North Dakota Legislative Council

Prepared for the Legacy and Budget
Stabilization Fund Advisory Board
LC# 23.9175.01000
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HOUSE BILL NO. 1425 (2021) - OVERVIEW

SUMMARY

House Bill No. 1425 approved by the 2021 Legislative Assembly creates a legacy infrastructure loan fund and requires the Legacy and Budget Stabilization Fund Advisory Board to establish an asset allocation policy for the legacy fund to include in-state fixed income and equity investments.

Section 1 creates a legacy infrastructure loan fund, similar to an existing infrastructure revolving loan fund, authorizing the Bank of North Dakota to issue low interest rate loans to political subdivisions for qualifying infrastructure projects.

Sections 2 and 3 provide an exemption to the exception to the prudent investor rule and require the State Investment Board to give preference to investment firms and financial institutions with a presence in the state.

Section 4 changes the goal of the investment of the legacy fund to include investing a portion of the principal in the state and requires the advisory board to include a 10 percent target allocation of legacy fund investments for fixed income investments within the state and a 10 percent target allocation of legacy fund investments for equity investments within the state. Of the 10 percent allocated to fixed income investments within the state, up to 40 percent is allocated for investment under the newly created legacy infrastructure loan fund, and up to 60 percent is allocated to the Bank of North Dakota's certificate of deposit matching program. Of the 10 percent allocation to equity investments within the state, at least 3 percent may be allocated to equity funds, venture capital funds, or alternative investments focused on new or expanding businesses in the state. The equity investments within the state must be managed by qualified investment firms, financial institutions, or equity funds which have a direct connection to the state. The equity investments within the state also must have a benchmark investment return equal to the 5-year average net return for the legacy fund, excluding in-state investments.

ADVISORY BOARD CONSIDERATIONS

The following are suggested items for the advisory board's consideration related to House Bill No. 1425 and the associated in-state investments:

- **Qualified investments** - What are the criteria for determining qualified investments, and do qualified investments need to be defined?
- **Investment valuation** - How will the value of the in-state investments be determined since the investments may not have a publicly available valuation?
- **Timing of investments** - When will in-state investment opportunities need funding from the legacy fund, and when do the legacy fund investments need to be allocated to in-state investments?
- **Investment liquidity** - How will the liquidity of the in-state investments affect the availability of funds and the timing of investment changes?
- **Investment risks** - How will the risks associated with an in-state investment be calculated, and what happens if an in-state investment performs significantly above or below its benchmark or expectations?
- **Allocation rebalancing** - How frequently will the in-state investments be rebalanced within the in-state investment portfolio and as a part of the legacy fund's overall allocation strategy, and how much funding will be allocated to a particular investment strategy within the in-state investment portfolio?