

1995-96 INVESTMENT STUDY FINDINGS

This memorandum reviews the applicable findings of the 1995-96 interim Budget Committee on Government Finance that studied the state's investment process and the investment of state funds.

The committee conducted a survey of state agencies and institutions regarding funds maintained and administered by state agencies and institutions. Suggested changes made by agencies to improve investment returns on state agency funds include:

1. Allow for additional investment options.
2. Change the responsibility for the investing of the fund.
3. Be allowed to keep more or all of the earnings on the fund instead of the earnings going to the general fund.
4. Increase the interest rates at the Bank of North Dakota.
5. Maintain the fund separately from the state.
6. Change the Bank of North Dakota to a Treasury Department and eliminate the Tax Commissioner and State Treasurer.

The committee reviewed information on the interest rates paid by the Bank of North Dakota on state deposits. The Bank's rates were slightly higher or very close to the average North Dakota financial institution, depending on the length of the investment. The Bank's rates were slightly less than United States treasury rates. The following table provides a comparison, as of September 1, 1996, of the average North Dakota financial institution investment rates,

United States treasury rates, and the Bank of North Dakota rates:

| Length of Investment | Average North Dakota Financial Institution | Bank of North Dakota | United States Treasury Rates |
|-----------------------------|---|-----------------------------|-------------------------------------|
| 90 days | 3.80% | 4.13% | 5.15% |
| 180 days | 5.10% | 4.26% | 5.31% |
| One year | 5.34% | 5.35% | 5.64% |
| Two years | 5.71% | 5.70% | 6.00% |
| Three years | 5.72% | 5.70% | 6.18% |
| Four years | 5.97% | 5.90% | 6.28% |
| Five years | 6.00% | 6.00% | 6.38% |

The committee received a report on State Treasurer cash balances as of June 30, 1995, and a report on state agency account balances at the Bank of North Dakota as of that date. The report indicated that as of June 30, 1995, the State Treasurer had \$178 million invested in certificates of deposit bearing interest rates ranging from 4.44 percent to 4.46 percent and \$7.3 million in a money market demand account earning 4.02 percent interest. The report on state agency balances at the Bank of North Dakota indicated there was a total of \$340 million on deposit at the Bank by various state agencies and institutions on June 30, 1995. The total represents all sources of funds, including auxiliary services at the higher education institutions.