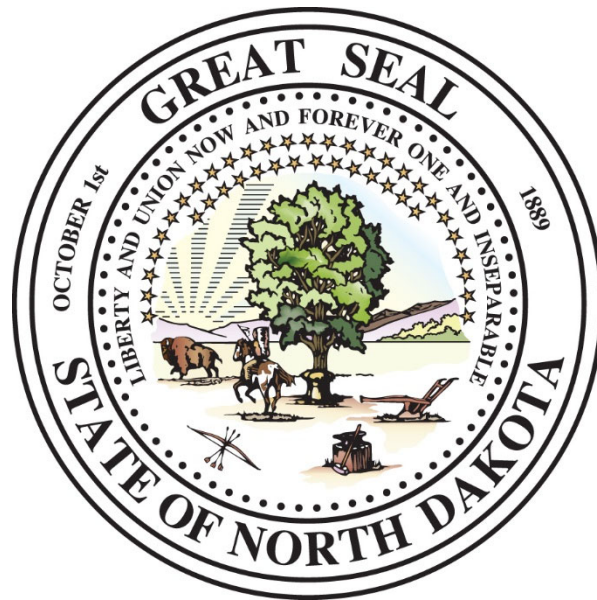


2021-2023
Office of State Treasurer

Budget Presentation



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Ryan K. Skor, Director of Finance

Presented to:

House Government Operations
Representative Don Vigesaa, Chairman
Representative Mike Brandenburg, Vice-Chair
January 11th, 2021

OVERVIEW

Article V, Section 2, of the North Dakota Constitution created the Office of State Treasurer and provides that the powers and duties of the state treasurer shall be prescribed by law. Chapter 54-11 of the North Dakota Century Code prescribes the powers, duties, and responsibilities of the state treasurer. The mission of the Office of State Treasurer is *“to fulfill our constitutional and statutory responsibilities, to assure sound financial oversight and transparency of all public funds, and to promote prudent practices in government.”*

We have five key management functions within the Office of the Treasurer:

- 1. Cash management** – We collect all deposits and payables from state agencies. It is our expertise that manages the daily cash flow within the state operating fund. The forecasting and cash management done by our agency is necessary to ensure the availability of sufficient funds to cover the obligations/payables while optimizing investment opportunities. The millions and billions invested in the immediate short term are where we work diligently, making wise investment decisions ensuring the State is always “making money.”
- 2. Accounting** – The Office of State Treasurer is responsible for paying all warrants (payables) or checks drawn against the state. We manage over a dozen bank accounts which are reconciled daily to ensure enough funds are available to pay all outstanding warrants/payables. We also process void check requests and stop payments. All state funds/deposits received by state agencies are deposited through the Office of State Treasurer for investment into the operating fund account. Our agency reconciles daily in three primary areas: our accounts held with the Bank of North Dakota to the State’s accounting software, PeopleSoft; state agency deposits to PeopleSoft; and Certificate of Deposit (CD) interest income between our records and the bank’s.
- 3. Investments** – Our agency serves as the custodian for all state funds, and we are responsible for the investment of the state’s general and numerous special funds, including state agriculture commodity groups and the Veterans Postwar Trust.
- 4. Revenue Collection** – The State Treasurer is responsible for the collection of various revenues from political subdivisions. Revenues include, but are not limited to, the Assessed Communications Services Fee, Civil Filing Fees, Criminal Administration Fees, Indigent Defense Administrative Fund, Medical Center Levy, Domestic Violence Prevention Fund, and numerous other district court costs.
- 5. Revenue Distribution** – The State Treasurer is in charge of disbursing over 30 tax distributions to political subdivisions. The office’s web-based, Tax Distribution and Outstanding Checks (TDOC) system, pulls data from a variety of sources, which streamlines our distributions and ensures greater accuracy, transparency, and efficiency.

Revenue distributions assigned to the Office of State Treasurer for distribution to political subdivisions include:

Airline	Disabled Veterans Homestead Tax Credit	Oil Extraction Tax - Tribal
City Cigarette Tax	Electric Generation Transmission	Prepaid Wireless E-911 Fee
City Motor Vehicle Rental Tax	Flood Control	Senior Mill Levy
City Occupancy Tax	Forest Service	Special Highway
City Restaurant/Lodging Tax	Highway Tax Distribution Fund	Special Township Road
City & County Sales Tax	Homestead Tax Credit	State Aid
Coal Conversion Tax	Medical Center Levy	Taylor Grazing
Coal Conversion Shortfall	Mineral Management	Telecommunication Carriers
Coal Severance Tax	Motorboat	Township Road & Bridge Fund
Coal Severance Shortfall - Tipple Share Reimbursement	Municipal Infrastructure	Tribal Cigarette Tax
Coronavirus Relief Funds	New Jobs Program	Tribal Highway Fund
County & Township Infrastructure	Oil and Gas Gross Production Tax	Tribal Sales Tax

The Office of State Treasurer provides analysis, data, and education of various tax distributions and state laws to legislators, employees of other state agencies, officials and employees of local political subdivisions, and the general public.

BOARDS

In addition to the responsibilities of the office, as required by statute or Constitution, the State Treasurer serves on six Boards: State Investment Board, Teachers Fund for Retirement, Board of University and School Lands, State Board of Tax Equalization, State Historical Board, and the State Canvassing Board.

FINANCIAL AUDIT FINDINGS

Our agency performs all our responsibilities with tremendous pride and accuracy and we have consistently received a “clean” audit since 2009. Our most recent audit was completed in January of 2020 for the biennium ended June of 2019, with no findings.

AGENCY ACCOMPLISHMENTS

- **Tax Distributions** – Updated our Tax Distribution Outstanding Checks (TDOC) system to accommodate the legislative changes made to the Oil and Gas Gross Production Tax distribution and smaller changes made to other tax distributions.
- **“Prairie Dog” Funds** – Created and tested the required processes and systems to distribute the newly created “Prairie Dog” funds. Also developed the system needed to accept, compile, and report the required information filings of each recipient political subdivision.

- **Website** – Completed the conversion of our agency website to the state’s website platform to give added flexibility in maintaining the website as well as allow further enhancements to be implemented more cost-effectively and timely. We also added additional dashboards to provide more visual and intuitive data regarding our tax distributions, Legacy Fund deposits, and our operating fund balances.
- **Process Updates** – Updated all office processes to allow for efficient and effective remote work which provides added flexibility to our team and increases efficiency and effectiveness of the whole office.

AGENCY CHALLENGES

- **IT Costs** – One of the major challenges we face relates to our day-to-day IT costs. As I will spell out further during this overview, a large portion of our requested on-going operating expenses are directly related to data processing, communications, and desktop support services provided by ITD. We continue to receive excellent service from ITD, but we want to make you aware that a reduction in our operating expense budget is not possible without a reduction in amounts paid to ITD.

Throughout session, we will continue to monitor bills that will affect our agency and analyze the potential IT costs which may be associated with implementing a formula change or new distribution. We will keep a watchful eye to ensure we are not absorbing hard IT costs into our existing budget projections.

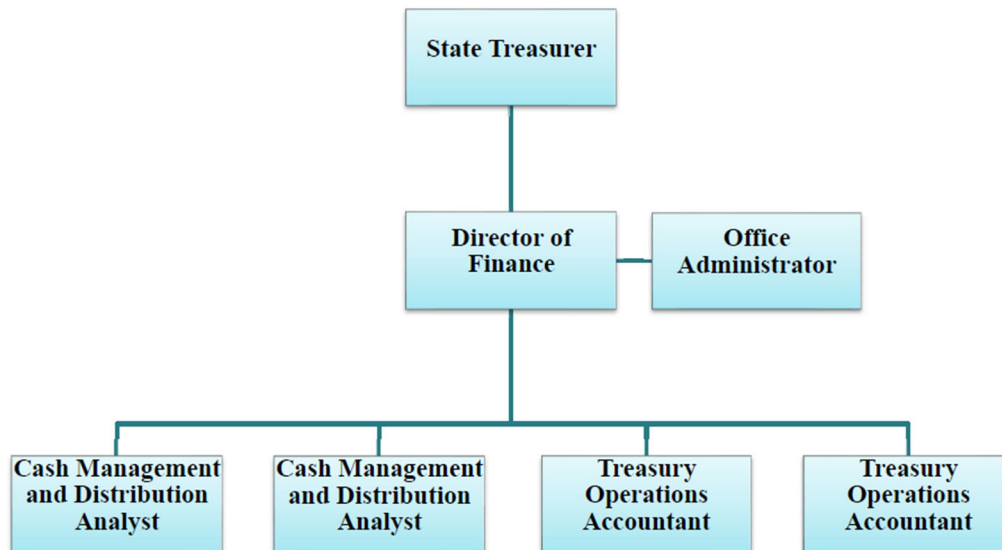
2021-2023 BUDGET

As with prior biennia, the Office of State Treasurer’s budget consists of two major items – salaries and information technology fees. Nearly ninety-eight percent (98%) of our biennium to-date expenditures have fallen into one of those two categories. Our office relies heavily on our people and on the technology needed to help them do their jobs efficiently and effectively.

Salaries and wages:

Our agency consists of seven full time employees, including the Treasurer. The current fiscal staff is made up of two Cash Management and Distribution Analysts, two Treasury Operations Accountants, and a Director of Finance. As a testament to the complexity of the work we perform, all fiscal positions require a minimum of a four-year college degree and varying levels of work experience to be qualified. With the timing and complexity of everything we do in our office, we are very fortunate to have an excellent team we have been able to retain.

OFFICE OF STATE TREASURER ORGANIZATIONAL CHART



With the duties required of our office, this level of staffing is vitally important not only to be able to perform these duties, but also to provide the essential checks and balances so that one person is not handling all stages of a process. This is true not only with daily depositing to and reconciling of the state's checkbook, but also with our revenue distribution processes for all the funds we send out to the political subdivisions.

Operating expenses:

Our operating expenses consist mainly of amounts paid for data processing and other services provided by ITD. To-date in the current biennium, nearly 85% of our operating expenses have consisted of data processing, desktop support, and telecommunication service charges from ITD. Our office has always been heavily reliant on this technology and the events of the past year have only expanded upon this fact. Our push to advance the automation of several processes was expedited during the Covid-19 pandemic. As previously mentioned, we were able to modify and update a significant number of our processes which has allowed for efficient and effective remote work which provides added flexibility to our team and increases efficiency and effectiveness of the whole office.

Coal Severance Shortfall:

As a separate line in our budget, NDCC 57-62-02(5) requires the Office of State Treasurer to include in our biennial budget request funds for the purpose of reimbursing coal-producing counties for 30% of coal severance tax funds paid to non-coal-producing counties from coal-producing counties.

The 2019-21 amount was set at \$171,000. During the 2017 session, the statute pertaining to this payment was modified to reduce the annual amount paid. This phased-in change in statute

is now fully implemented. Because of this, the total needed to pay the statutorily mandated amounts will be reduced significantly. We have included a reduction of \$53,000 as part of our budget request.

2019-2021 ONE-TIME FUNDING ITEMS

As part of our 2019-2021 budget, we were appropriated \$35,000 in one-time funding from the Strategic Investment and Improvements Fund for IT costs related to the statutory requirements added as part of House Bill 1066 (Operation Prairie Dog). This legislation made a number of changes to the oil and gas gross production tax distribution formula. It also created two new distribution formulas for our office to facilitate. Coinciding with these new distributions are reporting requirements which require us to accept and compile the reported information and publish this information to our website for review by the general public.

To date, the Office of State Treasurer has developed the processes necessary to perform the new distributions as required and made the first required distribution to non-oil cities with populations of 1,000 or greater in December of 2020. We have also worked directly with ITD to develop the reporting and publishing platforms required. Enhancements have been made to allow for electronic submission of required political subdivision reports available to the public on our website. We are in the final stages of pushing each of these platforms into production.

2021-2023 ONE-TIME FUNDING REQUESTS

The Office of State Treasurer only anticipates one-time funding needs related to costs associated with coding changes required by any statutory changes made by the 67th Legislative Assembly in respect to distributions or other activities performed by our office. Substantive changes to distribution formulas generally require some level of rewriting of our Tax Distribution and Outstanding Checks (TDOC) system to comply with the changes made to statute. These would include changes to the oil and gas gross production tax distribution, the highway tax distribution, and any of the other distributions we currently administer. This would also be true for any new distributions added to our statutory responsibilities.

AGENCY COLLECTIONS

Our office is responsible for the collection of various revenues from political subdivisions throughout the state. Mainly court fines and fees collected by the County Clerks of Court and Assessed Communication fees and Medical Center Levy tax revenues collected by County Auditors. Of these, a significant number are deposited directly into the general fund while others are deposited into special funds. Due to the nature of these collections, we do not anticipate any significant changes in revenue amounts for the coming biennium.

PROPOSED BUDGET CHANGES TO MEET THE EXECUTIVE RECOMMENDATION

The Office of State Treasurer has continually sought to find efficiencies to keep its operating budget as lean as possible. Outside of salaries and benefits, over 70% of the OST's 2019-2021 operating expense budget is made up of amounts paid to ITD for services related to technology fees, desktop support services, and telecommunications systems. Because these costs are such a significant portion of our budget, a 5% reduction in our overall budget must include a significant reduction in ITD expenditures.

In analyzing our overall IT budget, we do anticipate realizing some savings by having our website hosted on the state's web platform. This conversion was fully completed during the 2019-2021 biennium. However, further looking at the desktop support area, with the new rate structure released by ITD and our switch to laptops to facilitate more efficient remote work, we do anticipate an increase in expenses in this area. To offset this increase and, as an attempt to realize some additional savings, we are reducing the IT dollars we have set aside to pay for emergency and one-time issues that may arise within our distribution system. These combined changes make up the IT-data processing reduction shown in our base budget reduction change package.

In addition to the IT reductions outlined above, we have also included significant reductions in our travel and dues and professional development line items. With the new focus on the ability to work remotely, the need for significant amounts of travel has been greatly reduced. We also began utilizing an online training platform that will reduce the overall amounts spent on professional development significantly.

For the remainder of our base budget change package related to operating expenses, we have identified some small savings which may be realized by purchasing supplies in bulk, prepaying certain expenses, or just a general change in how services are performed.

Furthermore, in addition to our salaries, benefits, and normal operating expenses, the OST's general fund appropriation includes the Coal Severance Shortfall, which are payments made to coal-producing counties. This is estimated each biennium and included in our agency budget. The 2019-21 amount was set at \$171,000. During the 2017 session, the statute pertaining to this payment was modified to reduce the annual amount paid. This phased-in change in statute is now fully implemented which will cause the amount needed to pay the statutorily mandated amounts to be reduced significantly. As such, we have included a reduction of \$53,000 as part of our base budget reduction change package.

AGENCY REQUEST VS. EXECUTIVE BUDGET

The final executive recommended budget for the Office of State Treasurer includes all the adjustments we outlined above. It also includes their proposed salary and benefit package changes along with a small addition related to the change in ITD's Microsoft licensing structure. In addition, it includes a \$77,019 increase in general fund appropriations for a proposed rent model change. As a general fund agency, we have never been charged rent for the office space we occupy at the capitol and this would represent a significant increase in our operating budget.

CORONAVIRUS (COVID-19) FEDERAL FUNDING

The Office of State Treasurer was appropriated \$122,757,062.75 of Federal Coronavirus Relief Fund (CRF) authority to distribute to political subdivisions across the state. Payments were made to cities, counties, park districts, ambulance districts, soil conservation districts, and water authorities. Payments were made to political subdivisions as reimbursement for COVID-19 related expenditures and, most notably, for the reimbursement of law enforcement expenditures of cities and counties.

Through December 2020, our office had expended \$109,494,904.20 of the total appropriation. In working with OMB, we anticipate distributing substantially all our remaining appropriation to the political subdivisions in January 2021.

2019-2021 EXPENDITURES AND ESTIMATED TURNBACK

Line Item Description	2019-2021 Appropriation	Expended Through 12/31/20	2019-2021 Remaining Appropriation	Expected Expenditures through 6/30/21	2019-2021 Estimated Turnback	
Salaries and Wages	\$ 1,383,141.00	(1,022,640.94)	360,500.06	(348,618.06)	\$ 11,882.00	
Normal Operating Expenses	192,229.00	(92,029.52)	100,199.48	(63,582.21)	36,617.27	1
Coal Severance Shortfall	171,000.00	(57,478.63)	113,521.37	(58,307.11)	55,214.26	2
CARES Act Funding	122,757,062.75	(109,494,904.20)	13,262,158.55	(13,262,158.55)	-	3
One-Time Funding:						
IT Project	35,000.00	(16,303.59)	18,696.41	(10,000.00)	8,696.41	4
IT Project C/O	20,000.00	(15,752.26)	4,247.74	-	4,247.74	5
Total For Department	\$ 124,558,432.75	(110,699,109.14)	13,859,323.61	(13,742,665.93)	\$ 116,657.68	

NOTES:

- Operating expense turnback will be mostly due to IT savings, limited travel opportunities, a reduction in dues paid, and other miscellaneous operating savings.
- The General Fund appropriation for Coal Severance Shortfall (NDCC 57-62-02(5)) is estimated for each biennium. During the 2017 session, the statute pertaining to this payment was modified to reduce the annual amount paid. This phased-in change in statute is now fully implemented, resulting in this estimated turnback for the 2019-2021 biennium.
- The Office of State Treasurer was allocated CRF funds to further distribute to political subdivisions across the state. The majority of the funds were used to reimburse law enforcement expenditures for March through December 2020.
- Our office was allocated one-time funding to complete IT enhancements related to the newly implemented Prairie Dog distributions. Enhancements were made to allow for electronic submission of required political subdivision reports as well as the ability for the Office of State Treasurer to make these reports available to the public on our website.
- We requested carryover authority from our 2017-2019 biennium budget to complete the software rewrites initiated in response to the oil and gas distribution changes passed during the 2019 Legislative Session (HBs 1014 & 1066; SBs 2016, 2249, 2312 & 2362). All required changes were completed early in the biennium.