases (Decreases) in Ongoing Total Fund Appropriations**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

- Adjusted funding for operating expenses (\$128,390)
- Reduced contingency funding to \$52,000 (\$30,000)

2019-21 Biennium (Executive Budget Recommendation)

- Adds 1 FTE investment analyst position (\$294,996) and related operating expenses of \$14,450 \$309,446
- Adds funding for Microsoft Office 365 license expenses \$12,000
- Adds funding for contingencies to provide a total of \$82,000 \$30,000

**GOVERNOR'S RECOMMENDATION FOR THE
RETIREMENT AND INVESTMENT OFFICE AS SUBMITTED
BY THE OFFICE OF MANAGEMENT AND BUDGET**

SECTION 1. APPROPRIATION. The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys from special funds derived from income for the purpose of defraying their expenses, for the biennium beginning July 1, 2019, and ending June 30, 2021, as follows:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	4,425,570	584,726	5,010,296
Operating Expenses	862,484	26,450	888,934
Contingencies	<u>52,000</u>	<u>30,000</u>	<u>82,000</u>
Total all funds	5,340,054	641,176	5,981,230
Less estimated income	<u>5,340,054</u>	<u>641,176</u>	<u>5,981,230</u>
Total general fund			
Full-time equivalent positions	19.00	1.00	20.00

SECTION 2. APPROPRIATION LINE ITEM TRANSFERS. Upon approval of the state investment board, the retirement and investment office may transfer from their contingency line item in section 1 of this Act to all other line items. The agency shall notify the office of management and budget of each transfer made pursuant to this section.

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

January 8, 2019

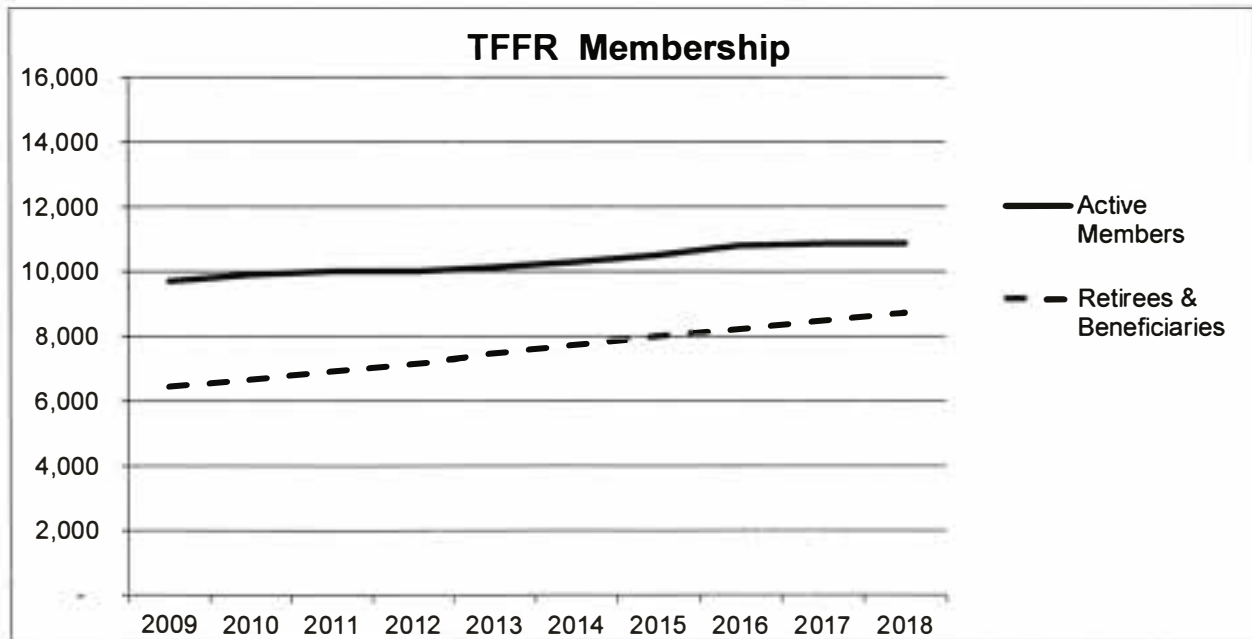
RIO Programs Overview

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 the TFFR program are paid from contributions collected from members and employers and from invested assets/earnings. All appropriated expenditures for the SIB investment program 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 12.1% from 9,700 to nearly 10,900 participants, while retirees and beneficiaries have increased 35.2% from less than 6,500 to over 8,700.



#1

SB 2022

1-8-2019

For Fiscal Year 2018 there were 214 participating TFFR employers comprised as follows:

School Districts	176
Special Ed Units	19
Vocational Centers	4
Counties	6
State Agencies/Institutions	5
Other	<u>4</u>
2017-18 Total Employers	214

The TFFR program appropriated expenses includes salaries, benefits and administrative overhead costs for the administration of the day-to-day operations of the fund and delivery of 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, 2018.

Activity	# of Members
Monthly collection of contributions from 214 Employers	10,881
Maintenance of Membership Records	22,218
New Retirement & Disability Claims Processed	401
Deaths Processed	226
Refunds/Rollovers Processed	228
Service Purchase Inquiries Processed	174
New Member Enrollments Processed	879
Monthly Benefit Payments Processed	8,743
Educational Outreach Programs Attended	1,047

Additional administrative activities include development of publications and educational materials for active and retired members and employers; maintenance of website, member and employer online services, and the pension administration software system that houses all TFFR member data; compliance reviews to verify accuracy of member records, 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 \$202.4 million in fiscal year 2018. Another \$5.6 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.

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SB 2023
1-8-2019

- **State Investment Board (SIB)**

The SIB is responsible for the investment of over \$13 billion in assets for seven pension funds and 18 other non-pension funds. The following table shows the most currently available fair value of assets by fund.

	Fair Value as of 11/30/18 (unaudited)
PENSION POOL PARTICIPANTS	
Teachers' Fund for Retirement	\$2,420,114,305
Public Employees Retirement System	2,963,975,311
Bismarck City Employee Pension Fund	97,918,151
Bismarck City Police Pension Fund	39,552,163
City of Grand Forks Pension Fund	63,635,519
City of Grand Forks Park District Pension Fund	6,716,738
Subtotal Pension Pool Participants	5,591,912,187
INSURANCE POOL PARTICIPANTS	
Workforce Safety & Insurance Fund	1,883,403,124
State Fire and Tornado Fund	22,633,302
State Bonding Fund	3,419,780
Petroleum Tank Release Fund	6,186,592
Insurance Regulatory Trust Fund	1,206,840
State Risk Management Fund	4,553,198
State Risk Management Workers Comp	3,597,772
Cultural Endowment Fund	444,042
Budget Stabilization Fund	114,461,578
ND Association of Counties (NDACo) Fund	5,846,080
City of Bismarck Deferred Sick Leave	721,786
PERS Group Insurance	32,329,024
State Board of Medicine	2,247,701
City of Fargo FargoDome Permanent Fund	42,594,784
Lewis & Clark Interpretive Center Endowment	692,611
Subtotal Insurance Pool Participants	2,124,338,214
INDIVIDUAL INVESTMENT ACCOUNTS	
Legacy Fund	5,765,157,670
Retiree Health Insurance Credit Fund	124,450,806
Job Service of North Dakota Pension Fund	95,280,203
Tobacco Prevention and Control Trust Fund	48,578,910
TOTAL	\$13,749,717,990

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

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are pooled together when possible to achieve efficiencies in staff monitoring and to receive lower fees from investment managers.

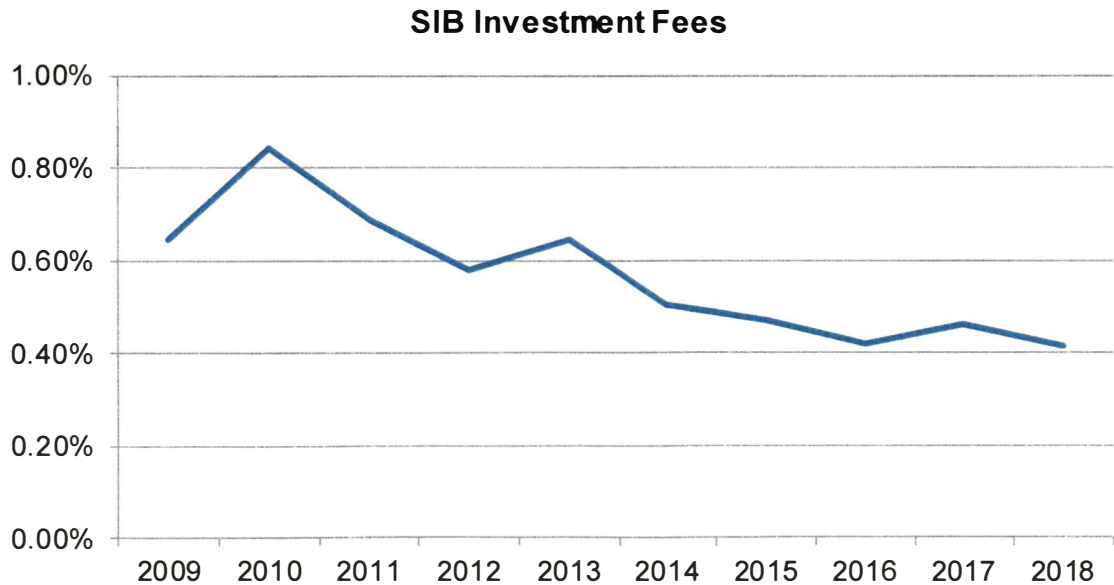
The SIB investment program appropriated expenses include salaries, benefits and administrative overhead for the management of the day-to-day operations of the program.

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 25 client funds. Statistics regarding the number of investment clients/managers/accounts, etc., are shown in the following table.

Client Funds	25
Asset Class Pools/Groups	34
Investment Manager Relationships	38
Investment Strategies	75
Investment Manager Accounts	113
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.

During the past 5 years, the SIB and RIO have re-intensified efforts to improve our overall return on investment management fees and expenses. As a result, SIB client investment fees have declined from 0.65% in fiscal 2013 to 0.42% in fiscal 2018. This 0.23% decrease in fees on \$10 billion in assets equates to an annual savings of approximately \$23 million. The following chart shows the downward trend in investment fees over most of the last decade.



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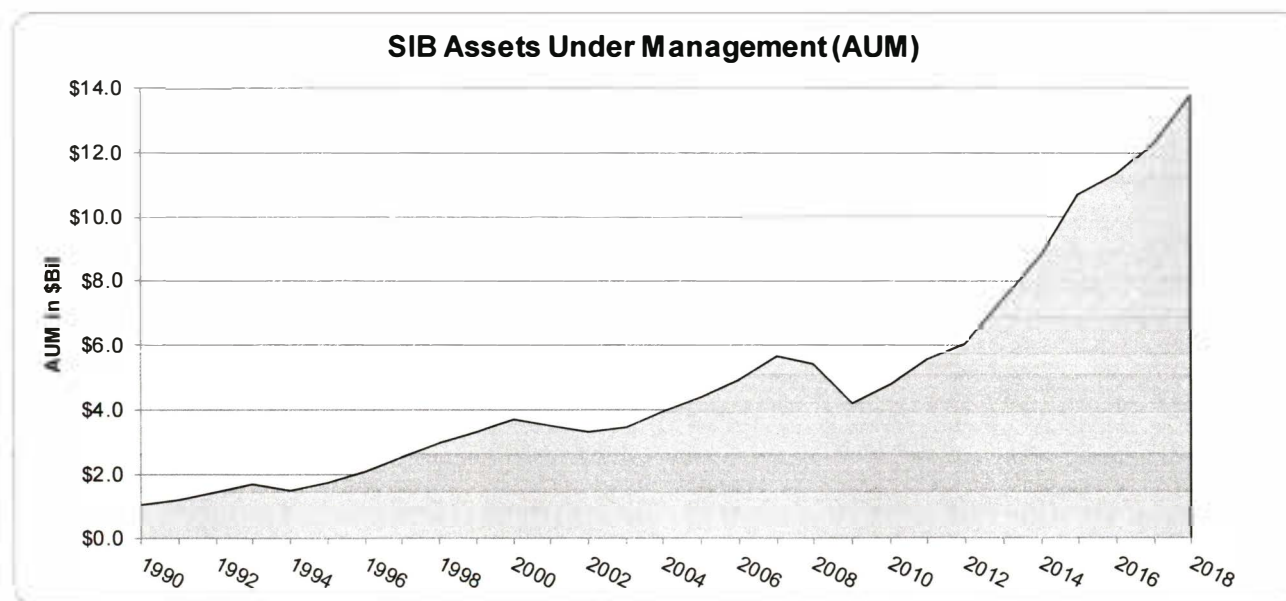
Goals for SIB Client Investment Fees and Expenses:

The SIB and RIO work to keep investment fees and expenses at or below 0.50% per year, while seeking to identify investment firms which beat their performance benchmarks by 0.50% or more (after all fees and expenses) over the long-term. If we are successful in attaining both of the above goals, our SIB clients are effectively earning a minimum 2-for-1 return on our investment fee and expense dollars. The following chart offers an example for the Legacy Fund:

	FY 2018			FY 2017		
	Average Market Value	Fees in \$	Fees in %	Average Market Value	Fees in \$	Fees in %
Investment Fees	² 5,291,348,530	15,909,882	0.30%	4,344,421,122	13,986,877	0.32%
Investment Fees & Expenses		¹ 16,635,287	0.31%		14,564,731	0.34%
Actual Performance (Net of Fees)			7.57%			12.03%
Policy Benchmark			6.51%			9.91%
		Outperformance ³	1.06%		Outperformance	2.12%

Investment fees and expenses declined to 0.31% in fiscal 2018 from 0.34% in fiscal 2017, while noting the use of active management paid significant returns for the Legacy Fund in Fiscal 2018 as the SIB paid ¹ \$16.6 million in fees to outperform the Policy Benchmarks by ³ 1% or \$50 million (² \$5 billion x ³ 1% = \$50 million).

SIB client investments have grown from \$6 billion in 2012 to over \$13 billion in 2018.



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**RETIREMENT AND INVESTMENT OFFICE 190
2019-2021 BIENNIUM BUDGET REQUEST**

	1	2	3	4	5	6	7	8
	2017-19 Base Budget	2019-21 Base Budget Request (w/10% reduction)	Optional Adjustment #1 "Reinstate 10% Reduction"	Optional Adjustment #2 "Additional FTE"	Additional Governor's Recommendations	Total Governor's Recommendation	Optional Adjustment #3 One-time Request "Pension Admin. System Project"	Total Agency Request
Salaries & Wages	\$ 4,425,570	\$ 3,860,125	\$ 550,194	\$ 294,996	\$ 304,981	\$ 5,010,296	\$ 50,000	\$ 5,060,296
Operating Expenses	862,484	862,484		14,450	12,000	888,934	2,789,000	3,677,934
Contingency	52,000	82,000				82,000		82,000
Capital Assets							6,300,000	6,300,000
	\$ 5,340,054	\$ 4,804,609	\$ 550,194	\$ 309,446	\$ 316,981	\$ 5,981,230	\$ 9,139,000	\$ 15,120,230
FTE Count	19	16	3	1	-	20	-	20

10% Base Budget Reductions:
In order to meet the requirement of a 10% cut in the base budget request, RIO chose to submit the reduction to the salaries and wages line. Due to a drastic 13% reduction to the operating line for the 2017-19 biennium, it was difficult to find any additional savings in that line. In addition to that, the 10% overall reduction, if taken from the operating line, would equate to a 62% cut to the operating line. No specific positions were indicated for elimination as part of the original base budget request. Over a dozen combinations of position cuts and salary reductions were considered and most scenarios required a minimum of three positions to be eliminated to reach the 10%. Any reduction to RIO's current workforce will severely compromise the agency's ability to maintain ongoing TFFR pension administration operations and SIB investment management functions.

Optional Adjustment #1 - Reinstate 10% Base Budget Reductions:
The Governor included Optional Adjustment #1 in his recommendation.

Optional Adjustment #2 - Additional FTE for Investment Program:
This request is for an additional FTE for the SIB investment program and additional operating expenses related to that position.

As an industry best practice, RIO is currently developing a more robust investment risk management oversight and reporting function within the SIB investment program. Investment risk management is the process of identifying the level of risk that an entity wants, measuring the level of risk that an entity currently has, taking actions that bring the actual level of risk to the desired level, and monitoring the new actual level of risk so that it continues to be aligned with the desired level of risk. The process is continuous and developing an effective framework requires measuring, monitoring, and managing exposure to both economic and fundamental drivers of risk and return across asset classes to avoid over-exposures to common risk factors. Additionally, the SIB's current strategic plan includes "enhancing our internal control environment by improving the use of proven risk management solutions" noting that "a robust risk management framework serves as the foundation to support a sound internal control environment and lessen downside risk."

The SIB investment program has grown tremendously over the last six years, with client assets increasing 122% or \$7.4 billion, while staffing has remained consistent at 6.95 FTEs. Investment performance and client satisfaction have been strong, with returns in the top quartile of peer universes over the past 15 years. However, RIO recognizes that our ability to continue achieving positive results and reaching the goal of additional risk monitoring or any other enhancements to client services will be highly challenged without the additional FTE. The Governor recognized the importance of this request and has included the additional FTE in his recommendation.

Optional Adjustment #3 - TFFR Pension Administration System Project: Details regarding the methodologies used to determine the probable costs for this project are included within the testimony. This one-time project request was not included in the Governor's recommendation.

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2017-19 Budget Status

As shown in Exhibit A, Column 1, the RIO 2017-19 approved budget is just over \$5.3 million. Salaries and wages for RIO's current 19 FTEs make up nearly 83% of that total. After having three vacancies early in the biennium, RIO is now fully staffed. It is anticipated that we will have approximately \$81,000 left in this line item at the end of the biennium due to those vacancies.

Operating expenses were approved at just over \$862,000 for the 2017-19 biennium. This was a 13% decrease from the previous biennium's approved operating expenses. Due to this sharp decrease, staff brainstormed ideas for cost savings across the agency. The first area that was explored was travel and professional development. Staff and board members were asked to limit their requests for out-of-state conferences and other educational opportunities to one for the biennium. Most chose to forego training in the first year of the biennium to ensure funding would be available. During this time, other longer-term cost-savings options were explored to guarantee that funds would be available for highly important education opportunities going forward.

The largest long-term cost saving idea that has been implemented relates to the printing and mailing of newsletters and other similar materials to active members of the TFFR retirement program. It was determined that TFFR employers can be utilized to assist in disseminating this information to active members through the use of emails and the RIO website. It is anticipated that RIO can save over \$20,000 per biennium due to this process change.

Staff has been very frugal, not only during this biennium but historically, when requesting the expenditure of operating funds. Because of the limitations imposed on educational opportunities as well as the savings in postage and printing, RIO expects to have a balance of approximately \$23,000 in the operating line at the end of the current biennium.

The contingency line item was also reduced in the 2017-19 biennium. The \$30,000 reduction amounted to a 37% reduction. This line item is reserved for expenses that are outside of normal operations and are difficult to plan. In the past, this line item has been used for executive search firms to assist in filling the Executive Director/CIO position. Due to the nature of these types of expenses, the costs can be high. The average expenditures from this line in the past have been in the \$75,000-\$100,000 range, therefore making the reduction to this line concerning. We have not had the need to spend anything from this line during the 2017-19 biennium-to-date.

	2017-19 Approved Appropriation	Actual Expenses through 12/31/18	Estimated Remaining Expenses	Estimated Total 2017-19 Expenses	Estimated 2017-19 Ending Appropriation Balance
Salaries & Wages	\$ 4,425,570	3,233,570	1,111,000	4,344,570	81,000
Operating Expenses	862,484	457,648	382,124	839,772	22,712
Contingency	52,000	-	-	-	52,000
	<u>\$ 5,340,054</u>	<u>3,691,218</u>	<u>1,493,124</u>	<u>5,184,342</u>	<u>155,712</u>

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2019-21 Budget Request

Base Budget Request

As detailed in Exhibit A, Column 2, RIO submitted a base budget request with a 10% reduction from the 2017-19 biennium. In order to meet this requirement, RIO chose to submit the reduction to the salaries and wages line. Due to the drastic 13% reduction to the operating line for the 2017-19 biennium, it was difficult to find any additional savings in that line. In addition to that, the 10% overall reduction, if taken from the operating line, would equate to a 62% cut to the \$862,000 operating line. No specific positions were indicated for elimination as part of the original base budget request. Over a dozen combinations of position cuts and salary reductions were considered and most scenarios required a minimum of three positions to be eliminated to reach the 10%. Any reduction to RIO's current workforce will severely compromise the agency's ability to maintain ongoing TFFR pension administration operations and SIB investment management functions.

With some minor adjustments between categories within the operating line, the base budget operating line request was submitted at "hold-even". Savings identified within the postage and printing categories were deployed back into travel and professional development to ensure staff and board members are sufficiently educated on current topics in the public pension and investment communities to properly fulfill their fiduciary duties to the funds they represent.

The \$30,000 reduction in the contingency line for the 2017-19 biennium was added back in the base budget request to ensure adequate funds are available based on historical averages.

Optional adjustments included in Governor's recommendation (Exhibit A, Columns 3 & 4)

RIO included three optional adjustment packages in the original budget request, two of which were included in the Governor's recommendation.

Optional Adjustment #1 – Reinstate 10% Reduction (included in Governor's recommendation): As mentioned earlier, the 10% reduction to the base budget was submitted within the salaries and wages line. Because the salaries and wages line is over 80% of RIO's total budget, it was difficult to reach the 10% outside of that area. Many scenarios were explored in attempting to identify positions that could be eliminated but the result was that in nearly all scenarios, a minimum of three positions would need to be eliminated to meet the 10% threshold. The Governor agreed that a reduction of over 15% (3+ FTEs) of RIO's current workforce would severely compromise the agency's ability to maintain ongoing TFFR pension administration operations and SIB investment management functions and therefore included this optional adjustment in his recommendation.

Optional Adjustment #2 – Additional FTE for Investment Program (included in Governor's recommendation.): As an industry best practice, RIO is currently developing a more robust investment risk management oversight and reporting function within the SIB investment program. Investment risk management is the process of identifying the level of risk that an entity wants, measuring the level of risk that an entity currently has, taking actions that bring the actual level of risk to the desired level, and monitoring the new actual level of risk so that it continues to be aligned with the desired level of risk. The process is continuous and developing an effective framework requires measuring, monitoring, and managing exposure to both economic and fundamental drivers of risk and return across asset classes to avoid over-exposures to common risk factors.

The SIB's current strategic plan includes "enhancing our internal control environment by improving the use of proven risk management solutions" noting that "a robust risk management framework serves as the foundation to support a sound internal control environment and lessen downside risk."

Following an extensive review of leading investment risk management system vendors, RIO selected a solution in 2016 to implement a risk management system across the investment program. The state of

the art multi-asset class risk management solution combines sophisticated risk analytics and subject matter expertise to help RIO better understand and manage risk, resulting in more informed investment decisions using the system's tools for portfolio risk, stress testing and scenario analysis; asset allocation analysis; performance and attribution; and compliance and oversight.

RIO continues to work with the vendor to develop a risk dashboard for monitoring downside risk under various historical and hypothetical stress scenarios. Additionally, RIO intends to enhance its investment risk monitoring reports to include an expanded list of key risk metrics. However, current staffing within the investment program is seriously limiting the amount of time available to make these enhancements.

This request is for an additional FTE for the SIB investment program and additional operating expenses related to that position.

Significant highlights in the SIB investment program include the following; however, RIO recognizes that our ability to continue achieving these results and reaching the goal of additional risk monitoring or any other enhancements to client services will be highly challenged without the additional FTE.

- SIB client investments have increased by \$7.4 billion or 122% in the past six years while the authorized FTEs assigned to the investment program have remained steady at 6.95.
- Investment returns for the Pension Trust (including PERS and TFFR) improved from the 74th percentile for the last 10-years to the 26th percentile the last 5-years and 23rd percentile for the 3-years ended 6/30/2018.
- Legacy Fund investment earnings are nearly \$1 billion since inception including \$200 million for the 16 months ended October 31, 2018. NDCC earnings (transferrable to the General Fund) were \$285 million as of October 31.
- Customer satisfaction surveys have remained strong (averaging 3.6 on a 4.0 scale)

Other Adjustments (Exhibit A, Column 5)

The Governor's recommendation also includes adjustments to RIO's base budget request in the salaries and wages line in the amount of \$304,981 which includes his recommendations for state employee salary increases as well as changes to benefit amounts for insurance and PERS retirement contributions.

Also, after the agency budget submission deadline, ITD contacted agencies regarding the state-wide implementation of Microsoft Office 365. Because we did not have any costs in our base request for Microsoft Office upgrades or replacements (we upgraded in a previous biennium), we were required to calculate the additional cost to the agency to move to Office 365. That cost was \$12,000 for the 2019-21 biennium and was included in operating expenses in the Governor's recommendation.

Optional adjustment not included in Governor's recommendation (Exhibit A, Column 7)

Optional Adjustment #3 – Pension Administration System Project (One-time Request): RIO is requesting an amendment to SB 2022 which would provide for one-time spending of up to \$9.139 million (or only as much as is necessary) of TFFR trust funds to upgrade or replace TFFR's outdated pension administration computer system.

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TFFR Pension Administration Software Modernization Study

TFFR's current pension administration software (PAS) has been in operation for over 13 years. The functionality and technical architecture of this client-server technology is now at the end of its product release lifecycle and needs to be updated.

The TFFR Board and RIO staff believes it is a necessary and prudent use of TFFR funds (special fund, not general fund) to upgrade or replace the current system with a more technologically advanced, web based system which would provide significant improvements in functionality, efficiency and system security for TFFR members, employers, and staff. An updated system is needed in order for TFFR to re-engineer business processes and automate TFFR pension administration activities, reporting capabilities, electronic communications and services. The current PAS has many limitations, and without an updated PAS, TFFR will need to spend trust fund assets trying to maintain an old system, instead of investing in newer technology that includes the necessary functionality to efficiently administer the plan.

During the past year, RIO has studied the potential risks, benefits, and costs of upgrading or replacing the current PAS. We have worked with State ITD, State Procurement, PERS, and a nationwide pension software consulting firm on this study.

Risks of Current PAS:

- Functionality and technical architecture of current PAS is outdated. Continuing to utilize the current PAS does not allow RIO to take advantage of advancing technology and security improvements. Current PAS administrator interface is deployed as a client-server application which has significant limitations. For example, TFFR's current software is a 32-bit application. Most operating systems are now based on 64-bit technology platforms.
- Cost to maintain current PAS is expected to increase. While the current vendor provides limited support for the PAS product, the number of personnel familiar with the older version technical environment and TFFR customizations will diminish, resulting in a higher cost for support services as time progresses. Additionally, the older the system gets, the greater the likelihood for the system to crash and need costly fixes in order to continue operating. (See Concerns if Project is Not Approved.)
- Current Member self-service portal is very limited and provides basic "read only" functionality. It does not allow for any electronic member communication and interaction. While it can be customized to add new features (at a significant cost), the portal presentation will retain the present look and feel. The current self-service user interface uses frames technology which has limitations and is not fully ADA compliant.
- Current Employer self-service portal is also very limited and provides only basic functionality. Again, it does not allow for any electronic employer communication and interaction. Employers cannot perform any business rule validations of the member data contained in the file. RIO staff must perform the validations, evaluate any data exceptions and any action for any data corrections that are to be addressed and resubmitted by the employer, which is time consuming and inefficient.

Benefits of Updated PAS (Upgrade or Replacement):

- Most of the features needed to reinvent the way TFFR conducts its business operations are standard functions of a modern PAS.
- Updated PAS will enable TFFR to adopt best practices in self services for members and employers, achieve greater efficiencies in daily administration, and provide security improvements that are available with new technology vs old technology.
- Updated Employer self-service would allow employers to securely communicate with TFFR, and take greater ownership of their data. Employers would have the ability to securely upload contribution data, receive immediate validation results, confirm contribution remittances, and view their remittance histories and receivable accounts.

- Updated Member self-service would allow members to securely communicate with TFFR, access and update certain personal information, and run their own benefit estimates.
- Updated PAS would allow for straight-through-processing to automate enrollment, termination, retirement request processing, benefit calculations, e-communications, e-forms, and e-distribution to members and employers.
- Communications would be timelier with members and employers being able to initiate requests online and receive statements, notifications, and correspondence securely through the web portal from anywhere and at any time using a desktop computer or mobile device.
- Digital (electronic) communication is direct and secure, saves on mailing costs, and reduces reliance on paper which is a cost savings to the fund.
- An updated PAS would provide future ability to deploy the application to either a private or public cloud environment.

Additional benefits include:

- Web-based interface for administrators via commonly used and supported web browsers
- Enhanced web self-services for members, retirees, employers, and other stakeholders
- Benefit estimates and retirement modelling tools with member self-service
- Responsive web design for access with tablets and smartphones – mobile access
- Business process workflow
- Case and task management
- Email notification
- Administrator dashboards
- Employer self-service payroll contribution reporting, real-time data validation, and view access to receivable accounts
- Expanded accounting functionality to capture financial transactions, map to and export data to the general ledger system
- Integrated document imaging with bar-coding capability for process automation
- Online ad-hoc queries and reports
- Seminar scheduling
- Application management tools

Based on the anticipated benefits listed above, RIO believes there is an opportunity for post implementation efficiencies that could result in future budget reductions in the TFFR pension program. Potential budget reductions are not quantifiable at this point in the project planning. However, if TFFR is able to automate current pension administration processes with a new system and transition to secure digital communications with members and employers, at a minimum, it is expected to save printing and mailing costs and allow users to better utilize their skills and knowledge in other needed areas of retirement program administration.

In order to successfully complete the project within the anticipated project timeline (2-3 years), it will be necessary to maintain all current budget and staffing levels in order to re-engineer business processes and maintain adequate service levels during the implementation.

Cost to Upgrade or Replace Current PAS:

In order to estimate the cost to upgrade or replace the current PAS, RIO reviewed market value research conducted by a nationwide IT consulting firm specifically focused on addressing the operational and technological challenges of retirement benefits administration organizations. Two approaches were used in developing the budget estimate for this project. In these analyses, key parameters such as plan members, employers, users, and market value of assets were matched against a large database of other state and local pension systems, and averaged to those that are similar to TFFR to determine an

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estimate. Additionally, RIO staff worked with state ITD in project planning and identifying other potential costs for this project.

The \$9.139 million estimated project cost includes budget estimates for:

- External vendor costs for software licensure, implementation, deployment, and post implementation maintenance and support.
- External consulting costs including procurement assistance, project management, oversight support, quality assurance, and business process improvement and reengineering.
- Internal consulting costs for ITD project management, ITD oversight, AGO legal fees, temporary salaries, and other project costs and contingencies.

It is important to note that **IF a system upgrade** by TFFR's current pension software vendor is selected, the cost could be much less than the \$9.139 million project cost estimate for a **system replacement** by a different vendor. Upgrades by a current vendor to a newer software version typically cost less, have a shorter timeline, require less staff training, and carry less risk than a complete system replacement utilizing a new vendor. (See Vendor Selection and Project Oversight.)

With over 22,200 active, inactive, and retired members, a \$9.139 million one-time cost is approximately \$411 per member, or spread over 10 years (expected software life), about \$41 per member. If the project costs less, for example \$6 million, it would be about \$270 per member, or about \$27 per member over 10 years. Based on June 30, 2018 TFFR market value of \$2.53 billion, a \$9.139 million cost is approximately 0.36% (36/100 of 1%). A \$6 million cost is about 0.24% (24/100 of 1%).

As part of our study, RIO staff also received a demo of the current web-based PERS pension administration software which utilizes a different vendor than TFFR. Through our discussions with PERS, we determined that while TFFR and PERS perform some similar pension administration functions, TFFR and PERS members are different, and most employers are different. Additionally, TFFR and PERS pension programs are administered by two separate agencies, so processes and procedures require different customizations and implementations. Even if the same vendor was utilized by both TFFR and PERS, each system requires different structures, configuration, and deployment. The RFP selection process will identify if any cost savings could be achieved by utilizing the same pension software vendor for both TFFR and PERS. Regardless, discussions with PERS regarding their pension software, implementation project, and costs have been very helpful, and we appreciate their willingness to share information.

Vendor Selection and Project Oversight

If the Legislature approves this one-time spending for the TFFR pension system upgrade or replacement project, RIO will follow all state statutes and ITD guidelines for a major IT project. RIO will work with state ITD and state Procurement in the consultant and vendor selection process. As required by state law, RIO will utilize the state's procurement process to select a consultant and a software vendor for the project to ensure a fair and competitive bidding process. RIO's current pension software vendor, and many other pension software vendors (including PERS' vendor) will be invited to submit formal proposals which will be closely scrutinized to determine the best long term solution for the best price for this important IT project. The TFFR Board must give final approval to hire both the project consultant and software vendor.

Project planning, management and oversight will be provided by state ITD. Project start up, status, and close out reports will be provided to ITD, SITAC, Legislative IT Committee, TFFR Board, and other interested stakeholders. As fiduciaries of the TFFR fund, the TFFR Board will closely monitor this project to ensure trust fund assets are being appropriately spent.

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Concerns if Project Is Not Approved

If this project is not approved, RIO will need to continue operating the current PAS which utilizes outdated technology. Due to the high cost (and inability in some cases) of making technical improvements, RIO would be unable to re-engineer business processes and modernize operations, and would have to rely on an older system with less automation and less security. We would be unable to utilize secure digital communications with members and employers through online services.

Therefore, if the current PAS is not upgraded or replaced, RIO is subject to limited technical support, limited functionality, increased costs, increased security risks, and the potential for the current PAS to crash and not be fixed in a timely manner. This would cause many issues with daily pension administration functions (including monthly payroll to nearly 9,000 retired members). We have already had to make some costly fixes to the current software, and this is expected to increase as the software continues to age. We expect that RIO will incur increased costs to maintain and support the current PAS. Consequently, RIO may need to request an increase in the current IT line of RIO's budget contained in SB 2022 if this project is not approved.

Project Summary

While a TFFR pension administration software modernization project will be costly and time consuming, we believe it is in TFFR's best interests to make this investment now to take advantage of technology improvements and security enhancements that have been made in the years since the current software was implemented. This will allow RIO to reinvent the way it conducts business by providing significant functionality, customer service, and security improvements for over 20,000 active and retired members, 214 school districts and other participating employers, and RIO staff administering the TFFR plan.

Exhibit B (attached) provides a one-page summary of this project request. Our focus is on what is the best and most cost efficient use of TFFR trust funds. These are all special fund dollars – no general funds are being requested.

CONCLUSION – REQUEST FOR AMENDMENT

Based on the information provided within this testimony, RIO respectfully requests the following amendments to SB2022.

	2017-19 Base Level Appropriation	Adjustment to Base	Additional FTE	Additional Governor's Recommendations	One-time Request Pension Admin. System Project	Total Senate Amendment Request	Total Request from Senate
Salaries & Wages	\$ 4,425,570	(15,251)	294,996	304,981	50,000	634,726	5,060,296
Operating Expenses	862,484	-	14,450	12,000	2,789,000	2,815,450	3,677,934
Contingency	52,000	30,000	-	-	-	30,000	82,000
Capital Assets	-	-	-	-	6,300,000	6,300,000	6,300,000
	<u>\$ 5,340,054</u>	<u>14,749</u>	<u>309,446</u>	<u>316,981</u>	<u>9,139,000</u>	<u>9,780,176</u>	<u>15,120,230</u>
FTE Count	19	-	1	-	-	1	20

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**SB 2022 – RIO Budget
TFFR Pension Administration Software (PAS) Modernization Project Summary**

Request

- Upgrade or replace TFFR pension software with web-based system
- RIO conducted study involving ITD, Procurement, PERS, and Consultant

Risks of Current PAS

- Current system is 13-years old
- Functionality and technical architecture of client-server system is outdated
- Increased costs to maintain and support
- Limited technical support
- Limited functionality of member and employer online portals – read only
- No electronic member communication and interaction
- Inability to automate manual processes and re-engineer business processes
- Inability to utilize secure digital communications w/members and employers

Benefits of PAS Upgrade or Replacement

- Web based technology is standard
- Re-engineer business processes and adopt best practices in pension administration
- Enhanced member and employer self-service and security improvements
- Straight-through-processing to automate enrollment, termination, retirement processing, calculations, communications, forms, and distribution
- Cost savings with digital communication, and reduced paper mailings
- Improved staff efficiency

Estimated Cost

- \$9.139 million (or less) one- time
- Cost could be less for system upgrade rather than system replacement by a different vendor
- Includes external vendor costs, consulting costs, project management, and ITD, legal, and other project costs and contingencies
- Special funds – no general funds

Vendor Selection and Project Oversight

- Utilize state's procurement/RFP process to select consultant and software vendor
- Follow ITD requirements in managing major IT project
- Required reports to ITD, SITAC, Leg IT Com.
- TFFR Board contract approval and project oversight to ensure TFFR trust fund assets are being appropriately spent

Summary

- Investment in updated technology will provide necessary tools to reinvent and automate TFFR retirement program operations and processes
- Updated technology will improve functionality, customer service, efficiency, and security for TFFR members, employers, and staff

19.0235.01001
Title.
Fiscal No. 1

#1 SB 2022
2-14-2019
Prepared by the Legislative Council staff for
the Senate Appropriations Committee
February 13, 2019

PROPOSED AMENDMENTS TO SENATE BILL NO. 2022

Page 1, replace lines 8 through 14 with:

	Base Level	Adjustments or Enhancements	Appropriation
Salaries and wages	\$4,425,570	\$560,938	\$4,986,508
Operating expenses	862,484	2,676,450	3,538,934
Capital assets	0	6,300,000	6,300,000
Contingencies	52,000	30,000	82,000
Total special funds	\$5,340,054	\$9,567,388	\$14,907,442
Full-time equivalent positions	19.00	1.00	20.00

SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO SIXTY-SEVENTH LEGISLATIVE ASSEMBLY. The following amounts reflect the one-time funding items approved by the sixty-fifth legislative assembly for the 2017-19 biennium and the one-time funding items included in the appropriation in section 1 of this Act:

One-Time Funding Description	2017-19	2019-21
Pension administration system project	\$0	\$9,000,000
Total other funds	\$0	\$9,000,000

The 2019-21 biennium one-time funding amounts are not a part of the entity's base budget for the 2021-23 biennium. The retirement and investment office shall report to the appropriations committees of the sixty-seventh legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2019, and ending June 30, 2021."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Retirement and Investment Office - Senate Action

	Base Budget	Senate Changes	Senate Version
Salaries and wages	\$4,425,570	\$560,938	\$4,986,508
Operating expenses	862,484	2,676,450	3,538,934
Capital assets		6,300,000	6,300,000
Contingencies	52,000	30,000	82,000
Total all funds	\$5,340,054	\$9,567,388	\$14,907,442
Less estimated income	5,340,054	9,567,388	14,907,442
General fund	\$0	\$0	\$0
FTE	19.00	1.00	20.00

Department 190 - Retirement and Investment Office - Detail of Senate Changes

#1 SB 2022
2-14-2019
pg 2

	Adjusts Funding for Base Payroll Changes ¹	Adds 1 FTE Investment Analyst Position ²	Adds Funding for Salary and Benefit Increases ³	Adds Funding for Microsoft Office 365 License Expenses ⁴	Adds Funding for Contingencies ⁵	Adds One- Time Funding for Teachers' Fund for Retirement Pension Project ⁶
Salaries and wages	(\$15,251)	\$294,996	\$231,193			\$50,000
Operating expenses		14,450		\$12,000		2,650,000
Capital assets						6,300,000
Contingencies					\$30,000	
Total all funds	(\$15,251)	\$309,446	\$231,193	\$12,000	\$30,000	\$9,000,000
Less estimated income	(15,251)	309,446	231,193	12,000	30,000	9,000,000
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	1.00	0.00	0.00	0.00	0.00

	Total Senate Changes
Salaries and wages	\$560,938
Operating expenses	2,676,450
Capital assets	6,300,000
Contingencies	30,000
Total all funds	\$9,567,388
Less estimated income	9,567,388
General fund	\$0
FTE	1.00

¹ Funding is adjusted for base payroll changes.

² One FTE investment analyst position and related operating expenses are added:

	Other Funds
Salary and wages	\$294,996
Operating expenses	14,450
Total	\$309,446

³ The following funding is added for 2019-21 biennium salary adjustments of 2 percent on July 1, 2019, and 3 percent on July 1, 2020, and increases in health insurance premiums from \$1,241 to \$1,427 per month:

	Other Funds
Salary increase	\$141,951
Health insurance increase	89,242
Total	\$231,193

⁴ Funding of \$12,000 is added for Microsoft Office 365 license expenses.

⁵ Funding of \$30,000 is added for contingencies to provide a total appropriation of \$82,000.

⁶ One-time funding of \$9 million is added from the retirement and investment fund for a Teachers' Fund for Retirement pension administration project.

Department 190 - Retirement and Investment Office
Senate Bill No. 2022

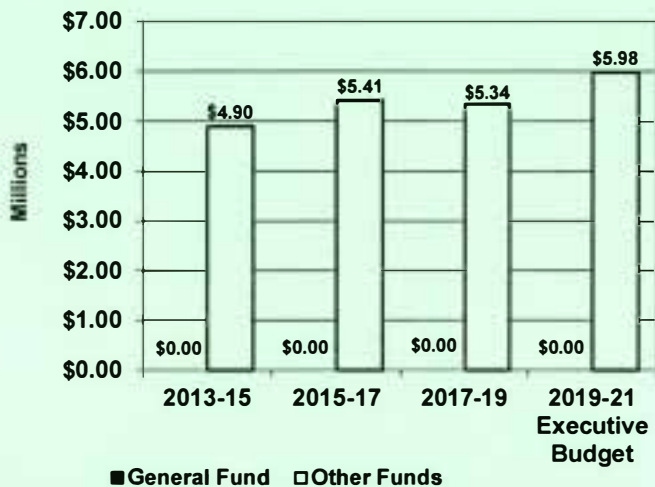
Executive Budget Comparison to Prior Biennium Appropriations

	FTE Positions	General Fund	Other Funds	Total
2019-21 Executive Budget	20.00	\$0	\$5,981,230	\$5,981,230
2017-19 Legislative Appropriations	19.00	0	5,340,054	5,340,054
Increase (Decrease)	1.00	\$0	\$641,176	\$641,176

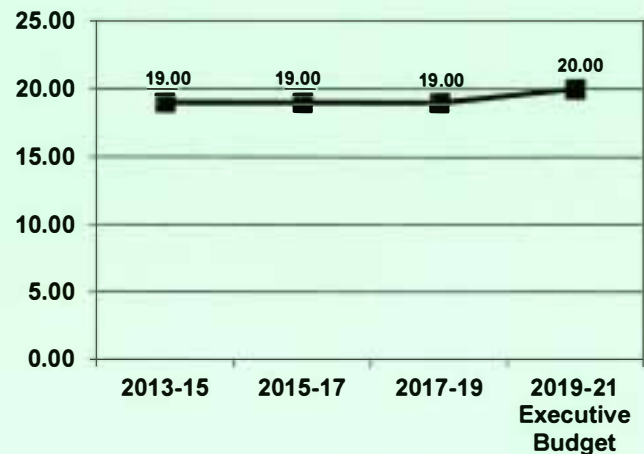
Ongoing and One-Time Other Funds Appropriations

	Ongoing Other Funds Appropriation	One-Time Other Funds Appropriation	Total Other Funds Appropriation
2019-21 Executive Budget	\$5,981,230	\$0	\$5,981,230
2017-19 Legislative Appropriations	5,340,054	0	5,340,054
Increase (Decrease)	\$641,176	\$0	\$641,176

Agency Funding



FTE Positions



Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2019-21 Executive Budget	\$0	\$5,981,230	\$5,981,230
2019-21 Base Level	0	5,340,054	5,340,054
Increase (Decrease)	\$0	\$641,176	\$641,176

First House Action

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

**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 \$202,668 is for salary increases, \$75,579 is for health insurance increases, and \$26,734 is for retirement increases. The Senate added funding for salary adjustments of 2 percent on July 1, 2019, and 3 percent on July 1, 2020, and increases in health insurance premiums from \$1,241 to \$1,427 per month. The Senate did not add funding for retirement contribution increases.	\$0	\$304,981	\$304,981
2. Adds 1 FTE investment analyst position (\$294,996) and related operating expenses of \$14,450		\$309,446	\$309,446
3. Adds funding for Microsoft Office 365 license expenses		\$12,000	\$12,000
4. Adds funding for contingencies to provide a total of \$82,000		\$30,000	\$30,000

Other Sections in Senate Bill No. 2022

Contingencies line item - 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.

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, 2018, did not identify any significant audit findings.

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, 2017, did not identify any significant audit findings.

Major Related Legislation

House Bill No. 1013 - Investment of Department of Trust Land funds - Section 6 of this bill amends North Dakota Century Code Section 15-01-02(2) to require the State Investment Board to supervise state investments made by the Board of University and School Lands.

House Bill No. 1368 - State Investment Board membership - Requires one member of the Legacy and Budget Stabilization Fund Advisory Committee to serve on the State Investment Board as a nonvoting member of the board.

Senate Bill No. 2017 - Investment of game and fish fund - Authorizes the State Investment Board to supervise the investment of up to \$15 million of funding in the game and fish fund if requested by the Game and Fish Department.

Retirement and Investment Office - Budget No. 190

Senate Bill No. 2022

Base Level Funding Changes

	Executive Budget Recommendation				Senate Version			
	FTE Position	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total
2019-21 Biennium Base Level	19.00	\$0	\$5,340,054	\$5,340,054	19.00	\$0	\$5,340,054	\$5,340,054
2019-21 Ongoing Funding Changes								
Base payroll changes			(\$15,251)	(\$15,251)			(\$15,251)	(\$15,251)
Salary increase			202,668	202,668			141,951	141,951
Health insurance increase			75,579	75,579			89,242	89,242
Retirement contribution increase			26,734	26,734			0	0
Add 1 FTE investment analyst position	1.00		309,446	309,446	1.00		309,446	309,446
Add funding for Microsoft Office 365 license expenses			12,000	12,000			12,000	12,000
Add funding for contingencies			30,000	30,000			30,000	30,000
Total ongoing funding changes	1.00	\$0	\$641,176	\$641,176	1.00	\$0	\$567,388	\$567,388
One-time funding items								
Adds funding for a pension administration system project				\$0			\$9,000,000	\$9,000,000
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$9,000,000	\$9,000,000
Total Changes to Base Level Funding	1.00	\$0	\$641,176	\$641,176	1.00	\$0	\$9,567,388	\$9,567,388
2019-21 Total Funding	20.00	\$0	\$5,981,230	\$5,981,230	20.00	\$0	\$14,907,442	\$14,907,442

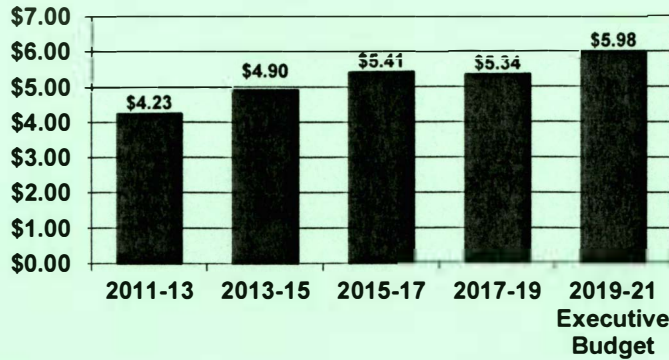
Other Sections for Retirement and Investment Office - Budget No. 190

	Executive Budget Recommendation	Senate Version
Contingencies line item transfers	Section 2 would provide, 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.

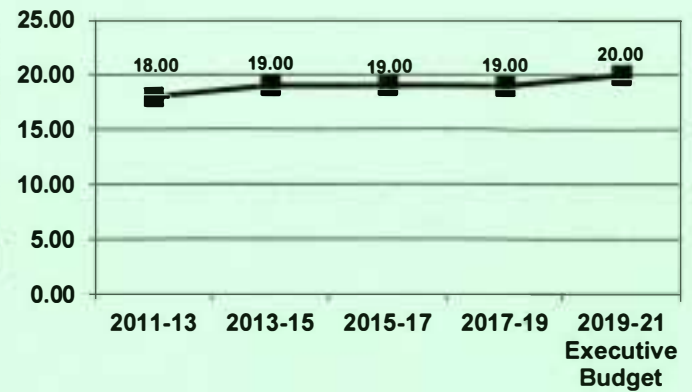
Department 190 - Retirement and Investment Office

Historical Appropriations Information**Ongoing Total Fund Appropriations Since 2011-13**

Agency Funding (in Millions)



FTE Positions



Ongoing Total Funds Appropriations					
	2011-13	2013-15	2015-17	2017-19	2019-21 Executive Budget
Ongoing total fund appropriations	\$4,232,954	\$4,899,369	\$5,413,425	\$5,340,054	\$5,981,230
Increase (decrease) from previous biennium	N/A	\$666,415	\$514,056	(\$73,371)	\$641,176
Percentage increase (decrease) from previous biennium	N/A	15.7%	10.5%	(1.4%)	12.0%
Cumulative percentage increase (decrease) from 2011-13 biennium	N/A	15.7%	27.9%	26.2%	41.3%

Major Increases (Decreases) in Ongoing Total Fund Appropriations**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

- Adjusted funding for operating expenses (\$128,390)
- Reduced contingency funding to \$52,000 (\$30,000)

2019-21 Biennium (Executive Budget Recommendation)

- Adds 1 FTE investment analyst position (\$294,996) and related operating expenses of \$14,450 \$309,446
- Adds funding for Microsoft Office 365 license expenses \$12,000
- Adds funding for contingencies to provide a total of \$82,000 \$30,000

GOVERNOR'S RECOMMENDATION FOR THE RETIREMENT AND INVESTMENT OFFICE AS SUBMITTED BY THE OFFICE OF MANAGEMENT AND BUDGET

SECTION 1. APPROPRIATION. The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys from special funds derived from income for the purpose of defraying their expenses, for the biennium beginning July 1, 2019, and ending June 30, 2021, as follows:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	4,425,570	584,726	5,010,296
Operating Expenses	862,484	26,450	888,934
Contingencies	<u>52,000</u>	<u>30,000</u>	<u>82,000</u>
Total all funds	5,340,054	641,176	5,981,230
Less estimated income	<u>5,340,054</u>	<u>641,176</u>	<u>5,981,230</u>
Total general fund	-	-	-
Full-time equivalent positions	19.00	1.00	20.00

SECTION 2. APPROPRIATION LINE ITEM TRANSFERS. Upon approval of the state investment board, the retirement and investment office may transfer from their contingency line item in section 1 of this Act to all other line items. The agency shall notify the office of management and budget of each transfer made pursuant to this section.

March 6, 2019

SB2022

Attachment A

Engrossed Senate Bill 2022

North Dakota Retirement and Investment Office (RIO)
Testimony to the House Appropriations Government Operations Committee
Fay Kopp, Deputy Executive Director/Chief Retirement Officer
Darren Schulz, Deputy Chief Investment Officer
Connie Flanagan, Chief Financial Officer

March 6, 2019

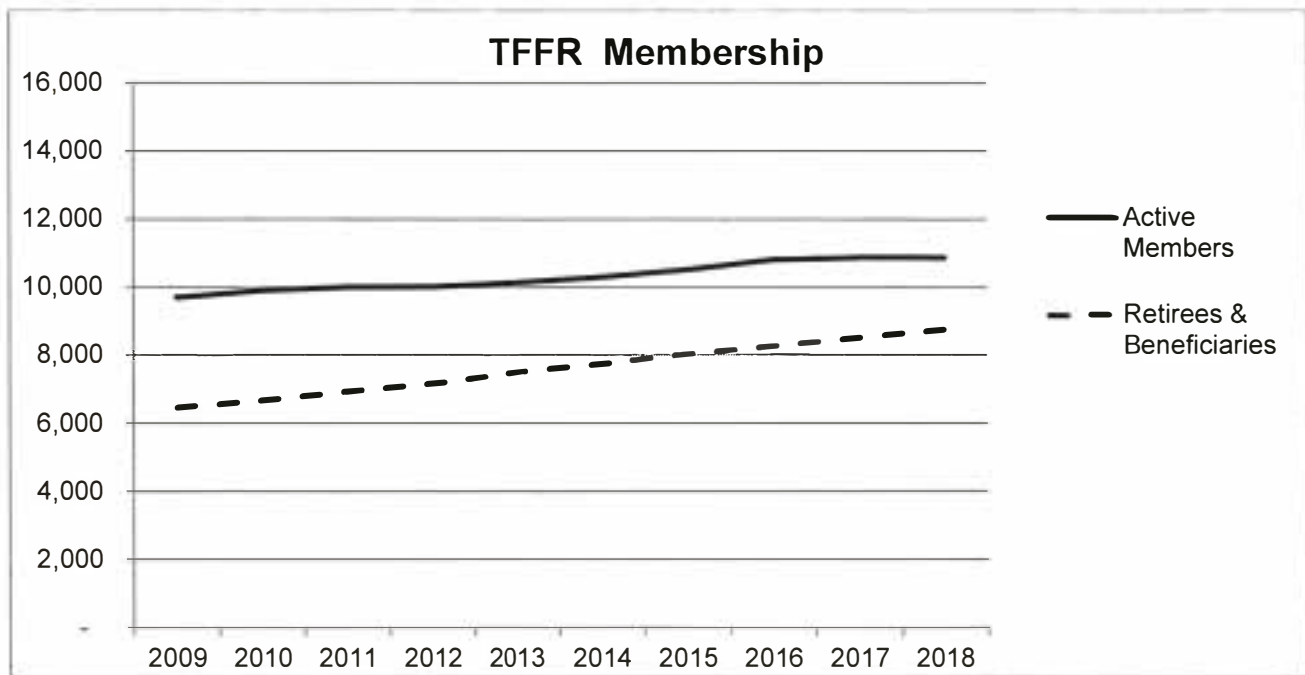
RIO Programs Overview

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 the TFFR program are paid from contributions collected from members and employers and from invested assets/earnings. All appropriated expenditures for the SIB investment program 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 12.1% from 9,700 to nearly 10,900 participants, while retirees and beneficiaries have increased 35.2% from less than 6,500 to over 8,700.



For Fiscal Year 2018 there were 214 participating TFFR employers comprised as follows:

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SB 2022
3-6-19

School Districts	176
Special Ed Units	19
Vocational Centers	4
Counties	6
State Agencies/Institutions	5
Other	4
2017-18 Total Employers	214

The TFFR program appropriated expenses includes salaries, benefits and administrative overhead costs for the administration of the day-to-day operations of the fund and delivery of 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, 2018.

Activity	# of Members
Monthly collection of contributions from 214 Employers	10,881
Maintenance of Membership Records	22,218
New Retirement & Disability Claims Processed	401
Deaths Processed	226
Refunds/Rollovers Processed	228
Service Purchase Inquiries Processed	174
New Member Enrollments Processed	879
Monthly Benefit Payments Processed	8,743
Educational Outreach Programs Attended	1,047

Additional administrative activities include development of publications and educational materials for active and retired members and employers; maintenance of website, member and employer online services, and the pension administration software system that houses all TFFR member data; compliance reviews to verify accuracy of member records, 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 \$202.4 million in fiscal year 2018. Another \$5.6 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.

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3-16-19

- **State Investment Board (SIB)**

The SIB is responsible for the investment of over \$14 billion in assets for seven pension funds and 18 other non-pension funds. The following table shows the most currently available fair value of assets by fund.

	Fair Value as of 1/31/19 (unaudited)
PENSION POOL PARTICIPANTS	
Teachers' Fund for Retirement	\$2,433,650,826
Public Employees Retirement System	2,983,919,412
Bismarck City Employee Pension Fund	98,735,535
Bismarck City Police Pension Fund	39,508,018
City of Grand Forks Pension Fund	63,062,924
City of Grand Forks Park District Pension Fund	6,798,834
Subtotal Pension Pool Participants	5,625,675,549
INSURANCE POOL PARTICIPANTS	
Workforce Safety & Insurance Fund	1,961,612,988
State Fire and Tornado Fund	22,472,951
State Bonding Fund	3,482,292
Petroleum Tank Release Fund	6,290,800
Insurance Regulatory Trust Fund	1,645,192
State Risk Management Fund	4,624,706
State Risk Management Workers Comp	3,643,787
Cultural Endowment Fund	447,355
Budget Stabilization Fund	115,793,892
ND Association of Counties (NDACo) Fund	5,955,606
City of Bismarck Deferred Sick Leave	735,487
PERS Group Insurance	33,199,873
State Board of Medicine	2,273,511
City of Fargo FargoDome Permanent Fund	43,072,872
Lewis & Clark Interpretive Center Endowment	706,993
Subtotal Insurance Pool Participants	2,205,958,305
INDIVIDUAL INVESTMENT ACCOUNTS	
Legacy Fund	5,963,914,071
Retiree Health Insurance Credit Fund	126,231,136
Job Service of North Dakota Pension Fund	95,637,136
Tobacco Prevention and Control Trust Fund	28,518,317
TOTAL	\$14,045,934,514

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

Alt A
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are pooled together when possible to achieve efficiencies in staff monitoring and to receive lower fees from investment managers.

The SIB investment program appropriated expenses include salaries, benefits and administrative overhead for the management of the day-to-day operations of the program.

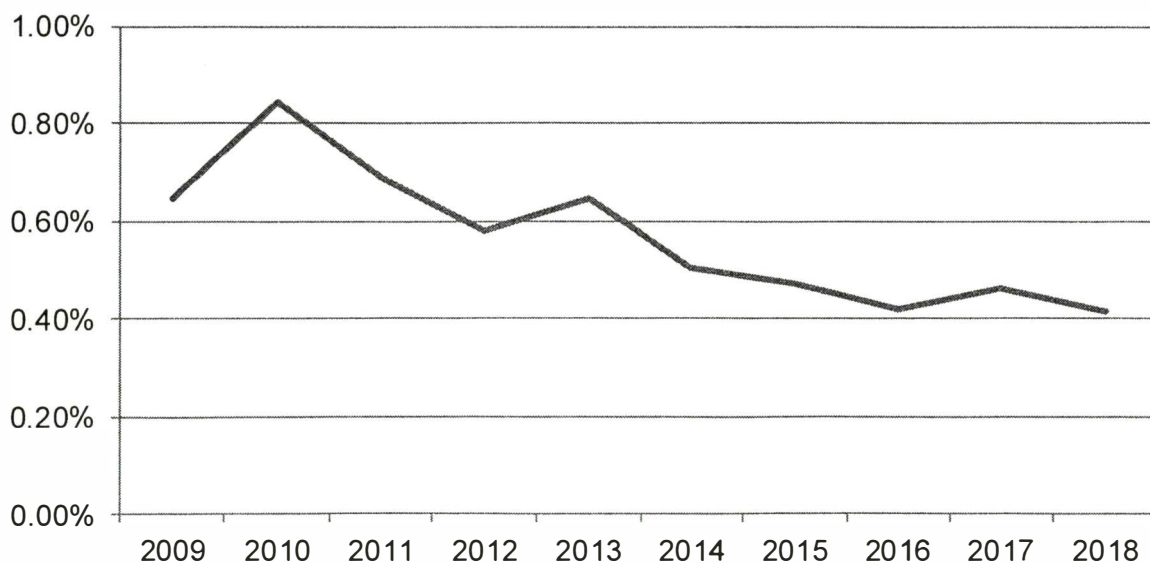
The staff of RIO administers the day-to-day operations of the investment program by assisting client funds with asset/liability studies; conducting investment manager searches; monitoring guidelines and asset allocations of each client fund; managing the consultant, custodian and investment manager relationships; 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 25 client funds. Statistics regarding the number of investment clients/managers/accounts, etc., are shown in the following table.

Client Funds	25
Asset Class Pools/Groups	34
Investment Manager Relationships	38
Investment Strategies	75
Investment Manager Accounts	113
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.

During the past 5 years, the SIB and RIO have re-intensified efforts to improve our overall return on investment management expenses. As a result, SIB client investment expenses have declined from 0.65% in fiscal 2013 to 0.42% in fiscal 2018. This 0.23% decrease in expenses on \$10 billion in assets equates to an annual savings of approximately \$23 million. The following chart shows the downward trend in investment expenses over most of the last decade.

SIB Investment Expenses



Att A
SB 2022
3-6-19

Goals for SIB Client Investment Expenses:

The SIB and RIO work to keep investment expenses at or below 0.50% per year, while seeking to identify investment firms which beat their performance benchmarks by 0.50% or more (after all expenses) over the long-term. If we are successful in attaining both of the above goals, our SIB clients are effectively earning a minimum 2-for-1 return on our investment expense dollars. The following chart offers an example for the Legacy Fund:

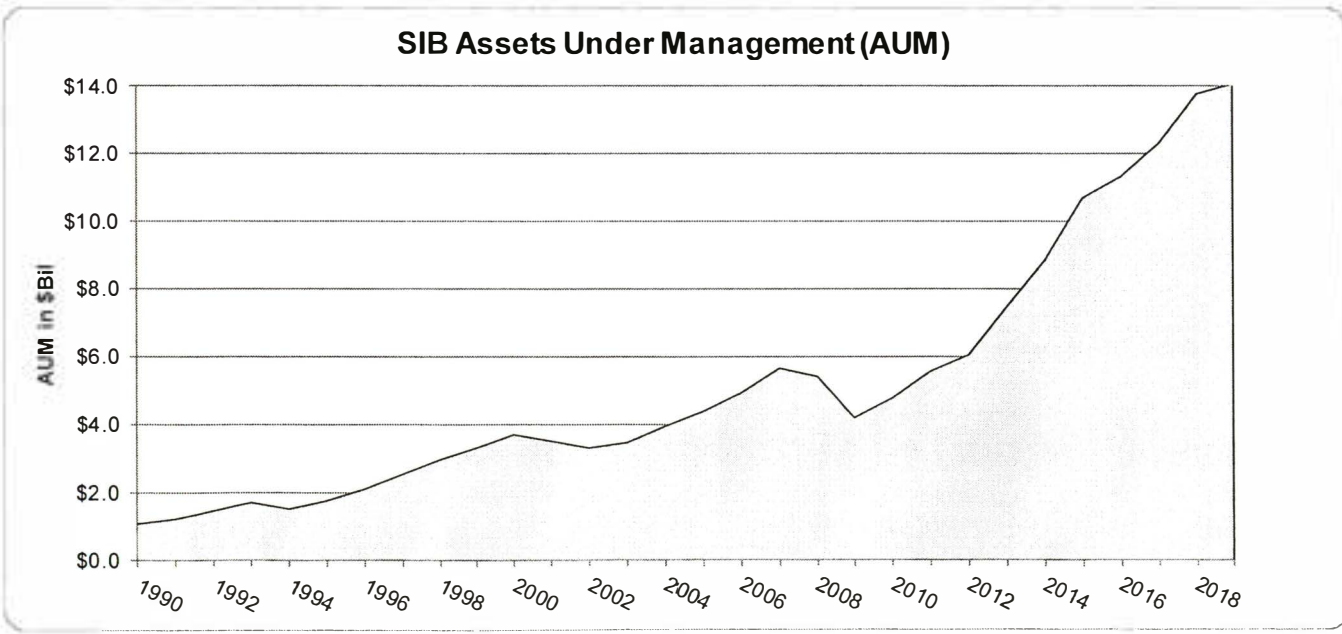
	FY 2018			FY 2017		
	Average Market Value	Fees in \$	Fees in %	Average Market Value	Fees in \$	Fees in %
Total investment manager expenses	2 5,291,348,530	15,909,882	0.30%	4,344,421,122	13,986,877	0.32%
Total investment expenses		16,635,287	0.31%		14,564,731	0.34%
Actual Investment Performance (Net of Fees)			7.57%			12.03%
Policy Benchmark			6.51%			9.91%
Outperformance		3	1.06%	Outperformance		2.12%

Investment expenses declined to 0.31% in fiscal 2018 from 0.34% in fiscal 2017, while noting the use of active management paid significant returns for the Legacy Fund in Fiscal 2018 as the **SIB paid 1 \$16.6 million in expenses to outperform the Policy Benchmarks by 3 1% or \$50 million (2 \$5 billion x 3 1% = \$50 million).**

It is important to note that like-for-like comparisons between funds with different investment programs are rarely straightforward. Differences in asset allocation and strategies being pursued must be considered as part of a broader analysis of the costs incurred in relation to the results achieved.

Growth in Assets:

SIB client investments have grown from \$6 billion in 2012 to over \$14 billion as of 1/31/2019.



Alt A
SB 2022
3-6-19

2017-19 Budget Status

The RIO 2017-19 approved budget is just over \$5.3 million. Salaries and wages for RIO's current 19 FTEs make up nearly 83% of that total. After having three vacancies early in the biennium, RIO is now fully staffed. It is anticipated that we will have approximately \$56,000 left in this line item at the end of the biennium due to those vacancies.

Operating expenses were approved at just over \$862,000 for the 2017-19 biennium. This was a 13% decrease from the previous biennium's approved operating expenses. Due to this sharp decrease, staff brainstormed ideas for cost savings across the agency. The first area that was explored was board member and staff educational expenses under travel and professional development. Staff and board members were asked to limit their requests for out-of-state conferences and other educational opportunities to one for the biennium. Most chose to forego training in the first year of the biennium to ensure funding would be available. During this time, other longer-term cost-savings options were explored to guarantee that funds would be available for highly important education opportunities going forward.

The largest long-term cost saving idea that has been implemented relates to the printing and mailing of newsletters and other similar materials to active members of the TFFR retirement program. It was determined that TFFR employers can be utilized to assist in disseminating this information to active members through the use of emails and the RIO website. It is anticipated that RIO can save nearly \$20,000 per biennium due to this process change.

Staff has been very frugal, not only during this biennium but historically, when requesting the expenditure of operating funds. Because of the limitations imposed on educational opportunities as well as the savings in postage and printing, RIO expects to have a balance of approximately \$25,000 in the operating line at the end of the current biennium.

The contingency line item was also reduced in the 2017-19 biennium. The \$30,000 reduction amounted to a 37% reduction. This line item is reserved for expenses that are outside of normal operations and are difficult to plan. In the past, this line item has been used for executive search firms to assist in filling the Executive Director/CIO position. Due to the nature of these types of expenses, the costs can be high. The average expenditures from this line in the past have been in the \$75,000-\$100,000 range, therefore making the reduction to this line concerning. We have not had the need to spend anything from this line during the 2017-19 biennium-to-date.

	2017-19 Approved Appropriation	Actual Expenses through 1/31/19	Estimated Remaining Expenses	Estimated Total 2017-19 Expenses	Estimated 2017-19 Ending Appropriation Balance
Salaries & Wages	\$ 4,425,570	3,410,649	959,105	4,369,754	55,816
Operating Expenses	862,484	494,428	342,869	837,297	25,187
Contingency	52,000	-	-	-	52,000
	<u>\$ 5,340,054</u>	<u>3,905,077</u>	<u>1,301,974</u>	<u>5,207,051</u>	<u>133,003</u>

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3-6-19

2019-21 Budget Request

	2017-19 Base Level Appropriation	Requested Adjustment to Base	Additional FTE	One-time Request Pension Admin. System Project	Additional Senate Amendments	Total Senate Amendments	Total Request from House
Salaries & Wages	\$ 4,425,570	(15,251)	294,996	50,000	231,193	560,938	4,986,508
Operating Expenses	862,484	-	14,450	2,789,000	(127,000)	2,676,450	3,538,934
Contingency	52,000	30,000	-	-	-	30,000	82,000
Capital Assets	-	-	-	6,300,000	-	6,300,000	6,300,000
	<u>\$ 5,340,054</u>	<u>14,749</u>	<u>309,446</u>	<u>9,139,000</u>	<u>104,193</u>	<u>9,567,388</u>	<u>14,907,442</u>
FTE Count	19	-	1	-	-	1	20

RIO's budget request before you today, as approved by the Senate in engrossed SB 2022, includes increases in funding over the 2017-19 base level appropriation for the addition of one FTE for the investment program and a one-time request of \$9 million for the TFFR Pension Administration System Project, as well as the salary and health insurance premium increases added by the Senate.

Additional FTE for Investment Program: This request is for an additional FTE for the SIB investment program and additional operating expenses related to that position.

Significant highlights in the SIB investment program include the following.

- SIB client investments have increased by \$7.4 billion or 122% in the past six years while the authorized FTEs assigned to the investment program have remained steady at 6.95.
- Investment returns for the Pension Trust (including PERS and TFFR) improved from the 74th percentile for the last 10-years to the 26th percentile the last 5-years and 23rd percentile for the 3-years ended 6/30/2018.
- Total Legacy Fund investment earnings are over \$1 billion since inception including \$308 million for the 19 months ended January 31, 2019. NDCC earnings (transferrable to the General Fund) were \$381 million as of January 31.
- Customer satisfaction surveys have remained strong (averaging 3.6 on a 4.0 scale)

As an industry best practice, RIO is currently developing a more robust investment risk management oversight and reporting function within the SIB investment program. Investment risk management is the process of identifying the level of risk that an entity wants, measuring the level of risk that an entity currently has, taking actions that bring the actual level of risk to the desired level, and monitoring the new actual level of risk so that it continues to be aligned with the desired level of risk. The process is continuous and developing an effective framework requires measuring, monitoring, and managing exposure to both economic and fundamental drivers of risk and return across asset classes to avoid over-exposures to common risk factors.

The SIB's current strategic plan includes "enhancing our internal control environment by improving the use of proven risk management solutions" noting that "a robust risk management framework serves as the foundation to support a sound internal control environment and lessen downside risk."

Following an extensive review of leading investment risk management system vendors, RIO selected a solution in 2016 to implement a risk management system across the investment program. The state of the art multi-asset class risk management solution combines sophisticated risk analytics and subject matter expertise to help RIO better understand and manage risk, resulting in more informed investment decisions using the system's tools for portfolio risk, stress testing and scenario analysis; asset allocation analysis; performance and attribution; and compliance and oversight.

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RIO continues to work with the vendor to develop a risk dashboard for monitoring downside risk under various historical and hypothetical stress scenarios. Additionally, RIO intends to enhance its investment risk monitoring reports to include an expanded list of key risk metrics. However, current staffing within the investment program is seriously limiting the amount of time available to make these enhancements.

RIO recognizes that our ability to continue achieving exceptional results and reaching the goal of additional risk monitoring or any other enhancements to client services will be highly challenged without the additional FTE.

TFFR Pension Administration Software Modernization Project: This request includes funding within the capital assets, operating and salaries line items to identify, purchase and implement an upgrade or replacement of the current pension administration software (PAS) utilized by TFFR.

The TFFR Board and RIO staff believes it is a necessary and prudent use of TFFR funds (special fund, not general fund) to upgrade or replace the current 13-year old system with a more technologically advanced, web based system which would provide significant improvements in functionality, efficiency and system security for TFFR members, employers, and staff. An updated system is needed in order for TFFR to re-engineer business processes and automate TFFR pension administration activities, reporting capabilities, electronic communications and services. The current PAS has many limitations, and without an updated PAS, TFFR will need to spend trust fund assets trying to maintain an old system, instead of investing in newer technology that includes the necessary functionality to efficiently administer the plan.

During the past year, RIO has studied the potential risks, benefits, and costs of upgrading or replacing the current PAS. We have worked with State ITD, State Procurement, PERS, and a nationwide pension software consulting firm on this study.

Risks of Current PAS:

- Functionality and technical architecture of current PAS is outdated. Continuing to utilize the current PAS does not allow RIO to take advantage of advancing technology and security improvements. Current PAS administrator interface is deployed as a client-server application which has significant limitations. For example, TFFR's current software is a 32-bit application. Most operating systems are now based on 64-bit technology platforms.
- Cost to maintain current PAS is expected to increase. While the current vendor provides limited support for the PAS product, the number of personnel familiar with the older version technical environment and TFFR customizations will diminish, resulting in a higher cost for support services as time progresses. Additionally, the older the system gets, the greater the likelihood for the system to crash and need costly fixes in order to continue operating. (See Concerns if Project is Not Approved.)
- Current Member self-service portal is very limited and provides basic "read only" functionality. It does not allow for any electronic member communication and interaction. While it can be customized to add new features (at a significant cost), the portal presentation will retain the present look and feel. The current self-service user interface uses frames technology which has limitations and is not fully ADA compliant.
- Current Employer self-service portal is also very limited and provides only basic functionality. Again, it does not allow for any electronic employer communication and interaction. Employers cannot perform any business rule validations of the member data contained in the file. RIO staff must perform the validations, evaluate any data exceptions and any action for any data corrections that are to be addressed and resubmitted by the employer, which is time consuming and inefficient.

Benefits of Updated PAS (Upgrade or Replacement):

- Most of the features needed to reinvent the way TFFR conducts its business operations are standard functions of a modern PAS.

- Updated PAS will enable TFFR to adopt best practices in self services for members and employers, achieve greater efficiencies in daily administration, and provide security improvements that are available with new technology vs old technology.
- Updated Employer self-service would allow employers to securely communicate with TFFR, and take greater ownership of their data. Employers would have the ability to securely upload contribution data, receive immediate validation results, confirm contribution remittances, and view their remittance histories and receivable accounts.
- Updated Member self-service would allow members to securely communicate with TFFR, access and update certain personal information, and run their own benefit estimates.
- Updated PAS would allow for straight-through-processing to automate enrollment, termination, retirement request processing, benefit calculations, e-communications, e-forms, and e-distribution to members and employers.
- Communications would be timelier with members and employers being able to initiate requests online and receive statements, notifications, and correspondence securely through the web portal from anywhere and at any time using a desktop computer or mobile device.
- Digital (electronic) communication is direct and secure, saves on mailing costs, and reduces reliance on paper which is a cost savings to the fund.
- An updated PAS would provide future ability to deploy the application to either a private or public cloud environment.

Additional benefits include:

- Web-based interface for administrators via commonly used and supported web browsers
- Enhanced web self-services for members, retirees, employers, and other stakeholders
- Benefit estimates and retirement modelling tools with member self-service
- Responsive web design for access with tablets and smartphones – mobile access
- Business process workflow
- Case and task management
- Email notification
- Administrator dashboards
- Employer self-service payroll contribution reporting, real-time data validation, and view access to receivable accounts
- Expanded accounting functionality to capture financial transactions, map to and export data to the general ledger system
- Integrated document imaging with bar-coding capability for process automation
- Online ad-hoc queries and reports
- Seminar scheduling
- Application management tools

Based on the anticipated benefits listed above, RIO believes there is an opportunity for post implementation efficiencies that could result in future budget reductions in the TFFR pension program. Potential budget reductions are not quantifiable at this point in the project planning. However, if TFFR is able to automate current pension administration processes with a new system and transition to secure digital communications with members and employers, at a minimum, it is expected to save printing and mailing costs and allow users to better utilize their skills and knowledge in other needed areas of retirement program administration.

In order to successfully complete the project within the anticipated project timeline (2-3 years), it will be necessary to maintain all current budget and staffing levels in order to re-engineer business processes and maintain adequate service levels during the implementation.

Cost to Upgrade or Replace Current PAS:

To estimate the cost to upgrade or replace the current PAS, RIO reviewed market value research conducted by a nationwide IT consulting firm specifically focused on addressing the operational and technological challenges of retirement benefits administration organizations. Two approaches were used in developing the budget estimate for this project. In these analyses, key parameters such as plan members, employers, users, and market value of assets were matched against a large database of other state and local pension systems, and averaged to those that are similar to TFFR to determine an estimate. Additionally, RIO staff worked with state ITD in project planning and identifying other potential costs for this project. RIO's original estimated project cost was \$9.139 million, however the Senate approved \$9 million which is included in Engrossed SB 2022. The \$9 million includes budget estimates for:

- External vendor costs for software licensure, implementation, deployment, and post implementation maintenance and support.
- External consulting costs including procurement assistance, project management, oversight support, quality assurance, and business process improvement and reengineering.
- Internal consulting costs for ITD project management, ITD oversight, AGO legal fees, temporary salaries, and other project costs and contingencies.

It is important to note that **IF a system upgrade** by TFFR's current pension software vendor is selected, the cost could be much less than the \$9 million project cost estimate for a **system replacement** by a different vendor. Upgrades by a current vendor to a newer software version typically cost less, have a shorter timeline, require less staff training, and carry less risk than a complete system replacement utilizing a new vendor. (See Vendor Selection and Project Oversight.)

With over 22,200 active, inactive, and retired members, a \$9 million one-time cost is approximately \$ 405 per member, or spread over 10 years (expected software life), about \$40 per member. If the project costs less, for example \$6 million, it would be about \$270 per member, or about \$27 per member over 10 years. Based on June 30, 2018 TFFR market value of \$2.53 billion, a \$9 million cost is approximately 0.36% (36/100 of 1%). A \$6 million cost is about 0.24% (24/100 of 1%).

As part of our study, RIO staff also received a demo of the current web-based PERS pension administration software which utilizes a different vendor than TFFR. Through our discussions with PERS, we determined that while TFFR and PERS perform some similar pension administration functions, TFFR and PERS members are different, and most employers are different. Additionally, TFFR and PERS pension programs are administered by two separate agencies, so processes and procedures require different customizations and implementations. Even if the same vendor was utilized by both TFFR and PERS, each system requires different structures, configuration, and deployment. The RFP selection process will identify if any cost savings could be achieved by utilizing the same pension software vendor for both TFFR and PERS. Regardless, discussions with PERS regarding their pension software, implementation project, and costs have been very helpful, and we appreciate their willingness to share information.

Vendor Selection and Project Oversight

If the Legislature approves this one-time spending for the TFFR pension system upgrade or replacement project, RIO will follow all state statutes and ITD guidelines for a major IT project. RIO will work with state ITD and state Procurement in the consultant and vendor selection process. As required by state law, RIO will utilize the state's procurement process to select a consultant and a software vendor for the project to ensure a fair and competitive bidding process. RIO's current pension software vendor, and many other pension software vendors (including PERS' vendor) will be invited to submit formal proposals which will be closely scrutinized to determine the best long term solution for the best price for this

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important IT project. The TFFR Board must give final approval to hire both the project consultant and software vendor.

Project planning, management and oversight will be provided by state ITD. Project start up, status, and close out reports will be provided to ITD, SITAC, Legislative IT Committee, TFFR Board, and other interested stakeholders. As fiduciaries of the TFFR fund, the TFFR Board will closely monitor this project to ensure trust fund assets are being appropriately spent.

Concerns if Project Is Not Approved

If this project is not approved, RIO will need to continue operating the current PAS which utilizes outdated technology. Due to the high cost (and inability in some cases) of making technical improvements, RIO would be unable to re-engineer business processes and modernize operations, and would have to rely on an older system with less automation and less security. We would be unable to utilize secure digital communications with members and employers through online services.

Therefore, if the current PAS is not upgraded or replaced, RIO is subject to limited technical support, limited functionality, increased costs, increased security risks, and the potential for the current PAS to crash and not be fixed in a timely manner. This would cause many issues with daily pension administration functions (including monthly payroll to nearly 9,000 retired members). We have already had to make some costly fixes to the current software, and this is expected to increase as the software continues to age. We expect that RIO will incur increased costs to maintain and support the current PAS. Consequently, RIO may need to request an increase in the current IT line of RIO's budget contained in SB 2022 if this project is not approved.

Project Summary

While a TFFR pension administration software modernization project will be costly and time consuming, we believe it is in TFFR's best interests to make this investment now to take advantage of technology improvements and security enhancements that have been made in the years since the current software was implemented. This will allow RIO to reinvent the way it conducts business by providing significant functionality, customer service, and security improvements for over 20,000 active and retired members, 214 school districts and other participating employers, and RIO staff administering the TFFR plan.

Exhibit A (attached) provides a one-page summary of this one-time project request. Our focus is on what is the best and most cost efficient use of TFFR trust funds. These are all special fund dollars – no general funds are being requested.

CONCLUSION

Based on the information provided within this testimony, RIO respectfully requests the House approve engrossed SB2022.

SB 2022 – RIO Budget
TFFR Pension Administration Software (PAS) Modernization Project Summary

Request

- Upgrade or replace TFFR pension software with web-based system
- RIO conducted study involving ITD, Procurement, PERS, and Consultant

Risks of Current PAS

- Current system is 13-years old
- Functionality and technical architecture of client-server system is outdated
- Increased costs to maintain and support
- Limited technical support
- Limited functionality of member and employer online portals – read only
- No electronic member communication and interaction
- Inability to automate manual processes and re-engineer business processes
- Inability to utilize secure digital communications w/members and employers

Benefits of PAS Upgrade or Replacement

- Web based technology is standard
- Re-engineer business processes and adopt best practices in pension administration
- Enhanced member and employer self-service and security improvements
- Straight-through-processing to automate enrollment, termination, retirement processing, calculations, communications, forms, and distribution
- Cost savings with digital communication, and reduced paper mailings
- Improved staff efficiency

Estimated Cost

- \$9 million (or less) one- time
- Cost could be less for system upgrade rather than system replacement by a different vendor
- Includes external vendor costs, consulting costs, project management, and ITD, legal, and other project costs and contingencies
- Special funds – no general funds

Vendor Selection and Project Oversight

- Utilize state's procurement/RFP process to select consultant and software vendor
- Follow ITD requirements in managing major IT project
- Required reports to ITD, SITAC, Leg IT Com.
- TFFR Board contract approval and project oversight to ensure TFFR trust fund assets are being appropriately spent

Summary

- Investment in updated technology will provide necessary tools to reinvent and automate TFFR retirement program operations and processes
- Updated technology will improve functionality, customer service, efficiency, and security for TFFR members, employers, and staff

March 6, 2019

SB2022

Attachment B

Retirement and Investment Office - Budget No. 190

Senate Bill No. 2022

Base Level Funding Changes

	Executive Budget Recommendation				Senate Version				Senate Changes to Executive Budget Increase (Decrease) - Executive Budget			
	FTE Position	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2019-21 Biennium Base Level	19.00	\$0	\$5,340,054	\$5,340,054	19.00	\$0	\$5,340,054	\$5,340,054	0.00	\$0	\$0	\$0
2019-21 Ongoing Funding Changes												
Base payroll changes			(\$15,251)	(\$15,251)			(\$15,251)	(\$15,251)				\$0
Salary increase			202,668	202,668			141,951	141,951			(60,717)	(60,717)
Health insurance increase			75,579	75,579			89,242	89,242			13,663	13,663
Retirement contribution increase			26,734	26,734				0			(26,734)	(26,734)
Add 1 FTE investment analyst position	1.00		309,446	309,446	1.00		309,446	309,446				0
Add funding for Microsoft Office 365 license expenses			12,000	12,000			12,000	12,000				0
Add funding for contingencies			30,000	30,000			30,000	30,000				0
Total ongoing funding changes	1.00	\$0	\$641,176	\$641,176	1.00	\$0	\$567,388	\$567,388	0.00	\$0	(\$73,788)	(\$73,788)
One-time funding items												
Adds funding for a pension administration system project				\$0			\$9,000,000	\$9,000,000			\$9,000,000	\$9,000,000
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$9,000,000	\$9,000,000	0.00	\$0	\$9,000,000	\$9,000,000
Total Changes to Base Level Funding	1.00	\$0	\$641,176	\$641,176	1.00	\$0	\$9,567,388	\$9,567,388	0.00	\$0	\$8,926,212	\$8,926,212
2019-21 Total Funding	20.00	\$0	\$5,981,230	\$5,981,230	20.00	\$0	\$14,907,442	\$14,907,442	0.00	\$0	\$8,926,212	\$8,926,212

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

Contingencies line item transfers

Executive Budget Recommendation

Section 2 would provide, 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.

Senate Version

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.

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March 6, 2019

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Attachment C

ND TFFR Fast Facts

FY End 6/30/2018

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.



WE SERVE

MEMBERS

10,881 ACTIVE MEMBERS

8,743 RETIRED MEMBERS

214 EMPLOYERS

Member Stats

	Actives	Retirees
Avg. Annual Salary/Benefit	\$60,055	\$24,180
Avg. Service Credit	11.8 yrs	27.4 yrs
Avg. Current Age	41.9 yrs	71.8 yrs

MEMBER/EMPLOYER SATISFACTION: 3.8 (4.0 Scale)

84%

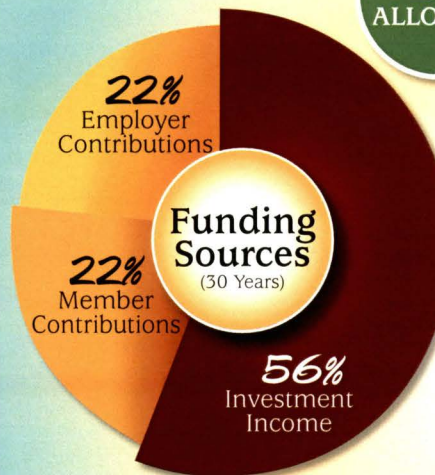
of benefits
are paid
to ND
residents.

To positively impact the
state's economy,

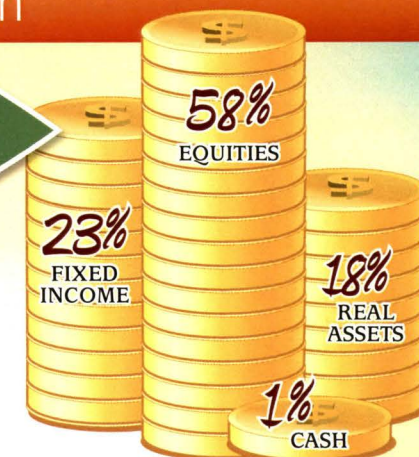
\$202 million

was distributed to
retirees in FY 2018.

Market value of TFFR assets **\$2.5 billion**



ASSET ALLOCATION

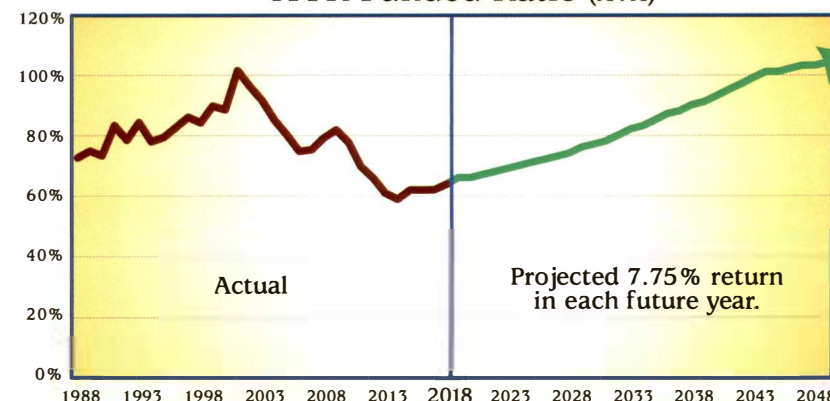


Investment Returns

1 year	9.1%
5 year	8.3%
30 year	8.0%

65% of BENEFITS are PREFUNDED

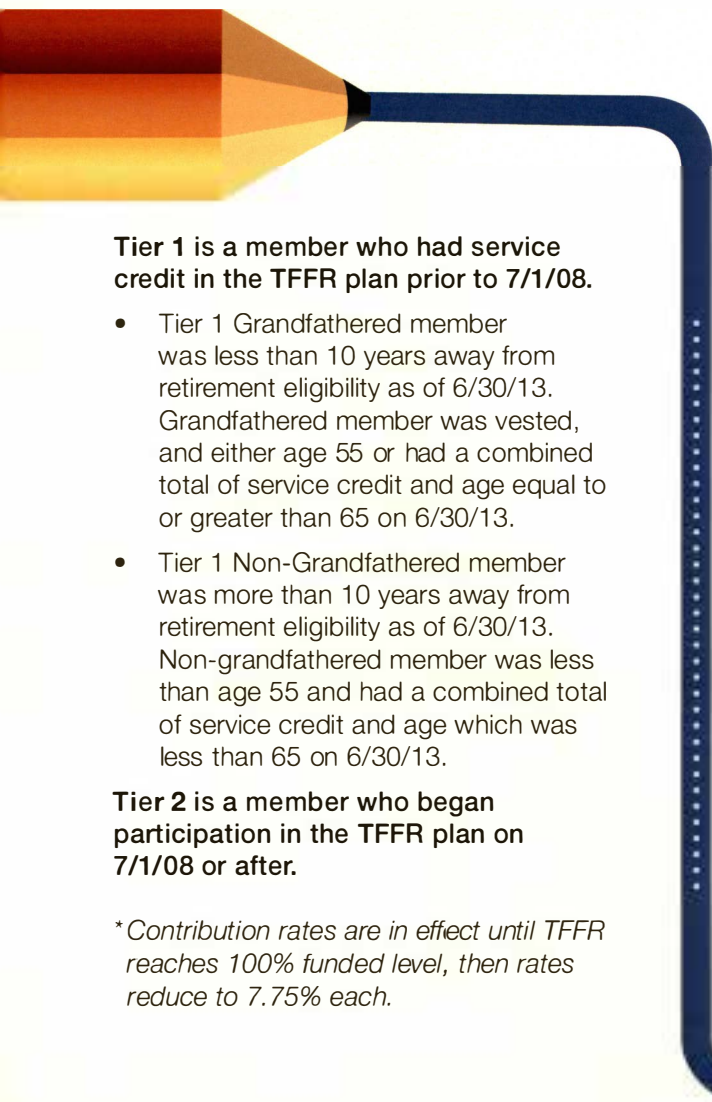
TFFR Funded Ratio (AVA)



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

ND Teachers' Fund for Retirement, 3442 E. Century Avenue, P.O. Box 7100, Bismarck, ND 58507
1-800-952-2970 or 701-328-9885 | Email: rio@nd.gov | Website: www.nd.gov/rio/tffr

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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.

	Tier 1 Grandfathered Member	Tier 1 Non- Grandfathered Member	Tier 2 Member
Employee Contribution Rates (active and re-employed retirees)			
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			
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	3 yrs	3 yrs	5 yrs
Unreduced Retirement Eligibility			
Minimum Age	No	60	60
AND Rule	Rule 85	Rule 90	Rule 90
OR Normal Retirement Age	65	65	65
Reduced Retirement Eligibility			
Minimum Age	55	55	55
Reduction Factor	6%	8%	8%
Retirement Formula Multiplier	2%	2%	2%
X Final Average Salary	3 yr FAS	3 yr FAS	5 yr FAS
X Service Credit	Total years	Total years	Total years
Disability Retirement	Yes	Yes	Yes
Retirement Formula Multiplier (2%) X Final Average Salary (FAS) X Total Service Credit			
Death/Survivor Benefits	Yes	Yes	Yes
Refund of account value or Life Annuity to survivor based on member's vesting status.			

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Retirement and Investment Office - Budget No. 190
Senate Bill No. 2022
Base Level Funding Changes

	Senate Version				House Version				House Changes to Senate Version Increase (Decrease) - Senate Version			
	FTE Position	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2019-21 Biennium Base Level	19.00	\$0	\$5,340,054	\$5,340,054	19.00	\$0	\$5,340,054	\$5,340,054	0.00	\$0	\$0	\$0
2019-21 Ongoing Funding Changes												
Base payroll changes			(\$15,251)	(\$15,251)			(\$15,251)	(\$15,251)				\$0
Salary increase			141,951	141,951			133,673	133,673			(8,278)	(8,278)
Health insurance increase			89,242	89,242			89,242	89,242				0
Retirement contribution increase				0				0				0
Add 1 FTE investment analyst position	1.00		309,446	309,446	1.00		309,446	309,446				0
Add funding for Microsoft Office 365 license expenses			12,000	12,000			12,000	12,000				0
Add funding for contingencies			30,000	30,000			0	0			(30,000)	(30,000)
Total ongoing funding changes	1.00	\$0	\$567,388	\$567,388	1.00	\$0	\$529,110	\$529,110	0.00	\$0	(\$38,278)	(\$38,278)
One-time funding items												
Adds funding for a pension administration system project			\$9,000,000	\$9,000,000			\$0	\$0			(\$9,000,000)	(\$9,000,000)
Total one-time funding changes	0.00	\$0	\$9,000,000	\$9,000,000	0.00	\$0	\$0	\$0	0.00	\$0	(\$9,000,000)	(\$9,000,000)
Total Changes to Base Level Funding	1.00	\$0	\$9,567,388	\$9,567,388	1.00	\$0	\$529,110	\$529,110	0.00	\$0	(\$9,038,278)	(\$9,038,278)
2019-21 Total Funding	20.00	\$0	\$14,907,442	\$14,907,442	20.00	\$0	\$5,869,164	\$5,869,164	0.00	\$0	(\$9,038,278)	(\$9,038,278)

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

	Senate Version	House Version
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 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.

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STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Funding Summary

	Base Budget	Senate Version	House Changes	House Version
Retirement and Investment Office				
Salaries and wages	\$4,425,570	\$4,986,508	(\$58,278)	\$4,928,230
Operating expenses	862,484	3,538,934	(2,650,000)	888,934
Capital assets		6,300,000	(6,300,000)	
Contingencies	52,000	82,000	(30,000)	52,000
Total all funds	\$5,340,054	\$14,907,442	(\$9,038,278)	\$5,869,164
Less estimated income	5,340,054	14,907,442	(9,038,278)	5,869,164
General fund	\$0	\$0	\$0	\$0
FTE	19.00	20.00	0.00	20.00
Bill total				
Total all funds	\$5,340,054	\$14,907,442	(\$9,038,278)	\$5,869,164
Less estimated income	5,340,054	14,907,442	(9,038,278)	5,869,164
General fund	\$0	\$0	\$0	\$0
FTE	19.00	20.00	0.00	20.00

Senate Bill No. 2022 - Retirement and Investment Office - Senate Action

	Base Budget	Senate Changes	Senate Version
Salaries and wages	\$4,425,570	\$560,938	\$4,986,508
Operating expenses	862,484	2,676,450	3,538,934
Capital assets		6,300,000	6,300,000
Contingencies	52,000	30,000	82,000
Total all funds	\$5,340,054	\$9,567,388	\$14,907,442
Less estimated income	5,340,054	9,567,388	14,907,442
General fund	\$0	\$0	\$0
FTE	19.00	1.00	20.00

Department 190 - Retirement and Investment Office - Detail of Senate Changes

	Adjusts Funding for Base Payroll Changes ¹	Adds 1 FTE Investment Analyst Position ²	Adds Funding for Salary and Benefit Increases ³	Adds Funding for Microsoft Office 365 License Expenses ⁴	Adds Funding for Contingencies ⁵	Adds One- Time Funding for Teachers' Fund for Retirement Pension Project ⁶
Salaries and wages	(\$15,251)	\$294,996	\$231,193			\$50,000
Operating expenses		14,450		\$12,000		2,650,000
Capital assets						6,300,000
Contingencies					\$30,000	
Total all funds	(\$15,251)	\$309,446	\$231,193	\$12,000	\$30,000	\$9,000,000
Less estimated income	(15,251)	309,446	231,193	12,000	30,000	9,000,000
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	1.00	0.00	0.00	0.00	0.00

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	Total Senate Changes
Salaries and wages	\$560,938
Operating expenses	2,676,450
Capital assets	6,300,000
Contingencies	30,000
Total all funds	\$9,567,388
Less estimated income	9,567,388
General fund	\$0
FTE	1.00

¹ Funding is adjusted for base payroll changes.

² One FTE investment analyst position and related operating expenses are added:

	Other Funds
Salary and wages	\$294,996
Operating expenses	14,450
Total	\$309,446

³ The following funding is added for 2019-21 biennium salary adjustments of 2 percent on July 1, 2019, and 3 percent on July 1, 2020, and increases in health insurance premiums from \$1,241 to \$1,427 per month:

	Other Funds
Salary increase	\$141,951
Health insurance increase	89,242
Total	\$231,193

⁴ Funding of \$12,000 is added for Microsoft Office 365 license expenses.

⁵ Funding of \$30,000 is added for contingencies to provide a total appropriation of \$82,000.

⁶ One-time funding of \$9 million is added from the retirement and investment fund for a Teachers' Fund for Retirement pension administration project.

Senate Bill No. 2022 - Retirement and Investment Office - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	\$4,425,570	\$4,986,508	(\$58,278)	\$4,928,230
Operating expenses	862,484	3,538,934	(2,650,000)	888,934
Capital assets		6,300,000	(6,300,000)	
Contingencies	52,000	82,000	(30,000)	52,000
Total all funds	\$5,340,054	\$14,907,442	(\$9,038,278)	\$5,869,164
Less estimated income	5,340,054	14,907,442	(9,038,278)	5,869,164
General fund	\$0	\$0	\$0	\$0
FTE	19.00	20.00	0.00	20.00

Department 190 - Retirement and Investment Office - Detail of House Changes

	Adjusts Funding for Salary Increases ¹	Adjust Funding for Contingencies ²	Removes One- Time Funding for Teachers' Fund for Retirement Project ³	Total House Changes
Salaries and wages	(\$8,278)		(\$50,000)	(\$58,278)
Operating expenses			(2,650,000)	(2,650,000)
Capital assets			(6,300,000)	(6,300,000)
Contingencies		(\$30,000)		(30,000)
Total all funds	(\$8,278)	(\$30,000)	(\$9,000,000)	(\$9,038,278)
Less estimated income	(8,278)	(30,000)	(9,000,000)	(9,038,278)
General fund	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00

¹ Funding is adjusted to provide employee salary increases of 2 percent on July 1, 2019, with a minimum monthly increase of \$120 and a maximum monthly increase of \$200, and 2.5 percent salary increase on July 1, 2020, to provide a total of \$133,673 for state employee salary increases. The Senate provided funding for a 2 percent salary increase on July 1, 2019, and a 3 percent salary increase on July 1, 2020, to provide a total of \$141,951 for state employee salary increases.

² Funding of \$30,000 for contingencies added by the Senate is removed by the House to provide a total contingencies appropriation of \$52,000.

³ One-time funding of \$9 million is removed for a Teachers' Fund for Retirement pension administration project that was included in the Senate version.

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