

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2022

2007 SENATE APPROPRIATIONS

SB 2022

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2022

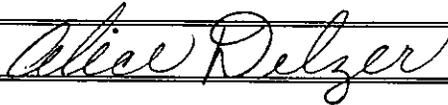
Senate Appropriations Committee

.Check here for Conference Committee

Hearing Date: 01-22-07

Recorder Job Number: 1509

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on SB 2022 on January 22, 2007 regarding the North Dakota Public Employees Retirement System (PERS) and North Dakota retirement and Investment Office (RIO).

Sparb Collins, Executive Director of PERS presented written testimony (1) and gave oral testimony of an overview of the agency and the budget request. Listed in the testimony are the names of the current board members. Concerning the program responsibilities they are divided into two major areas, retirement and group insurance. We administer approximately 9 different retirement plans (Attachment #1) Attachment #2 is two maps showing the location of the retired members of the PERS retirement plan and the amount of benefits we paid out last year to those members. Attachment #3 is information on the group insurance programs administered by PERS. Attachment #4 is two maps showing the members of the PERS health plan where the money is spent. Attachment #5 is some statistical data in graph form about our agency. Concerning the budget, it can be broken down into three parts for purposes of discussion: The Base Budget, The Business System Replacement Project and the Equity Adjustments. Our current Business System is very outdated and needs radical changes to bring it up to the standards needed for today's technology and the work load in our office. The budget we put before you today includes the system replacement costs, funding for 4

additional FTE's, and the related operating expenses for the project team. The additional staffing is to help backfill existing positions as existing staff are taken off day to day activities and assigned to the Business System Replacement Project. In addition this staffing is necessary to help maintain existing service levels.

Senator Wardner questioned if this project had to go before SITACK.

Chairman Holmberg informed committee members that this is in the budget.

Steve Cochrane, Executive Director of RIO and Investment Director to the State

Investment Board (SIB) presented written testimony (2) and gave oral testimony stating he supports the bill. He explained that RIO was created to capture administrative and investment cost savings in the management of two long-standing state programs, the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the SIB. The RIO budget is in all special funds.

Senator Robinson requested information regarding the challenges arising because of changes in the TFFR program.

Chairman Holmberg made comments concerning the market fluctuation and the impact this has on the TFFR fund.

Senator Grindberg asked Mr. Cochrane to provide the information concerning what percent investments by the State Investment Board are in equities and capital investments. Mr. Cochrane shared about a private investment fund out of Fargo working with the Bank of North Dakota and the Math Loan Program.

Chairman Holmberg requested written information regarding this private investment fund.

Senator Krebsbach requested information regarding the PERS fund and the TFFR fund.

Chairman Holmberg asked for more discussion or testimony. There was none, hearing was closed on SB 2022.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2022

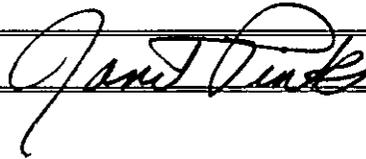
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 01/31/07

Recorder Job Number: 2353

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on SB 2022. This is the budget for PERS. There was a bill in IBL that would impact PERS but I was told the committee took care of that issue so all changes are taken care of so there is nothing we need to be concerned with. Are there any other amendments we need to consider with this bill.

Senator Robinson moved a DO PASS on SB 2022, Senator Krebsbach seconded. No discussion took place. A roll call vote was taken resulting in 13 yes, 0 no, 1 absent.

The motion carried to do pass, Senator Krebsbach will carry the bill.

The hearing closed on SB 2022.

Date: 1/31
Roll Call Vote #: ~~202~~ 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number 2022

Action Taken Do Pass

Motion Made By Robinson Seconded By Krebsbach

Senators	Yes	No	Senators	Yes	No
Senator Ray Holmberg, Chrm	✓		Senator Aaron Krauter	✓	
Senator Bill Bowman, V Chrm			Senator Elroy N. Lindaas	✓	
Senator Tony Grindberg, V Chrm	✓		Senator Tim Mathern	✓	
Senator Randel Christmann	✓		Senator Larry J. Robinson	✓	
Senator Tom Fischer	✓		Senator Tom Seymour	✓	
Senator Ralph L. Kilzer	✓		Senator Harvey Tallackson	✓	
Senator Karen K. Krebsbach	✓				
Senator Rich Wardner	✓				

Total (Yes) 13 No 0

Absent 1

Floor Assignment Krebsbach

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2022: Appropriations Committee (Sen. Holmberg, Chairman) recommends DO PASS
(13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2022 was placed on the
Eleventh order on the calendar.

2007 HOUSE APPROPRIATIONS

SB 2022

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2022

House Appropriations Committee
Government Operations Division

Check here for Conference Committee

Hearing Date: 2/28/07

Recorder Job Number: 4131

Committee Clerk Signature

Tanya Voegell

Minutes:

Chairman Carlson opened the hearing on SB 2022.

Sparb Collins, Executive Director of the North Dakota Public Employees Retirement System, spoke in support of the bill.

Chairman Carlson: Are the four new FTEs for designing the system?

Sparb Collins: They are for backfilling the positions that we have right now that will be assigned to the project.

Vice Chairman Carlisle: Do you have a breakdown of the \$9.41 million funding source?

Sparb Collins: It will come from the different retirement funds that use the system.

Chairman Carlson: Is the cost divided by the programs using the system?

Sparb Collins: We have spread it across all of the programs based on the size of the program.

Chairman Carlson: Were the additional items for the new system included in your budget?

Sparb Collins: No. We found out about those after the request was in. We have included an amendment in our testimony.

Representative Skarphol: Are you working with the same vendor that the Retirement and Investment Office used?

Sparb Collins: No it is a different vendor.

Representative Skarphol: This is not a question but more of a comment to the committee. I think what the vendor is saying here is what was not taken into account with Higher Ed did connect ND, I don't think there was a realization of the backfill requirements that he is referring to where you would have people to fill the positions that you have vacated because of the fact you have taken an individual who is familiar with the system and made them work full time on that project. They don't have time to do the job they regularly do. I think they have done a good evaluation of their needs.

Representative Glassheim: Are these positions permanent?

Sparb Collins: At the conclusion of the project some of the staff could be phased out.

Representative Kempenich: What would their classification be??

Sharon Shiermeister: We have budgeted for an accounting position, an account tech position, and two administrative assistants.

Chairman Carlson: Did you request the additional items in the Senate?

Sparb Collins: No, we did not know about it yet.

Representative Skarphol: Page six of your testimony, indicates that right now you would conceivably be in the position of starting the implementation virtually about the time we are done here?

Sparb Collins: We moved the start date to October 2007.

Vice Chairman Carlisle: How do you physically transfer the money to pay for the system?

Sparb Collins: This is charged back like a normal administrative expense.

Representative Kroeber: Is this what we would call partially an "off the shelf" program or is this completely new?

Sparb Collins: It is new.

Chairman Carlson: Do you currently have any vacancies?

Sparb Collins: We have one that we are in the process of filling.

Chairman Carlson: What is your turnover rate?

Sparb Collins: I will get you that information.

Representative Kroeber: In what line are the dollars for the four new FTEs?

Sparb Collins: In the salaries and wages line item.

Chairman Carlson:

Vice Chairman Carlisle: Dept 190 what do they get from the equity pool.

Lori Laschkewitsch: \$23,894

Vice Chairman Carlisle: OK what does Department 192 get?

Lori Laschkewitsch: \$55,294

Vice Chairman Carlisle: Did SB2047 make it over

Sparb Collins: Yes, it made it over.

Mr. Collins explained SB2047.

Vice Chairman Carlisle: the 5 bills that are on here, did you support all of them?

Sparb Collins: We did not take a position on 1078.

Chairman Carlson: Can you monitor these bills for us to see if they affect your budget.

Sparb Collins: Yes.

Vice Chairman Carlisle: For your enhanced equity adjustments, did they do that off of a study?

Sparb Collins: The goal on the classified staff is that the statewide average is 96 percentile. Our employees were at 89%. So what we put in there was enough money to be able to move them up to the average with other state employees.

Steve Cochrane, Executive Director of the North Dakota Retirement and Investment Office, spoke in support of the bill. See testimony 2022.2.28.07B.

Representative Williams: Without SB2046, How long would you be solvent?

Fay Kopp: We will be able to payout funds well into the future however we will see our funding deteriorate. How much and how fast it deteriorates depends on the investment returns.

Representative Williams: Under this bill does the plan go from 85 to 90 for retirement

Fay Kopp: Under SB 2046, one of the provisions that are included in that plan is that for newly hired employees they would have the rule of 90 instead of 85.

Representative Kempnich: Are there triggers for that?

Fay Kopp: The increase is expected to continue. However, the legislature does set the employer contribution rate. At some point if you felt that the fund was funded inappropriately and all adjustments were met, you would have the authority to change that employer contribution rate.

Representative Kroeber: How is the new computer system working?

Fay Kopp: The users of the system are pleased with the efficiency the system has provided.

Representative Skarphol: Can you share a little bit about the overrun on time?

Fay Kopp: When we originally started this project and signed the contract, we anticipated that we would have about a 19 month implementation period. However, as soon as we started getting rolling on this, the implementation of the pension software program is going pretty well. However, during that same period of time we found out from ITD that we need to change our

image processing system and the filenet system. We decided that we have to do this. We could either extend the plan, keep trying to cut corners as we go through this, we explored all of our options and decided that the best thing to do is to try to get both projects done and try to do it all within budget. We decided to keep rolling with it. As a result we did come in four months behind budget which just hit the 20% threshold. However in the big picture we did get more accomplished in that period of time than we originally expected.

Representative Skarphol: Mr. Collins, why are your technology programs costing so much more than the project for RIO?

Sparb Collins: Keep in mind that the Teacher's Fund for Retirement is one of the retirement plans with a set of benefits, with PERS they are talking about doing nine different retirement plans with nine different benefit designs. We are also talking about two to five contribution plans, and an insurance program. We are also talking about bringing on the billing for the vision and dental plans. So we have a broader range of programs.

Representative Skarphol: Mr. Collins, can you give us a breakdown of the programs and agencies that will use your system?

Sparb Collins: I will get you that.

Representative Glassheim: What if any state funds do you manage in the Retirement and Investment Office?

Steve Cochrane: The most significant one is the Budget Stabilization Fund.

Representative Glassheim: Do you have a breakdown of who is in charge of investing what?

Steve Cochrane: I know that the Treasurer's office does invest funds directly.

Representative Kempenich requested a list of that.

Hearing closed.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2022

House Appropriations Committee
Government Operations Division

Check here for Conference Committee

Hearing Date: 3/8/07

Recorder Job Number: 4651

Committee Clerk Signature

Minutes:

Chairman Carlson opened the hearing on Senate Bill 2022.

A motion was made by Representative Kempenich, seconded by Representative Kroeber to adopt amendment "Attachment Seven" from testimony.

The amendment was later drafted with the number 78046.0101.

Vice Chairman Carlisle explained the amendment.

The amendment 78046.0101 was adopted by voice vote.

A motion was made by Representative Kroeber, seconded by Representative Thoreson for a DO PASS AS AMENDED recommendation to the full committee. The committee vote was 8 Yeas, 0 Nays, 0 Absent and Not Voting. The bill was carried by Representative Kroeber.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2022

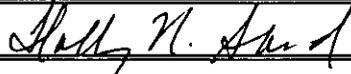
House Appropriations Committee

Check here for Conference Committee

Hearing Date: March 14, 2007

Recorder Job Number: 5093

Committee Clerk Signature



Minutes:

Rep. Svedjan opened the hearing on SB 2022.

Rep. Kroeber distributed Amendment .0101 (Attachment A).

Rep. Kroeber: SB 2022 provides appropriation for the Retirement and Investment office called RIO and the Public Employees Retirement System (PERS). The RIO budget is all special funds and no general funds are requested. This would include \$65,301 for increase for equity which were to include in the executive budget. The 17 classified employees were also qualified for about \$23,894 from the equity pool. They have completed the installation of the new computer system. The project expenditures resulted in a budget surplus for the project of just over \$60,000. They are looking at reducing when the FTE because of the efficiency of the system. He said he has never heard of such a thing before in state Government. The Senate and House made no changes to the executive budget for RIO. The PERS has 33 FTE's and all special funds. This includes \$202,760 for equity which was included in the executive budget. That will qualify for about \$42,830 from the equity pool. The executive budget also includes \$9,362,494 for the replacement of the old legacy application system. And also 4 new FTE's to help with the change to take and implement the new system. The Senate made no changes to the executive budget. However, since the Senate hearing it has been discovered that the funding request of the 9 + million for the new computer system is not sufficient to meet all the

items by \$694,000. We did ask for a complete breakdown of the money and it is as follows.

There is optical character recognition portion for \$18,000. There is training for \$92,000, work process manuals for \$120,000, configuration services for \$59,000 and the performance bond of \$405,000. Again this total is \$694,000. These are the only additions to the house that was made. All funds in both RIO and PERS are special funds.

Rep. Kroeber motioned to adopt amendment .0101. Rep. Carlisle seconded the motion.

The motion carried by a voice vote and the amendment was adopted.

Rep. Kroeber motioned for a Do Pass as Amended. Rep. Carlson seconded the motion.

The motion carried by a roll call vote of 22 ayes, 0 nays and 2 absent and not voting.

Rep. Kroeber was designated to carry the bill.

PROPOSED AMENDMENTS TO SENATE BILL NO. 2022

Page 1, line 2, after "agencies" insert "; and to provide additional spending authority subject to emergency commission approval"

Page 2, line 13, replace "8,985,308" with "9,679,308"

Page 2, line 15, replace "9,830,627" with "10,524,627"

Page 2, line 16, replace "9,849,627" with "10,543,627"

Page 2, line 19, replace "10,224,903" with "10,918,903"

Page 2, line 20, replace "10,205,903" with "10,899,903"

Page 3, line 4, replace "10,550,019" with "11,244,019"

Page 3, line 6, replace "14,549,864" with "15,243,864"

Page 3, line 7, replace "17,900,168" with "18,594,168"

Page 3, after line 12, insert:

"SECTION 5. ADDITIONAL SPENDING AUTHORITY - EMERGENCY COMMISSION APPROVAL. The public employees retirement system may seek emergency commission approval for additional spending authority required to complete implementation of the legacy application system replacement project during the 2007-09 biennium."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Summary of House Action

	EXECUTIVE BUDGET	SENATE VERSION	HOUSE CHANGES	HOUSE VERSION
Retirement and Investment Office				
Total all funds	\$3,350,304	\$3,350,304	\$0	\$3,350,304
Less estimated income	<u>3,350,304</u>	<u>3,350,304</u>		<u>3,350,304</u>
General fund	\$0	\$0	\$0	\$0
Public Employees Retirement System				
Total all funds	\$14,549,864	\$14,549,864	\$694,000	\$15,243,864
Less estimated income	<u>14,549,864</u>	<u>14,549,864</u>	<u>694,000</u>	<u>15,243,864</u>
General fund	\$0	\$0	\$0	\$0
Bill Total				
Total all funds	\$17,900,168	\$17,900,168	\$694,000	\$18,594,168
Less estimated income	<u>17,900,168</u>	<u>17,900,168</u>	<u>694,000</u>	<u>18,594,168</u>
General fund	\$0	\$0	\$0	\$0

Senate Bill No. 2022 - Public Employees Retirement System - House Action

	EXECUTIVE BUDGET	SENATE VERSION	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$3,749,845	\$3,749,845		\$3,749,845
Operating expenses	10,550,019	10,550,019	\$694,000	11,244,019
Contingencies	<u>250,000</u>	<u>250,000</u>		<u>250,000</u>
Total all funds	\$14,549,864	\$14,549,864	\$694,000	\$15,243,864
Less estimated income	<u>14,549,864</u>	<u>14,549,864</u>	<u>694,000</u>	<u>15,243,864</u>
General fund	\$0	\$0	\$0	\$0
FTE	33.00	33.00	0.00	33.00

Dept. 192 - Public Employees Retirement System - Detail of House Changes

	PROVIDES ADDITIONAL FUNDING FOR LEGACY PROJECT 1	TOTAL HOUSE CHANGES
Salaries and wages		
Operating expenses	\$694,000	\$694,000
Contingencies		
Total all funds	\$694,000	\$694,000
Less estimated income	<u>694,000</u>	<u>694,000</u>
General fund	\$0	\$0
FTE	0.00	0.00

1 This amendment provides additional funding for the legacy application system replacement project.

A section is added to provide authority for the department to seek approval from the Emergency Commission if additional funding is needed to complete the legacy application system replacement project.

Date: 3/14/07
 Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2028

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number 78046.0101

Action Taken Adopt amendment 0101

Motion Made By Krober Seconded By Carlisle

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Representative Wald			Representative Aarsvold		
Representative Monson			Representative Gulletson		
Representative Hawken					
Representative Klein					
Representative Martinson					
Representative Carlson			Representative Glassheim		
Representative Carlisle			Representative Kroeber		
Representative Skarphol			Representative Williams		
Representative Thoreson					
Representative Pollert			Representative Ekstrom		
Representative Bellew			Representative Kerzman		
Representative Kreidt			Representative Metcalf		
Representative Nelson					
Representative Wieland					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Voices vote - carries

Date: 3/14/07
 Roll Call Vote #: 2

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 2022

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number 78046.0101

Action Taken No Pass as amended by .0101

Motion Made By Kroeber Seconded By Carlson

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich	✓				
Representative Wald	✓		Representative Aarsvold	✓	
Representative Monson	✓		Representative Gulleon	✓	
Representative Hawken	✓				
Representative Klein	✓				
Representative Martinson	✓				
Representative Carlson	✓		Representative Glassheim	✓	
Representative Carlisle	✓		Representative Kroeber	✓	
Representative Skarphol	✓		Representative Williams	✓	
Representative Thoreson	✓				
Representative Pollert	✓		Representative Ekstrom	✓	
Representative Bellew	✓		Representative Kerzman	✓	
Representative Kreidt	✓		Representative Metcalf	✓	
Representative Nelson	✓				
Representative Wieland	✓				

Total (Yes) 22 No 0

Absent 2

Floor Assignment Kroeber

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2022: Appropriations Committee (Rep. Svedjan, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (22 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). SB 2022 was placed on the Sixth order on the calendar.

Page 1, line 2, after "agencies" insert "; and to provide additional spending authority subject to emergency commission approval"

Page 2, line 13, replace "8,985,308" with "9,679,308"

Page 2, line 15, replace "9,830,627" with "10,524,627"

Page 2, line 16, replace "9,849,627" with "10,543,627"

Page 2, line 19, replace "10,224,903" with "10,918,903"

Page 2, line 20, replace "10,205,903" with "10,899,903"

Page 3, line 4, replace "10,550,019" with "11,244,019"

Page 3, line 6, replace "14,549,864" with "15,243,864"

Page 3, line 7, replace "17,900,168" with "18,594,168"

Page 3, after line 12, insert:

"SECTION 5. ADDITIONAL SPENDING AUTHORITY - EMERGENCY COMMISSION APPROVAL. The public employees retirement system may seek emergency commission approval for additional spending authority required to complete implementation of the legacy application system replacement project during the 2007-09 biennium."

ReNUMBER accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2022 - Summary of House Action

	EXECUTIVE BUDGET	SENATE VERSION	HOUSE CHANGES	HOUSE VERSION
Retirement and Investment Office				
Total all funds	\$3,350,304	\$3,350,304	\$0	\$3,350,304
Less estimated income	<u>3,350,304</u>	<u>3,350,304</u>		<u>3,350,304</u>
General fund	\$0	\$0	\$0	\$0
Public Employees Retirement System				
Total all funds	\$14,549,864	\$14,549,864	\$694,000	\$15,243,864
Less estimated income	<u>14,549,864</u>	<u>14,549,864</u>	<u>694,000</u>	<u>15,243,864</u>
General fund	\$0	\$0	\$0	\$0
Bill Total				
Total all funds	\$17,900,168	\$17,900,168	\$694,000	\$18,594,168
Less estimated income	<u>17,900,168</u>	<u>17,900,168</u>	<u>694,000</u>	<u>18,594,168</u>
General fund	\$0	\$0	\$0	\$0

Senate Bill No. 2022 - Public Employees Retirement System - House Action

	BUDGET	VERSION	CHANGES	VERSION
Salaries and wages	\$3,749,845	\$3,749,845		\$3,749,845
Operating expenses	10,550,019	10,550,019	\$694,000	11,244,019
Contingencies	<u>250,000</u>	<u>250,000</u>		<u>250,000</u>
Total all funds	\$14,549,864	\$14,549,864	\$694,000	\$15,243,864
Less estimated income	<u>14,549,864</u>	<u>14,549,864</u>	<u>694,000</u>	<u>15,243,864</u>
General fund	\$0	\$0	\$0	\$0
FTE	33.00	33.00	0.00	33.00

Dept. 192 - Public Employees Retirement System - Detail of House Changes

	PROVIDES ADDITIONAL FUNDING FOR LEGACY PROJECT ¹	TOTAL HOUSE CHANGES
Salaries and wages		
Operating expenses	\$694,000	\$694,000
Contingencies		
Total all funds	\$694,000	\$694,000
Less estimated income	<u>694,000</u>	<u>694,000</u>
General fund	\$0	\$0
FTE	0.00	0.00

¹ This amendment provides additional funding for the legacy application system replacement project.

A section is added to provide authority for the department to seek approval from the Emergency Commission if additional funding is needed to complete the legacy application system replacement project.

2007 SENATE APPROPRIATIONS

CONFERENCE COMMITTEE

SB 2022

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2022 Conference Committee**

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: **April 6, 2007**

Recorder Job Number: **5810**

Committee Clerk Signature

Janet Pinks

Meeting opened by Senator Krebsbach.

All conference committee members are present at the meeting.

S Krebsbach: We need an explanation of the amendment, someone from the House side is available to do that.

Representative ____: The only amendment that was added by the House or the Senate is to correct a problem that was discovered after you had your hearing and your vote. It was found that the quote of \$9 million, 362,494 for the replacement of the old Legacy computer system prefers was not sufficient to meet all items in the RFD by \$694,000. This breakdown of these dollars, we get asked for as follows: \$18,000 for scanning of documents, \$92,000 for training, \$120,000 for processing manuals and a configuration server for \$59,000 and a performance bond of \$405,000. The total of this amendment is \$694,000, it also included legislative intent that PERS must go to emergency in costs that go any higher for the new system. This was the only amendment we put on there.

S Krebsbach: I might say that the \$694,000 is NOT general fund money, it is strictly from their own balance, their own assets.

Rep.: That is correct, and in the \$694,000, that came from your committee also. That included four FDE's that will have to help with the installation, the installation will take from 3-4 years to actually complete.

Page 2
Senate Appropriations Committee
Bill/Resolution No. **SB 2022 CC**
Hearing Date: **April 6, 2007**

S Krebsbach: Are we ready to take action?

Motion to Senate Accede to the House Amendments.

Second on the motion.

Roll Call Taken – Passed

CLOSED

**REPORT OF CONFERENCE COMMITTEE
(ACCEDE/RECEDE)**

Bill Number 2022 (, as (re)engrossed):

Date: 4/16/07

Your Conference Committee _____

For the Senate:

For the House:

<input checked="" type="checkbox"/>	Sen Karen Krebsbach	<input checked="" type="checkbox"/>			Rep Ron Carlisle	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>
<input checked="" type="checkbox"/>	Rich Wardner	<input checked="" type="checkbox"/>			Keith Kempenich	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>
<input checked="" type="checkbox"/>	Aaron Kravter	<input checked="" type="checkbox"/>			Joe Kroeber	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>

recommends that the (SENATE/HOUSE) (ACCEDE to) (RECEDE from)

the (Senate/House) amendments on (SJ/HJ) page(s) _____ -- _____

_____ and place _____ on the Seventh order.

_____, adopt (further) amendments as follows, and place _____ on the Seventh order:

having been unable to agree, recommends that the committee be discharged and a new committee be appointed.

((Re)Engrossed) _____ was placed on the Seventh order of business on the calendar.

DATE: _____

HOUSE CARRIER: _____

SENATE CARRIER: _____

LC NO.	of amendment
LC NO.	of engrossment
Emergency clause added or deleted	
Statement of purpose of amendment	

MOTION MADE BY: _____

SECONDED BY: _____

VOTE COUNT: ___ YES ___ NO ___ ABSENT

REPORT OF CONFERENCE COMMITTEE

SB 2022: Your conference committee (Sens. Krebsbach, Wardner, Krauter and Reps. Carlisle, Kempenich, Kroeber) recommends that the **SENATE ACCEDE** to the House amendments on SJ pages 1196-1197 and place SB 2022 on the Seventh order.

SB 2022 was placed on the Seventh order of business on the calendar.

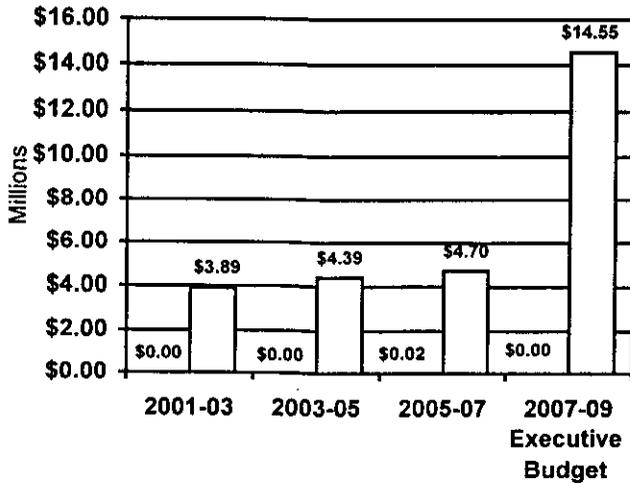
2007 TESTIMONY

SB 2022

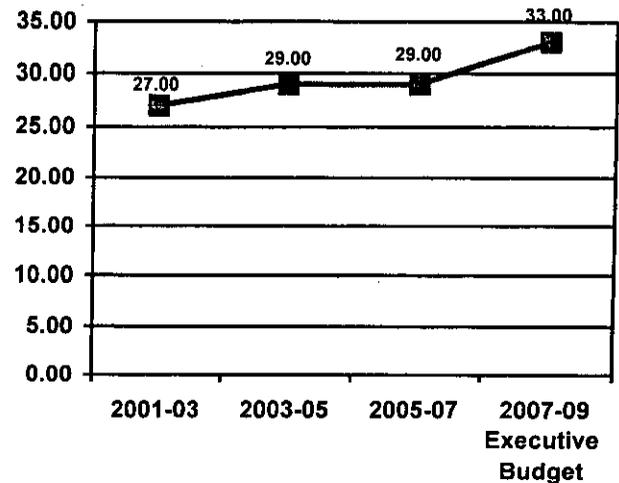
**Department 192 - Public Employees Retirement System
 Senate Bill No. 2022**

	FTE Positions	General Fund	Other Funds	Total
2007-09 Executive Budget	33.00	\$0	\$14,549,864	\$14,549,864
2005-07 Legislative Appropriations	29.00	19,000	4,700,237	4,719,237
Increase (Decrease)	4.00	(\$19,000)	\$9,849,627	\$9,830,627

Agency Funding



FTE Positions



■ General Fund □ Other Funds

Executive Budget Highlights

1. Adds funding for salary equity adjustments
2. Adds funding for the Legacy application replacement system, including 4 new FTE positions

	General Fund	Other Funds	Total
		\$202,760	\$202,760
		\$9,362,494	\$9,362,494

Continuing Appropriations

North Dakota Public Employees Retirement System - Various sections of North Dakota Century Code - For benefit payments, investments, and actuarial/technical consulting for each program area.

Major Related Legislation

House Bill No. 1078 - This bill would allow employees of the Department of Career and Technical Education to transfer retirement plan membership from the Teachers' Fund for Retirement to the Public Employees Retirement System (PERS).

Senate Bill No. 2044 - This bill would allow a one-time payment of 75 percent of the monthly retirement benefit in January of either 2008 or 2009, if the fund's return for either year is at least 9.06 percent and increases retired judges' benefits by 2 percent beginning January 1, 2008, and January 1, 2009.

Senate Bill No. 2045 - This bill would increase employer paid life insurance to \$5,000; establishes a separate retired Medicare-eligible prescription drug plan; allows the retiree credit for married couples; and establishes eligibility for temporary employees.

Senate Bill No. 2047 - This bill would provide that employees first employed with the state on or after August 1, 2007, would be automatically enrolled in the deferred compensation program effective the first day of the third full month following the employee's first day of employment with the state, unless the employee files with the Public Employees Retirement System Board a prescribed form for opting out of the automatic enrollment within 30 days of beginning employment.

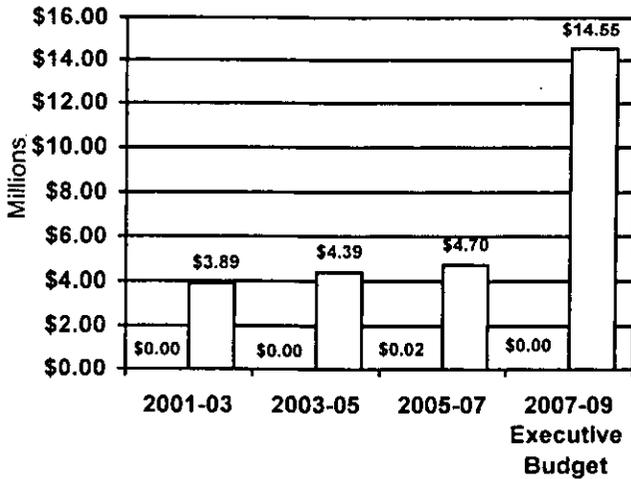
Senate Bill No. 2050 - This bill would increase the monthly contribution to the retiree health benefit fund by .15 percent of monthly salary and increases the monthly retiree health credit by 50 cents per year of credited service.

Senate Bill No. 2051 - This bill would increase the employer contribution rate for the Highway Patrolmen's retirement system and for the PERS retirement plan. In addition, the bill would provide for an increase of 2 percent in the monthly retirement benefits. These provisions would be effective August 1, 2009.

Department 192 - Public Employees Retirement System
 Senate Bill No. 2022

	FTE Positions	General Fund	Other Funds	Total
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Increase (Decrease)	4.00	(\$19,000)	\$9,849,627	\$9,830,627

Agency Funding



FTE Positions



■ General Fund □ Other Funds

First House Action

Attached is a summary of first house changes.

Executive Budget Highlights
 (With First House Changes in Bold)

	General Fund	Other Funds	Total
1. Adds funding for salary equity adjustments		\$202,760	\$202,760
2. Adds funding for the Legacy application replacement system, including 4 new FTE positions		\$9,362,494	\$9,362,494

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ATTACH:1

02/19/07

STATEMENT OF PURPOSE OF AMENDMENT:**Senate Bill No. 2022 - Funding Summary**

	Executive Budget	Senate Changes	Senate Version
Retirement and Investment Office			
Salaries and wages	\$2,337,305		\$2,337,305
Operating expenses	930,999		930,999
Contingencies	82,000		82,000
Total all funds	<u>\$3,350,304</u>	<u>\$0</u>	<u>\$3,350,304</u>
Less estimated income	<u>3,350,304</u>	<u>0</u>	<u>3,350,304</u>
General fund	\$0	\$0	\$0
FTE	17.00	0.00	17.00
Public Employees Retirement System			
Salaries and wages	\$3,749,845		\$3,749,845
Operating expenses	10,550,019		10,550,019
Contingencies	250,000		250,000
Total all funds	<u>\$14,549,864</u>	<u>\$0</u>	<u>\$14,549,864</u>
Less estimated income	<u>14,549,864</u>	<u>0</u>	<u>14,549,864</u>
General fund	\$0	\$0	\$0
FTE	33.00	0.00	33.00
Bill Total			
Total all funds	\$17,900,168	\$0	\$17,900,168
Less estimated income	<u>17,900,168</u>	<u>0</u>	<u>17,900,168</u>
General fund	\$0	\$0	\$0
FTE	50.00	0.00	50.00

Senate Bill No. 2022 - Retirement and Investment Office - House Action

The Senate did not change the executive recommendation for the Retirement and Investment Office.

Senate Bill No. 2022 - Public Employees Retirement System - House Action

The House did not change the executive recommendation for the Public Employees Retirement System.

TESTIMONY OF
SPARB COLLINS
ON
SENATE BILL 2022

Mr. Chairman, members of the committee, good afternoon my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System or PERS. Today I appear before you in support of this bill and to give you an overview of our agency and our budget request.

Agency Overview

First let me start by providing an overview of our agency. PERS is directed by a Board composed of the following members:

Chair (appointed by Governor)
Appointed by Attorney General
State Health Officer or Deputy
Elected
Elected
Elected
Elected

Jon Strinden
Thomas Trenbeath
Arvy Smith
Howard Sage
Joan Ehrhardt
Rosey Sand
Ron Leingang

Concerning our program responsibilities they are divided into two major areas, retirement and group insurance. Attachment #1 (page 11) identifies for the retirement program area the various plans administered by PERS and provides some statistical information about each. As the attached shows, we administer approximately 9 different retirement plans. Those include the Job Service retirement plan and OASIS plan which were transferred to PERS from Job Service; the new Law Enforcement Plan for political subdivisions which was created two sessions ago; and the Defined Contribution (401(a)) plan which was assigned to our agency in 1999. The other retirement programs have been a part of PERS since the 1980's. You will note the largest retirement plan we administer is the Main retirement system which provides services to not only the state but also to political subdivisions. In this plan about 55% of the active members are state employees and 45% are political subdivision employees. Attachment #2 (page 12) is two maps showing the

location of the retired members of the PERS retirement plan and the amount of benefits we paid out last year to those members.

Attachment #3 (page 13) is information on the group insurance programs administered by PERS. As you will note the largest responsibility in this area is the health plan. In this program about 56% of the members are state employees and 44% are political subdivisions or retirees. Attachment #4 (page 14) is two maps showing the members of the PERS health plan and where the money is spent. The most recent new addition in this area occurred two sessions ago when PERS was assigned the responsibility to review and analyze any new health coverage mandates passed by the legislature and to make a recommendation on whether or not it should be a part of all health plans. The 1995 session added to PERS the Long Term Care Plan, Dental Plan & Vision Plan. The other group insurance programs have been a part of the agency since before 1990.

Attachment #5 (pages 15-18) is statistical data in graph form about our agency. Generally it shows that the scope of our responsibilities over time has increased, the members we serve has increased, the number of employers we serve has increased and our administrative costs have increased but not at the same rate.

Concerning the budget before you today, it can be broken down into three parts for purposes of discussion. The base budget, the proposed business system replacement project and the equity increases. The budget proposed by the Governor and approved by the Senate includes funding for these 3 initiatives. You will also note that our budget is funded from special funds from the respective program funds.

Base Budget

First of all, the base budget. Our approved budget for 2005-2007 was \$4,719,237. Our base budget for 2007-2009 is \$4,750,657. This budget was developed as a hold even budget with only an increase for the cost to continue the fiscal year 2007 4% salary increase. Consequently, this funding level would only allow us to maintain existing operations at the current staffing level and administration level. The agency currently has two full time contract employees in our accounting area. While we have found this assistance helpful, the associated turnover has not allowed us to stay on top of the

workload due to the retraining that is involved when turnover occurs. Therefore, the agency would like to make these positions permanent FTEs and has included funding as part of the business system replacement project. This base budget does not provide the business system upgrades that would be necessary if the proposed replacement project does not go forward.

System Replacement Project

Project Background

The second part of the budget and the most significant is our request to provide the appropriation authority to fund the replacement of our business system. Our business system contains all the data bases and programs necessary to perform the core functions for the benefit programs that we administer. Let me start by giving you some background on what brought us here today with this request and where we are in developing this project. In October of 2005 the PERS Board had a planning meeting to review its programs and their administration. One of the issues discussed was the aging business system. It was noted then that:

- System is old (it is the original system that has been added to over time)
- Patched together as new programs added
- ITD is moving it off the mainframe
- Programmers don't use the language anymore
- Not integrated
- Cannot support some activities
- We rely on institutional memory to make it work

The Board decided to move forward with a feasibility study to review the situation. In the summer of 2006 the Board heard from the consultant on the findings relating to the current organizational dynamics and the major business issues faced by PERS (a copy of this report is available on the NDPERS website at <http://www.nd.gov/ndpers/about-ndpers/docs/lasr-project/feasibility-study.pdf>). Concerning some of the organizational dynamics, the consultant indicated:

- NDPERS' staff is approaching retirement eligibility and will begin to leave employment in the next several years, decreasing NDPERS' ability to handle additional complex business procedures while maintaining customer satisfaction. In nine years NDPERS could lose 50% of its staff with 60% of today's institutional knowledge and in 15 years this rises to 72% of the staff with 87% of today's institutional knowledge. See Section 4.1.1.
- A significant amount of work is performed outside of the primary mainframe computer system using either Excel spreadsheets or database programs. This practice increases the risk that business rules will be applied inconsistently or data transferred incorrectly. The following table illustrates how this has developed over time.

Function Performed	Fully Integrated	Not Integrated
Defined Benefit Plans (Main, Judges, National Guard, Law Enforcement, Highway Patrol & Job Service) - 6	79	168
Defined Contribution Plans (Optional Defined Contribution and 457 Deferred Comp) - 2	9	35
Group Insurance (Health, life, dental, vision, LTC) - 5	14	76
Retiree Health Insurance Credit - 1	1	8
Employee Assistance Program - 1	4	5
FlexComp - 1	1	9
Totals	108	301
Percentage of Total Work	26%	74%

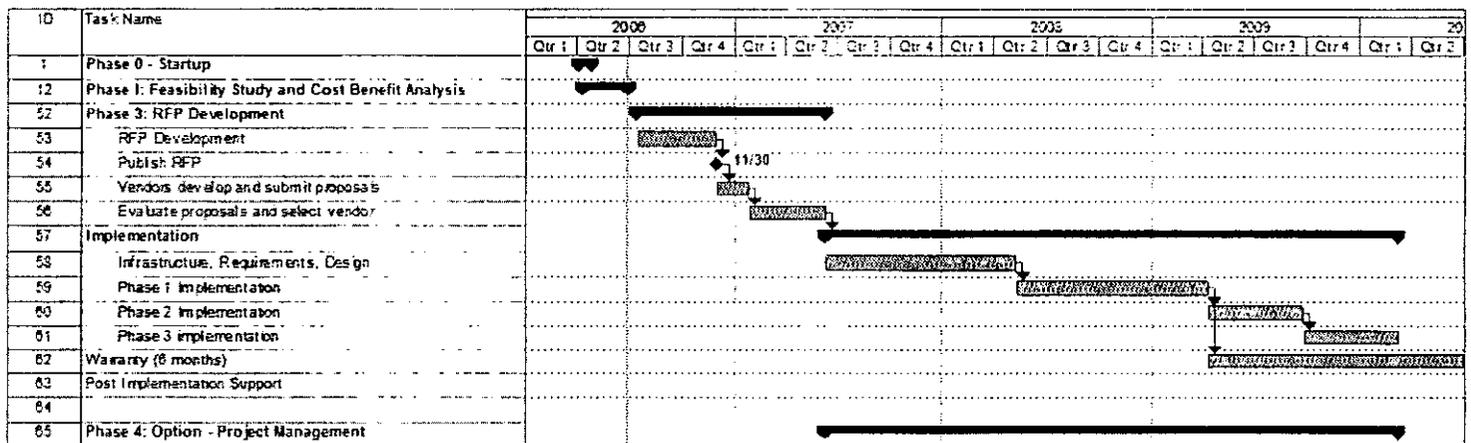
- The current technology at NDPERS has made it difficult to keep up with the agency's growth. To the extent changes have occurred they have exponentially complicated the systems and made it more difficult to continue to maintain operations.

Concerning the major business issues faced by PERS, the consultant noted (references such as 4.2.1 is to sections in the feasibility study):

1. While it is impossible to speculate what new duties could be assigned to PERS legislatively, it is clear that just the existing responsibilities will result in increased workload in the future. As noted in 4.2.1, if existing trends are predictive of the future, the number of retirements could increase by 60% in the next five years. This increases the workload for all programs as people retire and sign up for the other programs. Additional staffing to accommodate these new clients, based upon existing business practices, could be 7 more FTEs at a cost of \$600,000 or more per biennium (4.2.1).
2. It is problematic and will inevitably become more so to maintain this system with the increasing number of retirees (4.2.1) and the near obsolescence of the technology (4.3.4, 4.3.5). This issue was discussed with ITD who also indicated that it would be difficult to maintain this system over time since the language is old, the application has key programs that need to be changed with most maintenance requests, the complexity of the system makes it more difficult to enhance the system, the current system runs on an old technology infrastructure that ITD would like to replace, the current system is not a relational database and the pool of developers is getting smaller.
3. In order to accommodate the workload growth over the years and the limitations of the existing system, PERS has had to develop many workarounds (4.1.2). This lack of integration creates opportunities for errors (4.2.3, 4.3.3).
4. The current system results in: difficulty integrating new applications into the existing system such as program enhancements (4.3.1 & 4.3.11), limitations in adding new programs (4.3.2), limitations on retention of history (4.3.6 & 4.3.8), difficulty with production operations (4.3.7), limitations on edits (4.3.10) and integration of accounting systems (4.3.12).
5. Modern systems would have employers do more entering and verifying of data (4.2.5 & 4.3.9).

The conclusion of the consultant, and the Board after reviewing the report, was that the existing system needs to be replaced. Therefore, the only question was when this replacement should occur. The Board decided to move forward with the project

immediately since if we waited we ran the risk of losing more institutional memory, our workload was only going to grow making it more difficult in the future and there was no reason to believe that the cost of the project was going to be any lower by waiting. In fact the cost could become greater due to the intensity of people involved and the natural inflation that would occur. Based upon these considerations and others the Board decided it was time for PERS to move forward with replacing the original business system with a new system. The Board adopted the following plan.



However please note, due to the mainframe migration project we have had to move our starting date from June 1 to October 1, 2007. Focusing in on 2006 through the first half of 2007 the following critical dates were identified:

Date	Activity
November 16, 2006	RFP issued
December 4, 2006 5PM Central	Questions to be read at the bidders conference are due
December 13, 2006 2PM Central	Bidders conference
December 21, 2006	Responses to vendor questions from bidders conference and previously submitted questions are provided
January 16, 2007 5PM Central	Deadline for receipt of proposals
February 13, 2007	Scripted demonstration material provided to short-list vendors
February 13, 2007	Notification of short-list vendors (i.e. start of Evaluation Process – Phase IV)
March 6-8, 2007	Hold scripted product demonstrations / presentations
March 19-30, 2007	Customer site visits
April 2, 2007	NDPERS evaluation complete
April 2, 2007	Issue "Intent to Award" letter
April 13 – May 30, 2007	Contract negotiations
May 31, 2007	NDPERS selection approved and contract executed
June 1, 2007	Estimated project start

The goal of this plan was to receive bids by January of 2007 so we could insure the most accurate information for your consideration. Specifically, PERS wanted to insure that the amount proposed in the budget was sufficient based upon the actual bids received. We realized that if this project was approved and the bids came in after that approval and were higher, we would have a serious dilemma. In order to meet this goal we developed a request for proposal by late fall of 2006, issued it to potential vendors and got responses by January 16. We held our bidders conference in December and had about 8 vendors in attendance. By the due date we had 3 that had formally withdrawn. Two had indicated they thought the project cost was higher than we budgeted by between 1.5 million to 5 million dollars. By the due date of January 16th we received one proposal for the project. We also had one proposal that was filed late.

Project Budget

You will note that in the budget before you today we are requested funding of \$9.4 million for this project. This includes the system replacement costs, funding for 4 additional FTE, and the related operating expenses for the project team. The system replacement costs are estimated to be \$8.9 million and include \$7 million for the new system; \$1 million for Independent Validation & Verification, Quality Assurance and Oversight Project Management services; \$200,000 for backfile conversion; and a 10% contingency of \$700,000. In the last two weeks we have completed our first level of review of the proposal we received. We note the level of funding requested is not sufficient to meet all the items in the RFP and in order for us to complete all the areas of work we will need additional appropriation authority for the following items:

• OCR/ICR	\$ 18,000
• Training	\$ 92,000
• Work Process Manuals	\$120,000
• Configuration Services	\$ 59,000
• Performance Bond	<u>\$405,000</u>
Total	\$694,000

I have therefore included Attachment #7 (page 21) which is an amendment to provide the additional authority for us to include these items in our proposed project.

In addition, I am also asking for another amendment. As noted above we have already gone to market with the RFP for this work effort. We only received one proposal on time and we are in the process of reviewing it and should be completed with this effort by May 1. However if this vendor does not work out, we will need to again reissue the RFP if we are to move forward with the project this next biennium. We know from two of the bidders that did not respond they felt the project needed to be in the range of 1.5 million to 5 million more. Therefore, based upon this information, we know it is possible that if we go back out to bid the project costs could rise higher than what we have included in the budget before you, even as amended. If this occurred and it was after the session ended, we would have to wait until next session to move forward with the project. Alternatively, two other options are available. One option, at this point, would be for us to request several million dollars more in appropriation authority. However it is uncertain how much would be necessary, one million more or five million more. A second option and the one we are suggesting, is the second amendment (Attachment #7, page 21) we are proposing. This amendment is a statement of legislative intent that if we find we need more appropriation authority as a result of having to rebid the project, we would submit a request to the emergency commission/budget section. This accomplishes several objectives:

- It recognizes that we have reviewed this situation with you during the session and developed a plan of action.
- It allows the emergency commission/budget section to review the reason why the additional appropriation authority is needed and it gives them the opportunity to decide if the project should proceed at the higher cost level based upon all the information that would be available at that point in time.
- It provides for communication relating to this project with all concerned (emergency commission, budget section, SITAC, etc).

PERS prefers the “statement of legislative intent” approach and would request the attached amendment.

Project Timeline and Staffing

Concerning the project timeline, we anticipate that the system replacement costs will be spent over a 3 year period from July 2007 – October 2010. We will be requesting that the balance of this appropriation authority be carried over into the 2009-2011 biennium for the project. Relating to project staffing we are asking for 4 FTE for the next biennium to help backfill existing positions as existing staff are taken off day to day activities and assigned to this project. In addition, this staffing is necessary to help maintain existing service levels. We also note that in the proposal we received, the vendor stated:

While some vendors claim that the impact on NDPERS will be minimal, we think you deserve a more honest picture from the beginning. We can tell you that statistically, NDPERS should plan to contribute between 20 and 30 percent of the hours that the vendor is expected to contribute. At this time, we estimate that NDPERS should plan on spending around 18,000 total hours to help make this project successful. That means that NDPERS should plan on committing the equivalent of 3.3 full-time employees to this important effort.

They have also indicated that their price would need to be adjusted if we were not able to provide the support assumed. We would anticipate the additional staffing would be needed for at least 4 years (funding for all positions would be requested in the 2009-2011 biennium) and that at the conclusion of the project some of these staff could be phased out, however not all.

Supporting the system replacement project is our detailed feasibility study (over 300 pages of information) and our detailed scope of work in the RFP (over 400 pages of information). The agency also presented this project to SITAC. If you desire more information on this effort we would be happy to go through these documents in more detail for your information.

Equity Adjustments

The third part of our request is for salary equity funding. While funding for this is always critical, it is even more imperative with this project. The one thing I have learned in talking with my counterparts and our consultants is that the biggest risk in a project such as this is not having enough staff effort assigned, and secondly losing staff during the project. PERS relies so much on institutional memory that if we lost certain critical staff during this project it could cause us to come in over budget or with a product that does not meet

expectations. In addition to our critical staff it is important for us to maintain all our trained staff. Turnover requires training and training means that experienced staff has to be called upon, this in turn sets off a cycle in which staff is assigned to the critical duties of maintaining daily functions. Specifically retirement benefits must be paid, health insurance enrollments must occur, flex benefits must be paid, and so on. Other noncritical daily duties are put on hold during periods of turnover. In a scenario like this efforts related to a project such as this would be one of the duties put on hold since our primary functions would have priority. However in this case it would mean vendor time charges would continue but they would not be getting timely instructions or assistance. The result could be cost overruns. Consequently we are proposing salary equity funding for both our classified and nonclassified staff. The funding for our classified staff is to get them up to the average of other state employees and maybe even closer to market when combined with the Governor's proposal. For the nonclassified staff or Executive Director it is based upon the Board's review and consideration of appropriate benchmarks.

This investment in PERS staff is small compared to our project risk. If our project was approved and we had a 20% to 50% cost overrun, it would be over \$1.5 to \$3.5 million in extra costs or if we had to abandon the project midway through it could mean millions of dollars lost. When we look to trying to mitigate project risk every discussion highlights the importance of several variables but continually one stands out that we can address now – staffing. For a small agency like ours it is even more crucial since we do not have the depth in our staffing due to our size. PERS therefore believes that providing equity adjustments is the right thing to do and it is also a key success factor for this project.

Also please note Attachment #6 (page 19) which is a letter from our Board chairman, Jon Strinden, on this as well.

Mr. Chairman, members of the committee I would also like to take this opportunity on behalf of PERS to thank you for your past support. Together we have provided to our members valuable benefits that have truly made a significant difference in peoples lives and helped to support the economic health of North Dakota. We look forward to continuing to work with you in the future. Again, thank you and this concludes my testimony.

RETIREMENT PROGRAMS MANAGED AND ADMINISTERED BY NDPERS										
January 1, 2007	TOTAL RETIREMENT PARTICIPATION	Main System	D.C. 401(a)	Highway Patrol	Judges	Guard	Law Enforcement	Job Service	DEFERRED COMP	HEALTH CREDIT
	AGENCY									
	State	93	32	1	1	1		1	93	93
	Counties	44					3		41	44
	School Dist	100							48	100
	Cities	71					2		27	71
	Others	57							27	57
		365							236	365
	EMPLOYEES									
	State	10,256	243	127	47	41		49	4,523	10,256
	Counties	3,298					113		1,518	3,298
	School Dist	4,531							623	4,531
	Cities	542					14		375	542
	Others	451							215	451
	Retirees	6,567	53	100	27	10		221	607	3,884
		25,645	296	227	74	51	127	270	7,861	22,962

* - In addition NDPERS administers the OASIS Retirement Plan and the Judges Retirement Plan section 27-17.

NDPERS Retirees

Attachment 2

December 2006

DIVIDE 24	BURKE 9	RENVILLE 14	BOTTINEAU 81	ROLETTE 59	TOWNER 3	CAVALIER 21	PEMBINA 81			
WILLIAMS 161	MOUNTRAIL 34	WARD 374	McHENRY 40	PIERCE 21	BENSON 14	RAMSEY 147	WALSH 279			
McKENZIE 38	DUNN 23	MERCER 43	McLEAN 80	SHERIDAN 7	WELLS 37	EDDY 13	NELSON 38	GRAND FORKS 481		
GOLDEN VALLEY 9	BILLINGS 4	OLIVER 5	BURLEIGH 1,305	KIDDER 7	STUTSMAN 413	FOSTER 25	GRIGGS 24	STEELE 16	TRAILL 68	
SLOPE 4	HETTINGER 29	GRANT 11	MORTON 271	EMMONS 13	LOGAN 17	LAMOURE 43	BARNES 93	CASS 681	RANSOM 69	RICHLAND 127
BOWMAN 23	ADAMS 16	SIoux 5		McINTOSH 19	DICKEY 44	SARGENT 7				

Out-of-State - 896

Total - 6,538

NDPERS Retirees

Annual Benefits 2006

DIVIDE \$123,433	BURKE \$50,196	RENVILLE \$82,544	BOTTINEAU \$673,104	ROLETTE \$425,910	TOWNER \$25,204	CAVALIER \$122,997	PEMBINA \$702,933			
WILLIAMS \$1,606,352	MOUNTRAIL \$263,498	WARD \$4,030,647	McHENRY \$230,199	PIERCE \$187,087	BENSON \$106,534	RAMSEY \$1,376,184	WALSH \$2,433,015			
McKENZIE \$272,904	DUNN \$132,977	MERCER \$222,888	McLEAN \$782,901	SHERIDAN \$55,668	WELLS \$305,735	EDDY \$78,818	NELSON \$260,297	GRAND FORKS \$4,817,212		
GOLDEN VALLEY \$87,689	BILLINGS \$58,013	OLIVER \$28,256	BURLEIGH \$18,318,784	KIDDER \$41,188	STUTSMAN \$3,800,101	FOSTER \$157,247	GRIGGS \$253,339	STEELE \$92,351	TRAILL \$473,120	
SLOPE \$15,328	HETTINGER \$213,653	GRANT \$81,142	MORTON \$2,790,311	EMMONS \$107,198	LOGAN \$103,785	LAMOURE \$231,460	BARNES \$905,650	CASS \$6,025,459	RANSOM \$336,323	RICHLAND \$952,381
BOWMAN \$197,262	ADAMS \$148,422	SIoux \$49,828		McINTOSH \$121,108	DICKEY \$327,478	SARGENT \$34,593				

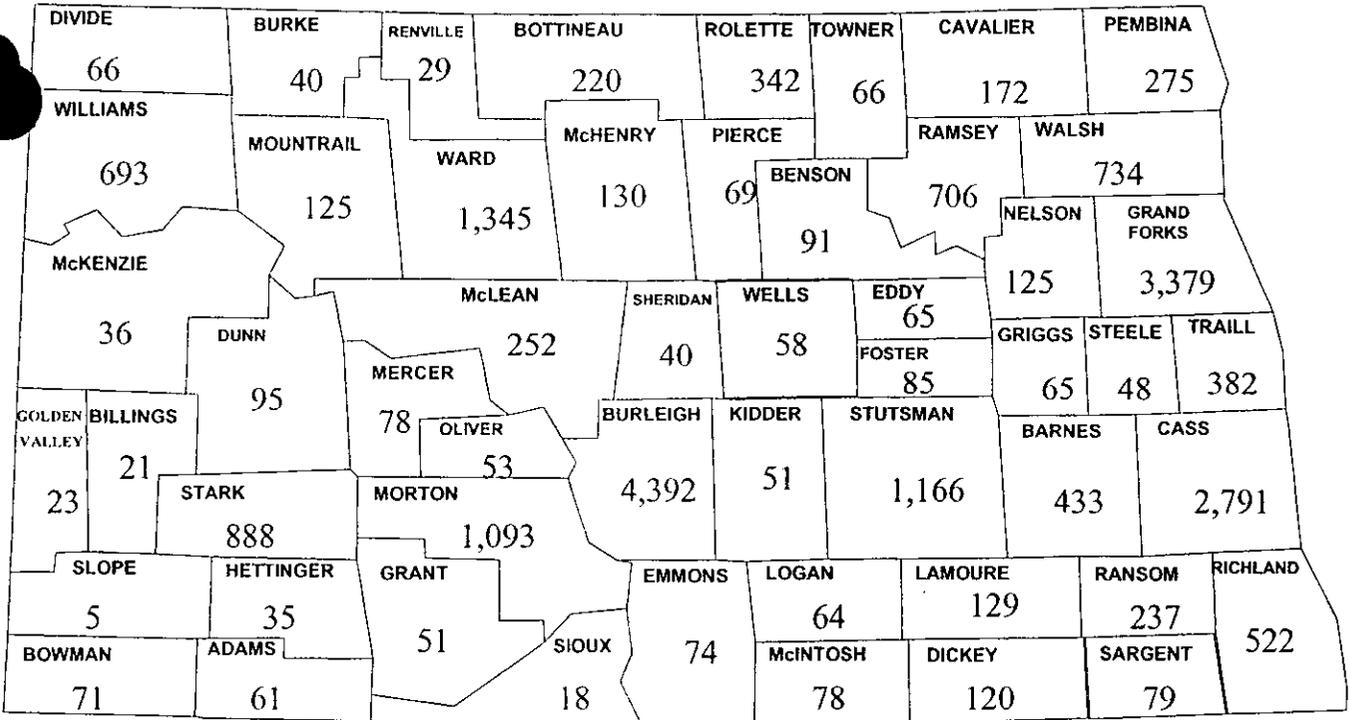
Out-of-State - \$8,242,082

Total - \$65,558,022

GROUP INSURANCE PROGRAMS MANAGED AND ADMINISTERED BY NDPERS									
	HEALTH	LIFE	DENTAL	VISION	EAP	FLEXCOMP	LT Care		
PARTICIPATION									
AGENCY									
State	93	93	93	93	93	83	93		
Counties	39	28							
School Dist	26	4							
Cities	57	22							
Others	64	22							
	279	169	93	93	93	83	93		
EMPLOYEES									
State	13,771	14,559	3,678	2,878	14,559	7,800	75		
Counties	1,832	2,708							
School Dist	1,185	97							
Cities	1,023	163							
Others	448	226							
Legislators	125								
Retirees	5,385	2,983	1,105	539					
COBRA	546		99						
	24,315	20,736	4,882	3,417	14,559	7,800	75		

Attachment 4

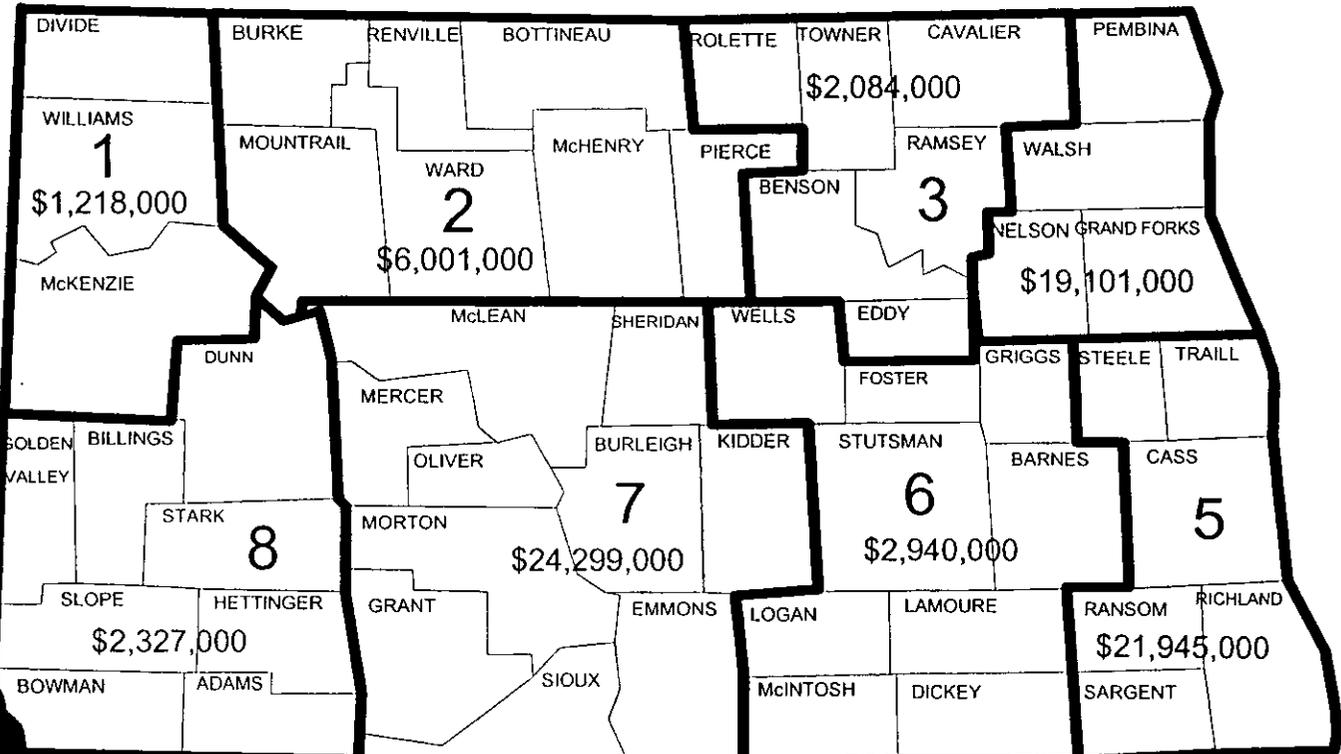
NDPERS Health Contracts - December 2006

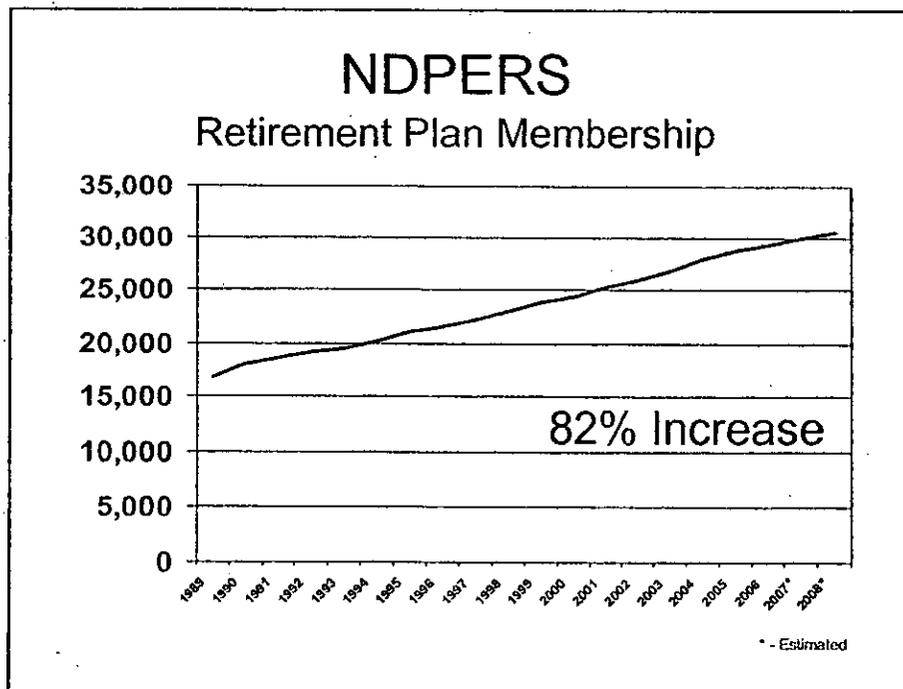
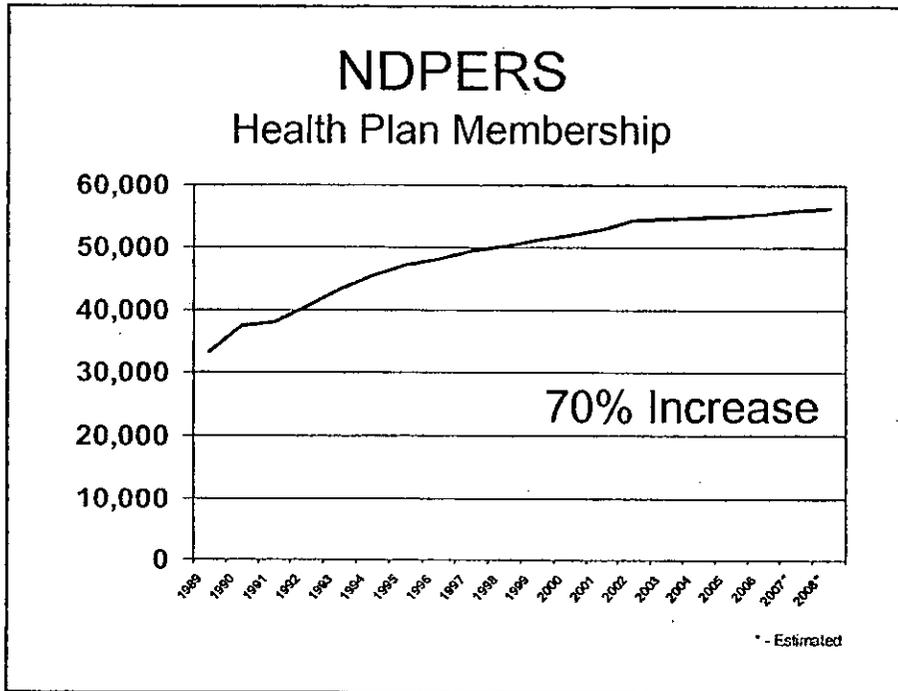


Out-of-State - 1,897

Total - 24,161

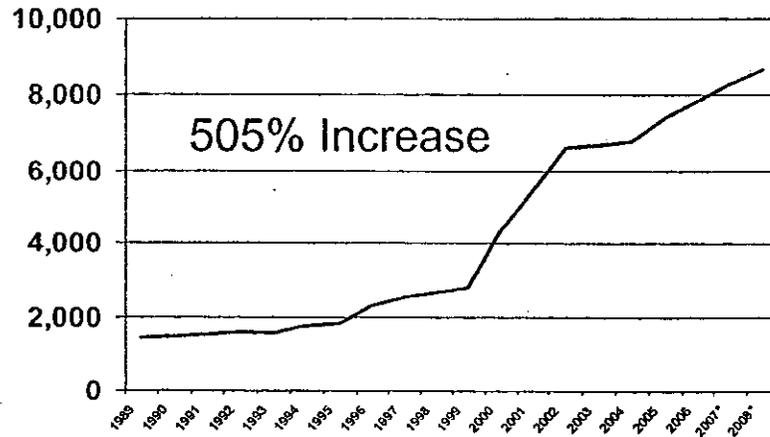
NDPERS Health Plan Paid (Hospital & Clinic/Physician)*
By Region 7/04-6/05





NDPERS

Deferred Compensation Plan Membership

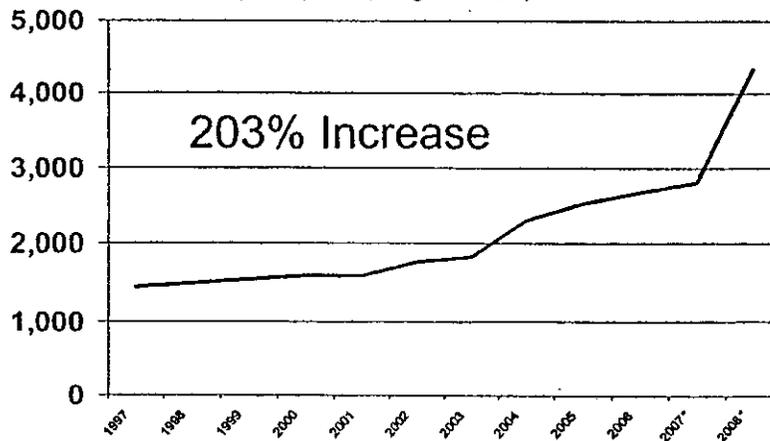


* - Estimated

NDPERS

Voluntary Insurance Plans Membership

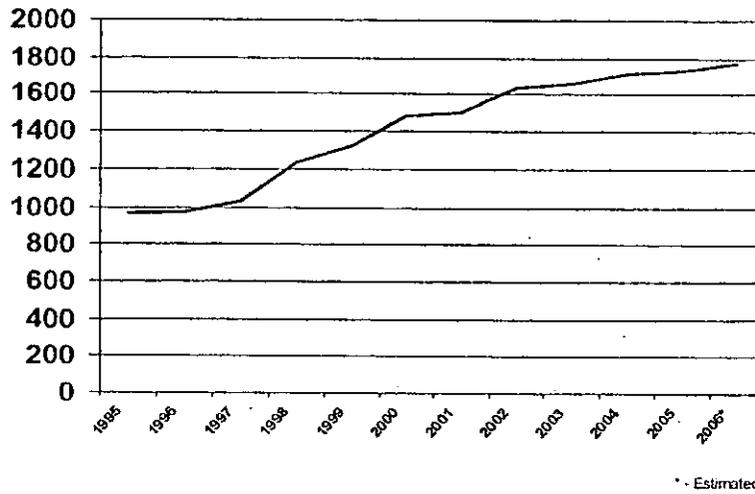
(Dental, Vision, Long-Term Care)



* - Estimated

NDPERS

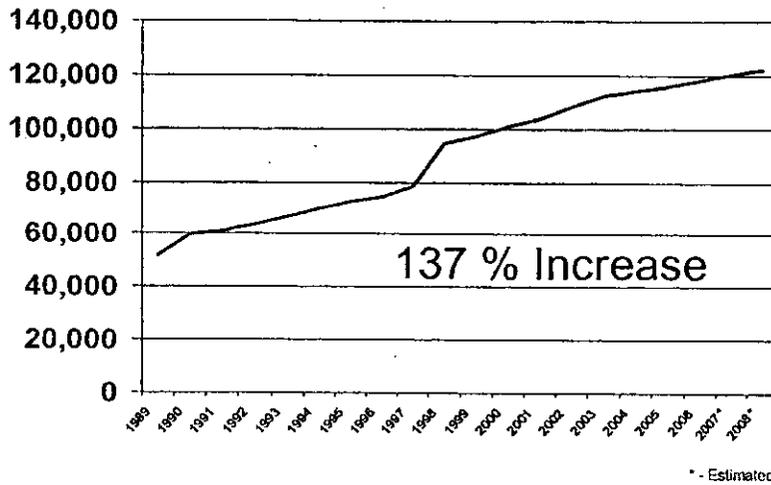
Participating Employers (All Programs)



NDPERS

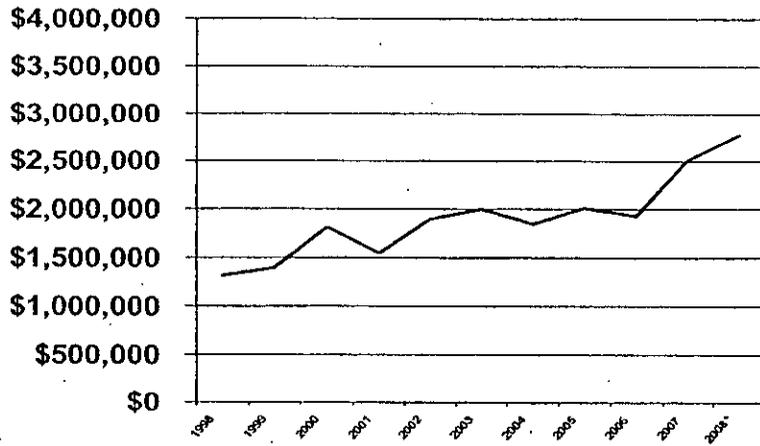
Total Members

(Health, Retirement, 457 Plan, Flex, Dental, Vision, LTC, Life/EAP)



NDPERS

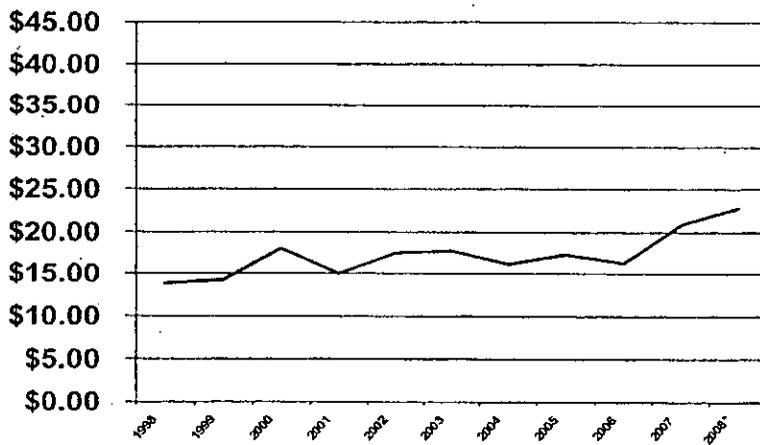
Appropriated Expenditures



* - Estimated

NDPERS

Appropriated Per Member



* - Estimated



JON E. STRINDEN
strinden.jon@dorsey.com

January 18, 2007

Senate Appropriations Committee
State Capital
Bismarck, ND

Dear Senator Holmberg and Members of the Committee:

I am writing on behalf of the PERS Board in support of the equity increase request in the proposed PERS budget. This request is for both our classified and non-classified staff (the Executive Director). For our classified staff the proposal is to increase salaries so they are more competitive with other state agencies and hopefully, in combination with the Governor's proposal, with the marketplace in general. We are proposing for our Executive Director an increase in compensation which we feel will fairly compensate our Executive Director taking into consideration the following factors:

- i. Review of salary level for other statewide retirement systems directors with responsibilities similar to ND PERS Executive Director;
- ii. Excellent performance on the part of ND PERS Executive Director;
- iii. Additional responsibility resulting from the proposed Business System Replacement Project.

The Executive Director's salary as contained in the proposed PERS budget would result in a salary comparable to the average salary of other statewide retirement system directors.

We are also proposing a significant investment in our administrative system in the form of a proposed business system replacement project. If PERS is to successfully complete this project, avoid cost overruns and successfully transition to the next level, we feel strongly that we must maintain the staff we have for at least the next four years. In order to do this we feel we must be competitive in the respective market places that we compete. Therefore, we believe it is important to invest in our staff.

On behalf of the PERS board I would request your support for the equity package and the system replacement project. I would be happy to respond to any questions the committee may have and I can be reached at 701-271-8896 or by email at strinden.jon@dorsey.com. I thank you for your consideration of this important request.

January 18, 2007
Page 2

Sincerely,

DORSEY & WHITNEY LLP



Jon E. Striden
Chairman of the Board of Trustees
ND Public Employees Retirement System

Attachment 7

PROPOSED AMENDMENTS TO SENATE BILL NO. 2022

Page 2, line 13, replace "8,985,308" with "9,679,308"

Page 2, line 15, replace "\$9,830,627" with "\$10,524,627"

Page 2, line 16, replace "9,849,627" with "10,543,627"

Page 2, line 19, replace "\$10,224,903" with "\$10,918,903"

Page 2, line 20, replace "\$10,205,903" with "\$10,899,903"

Page 3, line 4, replace "10,550,019" with "11,244,019"

Page 3, line 6, replace "\$14,549,864" with "\$15,243,864"

Page 3, line 7, replace "\$17,900,168" with "\$18,594,168"

Page 3, after line 12, insert:

SECTION 5. LEGISLATIVE INTENT. The Public Employees Retirement System shall seek additional appropriations from the North Dakota Emergency Commission if additional funding is required in order to complete implementation of the Legacy Application System Replacement (LASR) project.

Renumber accordingly

3/7/2007

DEPT: Public Employees Retire System 192

STATE OF NORTH DAKOTA
SALARY HISTORY REPORT

NDSR217

Page 1

POS.	NAME	EMPL RCD	CURRENT JOB CLASS	STATUS	CURRENT RATE	DATE	PREV RATE	EFF DATE	PREV RATE	EFF DATE	PREV RATE	EFF DATE
00001235	Aaser, Cindy M	0	ADMIN ASSISTANT I	F A	1,668.00	12/1/2006	1,588.00	7/1/2006	1,526.00	6/1/2006	1,388.00	1/1/2006
					5.04 %		4.06 %		4.66 %		-33.27 %	
00001226	Allen, Kathleen M	0	BENEFIT PGMS DIV MGR-PERS	F A	4,879.00	7/1/2006	4,691.00	7/1/2005	4,510.00	9/1/2003	4,274.00	4/1/2003
					4.01 %		4.01 %		5.52 %			
00001246	Bechtel, Emily S	0	TEMP-NOT CLS-ADMIN SFT	P T	8.00	9/28/2004						
00001243	Becker, Tammy LT	0	ACCOUNT/BUDGET SPEC III	F A	3,750.00	8/1/2006	3,441.00	7/1/2006	3,150.00	4/3/2006		
					8.98 %		9.24 %		-4.60 %			
00001244	Binder, Pamela J	0	EMP BENEFIT PGMS SPEC	F T	2,583.00	7/1/2005	2,483.00	12/1/2004	2,364.00	5/17/2004		
					4.03 %		5.03 %					
00001237	Bosch, Pamela E	0	MEMBER SERVICES REP	F A	2,016.00	7/1/2006	1,938.00	7/1/2005	1,863.00	9/1/2003	1,791.00	4/1/2003
					4.03 %		4.03 %		4.02 %			
00001240	Buchholz, Shari M	0	OFFICE ASSISTANT III	F T	1,401.00	8/1/2004	1,334.00	1/26/2004				
					5.02 %							
00001217	Collins, James Spurb	0	APPOINTED-NOT CLASSIFIED	F A	10,002.00	8/1/2006	9,435.00	7/1/2006	9,072.00	9/1/2005		
					6.01 %		4.00 %		1.96 %			
00001248	Curfman, Denise A	0	TEMPORARY-NOT CLASSIFIED	F T	15.00	5/19/2005	2,188.00	9/1/2003	2,103.00	4/1/2003		
					18.83 %		4.04 %					
00001247	Dorwart, Rebecca J	2	BRD/COMM-NOT CLASSIFIED	F A	0.00	8/1/2006						
00001241	Dschaak, Sharmain L	0	BENEFIT PROG ADMIN (PERS)	F A	3,793.00	1/1/2007	3,448.00	10/1/2006	3,338.00	7/1/2006	2,869.00	7/1/2005
					10.01 %		3.30 %		4.02 %			
00001247	Dwelle, Terry L	1	BRD/COMM-NOT CLASSIFIED	P A	0.00	4/1/2003						
00001247	Ehrhardt, Joan A	1	BRD/COMM-NOT CLASSIFIED	F A	0.00	1/3/2006						
00001222	Ellsworth, Sharon K	0	ADMIN STAFF OFFICER I	F A	2,350.00	7/1/2006	2,259.00	7/1/2005	2,172.00	9/1/2003	2,049.00	4/1/2003
					4.03 %		4.01 %		6.00 %			

2022

Job Summary

Stephen Cochrane

EMP

ID: 0548759

Empl Rcd #: 0

Job Information

[Customize](#) | [Find](#) | [View All](#) |  First 1-6 of 6 Last

[General](#) | [Job Information](#) | [Work Location](#) | [Compensation](#)

<u>Eff Date</u>	<u>Sequence</u>	<u>Annual Rt</u>	<u>Monthly Rt</u>	<u>Daily Rt</u>	<u>Hrly Rate</u>	<u>Currency</u>	<u>Change Percent</u>	<u>Components</u>
07/16/2006	0	\$159,996.000	\$13,333.000	\$615.369	\$76.921154	USD	0.000	Components
07/01/2006	0	\$159,996.000	\$13,333.000	\$615.369	\$76.921154	USD	35.898	Components
07/01/2005	0	\$117,732.000	\$9,811.000	\$452.815	\$56.601923	USD	8.003	Components
07/01/2004	0	\$109,008.000	\$9,084.000	\$419.262	\$52.407692	USD	5.297	Components
07/01/2003	0	\$103,524.000	\$8,627.000	\$398.169	\$49.771154	USD	3.009	Components
01/01/1987	0	\$100,500.000	\$8,375.000	\$386.538	\$48.317308	USD	0.000	Components

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2022

Job Summary

John Cochrane

EMP

ID: 0548759

Empl Rcd #: 0

Job Information

[Customize](#) | [Find](#) | [View All](#) |  First 1-6 of 6 Last

General

Job Information

Work Location

Compensation

<u>Eff Date</u>	<u>Sequence</u>	<u>Short Description</u>	<u>Action Reason</u>
07/16/2006	0	Family Change	Dependent exceeds age limit
07/01/2006	0	Pay Rt Chg	Equity Increase
07/01/2005	0	Pay Rt Chg	Equity Increase
07/01/2004	0	Pay Rt Chg	Market Increase
07/01/2003	0	Pay Rt Chg	Legislative/General Increase
01/01/1987	0	Hire	Hire - Conversion Row

 [Return to Search](#)

 [Notify](#)

Job Summary

James Collins

EMP

ID: 0211247

Empl Rcd #: 0

Job Information

Customize | Find | View All |  First 1-7 of 8 Last

- General
- Job Information**
- Work Location
- Compensation

Eff Date	Sequence	Annual Rt	Monthly Rt	Daily Rt	Hrly Rate	Currency	Change Percent	Components
08/17/2006	0	\$120,024.000	\$10,002.000	\$461.631	\$57.703846	USD	0.000	Components
08/01/2006	0	\$120,024.000	\$10,002.000	\$461.631	\$57.703846	USD	6.010	Components
07/01/2006	0	\$113,220.000	\$9,435.000	\$435.462	\$54.432692	USD	4.001	Components
09/01/2005	1	\$108,864.000	\$9,072.000	\$418.708	\$52.338462	USD	1.961	Components
09/01/2005	0	\$106,770.000	\$8,897.500	\$410.654	\$51.331731	USD	2.000	Components
07/01/2005	0	\$104,676.000	\$8,723.000	\$402.600	\$50.325000	USD	4.006	Components
03/01/2004	0	\$100,644.000	\$8,387.000	\$387.092	\$48.386538	USD	2.007	Components

-  Return to Search
-  Previous in List
-  Next in List
-  Notify

2022

Job Summary

James Collins

EMP

ID: 0211247

Empl Rcd #: 0

Job Information

[Customize](#) | [Find](#) | [View All](#) |  First 1-7 of 8 Last

General | Job Information | Work Location | Compensation

<u>Eff Date</u>	<u>Sequence</u>	<u>Short Description</u>	<u>Action Reason</u>
08/17/2006	0	Data Chg	Correction-Work Phone
08/01/2006	0	Pay Rt Chg	Merit
07/01/2006	0	Pay Rt Chg	Legislative/General Increase
09/01/2005	1	Pay Rt Chg	Merit
09/01/2005	0	Pay Rt Chg	Equity Increase
07/01/2005	0	Pay Rt Chg	Legislative/General Increase
03/01/2004	0	Pay Rt Chg	Equity Increase

 [Return to Search](#) |  [Previous in List](#) |  [Next in List](#) |  [Notify](#)



MEMORANDUM

To: Representative Carlisle
 Representative Kempenich
 Representative Kroeber

From: Sparb Collins, NDPERS
 Sharon Schiermeister, NDPERS

Date: March 6, 2007

Subject: SB 2022

We are writing in response to the three questions that came up in our appropriations committee hearing. We understood those questions to be for more information on the equity increase, how the system replacement project costs are to be distributed to the PERS programs and what are those programs, and third if any of the proposed PERS legislation has any potential effect on our appropriation. In addition you had requested some background information on the vendor that bid on our project as well as the actuary's assessment of the cost implication. This information is attached for your consideration.

Equity increase

The proposed equity increase is for the classified and nonclassified staff. For the classified staff the funding request is to raise the overall comp ratio for PERS to be equal with the overall state average. While this has been a goal of PERS for several sessions it takes on even more importance to us at this time with the proposed system replacement project. During the next three years PERS needs to maintain its existing staff to work on this project. If we do not, the associated turnover could cause the project to be delayed or other negative consequences could take place which could cause the project costs to rise. This investment by PERS in its staff at this time is not only the equitable thing to do but also is a prudent risk management strategy to help insure the timely completion of the project within the budget proposed. Please see the Salary Equity Schedules with the details for this proposal.

**North Dakota Public Employees Retirement System
Classified Position Salary Equity Schedules
By Position**

The following schedule was developed to provide a preliminary orientation of how the salary equity increases would be distributed. It is based on salary and position information as of May 2006. It excludes the Executive Director, whose position is unclassified.

Title	Pay Grade	Salary Range	Actual Salary	Years Service	Quartile	Midpoint	C-Ratio	INC %	INC \$	New C-Ratio
Office Assistant III	5	\$1,388 - \$2,313	\$1,386.66	2.58	1	\$1,850	0.750	9.00%	\$125	0.817
Office Assistant III	5	\$1,388 - \$2,313	\$1,443.00	0.08	1	\$1,850	0.780	9.00%	\$130	0.850
Office Assistant III	5	\$1,388 - \$2,313	\$1,922.00	14.92	3	\$1,850	1.039	3.00%	\$58	1.070
Admin Assistant I	6	\$1,526 - \$2,543	\$1,526.00	0.92	1	\$2,034	0.750	9.00%	\$137	0.818
Admin Assistant I	6	\$1,526 - \$2,543	\$1,603.00	3.17	1	\$2,034	0.788	9.00%	\$144	0.859
Admin Assistant I	6	\$1,526 - \$2,543	\$1,603.00	3.25	1	\$2,034	0.788	9.00%	\$144	0.859
Member Services Rep	7	\$1,679 - \$2,798	\$1,843.00	5.17	1	\$2,238	0.824	9.00%	\$166	0.898
Member Services Rep	7	\$1,679 - \$2,798	\$1,938.00	7.25	1	\$2,238	0.866	9.00%	\$174	0.944
Member Services Rep	7	\$1,679 - \$2,798	\$1,944.00	6.67	1	\$2,238	0.869	9.00%	\$175	0.947
Admin Assistant II	7	\$1,679 - \$2,798	\$2,040.00	12.92	2	\$2,238	0.912	9.00%	\$184	0.994
Account/Budget Spec I	8	\$1,847 - \$3,078	\$2,214.00	9.00	2	\$2,462	0.899	9.00%	\$199	0.980
Account/Budget Spec I	8	\$1,847 - \$3,078	\$2,827.00	22.67	4	\$2,462	1.148	3.00%	\$85	1.183
Benefit Services Spec	9	\$2,034 - \$3,390	\$2,136.00	7.42	1	\$2,712	0.788	9.00%	\$192	0.858
Auditor I	9	\$2,034 - \$3,390	\$2,136.00	1.00	1	\$2,712	0.788	9.00%	\$192	0.858
Admin Staff Officer I	9	\$2,034 - \$3,390	\$2,259.00	10.92	1	\$2,712	0.833	9.00%	\$203	0.908
Admin Staff Officer I	9	\$2,034 - \$3,390	\$2,625.00	29.83	2	\$2,712	0.968	3.00%	\$79	0.997
Benefit Programs Spec	11	\$2,459 - \$4,098	\$2,919.00	10.50	2	\$3,278	0.890	9.00%	\$263	0.971
Data Proc Cord III	12	\$2,728 - \$4,546	\$2,839.00	5.08	1	\$3,637	0.781	9.00%	\$256	0.851
Account Budget Spec III	12	\$2,728 - \$4,546	\$3,150.00	15.17	1	\$3,637	0.866	9.00%	\$284	0.944
Benefit Prog Admin	12	\$2,728 - \$4,546	\$3,209.00	18.08	2	\$3,637	0.882	9.00%	\$289	0.962
Benefit Prog Admin	12	\$2,728 - \$4,546	\$3,368.00	23.33	2	\$3,637	0.926	5.00%	\$168	0.972
Benefit Prog Admin	12	\$2,728 - \$4,546	\$3,415.00	15.67	2	\$3,637	0.939	5.00%	\$171	0.986
Data Proc Cord III	12	\$2,728 - \$4,546	\$3,427.00	16.58	2	\$3,637	0.942	4.00%	\$137	0.980
Data Proc Cord III	12	\$2,728 - \$4,546	\$3,638.00	15.17	3	\$3,637	1.000	3.00%	\$109	1.030
Research Analyst III	12	\$2,728 - \$4,546	\$3,650.00	16.75	3	\$3,637	1.004	3.00%	\$110	1.034
Planner IV	13	\$3,023 - \$5,039	\$4,174.00	19.67	3	\$4,031	1.035	3.00%	\$125	1.067
Auditor IV	14	\$3,287 - \$5,478	\$3,715.00	17.08	1	\$4,382	0.848	9.00%	\$334	0.924
Pgm Div Mgr (PERS)	15	\$3,709 - \$6,181	\$4,691.00	15.67	2	\$4,945	0.949	4.00%	\$188	0.987
Accounting Manager II	15	\$3,709 - \$6,181	\$5,593.00	19.92	4	\$4,945	1.131	3.00%	\$168	1.165
			=====	=====	=====	=====	=====	=====	=====	=====
			\$2,732.20	11.95	1.79		0.896	6.93%	\$172	0.956

Total: \$4,988 per month

Matrix		
If Adjusted Compa Ratio is:	% Increase	# Staff
>0.96	3.00%	7
0.94-0.96	4.00%	2
0.92-0.94	5.00%	2
less than 0.92	9.00%	18

Budget request:
Salary 120,000
Benefits 20,123
Total-classified empl \$140,123

North Dakota Public Employees Retirement System									
Classified Position Salary Equity Schedules									
By Quartile									
Title	Actual Salary	Years Service	Quartile	Midpoint	C-Ratio	INC %	INC \$	New C-Ratio	
Average For Quartile	\$2,108.69	6.13	1.0	\$2,593	0.808	9.00%	\$190	0.881	
Average For Quartile	\$3,100.89	16.84	2.0	\$3,354	0.923	6.33%	\$186	0.981	
Average For Quartile	\$3,346.00	16.63	3.0	\$3,289	1.020	3.00%	\$100	1.050	
Average For Quartile	\$4,210.00	21.30	4.0	\$3,704	1.140	3.00%	\$126	1.174	
=	=	=	=	=	=	=	=	=	
	\$3,045.02	12.80	1.79		0.896	6.93%	\$172	0.956	
Agency Average (Excludes Director)							Total:	\$4,988	

The equity increase for the nonclassified staff or Director is proposed by the Board for many of the same reasons above and also based upon the Board's review of other salary information for similar positions. Specifically the Board reviewed the following salary information from a survey of 72 different retirement plans last year that was completed the prior year:

Position	Number	Low	High	Median	Average	Bonus Eligible	
						Number	Range
Executive Director/CEO Aged salary to 2006	72	63,003 65,523	421,950 438,828	124,907 129,903	141,192 146,839	7	3% - 40%

The Board decided to recommend moving to the average.

Please feel free to contact the PERS Board Chair for additional information. His name is Jon Strinden and can be reached at Dorsey and Whitney in Fargo at 701-235-6000.

We have also reviewed our turnover rate for the last year and find it to be 24%.

PERS Programs Affected by the System

Replacement Project and Allocation of Project Costs

The following is a listing of the PERS programs that will be affected by this project and the proposed allocation to each major program area:

**North Dakota Public Employees Retirement System
Business System Replacement Project
Funding Allocation**

Program	Allocation Percentage
Retirement Plans:	38.57%
Main	
Judges	
Law enforcement with previous service	
Law enforcement without previous service	
National Guard Security/Firefighters	
Job Service Retirement Plan	
Highway Patrol	
Group Insurance Plans:	28.73%
Health	
Life	
Dental	
Vision	
Long term care	
Employee Assistance Program	
Deferred Compensation Plan	19.15%
FlexComp Plan	9.58%
Retiree Health Insurance Credit Plan	3.68%
Defined Contribution Retirement Plan	0.29%
Total	100.00%

Review of PERS legislation and any effect on SB 2022

Bill Number	Sponsor	Summary	Effect on SB 2022 or PERS Appropriation
HB1078	PERS & SB Career & Tech. Education	The proposed legislation would permit current and future employees of the State board for career and technical education to irrevocably elect to transfer to and/or participate in the Public Employees Retirement System (PERS) Hybrid Plan and the Retiree Health Benefit Fund effective July 1, 2007. Employees of the State board for career and technical education currently may participate only in the Teachers' Fund for Retirement (TFFR). For current employees of the board who elect to transfer to the Hybrid Plan, the TFFR	This bill would cause PERS to do some reprogramming and contains a \$3,000 appropriation to the agency for that effort.

Bill Number	Sponsor	Summary	Effect on SB 2022 or PERS Appropriation
		must transfer the greater of the actuarial equivalent of the employee's accrued benefit or the employee's account balance to the Hybrid Plan.	
HB1179	R. Price	As proposed, this bill would clarify that district health units and the Garrison Conservancy District participate in the uniform group insurance program under the same terms and conditions as state agencies. Therefore, they would pay medical premiums on a flat (composite) basis.	This bill has no direct effect on PERS administrative appropriations.
HB1432	R. Price, Svedjan, Weisz Sen. Fischer, Holmberg, J. Lee	A Bill for an Act to create and enact a new section to chapter 54-52.1 of the NDCC, relating to health treatment management services for state employees and their families; and to provide a continuing appropriation	This bill has no direct effect on PERS administrative appropriations. PERS staff will have to absorb this effort and work with BCBS to implement this program.
HB1433	R. Price, Svedjan, Weisz Sen. Fischer, Holmberg, J. Lee	A Bill for an Act to create and enact a new section to chapter 54-52.1 of the NDCC, relating to diabetes treatment management services for state employees and their families; to amend and reenact section 54-52.1-04 of the NDCC, relating to PERS uniform group insurance program; and to provide an appropriation.	This bill has no direct effect on PERS administrative appropriations; however, it does increase health premiums by \$2 to fund the new program. PERS staff will have to absorb this effort and work with BCBS to implement this program.
HB1486	R. Skarphol, Klein, Wald, Grande	A Bill for an Act to amend and reenact subsection 5 of section 54-52.1-03 of the NDCC, relating to participation by members of the legislative assembly in the uniform group insurance program.	This bill has no direct on PERS administrative appropriations.
SB2044	PERS	The proposed legislation would allow the Board to provided for a one-time post-retirement payment equal to 75% of the member's, beneficiary's, disability retirees or prior service retirees current monthly benefit payment amount payable in January of either 2008 or 2009, if the trust fund's total annualized return on investments is at least 9.16% for the fiscal year ending June of 2007 or 2008, applicable to both the Hybrid Plan (except the Judges retirement plan) and the Highway Patrol Retirement System. This is a potential one-time payment in the biennium.	This bill has no direct effect on PERS administrative appropriations.

Bill Number	Sponsor	Summary	Effect on SB 2022 or PERS Appropriation
SB2045	PERS	<p>As proposed, this broad-ranging bill addresses the following employee benefits issues:</p> <ul style="list-style-type: none"> • Section 1 requires that employees' lump sum accrued sick leave payout and unused annual leave at termination be deposited into a trust (as established under Section 7). • Section 2 increases basic and AD&D life insurance coverage to \$5,000 from the current \$1,000 benefit. • Section 3 creates a new subsection to the Century Code that creates separate coverage for "retired Medicare-eligible group prescription drug coverage" in response to the new federal Medicare Part D drug plan. • Section 4 revises the policy on how the retiree health care credit will be applied for married couples where both parties are eligible for the credit. • Section 5 changes the eligibility requirements for a "temporary employee" of political subdivisions to a minimum of twenty hours per week and at least twenty weeks per year. • Section 6 relates to Section 3 above and authorizes the Board to bid and contract for a separate Medicare retiree drug plan distinct from the active employees' plan. • Section 7 gives the Board the authority to establish a trust to 	<p>This bill affects all agencies appropriations by increasing the employer sponsored life insurance coverage from \$1,300 to \$5,000. An amendment is proposed for this bill that provides the appropriation to all effected agencies. For PERS the amount is \$634.</p>

Bill Number	Sponsor	Summary	Effect on SB 2022 or PERS Appropriation
		<p>maintain employer and employee funds resulting from Section 1 above to be used for future health care expenses.</p> <p>SEGAL: Section 4 of the proposed legislation would permit those members where both the member and spouse have credit in the Fund to combine credits towards monthly retiree premiums under the uniform group insurance program.</p>	
SB2047	PERS	<p>The proposed legislation would automatically enroll new employees after August 1, 2007 in the Deferred Compensation Program and defer \$25 per month into the Program into a default investment option selected by the Board, unless the new employee opts out of enrollment within 30 days of beginning employment.</p>	<p>This bill has no direct effect on PERS administrative appropriations.</p>
SB2048	PERS	<p>The proposed legislation would make the following important changes:</p> <p>Applies the definition of final average salary under the Hybrid Plan and Highway Patrolmen's Retirement System, which is currently the highest salary for 36 months in the last 180 months of employment, to employees who <u>terminate employment</u> on or after August 1, 2010, rather than those employees who <u>retire</u> on or after July 1, 2009. Also, for employees who terminate employment between July 1, 2005 and August 1, 2010, final average salary would be the highest salary for 36 months for any period for which the Board has accurate salary records, but no longer than the last 180 months of employment;</p> <p>Updates federal compliance provisions of the Hybrid Plan and Highway Patrolmen's Retirement System;</p> <p>Provides record confidentiality rules under the Hybrid Plan and Highway</p>	<p>This bill has no direct effect on PERS administrative appropriations.</p>

Bill Number	Sponsor	Summary	Effect on SB 2022 or PERS Appropriation
		<p>Patrolmen's Retirement Plan to limit disclosure of information regarding employer service purchases to the minimum, necessary elements of data;</p> <p>Permits conversion of sick leave to retirement credit under the Hybrid Plan and Highway Patrolmen's Retirement System at any time, rather than within 60 days of termination only;</p> <p>Clarifies that employer service purchases on an actuarial equivalent basis under the Hybrid Plan must include contributions for both retirement and the Retiree Health Benefits Fund;</p> <p>Clarifies that temporary employees may not purchase any additional service credit, including repurchase of past service upon reemployment;</p> <p>Permits members who retire and commence receiving benefits after their normal retirement date under the Hybrid Plan or Highway Patrolmen's Retirement System to elect between a single lump sum payment equal to missed payments since normal retirement date or an increase in monthly retirement benefits that reflects the missed payments;</p> <p>Permits conversion of sick leave under the Defined Contribution Plan after four or more years of service, instead of after 25 or more years of service;</p> <p>Provides for automatic refund of member accounts under the Defined Contribution Plan if the vested account balance is less than \$1,000, instead of \$5,000.</p>	
SB2050	PERS	The proposed legislation would increase the required monthly contribution to the Retiree Health Benefit Fund from 1.00% of monthly salary to 1.15% of	This bill has no direct effect on PERS administrative appropriations. This proposal was included in the Governors

Bill Number	Sponsor	Summary	Effect on SB 2022 or PERS Appropriation
		monthly salary and increase the monthly retiree health credit from \$4.50 per year of credited service to \$5.00 per year of credited service. There is also a corresponding contribution rate increase for non-teaching employees of the superintendent of public instruction with a higher contribution rate for a specified period that is intended to fund past service.	Executive Budget.
SB2051	PERS	The proposed legislation would increase the employer contribution rate from 16.17% to 21.7% of salary for the Highway Patrolmen's Retirement System and from 4.12% to 5.12% of salary for the Hybrid Plan and Defined Contribution Plan. In addition, the proposed legislation would provide for an increase of 2% of monthly retirement benefits to retirees and their beneficiaries in both the Hybrid Plan and the Highway Patrolmen's Retirement System effective August 1, 2009.	This bill has no direct effect on PERS administrative appropriations this biennium.

If you need any further information, please give either of us a call (Sparb 328-3901 or Sharon 328-3902) and thank you for your consideration of our request.

NDPERS Business System Replacement Project Vendor Application - Sagitec

Sagitec Scope of Operation

Sagitec is incorporated in the state of Nevada. Their headquarters are in Roseville, Minnesota, in the Twin Cities area. They have offices in Topeka, Kansas, and Pune and Chennai, India. Any work performed outside of the NDPERS offices is performed in Roseville, Topeka, or Chennai. Sagitec has no subsidiaries or additional operating divisions.

To date, they have 28 employees in their consulting group and one administrative employee. Four additional employees serve as contractors. Their average number of employees for the last five years is 16 employees with one contractor. Sagitec has been in business for three years.

They recruited experienced staff from leading pension system integration and IT firms, public pension organizations, and quality assurance companies to create a dynamic group that is already transforming the industry. They actively recruit only the most highly qualified staff with proven expertise.

Brief History

Sagitec opened its doors for business in April of 2004. On the day they began operating, the sum of their collective public pension administration experience exceeded many of their competitors. Singularly focused on public employee and teacher retirement systems, Sagitec provides tailor-made solutions to solve diverse business problems.

Sagitec considers itself an innovative firm that implements state-of-the-art software solutions for complex pension trusts such as NDPERS. As a business, they do not attempt to be everything for everyone, but strive to do everything extraordinarily well for the select clients they serve. They formed Sagitec because, as leading pension system integrators, they were dissatisfied with the limited functionality, rigid technical architecture, cost, and delivery models of the prevailing software vendors and solutions serving the public pension market. In response to this old business model, Sagitec developed the Neospin™ product. Neospin™ is their flagship offering. It is a complete pension administration solution framework and is developed for rapid tailoring to meet the unique needs of their clients. Their solution serves active, inactive, deferred, terminated, and retired members and beneficiaries.

Representative Clients

Sagitec provided or provides services to the following public pension clients: Kansas PERS, Wisconsin ETF, Colorado FPPA, California PERS, and Milwaukee ERS.



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Michael Moehle, FSA, MAAA
Vice President & Consulting Actuary
mmoehle@segalco.com

VIA E-MAIL

MEMORANDUM

To: Sparb Collins, Executive Director
From: Michael Moehle, FSA, MAAA, EA
Date: March 6, 2007
Re: New Business System Expense

As requested, we are writing to discuss the expenses associated with your new business system.

It is our understanding that PERS will be implementing a new business system over the next three years. You have asked what impact that expense will have from an actuarial perspective. Spreading the cost over the next three years equates to realizing a 0.08% lower return over each of the next three years.

For example, if the returns are 10.00% for each of the next three years, recognizing the cost of this system over the next three years would reduce the market returns to 9.92% for each of those years. In this example, that would leave 99.2% of the returns available to fund retirement benefits.

Please let me know if you have any questions on our analysis.

4009414

Benefits, Compensation and HR Consulting ATLANTA BOSTON CALGARY CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES
MINNEAPOLIS NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX PRINCETON RALEIGH SAN FRANCISCO TORONTO WASHINGTON, D.C.



Multinational Group of Actuaries and Consultants BARCELONA BRUSSELS DUBLIN GENEVA HAMBURG JOHANNESBURG LONDON MELBOURNE
MEXICO CITY OSLO PARIS

TESTIMONY OF
SPARB COLLINS
ON
SENATE BILL 2022

Mr. Chairman, members of the committee, good morning my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System or PERS. Today I appear before you in support of this bill and to give you an overview of our agency and our budget request.

Agency Overview

First let me start by providing an overview of our agency. PERS is directed by a board composed of the following members:

Chair (appointed by Governor)	Jon Strinden
Appointed by Attorney General	Thomas Trenbeath
State Health Officer or Deputy	Arvy Smith
Elected	Howard Sage
Elected	Joan Ehrhardt
Elected	Rosey Sand
Elected	Ron Leingang

Concerning our program responsibilities they are divided into two major areas, retirement and group insurance. Attachment #1 identifies for the retirement program area the various plans administered by PERS and provides some statistical information about each. As the attached shows we administer approximately 9 different retirement plans. Those include the Job Service retirement plan and OASIS plan which were transferred to PERS from Job Service; the new Law Enforcement Plan for political subdivisions which was created two sessions ago; and the Defined Contribution (401(a)) plan which was assigned to our agency in 1999. The other retirement programs have been a part of PERS since the 1980's. You will note the largest retirement plan we administer is the Main retirement system which provides services to not only the state but also to political subdivisions. In

this plan about 55% of the active members are state employees and 45% are political subdivision employees. Attachment #2 is two maps showing the location of the retired members of the PERS retirement plan and the amount of benefits we paid out last year to those members.

Attachment #3 is information on the group insurance programs administered by PERS. As you will note the largest responsibility in this area is the health plan. In this program about 56% of members are state employees and 44% are political subdivisions or retirees.

Attachment #4 is two maps showing the members of the PERS health plan and where the money is spent. The most recent new addition in this area occurred two sessions ago when PERS was assigned the responsibility to review and analyze any new health coverage mandates passed by the legislature and to make a recommendation on whether or not it should be a part of all health plans. The 1995 session added to PERS the Long Term Care Plan, Dental Plan & Vision Plan. The other group insurance programs have been a part of the agency since before 1990.

Attachment #5 is some statistical data in graph form about our agency. Generally it shows that the scope of our responsibilities over time has increased, the members we serve has increased, the number of employers we serve has increased and our administrative costs have increased but not at the same rate.

Concerning the budget before you today, it can be broken down into three parts for purposes of discussion. The base budget, the proposed business system replacement project and the equity increases. You will also note that our budget is funded from special funds which is the respective program funds

Base Budget

First of all, the base budget. Our approved budget for 2005-2007 was \$4,719,237. Our base budget for 2007-2009 is \$4,750,657. This budget was developed as a hold even budget with only an increase for the cost to continue the fiscal year 2007 4% salary increase. Consequently this funding level would only allow us to maintain existing operations at the current staffing level and administration level. The agency currently has

two full time contract employees in our accounting area. While we have found this assistance helpful the associated turnover has not allowed us to stay on top of the workload due to the retraining that is involved when turnover occurs. Therefore, the agency would like to make these positions permanent FTEs and has included funding as part of the business system replacement project. This base budget does not provide the business system upgrades that would be necessary if the proposed replacement project does not go forward.

System Replacement Project

The second part of the budget and the most significant is our request to provide the appropriation authority to fund the replacement of our business system. Let me start by giving you some background on what brought us here today with this request and where we are in developing this project. In October of 2005 the PERS Board had a planning meeting to review its programs and their administration. One of the issues discussed was the aging business system. It was noted then that:

- System is old (it is the original system that has been added to over time)
- Patched together as new programs added
- ITD is moving it off the mainframe
- Programmers don't use the language anymore
- Not integrated
- Cannot support some activities
- We rely on institutional memory to make it work

The board decided to move forward with a feasibility study to review the situation. In the summer of 2006 the board heard from the consultant on the findings relating to the current organizational dynamics and the major business issue faced by PERS (a copy of this report is available on the NDPERS website at <http://www.nd.gov/ndpers/about-ndpers/docs/lasr-project/feasibility-study.pdf>). Concerning some of the organizational dynamics the consultant indicated:

- NDPERS' staff is approaching retirement eligibility and will begin to leave employment in the next several years, decreasing NDPERS' ability to handle

additional complex business procedures while maintaining customer satisfaction. In nine years NDPERS could lose 50% of its staff with 60% of today's institutional knowledge and in 15 years this rises to 72% of the staff with 87% of today's institutional knowledge. See Section 4.1.1.

- A significant amount of work is performed outside of the primary mainframe computer system using either Excel spreadsheets or database programs. This practice increases the risk that business rules will be applied inconsistently or data transferred incorrectly. The following table illustrates how this has developed over time.

Function Performed	Fully Integrated	Not Integrated
Defined Benefit Plans (Main, Judges, National Guard, Law Enforcement, Highway Patrol & Job Service) - 6	79	168
Defined Contribution Plans (Optional Defined Contribution and 457 Deferred Comp) - 2	9	35
Group Insurance (Health, life, dental, vision, LTC) - 5	14	76
Retiree Health Insurance Credit - 1	1	8
Employee Assistance Program - 1	4	5
FlexComp - 1	1	9
Totals	108	301
Percentage of Total Work	26%	74%

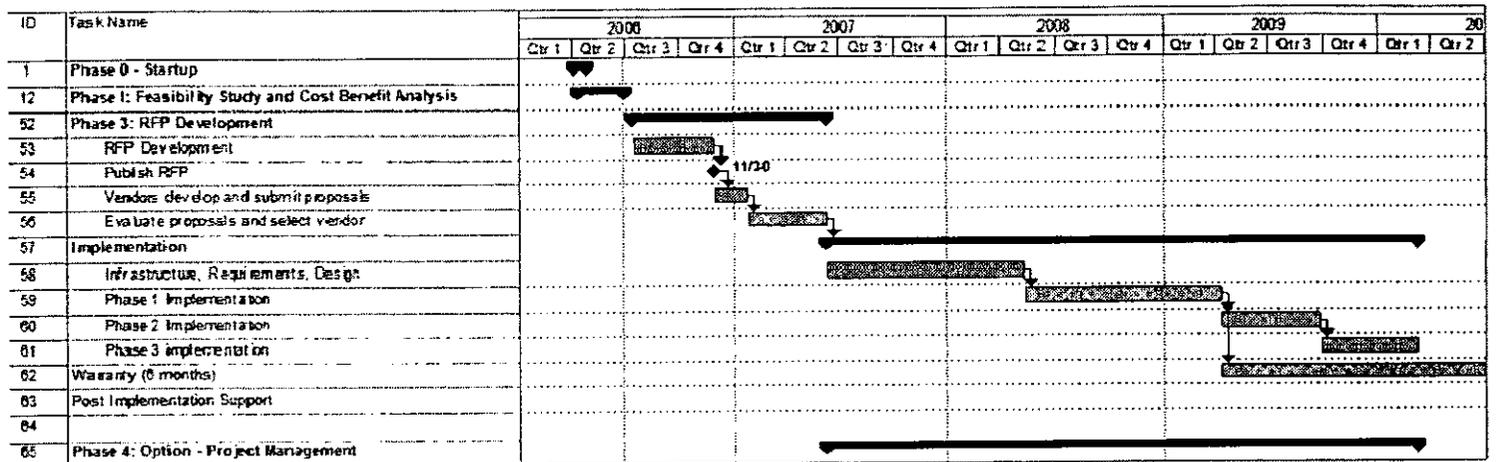
- The current technology at NDPERS has made it difficult to keep up with the agency's growth. To the extent changes have occurred they have exponentially complicated the systems and made it more difficult to continue to maintain operations.

Concerning the major business issues faced by PERS the consultant noted (references such as 4.2.1 is to sections in the feasibility study):

1. While it is impossible to speculate what new duties could be assigned to PERS legislatively, it is clear that just the existing responsibilities will result in increased workload in the future. As noted in 4.2.1, if existing trends are predictive of the future, the number of retirements could increase by 60% in the next five years. This increases the workload for all programs as people retire and sign up for the other programs. Additional staffing to accommodate these new clients, based upon existing business practices, could be 7 more FTEs at a cost of \$600,000 or more per biennium (4.2.1).
2. It is problematic and will inevitably become more so to maintain this system with the increasing number of retirees (4.2.1) and the near obsolescence of the technology (4.3.4, 4.3.5). This issue was discussed with ITD who also indicated that it would be difficult to maintain this system over time since the language is old, the application has key programs that need to be changed with most maintenance requests, the complexity of the system makes it more difficult to enhance the system, the current system runs on an old technology infrastructure that ITD would like to replace, the current system is not a relational database and the pool of developers is getting smaller.
3. In order to accommodate the workload growth over the years and the limitations of the existing system, PERS has had to develop many workarounds (4.1.2). This lack of integration creates opportunities for errors (4.2.3, 4.3.3).
4. The current system results in: difficulty integrating new applications into the existing system such as program enhancements (4.3.1 & 4.3.11), limitations in adding new programs (4.3.2), limitations on retention of history (4.3.6 & 4.3.8), difficulty with production operations (4.3.7), limitations on edits (4.3.10) and integration of accounting systems (4.3.12).
5. Modern systems would have employers do more entering and verifying of data (4.2.5 & 4.3.9).

The conclusion of the consultant, and the board after reviewing the report, was that the existing system would need to be replaced since it was old and could not be counted on to provide services in the future. Therefore the question narrowed to when this replacement should occur. The board decided to move forward with the project immediately since if we waited we ran the risk of losing more institutional memory, our workload was only going to grow making it more difficult in the future and there was no reason to believe that

the cost of the project was going to be any lower by waiting. In fact the cost could become greater due to the intensity of people involved. Based upon these considerations and others the board decided it was time for PERS to move forward with replacing its first business system with a new system. The board adopted the following plan.



Focusing in on 2006 through the first half of 2007 the following critical dates were identified:

Date	Activity
November 16, 2006	RFP issued
December 4, 2006	Questions to be read at the bidders conference are due 5PM Central
December 13, 2006	Bidders conference 2PM Central
December 21, 2006	Responses to vendor questions from bidders conference and previously submitted questions are provided
January 16, 2007	Deadline for receipt of proposals 5PM Central
February 13, 2007	Scripted demonstration material provided to short-list vendors
February 13, 2007	Notification of short-list vendors (i.e. start of Evaluation Process – Phase IV)
March 6-8, 2007	Hold scripted product demonstrations / presentations
March 19-30, 2007	Customer site visits
April 2, 2007	NDPERS evaluation complete
April 2, 2007	Issue "Intent to Award" letter
April 13 – May 30, 2007	Contract negotiations
May 31, 2007	NDPERS selection approved and contract executed
June 1, 2007	Estimated project start

The goal of this plan was to develop firm fixed price bids by January of 2007 so we could insure the most accurate information for your consideration. Specifically PERS wanted to insure that the amount proposed in the budget was sufficient based upon the actual bids received. We realized that if this project was approved and the bids came in after that approval and were higher we would have a serious dilemma. In order to meet this goal we developed a request for proposal by late fall of 2006, issued it to potential vendors and got responses by January 16. We held our bidders conference in December and had about 8 vendors in attendance. By the due date we had 3 that had formally withdrawn. Two had indicated they thought the project cost was higher than we budgeted by between 1.5 million to 5 million dollars. By the end of the day last Tuesday we received one proposal for the project that has met the minimum qualifications. We are starting our review. However at this point based upon the information we have to date it seems our project budget is the minimum necessary. We may find as we review this proposal in the next several weeks the funding level we proposed is not sufficient. We also know that if we need to reissue the bid we will need to increase the budget in order to attract additional bidders.

You will note that in the budget before you today we are requesting funding of \$9.4 million for this project. This includes the system replacement costs, funding for 4 additional FTE, and the related operating expenses for the project team. The system replacement costs are estimated to be \$8.9 million and include \$7 million for the new system; \$1 million for Independent Validation & Verification, Quality Assurance and Oversight Project Management services; \$200,000 for backfile conversion; and a 10% contingency of \$700,000. We anticipate that the system replacement costs will be spent over a 3 year period from July 2007 – June 2010. We will be requesting that the balance of this appropriation authority be carried over into the 2009-2011 biennium. Funding for the 3rd year costs for the 4 additional FTE and project team will be included in the 2009-2011 biennium budget request. The additional staffing is to help backfill existing positions as existing staff are taken off day to day activities and assigned to this project. In addition this staffing is necessary to help maintain existing service levels. We would anticipate the additional staffing would be needed for at least 4 years and that at the conclusion of the project some of these staff could be phased out, however not all.

Supporting the system replacement project is our detailed feasibility study (over 300 pages of information) and our detailed scope of work in the RFP (over 400 pages of information). If you desire more information on this effort we would be happy to go through these documents in more detail for your information. Please feel free to call upon us.

Equity Adjustments

The third part of our request is for salary equity funding. While funding for this is always critical it is even more imperative with this project. The one thing I have learned in talking with my counterparts from other states and our consultant is that the biggest risk in a project such as this is not having enough staff effort assigned and secondly losing staff during the project. PERS relies so much on institutional memory that if we lost certain critical staff during this project it could cause us to come in over budget or with a product that does not meet expectations. In addition to our critical staff it is important for us to maintain all our trained staff. Turnover requires training and training means that experienced staff has to be called upon, this in turn sets off a cycle in which staff is assigned to the critical duties of maintaining daily functions. Specifically retirement benefits must be paid, health insurance enrollments must occur, flex benefits must be paid, and so on. Other noncritical daily duties are put on hold. In a scenario like this efforts related to a project such as this would be one of the duties put on hold. However in this case it would mean vendor time charges would continue but they would not be getting timely instructions. The result could be cost overruns. Consequently we are proposing salary equity funding for both are classified and nonclassified staff. The funding for our classified staff is to get them up to the average of other state employees and maybe even closer to market when combined with the Governor's proposal. For the nonclassified staff or Executive Director it is to get the salary to the average of other state benefit fund administrators.

This investment in PERS staff is small compared to our project risk. If our project was approved and we had a 20% to 50% cost overrun, it would be over \$1.5 to \$3.5 million in extra costs or if we had to abandon the project midway through it could mean millions of dollars lost. When we look to trying to mitigate project risk every discussion highlights the importance of several variables but continually one stands out that we can address now

- staffing. For a small agency like ours it is even more crucial since we do not have the depth in our staffing due to our size. PERS therefore believes that providing equity adjustments is the right thing to do and it is also a key success factor for this project. Also please note attachment #6 which is a letter from our board chairman on this as well.

Mr. Chairman, members of the committee I would also like to take this opportunity on behalf of PERS to thank you for your support. Together we have provided to our members valuable benefits that have truly made a significant difference in peoples lives and helped to support the economic health of North Dakota. We look forward to continuing to work with you in the future. Again thank you and this concludes my testimony.

*Attachments
Same as
those given to
Senate -*

Requested Changes in SB 2022 as Approved by the House of Representatives

The requested changes by PERS in SB 2022 approved by the House of Representatives relate to the system replacement project. As presented in the Senate the system replacement costs were estimated to be \$8.9 million and included \$7 million for the new system; \$1 million for Independent Validation & Verification, Quality Assurance and Oversight Project Management services; \$200,000 for backfile conversion; and a 10% contingency of \$700,000. Since the Senate hearing and before the House hearing PERS started the review process relating to the response we received to our RFP. We noted the level of funding requested was not sufficient to meet all the items in the RFP and in order for us to complete all the areas of work we needed additional appropriation authority for the following items:

• OCR/ICR	\$ 18,000
• Training	\$ 92,000
• Work Process Manuals	\$120,000
• Configuration Services	\$ 59,000
• Performance Bond	<u>\$405,000</u>
Total	\$694,000

PERS therefore requested at the House hearing an amendment to provide the additional appropriation authority.

In addition, PERS requested another amendment. As noted above PERS has already gone to market with the RFP for this work effort. We only received one proposal on time and we are in the process of reviewing it and should be completed with this effort by May 1. However it was noted that if this vendor does not work out, we will need to again reissue the RFP if we are to move forward with the project this next biennium. We know from two vendors that did not respond they felt the project needed to be in the range of 1.5 million to 5 million more. Therefore, based upon this information, we know it is

possible that if we go back out to bid, the project costs could rise higher than what is included in the budget, as amended. If this occurred and it was after the session ended, we would have to wait until next session to move forward with the project. Alternatively, two other options are available. One option, would have been for us to request several million dollars more in appropriation authority. However it is uncertain how much would be necessary, one million more or five million more. A second option and the one we requested, is the second amendment. This amendment is a statement of legislative intent that if we find we need more appropriation authority as a result of having to rebid the project, we would submit a request to the emergency commission/budget section. This accomplishes several objectives:

- It recognizes that we have reviewed this situation with you during the session and developed a plan of action.
- It allows the emergency commission/budget section to review the reason why the additional appropriation authority is needed and it gives them the opportunity to decide if the project should proceed at the higher cost level based upon all the information that would be available at that point in time.
- It provides for communication relating to this project with all concerned (emergency commission, budget section, SITAC, etc).

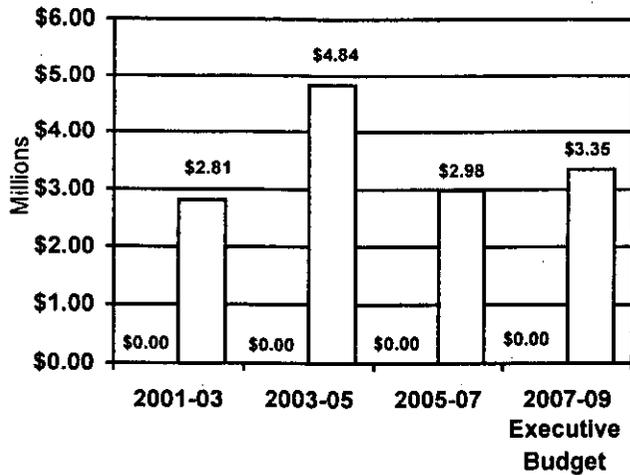
PERS requested and the House approved the "statement of legislative intent" approach.

Department 190- Retirement and Investment Office
Senate Bill No. 2022

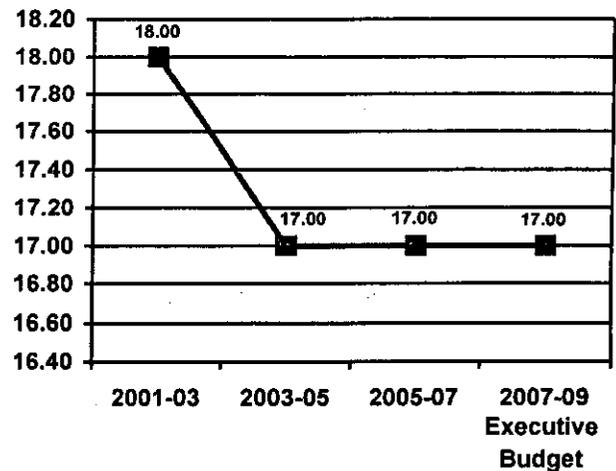
	FTE Positions	General Fund	Other Funds	Total
2007-09 Executive Budget	17.00	\$0	\$3,350,304	\$3,350,304
2005-07 Legislative Appropriations	17.00	0	2,975,028 ¹	2,975,028 ¹
Increase (Decrease)	0.00	\$0	\$375,276	\$375,276

¹The 2005-07 appropriation amounts do not include \$513,699 of 2003-05 carryover authority.

Agency Funding



FTE Positions



■ General Fund □ Other Funds

Executive Budget Highlights

1. Adds funding for salary equity adjustments
2. Removes funding for decreases in information technology contractual services

	General Fund	Other Funds	Total
		\$65,301	\$65,301
		(\$513,699)	(\$513,699)

Continuing Appropriations

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

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

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

Major Related Legislation

House Bill No. 1078 - This bill would allow employees of the Department of Career and Technical Education to transfer retirement plan membership from TFFR to the Public Employees Retirement System.

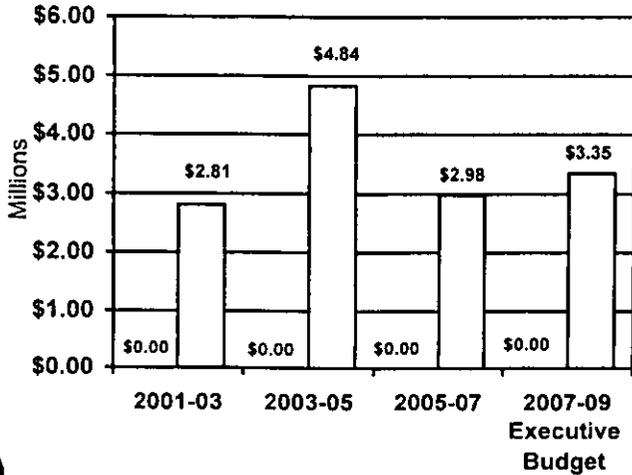
Senate Bill No. 2046 - This bill would increase TFFR employer contributions by 1 percent, requires employer contributions on reemployed retirees, and reduces benefits for new teachers and administrators hired after July 1, 2007.

Department 190- Retirement and Investment Office
 Senate Bill No. 2022

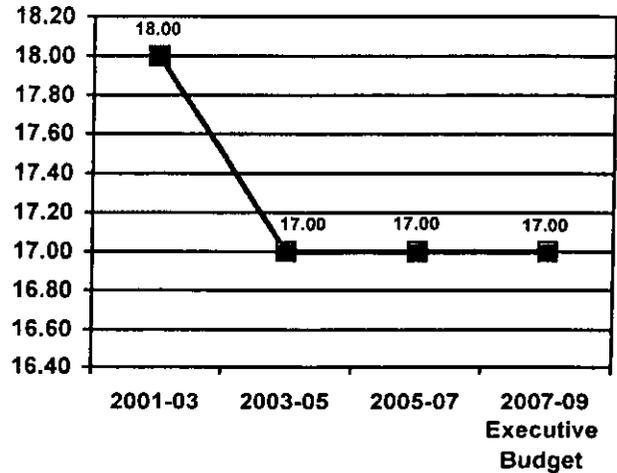
	FTE Positions	General Fund	Other Funds	Total
2007-09 Executive Budget	17.00	\$0	\$3,350,304	\$3,350,304
2005-07 Legislative Appropriations	17.00	0	2,975,028 ¹	2,975,028 ¹
Increase (Decrease)	0.00	\$0	\$375,276	\$375,276

¹The 2005-07 appropriation amounts do not include \$513,699 of 2003-05 carryover authority.

Agency Funding



FTE Positions



■ General Fund □ Other Funds

First House Action

Attached is a summary of first house changes.

Executive Budget Highlights
 (With First House Changes in Bold)

	General Fund	Other Funds	Total
1. Adds funding for salary equity adjustments		\$65,301	\$65,301
2. Removes funding for decreases in information technology contractual services		(\$513,699)	(\$513,699)

Continuing Appropriations

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

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

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

Major Related Legislation

House Bill No. 1078 - This bill would allow employees of the Department of Career and Technical Education to transfer retirement plan membership from TFFR to the Public Employees Retirement System.

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**ND RETIREMENT AND INVESTMENT OFFICE
 ND STATE INVESTMENT BOARD
 INVESTMENT FUNDS
 AS OF JANUARY 31, 2007**

<u>Fund Name</u>	<u>Market Values as of 1/31/07</u>
Pension Trust Fund	
Teachers' Fund for Retirement (TFFR)	1,890,146,904
Public Employees Retirement System (PERS)	1,825,071,718
City of Bismarck Employees Pension	48,860,204
City of Bismarck Police Pension	22,723,611
Job Service of North Dakota Pension	92,247,111
Subtotal Pension Trust Fund	<u>3,879,049,548</u>
Insurance Trust Fund	
Workforce Safety & Insurance	1,266,480,653
State Fire and Tornado Fund	28,325,982
State Bonding Fund	2,916,806
Petroleum Tank Release Compensation Fund	9,847,221
Insurance Regulatory Trust Fund	1,307,111
ND Health Trust Fund	11,406,031
State Risk Management Fund	4,038,552
State Risk Management Workers Comp Fund	4,097,661
Cultural Endowment Fund	267,146
Budget Stabilization Fund	99,578,040
Veterans Cemetery Trust Fund	118,306
ND Association of Counties (NDACo) Fund	874,726
NDACo Program Savings Fund	577,765
Bismarck Deferred Sick Leave Account	803,841
Group Insurance Account	3,869,991
City of Fargo FargoDome Permanent Fund	10,709,199
Subtotal Insurance Trust Fund	<u>1,445,219,031</u>
PERS Retiree Insurance Credit Fund	<u>42,699,896</u>
Total Assets Under SIB Management	<u><u>5,378,374,506</u></u>

SB 2022
North Dakota Retirement and Investment Office
Testimony to Senate Appropriations Committee
Steve Cochrane, Executive Director
January 22, 2007

*Same
testimony
given to
House*

Good morning. My name is Steve Cochrane and I serve as Executive Director of the North Dakota Retirement and Investment Office (RIO) and as Investment Director to the State Investment Board (SIB).

RIO was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of two important long-standing state programs – the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the State Investment Board (SIB).

TFFR is a qualified defined benefit public pension plan. The plan covers North Dakota public school teachers and administrators and is funded on an actuarial basis. Benefit funding comes from member and employer contributions and investment earnings. TFFR serves over 9,500 teachers from 246 employer groups and pays benefits to more than 5,800 retirees and beneficiaries. High quality member services and outreach programs are offered to members and employers as part of the continuing effort to keep them informed about the retirement program.

The SIB is responsible for setting policies and procedures guiding the investment of more than \$5.0 billion in assets for five pension funds and 17 other insurance-type funds. Their investments are divided into two investment trust funds – the Pension Trust and the Insurance Trust. The Pension Trust is made up of only qualified pension funds whose monies must be invested exclusively for the benefit of their participants. The Insurance Trust is made up of mainly insurance-type funds, but also includes funds that do not qualify as pension funds and would like to benefit from the cost savings of being pooled with other funds' assets. All of these funds are invested in accordance with the "Prudent Investor Rule".

I am happy to report that the pension funds experienced outstanding returns for the past fiscal year, ranking well into the top decile of all public funds measured by our investment consultant, Callan Associates. Returns for this fiscal year-to-date are positive and encouraging.

The RIO budget is all special funds. No general funds are requested.

Some of the highlights from our budget request are detailed below:

- Our original budget request included slight increases in salaries and operating expenses. Within the salaries line, the increase is to continue the current biennium legislative increases as well as to fund a salary increase approved by the State Investment Board for the Executive Director, which is a non-classified position.

We also requested an optional package which the Governor included within his recommendation. This package requests \$65,301 for equity increases based on comparisons of our classified employees. According to the Human Resource Management Services division, the average state employee has 13.4 years of service and a compa-ratio of 0.96. Our average employee has 12.5 years of service and a compa-ratio of 0.92. The optional package request would bring our average compa-ratio to approximately 0.96. We will use a matrix computation, taking into consideration years of service and position within grade classifications to allocate these funds among our staff. Because of the extreme inequities that exist within our agency, the Governor included

the salary equity increase directly in our budget request. If additional inequities exist after the application of these funds, our agency will also be able to participate in any equity funds available under the state equity pool if approved by the Legislature.

The slight increase in our operating request was necessary to continue funding operations at current levels due to inflation, increased fuel costs and postage increases.

- We are not requesting an increase in our contingency line.
- We are not requesting funds in our contracted services line. Beginning in the 2003-05 biennium, we requested \$2 million dollars to implement a retirement administration software package to replace the outdated mainframe system for the Teachers' Fund for Retirement. The majority of the project was completed during that biennium, however, the final work was not completed until January of 2006, prompting us to request carry-forward of the remaining appropriation into the 2005-07 biennium. Upon successful "go-live" in September 2005 and the finalization of the majority of the remaining open issues, we completed payment of project expenditures and the final result was a budget surplus for the project of just over \$60,000.
- No additional FTE's are being requested.

In conclusion, the Retirement and Investment Office strives to provide top-notch services to its members and clients in a cost effective and efficient manner. We feel that this budget will allow us to continue to do so. Thank you for your time and consideration.

ND RETIREMENT AND INVESTMENT OFFICE
Budget Overview Presentation
January 22, 2007

	2005-07 Legislative Appropriation	2005-07 Estimated Expenditures or Currently Filled FTE Positions	(1) Variance	2007-09 Executive Recommendation	(2) 2007-09 Recommendation Change (Variance) to 2005-07 Legislative Appropriations
Salaries and wages	1,978,420	1,912,500	26,672	2,337,305	358,885
Operating Expenses	914,610	755,000	159,610	930,999	16,389
Contingency	82,000	-	82,000	82,000	-
Contracted Services	513,699	453,031	60,668	-	(513,699)
Total	3,488,729	3,120,531	328,950	3,350,304	(138,425)
Special funds	3,488,729	3,120,531	328,950	3,350,304	(138,425)
FTE	17	16	1	17	-

(1) Explanation of Major Funding and FTE Variances for the 2005-07 Legislative Appropriations to 2005-07 Current Estimates.

The salaries and wages variance is due to two vacant positions during the current biennium. One of the positions has been filled and the other is being studied for possible changes in duties. Due to efficiencies gained with our new pension administration software that was recently implemented, we are testing the possibility of having existing positions absorb the job duties of this position. We are currently paying 3 positions temporary workload/responsibility level adjustments through the end of the current fiscal year to determine if all of the job duties can satisfactorily be performed. There are seasonal duties that are only performed at fiscal year end that have not yet been performed since the position was vacated after the last fiscal year end. Therefore, we need an entire cycle to determine if current employees can adequately perform those duties.

Approximately \$100,000 of the variance in operating is due to the timing of completion of the retirement administration software replacement. We had included two years of maintenance costs for the new software but will only be paying one year this biennium as the first year's maintenance was included in the original contract.

In the prior legislative session we requested carry-over funds to complete the retirement administration software replacement project. The project was completed in September 2005 and the actual final costs were less than the original budget request.

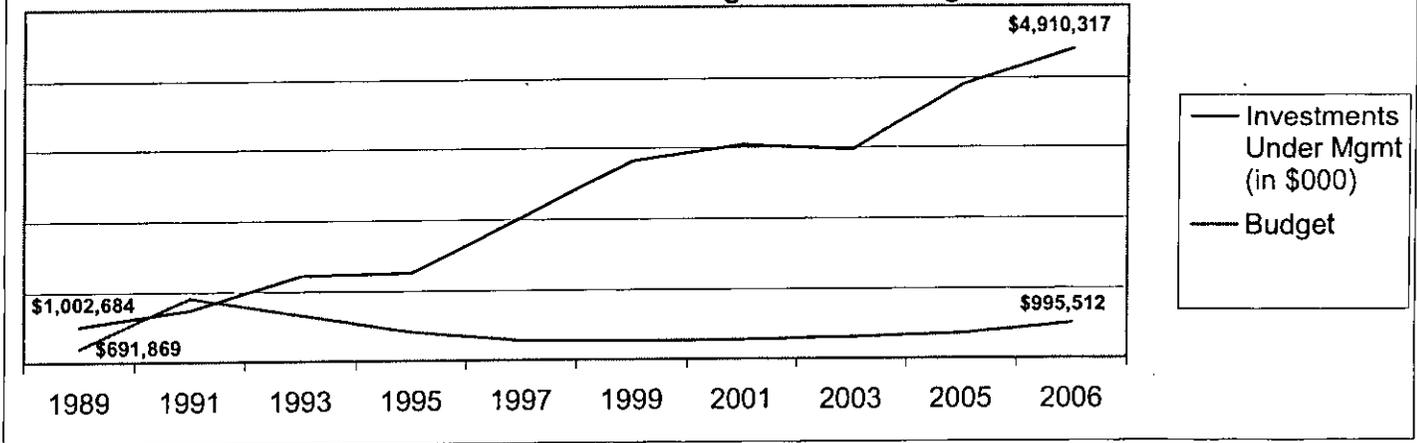
(2) Explanation of Major Funding and FTE Changes (Variances) for the 2007-09 Recommendation to 2005-07 Legislative Appropriation.

Our submitted base budget request increased our salary line by \$136,943. This increase was to continue the current biennium legislative increases for classified staff and for the deputy director (non-classified), as well as fund a board directed increase for the executive director (non-classified). An additional increase of \$65,301 was requested in an optional package and included in the Governor's recommendation. This increase is to bring our agency's average compa-ratio in line with the state average based on year's of service and position within grade classifications. The additional increase in the executive recommendation is for the Governor's recommended increases.

The slight increase in operating expenses was necessary to continue funding operations at current levels due to inflation, increased fuel costs and postage increases.

We are not requesting funds in the contracted services line for the 2007-09 biennium. The current biennium request was to complete the retirement administrative software replacement project, which was put into production in September, 2005.

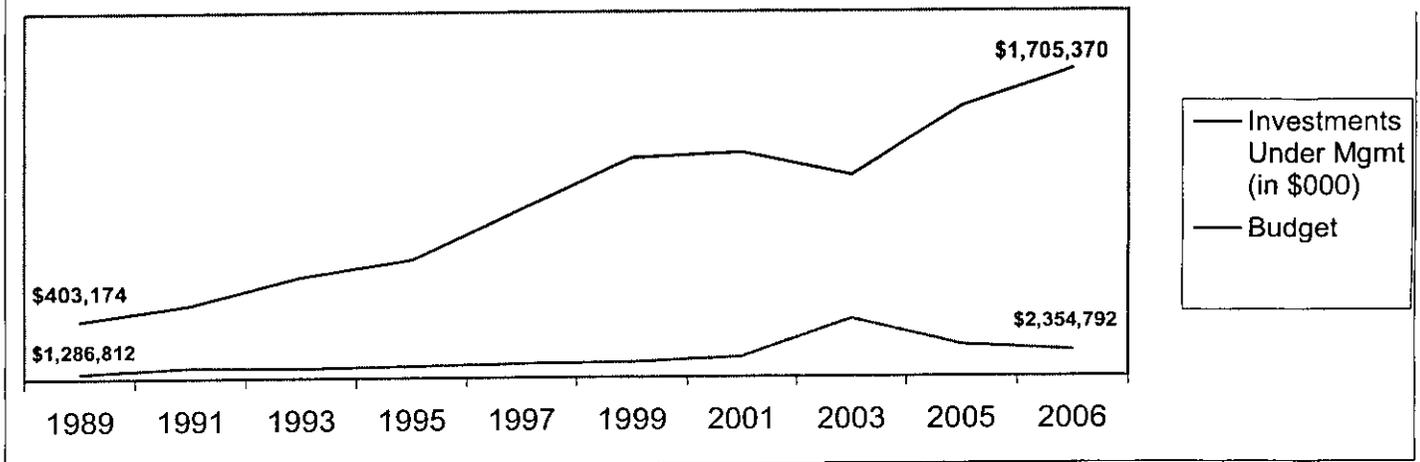
State Investment Board Assets Under Management vs Budget



1989-91 Biennium
2007-2009 Biennium

\$1,449 investment dollars per budget dollar
\$4,964 investment dollars per budget dollar

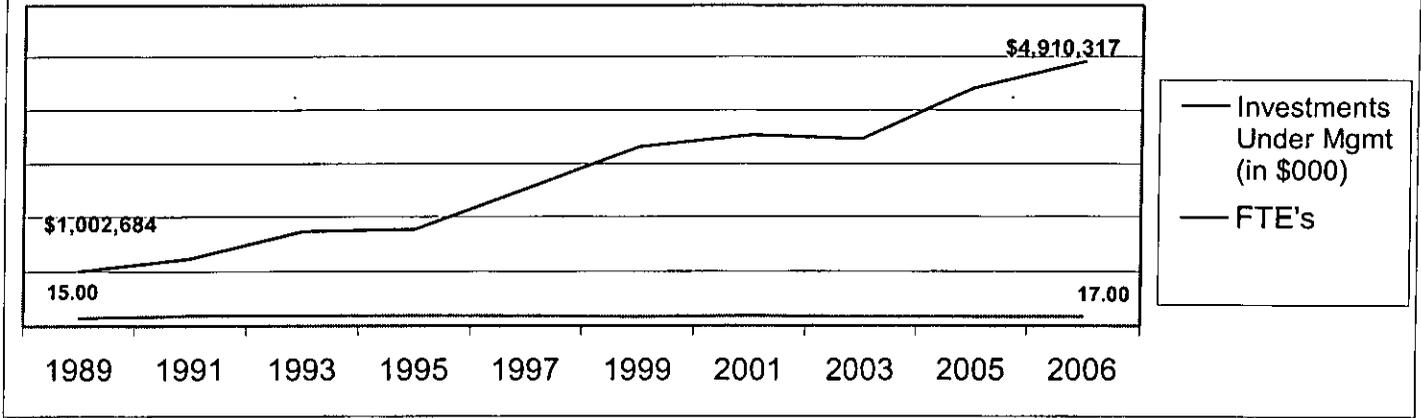
ND Teachers' Fund for Retirement Assets Under Management vs Budget



1989-1991 Biennium
2007-2009 Biennium

\$313 investment dollars per budget dollar
\$724 investment dollars per budget dollar

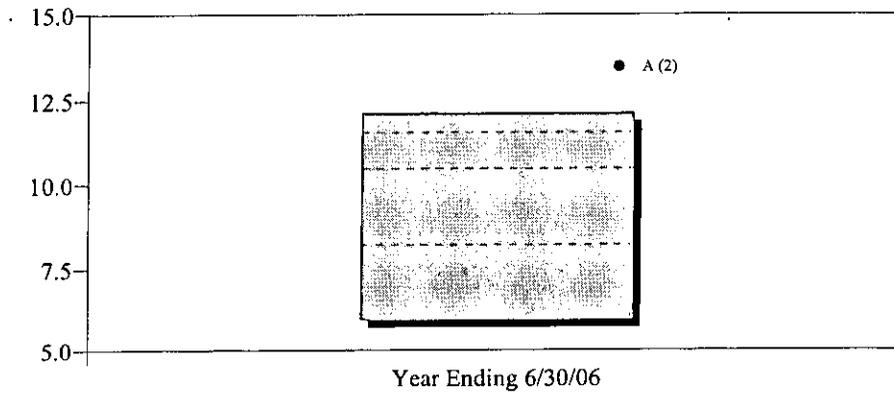
**Retirement and Investment Office
Assets Under Management vs FTE's**



1989-1991 Biennium
2007-2009 Biennium

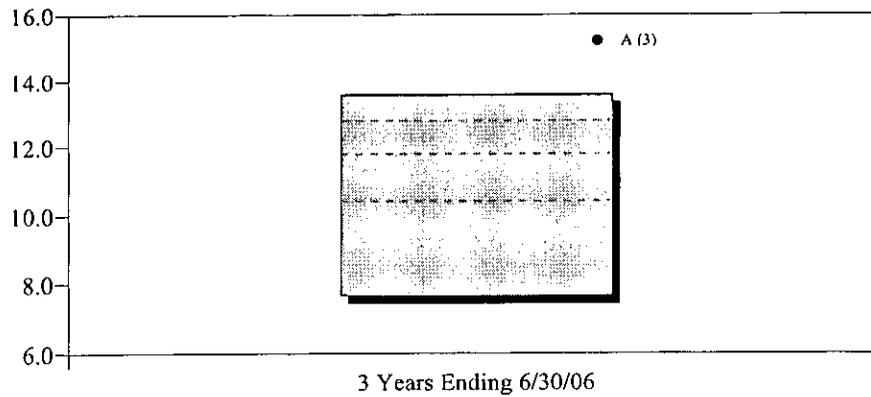
\$66,845,600 investment dollars per FTE
\$288,842,176 investment dollars per FTE

Returns
for Periods Ended June 30, 2006
Group: CAI Public Fund Sponsor Database



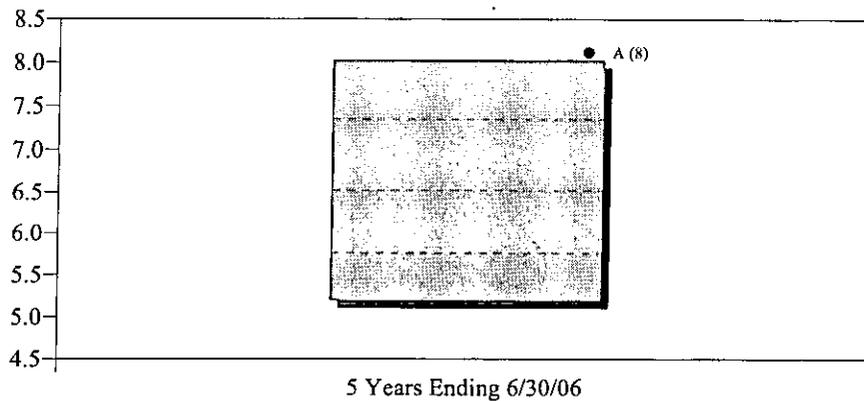
10th Percentile	12.12
25th Percentile	11.56
Median	10.47
75th Percentile	8.22
90th Percentile	5.94
Member Count	84
ND Pen - Total Fund ● A	13.49

Returns
for Periods Ended June 30, 2006
Group: CAI Public Fund Sponsor Database



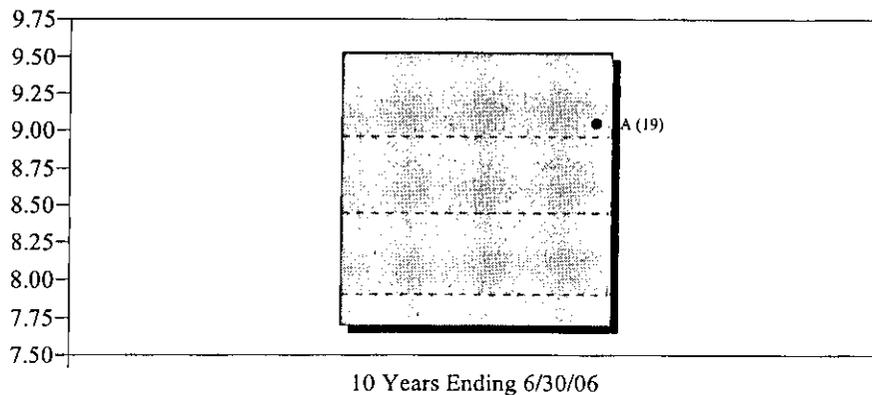
10th Percentile	13.58
25th Percentile	12.76
Median	11.77
75th Percentile	10.42
90th Percentile	7.66
Member Count	81
ND Pen - Total Fund ● A	15.23

Returns
for Periods Ended June 30, 2006
Group: CAI Public Fund Sponsor Database



10th Percentile	8.03
25th Percentile	7.35
Median	6.52
75th Percentile	5.76
90th Percentile	5.20
Member Count	73
ND Pen - Total Fund ● A	8.12

Returns
for Periods Ended June 30, 2006
Group: CAI Public Fund Sponsor Database



10th Percentile	9.53
25th Percentile	8.96
Median	8.45
75th Percentile	7.91
90th Percentile	7.70
Member Count	52
ND Pen - Total Fund ● A	9.05

10th Annual
Money Management Letter

Public Pension Funds Awards For Excellence

MARCH 11, 2007 ✦ LOEWS LAKE LAS VEGAS RESORT ✦ HENDERSON, NEVADA

Lifetime Achievement Award

Peter Gilbert, cio, Pennsylvania State Employees Retirement System

The 2007 Award Nominees

Savviest Public Plan of the Year

- North Dakota State Investment Board
- Ontario Teachers Pension Plan
- San Diego City Employees Retirement System

Medium Public Plan of the Year

- Philadelphia Public Employees Retirement System
- Los Angeles City Employees Retirement System
- San Antonio Fire & Police Pension Fund

Public Plan Consultant of the Year

- Bill Bensur, managing director, Wilshire Associates
- Stephen Cummings, ceo & president, Ennis Knupp & Associates
- Peter Keliuotis, v.p. and senior consultant, Strategic Investment Solutions

Equity Manager of the Year

- C.S. McKee
- Fidelity Investments
- NorthPointe Capital

Large Public Plan of the Year

- Los Angeles County Employees Retirement Association
- Indiana Public Employees Retirement Fund
- San Francisco Employees Retirement System

Small Public Plan of the Year

- New Orleans Employees Retirement System
- Tulare County Retirement Association
- Shelby County Retirement System

Bond Manager of the Year

- PENN Capital
- Brandywine Global Investment Management
- ING Investment Management Americas

Alternatives Manager of the Year

- Pantheon Ventures
- RREEF
- First Reserve Corporation