# HB 1275 Definition of Principal Legacy Fund

Retirement and Investment Office

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# Suggested changes to HB 1275 - Definition of Principal Page 4 Lines 13-14

"Principal" means all transfers into the legacy fund under North Dakota Constitution, Article X, Section 26, paragraph 1 and all earnings as defined in subsection 1 earned prior to July 1, 2017. Principal also includes realized earnings, as defined in subsection 1 and earned after June 30, 2017, that are reinvested in the fund after having been transferred to the general fund.

### Section 26.

1. Thirty percent of total revenue derived from taxes on oil and gas production or extraction must be transferred by the state treasurer to a special fund in the state treasury known as the legacy fund. The legislative assembly may transfer funds from any source into the legacy fund and such transfers become part of the principal of the legacy fund.

\*\*As currently written in HB 1275, principal would include unrealized gains/losses on investments.\*\*

2. "Principal" means all moneys in the legacy fund not included in earnings as defined under subsection 1.

\$10,000 Invested in CD at 5% for one year

## What is Principal?

This is the principal amount

At the end of the year you have \$10,500



If you reinvest the \$10,500 in a new CD, that now becomes the new principal amount.

# What is Principal?

\$10,000 Invested in Company A stock (100 shares @ \$100/share)

This is the principal amount

At the end of the year stock is selling for \$150/share Total value is \$15,000



The \$50 increase in share price is an unrealized gain of \$5,000 (\$50x100 shares)

Gain/income is not realized until sold - Principal is still \$10,000

\$15,000 Invested in Company B stock (100 shares/\$150 per share)

Reinvest \$15,000 - this is now the new principal

Sell 100 shares of Company A at \$150/share - proceeds are \$15,000

Principal returned = \$10,000 Realized Gain = \$5,000

### What is Principal in the Legacy Fund?

\$5,876,404,140
Total Monthly Deposits since
Inception invested by SIB as of
11/30/2020

\$6,313,243,812 Total Principal \$436,839,672
Earnings (as defined by 21-10-12
- does not include unrealized gains/losses) from inception through 6/30/2017

This is part of principal Earnings through 6/30/17 were not required to be transferred to the General Fund; therefore they were reinvested and became part of principal.

\$497,343,544 2019-21 Biennium earnings through 11/30/2020

Realized income; will be transferred out; not part of principal

\$455,263,216 Earnings (as defined by 21-10-12) transferred to General Fund at the end of 2017-19 biennium.

Realized income; left the fund; not part of principal

\$7,890,144,831
Total value of Legacy Fund as of 11/30/2020

Total value consists of principal balance \$6,313,243,812
Biennium-to-Date Earnings balance 497,343,544
Unrealized Gains/Losses 1,079,557,475

Current language in HB1275 would require Unrealized Gains/Losses to be included in the principal balance

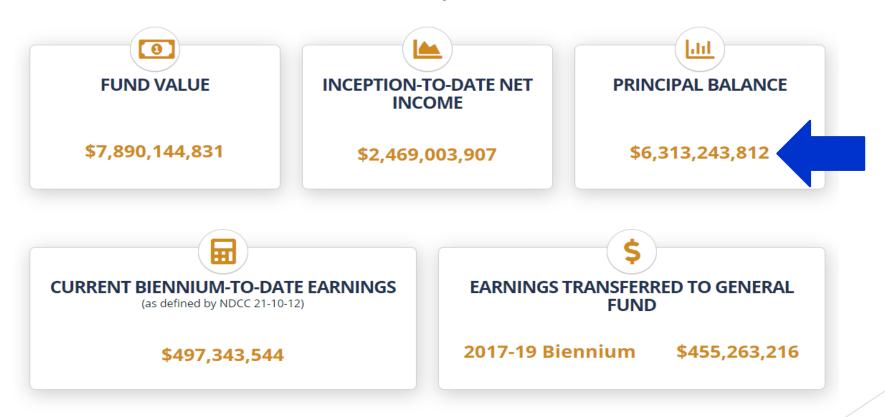
### North Dakota Retirement and Investment Office - Legacy Fund Website

https://www.rio.nd.gov/legacy-fund

### **Legacy Fund**

The Legacy Fund was created by a constitutional amendment in 2010. The amendment provides that 30% of oil and gas gross production and oil extraction taxes on oil produced after June 30, 2011, be transferred to the Legacy Fund. The State Investment Board (SIB) is responsible for the investment of the fund. The first Legacy Fund transfer was received by the SIB in September 2011. The ND Constitution also requires that all earnings accrued after June 30, 2017, must be transferred to the state's general fund at the end of each biennium.

Balances listed below as of November 30, 2020.



<sup>\*\*</sup>PLEASE NOTE: Monthly numbers are preliminary and subject to change.