

2025 HOUSE APPROPRIATIONS

HB 1022

DEPARTMENT 190 - RETIREMENT AND INVESTMENT OFFICE 2025-27 BASE-LEVEL BUDGET

Base Budget - Summary

	<u>Base Level</u>
Salaries and wages	\$8,552,467
Operating expenses	2,731,037
Contingencies	<u>200,000</u>
Total special funds	\$11,483,504
Full-time equivalent (FTE) positions	34.00

Selected Base Budget Information

	General Fund	Other Funds	Total
1. Includes funding for state employee salary and benefits for 34 FTE positions, including incentive compensation for certain employees under North Dakota Century Code Section 54-52.5-04	\$0	\$8,552,467	\$8,552,467
2. Includes funding for operating expenses, primarily related to information technology (IT) costs (\$1,729,287), travel and professional development (\$298,241), rent (\$240,000), and postage (\$61,816)	\$0	\$2,731,037	\$2,731,037
3. Includes funding for contingencies, primarily for executive searches or other unanticipated expenses	\$0	\$200,000	\$200,000

Continuing Appropriations

Investment expenses - Section 21-10-06.2 - Investment management, custody, consulting, income offset, and due diligence/education costs.

Benefits and refunds - Section 15-39.1-05.2 - Benefits and refunds from the Teachers' Fund for Retirement (TFFR).

Administrative charges - Section 15-39.1-05.2 - Income offset and TFFR consulting costs.

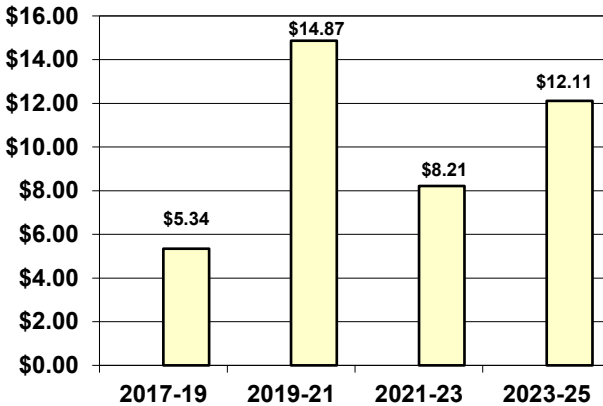
As reported in the June 30, 2023, financial statements for the Retirement and Investment Office, expenditures under continuing appropriation authority for the 2021-23 biennium totaled \$2,697,735 as shown below.

	Fiscal Year 2022	Fiscal Year 2023	2021-23 Biennium
Consulting services	\$300,232	\$269,436	\$569,668
Benefits and refunds from TFFR	40,526	500,402	540,928
Other administrative expenses	655,217	931,922	1,587,139
Total	\$995,975	\$1,701,760	\$2,697,735

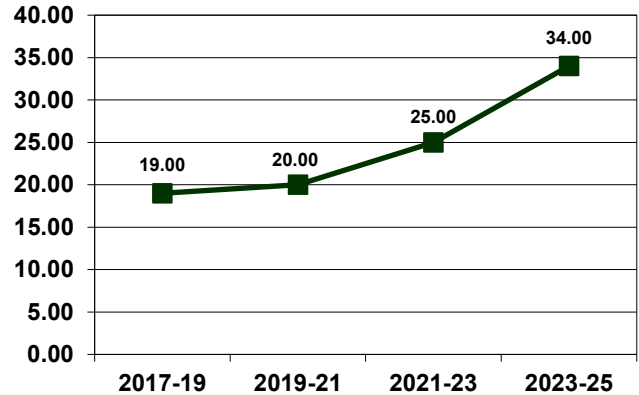
Historical Appropriations Information

Agency Appropriations and FTE Positions

Agency Funding (Millions)



FTE Positions



■ General Fund □ Other Funds

Ongoing Other Funds Appropriations

	2015-17	2017-19	2019-21	2021-23	2023-25
Ongoing other funds appropriations	\$5,413,425	\$5,340,054	\$5,869,164	\$8,209,367	\$11,483,504
Increase (decrease) from previous biennium	N/A	(\$73,371)	\$529,110	\$2,340,203	\$3,274,137
Percentage increase (decrease) from previous biennium	N/A	(1.4%)	9.9%	39.9%	39.9%
Cumulative percentage increase (decrease) from 2015-17 biennium	N/A	(1.40%)	8.4%	51.6%	112.1%

Major Increases (Decreases) in Ongoing Other Funds Appropriations

2017-19 Biennium

- Adjusted funding for operating expenses (\$128,390)
- Reduced contingency funding to \$52,000 (\$30,000)

2019-21 Biennium

- Added 1 FTE investment analyst position (\$294,996) and related operating expenses (\$14,450) \$309,446
- Added funding for Microsoft Office 365 license expenses \$12,000

2021-23 Biennium

- Added funding for 4 FTE investment professional positions (\$1,180,653), 1 FTE investment accountant position (\$155,951), and 1 FTE program outreach coordinator position (\$184,183); related operating expenses for the new FTE positions (\$75,000); and salary equity funding (\$211,075) \$1,806,862
- Added 1 FTE investment program analyst position, including \$210,000 for salaries and wages and \$15,000 for operating expenses \$225,000

2023-25 Biennium

- Increased funding for new FTE positions approved during the November 2021 special legislative session (\$506,929), salary equity adjustments (\$383,540), and other salary increases and internships (\$122,358) \$1,012,827
- Added funding for operating expenses, including \$6,721 for Information Technology Department rate increases, \$100,000 for executive search expenses, \$167,500 for inflationary increases, \$977,419 for pension administration software fees, \$32,750 for staff development and marketing materials, and \$266,840 for other operating expense increases related to rent, travel, and data processing \$1,551,230
- Increased funding for contingencies to provide total funding of \$200,000 \$100,000

One-Time Other Funds Appropriations

	2015-17	2017-19	2019-21	2021-23	2023-25
One-time other funds appropriations	\$0	\$0	\$9,000,000	\$0	\$624,900

Major One-Time Other Funds Appropriations

2017-19 Biennium

None \$0

2019-21 Biennium

1. Pension administration system project \$9,000,000

2021-23 Biennium

None \$0

2023-25 Biennium

1. Pension software implementation (\$574,900), including \$436,000 for temporary staff and \$138,900 for IT fees, and other temporary staff (\$50,000) \$624,900



Retirement and Investment Office
Department No. 190
2025 House Bill No. 1022

EXECUTIVE BUDGET RECOMMENDATION
2025-27 BIENNIUM

Budget Summary

	FTE Positions	General Fund	Other Funds	Total
Executive budget recommendation	35.00	\$0	\$16,612,954	\$16,612,954
Base level	34.00	0	11,483,504	11,483,504
Increase (decrease)	1.00	\$0	\$5,129,450	\$5,129,450
Percentage increase (decrease)	2.9%	N/A	44.7%	44.7%

NOTE:

More detailed information on the executive budget recommendation is attached as Appendix A.

A copy of the draft appropriations bill reflecting the executive budget recommendation is attached as Appendix B.

Selected Highlights

- Salary increases of up to 4 percent effective July 1, 2025, and 3 percent effective July 1, 2026
- Health insurance increase of \$250 per month (15.23 percent), from \$1,643 to \$1,893, per employee
- Adds funding to replace the 2023-25 biennium vacant FTE pool (\$238,129) and the 2023-25 biennium new FTE pool (\$1,547,947)
- Adds \$1,236,914 for FTE positions partially funded during the 2023-25 biennium
- Adds \$226,771 for 1 FTE fiscal services position, including \$209,046 for salaries and wages and \$17,725 for operating expenses
- Adds \$751,334 for information technology hosting fees related to pension software
- Adds \$250,000 of **one-time funding** for information technology support related to pension software

Deficiency Appropriations

There are no deficiency appropriations for this agency.

Significant Audit Findings

There are no significant audit findings for this agency.

Agency Fees

As reported to the Legislative Management pursuant to North Dakota Century Code Section 54-35-27, this agency did not have any fees.

Major Related Legislation

As of the date of this report, there is no major related legislation for this agency.

NOTE:

Please see the Fiscal Impact Report for additional information regarding bills under consideration which contain either a state revenue impact, an appropriation, or a state fiscal impact.



Retirement and Investment Office - Budget No. 190

Agency Worksheet - House Bill No. 1022

	Executive Budget			
	FTE Positions	General Fund	Other Funds	Total
2025-27 Biennium Base Level	34.00	\$0	\$11,483,504	\$11,483,504
2025-27 Ongoing Funding Changes				
Salary increase			\$586,608	\$586,608
Health insurance increase			210,185	210,185
Funding to replace the 2023-25 vacant FTE pool			238,129	238,129
Funding to replace the 2023-25 new FTE pool			1,547,947	1,547,947
Funding for FTE positions partially funded in 2023-25			1,236,914	1,236,914
Transfers \$70,450 from operating to salaries - Base				0
FTE fiscal services position	1.00		226,771	226,771
Information technology rate increases			61,562	61,562
Information technology software hosting fees			751,334	751,334
Investment conference hosting expenses			20,000	20,000
Total ongoing funding changes	1.00	\$0	\$4,879,450	\$4,879,450
One-Time Funding Items				
Information technology software support			\$250,000	\$250,000
Total one-time funding changes	0.00	\$0	\$250,000	\$250,000
Total Changes to Base Level Funding	1.00	\$0	\$5,129,450	\$5,129,450
2025-27 Total Funding	35.00	\$0	\$16,612,954	\$16,612,954

Federal funds included in other funds

\$0

Total ongoing changes - Percentage of base level

2.9%

N/A

42.5%

42.5%

Total changes - Percentage of base level

2.9%

N/A

44.7%

44.7%

Other Sections in Retirement and Investment Office - Budget No. 190

Section Description	Executive Budget
FTE position adjustments	Section 3 would authorize the Retirement and Investment Office to increase or decrease authorized FTE positions subject to the availability of funds.

Sixty-ninth
Legislative Assembly
of North Dakota

HOUSE BILL NO. 1022
(Governor's Recommendation)

Introduced by

Appropriations Committee

(At the request of the Governor)

A bill for an act to provide an appropriation for defraying the expenses of the state retirement and investment office; to provide for an exemption; and to provide for a transfer.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. APPROPRIATION. The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys from special funds derived from income for the purpose of defraying their expenses, for the biennium beginning July 1, 2025, and ending June 30, 2027, as follows:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and Wages	\$8,988,467	\$3,663,279	\$12,651,746
Operating Expenses	2,295,037	1,466,171	3,761,208
Contingencies	<u>200,000</u>	<u>0</u>	<u>200,000</u>
Total All Funds	\$11,483,504	\$5,129,450	\$16,612,954
Less Estimated Income	<u>11,483,504</u>	<u>5,129,450</u>	<u>16,612,954</u>
Total General Fund	\$0	\$0	\$0
Full-time Equivalent Positions	34.00	1.00	35.00

SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET – REPORT TO SEVENTIETH LEGISLATIVE ASSEMBLY. The following amounts reflect the one-time funding items approved by the sixty-eighth legislative assembly for the 2023-25 biennium and the 2025-27 one-time funding items included in the appropriation in section 1 of this Act:

<u>One-Time Funding Description</u>	<u>2023-25</u>	<u>2025-27</u>
Temp Salaries	\$50,000	\$0
PASS project	<u>574,900</u>	<u>250,000</u>
Total Special Funds	\$624,900	\$250,000

The 2023-25 one-time funding amounts are not a part of the entity's base budget for the 2025-27 biennium. The retirement and investment office shall report to the appropriations committees of the seventieth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2025 and ending June 30, 2027.

SECTION 3. EXEMPTION – FULL-TIME EQUIVALENT POSITION ADJUSTMENTS. Notwithstanding any other provisions of law, the state retirement and investment office may increase or decrease authorized full-time equivalent positions as needed, subject to the availability of funds, during the biennium beginning July 1, 2025, and ending June 30, 2027. The state retirement and investment office shall report to the office of management and budget and legislative council any adjustments made pursuant to this section.



Retirement and Investment Office
Department No. 190
2025 House Bill No. 1022

REVISED EXECUTIVE BUDGET RECOMMENDATION
2025-27 BIENNIUM

Budget Summary

	FTE Positions	General Fund	Other Funds	Total
Burgum budget recommendation	35.00	\$0	\$16,612,954	\$16,612,954
Revisions - Increase (decrease)	(1.00)	0	(347,548)	(347,548)
Armstrong budget recommendation	34.00	\$0	\$16,265,406	\$16,265,406
Base level	34.00	0	11,483,504	11,483,504
Increase (decrease)	0.00	\$0	\$4,781,902	\$4,781,902
Percentage increase (decrease)	0.0%	N/A	41.6%	41.6%

NOTE:

More detailed information on the revised executive budget recommendation is attached as an appendix.

Selected Highlights

- **Salary increases of up to 3 percent effective July 1, 2025, and 3 percent effective July 1, 2026**
- Health insurance increase of \$250 per month (15.23 percent), from \$1,643 to \$1,893, per employee
- Adds funding to replace the 2023-25 biennium vacant FTE pool (\$238,129) and the 2023-25 biennium new FTE pool (\$1,547,947)
- Adds \$1,236,914 for FTE positions partially funded during the 2023-25 biennium
- Adds \$751,334 for information technology (IT) hosting fees related to pension software
- Adds \$250,000 of one-time funding for IT support related to pension software

Deficiency Appropriations

There are no deficiency appropriations for this agency.

Significant Audit Findings

There are no significant audit findings for this agency.

Agency Fees

As reported to the Legislative Management, pursuant to North Dakota Century Code Section 54-35-27, this agency did not have any fees.

Major Related Legislation

House Bill No. 1348 - Incentive compensation - Requires the Retirement and Office staff to be included in the state employee classification system and removes the authorization for the incentive compensation plan.

NOTE:

Please see the Fiscal Impact Report for additional information regarding bills under consideration which contain either a state revenue impact, an appropriation, or a state fiscal impact.



Retirement and Investment Office - Budget No. 190
Agency Worksheet - House Bill No. 1022

	Armstrong Executive Budget			
	FTE Positions	General Fund	Other Funds	Total
2025-27 Biennium Base Level	34.00	\$0	\$11,483,504	\$11,483,504
2025-27 Ongoing Funding Changes				
Salary increase			\$471,836	\$471,836
Health insurance increase			204,180	204,180
Adds funding to replace the 2023-25 vacant FTE pool			238,129	238,129
Adds funding to replace the 2023-25 new FTE pool			1,547,947	1,547,947
Adds funding for FTE positions partially funded in 2023-25			1,236,914	1,236,914
Transfers \$70,450 from operating to salaries - Base				0
IT rate increases			61,562	61,562
IT software hosting fees			751,334	751,334
Investment conference hosting expenses			20,000	20,000
Total ongoing funding changes	0.00	\$0	\$4,531,902	\$4,531,902
One-Time Funding Items				
Information technology software support			\$250,000	\$250,000
Total one-time funding changes	0.00	\$0	\$250,000	\$250,000
Total Changes to Base Level Funding	0.00	\$0	\$4,781,902	\$4,781,902
2025-27 Total Funding	34.00	\$0	\$16,265,406	\$16,265,406

Federal funds included in other funds

\$0

Total ongoing changes - Percentage of base level

0.0%

N/A

39.5%

39.5%

Total changes - Percentage of base level

0.0%

N/A

41.6%

41.6%

2025 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB 1022
1/13/2025

To provide an appropriation for defraying the expenses of the retirement and investment office.

3:14 p.m. Chairman Monson called the meeting to order.

Members Present: Chairman Monson, Vice Chairman Brandenburg, Representative Bosch, Representative Fischer, Representative Kempenich, Representative Meier, Representative Pyle

Discussion Topics:

- State Investment Board
- Teacher's fund for retirement
- RIO achievements
- Funding FTEs
- Annual savings
- Overall Budget
- Governor's budget

3:16 p.m. Jodi Smith, Interim Executive Director, testified in favor #28802 and #28803.

3:17 p.m. Rachel Kmetz, Interim Chief Financial Officer and Chief Operating Officer, testified in favor and provided testimony #28791.

3:22 p.m. Chad Roberts, Deputy Executive Director/Chief Retirement Officer, answered questions for the committee.


3:30 p.m. Scott Anderson, Chief Investment Officer, answered questions for the committee and provided testimony in favor #28788.

3:44 p.m. Rachel Kmetz, Interim Chief Financial Officer and Chief Operating Officer, testified in favor.

3:53 p.m. Chairman Monson adjourned the meeting.

Madaline Cooper, Committee Clerk

1/13/2025



House Bill 1022
House Appropriations
January 13, 2025
North Dakota Retirement and Investment Office

Jodi Smith – Interim Executive Director
 Chad Roberts, MAc – Deputy Executive Director/Chief Retirement Officer
 Scott M Anderson, CFA, MBA – Chief Investment Officer
 Rachel Kmetz – Interim Chief Financial Officer/Chief Operating Officer

NORTH Dakota | Retirement & Investment
 Be Legendary.

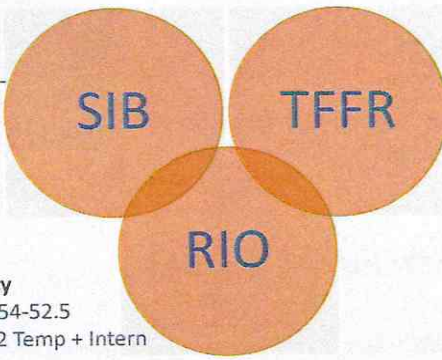
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**NORTH DAKOTA RETIREMENT AND INVESTMENT
 SUPPORTS TWO SPECIAL FUND PROGRAMS**

NORTH Dakota
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RIO was established in 1989 to coordinate the activities of the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR). The SIB is the oversight board for RIO and TFFR Board is responsible for the administration of the TFFR benefits program.

State Investment Board -
 Investment Program
 NDCC Ch. 21-10
 ~\$23.3 Billion in AUM
 As of 10/31/24



SIB **TFFR**
RIO

Teachers' Fund For Retirement –
 ND Teachers' Retirement Program
 NDCC Ch. 15-39.1
 ~\$3.4 Billion in Fund Assets
 Over 21,000 active and retired
 members and beneficiaries

RIO Agency
 NDCC Ch. 54-52.5
 34 FTEs + 2 Temp + Intern

2

STATE INVESTMENT BOARD – INVESTMENT PROGRAM



- State Investment Board (SIB) has the statutory responsibility for the administration of the investment program of several funds including:
 - TFFR, PERS, WSI, Legacy Fund
- SIB also maintains contractual relationships for investment management with multiple political subdivisions and governmental funds
- Currently ~\$23.3 Billion in Assets Under Management (AUM)
- 31 client funds

Fund/Pool	AUM (10/31/24)
Pension Pool	\$8.14B
Insurance Pool	\$3.43B
Legacy Fund	\$11.50B
Other Funds	\$0.28B

3

3

TEACHERS' FUND FOR RETIREMENT



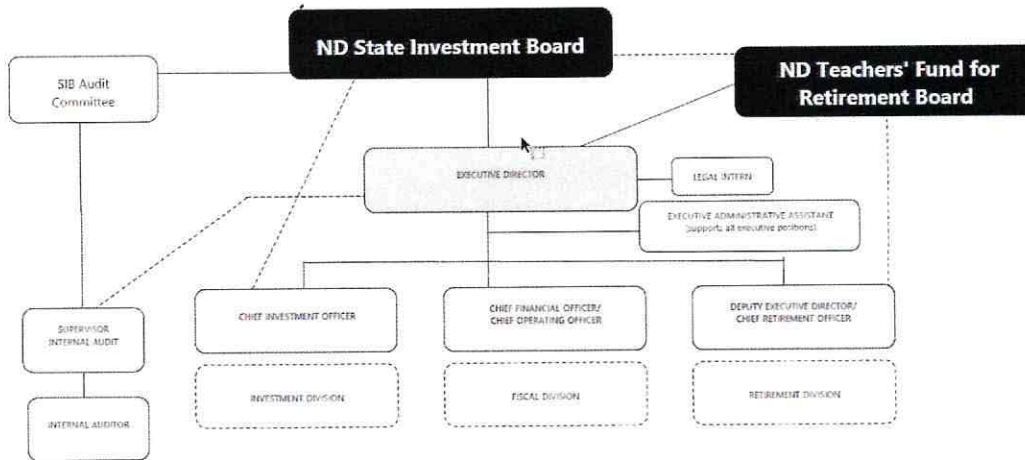
- Qualified defined benefit public pension plan for North Dakota public school teachers and administrators providing them with a foundation for retirement security.
- 11,900+ Active Members
 - 13.6% increase over past decade
- 9,600+ Retired Members and Beneficiaries
 - 20.8% increase over past decade
- ~\$3.3B Fund balance
- On-track to be 100% fully funded by 2043
- New Pension Administration System in development (est. Q1 2025)



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Retirement Investment Office (RIO) Org Chart



5

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2023 – 2025 Accomplishments



- Created and implemented new agency strategic plan
- Procurement of new Investment program software solution
- Continue to implement an in-state investment initiative
- Hosted multiple interns
- Internal Audit co-sourcing relationship
- Developed and implement new board member onboarding program
- Completed 2 of 3 phases of the TFFR Pension Administration system
- Hosted first Investment symposium

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New FTE's Appropriated for the 23-25 Biennium



- **9 new positions were added by the 2023 Legislative Assembly**
 - 7 of the 9 positions have been filled
 - Sr. Inv Acct (Hired 7/18/23)
 - Fiscal & Investment Admin Assistant (Hired 9/5/23)
 - Portfolio Manager * (Hired 8/1/24)
 - Sr. Investment Analyst * (Hired 8/1/24)
 - Portfolio Manager Internal Fixed Income * (Hired 9/3/24)
 - Investment Accountant * (Hired 9/16/24)
 - Internal Fixed Income Analyst * (Start date 2/3/25)
 - 2 of the 9 Positions are still vacant
 - Internal Equities Analyst * (anticipate hiring Q1 '25)
 - Investment Administrative Assistant * (anticipate hiring Q2 '25)

* Only funded for one year of the biennium

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BUDGET REQUEST SUMMARY



Line Item	Base Level	Adjustments to Meet Budget Limit	Adjusted Base	Requests	Total Agency Request
Salaries & Benefits	\$10,338,543	\$70,450	\$10,408,993	\$4,775,488	\$10,408,993
Operating Expenses	2,731,037	(208,822)	2,522,215	1,503,918	2,522,215
Contingencies	200,000	(200,000)	-	200,000	200,000
Total Special Funds	13,269,580	(338,372)	12,931,208	6,479,406	\$19,410,614
Included in the Exec. Recom.				2,900,375	
FTEs	34.0	-	34	10	44.0

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Optional Requests



Line Item	2 nd Half of New Positions	Cost to Continue IT Hosting/Support	Cost to Continue HR	Incremental Agency Evolution/Retirement Education	Internal Investment 2.0	Total Optional Request
Salaries & Benefits	\$1,236,914	-	142,302	418,092	2,978,180	\$4,775,488
Operating Expenses	-	1,201,268	-	90,450	212,200	2,522,215
Contingencies	-	-	-	200,000	-	200,000
Total Special Funds	\$1,236,914	\$1,201,268	\$142,302	\$708,542	\$3,190,380	\$6,479,406
Included in Exec Recom.	1,236,914	1,201,268		462,193 & 1 FTE		
FTEs	-	-	-	2	8	10

9

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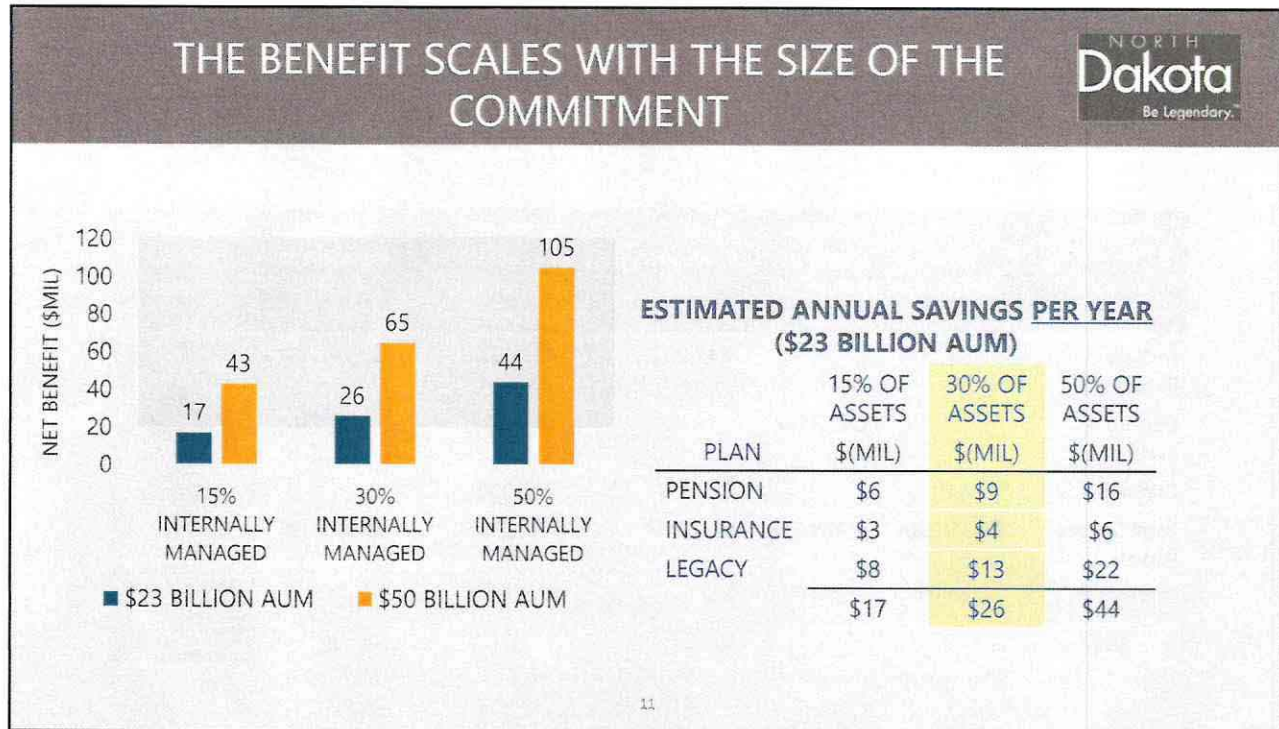
INTERNAL INVESTMENT/ TALENT MANAGEMENT



- LOWER COST THAN WITH EXTERNAL MANAGERS
- APPLIED WHERE THERE IS A COST/BENEFIT
- ENABLES ENHANCED LIQUIDITY MANAGEMENT, REBALANCING AND EXPOSURE MANAGEMENT

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10



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MINIMAL REQUIREMENTS WHEN COMPARED TO THE BENEFITS^{1,2,3}

NORTH Dakota
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5 INVESTMENT PROFESSIONALS¹:
2 X SENIOR PORTFOLIO MANAGERS
3 X INVESTMENT ANALYSTS

+

3 X INVESTMENT OPS

THE STRATEGY AND STRUCTURE WOULD EVOLVE WITH THE SIZE OF THE PROGRAM

1. The cost of staff is estimated to be approximately 15% of the total net cost savings.
2. Positive Client Fund feedback.
3. Supports greater control over investment strategies.

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House Bill 1022
North Dakota Retirement and Investment Office (RIO)
Testimony before House Appropriations – Government Operations Division
Representative David Monson, Chair

Jodi Smith – Interim Executive Director
Chad Roberts, MAcc – Deputy Executive Director/Chief Retirement Officer
Scott Anderson, CFA, MBA – Chief Investment Officer
Rachel Kmetz – Interim Chief Financial Officer/Chief Operating Officer

I. RIO Statutory Authority and Responsibilities

The Retirement and Investment Office (hereinafter “RIO”) was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers’ Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

II. Organization of RIO

A. State Investment Board (SIB)

The SIB is responsible for oversight of over \$23 billion of investments for 31 different client funds including TFFR and PERS within the over \$8 billion Pension Pool and WSI in the nearly \$3.5 billion Insurance Pool in addition to roughly \$11.5 billion in the Legacy Fund. Funding for administration of the SIB Investment Program comes directly from investment clients’ invested assets (both statutory and contracted).

SIB members include the Governor, State Treasurer, Director of Office of Management and Budget, State Land Commissioner, Workforce Safety & Insurance designee, two PERS board members, two TFFR board members, two members of the Legacy and Budget Stabilization Fund Advisory Board, and two Institutional Investment Professionals.

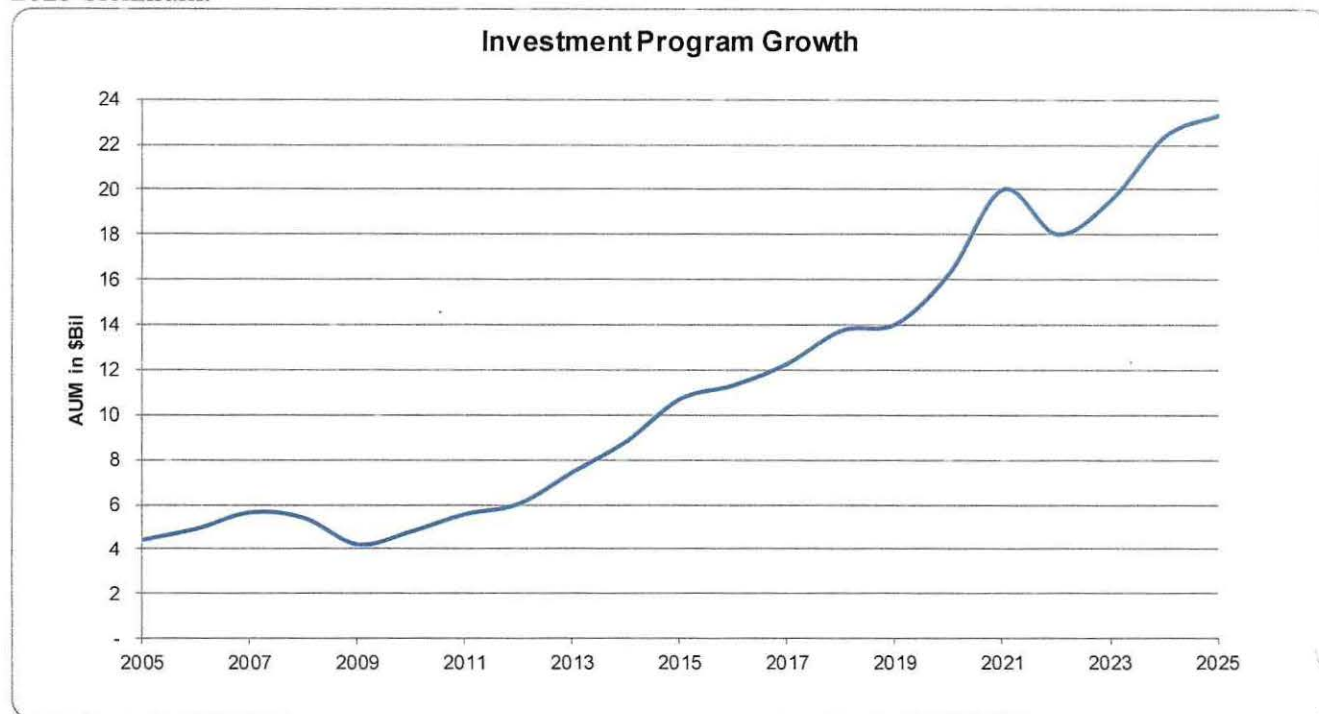
Investment guidelines and asset allocations are established by the governing bodies of the individual funds, with assistance from consultants and/or RIO staff, and subject to review and approval by the SIB prior to implementation.

	Fair Value (as of 10/31/24)
PENSION POOL PARTICIPANTS	
Teachers' Fund for Retirement	\$ 3,352,221,348
Public Employees Retirement System	4,514,724,260
Bismarck City Employee Pension Fund	133,547,238
Bismarck City Police Pension Fund	56,108,250
City of Grand Forks Pension Fund	77,186,135
Grand Forks District Pension Fund	9,025,879
Subtotal Pension Pool participants	\$ 8,142,813,109
INSURANCE POOL PARTICIPANTS	
Workforce Safety & Insurance Fund	\$ 2,165,731,209
State Fire and Tornado Fund	20,213,035
State Bonding Fund	3,941,357
Petroleum Tank Release Fund	6,313,649
Insurance Regulatory Trust Fund	215,148
State Risk Management Fund	4,214,280
State Risk Management Workers Comp	2,273,128
Cultural Endowment Fund	612,869
Budget Stabilization Fund	943,644,620
ND Assoc. of Counties (NDACo) Fund	3,940,015
City of Bismarck Deferred Sick Leave	872,473
PERS Group Insurance	60,303,175
State Board of Medicine	4,987,142
City of Fargo FargoDome Permanent Fund	45,349,032
Lewis & Clark Interpretive Center Endowment	944,261
Attorney General Settlement Fund	651,709
Veteran's Cemetery Trust Fund	512,402
ND University System Capital Building Fund	10,738
Arts Across the Prairie Maintenance Fund	1,257,700
Water Projects Stabilization Fund	147,363,929
OPIOID Settlement Fund	16,354,173
State Historical Endowment Fund	869,578
Subtotal Insurance Pool Participants	\$ 3,430,575,630
INDIVIDUAL INVESTMENT ACCOUNTS	
Legacy Fund	11,498,016,442
Retiree Health Insurance Credit Fund	191,607,457
Job Service of North Dakota Pension Fund	84,056,315
Total	\$ 23,347,068,952

(Amounts are unaudited)

The SIB selects investment managers to manage different types of portfolios within each asset class with the goal of maximizing return within the clients' acceptable risk levels.

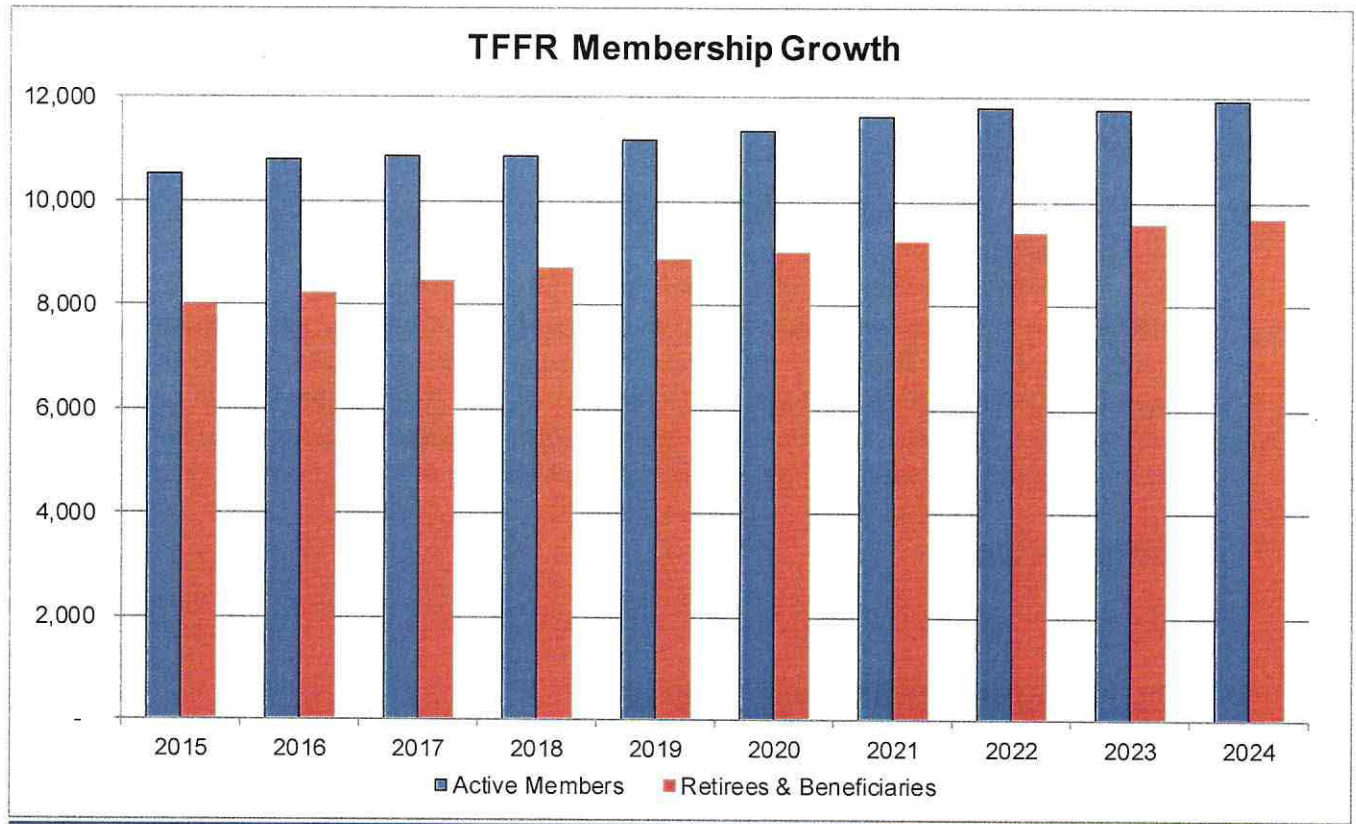
Over the past two decades, the average assets under management (AUM) of the investment program has significantly grown in size. Amounts have grown from an average of roughly \$4 billion during the 2003-2005 biennium to an average of over \$23 billion during the current 2023-2025 biennium.



B. Teachers' Fund for Retirement (TFFR)

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven-member board of trustees which consists of the State Treasurer, State Superintendent, two active teachers, two retired teachers and one school administrator all appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. During the past decade, active membership has increased 13.6% from 10,514 to 11,945 participants, while retirees and beneficiaries have increased 20.8% from 8,025 to 9,693.



The mission of TFFR, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members, North Dakota k-12 educators, in a manner consistent with its fiduciary obligations and approved resource allocation.

The TFFR Board reaffirmed its commitment to evolving governance to respond to program growth by establishing a Governance and Policy Review committee that is tasked with reviewing program policies and public policy affecting statutes and administrative rules to make recommendations to the full Board for making policy or requesting changes from the Legislature.

The TFFR program is currently in Phase 3 of 3 of a multi-year large IT Pension Administration Modernization Project (TFFR “Pioneer” Project) that will provide a better ROI for the agency and improve the member and employer experience with TFFR while aligning with state-wide initiatives to better utilize technology enabled processes.

TFFR plan is designed to provide lifetime normal retirement benefits, disability benefits, and death benefits for ND public school educators and certain state teachers. It provides ND educators with a financial foundation for the future that includes a secure and stable retirement. This is possible due to TFFR’s plan design, professional plan management, strong investment performance, and outstanding customer service.

The TFFR plan is an important feature in the recruitment and retention of high-quality teachers and administrators in North Dakota, and not lose these quality individuals to out of state programs.

C. RIO Organizational Chart

(See attached)

- III.** RIO currently has 34 full-time FTEs across the two programs and four divisions along with two temporary positions and an intern. The four divisions include Investment, Retirement Services, Fiscal Services, and Internal Audit. The two temporary positions are directly attributable to additional workforce needs during the development and implementation of a large IT project for the TFFR program. The hiring of intern position's reflects an intent to consciously develop a robust internship program at RIO that will provide an opportunity to college and graduate students studying in North Dakota to participate in investment, accounting, benefit services, and public policy processes within the public sector.

IV. Audit Findings

RIO has received no financial audit findings in the past 20+ years.

V. 2023-25 Accomplishments and Challenges

RIO accomplishments during the 2023-2025 biennium have included:

1. Creating and implementing a new agency strategic plan identifying core priorities and transformational initiatives.
2. Reorganizing the agency to achieve greater economies of scale and support new strategic plan.
3. Developing and implementing intra-agency communication and training plan to support organizational culture as a core agency priority.
4. Completion of agency wide compensation study and creation of incentive compensation plan for investment related positions.
5. Procurement of new investment program software solution to facilitate the internal investment initiative.
6. Hosted multiple interns across the agency including the first ever investment focused intern within the investment program.
7. Entered into an internal audit co-sourcing relationship to enhance the internal audit capabilities alongside the agency evolution.
8. Developed and implemented a formal new board member onboarding program to educate new board members as they assume their roles on SIB and TFFR.
9. Enhancement of the agency-wide communications and outreach plan.
10. Assisting governing boards with the creation and operation of three new standing committees to create governance that supports program growth: a Governance & Policy Review committee of the SIB; an Investment Committee of the SIB; and a Governance & Policy Review committee of the TFFR Board (previously an ad hoc committee); as well as expanding the scope of the Executive Review and Compensation Committee.
11. Continuing to implement an in-state investment initiative with the creation of the ND Growth Fund, increasing funding of the BND match loan program, and supporting a

Legacy Fund Asset Allocation Study project commissioned by the Legacy and Budget Stabilization Advisory Board.

12. Completing two out of three phases of the TFFR Pension Administration System Modernization Project (TFFR “Pioneer” Project) and making significant progress through the third and final phase.
13. The Legislature approved an internal investment management initiative and authorized RIO to develop an incentive compensation plan to support the investment program and an additional 7 new FTE’s for the 2023-2025 biennium, during the 2023 Legislative Session.

2025-27 Goals and Plans

Goals for RIO during the 2025-2027 biennium include:

TFFR Investment and Funding Goals

1. Continue to improve the Plan’s funding status to protect and sustain current and future benefits.
2. Minimize the employee and employer contributions needed to fund the Plan over the long term.
3. Avoid substantial volatility in required contribution rates and fluctuations in the Plan’s funding status.

TFFR Service Goals

1. Continue to implement an enhanced Outreach and Communication Plan for our members, employers, and other stakeholder groups related to the program in general.
2. Administer an accurate, efficient, and responsive pension benefits program.
3. Deliver high quality, friendly service to members and employers.

SIB Strategic Investment Plan

1. Reaffirm our organizational commitment to the importance of continuing board education and strong board governance to create and maintain an innovative and agile investment program.
2. Enhance understanding of our core goals and beliefs while enhancing overall transparency.
 - a. Remain steadfast in our commitment to the prudent use of active investment management.
 - b. Expand awareness to downside risk management which is essential to achieving our long-term investment goals.
 - c. Given actual and projected growth of SIB client assets and the heightened public awareness of the Legacy Fund, align our investment platforms to promote greater clarity and efficiency in reporting and implementing client investment policies.
3. Expand RIO’s influence and ability to create positive and sustainable change by building deeper relationships with existing clients, organizations, and legislative leaders.
 - a. Enhance community outreach to build upon public awareness and confidence.
 - b. Develop concise presentations which highlight our overall risk, return and cost control framework including our progress towards attaining our long-term goals.
 - c. Continue to implement an in-state investment initiative and provide education and outreach efforts consistent with the roll-out of that initiative.

4. Encourage employee participation in staff meetings, offer team members more opportunities to impact RIO's change initiatives and improve the office environment for staff and clients.
5. Enhance our internal control environment by improving use of proven risk management solutions relating to fraud risk assessments, investment risk management and overall enterprise risk management.
 - a. A robust risk management framework serves as a foundation to support a sound internal control environment and lessen downside risks.
 - b. Broaden stakeholder awareness of the challenges faced in estimating Legacy Fund earnings for future budget planning.
 - c. Evaluate and expand the efficient use of technology in our investment program activities including risk management, compliance monitoring, client satisfaction surveys, website design and communications.

RIO Strategic Plan

1. Continue to develop our organization culture as a recruitment and retention tool to develop a growth mindset and encourage employee engagement.
2. Create, develop, and maintain a robust internship program across both programs.
3. Continue to identify additional process areas where efficiencies can be gained through technology enabled processes and implement such processes.

VI. Comparison agency request/recommendation totals, including full-time equivalent (FTE) positions, for the next biennium compared to the current biennium.

Line Item Description	2023-25 Base Budget	2025-27 Executive Recommendation	2025-27 Total Agency Request
Salaries and Wages	\$ 10,338,543	\$ 12,651,746	\$ 15,184,481
Operating Expenses	2,731,037	3,761,208	4,026,133
Contingencies	200,000	200,000	200,000
Total Special Funds	\$ 13,269,580	\$ 16,612,954	\$ 19,410,614
FTE	34	35	44

During the current 2023-25 biennium, RIO has a base budget of \$13.3 million. The majority of which consists of salaries and benefits for the 34 FTE and temporary team members. This amount includes the vacancy and FTE pool appropriation amount of \$1,786,076.

The 2025-27 executive recommendation adds one FTE for internal audit as well as includes cost to continue salary amounts for investment positions that were appropriated during the 23-25 biennium that were only funded for one year of the biennium. It also includes the executive

compensation recommendation. The majority of the increase in the operating line is related to the continuation of our pension administration system modernization project and the related IT costs.

The 2025-27 total agency request includes added funding for an additional communications FTE and an internal audit FTE. The internal audit FTE was included in the executive recommendation. It also includes 8 FTE related to our strategic internal investment request package to make up the total 44 FTE.

VII. New positions approved in 2023-25 biennium by the 2023 Legislative Assembly

A. Nine new positions were added by the 2023 Legislative Assembly

- i. Sr. Investment Accountant - Hired 7/18/23 - \$219,735 (out of \$219,735 in SPA) transferred from OMB pool, anticipate using entire amount +
- ii. Fiscal & Investment Admin Assistant - Hired 9/5/23 - \$154,886 (\$154,886 in SPA) transferred from OMB pool, anticipate using entire amount +
- iii. Portfolio Manager: Internal Equities - Hired 8/1/24 - \$219,581 (\$238,639 in SPA) transferred from OMB pool, anticipate using entire amount +
- iv. Sr. Investment Analyst: Internal Equities - Hired 8/1/24 - \$191,175 (\$208,554 in SPA) transferred from OMB pool, anticipate using entire amount +
- v. Portfolio Manager: Internal Fixed Income - Hired 9/3/24 - \$222,508 (\$238,639 in SPA) transferred from OMB pool, anticipate using entire amount +
- vi. Investment Accountant - Hired 9/16/24 - \$101,250 (\$125,562 in SPA) transferred from OMB pool, anticipate using exact amount
- vii. Analyst: Internal Fixed Income – Accepted Offer. Planned start date is 2/3/25 - \$0 (\$139,560 in SPA) transferred from OMB pool, anticipate using \$68,048.
- viii. Analyst: Internal Equities - Anticipate hiring Q1 '25 - \$0 (\$139,559 in SPA) transferred from OMB pool, anticipate using \$56,520.
- ix. *Investment Administrative Assistant - Anticipate hiring Q1 '25 - \$0 (\$82,813 in SPA) transferred from OMB pool, anticipate using 13,802.*

VIII. Employee turnover and number of vacant positions during the 23-25 biennium

A. Prior to November '24, only vacancies were caused by internal promotions

- i. Sr. Analyst Private Markets was vacant as of 8/1/24 as incumbent was hired into new Portfolio Manager role. Position was advertised for and ultimately hired for in December '24. Total "savings" was \$67,027.32 (\$16,756.83 x 4 months)
- ii. Investment Analyst was vacant as of 8/1/24 as incumbent was hired into new Sr. Analyst Internal Equities role. Position was advertised for and ultimately hired for in January '25. Total "savings" was \$58,594.55 (\$11,718.91 x 5 months)
- iii. Analyst: Internal Fixed Income - Currently Interviewing - no savings realized as no funding will be transferred from the OMB pool until start date.

- iv. Analyst: Internal Equities - Anticipate hiring Q1 '25 - no savings realized as no funding will be transferred from the OMB pool until start date.
 - v. Investment Administrative Assistant - Anticipate hiring Q1 '25 - no savings realized as no funding will be transferred from the OMB pool until start date.
 - vi. Executive Director vacant as of 1/3/25 - Interim Executive Director was hired 1/13/25. No savings will be realized.
 - vii. CFO/COO vacant as of 1/3/25 - no savings realized to date.
- B. Anticipated amounts to be requested and transferred from the OMB pool:
- i. *New FTEs:*
 - 1. Analyst: Internal Fixed Income - a ratable amount depending on start date
 - a. \$139,560 was in SPA for 12 months so the portion of the year the position is not vacant will be requested from pool
 - 2. Analyst: Internal Equities - a ratable amount depending on start date
 - a. \$139,559 was in SPA for 12 months so the portion of the year the position is not vacant will be requested from pool
 - 3. Investment Administrative Assistant - a ratable amount depending on start date
 - a. \$82,813 was in SPA for 12 months so the portion of the year the position is not vacant will be requested from pool
 - ii. *Vacant Pool:*
 - 1. Amount anticipated to be requested from the vacant FTE portion of the OMB pool is yet to be determined and will depend greatly on the upcoming searches and hirings for the ED and CFO/COO positions.

IX. Budget Summary

The Retirement and Investment Office (RIO) serves two important program boards: the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR) Board. As such, its agency budget is separated into two separate programs, both of which are paid for with special funds.

Investment Program (SIB)

Funding for administration of the SIB Investment Program comes directly from investment clients' invested assets (both statutory and contracted).

Salary and benefits represent funding for 22.85 FTEs, which provide all the accounting, financial and administrative support, and investment performance services for the funds under management.

Operating funds needed to administer the SIB investment program include building rent, staff and board travel and education, and NDIT data processing.

Retirement Program (TFFR)

Funding for administration of the TFFR Pension Plan comes from member and employer contributions and investment earnings.

Salary and benefits represent funding for 11.15 FTEs responsible for administering the TFFR retirement program.

The operating funds required to administer the TFFR retirement program include NDIT data processing, IT contracts, building rent, staff and board travel and professional development.

2025-2027 Budget Request									
				#1	#2	#3	#4	#5	
Line Item Description	Base Budget	Adjustments to Base to meet Budget Limit	Adjusted Base	2nd Half of New Positions	Cost to Continue IT Hosting/S support	Cost to Continue HR	Incremental Agency Evolution/ Retirement Education	Internal Investment 2.0	Total Agency Request
Salaries and Wages	\$ 10,338,543	70,450	\$ 10,408,993	1,236,914	-	142,302	418,092	2,978,180	\$ 15,184,481
Operating Expenses	2,731,037	(208,822)	2,522,215	-	1,201,268	-	90,450	212,200	4,026,133
Contingencies	200,000	(200,000)	-	-	-	-	200,000	-	200,000
Total Special Funds	\$ 13,269,580	(338,372)	\$ 12,931,208	1,236,914	1,201,268	142,302	708,542	3,190,380	\$ 19,410,614
FTE	34	-	34	-	-	-	2	8	44

Request package #1 – 2nd Half of New Positions

During the 2023 Legislative Session, NDRIO received approval to move forward with its internal investment initiative. The proposal required five investment professionals, one operations professional and one administrative staff to manage approximately \$3 billion of assets internally. Implementing this proposal can lower the net costs for RIO investments by \$6 million per year and create opportunities for better liquidity management and rebalancing that may result in up to another \$10 million in savings per year. The net costs and opportunities grow with assets under management and with the amount of assets managed internally.

Generally investment management costs fall within the scope of continuing appropriation authority granted by the legislature in NDCC 21-10-06.2; however because this proposal involves cost savings achieved by internalizing investment operations through additional permanent FTE's and infrastructure it falls within the scope of NDCC 54-52.5-03.

Due to the complexity of this plan RIO only asked for a salary budget for one year of the 2023-2025 biennium for these additional staff as we understood it would take significant time to develop the plan and stand up all the necessary processes and procedures to effectively implement.

Although one year's worth of salaries and benefits for these positions are included in our base budget, in order to continue the plan into the 2025-2027 biennium, appropriation for the salaries and wages for the second year is required.

This phased in proposal seeks to create a foundation to internalize additional investment functions in future biennium's. This initial proposal seeks to achieve cost savings by moving approximately \$3 billion in AUM to internal management, however, future costs savings may be achieved in future biennium's with up to 50% of AUM moved to internal management. The net after cost estimated benefits of going to a greater portion of internal investment management and to a more sophisticated investment process is estimated at \$45 million per year as the result of lower fees

(the savings is net after the cost of the additional FTE's and infrastructure) if up to 50% of the assets are managed internally. The decrease would be recognized within continuing appropriation expenses. The change to more internal investment would require more FTEs currently paid out of appropriated expenses.

All RIO client funds under management will benefit from the associated cost savings achieved by implementing some internal investment management of assets. At the present rate of growth for the program the impact of maintaining the current investment management structure results in failure to leverage client assets and achieve benefits from the scale of the program.

The total appropriation increase for this package is \$1,236,914, which is all salary and fringe benefits. Of which the entire amount was included in Governor Burgum's executive recommendation.

Request package #2 – Information and Technology Hosting and Support

During the 2023-25 biennium, RIO is in the final stages of implementing a new pension administration system for the Teachers' Fund For Retirement (TFFR). Knowing that the system would not go live until the second year of the biennium, only one year of hosting fees was requested during the 2023 legislative session. This approved amount is included in our base budget and will carry over to 2025-2027 however, we are asking for the second year's hosting costs in order to run the new system for the entire biennium.

Additionally, as a unified agency, RIO is reliant on significant support from NDIT professionals. Currently, we are utilizing two dedicated NDIT staff to assist in all needed technology processes for the agency. This need will continue into the 2025-2027 biennium as the new pension system will continue its roll out along with significant increases in technology demands from our investment program as it continues its internal investment roll out. Along with other NDIT rate increases, we have been notified this application support agreement rate will be increased significantly as well.

Furthermore, as the visibility of the Legacy Fund and other funds under RIO's purview increase, we are also asking for modest increases in our communications software and equipment budget to assist our Communications and Outreach Director more efficiently and effectively communicate the specifics of RIO's activities to the public, legislators, and all other interested parties.

Our final request within this package is funding to acquire a consultant to review and determine what additional software would be available for the fiscal team. The fiscal team has not acquired any new software in many years and is still operating with Dynamics GP for our financials, which we have been notified is on an end of life track and will no longer be supported or updated by September of 2029.

Resources necessary for this decision package include the needed appropriation authority for the above mentioned activities. No additional FTEs are included in this request as current staff and application support team are in place to administer the activities.

Current resources will be used to administer the activities listed above. Additional funding is being requested to support these current resources as they will be live for the entire 2025-2027 biennium rather than just for part of the current biennium.

The more than 25,000 members in the Teacher Fund for Retirement are served by this project as well as the more than 200 K through 12 employers throughout the state that contribute to the fund and employ members of the fund. This project has modernized an antiquated pension administration system that not only required significant manual operations to maintain but fails to provide a welcoming user experience for both member and employer. In the event this optional package is not funded, the Retirement Investment Office would not be able to continue using the new pension administration system, which would not allow RIO to fulfill its statutory responsibility to successfully administer the TFFR plan and would cause the nearly 10,000 beneficiaries to lose access to the system and their respective benefit payments.

If additional NDIT application support costs are not approved, RIO would lose vital software and application support provided by these personnel. This would cause significant implementation struggles with both the pension administration system as well as the internal investment program. For TFFR, a similar impact to not funding the continued hosting costs would result if we were unable to procure the needed support for the system. Additionally, all RIO client funds under management will benefit from the associated cost savings achieved by implementing some internal investment management of assets. A reduction in application support availability would significantly hinder the effectiveness of this program.

The total appropriation increase for this package is \$1,201,268. Of which the entire amount was included in Governor Burgum's executive recommendation.

	Total Agency			Total Special Funds
	Salaries & Benefits	Operating Expenses	Contingency	
#2 Information Technology Hosting and Support				
Additional Operating for Communications	-	21,500	-	21,500
Increased NDIT charges for unified staff	-	129,768	-	129,768
Increased hosting and support fees-PAS	-	800,000	-	800,000
Fiscal Operation Software Consultant	-	250,000	-	250,000
		1,201,268		1,201,268

Request package #3 – Agency Cost-to-Continue Salaries/Internship Funding

NDRIO was able to identify significant savings throughout its operating budget in an attempt meet the 3% base budget reduction. However, this 3% reduction is in addition to a cost to continue amount within the salary and benefits appropriations which would equate to an additional 1.2%.

In order to partially fund this reduction, NDRIO reduced the appropriation available for its internship program by \$24,000. This left funding for just two interns during the upcoming biennium. This request is for an additional \$24,000 in appropriation to allow for up to three additional interns (5 total) during the 2025-2027 biennium.

Additionally, NDRIO has historically been able to recognize salary and benefit budget savings through team members who receive health care coverage via family members working with the State of North Dakota and, as such, the cost of their health insurance benefits is currently included as a reduction in the Salaries - Other line in NDRIO's base budget. Beginning this biennium, two of the three will no longer be covered via other means and will have their health insurance premiums be paid through NDRIO. This request includes an additional \$118,302 to offset the cost to continue salary increases throughout the agency.

Resources necessary for this optional request package are limited to the appropriation authority. NDRIO is currently housing an investment intern so all needed infrastructure is in place to transition into a new intern.

Currently, resources are not being required for either of these requests. For the internship funding, NDRIO has elected not to fill one of its available internships due to capacity constraints on the supervisory team and one additional internship was not filled due to an unsuccessful recruitment of candidates.

For the health insurance benefits that currently being paid by different agencies, as RIO begins paying those amounts during this current biennium, the current biennium resources will come from a rollup of vacant and unused salary appropriation.

Dedicated resources are needed to continue to offer internship opportunities across the agency. Reduced funding for the internship program would negatively impact the program and reduce the opportunities available for college students to experience work within state government.

The total appropriation increase for this package is \$142,302, which is all salaries and benefits.

Request package #4 – Incremental Agency Evolution/Retirement Education

As RIO makes significant enhancements to both the retirement and investment sides of the agency, additional resources are needed to efficiently and effectively carryout its strategic plan. As part of the internal investment initiative discussion, it was communicated that the internalizing of assets would increase the burden on RIO's internal audit division. As such, we are requesting an additional internal audit position to assist with the compliance needs brought on by this additional activity.

Additionally, as the significance and visibility of the Legacy Fund and other areas of the agency continue to grow, RIO's strategic plan includes an increase and improvement in communication to all stakeholders. This plan includes the addition of a multi-media specialist to support our current communications and outreach director in their endeavor to efficiently and effectively communicate RIO activity through all appropriate channels.

Another part of RIO's strategic plan includes additional education in both the investment and retirement communities. In September of 2024, RIO hosted its first investment symposium to provide investment education not only to its client funds but also members of the legislature, other

state agencies, and the public at large. On the retirement side, RIO is planning a communication overhaul with all of its TFFR stakeholders to coincide with the roll out of the new pension administration software. This will include significant communication to assess satisfaction rates as well as the needs and asks of all TFFR members.

Finally, we are also requesting contingency dollars be added to our budget in the event RIO would be required to conduct one or more executive searches during the biennium. During previous biennia, the agency has lost its top two managers in both the retirement and investment programs within a short time period. While turnover of these positions is not planned in the short term, prudence requires preparing for what has not been an unusual need.

This request includes the addition of two new FTE. One multimedia specialist and one internal auditor along with all of the related IT, training, and supplies needs to support said positions. With some reconfiguration, current office space is sufficient to house these additional positions within the facility RIO currently occupies. Additionally RIO is requesting funding to support the continuation of the investment symposium through the 2025-2027 biennium as well as the funding needed to effectively survey TFFR stakeholders.

These would be new resources allocated to support new strategic duties necessitated by the enhancements RIO has been making during the 2023-2025 biennium.

All RIO client funds under management will benefit from the associated cost savings achieved by implementing some internal investment management of assets. Compliance and oversight of this new plan will be beyond the capacity of our current internal audit staff and not funding would require the continuation of significant outsourcing to handle these tasks at a potentially higher price point.

The more than 25,000 members in the Teacher Fund for Retirement are also served by this project as well as the more than 200 K through 12 employers throughout the state that contribute to the fund and employ members of the fund. The additional retirement education RIO plans to facilitate will impact not only the current, but future members of TFFR.

The total appropriation increase for this package is \$708,542. Of which \$446,771 and 1 FTE was included in Governor Burgum's executive recommendation.

	Total Agency			
	Salaries & Benefits	Operating Expenses	Contingency	Total Special Funds
#4 Incremental Agency Evolution/Retirement Education				
Additional Communication FTE	184,864	18,800	-	203,664
Additional Internal Auditor FTE	233,228	16,650	-	249,878
Continuation of Investment Conference	-	20,000	-	20,000
Retirement Education Initiative *	-	35,000	-	35,000
Contingency **	-	-	200,000	200,000
	418,092	90,450	200,000	708,542
Notes:				
* NDIT/other support for TFFR Membership Survey & materials				
** Contingency fee for potential exec searches				

Request package #5 – Internal Investment 2.0

As part of the 2023 legislative session, RIO was authorized to begin the first phase of an internal investment program. That first phase was to bring up to 15% of its assets under management in-house and authorized the hiring of 7 additional FTE to facilitate. Due to the complexity of the plan, that initial phase is currently being finalized with the intent to begin internal investment of assets by April of 2025.

Phase 2 of the internal investment plan would advance the program and bring in an additional 15% of assets in-house (30% total). There is an opportunity to continue creating significant benefits from the scale advantages of the growth of over \$23 billion in assets under management. A typical public fund with similar assets under management as RIO has more internal investment management which creates the opportunity of better investment returns while decreasing costs from the advantages of more internal management versus money placed with external managers. Expansion of the plan into phase two would provide RIO with the opportunity to move into more advanced fund management and increase the benefits to each of its client funds.

Generally investment management costs fall within the scope of continuing appropriation authority granted by the legislature in NDCC 21-10-06.2; however because this proposal involves cost savings achieved by internalizing investment operations through additional permanent FTE's and infrastructure it falls within the scope of NDCC 54-52.5-03.

In order to expand into phase 2 of the internal investment program, RIO would need an additional 5 investment professionals along with 3 additional fiscal operations professionals to prudently manage and account for the absorption of these additional assets into the program. Additionally, RIO would require the operating, data processing, rent, and other necessary expenses related to onboarding and employing additional team members.

This phased in proposal seeks to expand upon the foundation of internalizing investment functions that has begun in the current biennium. This proposal seeks to achieve cost savings by moving approximately another \$3 billion in AUM to internal management. The net after cost estimated benefits of going to a greater portion of internal investment management and to a more

sophisticated investment process is significant as the result of lower fees (the savings is net after the cost of the additional FTE's and infrastructure). The decrease would be recognized within continuing appropriation expenses. The change to more internal investment would require more FTEs currently paid out of appropriated expenses.

All RIO client funds under management can benefit from the associated cost savings achieved by implementing additional internal investment management of assets. At the present rate of growth for the program the impact of maintaining the current investment management structure results in failure to leverage client assets and achieve benefits from the scale of the program.

The total appropriation increase for this package is \$3,190,380.

	Total Agency			Total Special Funds
	Salaries & Benefits	Operating Expenses	Contingency	
#5 Internal Investment 2.0				
5 Additional Investment Professionals *	2,133,410	149,500	-	2,282,910
3 Additional Fiscal Professionals **	844,770	62,700	-	907,470
	2,978,180	212,200	-	3,190,380

Notes:
 * Additional investment professionals to support the internal investment program averaging \$160,000/year.
 ** 2 additional fiscal professionals averaging \$90,000/year and 1 at \$120,000/year to support the split of the CFO/COO position.

X. Purpose and use of one-time funding in current biennium

For the 23-25 biennium we had a total of 624,900 one-time appropriations.

1. \$486,000 in temporary salaries related to the implementation of the new TFFR pension administration system.
2. \$138,900 in one-time operating expense related to the implementation of the new TFFR pension administration system.

We had also requested to carryover unexpended one-time funding appropriated in a prior biennium to continue work on our pension administration system (PAS) modernization project. We plan to finish this project in FY2024 and do not plan to request any further carryover for this project.

XI. Identify and justify need for any one-time funding requested

Only one-time funding being requested is \$250,000 for a Fiscal IT Solution consultant. Fiscal is currently using a version of GP Dynamics that is scheduled to be decommissioned by 2030. This request is to procure a consultant to analyze the agencies current needs and help determine the best process forward for replacing the current system.

XII. Agency fees charged

RIO charges their client funds for administrative costs for their investments. Administrative fees are based on actual expenses of the agency.

XIII. Federal State Fiscal Recovery Funding

RIO was not appropriated any federal state fiscal recovery funds during the November 2021 special legislative session.

XIV. Need for any other sections requested to be included

None currently anticipated.

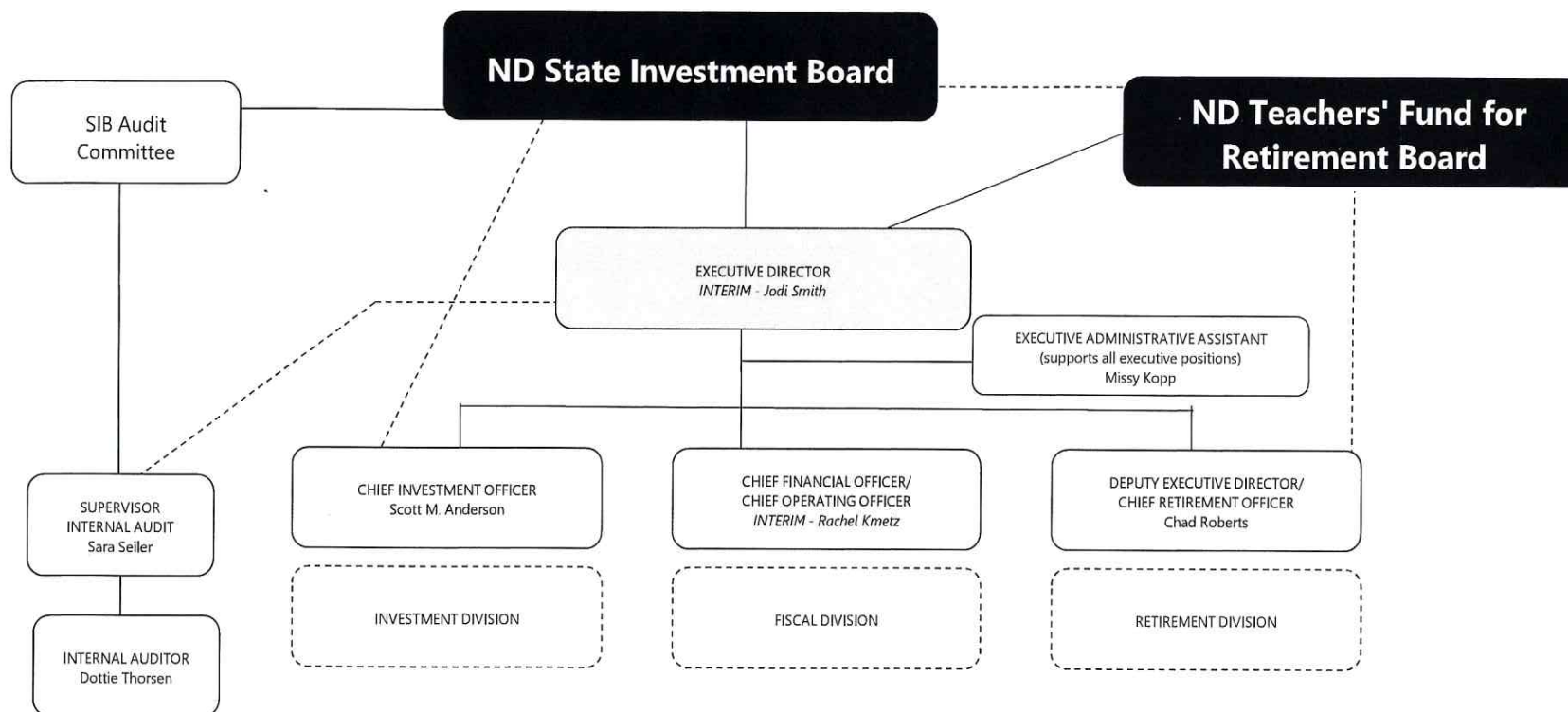
XV. Any other bills being considered and potential impact on our budget

RIO reviews all submitted bills to monitor for potential impact on the agency. We have identified several bills that may impact our agency and/or budget including, but not limited to (see attached for complete current list of tracked bills):

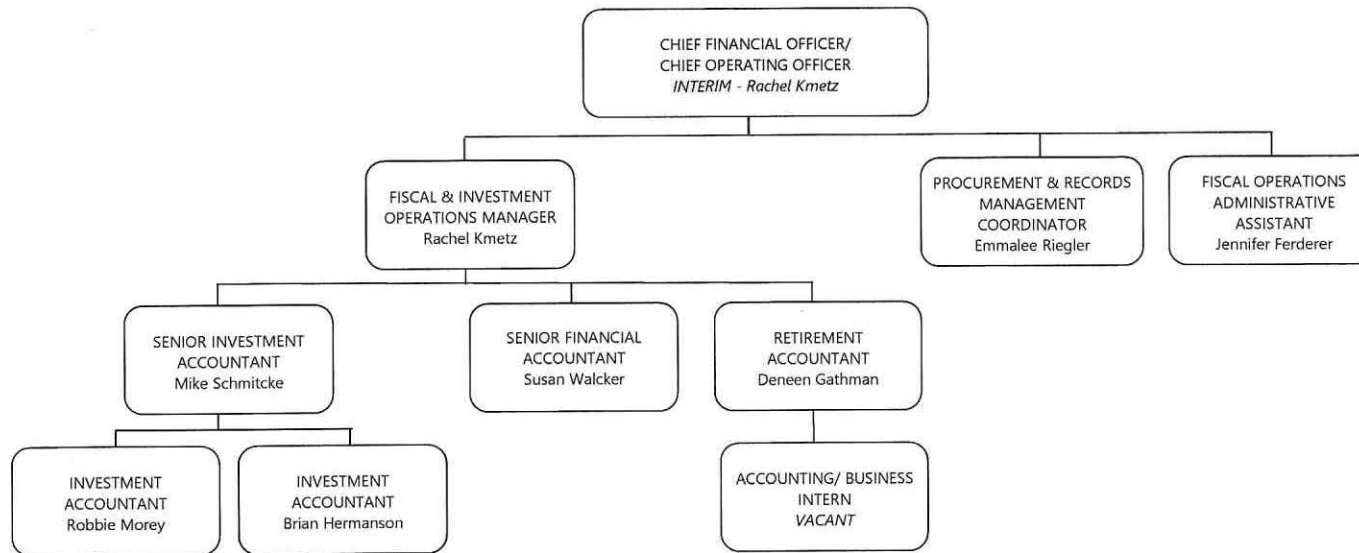
- HB 1026 – Changing Administration of Bonding Fund
- HB 1027 – Changing Administration of Bonding Fund
- HB 1117 – Eligibility for normal retirement benefits
- HB 1176 – Legacy earnings fund and property tax relief
- HB 1183 – Gold and Silver Investments
- HB 1184 – Digital asset and precious metal investments
- SB 2072 – Contracts Limiting liability to the state
- SB 2097 – Rural Community endowment fund
- HCR 3001 – SIB and STO to invest state funds in digital assets and precious metals

Potential fiscal impacts of these bills vary. Some minor changes may require small amounts of monitoring and compliance and require just a few thousand dollars of temporary salaries. While others may have a more pronounced effect. We will continue to monitor these and numerous other bills to determine if any additional budget action would be necessary.

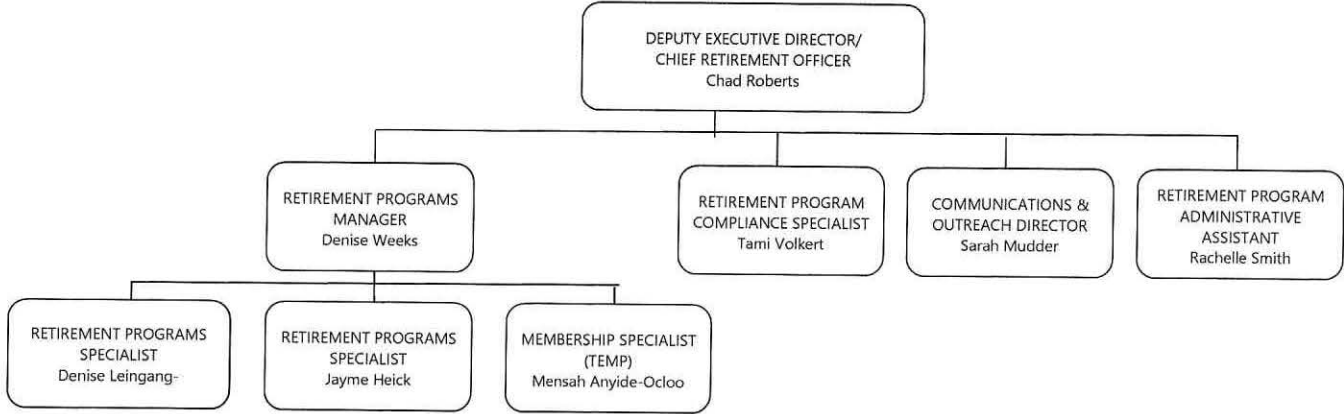
RETIREMENT AND INVESTMENT OFFICE ORGANIZATIONAL CHART



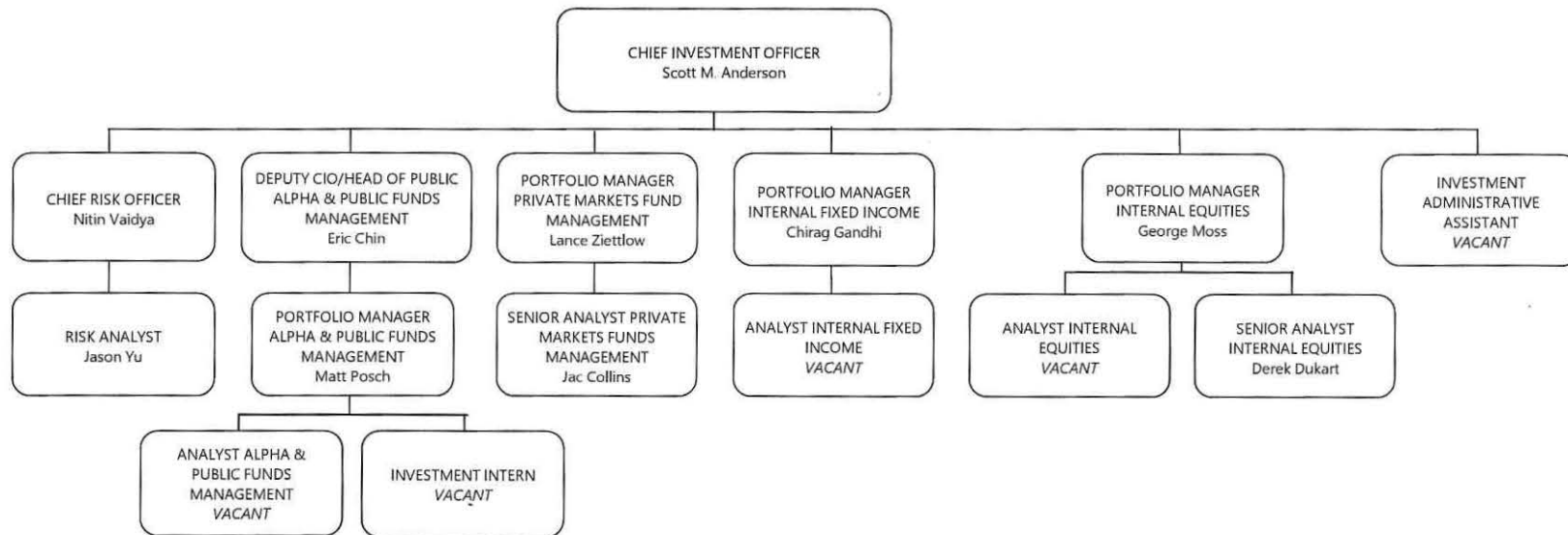
RETIREMENT AND INVESTMENT OFFICE ORGANIZATIONAL CHART - FISCAL



RETIREMENT AND INVESTMENT OFFICE ORGANIZATIONAL CHART - RETIREMENT



RETIREMENT AND INVESTMENT OFFICE ORGANIZATIONAL CHART - INVESTMENT

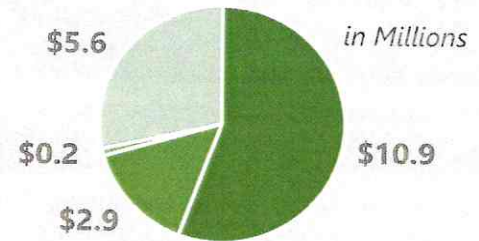


2023-2025 BIENNIAL BUDGET

\$19.6 Million Appropriation

RIO is a special fund agency and receives no general fund dollars.

- Salary
- Operating
- Contingencies
- PAS (one-time)



WHAT WE'RE PROUD OF



Pension Administration System

In Feb. 2025, RIO will release MyTFFR, a pension administration system, making employer reporting more efficient and allowing members to manage a wide range of account transactions online.



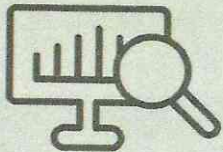
Internal Investment Program

RIO will launch an internal investment management initiative in spring 2025 that will result in significant client cost savings and provide greater control over investments.

HOW WE MEASURE SUCCESS

Actuarial Valuation

Actuarial valuation reports measure TFFR's funding progress. Based on the current valuation, the contribution rates are expected to fully fund TFFR in 2043.

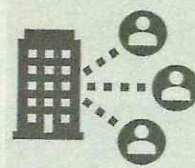


Awards

For the 26th consecutive year, RIO received the Certificate of Achievement for Excellence in Financial Reporting. In addition, the TFFR program earned the 2024 Public Pension Standards Awards for Plan Funding and Plan Administration.

Engagement

RIO's most recent Gallup Q12 engagement mean was 4.5 out of 5. Our team members are "Engaged," highly involved in and enthusiastic about their work and workplace.



Financial Audit

Our FY2024 financial audit contains an unmodified and clean opinion. This independent evaluation of our financial statements, operations, and internal controls helps to ensure transparency and accountability.

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RIO Publications

Newsletters, and financial and investment reports.
rio.nd.gov/publications

Rev. 01/2025

WHO WE ARE

The Retirement and Investment Office (RIO) is the state agency responsible for coordinating the activities of the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR).

34

Full-Time Team
Member Authority

1

Temporary Team
Member

68

Consultants and
Professional Services

WHAT WE DO



Investment Program

The SIB is responsible for setting the policies and procedures that guide the investment of client funds while RIO is the administrator responsible for investment program management.



Retirement Program

The TFFR program is a qualified defined benefit public pension plan. The TFFR board of trustees has statutory responsibility for the pension program, while RIO is the program administrator.

HOW WE DO IT

Mission: To provide prudent and transparent investment services for our client funds and support North Dakota public school educators with responsible benefit administration.

Vision: To be recognized as a trusted and innovative provider of investment and pension services.

Values: ▪ *Integrity* - We value honesty and are committed to doing what's best for our customers.

▪ *Accountability* - We are responsible for our actions and work as a team to produce the desired outcomes.

▪ *Service* - We care about the people we serve and take time to understand their unique needs.

THE PEOPLE WE SERVE

Citizens

are North Dakota residents who benefit from RIO's management of public funds including the North Dakota Legacy Fund, the state's sovereign wealth fund.

\$22.3 billion total in assets under management



SIB Client Funds

are identified in statute. With the approval of the Industrial Commission, the SIB may provide services to and manage the money of any state agency, institution or political subdivision.

31 participants (15 statutory, 16 contracted)



TFFR Active Members

are licensed to teach in North Dakota and employed by public schools and state institutions.

11,945 total, average age 41.3



TFFR Retired Members

includes retired or disabled members and beneficiaries receiving a monthly benefit.

9,693 total; retired avg. age 73.6



TFFR Employers

are public schools and state institutions that employ licensed North Dakota educators.

204 employer groups



2025 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB 1022
1/21/2025

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office.

8:31 a.m. Chairman Monson called the meeting to order.

Members Present: Chairman Monson, Vice Chairman Brandenburg, Representatives: Bosch, Fischer, Kempenich, Meier, Pyle.

Discussion Topics:

- Impacts to RIO
- RIO internal investment program
- RIO external investment program
- Incentive Compensation Systems
- RIO remote workers
- International Investment in North Dakota
- RIO investment team

8:33 a.m. Rachel Kmetz, Interim Chief Financial Officer and Chief Operating Officer, RIO, testified in favor and provided testimony #30371 and continued with #28791 from Jan 13th.

8:37 a.m. Jodi Smith, Interim Executive Director, testified in favor.

8:56 a.m. Scott Anderson, Chief Investment Officer, RIO, answered questions for the committee and provided testimony in favor #30458.

Additional written testimony:

Adam Mathiak, Fiscal Analyst, Legislative Counsel, submitted testimony neutral #30471.

10:00 a.m. Chairman Monson adjourned the meeting.

Madaline Cooper, Committee Clerk



House Bill 1022 Supplemental Testimony 1/21/25

State Investment Program

Assets under Management (AUM) of the investment program has grown in size from last biennium. Current AUM increased approximately 3.5 billion since the end of FY2023. AUM at FY23 was approximately \$19.5 billion while the current AUM is over \$23 billion AUM.

Teachers' Fund for Retirement (TFFR)

Based on the most recent valuation, the contribution rates are expected to fully fund NDTFFR in 2043, and as such, the current member and employer contribution rates are expected to be sufficient to meet the board financing objectives. The funded ratio on an actuarial value of assets basis on July 1, 2024 was 71.63%. The actuarial accrued liability as of July 1, 2024 was \$4.8 billion, with an actuarial value of assets at \$3.4 billion, leaving an unfunded liability of \$1.3 billion.

Updated Comparison agency request/recommendation for Armstrong Budget

Line Item Description	2023-25 Base Budget	2025-27 Executive Recommendation	2025-27 Total Agency Request
Salaries and Wages	\$ 10,338,543	\$ 12,321,923	\$ 15,184,481
Operating Expenses	2,731,037	3,743,483	4,026,133
Contingencies	200,000	200,000	200,000
Total Special Funds	\$ 13,269,580	\$ 16,265,406	\$ 19,410,614
FTE	34	34	44

- Armstrong removed one FTE recommended in the Burgum budget along with associated operating budget for that FTE.

Other bills being considered and potential impact on our budget added since our testimony on 1/13/25:

- HB 1163 – Legacy Fund School Construction Loan fund
- HB 1319 – Legacy Fund disclosure website
- HB 1330 – Divestment from legacy fund investments in Chinese companies
- HB 1348 – Repeal RIO's removal of the fiscal and investment FTE's from OMB's classified system.
- HB 1435 – Legacy Fund definition and Legacy earnings fund
- HB1453 – Relating to prohibiting natural assets companies and to provide a penalty
- SB 2134 – Allow Superintendent and Treasurer to appoint a designee to the TFFR Board
- SB 2151 – County and township bridge fund and a legacy earnings tax relief fund
- HB 1285 – Transfer of General Fund to TFFR Fund

2025-2027 Budget Request

				Optional #1	Optional #2	Optional #3	Optional #4	Optional #5	
Line Item Description	Base Budget	Adjustments to Base to meet Budget Limit	Adjusted Base	2nd Half New Positions	Cost to Continue IT Hosting/ Support	Cost to Continue HR	Incremental Agency Evolution/ Retirement Ed	Internal Investment 2.0	Total Agency Request
Salaries and Wages	\$ 10,338,543	70,450	\$ 10,408,993	1,236,914	-	142,302	418,092	2,978,180	\$ 15,184,481
Operating Expenses	2,731,037	(208,822)	2,522,215	-	1,201,268	-	90,450	212,200	4,026,133
Contingencies	200,000	(200,000)	-	-	-	-	200,000	-	200,000
Total Special Funds	\$ 13,269,580	(338,372)	\$ 12,931,208	1,236,914	1,201,268	142,302	708,542	3,190,380	\$ 19,410,614
FTE	34	-	34	-	-	-	2	8	44
Included in Exec Recommendation (Armstrong)				1,236,914	1,201,268		220,000		

Optional Packages

#1 2nd Half of internal investment positions appropriated during the 2023 Legislative Assembly. Further information starting on page 9 of our full testimony

#2 Information Technology Hosting and Support				
	Salary & Benefits	Operating Expenses	Contingency	Special Funds
Additional Operating Comm	-	21,500	-	21,500
Increased NDIT charges	-	129,768	-	129,768
Increased PAS hosting support fees	-	800,000	-	800,000
Fiscal Op Software Consultant	-	250,000	-	250,000
		1,201,268		1,201,268
Further information starting on page 10 of our full testimony.				

#4 Incremental Agency Evolution/Retirement Education				
	Salary & Benefits	Operating Expenses	Contingency	Special Funds
Additional Comm FTE	184,864	18,800	-	203,664
Additional Internal Auditor FTE	233,228	16,650	-	249,878
Investment Conference Continuation	-	20,000	-	20,000
Retirement Ed Initiative*	-	35,000	-	35,000
Contingency **	-	-	200,000	200,000
	418,092	90,450	200,000	708,542
Notes: * NDIT/other support for TFFR Membership Survey & materials, ** Contingency fee for potential exec searches				
Further information starting on page 12 of our full testimony.				

#5 Internal Investment 2.0				
	Salary & Benefits	Operating Expenses	Contingency	Special Funds
5 Additional Invest FTE*	2,133,410	149,500	-	2,282,910
3 Additional Fiscal FTE**	844,770	62,700	-	907,470
	2,978,180	212,200		3,190,380
Notes: * Additional investment professionals to support the internal investment program averaging \$160,000/year. ** 2 additional fiscal professionals averaging \$90,000/year and 1 at \$120,000/year to support the split of the CFO/COO position.				
Further information starting on page 14 of our full testimony.				

#3 Agency Cost-to-Continue Salaries Internship Funding - Further information starting on Page 11 of our full testimony.

INTERNAL DIRECT INVESTMENT STRATEGY

Scott M Anderson, CFA – Chief Investment Officer
Board Training

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ENHANCE CAPABILITY TO INCREASE VALUE ADDED



INITIAL OPPORTUNITY SUMMARY

OPPORTUNITY

ENHANCED INDEXING STRATEGIES

- Enhanced indexing; multi-asset capability; leverages expertise with index information; same active return for a lower active risk and cost than external managers for simple mandates

ENHANCED LIQUIDITY MANAGEMENT

- Overlay of cash generates additional return and enables more available cash
- Buying and selling of liquidity

ENHANCED REBALANCING

- Rebalancing of exposures in shorter time frames
- Rebalancing thru internal portfolios rather than managers – reducing transaction costs

EXPOSURE MANAGEMENT

- Separate manager active return from manager policy return to optimize cost and active return
- Manage exposures to manage risks and generate returns

OPTIMAL IMPLEMENTATION

- Choose optimal instrument to implement policy exposures reduces cost, increases revenues, manages risk

TALENT MANAGEMENT 1.0 (PREVIOUSLY APPROVED)

5 INVESTMENT PROFESSIONALS¹:

2 X SENIOR PORTFOLIO MANAGERS

3 X INVESTMENT ANALYSTS

+

2 X INVESTMENT OPS PROFESSIONALS

TALENT MANAGEMENT:

- ADEQUATE CLASSIFICATION OF ROLES
- INCENTIVE COMPENSATION FUNDED ON A CONTINUING BASIS (Ex: OHIO, WISCONSIN, SOUTH DAKOTA, NORTH CAROLINA)

THE STRATEGY AND STRUCTURE WOULD EVOLVE
WITH THE SIZE OF THE PROGRAM

1. The cost of staff is estimated to be approximately 10% of the total net cost savings.
2. Positive Client Fund feedback.
3. Supports greater control over investment strategies.

EXAMPLE OF BENEFIT OF \$100 INVESTED IN THREE TYPES OF SAVINGS 1.0

Illustration

	INTERNAL INVESTMENT	EXTERNAL INVESTMENT	BENEFIT /\$100	# OF \$100	BENEFIT
DOLLARS INVESTED	100	100			
ALLOCATION RETURN	7.0	7.0			
ACTIVE RETURN	0.54	0.54			
COST/FEE ¹	-0.10	-0.28			
TOTAL VALUE	107.44	107.26	0.18	35,000,000 ⁴	\$ 6,300,000.00
CASH INVESTED	100	100			
RETURN ²	6.0	3.5			
TOTAL VALUE	106.0	103.0	3.0	1,400,000 ⁴	\$ 4,200,000.00
REBALANCE BENEFIT ³	100.03	100	0.03	230,000,000 ⁴	\$ 6,900,000.00

1. Based on expected fees for equity 2.0. Would have ~15% index when internal program is in place (conservative).

2. Based on Callan Capital Market Assumptions. 0.6% of assets in cash, all of plan assets subject to rebalance benefits. \$355 million as of October 31, 2024.

3. Based on 23' rebalance dollar amounts plus 24' asset allocation affect of .11% per Callan report. Have taken a fraction of expected benefit (conservative)

4. Based on 15% of the fund being managed internally. The number of \$100s invested in this savings.

\$ 17,400,000.00
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ESTIMATED TOTAL COSTS FOR INVESTMENTS (INCLUDES CONTINUING APPROPRIATIONS) 1.0

	CURRENT		INTERNAL INVESTMENT 1.0		TOTAL	
\$MILLIONS/BP ¹	\$ ²	PER \$AUM	\$ ³	PER \$AUM	\$	PER \$AUM ⁴
SALARIES/BENEFITS	1.9	0.9	1.2	0.5	3.1	1.4
OPERATING COSTS	1.0	0.4	2.0	0.9	3.0	1.3
TOTAL	2.9	1.3 BP	3.2	1.4 BP	6.1	2.7 BP
NET SAVINGS					17	8.5 BP

1. ONE BASIS POINT (BP) = 0.01%
2. INCLUDE \$1,000,000 OF CONTINUING APPROPRIATIONS
3. INCLUDE ESTIMATED \$1,500,000 OF CONTINUING APPROPRIATIONS
4. THE 2.5 BP OF TOTAL COST COMPARES TO 51 BP OF FEES TO EXTERNAL MANAGERS

TALENT MANAGEMENT 2.0 (PROPOSED NOTE 5)

5 INVESTMENT PROFESSIONALS¹:

2 X SENIOR PORTFOLIO MANAGERS

3 X INVESTMENT ANALYSTS

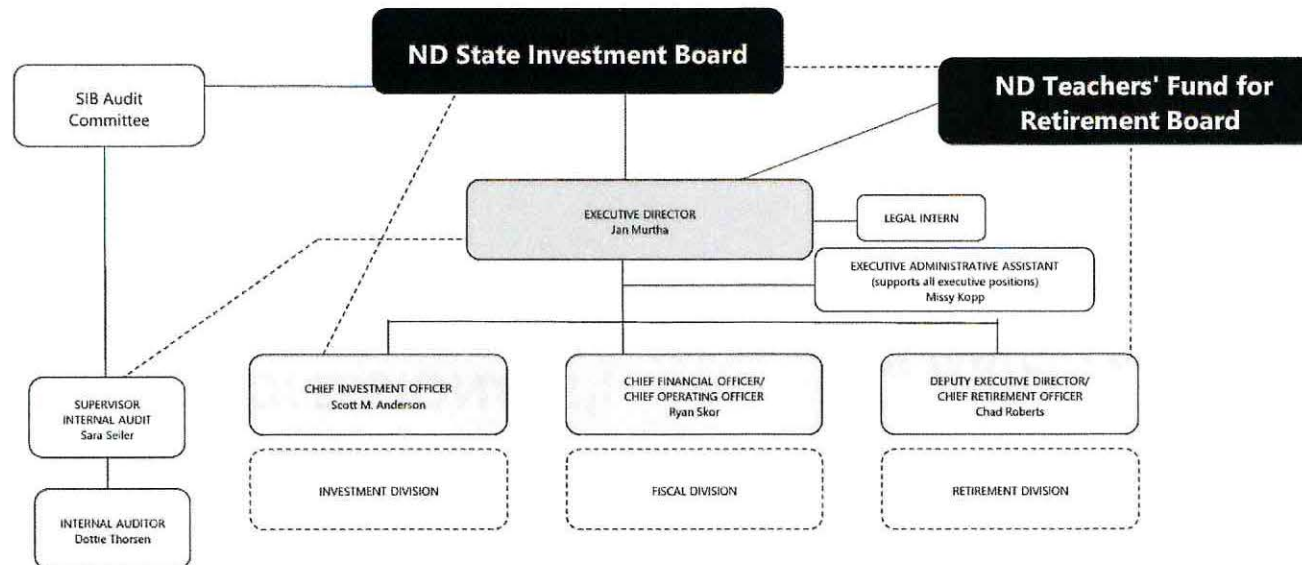
2 X INVESTMENT OPS

THE STRATEGY AND STRUCTURE WOULD EVOLVE
WITH THE SIZE OF THE PROGRAM

1. The cost of staff is estimated to be approximately 15% of the total net cost savings.
2. Positive Client Fund feedback.
3. Supports greater control over investment strategies.

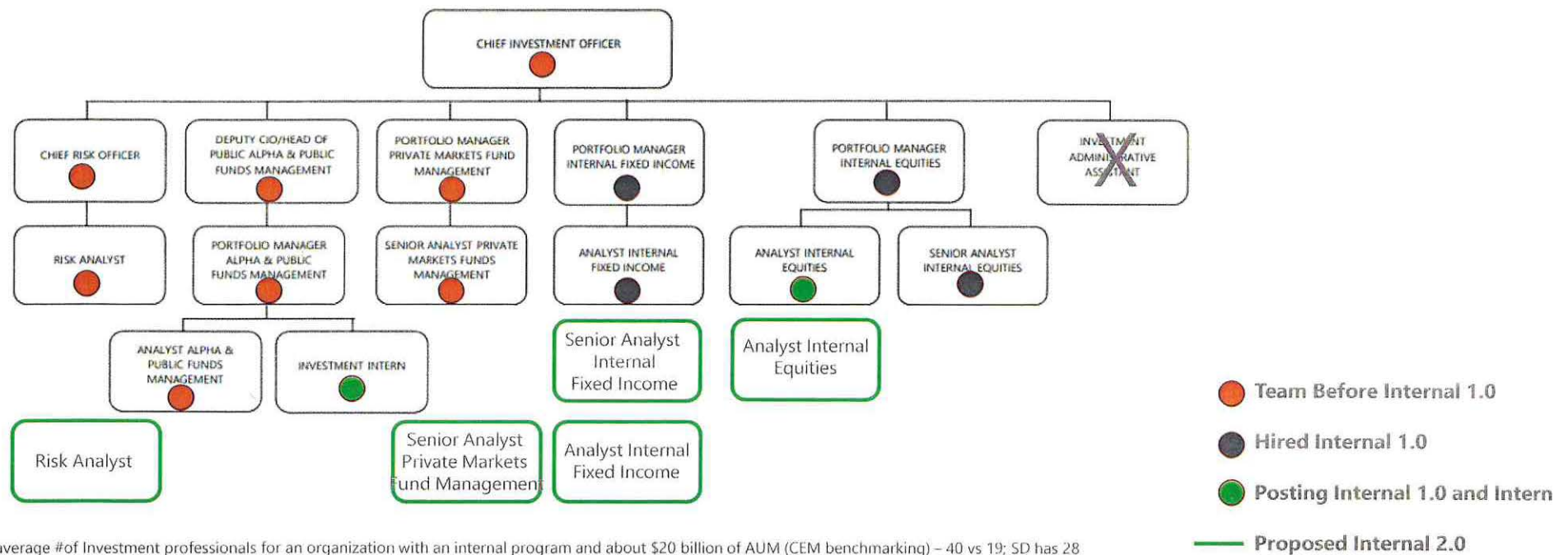
THE RIO ORGANIZATION STRUCTURE

RETIREMENT AND INVESTMENT OFFICE ORGANIZATIONAL CHART



THE INVESTMENT TEAM 1.0 AND 2.0¹

RETIREMENT AND INVESTMENT OFFICE ORGANIZATIONAL CHART - INVESTMENT



1. The average #of Investment professionals for an organization with an internal program and about \$20 billion of AUM (CEM benchmarking) – 40 vs 19; SD has 28

EXAMPLE OF BENEFIT OF \$100 INVESTED IN THREE TYPES OF SAVINGS 2.0

Illustration

	INTERNAL INVESTMENT	EXTERNAL INVESTMENT	BENEFIT /\$100	# OF \$100	BENEFIT
DOLLARS INVESTED	100	100			
ALLOCATION RETURN	7.0	7.0			
ACTIVE RETURN	0.54	0.54			
COST/FEES ¹	-0.08	-0.35			
TOTAL VALUE	107.46	107.21	0.27	35,000,000 ³	\$ 9,750,000
Fund of Fund vs. Direct GP ²			0.06	16,070,000	\$ 1,000,000
					\$ 10,750,000

1. Based on expected fees. Would have ~15% index when internal program is in place (conservative).

2. Not included in the net benefit of the internal direct business case. Reflects savings from investing directly in GPs rather than Fund of Funds, includes new allocations to private credit and private equity in the Legacy Fund.

3. Based on 15% of the fund being managed internally. The number of \$100s invested in this savings.

EXAMPLE OF BENEFIT OF \$100 INVESTED IN THREE TYPES OF SAVINGS 2.0

	CURRENT		INTERNAL INVESTMENT 1.0		INTERNAL INVESTMENT 2.0		TOTAL	
\$MILLIONS/BP ¹	\$ ²	PER \$AUM	\$ ³	PER \$AUM	\$ ³	PER \$AUM	\$	PER \$AUM ⁵
SALARIES/BENEFITS	1.9	1.4	1.2	0.5	1.5	0.7	4.6	2.0
OPERATING COSTS	1.0	0.5	2.0	0.9	.1	0.1	3.1	1.3
TOTAL	2.9	1.9 BP	3.2	1.4 BP	1.6	0.8 BP	7.7	3.3 BP
NET SAVINGS			17	7.4 BP	9	4.0 BP	26	11.0 BP

1. ONE BASIS POINT (BP) = 0.01%
2. INCLUDE \$1,000,000 OF CONTINUING APPROPRIATIONS
3. INCLUDE ESTIMATED \$1,500,000 OF CONTINUING APPROPRIATIONS
4. INCLUDE ESTIMATED \$100,000 OF CONTINUING APPROPRIATIONS
5. THE 3.1 BP OF TOTAL COST COMPARES TO 51 BP OF FEES TO EXTERNAL MANAGERS

EXAMPLE OF COST AND BENEFIT ASSOCIATED WITH INCENTIVE COMPENSATION FOR 1.0 AND 2.0

\$ MILLIONS

PERFORMANCE ¹	1 BP	25 BP	50 BP
BENEFIT TO PLAN ^{2,3}	\$28,300,000	\$83,500,000	\$141,000,000
INCENTIVE 1.0	\$205,000	\$1,028,000	\$2,057,000
INCENTIVE 2.0 ⁴	\$34,250	\$171,250	\$342,500
TOTAL INCENTIVE ⁵	\$239,250	\$1,199,250	\$2,399,500
NET BENEFIT	\$28,060,750	\$82,300,750	\$138,600,500

1. Net performance of fund less benchmark after costs.
2. Assumes \$23 Billion of AUM
3. Include \$17 Million of savings 1.0 and \$9 Million savings of 2.0
4. Incremental incentive for Note 5
5. Total incentive with 1.0 and 2.0

THE BENEFIT SCALES WITH THE SIZE OF THE COMMITMENT



ESTIMATED ANNUAL SAVINGS PER YEAR (\$23 BILLION AUM)¹

PLAN	15% OF ASSETS \$(MIL)	30% OF ASSETS \$(MIL)	50% OF ASSETS \$(MIL)
PENSION	\$6	\$9	\$16
INSURANCE	\$3	\$4	\$6
LEGACY	\$8	\$13	\$22
	\$17	\$26	\$44
	Internal Investment 1.0	Internal Investment 1.0 and 2.0	

1. Do not include the benefit of direct to GP Private Markets strategy

BEFORE INTERNAL 1.0

Category	Weight	Active Return (Net)	TE	IR	Fee	\$23 Billion'	\$50 Billion'
Rebalance Effect (all assets)	100%	-0.02%	0.0%	0.00	0.00%	\$ -	\$ -
Cash Overlay	0.6%	3.00%	12.0%	0.00	0.00%	\$ -	\$ -
Cash	0.0%	0.00%	0.0%	0.00	0.00%		
Short Duration FI	5.0%	0.20%	0.8%	0.40	0.17%		
Internal Equity	0.0%	0.20%	0.8%	0.25	0.10%		\$ -
Internal FI	0.0%	0.20%	0.5%	0.25	0.10%		\$ -
Investment Grade FI	25.0%	0.40%	1.5%	0.27	0.28%		
Below Investment Grade	5.0%	0.40%	2.0%	0.20	1.00%		
Private Markets	16.0%	0.80%	3.0%	0.27	1.50%		
Domestic Equity	29.0%	0.60%	2.5%	0.24	0.28%		
International Equity 2.0	19.4%	0.60%	2.5%	0.24	0.28%		
Fee Difference Phase I	100.00%	0.47%	0.82%	0.57	0.51%	\$ -	\$ -
Total Net Value Before						\$ -	\$ -

INTERNAL 1.0

Category	Weight	Active Return (Net)	TE	IR	Fee	\$23 Billion'	\$50 Billion'
Rebalance Effect (all assets)	100%	-0.02%	0.0%	0.00	0.00%	\$ 7	\$ 15
Cash Overlay	0.6%	3.00%	12.0%	0.00	0.00%	\$ 4	\$ 9
Cash	0.0%	0.00%	0.0%	0.00	0.00%		
Short Duration FI	5.0%	0.20%	0.5%	0.40	0.17%		
Internal Equity	7.5%	0.20%	0.8%	0.25	0.10%		\$ 3
Internal FI	7.5%	0.20%	0.8%	0.25	0.10%		\$ 3
Investment Grade FI 1.0	17.5%	0.40%	1.5%	0.27	0.35%		
Below Investment Grade	5.0%	0.40%	2.0%	0.20	1.00%		
Private Markets	16.0%	0.80%	3.0%	0.27	1.50%		
Domestic Equity	21.5%	0.60%	2.5%	0.24	0.35%		
International Equity 2.0	19.4%	0.60%	2.5%	0.24	0.35%		
Fee Difference Phase I	100.00%	0.44%	0.69%	0.63	0.48%	\$ 6	\$ 14
Total Net Value Phase I						\$ 17	43

INTERNAL 2.0

Category	Weight	Active Return (Net)	TE	IR	Fee	\$23 Billion'	\$50 Billion'
Rebalance Effect (all assets)	100%	-0.02%	0.0%	0.00	0.00%	\$ 7	\$ 15
Cash Overlay	0.6%	3.00%	12.0%	0.00	0.00%	\$ 4	\$ 9
Cash	0.0%	0.00%	0.0%	0.00	0.00%		
Short Duration FI	2.5%	0.20%	0.5%	0.40	0.17%		
Internal Equity	15.0%	0.40%	1.6%	0.25	0.08%		\$ 4
Internal FI	15.0%	0.40%	1.6%	0.25	0.08%		\$ 4
Investment Grade FI 1.0	12.5%	0.40%	1.5%	0.27	0.28%		
Below Investment Grade	5.0%	0.40%	2.0%	0.20	1.00%		
Private Markets	16.0%	0.80%	3.0%	0.27	1.50%		
Domestic Equity	14.0%	0.60%	2.5%	0.24	0.28%		
International Equity 2.0	19.4%	0.60%	2.5%	0.24	0.28%		
Fee Difference Phase II	100.50%	0.52%	0.66%	0.79	0.44%	\$ 9	\$ 19
Total Net Value Phase I & II						\$ 26	\$ 65



APPENDIX

SEQUENCE OF CAPABILITY



OVERLAY CASH AND REBALANCE

Public Equity

External Managers
Internal Managers
Index Funds

Public Fixed Income

External Managers
Internal Managers
Index Funds

Private Markets

Private Equity
Private Debt
Real Assets

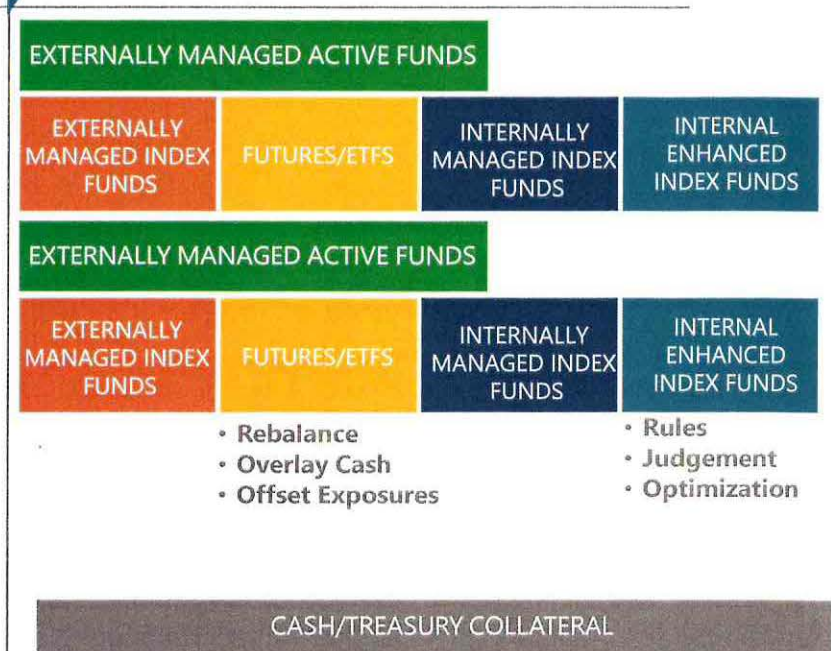
Liquidity Portfolios

Overlay Portfolios

CURRENT



FUTURE



INTEGRATED INDEX FUND MANAGEMENT



REBALANCE

ILLUSTRATION

	WEIGHTS BEFORE	WEIGHTS AFTER		POLICY BENCHMARK WEIGHT
RUSSELL 1000 MANAGERS				
RUSSELL 1000 FUTURES/ETFs	17%	20%	Low transaction cost/Quick Settlement	<div>Sum of manager weights by sub-asset class equals sub-asset class weight</div>
MANAGER 2	10%	10%		
MANAGER 3	4%	4%		
MANAGER 4	23%	23%		
RUSSELL 1000 WEIGHTS	54	57%	=	57%
RUSSELL 2000 MANAGERS				
RUSSELL 2000 FUTURES/ETFs	3%	0%	Low transaction cost/Quick Settlement	<div>Reduce the number of manager rebalances, reducing cost</div>
MANAGER 2	1%	1%		
MANAGER 3	2%	2%		
RUSSELL 2000 WEIGHTS	6%	3%	=	3%

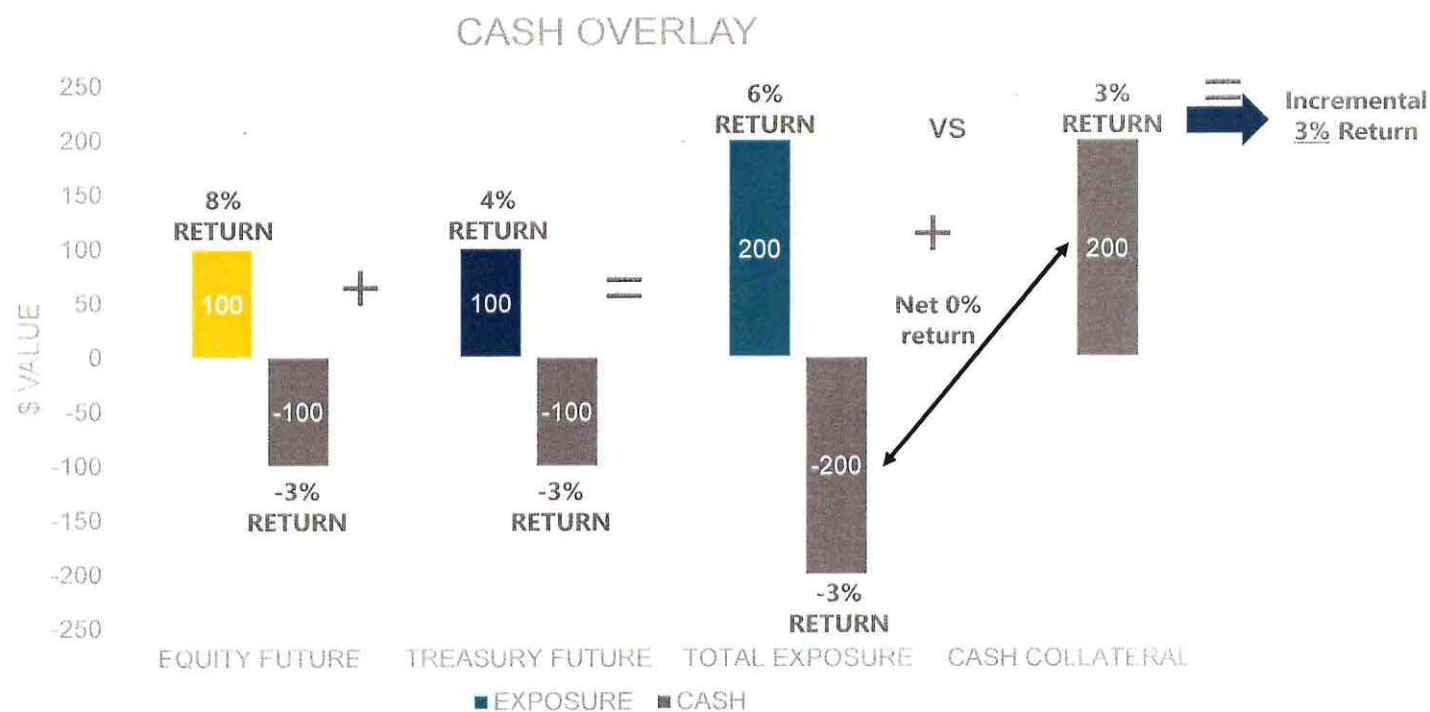
OFFSET EXPOSURES

	WEIGHTS BEFORE	WEIGHTS AFTER	POLICY BENCHMARK WEIGHT
RUSSELL 1000 MANAGERS			
RUSSELL 1000 FUTURES/ETFs	20%	20%	
MANAGER 2	10%	10%	
MANAGER 3	4%	4%	
MANAGER 4	23%	23%	
RUSSELL 1000 WEIGHTS	57%	57%	57.0%
RUSSELL 2000 MANAGERS			
RUSSELL 2000 FUTURES/ETFs	1%	-7%	
MANAGER 2	1%	5%	
MANAGER 3	1%	5%	
RUSSELL 2000 WEIGHTS	3%	3%	3.0%

**REMOVE
CONSTRAINT!**

**Allocate to the best managers with the
best weighting regardless of manager
benchmark/asset class universe**

OVERLAY CASH WITH FUTURES



RULES BASED STRATEGY ILLUSTRATION

Illustration



STRATEGY	RETURN	NET RETURN
GO LONG 1 st Quintile	20%	12%
GO LONG 1 st Quintile/ Go Short 5 th Quintile ¹	16%	13%

1. Assumes transaction financed at a 3% cost of cash

RULES BASED STRATEGY ILLUSTRATION

METRIC per Stock	Metric Weight	Rank Stocks by Metric	Stock Weight	Long Only Portfolio Stocks	Stock Weight
Metric 1	Weight 1	Stock 1	Weight 1	Stock 1	Weight 1
Metric 2	Weight 2	Stock 2	Weight 2	Stock 2	Weight 2
Metric 3	Weight 3	Stock 3	Weight 3	...	Weight n
Metric 4	Weight 4	Weight n	Stock 100	Weight 100
Metric 5	Weight 5	Stock 100	Weight 100	Total Portfolio Weight	100%
Metric 6	Weight 6	Stock 101	Weight 101	Short Only Portfolio Stocks	Stock Weight
Metric 7	Weight 7	...	Weight n	Stock 901	-Weight 100
Metric 8	Weight 8	Stock 998	Weight 998	Stock 902	-Weight 99
Metric 9	Weight 9	Stock 999	Weight 999	...	-Weight n
Metric 10	Weight 10	Stock 1000	Weight 1000	Stock 1000	-Weight 1
Weighted Metric by Stock				Total Portfolio Weight	-100%

Reversed Weighted



Retirement and Investment Office - Budget No. 190
Agency Worksheet - House Bill No. 1022

	Burgum Budget				Armstrong Budget				Armstrong Budget Compared to Burgum Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	Increase (Decrease)			
									FTE Positions	General Fund	Other Funds	Total
2025-27 Biennium Base Level	34.00	\$0	\$11,483,504	\$11,483,504	34.00	\$0	\$11,483,504	\$11,483,504	0.00	\$0	\$0	\$0
2025-27 Ongoing Funding Changes												
Salary increase			\$586,608	\$586,608			\$471,836	\$471,836			(\$114,772)	(\$114,772)
Health insurance increase			210,185	210,185			204,180	204,180			(6,005)	(6,005)
Funding to replace the 2023-25 vacant FTE pool			238,129	238,129			238,129	238,129				0
Funding to replace the 2023-25 new FTE pool			1,547,947	1,547,947			1,547,947	1,547,947				0
Funding for FTE positions partially funded in 2023-25			1,236,914	1,236,914			1,236,914	1,236,914				0
Transfers \$70,450 from operating to salaries - Base				0				0				0
FTE fiscal services position	1.00		226,771	226,771				0	(1.00)		(226,771)	(226,771)
Information technology rate increases			61,562	61,562			61,562	61,562				0
Information technology software hosting fees			751,334	751,334			751,334	751,334				0
Investment conference hosting expenses			20,000	20,000			20,000	20,000				0
Total ongoing funding changes	1.00	\$0	\$4,879,450	\$4,879,450	0.00	\$0	\$4,531,902	\$4,531,902	(1.00)	\$0	(\$347,548)	(\$347,548)
One-Time Funding Items												
Information technology software support			\$250,000	\$250,000			\$250,000	\$250,000				\$0
Total one-time funding changes	0.00	\$0	\$250,000	\$250,000	0.00	\$0	\$250,000	\$250,000	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	1.00	\$0	\$5,129,450	\$5,129,450	0.00	\$0	\$4,781,902	\$4,781,902	(1.00)	\$0	(\$347,548)	(\$347,548)
2025-27 Total Funding	35.00	\$0	\$16,612,954	\$16,612,954	34.00	\$0	\$16,265,406	\$16,265,406	(1.00)	\$0	(\$347,548)	(\$347,548)
Federal funds included in other funds			\$0				\$0				\$0	
Total ongoing changes - Percentage of base level	2.9%	N/A	42.5%	42.5%	0.0%	N/A	39.5%	39.5%	N/A	N/A	N/A	N/A
Total changes - Percentage of base level	2.9%	N/A	44.7%	44.7%	0.0%	N/A	41.6%	41.6%	N/A	N/A	N/A	N/A

2025 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB 1022
1/28/2025

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office.

8:31 a.m. Chairman Monson called the meeting to order.

Members Present: Chairman Monson, Vice Chairman Brandenburg, Representatives: Bosch, Fischer, Kempenich, Meier, Pyle.

Discussion Topics:

- RIO Health Insurance
- Funding for agencies insurances
- RIO FTE requests
- RIO internship funding
- Statewide initiative for Education for Retirement
- State Financial Literacy
- Teacher Fund for Retirement (TFFR)
- Other bills impacting RIO

8:33 a.m. Jodi Smith, Interim Executive Director, RIO, testified in favor and provided testimony #32080.

8:37 a.m. Rachel Kmetz, Interim Chief Financial Officer and Chief Operating Officer, RIO, testified in favor.


8:50 a.m. Chad Roberts, Deputy Executive Director, RIO, testified in favor.

9:23 a.m. Jodi Smith, Interim Executive Director, RIO, testified in favor and continued with testimony #32080 and provided #32081.

9:57 a.m. Chairman Monson closed the hearing.

Madaline Cooper, Committee Clerk

1/27/2025



House Bill 1022 House Appropriations January 28, 2025 North Dakota Retirement and Investment Office

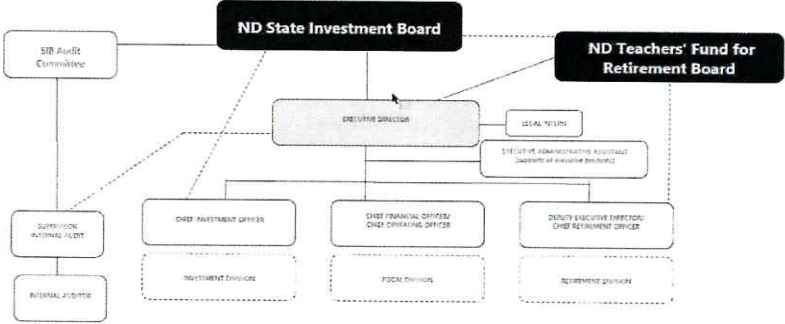
Jodi Smith – Interim Executive Director
Chad Roberts, MAc – Deputy Executive Director/Chief Retirement Officer
Scott M Anderson, CFA, MBA – Chief Investment Officer
Rachel Kmetz – Interim Chief Financial Officer/Chief Operating Officer

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1

NDRIO: Who We Are

Retirement & Investment is the state agency responsible for coordinating the activities of the State Investment Board and the Teachers' Fund for Retirement.



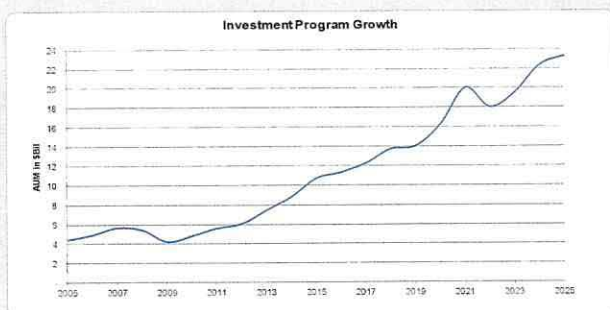
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NDRIO: What We Do

Investment Program

The State Investment Board is responsible for setting the policies and procedures that guide the investment of its client funds while Retirement & Investment is the administrator responsible for investment program management.



Retirement Program

The Teachers' Fund for Retirement (TFFR) is a qualified defined benefit public pension plan. The TFFR board of trustees has statutory responsibility for the pension program while Retirement & Investment is the program administrator.

Fund/Pool	AUM (10/31/24)
Pension Pool	\$8.14B
Insurance Pool	\$3.43B
Legacy Fund	\$11.50B
Other Funds	\$0.28B

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NDRIO BUDGET: Burgum vs Armstrong

House Bill 1022

	Burgum Budget				Armstrong Budget				Armstrong Budget Compared to Burgum Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2025-27 Biennium Base Level	34.00	\$0	\$11,483,504	\$11,483,504	34.00	\$0	\$11,483,504	\$11,483,504	0.00	\$0	\$0	\$0
2025-27 Ongoing Funding Changes												
Salary Increase			\$586,608	\$586,608			\$471,836	\$471,836			(\$114,772)	(\$114,772)
Health Insurance Increase			\$210,185	\$210,185			\$204,180	\$204,180			(\$6,005)	(\$6,005)
Funding to replace the 2023-25 vacant FTE pool			\$238,129	\$238,129			\$238,129	\$238,129				0
Funding to replace the 2023-25 new FTE pool			\$1,547,947	\$1,547,947			\$1,547,947	\$1,547,947				0
Funding for FTE positions partially funded in 2023-25			\$1,236,914	\$1,236,914			\$1,236,914	\$1,236,914				0
Transfers \$70,450 from operating to salaries - Base												0
FTE fiscal services position	1.00		\$226,771	\$226,771					(1.00)		(\$226,771)	(\$226,771)
Information technology rate increases			\$61,562	\$61,562			\$61,562	\$61,562				0
Information technology software hosting fees			\$751,334	\$751,334			\$751,334	\$751,334				0
Investment conference hosting expenses			\$20,000	\$20,000			\$20,000	\$20,000				0
Total ongoing funding changes	1.00	\$0	\$4,879,450	\$4,879,450	0.00	\$0	\$4,531,902	\$4,531,902	(1.00)	\$0	(\$347,548)	(\$347,548)
One-time Funding Items												
Information technology software support			\$250,000	\$250,000			\$250,000	\$250,000				\$0
Total one-time funding changes	0.00	\$0	\$250,000	\$250,000	0.00	\$0	\$250,000	\$250,000	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	1.00	\$0	\$5,129,450	\$5,129,450	0.00	\$0	\$4,781,902	\$4,781,902	(1.00)	\$0	(\$347,548)	(\$347,548)
2025-27 Total Funding	35.00	\$0	\$16,612,954	\$16,612,954	34.00	\$0	\$16,265,406	\$16,265,406	(1.00)	\$0	(\$347,548)	(\$347,548)

4

NDRIO BUDGET: Request Summary

				Optional Package #1	Optional Package #2	Optional Package #3	Optional Package #4	Optional Package #5	
	Base Budget	Adjustments to Base*	Adjusted Base	2nd Half New Investment Positions	Cost to Continue IT Hosting/ Support	Cost to Continue HR	Incremental Agency Evolution/ Retirement Ed	Internal Investment 2.0	Total Agency Request
Salaries and Wages	\$ 8,552,467	\$ 1,856,526	\$ 10,408,993	\$ 1,236,914	-	\$ 142,302	\$ 418,092	\$ 2,978,180	\$ 15,184,481
Operating Expenses	\$ 2,731,037	(\$ 208,822)	\$ 2,522,215	-	\$ 1,201,268	-	\$ 90,450	\$ 212,200	\$ 4,026,133
Contingencies	\$ 200,000	(\$ 200,000)	-	-	-	-	\$ 200,000	-	\$ 200,000
Total Special Funds	\$ 11,483,504	\$ 1,447,704	\$ 12,931,208	\$ 1,236,914	\$ 1,201,268	\$ 142,302	\$ 708,542	\$ 3,190,380	\$ 19,410,614
FTE	34.00	-	34.00	-	-	-	2.00	8.00	44.00

*Adjustment to base include adding back funding from Vacancy Pool of \$238,129, new FTE Pool of \$1,547,947, as well as changes made to meet the 3% reduction request from the Governor's recommendation. Within the changes to meet the 3% reduction, RIO also moved \$70,450 from operating expenses to salaries and wages.

5

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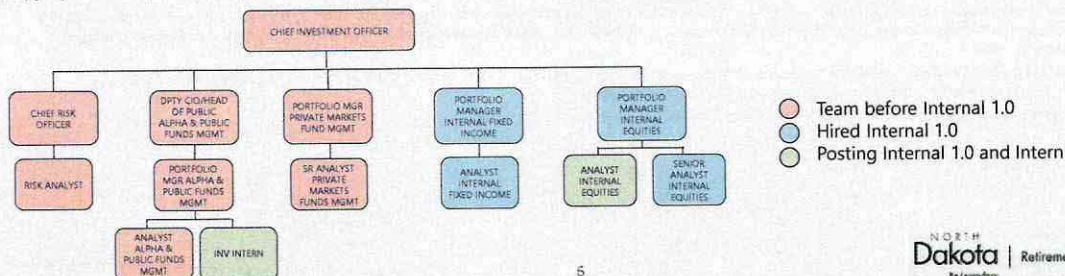
NDRIO BUDGET: Optional Package #1

2nd Half of New Investment Positions

	Salary & Benefits	Operating Expenses	Contingency	Total Special Funds
2 nd Half of New Investment Positions	\$ 1,236,914	-	-	\$ 1,236,914
Total	\$ 1,236,914			\$ 1,236,914

Internal Investment Initiative: NDRIO received Legislative approval in 2023 to manage approximately \$3 billion of assets internally. The program's goal is to reduce investment costs and improve liquidity management. The plan required hiring five investment professionals, one operations professional, and one administrative staff member. Salaries for the first year were included in the 2023-2025 budget. Additional funding is required for the second year to continue into the 2025-2027 biennium.

Total Appropriation Request: \$1,236,914. Further information starting on page 9 of our full testimony.



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NDRIO: Optional Package #2

Information Technology Hosting and Support

	Salary & Benefits	Operating Expenses	Contingency	Total Special Funds
Additional Operating Communications	-	\$21,500	-	\$21,500
Increased NDIT Tech Support charges	-	\$129,768	-	\$129,768
Increased PAS hosting support fees	-	\$800,000	-	\$800,000
Fiscal Op Software Consultant	-	\$250,000	-	\$250,000
Total	-	\$1,201,268	-	\$1,201,268

Communications Budget Increase: Additional funds are requested to enhance communication efforts. Supports outreach to the public, legislators, and stakeholders regarding RIO activities.

NDIT Technology Support: RIO relies on two dedicated NDIT staff to support technology operations. Continued support is needed due to the pension system rollout and increased investment program demands. NDIT service rates are expected to rise significantly.

Pension Administration System Funding: The new TFFR pension system is in its final implementation stages. Only one year of hosting fees was budgeted for the 2023-2025 biennium. Additional funding is needed for the second year to operate the system for the full 2025-2027 biennium.

Fiscal Team Software Assessment: A consultant is needed to evaluate new financial software options. The current system, Dynamics GP, will reach end-of-life in 2029 and needs replacement.

Impact of Non-Funding: Loss of pension system access for beneficiaries and employers. Increased operational inefficiencies and manual work. Struggles in managing investment operations due to reduced NDIT support. Failure to leverage cost savings from internal investment management.

Total Appropriation Request: \$1,201,268. Further information starting on page 10 of RIO's full testimony.

NDRIO: Optional Package #3

Cost to Continue HR

	Salary & Benefits	Operating Expenses	Contingency	Total Special Funds
Internship Funding	\$24,000	-	-	\$24,000
Cost to Continue Salaries	\$118,302	-	-	\$118,302
Total	\$142,302	-	-	\$142,302

Internship Program Impact: Internship funding was reduced by \$24,000 to meet our 3% base budget reduction, limiting the program to two interns. A request for \$24,000 seeks to restore funding for up to three additional interns (five total) in the 2025-2027 biennium.

Health Insurance Cost Increases: Historically, savings were achieved by staff opting for health coverage through family members. Two staff members will now require NDRIO-provided health coverage, adding \$118,302 in costs. Current biennium costs are covered by unfilled position savings, but additional funding is needed moving forward.

Impact of Non-Funding: Without additional funding, internship opportunities would be reduced, limiting student exposure to state government careers. Insufficient salary appropriations could impact operational efficiency and staffing.

Total Appropriation Request: \$142,302. Further information starting on page 11 of RIO's full testimony.

NDRIO: Optional Package #4

Incremental Agency Evolution/Retirement Education

	Salary & Benefits	Operating Expenses	Contingency	Total Special Funds
Additional Comm FTE	\$184,864	\$18,800	-	\$203,664
Additional Internal Auditor FTE	\$233,228	\$16,650	-	\$249,878
Investment Conference Continuation	-	\$20,000	-	\$20,000
Retirement Ed Initiative	-	\$35,000	-	\$35,000
Contingency	-	-	\$200,000	\$200,000
Total	\$418,092	\$90,450	\$200,000	\$708,542

Strategic Plan Enhancements: Additional resources are needed to support RIO's strategic initiatives on both retirement and investment sides. The internal investment initiative increases demands on the internal audit division, requiring an additional audit position for compliance. Additionally, as the significance and visibility of the Legacy Fund and other areas of the agency continue to grow, RIO's strategic plan includes an increase and improvement in communication to all stakeholders. This plan includes the addition of a multi-media specialist to support our current communications and outreach director.

Communication and Education Initiatives: Expansion of communication efforts to meet the growing visibility of the Legacy Fund and other RIO activities. Ongoing investment symposiums for education targeting client funds, legislators, state agencies, and the public. A comprehensive communication overhaul for TFFR stakeholders, aligned with the new pension system rollout, including satisfaction surveys.

Contingency Planning for Leadership Transitions: Funding requested for potential executive searches due to past leadership turnover in key positions. Ensures continuity and preparedness for unexpected changes in leadership.

Impact of Non-Funding: Increased outsourcing costs if an internal auditor is not hired. Limited communication capabilities, reducing stakeholder engagement. Missed opportunities for educational outreach in both investment and retirement sectors.

Total requested appropriation: \$708,542. Further information starting on page 12 of RIO's full testimony.

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NDRIO: Optional Package #5

Internal Investment 2.0

	Salary & Benefits	Operating Expenses	Contingency	Total Special Funds
5 Additional Invest FTEs	\$2,133,410	\$149,500	-	\$2,282,910
3 Additional Fiscal FTEs	\$844,770	\$62,700	-	\$907,470
Total	\$2,978,180	\$212,200		\$3,190,380

Phase 2 Expansion of our internal investment program: Aims to internalize an additional 15% of assets, reaching 30% total. Seeks to leverage RIO's \$23 billion in assets for better returns and lower costs. Aligns RIO with public funds of similar size that have higher levels of internal management.

Strategic Benefits: Further cost savings through reduced reliance on external managers. Enhanced investment processes and fund management capabilities. Cost savings reflected in continuing appropriation expenses.

Impact of Not Expanding: Missed opportunities to maximize the scale of RIO's asset growth. Inability to fully leverage internal investment capabilities for client benefit.

Total Appropriation Request: \$3,190,380. Further information starting on page 14 of RIO's full testimony.

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AMENDED NDRIO BUDGET: Request Summary

				Optional Package #1	Optional Package #2	Optional Package #3	Optional Package #4	
	Base Budget	Adjustments to Base*	Adjusted Base	2nd Half New Investment Positions	Cost to Continue IT Hosting/ Support	Cost to Continue HR	Incremental Agency Evolution/ Retirement Ed	Total Agency Request
Salaries and Wages	\$ 8,552,467	\$1,856,526	\$ 10,408,993	\$1,236,914	-	\$142,302	\$418,092	\$12,206,301
Operating Expenses	\$2,731,037	(\$208,822)	\$2,522,215	-	\$1,201,268	-	\$90,450	\$3,813,933
Contingencies	\$200,000	(\$200,000)	-	-	-	-	\$200,000	\$200,000
Total Special Funds	\$ 11,483,504	\$1,447,704	\$ 12,931,208	\$1,236,914	\$1,201,268	\$142,302	\$708,542	\$ 16,220,234
FTE	34.00	-	34.00	-	-	-	2.00	36.00

*Adjustment to base include adding back funding from Vacancy Pool of \$238,129, new FTE Pool of \$1,547,947, as well as changes made to meet the 3% reduction request from the Governor's recommendation. Within the changes to meet the 3% reduction, RIO also moved \$70,450 from operating expenses to salaries and wages.

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NDRIO BUDGET: Legislative Overview

Bills with Budgetary Impact

HB 1319 – Legacy Fund disclosure website.

HB 1330 – Divestment from Legacy Fund investments in Chinese companies.

HB 1348 – Repeal of RIO's removal of the fiscal and investment FTEs from OMB's classified system.

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NDRIO BUDGET: Legislative Overview HB 1319

House Bill 1319: A BILL for an Act to create and enact a new section to chapter 21-10 of the North Dakota Century Code, relating to a legacy fund disclosure website.

Sponsors: Rep. Satrom, Sen. Conley, Rep. Ostlie

Current Status: Introduced

Fiscal Impact: RIO estimates the build of a Legacy Fund website would cost approximately \$200,000. Once the site is up and running, RIO anticipates it would cost us \$20,000 annually to maintain the website. We would also need 1 FTE to assist with the build and maintain the website for a total biennium cost of salaries and fringe benefits of \$204,308 and also \$16,650 for the biennium for operating costs of an additional FTE. (See attached Fiscal Note for additional details)

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NDRIO BUDGET: Legislative Overview HB 1330

House Bill 1330: A BILL for an Act to create and enact a new section to chapter 21-10 of the North Dakota Century Code, relating to divestment from legacy fund investments in Chinese companies.

Sponsors: Rep. Satrom, Sen. Conley, Rep. Grueneich, Sen. Lemm, Rep. Ostlie

Current Status: Introduced

Fiscal Impact: RIO, with consultant RVK, Inc., reviewed the proposed legislation's potential impact on the Legacy Fund. The financial effects depend on how "subject to the jurisdiction or direction of China" is interpreted.

Interpretation 1 (Broad): considers any company doing business in China as subject to the bill; would force a shift from separate accounts to higher-cost commingled fund. Estimated annual cost increase: \$2.7 million, growing with fund expansion. Biennium cost projections: 7/1/25: \$5.6 million, 7/1/27: \$6.7 million. Prohibits internal investment management, further increasing costs.

Interpretation 2 (Narrow): Limits restrictions to companies domiciled in or controlled by Chinese entities. Fewer assets affected, with possible mitigation through guideline adjustments. Estimated annual cost increase: \$50,000 to \$910,000. Biennium cost projections: 7/1/25: \$0.1M to \$1.9M, 7/1/27: \$0.1M to \$2.3M.

Conclusion: A broad interpretation results in significant cost increases, while a narrow approach could substantially reduce financial impact. (See attached Fiscal Note for additional details.)

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NDRIO BUDGET: Legislative Overview HB 1348

House Bill 1348: A BILL for an Act to amend and reenact section 54-44.3-20 of the North Dakota Century Code, relating to exemptions from the employee classification system; and to repeal section 54-52.5-04 of the North Dakota Century Code, relating to an incentive compensation plan for the state retirement and investment office.

Sponsors: Rep. Ostlie, Rep. Beltz, Sen. Conley, Sen. Cory, Rep. Satrom, Sen. Weber

Current Status: Introduced

Fiscal Impact: The benefit of Internal Investment scales with the size of the commitment, see table below. (No fiscal note generated.)

PLAN	Internal Investment 1.0 15% OF ASSETS	Internal Investment 1.0 and 2.0 30% OF ASSETS	Internal Investment Final Phase 50% OF ASSETS
PENSION	\$6M	\$9M	\$16M
INSURANCE	\$3M	\$4M	\$6M
LEGACY	\$8M	\$13M	\$22M
Estimated Annual Savings (on \$23 Billion AUM)	\$17 Million	\$26 Million	\$44 Million

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FISCAL NOTE
HOUSE BILL NO. 1330
LC# 25.0779.01000
01/20/2025

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

Name: Rachel Kmetz

Agency: RIO

Telephone: 7013283459

Date Prepared: 01/19/2025

**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

2025 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division Brynhild Haugland Room, State Capitol

HB 1022
2/4/2025

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office.

10:02 a.m. Chairman Monson opened the meeting.

Members Present: Chairman Monson, Vice Chairman Brandenburg, Representatives: Bosch, Fischer, Kempenich, Meier, Pyle.

Discussion Topics:

- Teacher's Fund for Retirement Program (TFFR)
- Sagitec funding
- IT Consultant for Accounting
- Vacant FTE positions funding
- Incentive Bonuses and Bonus funding
- Out of State employees
- Internship funding
- Retirement Education Initiative

10:05 a.m. Jodi Smith, Interim Executive Director, RIO, testified in favor.

10:07 a.m. Chad Roberts, Deputy Executive Director, RIO, testified in favor.

10:35 a.m. Rachel Kmetz, Interim Chief Financial Officer and Chief Operating Officer, RIO, testified in favor.

Additional written testimony:

Adam Mathiak, Fiscal Analyst, Legislative Council, submitted neutral testimony #34487.

10:54 a.m. Chairman Monson closed the meeting.

Madaline Cooper, Committee Clerk



Retirement and Investment Office - Budget No. 190
Agency Worksheet - House Bill No. 1022

	Armstrong Executive Budget				House Version				House Compared to Executive Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	Increase (Decrease)			
									FTE Positions	General Fund	Other Funds	Total
2025-27 Biennium Base Level	34.00	\$0	\$11,483,504	\$11,483,504	34.00	\$0	\$11,483,504	\$11,483,504	0.00	\$0	\$0	\$0
2025-27 Ongoing Funding Changes												
Salary increase			\$471,836	\$471,836			\$471,836	\$471,836				\$0
Health insurance increase			204,180	204,180			204,180	204,180				0
Adds funding to replace the 2023-25 vacant FTE pool			238,129	238,129			238,129	238,129				0
Adds funding to replace the 2023-25 new FTE pool			1,547,947	1,547,947			1,547,947	1,547,947				0
2025-27 new and vacant pool			0	0			(111,669)	(111,669)			(\$111,669)	(111,669)
Adds funding for FTE positions partially funded in 2023-25			1,236,914	1,236,914			0	0			(1,236,914)	(1,236,914)
Transfers \$70,450 from operating to salaries - Base			0	0			0	0				0
IT rate increases			61,562	61,562			0	0			(61,562)	(61,562)
IT software hosting fees			751,334	751,334			0	0			(751,334)	(751,334)
Investment conference hosting expenses			20,000	20,000			0	0			(20,000)	(20,000)
Other agency requests			0	0			0	0				0
FTE internal auditor position			0	0	1.00		249,878	249,878	1.00		249,878	249,878
FTE communications position			0	0	1.00		203,664	203,664	1.00		203,664	203,664
Additional salary funding			0	0			118,302	118,302			118,302	118,302
Internship funding			0	0			24,000	24,000			24,000	24,000
Retirement education initiative			0	0			35,000	35,000			35,000	35,000
Total ongoing funding changes	0.00	\$0	\$4,531,902	\$4,531,902	2.00	\$0	\$2,981,267	\$2,981,267	2.00	\$0	(\$1,550,635)	(\$1,550,635)
One-Time Funding Items												
Information technology software support			\$250,000	\$250,000			\$250,000	\$250,000				\$0
Total one-time funding changes	0.00	\$0	\$250,000	\$250,000	0.00	\$0	\$250,000	\$250,000	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	\$0	\$4,781,902	\$4,781,902	2.00	\$0	\$3,231,267	\$3,231,267	2.00	\$0	(\$1,550,635)	(\$1,550,635)
2025-27 Total Funding	34.00	\$0	\$16,265,406	\$16,265,406	36.00	\$0	\$14,714,771	\$14,714,771	2.00	\$0	(\$1,550,635)	(\$1,550,635)
Federal funds included in other funds			\$0	\$0			\$0	\$0			\$0	\$0
Total ongoing changes - Percentage of base level	0.0%	N/A	39.5%	39.5%	5.9%	N/A	26.0%	26.0%	N/A	N/A	N/A	N/A
Total changes - Percentage of base level	0.0%	N/A	41.6%	41.6%	5.9%	N/A	28.1%	28.1%	N/A	N/A	N/A	N/A

Other Sections in Retirement and Investment Office - Budget No. 190

Section Description	Armstrong Executive Budget	House Version
New and vacant FTE pool line item		Section 3 provides for the use of funding in the new and vacant FTE pool line item.

2025 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division

Brynhild Haugland Room, State Capitol

HB 1022

2/11/2025

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office.

10:01 a.m. Chairman Monson opened the meeting.

Members Present: Chairman Monson, Vice Chairman Brandenburg, Representatives: Bosch, Fischer, Kempenich, Pyle.

Members Absent: Representative Meier

Discussion Topics:

- Recruiting Firm funding
- Internal Auditor for RIO
- Software updates for RIO

10:02 a.m. Jodi Smith, Interim Executive Director, Retirement and Investment Office, testified in favor.

10:03 a.m. Rachel Kmetz, Interim Chief Financial Officer and Chief Operating Officer, RIO, testified in favor.

10:18 a.m. Representative Bosch motioned an amendment LC # 25.0166.01001, #37059.

10:19 a.m. Representative Fischer seconded the motion.

Representatives	Vote
Representative David Monson	Y
Representative Mike Brandenburg	Y
Representative Glenn Bosch	Y
Representative Jay Fisher	Y
Representative Keith Kempenich	Y
Representative Lisa Meier	AB
Representative Brandy L. Pyle	Y

Motion Passed 6-0-1.

10:19 a.m. Representative Bosch motioned a Do Pass as Amended.

10:20 a.m. Representative Kempenich seconded the motion.

Representatives	Vote
Representative David Monson	Y

Representative Mike Brandenburg	Y
Representative Glenn Bosch	Y
Representative Jay Fisher	Y
Representative Keith Kempenich	Y
Representative Lisa Meier	AB
Representative Brandy L. Pyle	Y

Motion Passed 6-0-1.

Representative Bosch will carry the bill.

Additional written testimony:

Adam Mathiak, Fiscal Analyst, Legislative Council, submitted neutral testimony #37059.

10:20 a.m. Chairman Monson closed the meeting.

Madaline Cooper, Committee Clerk

25.0166.01001
Title.
Fiscal No. 1

Prepared by the Legislative Council
staff for House Appropriations -
Government Operations Division
Committee

February 7, 2025

Sixty-ninth
Legislative Assembly
of North Dakota

PROPOSED AMENDMENTS TO

HOUSE BILL NO. 1022

Introduced by

Appropriations Committee

1 A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and
2 investment office.

3 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

4 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
5 as may be necessary, are appropriated from special funds, to the retirement and investment
6 office for the purpose of defraying the expenses of the retirement and investment office, for the
7 biennium beginning July 1, 2025, and ending June 30, 2027, as follows:

		Adjustments or	
	<u>Base Level</u>	<u>Enhancements</u>	<u>Appropriation</u>
10 Salaries and wages	\$8,552,467	\$0	\$8,552,467
11 Operating expenses	2,731,037	0	2,731,037
12 Contingencies	200,000	0	200,000
13 Total special funds	\$11,483,504	\$0	\$11,483,504
14 Full-time equivalent positions	34.00	0.00	34.00
15 <u>Salaries and wages</u>	<u>\$8,552,467</u>	<u>\$3,539,528</u>	<u>\$12,091,995</u>
16 <u>New and vacant FTE pool</u>	<u>0</u>	<u>470,466</u>	<u>470,466</u>
17 <u>Operating expenses</u>	<u>2,731,037</u>	<u>1,029,096</u>	<u>3,760,133</u>
18 <u>Contingencies</u>	<u>200,000</u>	<u>0</u>	<u>200,000</u>

1	<u>Total special funds</u>	<u>\$11,483,504</u>	<u>\$5,039,090</u>	<u>\$16,522,594</u>
2	<u>Full-time equivalent positions</u>	<u>34.00</u>	<u>1.00</u>	<u>35.00</u>

3 **SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO**

4 **SEVENTIETH LEGISLATIVE ASSEMBLY.** The following amounts reflect the one-time funding
5 items included in the appropriation in section 1 of this Act which are not included in the entity's
6 base budget for the 2027-29 biennium and which the entity shall report to the appropriations
7 committees of the seventieth legislative assembly regarding the use of this funding:

8	<u>One-Time Funding Description</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
9	Information technology consulting	<u>\$0</u>	<u>\$250,000</u>	<u>\$250,000</u>
10	Total	<u>\$0</u>	<u>\$250,000</u>	<u>\$250,000</u>

11 **SECTION 3. NEW AND VACANT FTE POOL - LIMITATION - TRANSFER REQUEST.** The
12 retirement and investment office may not spend funds appropriated in the new and vacant FTE
13 pool line item in section 1 of this Act, but may request the office of management and budget to
14 transfer funds from the new and vacant FTE pool line item to the salaries and wages line item in
15 accordance with the guidelines and reporting provisions included in House Bill No. 1015, as
16 approved by the sixty-ninth legislative assembly.

STATEMENT OF PURPOSE OF AMENDMENT:**House Bill No. 1022 - Retirement and Investment Office - House Action**

	Base Budget	House Changes	House Version
Salaries and wages	\$8,552,467	\$3,539,528	\$12,091,995
New and vacant FTE pool		470,466	470,466
Operating expenses	2,731,037	1,029,096	3,760,133
Contingencies	200,000		200,000
Total all funds	\$11,483,504	\$5,039,090	\$16,522,594
Less estimated income	11,483,504	5,039,090	16,522,594
General fund	\$0	\$0	\$0
FTE	34.00	1.00	35.00

Department 190 - Retirement and Investment Office - Detail of House Changes

	Adds Funding for Salary and Benefit Increases ¹	Adds Funding to Replace 2023-25 FTE Pool ²	Transfers Funding for 2025-27 New and Vacant FTE Pool ³	Adds Funding for Salaries and Wages ⁴	Adds Internal Auditor FTE Position ⁵	Transfers Funding Between Line Items ⁶
Salaries and wages	\$676,016	\$1,786,076	(\$605,458)	\$1,379,216	\$233,228	\$70,450
New and vacant FTE pool			470,466			
Operating expenses					16,650	(70,450)
Contingencies						
Total all funds	\$676,016	\$1,786,076	(\$134,992)	\$1,379,216	\$249,878	\$0
Less estimated income	676,016	1,786,076	(134,992)	1,379,216	249,878	0
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	1.00	0.00

	Adds Funding for Operating Expenses ⁷	Adds One- Time Funding Item ⁸	Total House Changes
Salaries and wages			\$3,539,528
New and vacant FTE pool			470,466
Operating expenses	\$832,896	\$250,000	1,029,096
Contingencies			
Total all funds	\$832,896	\$250,000	\$5,039,090
Less estimated income	832,896	250,000	5,039,090
General fund	\$0	\$0	\$0
FTE	0.00	0.00	1.00

¹ The following funding is added for 2025-27 biennium salary adjustments of 3 percent on July 1, 2025, and 3 percent on July 1, 2026, and increases in health insurance premiums from \$1,643 to \$1,893 per month:

	General Fund	Other Funds	Total
Salary increase	\$0	\$471,836	\$471,836
Health insurance increase	0	204,180	204,180
Total	\$0	\$676,016	\$676,016

² Funding is added to replace 2023-25 biennium new and vacant FTE pool funding as follows:

	General Fund	Other Funds	Total
Vacant FTE positions	\$0	\$238,129	\$238,129
New FTE positions	0	1,547,947	1,547,947
Total	\$0	\$1,786,076	\$1,786,076

³ Funding of \$605,458 for new FTE positions and estimated savings from vacant FTE positions is removed and funding of \$470,466 is added for a 2025-27 new and vacant FTE pool line item as follows:

	General Fund	Other Funds	Total
Vacant FTE positions	\$0	(\$372,230)	(\$372,230)
New FTE positions	0	(233,228)	(233,228)
Total	\$0	(\$605,458)	(\$605,458)
Funding pool line item	0	470,466	470,466
Net savings	\$0	(\$134,992)	(\$134,992)

⁴ Funding is added for salaries and wages as follows:

	General Fund	Other Funds	Total
FTE positions partially funded in 2023-25	\$0	\$1,236,914	\$1,236,914
Salary funding - Cost to continue	0	118,302	118,302
Internship program	0	24,000	24,000
Total	\$0	\$1,379,216	\$1,379,216

⁵ Funding of \$249,878 from special funds is added for 1 FTE internal auditor position, including \$233,228 for salaries and wages and \$16,650 for operating expenses.

⁶ Funding of \$70,450 is transferred from the operating expenses line item to the salaries and wages line item for cost to continue 2023-25 salary increases.

⁷ Operating funding is added as follows:

	General Fund	Other Funds	Total
IT rate increases	\$0	\$61,562	\$61,562
IT software hosting fees	0	751,334	751,334
Investment conference hosting expenses	0	20,000	20,000
Total	\$0	\$832,896	\$832,896

⁸ One-time funding of \$250,000 is added from special funds for information technology consulting expenses to replace accounting software.

The House version also adds a section regarding the use of funding in the new and vacant FTE pool line item.

2025 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee Roughrider Room, State Capitol

HB 1022
2/12/2025

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office.

3:11 p.m. Chairman Vigesaa called the meeting to order.

Members Present: Chairman Vigesaa, Vice Chairman Kempenich, Representatives Anderson, Berg, Bosch, Brandenburg, Fisher, Hanson, Louser, Martinson, Meier, Mitskog, Monson, Murphy, Nathe, Nelson, O'Brien, Pyle, Sanford, Stemen, Swiontek, Wagner

Members Absent: Representative Richter

Discussion Topics:

- Salaries of New Employees
- North Dakota Incentive Program

3:11 p.m. Representative Bosch introduced Amendment LC #25.0166.01001. (#37451)

3:19 p.m. Representative Bosch motioned to Adopt Amendment LC #25.0166.01001.

3:19 p.m. Representative Swiontek seconded.

Roll Call Vote Representatives	Vote
Representative Don Vigesaa	Y
Representative Keith Kempenich	Y
Representative Bert Anderson	Y
Representative Mike Berg	Y
Representative Glen Bosch	Y
Representative Mike Brandenburg	Y
Representative Jay Fisher	Y
Representative Karla Rose Hanson	Y
Representative Scott Louser	Y
Representative Bob Martinson	Y
Representative Lisa Meier	Y
Representative Alisa Mitskog	Y
Representative David Monson	Y
Representative Eric J. Murphy	Y
Representative Mike Nathe	Y
Representative Jon O. Nelson	Y
Representative Emily O'Brien	Y
Representative Brandy L. Pyle	Y
Representative David Richter	A
Representative Mark Sanford	Y

Representative Gregory Stemen	Y
Representative Steve Swiontek	Y
Representative Scott Wagner	Y

3:20 Motion passed 22-0-1.

3:21 p.m. Representative Bosch motioned a Do Pass as Amended.

3:21 p.m. Representative Stemen seconded.

3:21 p.m. Roll Call Vote.

Representatives	Vote
Representative Don Vigesaa	Y
Representative Keith Kempenich	Y
Representative Bert Anderson	Y
Representative Mike Berg	Y
Representative Glen Bosch	Y
Representative Mike Brandenburg	Y
Representative Jay Fisher	Y
Representative Karla Rose Hanson	Y
Representative Scott Louser	Y
Representative Bob Martinson	Y
Representative Lisa Meier	Y
Representative Alisa Mitskog	Y
Representative David Monson	Y
Representative Eric J. Murphy	Y
Representative Mike Nathe	Y
Representative Jon O. Nelson	Y
Representative Emily O'Brien	Y
Representative Brandy L. Pyle	Y
Representative David Richter	A
Representative Mark Sanford	Y
Representative Gregory Stemen	Y
Representative Steve Swiontek	Y
Representative Scott Wagner	Y

3:22 p.m. Motion passed 22-0-1.

3:22 p.m. Representative Bosch will carry the Bill.

3:22 p.m. Chairman Vigesaa closed the meeting.

Sierra Schartz, Committee Clerk

February 7, 2025

Sixty-ninth
Legislative Assembly
of North Dakota

PROPOSED AMENDMENTS TO

HOUSE BILL NO. 1022

Introduced by

Appropriations Committee

2-12-25

JB 1062

1 A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and
2 investment office.

3 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

4 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
5 as may be necessary, are appropriated from special funds, to the retirement and investment
6 office for the purpose of defraying the expenses of the retirement and investment office, for the
7 biennium beginning July 1, 2025, and ending June 30, 2027, as follows:

		Adjustments or	
	<u>Base Level</u>	<u>Enhancements</u>	<u>Appropriation</u>
10 Salaries and wages	\$8,552,467	\$0	\$8,552,467
11 Operating expenses	2,731,037	0	2,731,037
12 Contingencies	200,000	0	200,000
13 Total special funds	\$11,483,504	\$0	\$11,483,504
14 Full-time equivalent positions	34.00	0.00	34.00
15 <u>Salaries and wages</u>	<u>\$8,552,467</u>	<u>\$3,539,528</u>	<u>\$12,091,995</u>
16 <u>New and vacant FTE pool</u>	<u>0</u>	<u>470,466</u>	<u>470,466</u>
17 <u>Operating expenses</u>	<u>2,731,037</u>	<u>1,029,096</u>	<u>3,760,133</u>
18 <u>Contingencies</u>	<u>200,000</u>	<u>0</u>	<u>200,000</u>

JB 2 of 2

1	Total special funds	\$11,483,504	\$5,039,090	\$16,522,594
2	Full-time equivalent positions	34.00	1.00	35.00

3 **SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO**
4 **SEVENTIETH LEGISLATIVE ASSEMBLY.** The following amounts reflect the one-time funding
5 items included in the appropriation in section 1 of this Act which are not included in the entity's
6 base budget for the 2027-29 biennium and which the entity shall report to the appropriations
7 committees of the seventieth legislative assembly regarding the use of this funding:

8	<u>One-Time Funding Description</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
9	Information technology consulting	\$0	\$250,000	\$250,000
10	Total	\$0	\$250,000	\$250,000

11 **SECTION 3. NEW AND VACANT FTE POOL - LIMITATION - TRANSFER REQUEST.** The
12 retirement and investment office may not spend funds appropriated in the new and vacant FTE
13 pool line item in section 1 of this Act, but may request the office of management and budget to
14 transfer funds from the new and vacant FTE pool line item to the salaries and wages line item in
15 accordance with the guidelines and reporting provisions included in House Bill No. 1015, as
16 approved by the sixty-ninth legislative assembly.

**REPORT OF STANDING COMMITTEE
HB 1022**

Appropriations Committee (Rep. Vigesaa, Chairman) recommends **AMENDMENTS** ([25.0166.01001](#)) and when so amended, recommends **DO PASS** (22 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1022 was placed on the Sixth order on the calendar.

25.0166.01001
Title.
Fiscal No. 1

Prepared by the Legislative Council
staff for House Appropriations -
Government Operations Division
Committee

February 7, 2025

Sixty-ninth
Legislative Assembly
of North Dakota

PROPOSED AMENDMENTS TO

HOUSE BILL NO. 1022

Introduced by

Appropriations Committee

1 A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and
2 investment office.

3 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

4 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
5 as may be necessary, are appropriated from special funds, to the retirement and investment
6 office for the purpose of defraying the expenses of the retirement and investment office, for the
7 biennium beginning July 1, 2025, and ending June 30, 2027, as follows:

		Adjustments or	
	<u>Base Level</u>	<u>Enhancements</u>	<u>Appropriation</u>
10 Salaries and wages	\$8,552,467	\$0	\$8,552,467
11 Operating expenses	2,731,037	0	2,731,037
12 Contingencies	200,000	0	200,000
13 Total special funds	\$11,483,504	\$0	\$11,483,504
14 Full-time equivalent positions	34.00	0.00	34.00
15 <u>Salaries and wages</u>	<u>\$8,552,467</u>	<u>\$3,539,528</u>	<u>\$12,091,995</u>
16 <u>New and vacant FTE pool</u>	<u>0</u>	<u>470.466</u>	<u>470.466</u>
17 <u>Operating expenses</u>	<u>2,731,037</u>	<u>1,029,096</u>	<u>3,760,133</u>
18 <u>Contingencies</u>	<u>200,000</u>	<u>0</u>	<u>200,000</u>

1	Total special funds	\$11,483,504	\$5,039,090	\$16,522,594
2	Full-time equivalent positions	34.00	1.00	35.00

3 **SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO**

4 **SEVENTIETH LEGISLATIVE ASSEMBLY.** The following amounts reflect the one-time funding
5 items included in the appropriation in section 1 of this Act which are not included in the entity's
6 base budget for the 2027-29 biennium and which the entity shall report to the appropriations
7 committees of the seventieth legislative assembly regarding the use of this funding:

8	<u>One-Time Funding Description</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
9	Information technology consulting	\$0	\$250,000	\$250,000
10	Total	\$0	\$250,000	\$250,000

11 **SECTION 3. NEW AND VACANT FTE POOL - LIMITATION - TRANSFER REQUEST.** The
12 retirement and investment office may not spend funds appropriated in the new and vacant FTE
13 pool line item in section 1 of this Act, but may request the office of management and budget to
14 transfer funds from the new and vacant FTE pool line item to the salaries and wages line item in
15 accordance with the guidelines and reporting provisions included in House Bill No. 1015, as
16 approved by the sixty-ninth legislative assembly.

STATEMENT OF PURPOSE OF AMENDMENT:**House Bill No. 1022 - Retirement and Investment Office - House Action**

	Base Budget	House Changes	House Version
Salaries and wages	\$8,552,467	\$3,539,528	\$12,091,995
New and vacant FTE pool		470,466	470,466
Operating expenses	2,731,037	1,029,096	3,760,133
Contingencies	200,000		200,000
Total all funds	\$11,483,504	\$5,039,090	\$16,522,594
Less estimated income	11,483,504	5,039,090	16,522,594
General fund	\$0	\$0	\$0
FTE	34.00	1.00	35.00

Department 190 - Retirement and Investment Office - Detail of House Changes

	Adds Funding for Salary and Benefit Increases ¹	Adds Funding to Replace 2023-25 FTE Pool ²	Transfers Funding for 2025-27 New and Vacant FTE Pool ³	Adds Funding for Salaries and Wages ⁴	Adds Internal Auditor FTE Position ⁵	Transfers Funding Between Line Items ⁶
Salaries and wages	\$676,016	\$1,786,076	(\$605,458)	\$1,379,216	\$233,228	\$70,450
New and vacant FTE pool			470,466			
Operating expenses					16,650	(70,450)
Contingencies						
Total all funds	\$676,016	\$1,786,076	(\$134,992)	\$1,379,216	\$249,878	\$0
Less estimated income	676,016	1,786,076	(134,992)	1,379,216	249,878	0
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	1.00	0.00

	Adds Funding for Operating Expenses ⁷	Adds One- Time Funding Item ⁸	Total House Changes
Salaries and wages			\$3,539,528
New and vacant FTE pool			470,466
Operating expenses	\$832,896	\$250,000	1,029,096
Contingencies			
Total all funds	\$832,896	\$250,000	\$5,039,090
Less estimated income	832,896	250,000	5,039,090
General fund	\$0	\$0	\$0
FTE	0.00	0.00	1.00

¹ The following funding is added for 2025-27 biennium salary adjustments of 3 percent on July 1, 2025, and 3 percent on July 1, 2026, and increases in health insurance premiums from \$1,643 to \$1,893 per month:

	General Fund	Other Funds	Total
Salary increase	\$0	\$471,836	\$471,836
Health insurance increase	0	204,180	204,180
Total	\$0	\$676,016	\$676,016

² Funding is added to replace 2023-25 biennium new and vacant FTE pool funding as follows:

	General Fund	Other Funds	Total
Vacant FTE positions	\$0	\$238,129	\$238,129
New FTE positions	0	1,547,947	1,547,947
Total	\$0	\$1,786,076	\$1,786,076

³ Funding of \$605,458 for new FTE positions and estimated savings from vacant FTE positions is removed and funding of \$470,466 is added for a 2025-27 new and vacant FTE pool line item as follows:

	General Fund	Other Funds	Total
Vacant FTE positions	\$0	(\$372,230)	(\$372,230)
New FTE positions	0	(233,228)	(233,228)
Total	\$0	(\$605,458)	(\$605,458)
Funding pool line item	0	470,466	470,466
Net savings	\$0	(\$134,992)	(\$134,992)

⁴ Funding is added for salaries and wages as follows:

	General Fund	Other Funds	Total
FTE positions partially funded in 2023-25	\$0	\$1,236,914	\$1,236,914
Salary funding - Cost to continue	0	118,302	118,302
Internship program	0	24,000	24,000
Total	\$0	\$1,379,216	\$1,379,216

⁵ Funding of \$249,878 from special funds is added for 1 FTE internal auditor position, including \$233,228 for salaries and wages and \$16,650 for operating expenses.

⁶ Funding of \$70,450 is transferred from the operating expenses line item to the salaries and wages line item for cost to continue 2023-25 salary increases.

⁷ Operating funding is added as follows:

	General Fund	Other Funds	Total
IT rate increases	\$0	\$61,562	\$61,562
IT software hosting fees	0	751,334	751,334
Investment conference hosting expenses	0	20,000	20,000
Total	\$0	\$832,896	\$832,896

⁸ One-time funding of \$250,000 is added from special funds for information technology consulting expenses to replace accounting software.

The House version also adds a section regarding the use of funding in the new and vacant FTE pool line item.

2025 SENATE APPROPRIATIONS

HB 1022

2025 SENATE STANDING COMMITTEE MINUTES

Appropriations - Human Resources Division Harvest Room, State Capitol

HB 1022
3/6/2025

A Bill for an Act to provide an appropriation for defraying the expenses of the retirement and investment office.

8:35 a.m. Senator Dever opened the hearing.

Members present: Chairman Dever and Senators Cleary, Magrum and Mathern.

Members absent: Senator Davison

Discussion Topics:

- Retirement & Investment Office (RIO) Statutory Authority and Responsibility
- State Investment Board (SIB)
- Teachers' Fund for Retirement (TFFR)
- Strategic Plan
- 2025-27 Budget Summary
- Internal Investment Program

8:35 a.m. Adam Mathiak, Senior Fiscal Analyst, LC, submitted testimony #39183.

8:35 a.m. Jodi Smith, Interim Executive Director, RIO, testified in favor and submitted testimony #38931.

9:13 a.m. Chad Roberts, Deputy Executive Director, RIO, answered committee questions.

9:15 a.m. Scott M. Anderson, Chief Investment Officer, RIO, answered committee questions.

9:48 a.m. Chad Roberts, Deputy Executive Director, RIO, answered committee questions.

9:54 a.m. Jodi Smith, Interim Executive Director, RIO, answered committee questions.

Additional Written Testimony:

Dr. Robert Lech, Superintendent of the Jamestown School District; President of Teachers' Fund for Retirement; Vice-Chair of the ND State Investment Board, submitted written testimony in favor #39114.

10:00 a.m. Chairman Dever closed the hearing.

Joan Bares, Committee Clerk



House Bill 1022
North Dakota Retirement and Investment Office (RIO)
Testimony before Senate Appropriations – Human Resources Division
Senator Dever, Chair

Jodi Smith – Interim Executive Director
Chad Roberts, MAcc – Deputy Executive Director/Chief Retirement Officer
Scott Anderson, CFA, MBA – Chief Investment Officer
Rachel Kmetz – Interim Chief Financial Officer/Chief Operating Officer

I. RIO STATUTORY AUTHORITY AND RESPONSIBILITIES

The Retirement and Investment Office (RIO) was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the State Investment Board (SIB) and Teachers' Fund for Retirement (TFFR) programs. RIO's statutory authority is found in North Dakota Century Code (NDCC) chapter 54-52.5.

The SIB was created by the 1963 Legislative Assembly to invest five funds: State bonding fund; Teachers' insurance and retirement fund; State fire and tornado fund; Workmen's compensation fund; and Highway patrolmen's retirement fund. The SIB's statutory authority is found in NDCC chapter 21-10.

The TFFR was created in 1913 to provide retirement income to North Dakota public school educators. It is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code. NDCC Chapter 15-39-1 contains the statutory language governing TFFR. It is supplemented by Title 82 of the North Dakota Administrative Code.

II. ORGANIZATION OF RIO

State Investment Board

SIB is overseen by a thirteen-member board consisting of the Governor, State Treasurer, Director of Office of Management and Budget (OMB), State Land Commissioner, Director of Workforce Safety & Insurance (WSI), two Public Employees Retirement System (PERS) board members, two TFFR board representatives, two members of the Legacy and Budget Stabilization Fund Advisory Board, and two institutional investment professionals.

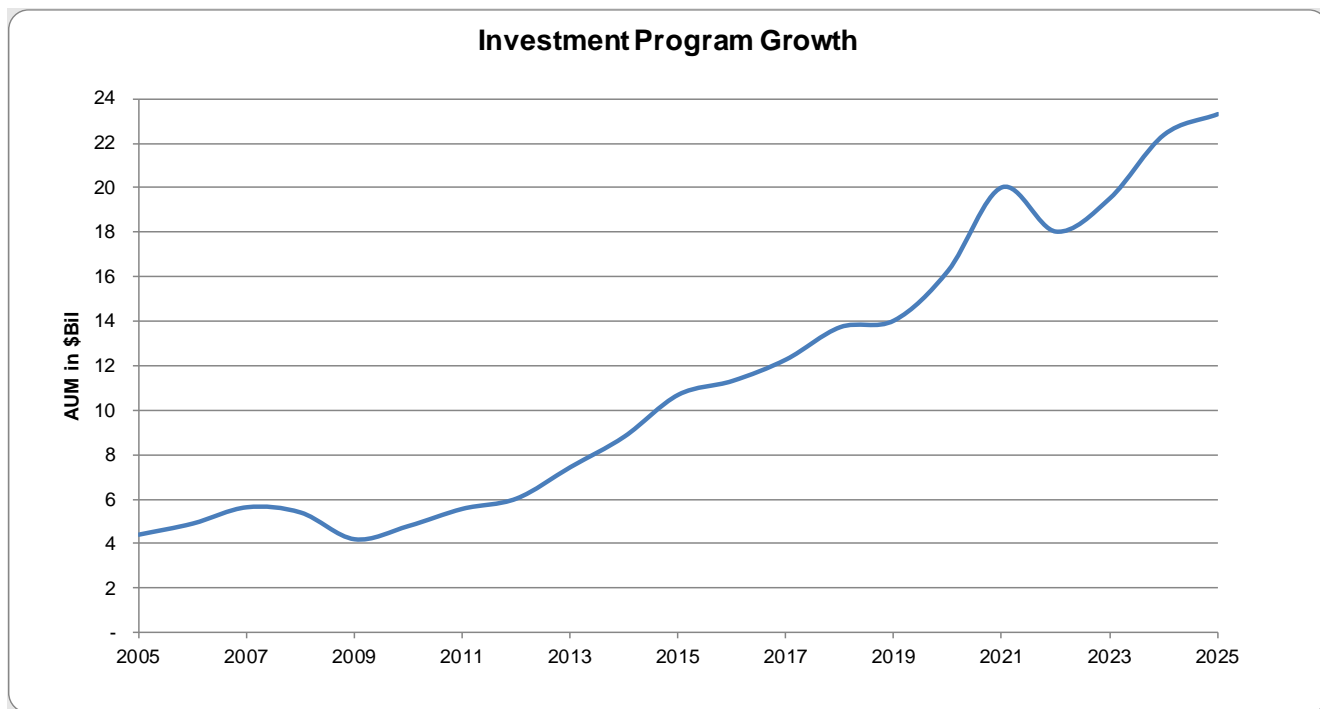
The SIB oversees more than \$23 billion in investments for 31 different client funds. The North Dakota Legacy Fund at \$11.5 billion is the largest client fund. In the SIB's \$8 billion Pension Pool, PERS and TFFR are the largest funds. The largest fund in the SIB's \$3.5 billion Insurance Pool is WSI.

Each client fund has its own governing board responsible for setting its asset allocation and investment policies. The asset allocation and policies are formalized in an investment policy statement that must be approved by both the client and the SIB. The SIB, with

assistance from RIO, selects investment managers to manage different types of portfolios within each asset class with the goal of maximizing return within the clients' acceptable risk levels.

RIO is the program administrator, responsible for the investment of the client funds' assets. By pooling their funds with other government entities, clients benefit from cost efficiencies and enhanced investment opportunities.

The investment program has experienced significant growth over the past two decades. Average assets under management (AUM) have increased from approximately \$4 billion in the 2003-05 biennium to more than \$23 billion in the current 2023-25 biennium.



Teachers' Fund for Retirement

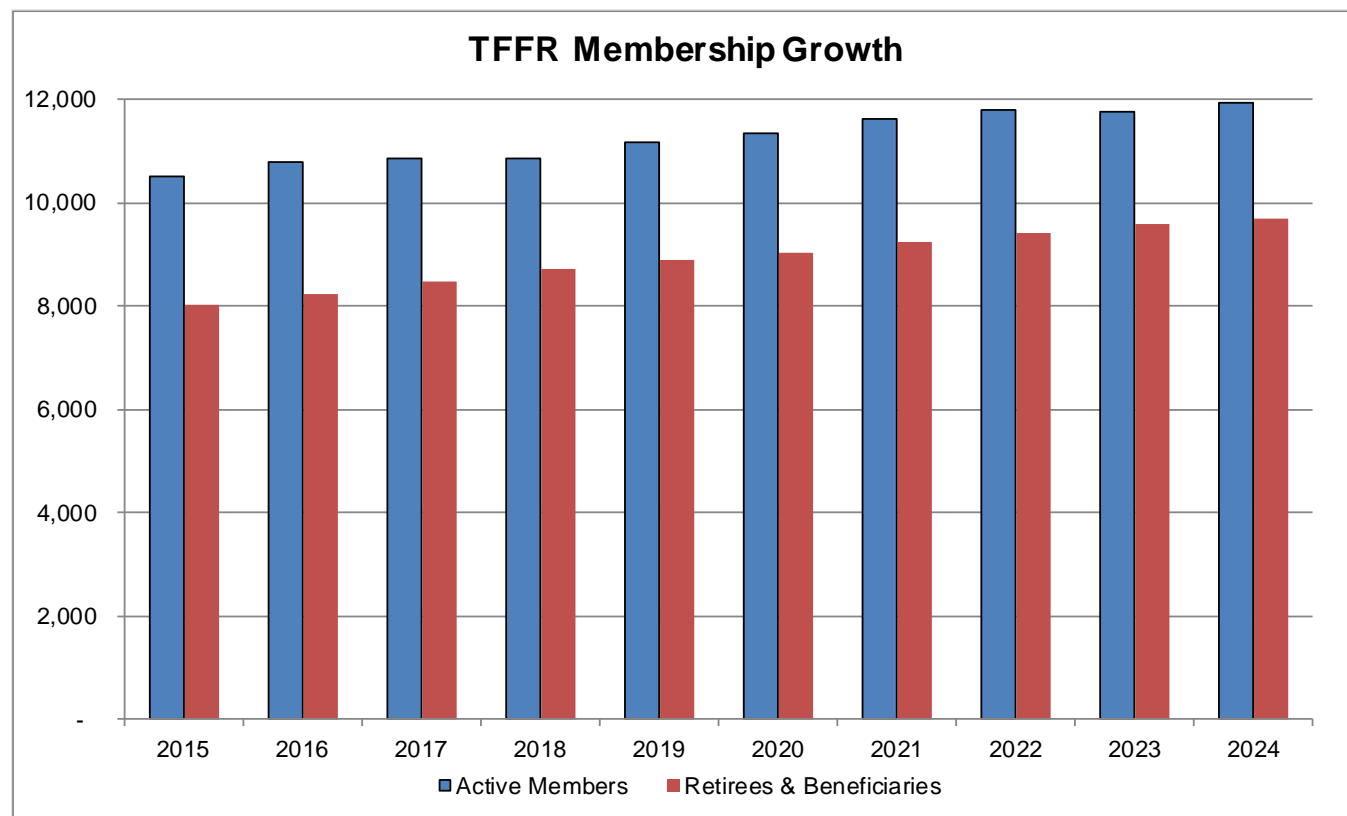
TFFR is overseen by a seven-member Board of Trustees consisting of the State Treasurer and State Superintendent, and two active teachers, two retired teachers and one school administrator—all appointed by the Governor. The Board advocates for, develops, and administers a comprehensive retirement program for its members while upholding its fiduciary responsibilities and operating within approved resource allocations.

A qualified defined benefit public pension plan, TFFR is designed to provide North Dakota public school educators and certain state teachers with lifetime retirement benefits, as well as disability and death benefits. By offering a secure and stable financial foundation, TFFR supports educators in planning for their future. This stability is made possible through sound plan design, professional management, strong investment performance, and exceptional customer service.

Recognizing the importance of strong governance in managing a growing program, the TFFR Board reaffirmed its commitment to continuous improvement by establishing a Governance and Policy Review Committee that is responsible for reviewing program

policies and public policy affecting statutes and administrative rules. The committee makes recommendations to the full Board on policy decisions and potential legislative changes.

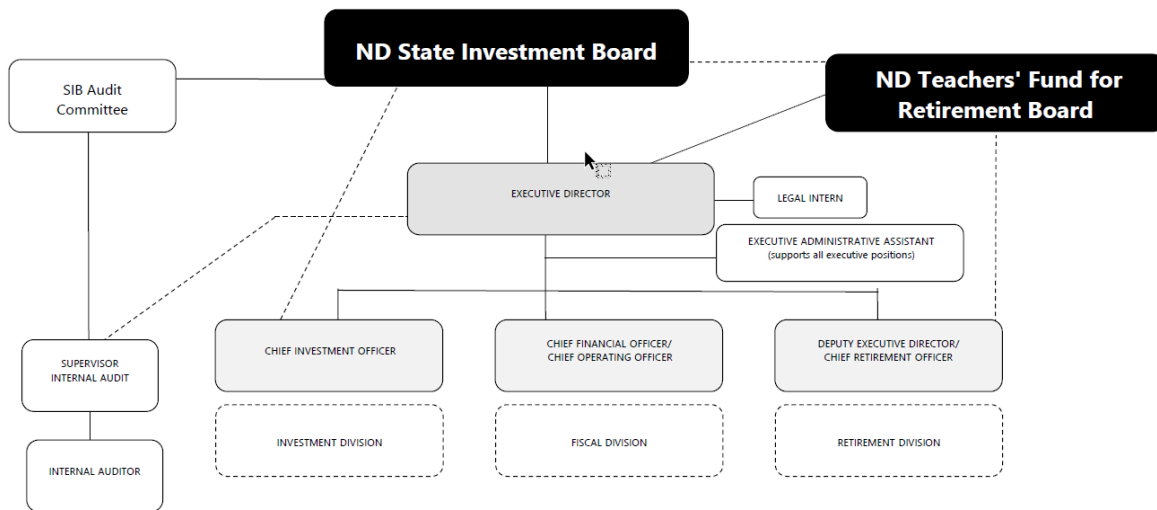
The TFFR plan plays a crucial role in attracting and retaining high-quality teachers and administrators in North Dakota, helping to prevent the loss of skilled educators to out-of-state programs. The plan is funded through member and employer contributions, along with investment earnings. Over the past decade, active membership has grown by 13.6%, from 10,514 to 11,945 participants, while retirees and beneficiaries have increased by 20.8%, from 8,025 to 9,693.



The funded ratio of the plan (i.e., the ratio of the actuarial value of the assets to the actuarial accrued liability) increased to 71.63% as of July 1, 2024, from 71.21% as of July 1, 2023. TFFR has been moving toward a fully funded status for more than a decade thanks to changes in the plan design made by the legislature in 2013. TFFR is expected to achieve fully funded status in 2043. As of July 1, 2024, the fund has a total actuarial liability of \$4,758,417,607. The unfunded liability is \$1,349,934,652.

The TFFR program multi-year large IT Pension Administration Modernization Project (TFFR “Pioneer” Project) went live on February 10, 2025. Through the implementation of this project, RIO has found efficiencies in shared operations with other state agencies such as PERS, OMB, the Department of Public Instruction, and the North Dakota Education Standards and Practices Board. These efficiencies have automated processes for the agencies saving staff time.

RIO Organizational Chart



RIO currently has 34 full-time FTEs across the two programs and four divisions along with two temporary positions and an intern. The four divisions include Investment Services, Retirement Services, Fiscal Services, and Internal Audit. The two temporary positions are directly attributable to additional workforce needs during the development and implementation of the TFFR Pioneer Project. The hiring of intern positions reflects an intent to consciously develop a robust internship program at RIO that will provide an opportunity to college and graduate students studying in North Dakota to participate in investment, accounting, benefit services, and public policy processes within the public sector.

III. AUDIT FINDINGS

RIO has received no financial audit findings in the past 20+ years.

IV. 2023-25 ACCOMPLISHMENTS AND CHALLENGES

2023 STRATEGIC GOALS	ACTION
Public/Private partnership & Intern development to support agency resource needs & talent development	RIO has had five interns since 2023 -- one investment, one legal, and three accounting.
Governance to support growth – 2 standing committees for SIB, 1 revised committee for SIB, 1 new standing committee for TFFR and proposal to adjust SIB composition	SIB Executive Review Committee revised to Executive Review & Compensation Committee, SIB Governance & Policy Review Committee created, SIB Investment Committee created, SIB composition thru 68 th Legislative Session, and TFFR Governance & Policy Review Committee created.

Internal Investment Proposal	Internal Investment Initiative Go-Live is March 10, 2025.
Communication plan for internal & external partners & stakeholders	Annual strategic communications plan was approved in November 2023, quarterly updates are provided. Updated communications plan scheduled for approval July 2025.
Enhancements to talent management plan	Relative to the Internal Investment Initiative, the organizational chart has been developed to create talent management.
Programs facilitate through education & outreach feedback loop to inform public policy. Recognized leaders in the field and a model for other states.	Improved stakeholder engagement and informs public policy through a schedule of regular TFFR and SIB communications, media partnerships, outreach events, expanded social media, agency branding and by establishing communication standards—striving to serve as a model for other states.
Investment Data Management Project	Project will begin after Internal Investment Go-Live.
TFFR PAS Project Implementation	TFFR PAS Go-Love was Feb. 10, 2025

2024 STRATEGIC GOALS	ACTIONS
ND Cash Management Practices – Implementing Cash Management Study Recommendations.	RIO participated in Office of Management and Budget, Treasury and Cash Management Study. Further discussion is tabled.
Internal Direct Investment Initiative 2.0 – Building on the business case to optimize benefits of scale.	RIO is launching internal investments March 10, 2025, and will seek expansion during 70th Legislative Session.
Benefits Administration Optimization – Interim Legislative Study during the 2025-2027 session.	No legislative study sought. Further discussion is tabled.

Financial/Retirement Literacy Initiative – Educating for teacher recruitment and retention success.	SIB and TFFR board member, Dr. Rob Lech, participated in the ND Teacher Retention and Recruitment Task Force. Seeking funding for teacher education in HB 1022.
Industry Leader Initiative – Innovation in operations to excel in education, technology, and talent pool.	Go-live of PACS technology system on February 10, 2025

2025-27 Goals and Plans

TFFR Investment and Funding Goals

1. Continue to improve the Plan's funding status to protect and sustain current and future benefits.
2. Minimize the employee and employer contributions needed to fund the Plan over the long term.
3. Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.

TFFR Service Goals

1. Continue to implement an enhanced Outreach and Communication Plan for our members, employers, and other stakeholder groups related to the program in general.
2. Administer an accurate, efficient, and responsive pension benefits program.
3. Deliver high-quality, friendly service to members and employers.
4. Achieve 100% reporting compliance from all employers reporting to the TFFR plan.
5. Provide more robust retirement planning education to current TFFR members and future and incoming North Dakota K-12 educators as recommended by the Teacher Retention and Recruitment Task Force.

SIB Strategic Investment Plan

2025 STRATEGIC GOALS
Industry Leader Initiative – Innovation in operations to excel in education, technology, and talent pool. <ul style="list-style-type: none"> • Recruitment and Onboarding of Executive Director and CFO. • Transition from network folders and Teams to SharePoint. • Implementation of investment operations compliance plan.

Succession and Business Continuity Planning

- Create Succession Plans for Executive Director, Deputy Executive Director, CIO, and CFO/COO.

Alignment thru Continuous Improvement

- Identify pockets of innovation across the organization during regular check-ins. Small, compounding changes and innovations add up to outsized results over time.

Strategic Implementation of New Statutes

- HB 1330 – Divestment from Direct Chinese Investments
- HB 1319 – Creation of Legacy Fund Transparency Website

V. 2025-27 BUDGET SUMMARY

	Base Level	Adjustment	Appropriation
Salaries & Wages	\$8,552,467	\$3,539,528	\$12,091,995
New & Vacant FTE Pool	\$0	\$470,466	\$470,466
Operating Expenses	\$2,731,037	\$1,029,096	\$3,760,133
Contingencies	\$200,000	\$0	\$200,000
Total Special Funds	\$11,483,504	\$5,039,090	\$16,522,594
Full Time Equivalent Positions	34	1	35

RIO serves two important program boards: the SIB and the TFFR Board. As such, its agency budget is separated into two separate programs, both of which are paid for with special funds.

Investment Program (SIB)

Funding for administration of the SIB Investment Program comes directly from investment clients' invested assets (both statutory and contracted).

Salary and benefits represent funding for 22.85 FTEs, which provide all the accounting, financial and administrative support, and investment performance services for the funds under management.

Operating funds needed to administer the SIB investment program include building rent, staff and board travel and education, and NDIT data processing.

Retirement Program (TFFR)

Funding for administration of the TFFR Pension Plan comes from member and employer contributions and investment earnings.

Salary and benefits represent funding for 11.15 FTEs responsible for administering the TFFR retirement program.

The operating funds required to administer the TFFR retirement program include NDIT data processing, IT contracts, building rent, staff and board travel and professional development.

VI. NEW POSITIONS APPROVED IN 2023-25 BIENNIUM BY THE 2023 LEGISLATIVE ASSEMBLY

Nine new positions were added by the 2023 Legislative Assembly:

1. Sr. Investment Accountant - Hired 7/18/23 - \$219,735 (out of \$219,735 in SPA) transferred from OMB pool, anticipate using entire amount +
2. Fiscal & Investment Admin Assistant - Hired 9/5/23 - \$154,886 (\$154,886 in SPA) transferred from OMB pool, anticipate using entire amount +
3. Portfolio Manager: Internal Equities - Hired 8/1/24 - \$219,581 (\$238,639 in SPA) transferred from OMB pool, anticipate using entire amount +
4. Sr. Investment Analyst: Internal Equities - Hired 8/1/24 - \$191,175 (\$208,554 in SPA) transferred from OMB pool, anticipate using entire amount +
5. Portfolio Manager: Internal Fixed Income - Hired 9/3/24 - \$222,508 (\$238,639 in SPA) transferred from OMB pool, anticipate using entire amount +
6. Investment Accountant - Hired 9/16/24 - \$101,250 (\$125,562 in SPA) transferred from OMB pool, anticipate using exact amount
7. Analyst: Internal Fixed Income – Accepted Offer. Planned start date is 2/3/25 - \$0 (\$139,560 in SPA) transferred from OMB pool, anticipate using \$68,048.
8. Analyst: Internal Equities - Anticipate hiring Q1 '25 - \$0 (\$139,559 in SPA) transferred from OMB pool, anticipate using \$56,520.
9. *Investment Administrative Assistant - Anticipate hiring Q1 '25 - \$0 (\$82,813 in SPA) transferred from OMB pool, anticipate using 13,802.*

VII. EMPLOYEE TURNOVER AND NUMBER OF VACANT POSITIONS DURING THE 2023-25 BIENNIUM

Prior to November '24, only vacancies were caused by internal promotions:

1. Sr. Analyst Private Markets was vacant as of 8/1/24 as incumbent was hired into new Portfolio Manager role. Position was advertised for and ultimately hired for in December '24. Total "savings" was \$67,027.32 (\$16,756.83 x 4 months)
2. Investment Analyst was vacant as of 8/1/24 as incumbent was hired into new Sr. Analyst Internal Equities role. Position was advertised for and ultimately hired for in January '25. Total "savings" was \$58,594.55 (\$11,718.91 x 5 months)
3. Analyst: Internal Fixed Income - Currently Interviewing - no savings realized as no funding will be transferred from the OMB pool until start date.
4. Analyst: Internal Equities - Anticipate hiring Q1 '25 - no savings realized as no funding will be transferred from the OMB pool until start date.
5. Investment Administrative Assistant - Anticipate hiring Q1 '25 – no savings realized as no funding will be transferred from the OMB pool until start date.
6. Executive Director vacant as of 1/3/25 – Interim Executive Director was hired 1/13/25. No savings will be realized.

7. CFO/COO vacant as of 1/3/25 - no savings realized to date.

VIII. PROGRAM FUNDING LINE ITEMS

	Base Level	Adjustment	Appropriation
Salaries & Wages	\$8,552,467	\$3,539,528	\$12,091,995
New & Vacant FTE Pool	\$0	\$470,466	\$470,466
Operating Expenses	\$2,731,037	\$1,029,096	\$3,760,133
Contingencies	\$200,000	\$0	\$200,000
Total Special Funds	\$11,483,504	\$5,039,090	\$16,522,594
Full Time Equivalent Positions	34	1	35

Salaries & Wages

	Base Level	Adjustment	Appropriation
Current Base	\$8,552,467	--	\$8,552,467
2nd Half of New Investment Positions	--	\$1,236,914	\$1,236,914
Interns	--	\$24,000	\$24,000
Transfer Funds between lines		\$70,450	\$70,450
Salary Funding – Cost to Continue		\$118,302	\$118,302
Vacant FTE Pool from 23-25 biennium		\$1,786,076	\$1,786,076
Vacant FTE Pool for 25-27 biennium		(\$605,458)	(\$605,458)
Funding for Salary & Benefit Increases		\$676,016	\$676,016
Internal Auditor		\$233,228	\$233,228
TOTAL	\$8,552,467	\$3,539,528	\$12,091,995

2nd Half of New Investment Positions

During the 2023 Legislative Session, RIO received approval to move forward with its internal investment initiative. The proposal required five investment professionals, one operations professional, and one administrative staff.

Generally, investment management costs fall within the scope of continuing appropriation authority granted by the legislature in NDCC 21-10-06.2; however, because this proposal involves cost savings achieved by internalizing investment operations through additional permanent FTE's and infrastructure it falls within the scope of NDCC 54-52.5-03.

Due to the complexity of this plan RIO only asked for a salary budget for one year of the 2023-2025 biennium for these additional staff as we understood it would take significant time to develop the plan and stand up all the necessary processes and procedures to effectively implement.

Although one year's worth of salaries and benefits for these positions are included in our base budget, to continue the plan into the 2025-2027 biennium, appropriation for the salaries and wages for the second year is required.

Interims

This request is for an additional \$24,000 in appropriation to allow for up to three additional interns (5 total) during the 2025-2027 biennium.

Dedicated resources are needed to continue to offer internship opportunities across the agency. Reduced funding for the internship program would negatively impact the program and reduce the opportunities available for college students to experience work within state government.

Internal Auditor

As part of the internal investment initiative discussion, it was communicated that the internalizing of assets would increase the burden on RIO's internal audit division. As such, we are requesting an additional internal audit position to assist with the compliance needs brought on by this additional activity. In 1993, the internal audit division was established, and an additional auditor was added in 1995; thus, for the past 30 years, there have been just two internal audit staff members as the agency has grown and become more complex. Based on the review of a third-party consultant, the SIB Audit Division is in need of an additional auditor to meet the capacity.

New & Vacant FTE Pool

Currently, the vacancies are:

1. Analyst: Internal Equities - Anticipate hiring Q1 '25 - no savings realized as no funding will be transferred from the OMB pool until start date.
2. Investment Administrative Assistant - Anticipate hiring Q1 '25 – no savings realized as no funding will be transferred from the OMB pool until start date.
3. Executive Director vacant as of 1/3/25 – Interim Executive Director was hired 1/13/25. No savings will be realized.
4. CFO/COO vacant as of 1/3/25 - no savings realized to date.

Operating Expenses

	Base Level	Adjustment	Appropriation
Operating Expenses	\$989,360		
Information & Technology Hosting & Support	\$1,741,677	\$1,201,268	\$1,201,268
Additional Communications Operating Expenses	\$0	\$18,000	\$18,000
Additional Internal Auditor Operating Expenses	\$0	\$16,500	\$16,500
Investment Conference Continuation		\$20,000	\$20,000
TOTAL			\$1,255,768

Information & Technology Hosting & Support

As a unified agency, RIO is reliant on significant support from NDIT professionals. Currently, we are utilizing two dedicated NDIT staff to assist in all needed technology

processes for the agency. This need will continue into the 2025-2027 biennium as the new pension system will continue its roll out along with significant increases in technology demands from our investment program as it continues its internal investment roll out. Along with other NDIT rate increases, we have been notified this application support agreement rate will be increased significantly as well.

During the 2023-25 biennium, RIO is in the final stages of implementing a new pension administration system for the Teachers' Fund For Retirement (TFFR). Knowing that the system would not go live until the second year of the biennium, only one year of hosting fees was requested during the 2023 legislative session. This approved amount is included in our base budget and will carry over to 2025-2027 however, we are asking for the second year's hosting costs in order to run the new system for the entire biennium.

Additionally, funding is being requested to acquire a consultant to review and determine what additional software would be available for the fiscal team. The fiscal team has not acquired any new software in many years and is still operating with Dynamics GP for our financials, which we have been notified is on an end-of-life track and will no longer be supported or updated by September of 2029.

Additional Communications Operating Expenses

Additionally, as the significance and visibility of the Legacy Fund and other areas of the agency continue to grow, RIO's strategic plan includes an increase and improvement in communication to all stakeholders. This plan includes support of our current communications and outreach director in their endeavor to efficiently and effectively communicate RIO activity through all appropriate channels.

Investment Conference Continuation

Additionally, RIO is requesting funding to support the continuation of the investment symposium through the 2025-2027 biennium as well as the funding needed to effectively survey TFFR stakeholders.

Contingencies

	Base Level	Adjustment	Appropriation
Contingency	\$200,000	\$0	\$200,000
TOTAL			\$200,000

Finally, we are also requesting contingency dollars be added to our budget in the event RIO would be required to conduct one or more executive searches during the biennium. During previous biennia, the agency has lost its top two managers in both the retirement and investment programs within a short time period. While turnover of these positions is not planned in the short term, prudence requires preparing for what has not been an unusual need.

IX. IDENTIFY AND JUSTIFY NEED FOR ANY ONE-TIME FUNDING REQUESTED

Only one-time funding being requested is \$250,000 for a Fiscal IT Solution consultant. Fiscal is currently using a version of GP Dynamics that is scheduled to be decommissioned by 2030. This request is to procure a consultant to analyze the agencies

current needs and help determine the best process forward for replacing the current system.

X. AGENCY FEES CHARGED

RIO charges their client funds for administrative costs for their investments. Administrative fees are based on actual expenses of the agency.

XI. FEDERAL STATE FISCAL RECOVERY FUNDING

RIO was not appropriated any federal state fiscal recovery funds during the November 2021 special legislative session.

XII. ANY OTHER BILLS BEING CONSIDERED AND POTENTIAL IMPACT ON OUR BUDGET

RIO reviews all submitted bills to monitor for potential impact on the agency. We have identified several bills that may impact our agency and/or budget including, but not limited to (see attached for complete current list of tracked bills):

- HB 1026 – Changing Administration of Bonding Fund
- HB 1027 – Changing Administration of Bonding Fund
- HB 1117 – Eligibility for normal retirement benefits
- HB 1176 – Legacy earnings fund and property tax relief
- HB 1183 – Gold and Silver Investments
- HB 1330 – Relating to the divestment of legacy fund investments in China
- HB 1319 – Relating to a legacy fund disclosure website
- SB 2072 – Contracts Limiting liability to the state
- SB 2097 – Rural Community endowment fund
- SB 2134 – Relating to the composition of the TFFR Board of Trustees
- HCR 3001 – SIB and STO to invest state funds in digital assets and precious metals

Potential fiscal impacts of these bills vary. Some minor changes may require small amounts of monitoring and compliance and require just a few thousand dollars of temporary salaries. While others may have a more pronounced effect. We will continue to monitor these and numerous other bills to determine if any additional budget action would be necessary.

XIII. REQUESTED CHANGES TO HOUSE ACTION

In October 2024, the Teacher Retention and Recruitment Task Force provided recommendations through a final report to the Governor and the Superintendent of Public Instruction to address the educator retention crisis in the state. The recommendations included pathways to:

1. Increasing recruitment to the teaching profession.

2. Improving teacher preparation programs across the state.
3. Reviewing and evaluating current pathways to licensure and a review of new opportunities around teacher licensure.
4. Reevaluate teacher compensation and contracts.
5. Enhancing working conditions and supports to improve retention in the teaching profession.
6. Identifying best practices from other jurisdictions and potential impact to long-term positive outcomes related to teacher recruitment and retention.

The Task Force identified partners to sponsor legislation based on the report's recommendations during the 69th Legislative Assembly and conduct stakeholder meetings and roundtable discussions across the state to gather feedback from pertinent stakeholder groups.

The Task Force recommends related state agencies partner with the North Dakota Department of Public Instruction, the Bank of North Dakota, the TFFR, the North Dakota Teacher Support System and other appropriate organizations to offer comprehensive financial planning resources and training. These resources should include information on the salary matrix framework, differences in health insurance plans, contract benefits, 457 deferred plans, TFFR plans and other related benefits. The Task Force unanimously approved this recommendation for strengthening training for teachers regarding total benefits and compensation packages available to them. This support enables new educators to understand and manage the benefits associated with the transition into the profession. This information also builds capacity for long-term career training for educators with the potential for improving educator retention. Financial literacy is shown to decrease financial strain and improve long-term financial planning and decision-making, which is particularly impactful for educators.

The House Appropriations removed \$35,000 from the RIO appropriations designated to the above recommendation that was also approved as an expenditure from by the TFFR board (special funded). RIO is requesting these funds placed back in the agency's budget.

1 HB 1022 - Retirement and Investment Office Budget Bill

2 Testimony in Support

3 Chair Dever and members of the Senate Appropriations - Human Resources Division
4 Committee. My name is Dr. Robert Lech and I serve as the Superintendent of the Jamestown
5 School District, the President of the Teachers' Fund for Retirement, and the Vice-Chair of the
6 North Dakota State Investment Board. Additionally, I was appointed by Governor Burgum
7 as the superintendent representative for the Teacher Recruitment and Retention Task Force.
8 I am providing written testimony today in support of HB 1022, which is the budget bill for
9 the North Dakota Retirement and Investment Office.

10 My testimony supports the existing draft of the HB 1022. I also believe the \$35,000 removed
11 for retirement education in the House amendments must be returned to HB 1022. It is
12 critical to recognize that the \$35,000 is special funds and not an additional general fund
13 appropriation. Essentially, HB 1022 is requesting to utilize its own funds, consisting of
14 member contributions and investment income, to provide this retirement education to these
15 same members.

16 The Teachers' Fund for Retirement (TFFR) board has identified retiree education, as a key
17 strategic initiative that will improve understanding of the value of the TFFR plan, the
18 importance of considering total compensation as opposed to a simple salary comparison,
19 and appropriate retirement planning for these critical public servants. These ideas also align
20 with many of the recommendations from the Teacher Retention and Recruitment Task Force.

21 An improved understanding of total compensation is a simple, but effective, retention and
22 recruitment strategy. Educators often view their salary as their primary compensation, likely
23 understating the substantial value of their pension benefits. This can influence career
24 decisions, commitment to the profession, satisfaction with the compensation structure and
25 how that total compensation compares with private and public peers.

26 The TFFR plan provides a foundational income in retirement, but it may not fully cover a
27 retiree's needs, especially when considering inflation, rising healthcare costs and needs, and

1 changes in lifestyle. The TFFR board believes that this very small commitment of pension
2 funds would be well invested by educating teachers on how to augment their monthly
3 annuity with savings, investments, and other financial planning strategies.

4 HB 1022 provides the overall structure necessary to successfully operate the Retirement and
5 Investment Office. It is imperative to the TFFR strategic goals that the \$35,000 in special
6 funds (i.e. pensioner's own funds) to provide retirement education be amended back into HB
7 10222 and given a Do Pass recommendation.

HB 1022
3-6-25



Retirement and Investment Office - Budget No. 190
Agency Worksheet - House Bill No. 1022

	Armstrong Executive Budget				House Version				House Compared to Executive Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	Increase (Decrease)			
									FTE Positions	General Fund	Other Funds	Total
2025-27 Biennium Base Level	34.00	\$0	\$11,483,504	\$11,483,504	34.00	\$0	\$11,483,504	\$11,483,504	0.00	\$0	\$0	\$0
2025-27 Ongoing Funding Changes												
Salary increase			\$471,836	\$471,836			\$471,836	\$471,836				\$0
Health insurance increase			204,180	204,180			204,180	204,180				0
Adds funding to replace the 2023-25 vacant FTE pool			238,129	238,129			238,129	238,129				0
Adds funding to replace the 2023-25 new FTE pool			1,547,947	1,547,947			1,547,947	1,547,947				0
2025-27 new and vacant pool - vacant				0			(111,669)	(111,669)			(\$111,669)	(111,669)
2025-27 new and vacant pool - new				0			(23,323)	(23,323)			(23,323)	(23,323)
Adds funding for FTE positions partially funded in 2023-25			1,236,914	1,236,914			1,236,914	1,236,914				0
Salary funding - Cost to continue				0			118,302	118,302			118,302	118,302
Internship funding				0			24,000	24,000			24,000	24,000
FTE internal auditor position				0	1.00		249,878	249,878	1.00		249,878	249,878
Transfers \$70,450 from operating to salaries - Base				0				0				0
IT rate increases			61,562	61,562			61,562	61,562				0
IT software hosting fees			751,334	751,334			751,334	751,334				0
Investment conference hosting expenses			20,000	20,000			20,000	20,000				0
Total ongoing funding changes	0.00	\$0	\$4,531,902	\$4,531,902	1.00	\$0	\$4,789,090	\$4,789,090	1.00	\$0	\$257,188	\$257,188
One-Time Funding Items												
Information technology consulting			\$250,000	\$250,000			\$250,000	\$250,000				\$0
Total one-time funding changes	0.00	\$0	\$250,000	\$250,000	0.00	\$0	\$250,000	\$250,000	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	\$0	\$4,781,902	\$4,781,902	1.00	\$0	\$5,039,090	\$5,039,090	1.00	\$0	\$257,188	\$257,188
2025-27 Total Funding	34.00	\$0	\$16,265,406	\$16,265,406	35.00	\$0	\$16,522,594	\$16,522,594	1.00	\$0	\$257,188	\$257,188
Federal funds included in other funds			\$0	\$0			\$0	\$0			\$0	\$0
Total ongoing changes - Percentage of base level	0.0%	N/A	39.5%	39.5%	2.9%	N/A	41.7%	41.7%	N/A	N/A	N/A	N/A
Total changes - Percentage of base level	0.0%	N/A	41.6%	41.6%	2.9%	N/A	43.9%	43.9%	N/A	N/A	N/A	N/A

Other Sections in Retirement and Investment Office - Budget No. 190

Section Description	Armstrong Executive Budget	House Version
New and vacant FTE pool line item		Section 3 provides for the use of funding in the new and vacant FTE pool line item.

2025 SENATE STANDING COMMITTEE MINUTES

Appropriations - Human Resources Division Harvest Room, State Capitol

HB 1022
3/14/2025

A Bill for an Act to provide an appropriation for defraying the expenses of the retirement and investment office.

8:23 a.m. Chairman Dever opened the hearing.

Members present: Chairman Dever and Senators Cleary, Davison, Magrum and Mathern.

Discussion Topics:

- Investment Staff Incentive Program

8:25 a.m. Senator Cleary led committee discussion on proposed amendments regarding the Incentive program for the Investment staff and answered committee questions.

8:32 a.m. Senator Cleary moved amendment LC 25.0166.02003 #41488.

8:32 a.m. Senator Mathern seconded the amendment.

Voice vote: Motion passed.

8:35 a.m. Senator Cleary moved amendment LC 25.0166.02002 #41588.

8:35 a.m. Senator Davison seconded the motion.

Voice vote: Motion passed.

8:45 a.m. Senator Davison moved an amendment to include three items: remove internal audit position, reduce information technology hosting fees down to \$600,000, and remove the one-time funding information technology consulting fees down to \$200,000.

8:45 a.m. Senator Magrum seconded the motion.

Voice vote: Motion passed.

8:47 a.m. Senator Cleary moved an amendment to include adding back into the budget \$25,000 for retirement education in special funds.

8:47 a.m. Senator Mathern seconded the motion.

Voice vote: Motion passed.

8:49 a.m. Senator Cleary moved Do Pass as Amended.

8:49 a.m. Senator Davison seconded the motion.

Senators	Vote
Senator Dick Dever	Y
Senator Sean Cleary	Y
Senator Kyle Davison	Y
Senator Jeffrey J. Magrum	Y
Senator Tim Mathern	Y

Motion passed. 5-0-0.

Senator Davison will carry the bill.

8:50 a.m. Chairman Dever closed the hearing.

Joan Bares, Committee Clerk

HB1022
3-14-25

25.0166.02003
Title.

Prepared by the Legislative Council
staff for Senator Cleary
March 11, 2025

Sixty-ninth
Legislative Assembly
of North Dakota

**PROPOSED AMENDMENTS TO
FIRST ENGROSSMENT**

ENGROSSED HOUSE BILL NO. 1022

Introduced by

Appropriations Committee

- 1 A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and
2 investment office; and to amend and reenact section 54-52.5-04 of the North Dakota Century
3 Code, relating to an incentive compensation plan for the state retirement and investment office.

4 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

- 5 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
6 as may be necessary, are appropriated from special funds, to the retirement and investment
7 office for the purpose of defraying the expenses of the retirement and investment office, for the
8 biennium beginning July 1, 2025, and ending June 30, 2027, as follows:

		Adjustments or	
	<u>Base Level</u>	<u>Enhancements</u>	<u>Appropriation</u>
11 Salaries and wages	\$8,552,467	\$3,539,528	\$12,091,995
12 New and vacant FTE pool	0	470,466	470,466
13 Operating expenses	2,731,037	1,029,096	3,760,133
14 Contingencies	<u>200,000</u>	<u>0</u>	<u>200,000</u>
15 Total special funds	\$11,483,504	\$5,039,090	\$16,522,594
16 Full-time equivalent positions	34.00	1.00	35.00

- 17 **SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO**
18 **SEVENTIETH LEGISLATIVE ASSEMBLY.** The following amounts reflect the one-time funding
19 items included in the appropriation in section 1 of this Act which are not included in the entity's

base budget for the 2027-29 biennium and which the entity shall report to the appropriations committees of the seventieth legislative assembly regarding the use of this funding:

<u>One-Time Funding Description</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Information technology consulting	\$0	\$250,000	\$250,000
Total	\$0	\$250,000	\$250,000

SECTION 3. NEW AND VACANT FTE POOL - LIMITATION - TRANSFER REQUEST. The retirement and investment office may not spend funds appropriated in the new and vacant FTE pool line item in section 1 of this Act, but may request the office of management and budget to transfer funds from the new and vacant FTE pool line item to the salaries and wages line item in accordance with the guidelines and reporting provisions included in House Bill No. 1015, as approved by the sixty-ninth legislative assembly.

SECTION 4. AMENDMENT. Section 54-52.5-04 of the North Dakota Century Code is amended and reenacted as follows:

54-52.5-04. Incentive compensation program - Report to legislative management.

1. The state retirement and investment office may develop an incentive compensation program for full-time equivalent investment ~~and fiscal operations~~ positions necessary for the management of the investment of funds under the control of the state investment board. The program must promote profitability, productivity, and responsible fund management.

2. The provisions of the program must be approved annually by the state investment board. The provisions must ensure that the payouts do not ~~occur~~.

a. Occur unless the risk-based performance of the investments that are internally managed exceed the risk-based performance of policy benchmarks.

b. Exceed seventy-five percent of the base annual pay for each eligible full-time equivalent position.

3. Any amounts paid under this program must be considered compensation and not personal profit on behalf of the employee.

4. Each interim, the state retirement and investment office shall provide at least one report to the legislative management regarding the status of the program, including the provisions of the program; the total amount of incentives paid out to employees each

1 year; and the minimum, maximum, and average payout per eligible full-time equivalent
2 position.
3 5. During each regular legislative session, the state retirement and investment office
4 shall provide a report to the appropriations committees regarding the status of the
5 program, including the provisions of the program; the total amount of incentives paid
6 out to employees each year; and the minimum, maximum, and average payout per
7 eligible full-time equivalent position.

25.0166.02002
Title.

Prepared by the Legislative Council
staff for Senator Cleary
March 6, 2025

Sixty-ninth
Legislative Assembly
of North Dakota

PROPOSED AMENDMENTS TO FIRST ENGROSSMENT

ENGROSSED HOUSE BILL NO. 1022

Introduced by

Appropriations Committee

1 A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and
2 investment office; and to provide a report.

3 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

4 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
5 as may be necessary, are appropriated from special funds, to the retirement and investment
6 office for the purpose of defraying the expenses of the retirement and investment office, for the
7 biennium beginning July 1, 2025, and ending June 30, 2027, as follows:

		Adjustments or	
	<u>Base Level</u>	<u>Enhancements</u>	<u>Appropriation</u>
10 Salaries and wages	\$8,552,467	\$3,539,528	\$12,091,995
11 New and vacant FTE pool	0	470,466	470,466
12 Operating expenses	2,731,037	1,029,096	3,760,133
13 Contingencies	<u>200,000</u>	<u>0</u>	<u>200,000</u>
14 Total special funds	\$11,483,504	\$5,039,090	\$16,522,594
15 Full-time equivalent positions	34.00	1.00	35.00

16 **SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO**

17 **SEVENTIETH LEGISLATIVE ASSEMBLY.** The following amounts reflect the one-time funding
18 items included in the appropriation in section 1 of this Act which are not included in the entity's
19 base budget for the 2027-29 biennium and which the entity shall report to the appropriations
20 committees of the seventieth legislative assembly regarding the use of this funding:

<u>One-Time Funding Description</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Information technology consulting	\$0	\$250,000	\$250,000
Total	\$0	\$250,000	\$250,000

SECTION 3. NEW AND VACANT FTE POOL - LIMITATION - TRANSFER REQUEST. The retirement and investment office may not spend funds appropriated in the new and vacant FTE pool line item in section 1 of this Act, but may request the office of management and budget to transfer funds from the new and vacant FTE pool line item to the salaries and wages line item in accordance with the guidelines and reporting provisions included in House Bill No. 1015, as approved by the sixty-ninth legislative assembly.

SECTION 4. INTERNAL INVESTMENT MANAGEMENT PLAN - REPORT. The retirement and investment office shall report to the appropriations committees of the seventieth legislative assembly regarding the agency's plan to internally manage fifty percent of the investments under the control of the state investment board. The report must include information on:

1. The impact to the agency's budget to implement the plan, including the number of full-time equivalent positions and funding for salaries and wages, operating expenses, and one-time items.
2. The estimated cost savings from the decrease in investment expenses associated with external investment manager fees.
3. The timeline to implement the plan.

2025 SENATE STANDING COMMITTEE MINUTES

Appropriations - Human Resources Division Harvest Room, State Capitol

HB 1022
3/27/2025

A Bill for an Act to provide an appropriation for defraying the expenses of the retirement and investment office.

8:32 a.m. Chairman Dever opened the hearing.

Members present: Chairman Dever and Senators Cleary, Davison, Magrum and Mathern.

Discussion Topics:

- Investment Staff Incentive Program
- Committee Action

8:32 a.m. Senator Mathern moved the committee reconsider its action by which it approved a Do Pass as Amended and submitted testimony #44280.

8:32 a.m. Senator Cleary seconded the motion.

Voice Vote: Motion passed.

8:33 a.m. Senator Mathern moved to remove all amendments LC# 25.0166.02005.

8:34 a.m. Senator Cleary seconded the motion.

Voice Vote: Motion passed.

8:40 a.m. Senator Cleary moved amendment to add back into the bill sections 4 & 5, and \$25,000.00 for retirement education initiative.

8:40 a.m. Senator Magrum seconded the motion.

Roll Call Vote:

Senators	Vote
Senator Dick Dever	N
Senator Sean Cleary	Y
Senator Kyle Davison	N
Senator Jeffery J. Magrum	Y
Senator Tim Mathern	N

Motion failed 2-3-0.

8:47 a.m. Senator Davison moved amendment to include section 5.

8:47 a.m. Senator Davison amended motion to include section 5 and 25,000 for retirement education initiative.

8:48 a.m. Senator Mathern seconded the motion.

Roll Call Vote:

	Vote
Senator Dick Dever	Y
Senator Sean Cleary	Y
Senator Kyle Davison	Y
Senator Jeffrey J. Magrum	N
Senator Tim Mathern	Y

Motion passed. 4-1-0.

8:52 a.m. Senator Mathern moved Do Pass as Amended.

8:52 a.m. Senator Davison seconded the motion.

Roll Call Vote:

	Vote
Senator Dick Dever	Y
Senator Sean Cleary	Y
Senator Kyle Davison	Y
Senator Jeffrey J. Magrum	N
Senator Tim Mathern	Y

Motion passed. 4-1-0.

Senator Davison will carry the bill.

8:54 a.m. Chairman Dever closed the hearing.

Joan Bares, Committee Clerk

HB1012
3-27-25

25.0166.02005
Title.
Fiscal No. 1

Prepared by the Legislative Council
staff for Senate Appropriations - Human
Resources Division Committee
March 14, 2025

Sixty-ninth
Legislative Assembly
of North Dakota

PROPOSED AMENDMENTS TO FIRST ENGROSSMENT

ENGROSSED HOUSE BILL NO. 1022

Introduced by

Appropriations Committee

- 1 A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and
2 investment office; to amend and reenact section 54-52.5-04 of the North Dakota Century Code.
3 relating to an incentive compensation plan for the state retirement and investment office; and to
4 provide a report.

5 BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

- 6 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
7 as may be necessary, are appropriated from special funds, to the retirement and investment
8 office for the purpose of defraying the expenses of the retirement and investment office, for the
9 biennium beginning July 1, 2025, and ending June 30, 2027, as follows:

	Adjustments or		
	Base Level	Enhancements	Appropriation
12 Salaries and wages	\$8,552,467	\$3,539,528	\$12,091,995
13 New and vacant FTE pool	0	470,466	470,466
14 Operating expenses	2,731,037	1,029,096	3,760,133
15 Contingencies	200,000	0	200,000
16 Total special funds	\$11,483,504	\$5,039,090	\$16,522,594
17 Full time equivalent positions	34.00	1.00	35.00
18 <u>Salaries and wages</u>	<u>\$8,552,467</u>	<u>\$3,539,528</u>	<u>\$12,091,995</u>
19 <u>New and vacant FTE pool</u>	<u>0</u>	<u>260,561</u>	<u>260,561</u>
20 <u>Operating expenses</u>	<u>2,731,037</u>	<u>836,112</u>	<u>3,567,149</u>

1	Contingencies	200,000	0	200,000
2	Total special funds	\$11,483,504	\$4,636,201	\$16,119,705
3	Full-time equivalent positions	34.00	0.00	34.00

4 **SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO**

5 **SEVENTIETH LEGISLATIVE ASSEMBLY.** The following amounts reflect the one-time funding
6 items included in the appropriation in section 1 of this Act which are not included in the entity's
7 base budget for the 2027-29 biennium and which the entity shall report to the appropriations
8 committees of the seventieth legislative assembly regarding the use of this funding:

9	<u>One-Time Funding Description</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
10	Information technology consulting	\$0	\$250,000	\$250,000
11	Total	\$0	\$250,000	\$250,000
12	Information technology consulting	\$0	\$200,000	\$200,000
13	Total	\$0	\$200,000	\$200,000

14 **SECTION 3. NEW AND VACANT FTE POOL - LIMITATION - TRANSFER REQUEST.** The
15 retirement and investment office may not spend funds appropriated in the new and vacant FTE
16 pool line item in section 1 of this Act, but may request the office of management and budget to
17 transfer funds from the new and vacant FTE pool line item to the salaries and wages line item in
18 accordance with the guidelines and reporting provisions included in House Bill No. 1015, as
19 approved by the sixty-ninth legislative assembly.

20 **SECTION 4. AMENDMENT.** Section 54-52.5-04 of the North Dakota Century Code is
21 amended and reenacted as follows:

22 **54-52.5-04. Incentive compensation program - Report to legislative management.**

23 1. The state retirement and investment office may develop an incentive compensation
24 program for full-time equivalent investment ~~and fiscal operations~~ positions necessary
25 for the management of the investment of funds under the control of the state
26 investment board. The program must promote profitability, productivity, and
27 responsible fund management.

28 2. The provisions of the program must be approved annually by the state investment
29 board. The provisions must ensure that the payouts do not ~~occur~~:

30 a. ~~Occur~~ unless the risk-based performance of the investments that are internally
31 managed exceed the risk-based performance of policy benchmarks.

b. Exceed seventy-five percent of the base annual pay for each eligible full-time equivalent position.

3. Any amounts paid under this program must be considered compensation and not personal profit on behalf of the employee.

4. Each interim, the state retirement and investment office shall provide at least one report to the legislative management regarding the status of the program, including the provisions of the program; the total amount of incentives paid out to employees each year; and the minimum, maximum, and average payout per eligible full-time equivalent position.

5. During each regular legislative session, the state retirement and investment office shall provide a report to the appropriations committees regarding the status of the program, including the provisions of the program; the total amount of incentives paid out to employees each year; and the minimum, maximum, and average payout per eligible full-time equivalent position.

SECTION 5. INTERNAL INVESTMENT MANAGEMENT PLAN - REPORT. The retirement and investment office shall report to the appropriations committees of the seventieth legislative assembly regarding the agency's plan to internally manage fifty percent of the investments under the control of the state investment board. The report must include information on:

1. The impact to the agency's budget to implement the plan, including the number of full-time equivalent positions and funding for salaries and wages, operating expenses, and one-time items.
2. The estimated cost-savings from the decrease in investment expenses associated with external investment manager fees.
3. The timeline to implement the plan.

STATEMENT OF PURPOSE OF AMENDMENT:**House Bill No. 1022 - Retirement and Investment Office - Senate Action**

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$8,552,467	\$12,091,995		\$12,091,995
New and vacant FTE pool		470,466	(\$209,905)	260,561
Operating expenses	2,731,037	3,760,133	(192,984)	3,567,149
Contingencies	200,000	200,000		200,000
Total all funds	\$11,483,504	\$16,522,594	(\$402,889)	\$16,119,705
Less estimated income	11,483,504	16,522,594	(402,889)	16,119,705
General fund	\$0	\$0	\$0	\$0
FTE	34.00	35.00	(1.00)	34.00

Department 190 - Retirement and Investment Office - Detail of Senate Changes

	Removes Internal Auditor FTE Position ¹	Adjusts Funding for Operating Expenses ²	Total Senate Changes
Salaries and wages			
New and vacant FTE pool	(\$209,905)		(\$209,905)
Operating expenses	(16,650)	(\$176,334)	(192,984)
Contingencies			
Total all funds	(\$226,555)	(\$176,334)	(\$402,889)
Less estimated income	(226,555)	(176,334)	(402,889)
General fund	\$0	\$0	\$0
FTE	(1.00)	0.00	(1.00)

¹ Funding of \$226,555 from special funds, which was added in the House version, is removed for 1 FTE internal auditor position, including \$209,905 from the new and vacant FTE pool line item and \$16,650 from the operating expenses line item.

² Funding for operating expenses is adjusted as follows:

- Decreased by \$151,334, from \$751,334 to \$600,000, for information technology software hosting fees. The House provided \$751,334.
- Increased by \$25,000 to provide funding for a retirement education initiative. The House did not include this funding.
- Decreased by \$50,000, from \$250,000 to \$200,000, for a one-time funding item related to information technology consulting.

The Senate also added two sections, which were not included in the House version, to:

- Amend the incentive compensation program to remove fiscal operations positions and to limit the incentives to 75 percent of an employee's regular base compensation.
- Provide for a report to the Appropriations Committees during the 2027 regular legislative session regarding an internal investment management plan.

2025 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Harvest Room, State Capitol

HB 1022
3/28/2025

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office.

10:41 a.m. Chairman Bekkedahl opened the hearing.

Members Present: Chairman Bekkedahl, Vice-Chairman Erbele, and Senators Burckhard, Cleary, Conley, Davison, Dever, Dwyer, Magrum, Mathern, Meyer, Schaible, Sickler, Sorvaag, Thomas, Wanzek.

Discussion Topics:

- Bonus Criteria
- Investment Benchmark Amount
- State Infrastructure Projects

10:41 a.m. Senator Davison introduced the bill and submitted testimony #44382.

10:49 a.m. Jodi Smith, Interim Director for Retirement and Investment Office, testified as neutral and referenced previous testimony #38931 from 3/6/25 at 8:30 a.m.

11:06 a.m. Chairman Bekkedahl introduced amendment LC 25.0166.02007 and submitted testimony #44385.

11:08 a.m. Senator Davison moved amendment LC 25.0166.02006 testimony #44382.

11:08 a.m. Senator Cleary seconded the motion.

11:09 a.m. Senator Davison withdrew the motion.

11:09 a.m. Senator Cleary withdrew the second.

11:09 a.m. Senator Davison moved amendment LC 25.0166.02007 testimony # 44385.

11:09 a.m. Senator Burckhard seconded the motion.

Senators	Vote
Senator Brad Bekkedahl	Y
Senator Robert Erbele	Y
Senator Randy A. Burckhard	Y
Senator Sean Cleary	Y
Senator Cole Conley	Y
Senator Kyle Davison	Y
Senator Dick Dever	Y

Senator Michael Dwyer	Y
Senator Jeffery J. Magrum	Y
Senator Tim Mathern	Y
Senator Scott Meyer	Y
Senator Donald Schaible	Y
Senator Jonathan Sickler	Y
Senator Ronald Sorvaag	Y
Senator Paul J. Thomas	Y
Senator Terry M. Wanzek	Y

Motion Passed 16-0-0.

11:10 a.m. Senator Davison moved a Do Pass as Amended.

11:10 a.m. Senator Dever seconded the motion.

Senators	Vote
Senator Brad Bekkedahl	Y
Senator Robert Erbele	Y
Senator Randy A. Burckhard	Y
Senator Sean Cleary	N
Senator Cole Conley	N
Senator Kyle Davison	Y
Senator Dick Dever	Y
Senator Michael Dwyer	Y
Senator Jeffery J. Magrum	Y
Senator Tim Mathern	Y
Senator Scott Meyer	Y
Senator Donald Schaible	Y
Senator Jonathan Sickler	Y
Senator Ronald Sorvaag	Y
Senator Paul J. Thomas	Y
Senator Terry M. Wanzek	Y

Motion Passed 14-2-0.

11:11 a.m. Kelvin Holt, Senior Vice President, Bank of ND, testified as neutral.

Senator Davison will carry the bill.

11:21 a.m. Chairman Bekkedahl adjourned the meeting.

Elizabeth Reiten, Committee Clerk

March 27, 2025

Sixty-ninth
Legislative Assembly
of North Dakota

**PROPOSED AMENDMENTS TO
FIRST ENGROSSMENT**

VC 3/27/25
1 of 3

ENGROSSED HOUSE BILL NO. 1022

Introduced by

Appropriations Committee

1 A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and
2 investment office; to amend and reenact subdivision a of subsection 3 of section 21-10-11 of the
3 North Dakota Century Code, relating to infrastructure loan investments under the legacy fund;
4 and to provide for a report.

5 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

6 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
7 as may be necessary, are appropriated from special funds, to the retirement and investment
8 office for the purpose of defraying the expenses of the retirement and investment office, for the
9 biennium beginning July 1, 2025, and ending June 30, 2027, as follows:

	Adjustments or		
	<u>Base Level</u>	<u>Enhancements</u>	<u>Appropriation</u>
12 Salaries and wages	\$8,552,467	\$3,539,528	\$12,091,995
13 New and vacant FTE pool	0	470,466	470,466
14 Operating expenses	2,731,037	1,029,096	3,760,133
15 <u>Operating expenses</u>	<u>2,731,037</u>	<u>1,054,096</u>	<u>3,785,133</u>
16 Contingencies	<u>200,000</u>	<u>0</u>	<u>200,000</u>
17 Total special funds	\$11,483,504	\$5,039,090	\$16,522,594
18 <u>Total special funds</u>	<u>\$11,483,504</u>	<u>\$5,064,090</u>	<u>\$16,547,594</u>
19 Full-time equivalent positions	34.00	1.00	35.00

SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO

SEVENTIETH LEGISLATIVE ASSEMBLY. The following amounts reflect the one-time funding items included in the appropriation in section 1 of this Act which are not included in the entity's base budget for the 2027-29 biennium and which the entity shall report to the appropriations committees of the seventieth legislative assembly regarding the use of this funding:

<u>One-Time Funding Description</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Information technology consulting	\$0	\$250,000	\$250,000
Total	\$0	\$250,000	\$250,000

SECTION 3. NEW AND VACANT FTE POOL - LIMITATION - TRANSFER REQUEST. The retirement and investment office may not spend funds appropriated in the new and vacant FTE pool line item in section 1 of this Act, but may request the office of management and budget to transfer funds from the new and vacant FTE pool line item to the salaries and wages line item in accordance with the guidelines and reporting provisions included in House Bill No. 1015, as approved by the sixty-ninth legislative assembly.

SECTION 4. AMENDMENT. Subdivision a of subsection 3 of section 21-10-11 of the North Dakota Century Code is amended and reenacted as follows:

- a. A target allocation of ~~seven hundred million~~ seven hundred fifty million dollars to fixed income investments within the state, including:
 - (1) Up to ~~one hundred fifty million~~ two hundred million dollars for infrastructure loans to political subdivisions under section 6-09-49.1. The net return to the legacy fund under this paragraph must be fixed at a target rate of one and one-half percent;
 - (2) A minimum of four hundred million dollars for the Bank of North Dakota's certificate of deposit match program with an interest rate fixed at the equivalent yield of United States treasury bonds having the same term, up to a maximum term of twenty years; and
 - (3) Other qualified fixed income investments within the state based on guidelines developed by the legacy and budget stabilization fund advisory board.

SECTION 5. INTERNAL INVESTMENT MANAGEMENT PLAN - REPORT. The retirement and investment office shall report to the appropriations committees of the seventieth legislative

- 1 assembly regarding the agency's plan to internally manage fifty percent of the investments
- 2 under the control of the state investment board. The report must include information on:
- 3 1. The impact to the agency's budget to implement the plan, including the number of
- 4 full-time equivalent positions and funding for salaries and wages, operating expenses,
- 5 and one-time items;
- 6 2. The estimated cost-savings from the decrease in investment expenses associated
- 7 with external investment manager fees; and
- 8 3. The timeline to implement the plan.

**REPORT OF STANDING COMMITTEE
ENGROSSED HB 1022**

Appropriations Committee (Sen. Bekkedahl, Chairman) recommends **AMENDMENTS** ([25.0166.02007](#)) and when so amended, recommends **DO PASS** (14 YEAS, 2 NAYS, 0 ABSENT OR EXCUSED AND NOT VOTING). HB 1022 was placed on the Sixth order on the calendar. This bill does not affect workforce development.

25.0166.02006
Title.
Fiscal No. 2

Prepared by the Legislative Council
staff for Senate Appropriations - Human
Resources Division Committee
March 27, 2025

Sixty-ninth
Legislative Assembly
of North Dakota

PROPOSED AMENDMENTS TO FIRST ENGROSSMENT

ENGROSSED HOUSE BILL NO. 1022

Introduced by

Appropriations Committee

- 1 A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and
2 investment office; and to provide for a report.

3 BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

- 4 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
5 as may be necessary, are appropriated from special funds, to the retirement and investment
6 office for the purpose of defraying the expenses of the retirement and investment office, for the
7 biennium beginning July 1, 2025, and ending June 30, 2027, as follows:

	Adjustments or		
	<u>Base Level</u>	<u>Enhancements</u>	<u>Appropriation</u>
10 Salaries and wages	\$8,552,467	\$3,539,528	\$12,091,995
11 New and vacant FTE pool	0	470,466	470,466
12 Operating expenses	2,731,037	1,029,096	3,760,133
13 <u>Operating expenses</u>	<u>2,731,037</u>	<u>1,054,096</u>	<u>3,785,133</u>
14 Contingencies	<u>200,000</u>	<u>0</u>	<u>200,000</u>
15 Total special funds	\$11,483,504	\$5,039,090	\$16,522,594
16 <u>Total special funds</u>	<u>\$11,483,504</u>	<u>\$5,064,090</u>	<u>\$16,547,594</u>
17 Full-time equivalent positions	34.00	1.00	35.00

- 18 **SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO**
19 **SEVENTIETH LEGISLATIVE ASSEMBLY.** The following amounts reflect the one-time funding
20 items included in the appropriation in section 1 of this Act which are not included in the entity's

- 1 base budget for the 2027-29 biennium and which the entity shall report to the appropriations
2 committees of the seventieth legislative assembly regarding the use of this funding:

3 <u>One-Time Funding Description</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
4 Information technology consulting	\$0	\$250,000	\$250,000
5 Total	\$0	\$250,000	\$250,000

- 6 **SECTION 3. NEW AND VACANT FTE POOL - LIMITATION - TRANSFER REQUEST.** The
7 retirement and investment office may not spend funds appropriated in the new and vacant FTE
8 pool line item in section 1 of this Act, but may request the office of management and budget to
9 transfer funds from the new and vacant FTE pool line item to the salaries and wages line item in
10 accordance with the guidelines and reporting provisions included in House Bill No. 1015, as
11 approved by the sixty-ninth legislative assembly.

- 12 **SECTION 4. INTERNAL INVESTMENT MANAGEMENT PLAN - REPORT.** The retirement
13 and investment office shall report to the appropriations committees of the seventieth legislative
14 assembly regarding the agency's plan to internally manage fifty percent of the investments
15 under the control of the state investment board. The report must include information on:
- 16 1. The impact to the agency's budget to implement the plan, including the number of full-
17 time equivalent positions and funding for salaries and wages, operating expenses, and
18 one-time items.
 - 19 2. The estimated cost-savings from the decrease in investment expenses associated
20 with external investment manager fees.
 - 21 3. The timeline to implement the plan.

STATEMENT OF PURPOSE OF AMENDMENT:**House Bill No. 1022 - Retirement and Investment Office - Senate Action**

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$8,552,467	\$12,091,995		\$12,091,995
New and vacant FTE pool		470,466		470,466
Operating expenses	2,731,037	3,760,133	\$25,000	3,785,133
Contingencies	200,000	200,000		200,000
Total all funds	\$11,483,504	\$16,522,594	\$25,000	\$16,547,594
Less estimated income	11,483,504	16,522,594	25,000	16,547,594
General fund	\$0	\$0	\$0	\$0
FTE	34.00	35.00	0.00	35.00

Department 190 - Retirement and Investment Office - Detail of Senate Changes

	Adds Funding for Retirement Education¹	Total Senate Changes
Salaries and wages		
New and vacant FTE pool		
Operating expenses	\$25,000	\$25,000
Contingencies		
Total all funds	\$25,000	\$25,000
Less estimated income	25,000	25,000
General fund	\$0	\$0
FTE	0.00	0.00

¹ Funding for operating expenses is increased by \$25,000 for a retirement education initiative. The House did not include this funding.

The Senate added a section to provide for a report to the Appropriations Committees during the 2027 regular legislative session regarding the agency's internal investment management plan.

25.0166.02007
Title.
Fiscal No. 3

Prepared by the Legislative Council
staff for Senator Bekkedahl

March 27, 2025

Sixty-ninth
Legislative Assembly
of North Dakota

PROPOSED AMENDMENTS TO FIRST ENGROSSMENT

ENGROSSED HOUSE BILL NO. 1022

Introduced by

Appropriations Committee

1 A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and
2 investment office; to amend and reenact subdivision a of subsection 3 of section 21-10-11 of the
3 North Dakota Century Code, relating to infrastructure loan investments under the legacy fund;
4 and to provide for a report.

5 BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

6 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
7 as may be necessary, are appropriated from special funds, to the retirement and investment
8 office for the purpose of defraying the expenses of the retirement and investment office, for the
9 biennium beginning July 1, 2025, and ending June 30, 2027, as follows:

		Adjustments or	
	<u>Base Level</u>	<u>Enhancements</u>	<u>Appropriation</u>
12 Salaries and wages	\$8,552,467	\$3,539,528	\$12,091,995
13 New and vacant FTE pool	0	470,466	470,466
14 Operating expenses	2,731,037	1,029,096	3,760,133
15 <u>Operating expenses</u>	<u>2,731,037</u>	<u>1,054,096</u>	<u>3,785,133</u>
16 Contingencies	<u>200,000</u>	<u>0</u>	<u>200,000</u>
17 Total special funds	\$11,483,504	\$5,039,090	\$16,522,594
18 <u>Total special funds</u>	<u>\$11,483,504</u>	<u>\$5,064,090</u>	<u>\$16,547,594</u>
19 Full-time equivalent positions	34.00	1.00	35.00

1 **SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO**

2 **SEVENTIETH LEGISLATIVE ASSEMBLY.** The following amounts reflect the one-time funding
3 items included in the appropriation in section 1 of this Act which are not included in the entity's
4 base budget for the 2027-29 biennium and which the entity shall report to the appropriations
5 committees of the seventieth legislative assembly regarding the use of this funding:

6 <u>One-Time Funding Description</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
7 Information technology consulting	\$0	\$250,000	\$250,000
8 Total	\$0	\$250,000	\$250,000

9 **SECTION 3. NEW AND VACANT FTE POOL - LIMITATION - TRANSFER REQUEST.** The
10 retirement and investment office may not spend funds appropriated in the new and vacant FTE
11 pool line item in section 1 of this Act, but may request the office of management and budget to
12 transfer funds from the new and vacant FTE pool line item to the salaries and wages line item in
13 accordance with the guidelines and reporting provisions included in House Bill No. 1015, as
14 approved by the sixty-ninth legislative assembly.

15 **SECTION 4. AMENDMENT.** Subdivision a of subsection 3 of section 21-10-11 of the North
16 Dakota Century Code is amended and reenacted as follows:

- 17 a. A target allocation of seven hundred ~~fifty~~ million dollars to fixed income
18 investments within the state, including:
- 19 (1) Up to ~~one hundred fifty~~ ~~two hundred~~ million dollars for infrastructure loans to
20 political subdivisions under section 6-09-49.1. The net return to the legacy
21 fund under this paragraph must be fixed at a target rate of one and one-half
22 percent;
- 23 (2) A minimum of four hundred million dollars for the Bank of North Dakota's
24 certificate of deposit match program with an interest rate fixed at the
25 equivalent yield of United States treasury bonds having the same term, up
26 to a maximum term of twenty years; and
- 27 (3) Other qualified fixed income investments within the state based on
28 guidelines developed by the legacy and budget stabilization fund advisory
29 board.

30 **SECTION 5. INTERNAL INVESTMENT MANAGEMENT PLAN - REPORT.** The retirement
31 and investment office shall report to the appropriations committees of the seventieth legislative

- 1 assembly regarding the agency's plan to internally manage fifty percent of the investments
- 2 under the control of the state investment board. The report must include information on:
- 3 1. The impact to the agency's budget to implement the plan, including the number of full-
- 4 time equivalent positions and funding for salaries and wages, operating expenses, and
- 5 one-time items.
- 6 2. The estimated cost-savings from the decrease in investment expenses associated
- 7 with external investment manager fees.
- 8 3. The timeline to implement the plan.

STATEMENT OF PURPOSE OF AMENDMENT:**House Bill No. 1022 - Retirement and Investment Office - Senate Action**

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$8,552,467	\$12,091,995		\$12,091,995
New and vacant FTE pool		470,466		470,466
Operating expenses	2,731,037	3,760,133	\$25,000	3,785,133
Contingencies	200,000	200,000		200,000
Total all funds	\$11,483,504	\$16,522,594	\$25,000	\$16,547,594
Less estimated income	11,483,504	16,522,594	25,000	16,547,594
General fund	\$0	\$0	\$0	\$0
FTE	34.00	35.00	0.00	35.00

Department 190 - Retirement and Investment Office - Detail of Senate Changes

	Adds Funding for Retirement Education ¹	Total Senate Changes
Salaries and wages		
New and vacant FTE pool		
Operating expenses	\$25,000	\$25,000
Contingencies		
Total all funds	\$25,000	\$25,000
Less estimated income	25,000	25,000
General fund	\$0	\$0
FTE	0.00	0.00

¹ Funding for operating expenses is increased by \$25,000 for a retirement education initiative. The House did not include this funding.

The Senate also added 2 sections to:

- Amend the legacy fund asset allocation plan to increase the investments in infrastructure loans to political subdivisions by \$50 million, from \$150 million to \$200 million.
- Provide for a report to the Appropriations Committees during the 2027 regular legislative session regarding the agency's internal investment management plan.

2025 CONFERENCE COMMITTEE

HB 1022

2025 HOUSE STANDING COMMITTEE MINUTES

Appropriations - Government Operations Division

Brynhild Haugland Room, State Capitol

HB 1022

4/21/2025

Conference Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and investment office.

10:59 a.m. Chairman Bosch called the meeting to order.

Members Present: Chairman Bosch, Representatives: Kempenich, Meier, Senators: Davison, Magrum, Dever.

Discussion Topics:

- Infrastructure Revolving Loan Fund
- Legacy Fund Earnings
- Internal Investments in RIO

11:01 a.m. Senator Davison reviewed the Senate changes LC# 25.0166.02007, testimony #45106.

11:13 a.m. Jodi Smith, Interim Executive Director, Retirement and Investment Office, answered questions for the committee.

11:16 a.m. Senator Davison moved verbal amendment to removed sections 4 and 5 in place of LC# 25.0166.02007, testimony #45106.

11:17 a.m. Representative Kempenich seconded the motion.

11:17 a.m. Roll Call on In Place Of - Motion Passed- Vote 6-0-0.

Representative Bosch will carry the bill.

Senator Davison will carry the bill.

Additional written testimony:

Adam Mathiak, Fiscal Analyst, Legislative Council, submitted neutral testimony #45108.

11:18 a.m. Chairman Bosch adjourned the meeting.

Madaline Cooper, Committee Clerk

April 21, 2025

Sixty-ninth
Legislative Assembly
of North Dakota

**PROPOSED AMENDMENTS TO
FIRST ENGROSSMENT**

VC 4/22/25
1 of 3

ENGROSSED HOUSE BILL NO. 1022

Introduced by

Appropriations Committee

*In place of amendment (25.0166.02007) adopted by the Senate, Engrossed House Bill
No. 1022 is amended by amendment (25.0166.02009) as follows:*

1 A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and
2 investment office.

3 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

4 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
5 as may be necessary, are appropriated from special funds, to the retirement and investment
6 office for the purpose of defraying the expenses of the retirement and investment office, for the
7 biennium beginning July 1, 2025, and ending June 30, 2027, as follows:

	Adjustments or		
	<u>Base Level</u>	<u>Enhancements</u>	<u>Appropriation</u>
10 Salaries and wages	\$8,552,467	\$3,539,528	\$12,091,995
11 New and vacant FTE pool	0	470,466	470,466
12 Operating expenses	2,731,037	1,029,096	3,760,133
13 <u>Operating expenses</u>	<u>2,731,037</u>	<u>1,054,096</u>	<u>3,785,133</u>
14 Contingencies	<u>200,000</u>	<u>0</u>	<u>200,000</u>
15 Total special funds	\$11,483,504	\$5,039,090	\$16,522,594
16 <u>Total special funds</u>	<u>\$11,483,504</u>	<u>\$5,064,090</u>	<u>\$16,547,594</u>
17 Full-time equivalent positions	34.00	1.00	35.00

18 **SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO**
19 **SEVENTIETH LEGISLATIVE ASSEMBLY.** The following amounts reflect the one-time funding

1 items included in the appropriation in section 1 of this Act which are not included in the entity's
2 base budget for the 2027-29 biennium and which the entity shall report to the appropriations
3 committees of the seventieth legislative assembly regarding the use of this funding:

4 <u>One-Time Funding Description</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
5 Information technology consulting	\$0	\$250,000	\$250,000
6 Total	\$0	\$250,000	\$250,000

7 **SECTION 3. NEW AND VACANT FTE POOL - LIMITATION - TRANSFER REQUEST.** The
8 retirement and investment office may not spend funds appropriated in the new and vacant FTE
9 pool line item in section 1 of this Act, but may request the office of management and budget to
10 transfer funds from the new and vacant FTE pool line item to the salaries and wages line item in
11 accordance with the guidelines and reporting provisions included in House Bill No. 1015, as
12 approved by the sixty-ninth legislative assembly.

3 of 3

STATEMENT OF PURPOSE OF AMENDMENT:**House Bill No. 1022 - Retirement and Investment Office - Conference Committee Action**

	Base Budget	House Version	Conference Committee Changes	Conference Committee Version	Senate Version	Comparison to Senate
Salaries and wages	\$8,552,467	\$12,091,995		\$12,091,995	\$12,091,995	
New and vacant FTE pool		470,466		470,466	470,466	
Operating expenses	2,731,037	3,760,133	\$25,000	3,785,133	3,785,133	
Contingencies	200,000	200,000		200,000	200,000	
Total all funds	\$11,483,504	\$16,522,594	\$25,000	\$16,547,594	\$16,547,594	\$0
Less estimated income	11,483,504	16,522,594	25,000	16,547,594	16,547,594	0
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	34.00	35.00	0.00	35.00	35.00	0.00

Department 190 - Retirement and Investment Office - Detail of Conference Committee Changes

	Adds Funding for Retirement Education ¹	Total Conference Committee Changes
Salaries and wages		
New and vacant FTE pool		
Operating expenses	\$25,000	\$25,000
Contingencies		
Total all funds	\$25,000	\$25,000
Less estimated income	25,000	25,000
General fund	\$0	\$0
FTE	0.00	0.00

¹ Funding for operating expenses is increased by \$25,000 for a retirement education initiative, the same as the Senate. The House did not include this funding.

This amendment does not include two sections which were added by the Senate to:

- Amend the legacy fund asset allocation plan to increase the investments in infrastructure loans to political subdivisions by \$50 million, from \$150 million to \$200 million.
- Provide for a report to the Appropriations Committees during the 2027 regular legislative session regarding the agency's internal investment management plan.

HB 1022 042125 1117 AM Roll Call Vote

Final Recommendation

HB 1022

Date Submitted: April 21, 2025, 11:17 a.m.

Recommendation: In Place Of

Amendment LC #: 25.0166.02009

Engrossed LC #: N/A

Description:

Motioned By: Davison, Kyle

Seconded By: Kempenich, Keith

House Carrier: Bosch, Glenn

Senate Carrier: Davison, Kyle

Emergency Clause: None

Vote Results: 6 - 0 - 0

Rep. Bosch, Glenn	Yea
Rep. Kempenich, Keith	Yea
Rep. Meier, Lisa	Yea
Sen. Davison, Kyle	Yea
Sen. Magrum, Jeffery J.	Yea
Sen. Dever, Dick	Yea

**REPORT OF CONFERENCE COMMITTEE
ENGROSSED HB 1022**

Your conference committee (Sens. Davison, Magrum, Dever and Reps. Bosch, Kempenich, Meier) recommends that in place of amendment [25.0166.02007](#) adopted by the Senate, Engrossed HB 1022 is amended by amendment [25.0166.02009](#).

Engrossed HB 1022 was placed on the Seventh order of business on the calendar.

25.0166.02007
Title.03000
Fiscal No. 3

Prepared by the Legislative Council
staff for Senator Bekkedahl

March 27, 2025

Sixty-ninth
Legislative Assembly
of North Dakota

PROPOSED AMENDMENTS TO FIRST ENGROSSMENT

ENGROSSED HOUSE BILL NO. 1022

Introduced by

Appropriations Committee

1 A BILL for an Act to provide an appropriation for defraying the expenses of the retirement and
2 investment office; to amend and reenact subdivision a of subsection 3 of section 21-10-11 of the
3 North Dakota Century Code, relating to infrastructure loan investments under the legacy fund;
4 and to provide for a report.

5 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

6 **SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds
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8 office for the purpose of defraying the expenses of the retirement and investment office, for the
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	Adjustments or		
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Salaries and wages	\$8,552,467	\$3,539,528	\$12,091,995
New and vacant FTE pool	0	470,466	470,466
Operating expenses	2,731,037	1,029,096	3,760,133
<u>Operating expenses</u>	<u>2,731,037</u>	<u>1,054,096</u>	<u>3,785,133</u>
Contingencies	<u>200,000</u>	<u>0</u>	<u>200,000</u>
Total special funds	\$11,483,504	\$5,039,090	\$16,522,594
<u>Total special funds</u>	<u>\$11,483,504</u>	<u>\$5,064,090</u>	<u>\$16,547,594</u>
Full-time equivalent positions	34.00	1.00	35.00

1 **SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO**

2 **SEVENTIETH LEGISLATIVE ASSEMBLY.** The following amounts reflect the one-time funding
3 items included in the appropriation in section 1 of this Act which are not included in the entity's
4 base budget for the 2027-29 biennium and which the entity shall report to the appropriations
5 committees of the seventieth legislative assembly regarding the use of this funding:

6 <u>One-Time Funding Description</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
7 Information technology consulting	\$0	\$250,000	\$250,000
8 Total	\$0	\$250,000	\$250,000

9 **SECTION 3. NEW AND VACANT FTE POOL - LIMITATION - TRANSFER REQUEST.** The
10 retirement and investment office may not spend funds appropriated in the new and vacant FTE
11 pool line item in section 1 of this Act, but may request the office of management and budget to
12 transfer funds from the new and vacant FTE pool line item to the salaries and wages line item in
13 accordance with the guidelines and reporting provisions included in House Bill No. 1015, as
14 approved by the sixty-ninth legislative assembly.

15 **SECTION 4. AMENDMENT.** Subdivision a of subsection 3 of section 21-10-11 of the North
16 Dakota Century Code is amended and reenacted as follows:

- 17 a. A target allocation of ~~seven hundred million~~ seven hundred fifty million dollars to
18 fixed income investments within the state, including:
- 19 (1) Up to ~~one hundred fifty million~~ two hundred million dollars for infrastructure
20 loans to political subdivisions under section 6-09-49.1. The net return to the
21 legacy fund under this paragraph must be fixed at a target rate of one and
22 one-half percent;
- 23 (2) A minimum of four hundred million dollars for the Bank of North Dakota's
24 certificate of deposit match program with an interest rate fixed at the
25 equivalent yield of United States treasury bonds having the same term, up
26 to a maximum term of twenty years; and
- 27 (3) Other qualified fixed income investments within the state based on
28 guidelines developed by the legacy and budget stabilization fund advisory
29 board.

30 **SECTION 5. INTERNAL INVESTMENT MANAGEMENT PLAN - REPORT.** The retirement
31 and investment office shall report to the appropriations committees of the seventieth legislative

- 1 assembly regarding the agency's plan to internally manage fifty percent of the investments
- 2 under the control of the state investment board. The report must include information on:
- 3 1. The impact to the agency's budget to implement the plan, including the number of
- 4 full-time equivalent positions and funding for salaries and wages, operating expenses,
- 5 and one-time items;
- 6 2. The estimated cost-savings from the decrease in investment expenses associated
- 7 with external investment manager fees; and
- 8 3. The timeline to implement the plan.

STATEMENT OF PURPOSE OF AMENDMENT:**House Bill No. 1022 - Retirement and Investment Office - Senate Action**

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$8,552,467	\$12,091,995		\$12,091,995
New and vacant FTE pool		470,466		470,466
Operating expenses	2,731,037	3,760,133	\$25,000	3,785,133
Contingencies	200,000	200,000		200,000
Total all funds	\$11,483,504	\$16,522,594	\$25,000	\$16,547,594
Less estimated income	11,483,504	16,522,594	25,000	16,547,594
General fund	\$0	\$0	\$0	\$0
FTE	34.00	35.00	0.00	35.00

Department 190 - Retirement and Investment Office - Detail of Senate Changes

	Adds Funding for Retirement Education ¹	Total Senate Changes
Salaries and wages		
New and vacant FTE pool		
Operating expenses	\$25,000	\$25,000
Contingencies		
Total all funds	\$25,000	\$25,000
Less estimated income	25,000	25,000
General fund	\$0	\$0
FTE	0.00	0.00

¹ Funding for operating expenses is increased by \$25,000 for a retirement education initiative. The House did not include this funding.

The Senate also added 2 sections to:

- Amend the legacy fund asset allocation plan to increase the investments in infrastructure loans to political subdivisions by \$50 million, from \$150 million to \$200 million.
- Provide for a report to the Appropriations Committees during the 2027 regular legislative session regarding the agency's internal investment management plan.



Retirement and Investment Office - Budget No. 190
Agency Worksheet - House Bill No. 1022

	House Version				Senate Version				Senate Compared to House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	Increase (Decrease)			
									FTE Positions	General Fund	Other Funds	Total
2025-27 Biennium Base Level	34.00	\$0	\$11,483,504	\$11,483,504	34.00	\$0	\$11,483,504	\$11,483,504	0.00	\$0	\$0	\$0
2025-27 Ongoing Funding Changes												
Salary increase			\$471,836	\$471,836			\$471,836	\$471,836				\$0
Health insurance increase			204,180	204,180			204,180	204,180				0
Adds funding to replace the 2023-25 vacant FTE pool			238,129	238,129			238,129	238,129				0
Adds funding to replace the 2023-25 new FTE pool			1,547,947	1,547,947			1,547,947	1,547,947				0
2025-27 new and vacant pool - vacant			(111,669)	(111,669)			(111,669)	(111,669)				0
2025-27 new and vacant pool - new			(23,323)	(23,323)			(23,323)	(23,323)				0
Adds funding for FTE positions partially funded in 2023-25			1,236,914	1,236,914			1,236,914	1,236,914				0
Salary funding - Cost to continue			118,302	118,302			118,302	118,302				0
Internship funding			24,000	24,000			24,000	24,000				0
FTE internal auditor position	1.00		249,878	249,878	1.00		249,878	249,878				0
Transfers \$70,450 from operating to salaries - Base			0	0			0	0				0
IT rate increases			61,562	61,562			61,562	61,562				0
IT software hosting fees			751,334	751,334			751,334	751,334				0
Investment conference hosting expenses			20,000	20,000			20,000	20,000				0
Retirement education initiative			0	0			25,000	25,000			\$25,000	25,000
Total ongoing funding changes	1.00	\$0	\$4,789,090	\$4,789,090	1.00	\$0	\$4,814,090	\$4,814,090	0.00	\$0	\$25,000	\$25,000
One-Time Funding Items												
Information technology consulting			\$250,000	\$250,000			\$250,000	\$250,000				\$0
Total one-time funding changes	0.00	\$0	\$250,000	\$250,000	0.00	\$0	\$250,000	\$250,000	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	1.00	\$0	\$5,039,090	\$5,039,090	1.00	\$0	\$5,064,090	\$5,064,090	0.00	\$0	\$25,000	\$25,000
2025-27 Total Funding	35.00	\$0	\$16,522,594	\$16,522,594	35.00	\$0	\$16,547,594	\$16,547,594	0.00	\$0	\$25,000	\$25,000
<i>Federal funds included in other funds</i>			\$0				\$0				\$0	
<i>Total ongoing changes - Percentage of base level</i>	2.9%	N/A	41.7%	41.7%	2.9%	N/A	41.9%	41.9%	N/A	N/A	N/A	N/A
<i>Total changes - Percentage of base level</i>	2.9%	N/A	43.9%	43.9%	2.9%	N/A	44.1%	44.1%	N/A	N/A	N/A	N/A

Other Sections in Retirement and Investment Office - Budget No. 190

Section Description	House Version	Senate Version
New and vacant FTE pool line item	Section 3 provides for the use of funding in the new and vacant FTE pool line item.	Section 3 provides for the use of funding in the new and vacant FTE pool line item.
Infrastructure loans to political subdivisions		Section 4 amends the legacy fund asset allocation plan to increase the investments in infrastructure loans to political subdivisions by \$50 million, from \$150 million to \$200 million.
Internal investment management plan report		Section 5 provides for a report to the Appropriations Committees during the 2027 regular legislative session regarding an internal investment management plan.