

FISCAL NOTE
HOUSE BILL NO. 1278
LC# 23.0455.01000
01/24/2023

1 - State Fiscal Effect

Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.

	2021-2023 Biennium		2023-2025 Biennium		2025-2027 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures				\$9,902,386		\$9,902,386
Appropriations				\$9,902,386		\$9,902,386

2 - County, City, School District, and Township Fiscal Effect

Identify the fiscal effect on the appropriate political subdivision.

	2021-2023 Biennium	2023-2025 Biennium	2025-2027 Biennium
Counties			
Cities			
School Districts			
Townships			

3 - Bill and Fiscal Impact Summary

Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).

HB 1278 amends NDCC to add required written support of the fossil fuel and agriculture industries of ND to all of the State Investment Board's (SIB) contracts with its counterparties. It also adds the requirement for the SIB to put out for bid each of its advisory contracts every 5 years.

4 - Fiscal Impact Sections Detail

Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.

Section 1 of HB 1278 prohibits the State Investment Board (SIB) from engaging with any custodial agent that is a member of any association that has not publicly supported the fossil fuel and agriculture industries of ND. It also requires all contracts between the SIB and its investment counterparts include written support of these industries. Finally, it requires the SIB to issue an RFP for all of its advisory service contracts every five years.

Section 2 requires that any custodian of funds engaged by the SIB must publicly support the fossil fuel and agriculture industries of ND.

Section 3 exempts the action of giving preference to an individual or entity that publicly supports the fossil fuel and agriculture industries in ND from the prohibition on "social investment" consideration in NDCC 21-10-07.

Section 4 adds preference language for qualified investment firms and financial institutions looking to provide services for legacy fund investments. Preference is to be given to those that publicly support the fossil fuel and agriculture industries of ND.

5 - Revenues Detail

For information shown under state fiscal effect in 1 or 2, please explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.

6 - Expenditures Detail

For information shown under state fiscal effect in 1 or 2, please explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.

All financial contracts entered into by the SIB are for the exclusive benefit of each client fund that it is investing on behalf of. Its objective is to obtain the maximum return for the appropriate level of risk. Including non-pecuniary requirements into fiscal contracts contradicts the exclusive benefit rule and would put us in breach of contract with all 28 client funds for which we currently administer investments.

Ultimately, the prohibition in section 1 on custodial agents not being a member of any association that has not publicly supported the fossil fuel and ag industries in ND would require the divestment from such a firm. All institutions we engage for our investment services are members of hundreds of varying associations. The majority of these financial associations would be completely removed from any North Dakota relationship and, subsequently, would not have any relationship with the ND fossil fuel and ag industries. Therefore, these association would have not publicly supported said industries and would lead to the prohibition of using any outside money managers.

We anticipate this would necessitate the divestment of all funds from external money managers and would require 100% internal investment management. This would significantly increase the need for internal staffing as currently 100% of our investments are externally managed. RIO would have to significantly expand its investment and operations teams to administer all of the internal investment activities.

As a comparison, the South Dakota Investment Council has a very similar amount of assets under management as the SIB and manages the vast majority of its investments internally with a total of 35 investment and operations FTE. Similar structure for the SIB would necessitate an additional 25 FTE (20 investment professionals across a variety of asset categories, 3 investment accountants, and two admin positions) to administer all investments internally. The addition of these FTE would conservatively cost an additional \$8,652,386 per biennium in salaries and benefits and would require significant operating expenditures to support the additional workforce. If this were to be required, SIB estimates an increase in \$9,902,386 Of special fund expenditures per biennium.

7 - Appropriations Detail

For information shown under state fiscal effect in 1 or 2, please explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.

As spelled out above, moving the management of all of its investments internally would require the addition of 25 FTE. The salaries and benefits required for these new FTE along with the related operating expenditures would require additional special fund appropriations of \$9,902,386 per biennium.

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