

FISCAL NOTE
Requested by Legislative Council
02/23/2015

Bill/Resolution No.: HCR 3042

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues					\$427,731,200	\$(427,731,200)
Expenditures						
Appropriations						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

If approved by the voters, this measure would transfer four percent of the legacy fund to the general fund at the end of each fiscal year.

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

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

Assuming a \$5.0 billion 6/30/2017 Legacy fund balance and 6% annual investment earnings, \$212,000,000 would be transferred to the general fund on 6/30/2018. An additional \$215,731,200 would be transferred to the general fund on 6/30/2019. After transfers, the 6/30/2019 Legacy fund balance would be approximately \$5.2 billion.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

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Agency: OMB

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Date Prepared: 02/23/2015

2015 HOUSE APPROPRIATIONS

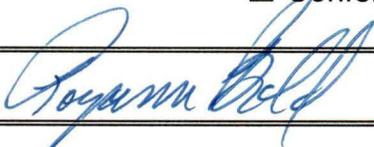
HCR 3042

2015 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

HB 3042
3/4/2015
24335

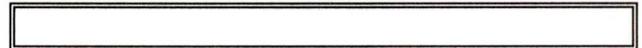
- Subcommittee
 Conference Committee



Explanation or reason for introduction of bill/resolution:

Relating to the use of funds in the legacy fund; and to provide an effective date.

Minutes:



Chairman Jeff Delzer

Opened the hearing on the HCR 3042

Representative William E. Kretschmar, District 28: spoke as the sponsor of HCR 3042.

Chairman Jeff Delzer

Is there anything here on the date of when the transfer of the 4%?

Kretschmar: at the end of each fiscal year

Chairman Jeff Delzer

2018 and 2019; it would happen; there would be two transfers in that biennium, or just one?

Kretschmar: two transfers in that biennium

Chairman Jeff Delzer

The second transfer would not take place until the last day of the biennium?

Kretschmar: that is correct.

Chairman Jeff Delzer

I don't know that it would be available to spend in that biennium and that's a question; but the way you're proposing this is 4% per year and the earnings would stay in the fund; is that right?

Kretschmar: the earnings would probably be part of the 4%. At the end of the fiscal year, the people who run the Legacy Fund would determine its value and under this proposal a percent of that value would go into the general fund.

Chairman Jeff Delzer

Have you looked at 1034, the bill we passed out concerning the Legacy fund?

Kretschmar I have not put anything in there to change that.

Chairman Jeff Delzer

And you've got this set out to go out on the general ballot on 2016.

Kretschmar: November of 16; yes.

Representative Kreidt

Beginning on July 31, 2018; if there is \$4Billion in the Legacy fund that would go to a general fund and be the total amount of whats in the Legacy fund is what you're proposing here.

Kretschmar That is correct; it would be 4% of the value of the fund, it's an arbitrary number

Chairman Jeff Delzer

That would be \$160M per year.

Representative Kreidt

Could you give me some reason except to prop up the general fund; why we would do this?

Kretschmar it is a good thing for our general fund. The Legacy fund should not even decrease if it's run right; it should be making 5% to 6% a year, I think. Maybe 4% is too high; but that's for you to decide or to kill the bill, it's up to you guys.

Representative Glassheim

There is a difference between the value of the fund which involves valuing stock portfolio and the actual interest earned; and I'm not sure which one of those you're...

Chairman Jeff Delzer

This would be the total value of the fund; it would be the cash amount on the particular day that they figure; and that would be as if they cashed everything out that day.

Representative Holman

Doesn't the current law, without any other proposed changes transfer earnings into the general fund?

Chairman Jeff Delzer

1034 suggested that the legislature put the earnings back into the fund; but the way the constitution is set up now; the earnings will be transferred at the start of the biennium for everything that's earned; not considering the appraised value of their assets. It's the actual earnings that we've already realized.

Representative Holman

Earnings are one classification; this seems to be a different category of drawing, so actually; I feel like we're doubling up here. So, if we're going to do something like this, it seems we'd have to look at that part of the law too.

Chairman Jeff Delzer

If you look at the proposal here, it takes the earnings out of the play; so the earnings would not be transferred; but just the 4%, is that right?

Kretschmar: that was my idea with this.

Chairman Jeff Delzer

The earnings and the fund would be realized earnings, I don't think it would be anticipated earnings from investments they are in the middle of.

Representative Holman

I see this providing stability; enabling us to make better predictions; so if we have another 2008; for example where there are no earnings; and we're running our state budget; this takes the volatility in income, if we are using the Legacy fund for income.

No testimony in support of, or against or neutral?
Hearing closed on the bill.

Discussion on the bill:

Representative Kreidt

When Legacy fund was passed by the citizens of ND was a fund that would continue to grow and in the future; there would be enough dollars; and return on investments....

The loss of revenue; will hopefully turn around and we'll see a change; I'm hesitant to tap into this fund; right now there is about \$2.6 billion in the fund. The majority has been invested and is earning about 5% return at this time. Maybe we're getting a little ahead of ourselves.

Chairman Jeff Delzer

We passed 1034 out; that came through the interim government and finance committee and it was suggested there we build this fund; unless the oil revenue drops by a certain amount or the fund reaches a certain amount; where it is so much of our ongoing oil revenue, which would mean it got to the point where you should start taking it out because it's going to be earning a whole lot on the interest side.

It scares me that with legislative action; you could be taking 23% of the fund; if you did it four sessions in a row; you would have that fund down to zero. I don't think that would happen, but it's entirely possible. Also if it is transferred on the last day of the fiscal year; I don't know how you could legitimately budget to spend that during that biennium, the second year; because it wouldn't show up until the last day of the biennium; you couldn't spend it on the last day of the biennium; so you wouldn't have it available to spend.

The earnings would not be available; under the current guidelines.

Representative Kreidt

I am on the Legacy fund committee; and since the oil prices are down; we get a report every month of the goes into the legacy fund; and prior to the drop in oil prices, we were bringing in about \$112M a month. The amount deposited in the Legacy fund for January was just over \$70M. The fund is not going to grow as quickly as it had been.

Representative Nelson

It was the people of the state that will decided to establish the Legacy fund and how it was used and there will be a number of proposals thrown at them; I don't know that this is the best piece; and I don't have a problem with the people looking at the proposal much like we do and deciding if it has merit or not and they'll tell us if that budgetary piece should be part of our state budget and I can accept yes or no on that ...

Representative Streyle

Motioned a do not pass

Representative Schmidt

Seconded

Representative Glassheim

We could put it in; 3%; we didn't know it was in the bank

Chairman Jeff Delzer

Even next time; the legislature would have a chance to go after
Would automatically move

Representative Glassheim

Some of this money was intended for schools and human services and if you put it in the general fund; that's where it can go. Or if we want, we can put it back in and just transfer it out; if it's growing too slowly. If we did this; 3% is better than 4%. In terms of the problem at the end of the year, we have that with the SIFF fund. We didn't know it was in the bank, until the next year, so we'll be behind; but it will be banked in the general fund, even though we couldn't spend it. When oil prices are down, our general fund is down and so...

Chairman Jeff Delzer

Even next time, the legislature would have an opportunity to go after the 15% if it was needed and spend in the following. The next session would have that opportunity if it was so needed.

Representative Holman

It's not depleting the fund; prudent investing will give 6-7%.. but I do like the idea of a stable transfer of \$140 or \$160 or whatever it grows to into the general fund, so we can have some predictability.

Representative Dosch

Don't believe that the citizens voted for the Legacy fund to grow government.
This is not why the citizens started this Legacy fund.

Representative Glassheim

Don't think having the useful services; bridges, roads, etc. is not growing government.

Representative Streyle

We have the budget stabilization fund; in case there is a shortfall; that is a pretty good buffer; starting to allocate funds for legacy fund, I don't support that. We should let this fund grow and if there is a dire need, I can't imagine 2/3 of us coming together to solve that issue, so that doesn't concern me. I think it's way too early to start tapping this fund in any fashion.

Motion Passes; Yes: 15; No 4; Absent 4
Representative Kreidt will carry the bill.

Date: 3/4/15

Roll Call Vote #: 1

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HCR 3042

House Appropriations Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
Other Actions: Reconsider _____

Motion Made By: Streyle Seconded By: Schmidt

Representatives	Yes	No	Absent	Representatives	Yes	No	Absent	Representatives	Yes	No	Absent
Chairman Jeff Delzer	✓			Representative Nelson		✓		Representative Boe			A
Vice Chairman Keith Kempenich			A	Representative Pollert	✓			Representative Glassheim		✓	
Representative Bellew	✓			Representative Sanford	✓			Representative Guggisberg	✓		
Representative Brandenburg	✓			Representative Schmidt	✓			Representative Hogan		✓	
Representative Boehning			A	Representative Silbernagel	✓			Representative Holman		✓	
Representative Dosch	✓			Representative Skarphol			A				
Representative Kreidt	✓			Representative Streyle	✓						
Representative Martinson	✓			Representative Thoreson	✓						
Representative Monson	✓			Representative Vigesaa	✓						
	<u>7</u>	<u>0</u>	<u>2</u>		<u>7</u>	<u>1</u>	<u>1</u>		<u>1</u>	<u>3</u>	<u>1</u>

Totals

(Yes)	<u>15</u>
No	<u>4</u>
Absent	<u>4</u>
Grand Total	<u>23</u>

Floor Assignment: Kreidt

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

REPORT OF STANDING COMMITTEE

HCR 3042: Appropriations Committee (Rep. Delzer, Chairman) recommends DO NOT PASS (15 YEAS, 4 NAYS, 4 ABSENT AND NOT VOTING). HCR 3042 was placed on the Eleventh order on the calendar.