



**TESTIMONY OF JODI SMITH
COMMISSIONER
North Dakota Department of Trust Lands**

House Bill 1080

**House Finance and Taxation Committee
January 6, 2021**

Chairman Headland and members of the House Finance and Taxation Committee, I am Jodi Smith, the Commissioner and Secretary for the Board of University and School Lands (Board). I am here to testify on House Bill 1080.

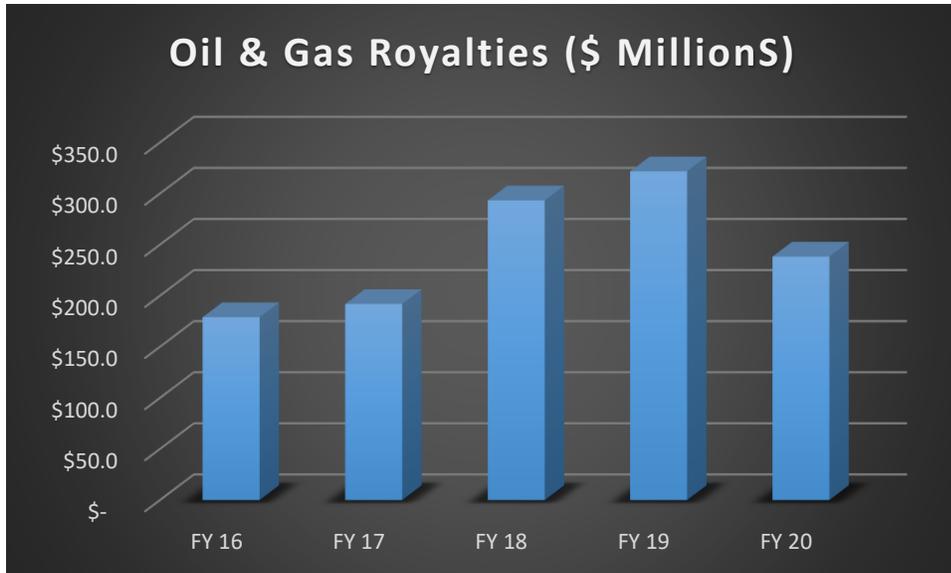
The Department of Trust Lands (Department) is the administrative arm of the Board, serving under the direction and authority of the Board. The Board is comprised of the Governor, Secretary of State, Attorney General, State Treasurer, and Superintendent of Public Instruction. The Department's primary responsibility is managing the Common Schools Trust Fund (CSTF) and 12 other permanent educational trust funds. The beneficiaries of the trust funds include local school districts, various colleges and universities, and other institutions in North Dakota. The Department manages five additional funds: the Strategic Investment and Improvements Fund, the Coal Development Trust Fund, the Capitol Building Fund, the Indian Cultural Education Trust, and the Theodore Roosevelt Presidential Library and Museum Endowment.

The Department also administers the responsibilities outlined in the Uniform Unclaimed Property Act, N.D.C.C. ch. 47-30.1. In this role the Department collects "unclaimed property" (uncashed checks, unused bank accounts, etc.), and processes owners' claims. This property is held in permanent trust for owners to claim, with the revenue from the investment of the property benefiting the CSTF.

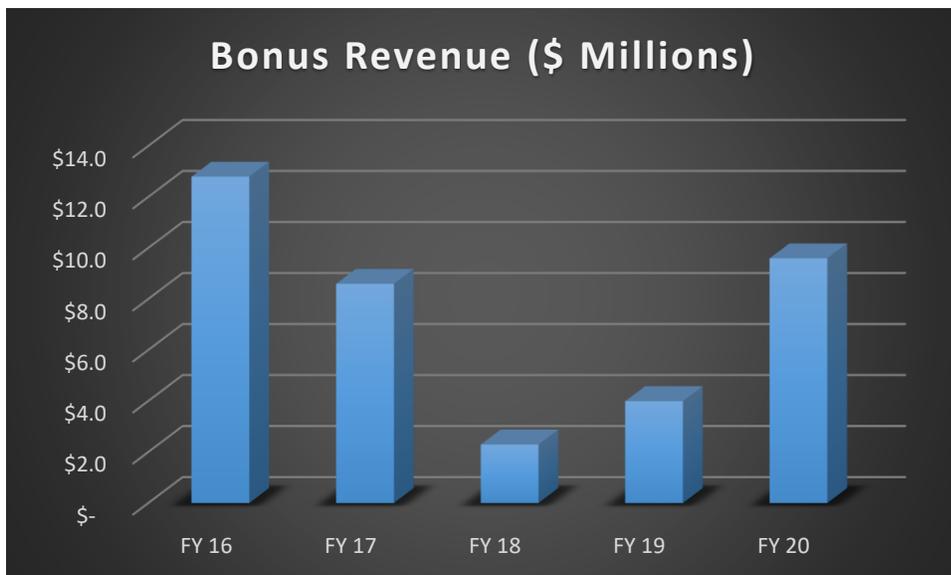
Additionally, the Department operates the Energy Infrastructure and Impact Office (EIIO), which provides financial support to political subdivisions that are affected by energy development. Assistance is provided through both the oil and gas impact grant program and the coal impact loan program.

The Department's Revenue Compliance Division is responsible for developing and implementing procedures to assure the timely and accurate accounting of all royalties, bonuses, rentals, and other revenues received. A significant amount of time is dedicated to evaluating the accounting and collection of oil and gas royalties.

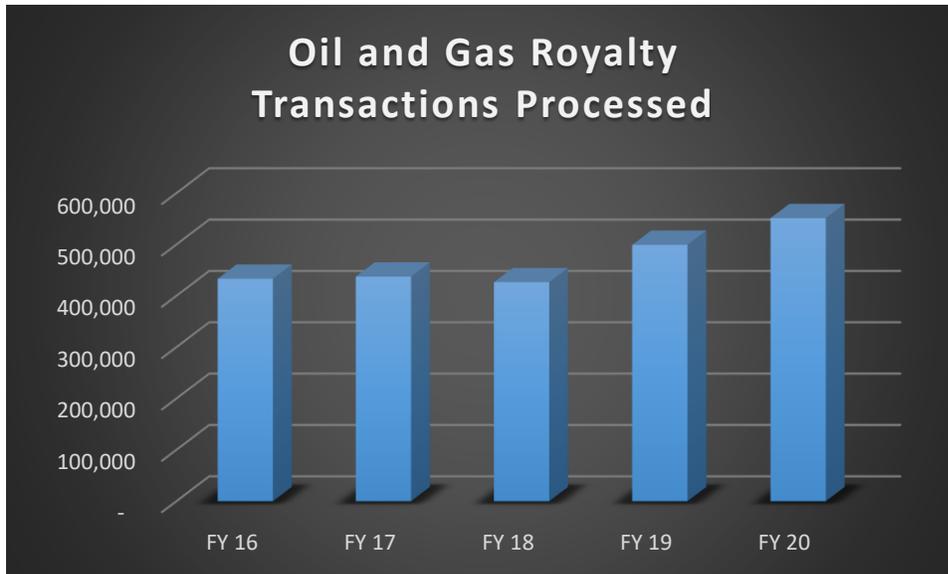
The Department recognized oil and gas royalty revenues of approximately \$321.9 million in Fiscal Year (FY) 2019 and \$238.4 million in FY 2020.



Bonus revenue received totaled \$4.0 million in FY 2019 and \$9.6 million in FY 2020.



Royalty transactions include prior period adjustments and current period payments. Often, multiple transactions will occur on the same statement for the same property due to multiple tracts in the same spacing unit, reporting of various products, and prior period adjustments.



Royalty data is reviewed for discrepancies in volume, ownership, valuation, and lease terms. Reported volume data is compared with the North Dakota Industrial Commission's data to identify variances. Additionally, division orders and submitted royalty reports are reviewed to identify potential issues. These efforts have brought additional revenue to the trusts that may not have otherwise been collected. The table below details the results of these efforts.

Collections				
	FY 17	FY 18	FY 19	FY 20
Additional Royalties Collected	\$295,678	\$81,436	\$460,829	\$427,517
Repaid Taxes and Deductions Taken in Error	42,580	797,882	0	710,011
Penalties & Interest Collected	306,473	293,365	564,617	636,898
Total Collections	\$644,731	\$1,172,683	\$1,025,447	\$1,774,426

HB 1080 is a bill to amend and reenact N.D.C.C. Sections 15-05-10 and 47-16-39.1 amending language to reduce the maximum rate owed by royalty payors to the Board for late oil and gas royalty payments. The Department will seek direction from the Board on how to proceed with respect to this bill and respectfully requests the opportunity to provide additional information if directed by the Board.