North Dakota Legacy Fund

Discussion Guide

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RVKuhns

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Discussion Outline

- Fund Revenue
- Asset Allocation
- Spending
- Governance and Decision Making
- Project Support

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Fund Revenue

- **Article X, Section 26 of the North Dakota Constitution provides that "Thirty percent of total revenue derived from taxes on oil and gas production or extraction must be transferred by the state treasurer to a special fund in the state treasury known as the legacy fund. The legislative assembly may transfer funds from any source into the legacy fund and such transfers become part of the principal of the legacy fund."**
  - Are there pre-existing revenue forecasts that we can review?
  - Is there a group responsible for revenue forecasts?
  - Are there any external variables we should consider in our analysis?
  - Are there other mineral spot prices beyond oil and gas that are important to the State's economy to the degree that they should be considered in our analysis?
  - Does the State currently engage in any spot price hedging activity?
  - What are potential "other" sources that the legislative assembly may transfer to the Legacy Fund?

Asset Allocation

- **Fund Mission (from the Legacy Fund Investment Policy): "The Legacy Fund was created, in part, due to the recognition that state revenue from the oil and gas industry will be derived over a finite timeframe. The Legacy Fund defers the recognition of 30 percent of this revenue for the benefit of future generations. The primary mission of the Legacy fund is to preserve the real, inflation-adjusted purchasing power of the monies deposited into the fund."**
- **North Dakota Century Code Section 21-10-11 provides that "The goal of investment for the legacy fund is principal preservation while maximizing total return."**
  - Does the Advisory Board have a general view as to how we should think about these two mission/goal statements?
  - Does the Advisory Board have a general view as to acceptable rates of return, liquidity and levels of risk?
  - Are there any concerns regarding asset allocation modeling tools and process?
  - Are there any biases for or against specific asset classes?

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Spending

- **Article X, Section 26 of the North Dakota Constitution provides that:**
  - **"The principal and earnings of the legacy fund may not be expended until after June 30, 2017, and an expenditure of principal after that date requires a vote of at least two-thirds of the members elected to each house of the legislative assembly. Not more than fifteen percent of the principal of the legacy fund may be expended during a biennium."**
  - **"Statutory programs, in existence as a result of legislation enacted through 2009, providing for impact grants, direct revenue allocations to political subdivisions, and deposits in the oil and gas research fund must remain in effect but the legislative assembly may adjust statutory allocations for those purposes."**
  - **"The state treasurer shall transfer earnings of the North Dakota legacy fund accruing after June 30, 2017, to the state general fund at the end of each biennium."**

Spending

- What is the definition of "earnings?"
  - Interest and dividend income?
  - Net realized gains?
  - Unrealized gains/losses?
- Are earnings reinvested between realization and the end of the biennium?
- How is the "principal" amount determined for purposes of the 15% per biennium spending limit?
- Are there existing statutory programs that will be funded by the legacy fund? Can we get detail on projected funding requirements?
- Does the Advisory Board have a general view regarding spending policies and practices?
- What role should we play to support decision making regarding spending policies and practices?
- What level of sensitivity will the state general fund have to the level of earnings received each biennium from the legacy fund?
- What is the expected time frame for spending decisions to be made?

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Governance and Decision Making

- **North Dakota Century Code Section 21-10-11 provides that "the legacy and budget stabilization advisory board is created to develop recommendations for the investment of funds in the legacy fund and the budget stabilization fund to present to the state investment board."**
  - What will the investment decision making process look like with regards to the asset allocation and spending policy study?
  - Are there other stakeholders, such as legislative committees, to which we may be asked to present findings and/or education?

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Project Support

- How can we best support the advisory board, state investment board, state treasurer's office, retirement and investment office, legislative committees, and other stakeholders throughout this process?
- What factors will define a successful project?
- Guidance or specific requests regarding interim and final deliverables?
- What have we not asked that is important?