

FISCAL NOTE
HOUSE BILL NO. 1330
LC# 25.0779.03000
03/28/2025

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.

	2023-2025 Biennium		2025-2027 Biennium		2027-2029 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

Identify the fiscal effect on the appropriate political subdivision.

	2023-2025 Biennium	2025-2027 Biennium	2027-2029 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).

See Attached

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.

See Attached

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.

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.

Contact Information

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Date Prepared: 03/27/2025

**Fiscal Note
House Bill 1330
Summary of Consultant Information**

Summary of Consultant Information:

Retirement and Investment's Office, together with its consulting agency, RVK, Inc has reviewed the legislation proposed in this bill. The portfolio implications of the bill, as currently drafted could vary depending on interpretation. The primary variable of interpretation is the meaning in Section 1.b. of "subject to the jurisdiction or direction of China."

Interpretation #1:

Technically, many global companies, likely representing the vast majority of global market capitalization could be considered "subject to the jurisdiction of China" simply by selling products or otherwise conducting business in China.

Under this interpretation, the Legacy Fund would not be able to own directly much of the global equity or credit markets. From a practical implementation standpoint, all of the public equity and fixed income strategies that are currently managed as separate accounts would need to migrate into a commingled investment vehicle to maintain the intended strategic asset allocation exposure with prudent diversification. As such, we have estimated the projected financial cost of the bill on the Legacy Fund by analyzing the observed typical management fee differentials for each affected mandate between separate account management and commingled funds. Separate account management fees, at the size and scale of the Legacy Fund, should be expected to be lower than what would be available through commingled funds.

Reviewing the most recently available market values and portfolio structure for the Legacy Fund, we would expect the following approximate amounts to be impacted in each of the following categories:

- Large Cap Domestic Equity – Approx. \$2.9 B
- Small Cap Domestic Equity – Approx. \$140 M
- International All Cap Equity – Approx. \$440 M
- Core Fixed income – Approx. \$1.8 B
- High Yield Fixed Income – Approx. \$710 M

Using manager fee universe data from Nasdaq eVestment, we observe the following 50th percentile investment management fee differentials for active management of the above asset classes, at the approximate amounts, as follows:

- Large Cap Domestic Equity: +5 basis points (0.05%)
- Small Cap Domestic Equity: +1 basis point
- International All Cap Equity: +1 basis point
- Core Fixed income: +4 basis points
- High Yield Fixed Income: +6 basis points

Applying the higher cost of investment estimated to maintain the strategic asset allocation of the Legacy Fund to the estimated portion of the current portfolio that would be impacted, we estimated an initial annual cost to the Legacy Fund of \$2.7 Million. This amount would likely grow substantially over time as the Legacy Fund grows. Assuming 10% annual growth in assets (net growth from contributions, distributions, and investment earnings), we would expect the total cost to the Legacy Fund in the first 2 biennium as follows:

Biennium Beginning 7/1/25: \$5.6 Million

Biennium Beginning 7/1/27: \$6.7 Million

Additionally, interpretation of the bill as currently drafted would likely prohibit any internal investment of assets by the North Dakota Retirement and Investment Office as it would require the state to invest (and pay management fees to) external entities rather than build those capabilities within the office. We estimate that relative to a successfully built out internal investment program, the cost of the bill as drafted to the Legacy Fund could easily be a significant multiple of the amounts listed above.

Interpretation #2:

If the language in the bill could be edited to clarify only a prohibition of direct investment in securities of companies domiciled in China or controlled by entities domiciled in China, the portion of the portfolio impacted could be reduced considerably.

Reviewing the most recently available list of direct holdings of the Legacy Fund, we observe the following approximate amounts that could be impacted if the strategy owning these securities were required to migrate to an indirect ownership structure:

- International All Cap Equity – Approx. \$440 M
- Core Fixed income – Approx. \$1.1 B
- High Yield Fixed Income – Approx. \$710 M

These amounts could potentially be mitigated through modest guideline adjustments for the impacted separately managed accounts where China exposure is very small, and not expected to be a significant component of the investment strategy. As such an estimated range of potential impact is provided for this scenario.

Applying the higher cost of investment estimated to maintain the strategic asset allocation of the Legacy Fund to the estimated potential range of the portfolio that would be impacted, we estimated an initial annual cost to the Legacy Fund in a range of approximately \$50,000 to \$910,000. This amount would likely grow over time as the Legacy Fund grows. Assuming 10% annual growth in assets (net growth from contributions, distributions, and investment earnings), we would expect the total cost to the Legacy Fund in the first 2 biennium to fall within the range below:

Biennium Beginning 7/1/25: \$0.1 M to \$1.9 Million

Biennium Beginning 7/1/27: \$0.1 M to \$2.3 Million

Fiscal Note
House Bill 1330
Summary of Consultant Information

Summary of Consultant Information:

Retirement and Investment's Office, together with its consulting agency, RVK, Inc has reviewed the legislation proposed in this bill. The portfolio implications of the bill, as amended to only prohibition of direct investment in a company formed and domiciled in China, would be impacted as listed below.

Reviewing the most recently available list of direct holdings of the Legacy Fund, we observe the following approximate amounts that could be impacted if the strategy owning these securities were required to migrate to an indirect ownership structure:

- International All Cap Equity – Approx. \$440 M
- Core Fixed income – Approx. \$1.1 B
- High Yield Fixed Income – Approx. \$710 M

These amounts could potentially be mitigated through modest guideline adjustments for the impacted separately managed accounts where China exposure is very small, and not expected to be a significant component of the investment strategy. As such an estimated range of potential impact is provided for this scenario.

Applying the higher cost of investment estimated to maintain the strategic asset allocation of the Legacy Fund to the estimated potential range of the portfolio that would be impacted, we estimated an initial annual cost to the Legacy Fund in a range of approximately \$50,000 to \$910,000. This amount would likely grow over time as the Legacy Fund grows. Assuming 10% annual growth in assets (net growth from contributions, distributions, and investment earnings), we would expect the total cost to the Legacy Fund in the first 2 biennium to fall within the range below:

Biennium Beginning 7/1/25: \$0.1 M to \$1.9 Million

Biennium Beginning 7/1/27: \$0.1 M to \$2.3 Million

**Fiscal Note
House Bill 1330
Summary of Consultant Information**

Summary of Consultant Information:

Retirement and Investment's Office, together with its consulting agency, RVK, Inc has reviewed the legislation proposed in this bill. The purpose of this memorandum is to update the Fiscal Note analysis for the House Bill No. 1330 ("HB 1330") following the Senate amendments proposed to the HB 1330. Section 1 and Section 3 of the HB 1330, as currently drafted, might have portfolio implications.

Section 1 of the Amended HB 1330

The amended language under Section 1 (b) clarifies a prohibition to apply to companies formed and domiciled in China. Reviewing a recently available list of direct holdings of the Legacy Fund, we observe the following approximate amounts that could be impacted if the strategy owning these securities were required to migrate to an indirect ownership structure:

- International All Cap Equity – Approx. \$440 M
- Core Fixed income – Approx. \$1.1 B
- High Yield Fixed Income – Approx. \$710 M

These amounts could potentially be mitigated through modest guideline adjustments for the impacted separately managed accounts where China exposure is very small and not expected to be a significant component of the investment strategy. An estimated range of potential impact is provided below.

Applying the higher cost of investment estimated to maintain the strategic asset allocation of the Legacy Fund to the estimated potential range of the portfolio that would be impacted, we estimated an initial annual cost to the Legacy Fund in a range of approximately \$50,000 to \$910,000. This amount would likely grow over time as the Legacy Fund grows. Assuming 10% annual growth in assets (net growth from contributions, distributions, and investment earnings), we would expect the total cost to the Legacy Fund in the first 2 biennium to fall within the range below:

Biennium Beginning 7/1/25: \$0.1 M to \$1.9 Million

Biennium Beginning 7/1/27: \$0.1 M to \$2.3 Million

Section 3 of the Amended HB 1330

This section of the bill relates to Section 21-10-11 of the North Dakota Century Code, regarding the North Dakota Legacy Fund Advisory Board and the targeted levels of in-state investment.

The amendment appears to provide a potentially open-ended ability to invest in large scale infrastructure projects, and to be un-diversified if the purposes of the state are better served without diversification. We would caution that this potentially puts significant Legacy Fund principal at risk in a manner that would be impossible to quantify in a fiscal note. The Legacy Fund Investment Policy does provide guidelines for in-state investments that are intended to preserve the primacy of risk-adjusted returns as the objective for Legacy Fund investments along with prudent guidelines on diversification. We would recommend consideration of amended language that clarifies that any investments made under this section shall be subject to the guidelines contained in the Legacy Fund Investment Policy.