

(Prepare in triplicate)

FISCAL NOTE

Prepared in regard to:

Senate Bill No. 2190

(List bill or resolution and number, if available, or subject)

Amendment to:

(List bill or resolution and number)

Requested by:

Legislative Council

Date of receipt:

January 8

19 79

In the following space note the fiscal effect in dollars of the legislative proposal. If additional space is needed, attach a supplementary sheet. (Please type)

(see attachment)

Signed

R.E. Lommen

Typed Name

R.E. Lommen

Date Prepared:

January 10, 1979

Department

Commissioner  
State School Land

It is difficult to predict future "bonus payments" from oil and gas leasing. The Board has increased the royalty rate on oil and gas from one-eighth of production to one-sixth. This will likely have a profound effect on future bonus payments. With this in mind we believe that bonuses from oil and gas leases accruing to the benefit of the common schools will not exceed 8.5 million dollars for the next biennium, and could be substantially less.

We have for information purposes attached schedules that show interest and income from all sources over several bienniums. The bonuses placed in the permanent funds were invested as follows: 7 million dollars in our farm loan pool (@ 8½ to 9%) and 14 million dollars in U.S. Government Bonds & Notes (@ 8.5 to 9.3%). The farm loan pool has increased substantially as a result of these bonuses. The farm loan pool provides a valuable credit source for North Dakota farmers. The earnings from these increased investments are substantial, and will allow the common schools to realize quarterly payments which will equal the bonuses withheld in about 10 years time, moreover such quarterly payments will continue in perpetuity.

Trust Fund Distributions from 1973 to 1981

Distributions (Bonuses Disbursed - 1973-1975)	\$13,360,000.00	
Distributions (Bonuses Disbursed - 1975-1977)	\$14,820,000.00	- 11% increase
Distributions Projection		
(Bonuses Invested - 1977-1979)	\$16,794,000.00	- 13% increase
Distributions Projection		
(Bonuses Invested - 1979-1981)	\$20,215,000.00	- 20% increase

This substantial increase in disbursement income has been accomplished with increased permanent fund investments. As you can see these distributions outpace inflation even where the bonuses are withheld. Again this is due to the increased and the wise investment of the permanent funds.

These bonus monies are derived from a depletable natural resource, and as such should become permanent funds, providing increased sustained income for our trusts for years to come.

PROJECTED INTEREST & INCOME FOR 1977-79 BIENNIUM

FUNDS	Interest on		Investment	Interest on		Oil & Gas	Interest	Interest	Interest	Totals
	Contracts	Rentals	Income	Loans	Misc.	Leases	X-Contr.	F.H.A.	Aband. Prop.	
COMMON SCH.	1,640,000	2,235,000	4,600,000	4,700,000	200	1,300,000	600	20,800	11,600	14,508,200
N.D.S.U.	46,000	96,000	92,700	206,000	-	36,000	120	-	-	476,820
BLIND SCH.	14,400	12,000	23,500	46,000	-	8,600	-	-	-	104,500
CAP. BLDG.	50,000	41,000	125,000	-	-	17,000	-	-	-	233,000
DEAF SCH.	14,600	27,500	12,000	70,000	-	11,500	-	-	-	135,600
STATE HOSP.	7,100	10,600	18,000	40,000	-	6,900	-	-	-	82,600
ELLEDALE	13,000	22,000	28,500	55,000	-	14,000	75	-	-	132,575
VALLEY CITY	28,000	29,000	25,000	66,000	-	10,400	-	-	-	158,400
MAYVILLE	17,000	20,100	25,000	37,000	-	7,100	-	-	-	106,200
INDUSTRIAL	14,200	27,500	44,000	63,000	-	14,000	-	-	-	162,700
SCIENCE SCH.	15,500	21,300	31,000	50,000	-	10,000	-	-	-	127,800
SCH. OF MINES	23,000	22,500	32,000	65,000	-	16,500	50	-	-	159,050
SOLDIERS HOME	20,000	14,000	20,000	54,000	-	4,500	60	-	-	112,560
U.N.D.	38,500	46,000	38,000	150,000	-	22,000	55	-	-	294,555
TOTALS	1,941,300	2,624,500	5,114,700	5,602,000	200	1,478,500	960	20,800	11,600	16,794,560

PROJECTED INTEREST & INCOME FOR 1979-81 BIENNIUM

FUNDS	Interest on		Investment	Interest on		Oil & Gas	Interest	Interest	Interest	Totals
	Contracts	Rentals	Income	Loans	Misc.	Leases	X-Contr.	F.H.A.	Aband. Prop.	
COMMON SCH.	1,600,000	2,300,000	6,600,000	5,500,000	200	1,300,000	600	20,000	50,000	17,370,800
N.D.S.U.	45,000	100,000	150,000	280,000	-	36,000	120	-	-	611,120
BLIND SCH.	14,000	14,000	38,000	60,000	-	9,000	-	-	-	135,000
CAP. BLDG.	45,000	42,000	205,000	-	-	18,000	-	-	-	310,000
DEAF SCH.	14,000	29,000	22,000	96,000	-	12,000	-	-	-	173,000
STATE HOSP.	6,500	11,000	30,000	50,000	-	7,000	-	-	-	104,500
ELLENDALE	12,800	23,000	35,000	74,000	-	17,000	70	-	-	161,870
VALLEY CITY	26,000	30,000	37,000	88,000	-	10,400	-	-	-	191,400
MAYVILLE	16,100	21,000	31,100	46,000	-	8,000	-	-	-	122,200
INDUSTRIAL	14,000	29,000	66,000	77,500	-	14,000	-	-	-	200,500
SCIENCE SCH.	14,000	21,500	39,000	60,500	-	10,500	-	-	-	145,500
SCH. OF MINES	22,000	23,000	46,500	82,000	-	16,500	50	-	-	190,050
SOLDIERS HOME	18,000	15,000	26,000	71,000	-	5,000	60	-	-	135,060
U.N.D.	35,000	47,000	62,000	198,000	-	22,000	50	-	-	364,050
TOTALS	1,882,400	2,705,500	7,387,600	6,683,000	200	1,485,400	950	20,000	50,000	20,215,050



LANDS & MINERALS TRUST → a General Fund entity

12-31-78	Account Balance	\$ 48,896.09
12-31-78	Investments	<u>6,961,168.32</u>
12-31-78	Principal Balance	<u>\$7,010,064.41</u>
7-1-77 Thru 12-31-78		
	Accumulative Oil Bonuses & Rentals	6,218,016.34
	Accumulative Royalties	740,360.95
	Accumulative Other Land Income & Misc.	<u>51,687.12</u>
		<u>\$7,010,064.41</u>
12-31-78	Balance Forward	\$7,010,064.41
12-31-78 Thru 6-30-79	Projected Royalties	263,935.59
	Projected Bonuses & Rentals	650,000.00
6-30-79	Interest Earned on Investments	<u>526,000.00</u>
6-30-79	Total Projected Balance in Fund	\$8,450,000.00

This account represents income received from Lands & Minerals formerly under the Administration of the Bank of North Dakota transferred to State Land Department for Administration on July 1, 1977 when an exchange was accomplished according to Statute (Loanpool VS Land Minerals)

Bonus for State Leases Per Fund  
Credited to Permanent Funds

	Com. Sch.	N.D.S.U.	Blind	Cap. Bldg.	Deaf	St. Hosp.	Ellendale	Valley City	Mayville	Man. Ind. Sch.	Science	Mines	Sold. Home	UND
August 1977	- \$2,897,183.79	\$56,321.52	\$24,403.55	\$32,940.00	\$19,757.40	\$14,779.65	\$22,919.37	\$8,431.83	\$15,627.48	\$23,651.55	\$27,771.65	\$24,519.97	\$5,940.00	\$47,989.61
Nov. 1977	- 1,962,086.28	57,457.22	7,260.00	13,695.41	11,120.00	11,060.00	27,214.75	19,679.00	9,470.00	12,720.00	10,040.00	27,750.47	.00	28,553.54
Feb. 1978	- 4,511,655.43	57,301.68	28,372.42	41,120.00	12,204.39	6,068.47	17,976.46	13,211.51	34,376.41	33,687.03	34,952.12	20,522.55	5,432.07	51,396.30
May 1978	- 2,004,465.18	29,658.51	6,102.99	6,250.52	5,060.69	4,415.11	4,800.00	6,318.59	1,894.48	11,004.11	2,418.02	11,786.42	2,921.88	16,246.84
Aug. 1978	- 3,571,942.53	11,277.41	24,080.00	.00	10,680.00	30,341.46	.00	5,600.00	4,480.00	4,600.00	.00	5,200.00	.00	660.90
Nov. 1978	- 4,609,357.59	114,595.20	4,372.83	37,267.03	21,534.92	.00	160.00	13,266.12	2,660.44	60,258.94	1,772.00	20,596.24	1,320.00	66,482.60
<b>TOTALS</b>	<b>19,556,690.80</b>	<b>326,611.54</b>	<b>94,591.79</b>	<b>131,272.96</b>	<b>80,357.40</b>	<b>66,664.69</b>	<b>73,070.58</b>	<b>66,507.05</b>	<b>68,508.81</b>	<b>145,921.63</b>	<b>76,953.79</b>	<b>110,375.65</b>	<b>15,613.95</b>	<b>211,329.79</b>

Recap of Bonus Totals for State & Bank Leases

	State Leases	Bank Leases	Grand Total
Aug. 1977	- \$3,222,237.37	\$1,304,928.26	\$4,527,165.63
Nov. 1977	- 2,198,106.67	847,955.66	3,046,062.33
Feb. 1978	- 4,868,276.84	1,488,262.64	6,356,539.48
May 1978	- 2,113,343.34	402,413.11	2,515,756.45
Aug. 1978	- 3,668,862.30	723,777.85	4,392,640.15
Nov. 1978	- 4,953,643.91	1,450,678.82	6,404,322.73
	<b>\$ 21,024,470.43</b>	<b>6,218,016.34</b>	<b>27,242,486.77</b>

OIL ROYALTIES

	<u>Date</u>	<u>State</u>	<u>Bank</u>
1977	July	\$ 99,248.48	\$ 34,484.33
	August	194,660.01	37,547.94
	September	113,197.95	36,021.55
	October	106,141.70	53,888.22
	November	38,671.21	19,806.19
	December	228,817.43	45,149.65
1978	January	94,233.50	42,623.23
	February	106,221.76	28,721.03
	March	151,792.37	48,885.20
	April	75,861.49	18,662.14
	May	113,991.51	41,425.08
	June	116,712.52	37,348.34
	July	109,786.15	58,762.60
	August	148,963.66	56,380.06
	September	85,446.45	38,908.05
	October	112,224.01	43,849.49
	November	178,217.19	49,825.35
	December	115,935.96	48,072.50
	TOTALS	\$ 2,190,123.35	\$ 740,360.95



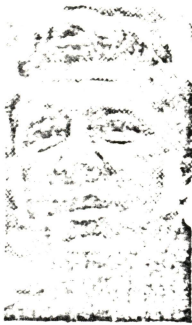
# North Dakota land board delivers a Christmas present

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The Forum  
FARGO-MOORHEAD  
Saturday, Dec. 23, 1978

Amidst talk of state budget deficits and forecasts of governmental borrowing in North Dakota, it is a relief to get the report of the North Dakota Land Board this Christmas season.

During 1978, the value of the permanent school trust funds administered by the state Board of University and School Lands



Lommen

grew to \$105 million. That's an increase of 56.7 percent in five years.

In 1973, the 14 permanent trust funds administered by the board had total assets of \$67 million, a sum that was built up in the 84-year history of the trust funds.

Income from the trust funds go primarily (85 percent) to the public elementary and secondary schools of North Dakota. The remainder goes to various state institutions as set by state law.

The biggest source of new money for the trust funds in 1978 was the mineral leases administered by the state board.

During 1978, there were \$23.4 million in bonuses, annual rentals and royalties paid to the state land board, the bulk of which is credited to the permanent trust funds.

## Funds never spent

"The money in the permanent trust funds," said Commissioner Richard E. Lommen, "are never spent. The money is held in permanent trust for the people of North Dakota and it is invested according to the laws set forth by the Legislature."

The income from the funds is distributed throughout the year to the public schools and the state institutions.

During the current year there were \$7,105,445 in earnings from the funds that were paid to the school districts of North Dakota. The remaining 15 percent of the income was divided up among several institutions, including the universities at Fargo and Grand Forks, the State Hospital at Jamestown, and so on.

The school districts get their share of the fund income on a quarterly basis and it is apportioned according to the number of students.

The Fargo School District, for example, with 9,000 students received \$464,053 during the past four quarters as its share of the school trust fund.

"We think that the funds that went to the schools this year were significant in helping support education," said Lommen, "but there will be even more dollars flowing into the school districts in the years ahead."

Next year at this time, he predicted, the total to be distributed to the public schools will be about \$8.5 million as compared with the \$7.1 million this year.

## Trade affected

During the Depression of the 1930s, there was a lot of farm land that accrued to the Bank of North Dakota when mortgages were foreclosed.

Later the bank sold its farm land but retained portions of the mineral acres.

By action of the 1977 Legislature, the administration of the bank's mineral acres was transferred to the land department. The bank in turn took over the administration of the land department's huge farm loan program.

"We traded," said Lommen. "They took our farm loan portfolio. We took their mineral portfolio."

"The purpose was to create a more efficient operation," he said, "and to eliminate duplication."

The money made from rentals, leases and royalties on the Bank of North Dakota minerals goes into the general fund of the state — not the permanent trust funds.

## Investments secure

Investments that the land commissioner is permitted to make with the trust fund money are strictly controlled by law and the action of the state land board. Members of the board are Governor Arthur Link, Atty. Gen. Allen I. Olson, Secretary of State Ben Meier, State Auditor Robert W. Peterson and Supt. of Public Instruction Howard Snortland.

"Our board does not allow us to invest in the stock market, for example," said Lommen.

"Most of our money is in United States government bonds or government agency bonds, and we have \$45 million in first mortgage real estate farm loans in North Dakota."

Lommen said the income from the permanent trust funds will be higher in the years ahead because the principal is getting higher all the time.

And as the amount of money from the trust funds increases, it should help relieve the pressure on the local taxpayer in his dollar support for the public schools, said Lommen.

## One-time harvest

There is a constant stream of proposals to dip into the per-

manent trust funds for "worthy" causes, but the board through the years has withstood the pressure.

And with good reason, in Lommen's view. Most of the funds have come from a one-time harvest — the nonrenewable resources of oil, gas and coal. Once taken out, the minerals are gone forever.

By placing the revenue in the permanent public trust funds, it assures that future generations of North Dakotans will be able to share in the mineral wealth.

"We're really coming into our own in mineral development at the present time," said Lommen.

"The potential for oil and gas drilling in North Dakota and the new development of the coal resources are making our mineral acres more valuable," he said.

And when you think that there is uranium, potassium and other minerals out there, he said, "It's mind boggling. We have only seen the tip of the iceberg."

## Royalties go up

Bonuses on acreage held by the state land board brought in \$19,668,000 in four public auctions during 1978.

That's the amount the oil companies paid just for the leasehold, the right to lease the land. In addition, there were \$3 million received by the state from minerals that were produced and an additional \$761,600 from annual rentals on leased mineral acreage.

The state land board receives one-eighth of the gas or oil produced when a well starts to produce on its mineral acreage. That figure appears to be fairly standard in the industry in North Dakota.

But starting Jan. 1, the North Dakota state leases will be calling for one-sixth of the minerals produced with the oil companies receiving the remaining five-sixths.

"Our board promulgated the higher percentage," said Lommen. "But it won't take effect until our next oil and gas lease sale. That'll be in May."

He said that the oil industry is creating some flack over the higher percentage.

"But the board members feel that one-sixth rather than one-eighth of the value is more in line with what the mineral ownership should receive," said Lommen.