



**TESTIMONY OF
JOSEPH HERINGER COMMISSIONER
North Dakota Department of Trust Lands**

House Concurrent Resolution 3035

House Education Committee
March 10, 2025

Chairman Heinert and members of the Committee, I am Joseph Heringer, North Dakota Commissioner of University and School Lands. I am here to testify in opposition to HCR 3035 for two primary reasons: 1) its long-term negative impact on K-12 education funding and the 13 perpetual trust funds that support numerous state institutions, and 2) the constitutional conflicts it creates by diverting funds away from beneficiary organizations and all K-12 schools, to only specifically chosen school construction projects.

Please note that due to the late introduction of this resolution and the short hearing notice, I was not able to bring this issue before the Land Board, so this testimony is mine only and not a formal position of the Board.

The Board of University and School Lands (Board), established by the North Dakota Constitution, manages state trust lands and invests the resulting revenue to ensure long-term funding for trust beneficiaries. The Board is comprised of the Governor (Chairman), Secretary of State, Attorney General, State Treasurer, and Superintendent of Public Instruction. The Department of Trust Lands (Department), which I lead, administers these efforts under the Board's authority.

The Department oversees 2.5 million mineral acres with approximately 8,700 oil, gas, and coal leases, and 700,000 surface acres with about 4,400 agricultural leases. Revenues from these leases, along with bonuses, easements, and other payments, are invested into 13 perpetual trusts.

These trusts support K-12 education, colleges, universities, and state institutions. Below are their projected 2025-27 distributions:

Common Schools	\$584,677,350
North Dakota State University	\$8,770,000
University of North Dakota	\$6,948,000
Youth Correctional Center	\$3,136,000
School for the Deaf	\$2,388,000
North Dakota State College of Science	\$2,570,284
State Hospital	\$1,976,284
Veterans' Home	\$994,284
Valley City State University	\$1,566,000
North Dakota Vision Services - School for the Blind	\$1,936,284
Mayville State University	\$1,102,000
Dakota College at Bottineau	\$406,284
Dickinson State University	\$406,284
Minot State University	<u>\$406,284</u>
Total	\$617,283,338

1. Negative Financial Impacts

HCR 3035 mandates \$3 billion from the perpetual trusts over ten years for school construction. Our projections show this would reduce the funds' balance by **-\$5.7 billion** over 30 years (from \$26.6 billion to \$20.9 billion) and cut total distributions by **-\$4.4 billion** (from \$22.4 billion to \$18 billion), assuming a 6.27% annual return. This is akin to taking a large, premature distribution from your retirement account, sacrificing years of compounded growth. The current endowment structure wisely ensures perpetual support for beneficiaries. For instance, the Common Schools Trust Fund is projected to cover 24% of the state's K-12 funding share in 2025-27—a share that will grow over time. Diverting these funds will shrink future distributions, increasing reliance on other revenue sources.

2. Constitutional Conflicts

HCR 3025 creates two constitutional conflicts.

Article IX, Section 2, Paragraph 1 of the North Dakota Constitution states that funds of the Common Schools Trust cannot be diverted from the benefit of the common schools of North Dakota. HCR 3025 diverts funds from the general financial support of **all** schools to the funding of specifically chosen construction projects, effectively making distribution winners and losers. This is contrary to the original intention of Article IX and the language in Paragraph 1 that would remain even if this resolution passed.

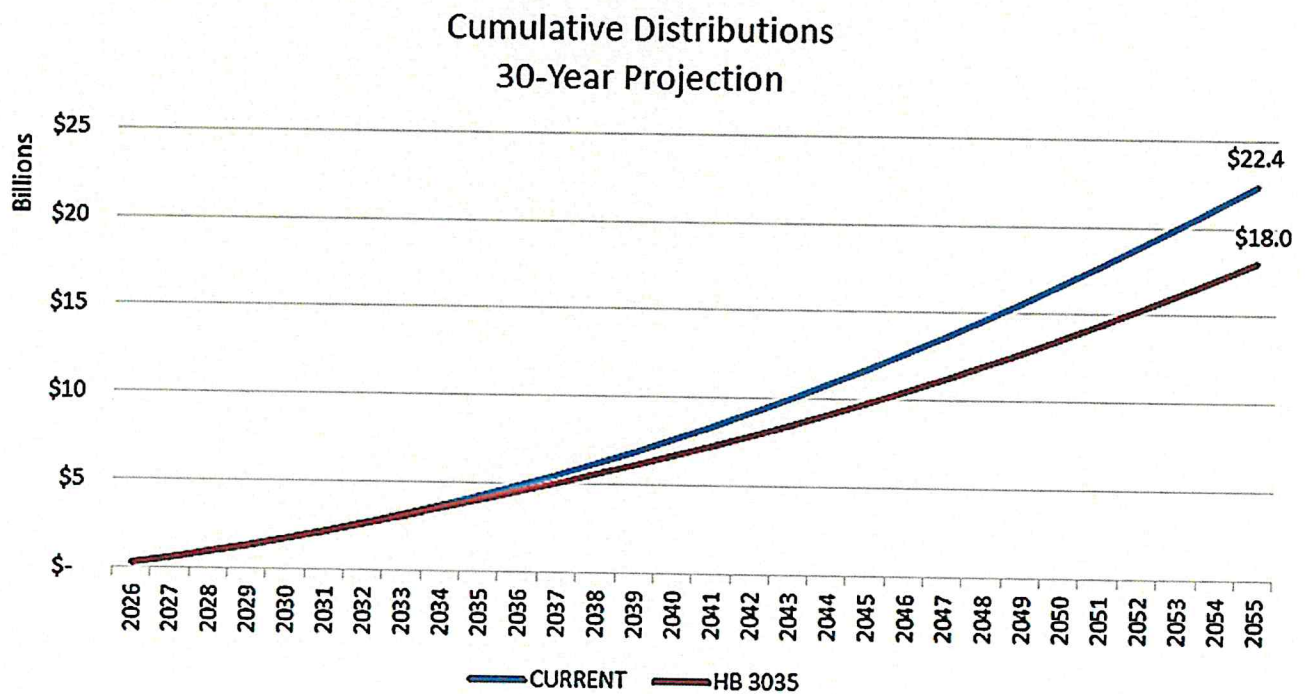
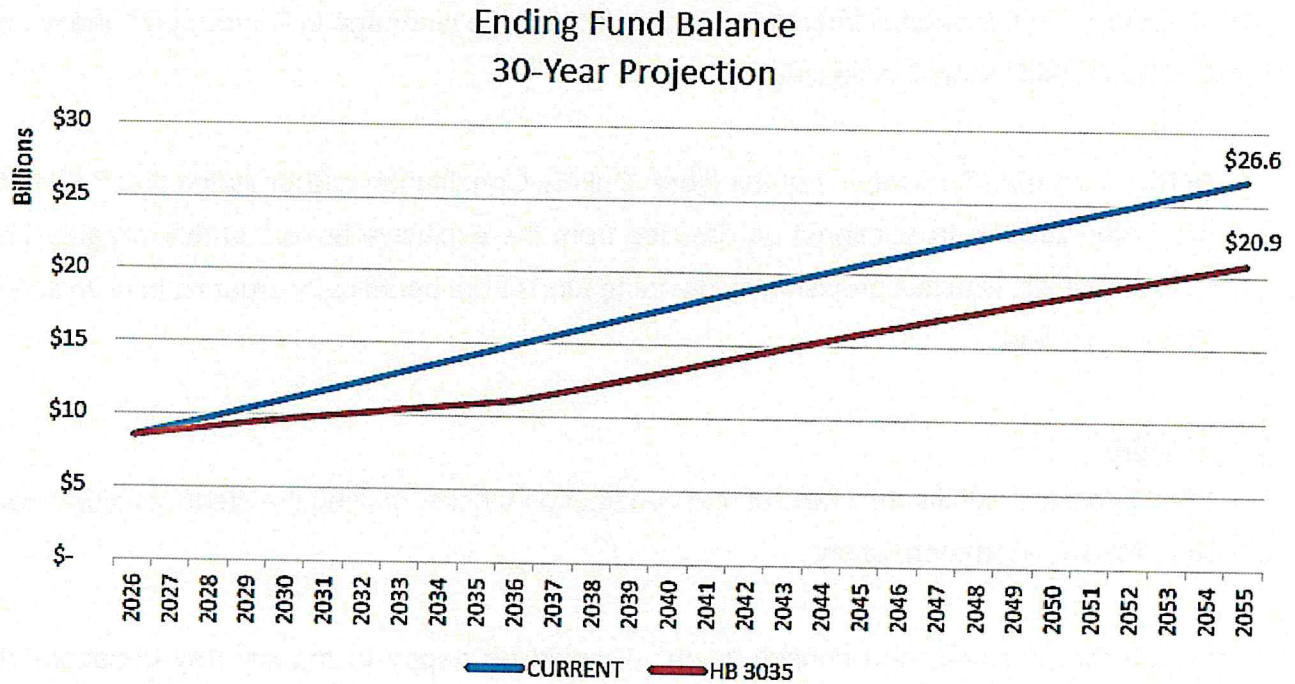
Article IX, Section 2, Paragraph 1 of the North Dakota Constitution further states that funds of a specific organization's trust cannot be diverted from the exclusive benefit of that organization. HCR 3025 conflicts with this provision by diverting funds from beneficiary organizations to school construction projects.

Conclusion

HCR 3035 creates significant financial and constitutional risks, making it a clear candidate for a DO NOT PASS recommendation.

Thank you for your time and consideration. I would be happy to answer any questions the Committee may have.

30 YR Projection	Current	HCR 3035	Impact
Ending Assets	\$26.60	\$20.90	\$5.70
Total Distributions	\$22.40	\$18.00	\$4.40
Combined Impact			\$10.10



COMMON SCHOOLS TRUST FUND (CSTF) OVERVIEW

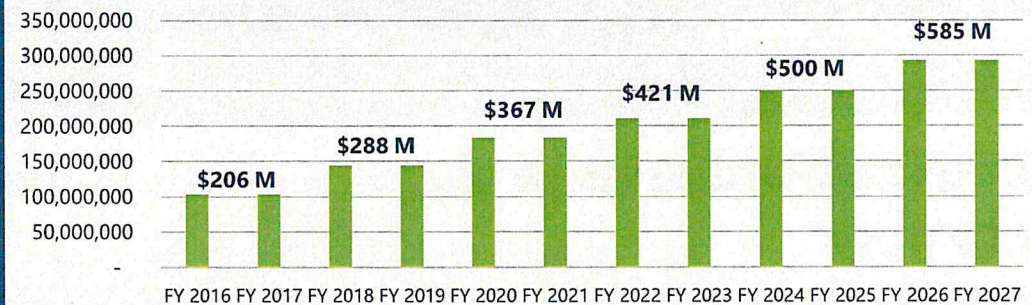
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**CSTF ASSET BALANCE as of 11/30/2024
(unaudited)**

\$7,417,654,799

**+\$1.05 billion year-over-year from 11/30/2023
balance of \$6.37 billion**

CSTF DISTRIBUTION HISTORY PER BIENNIUM



CSTF ASSET BALANCE HISTORY

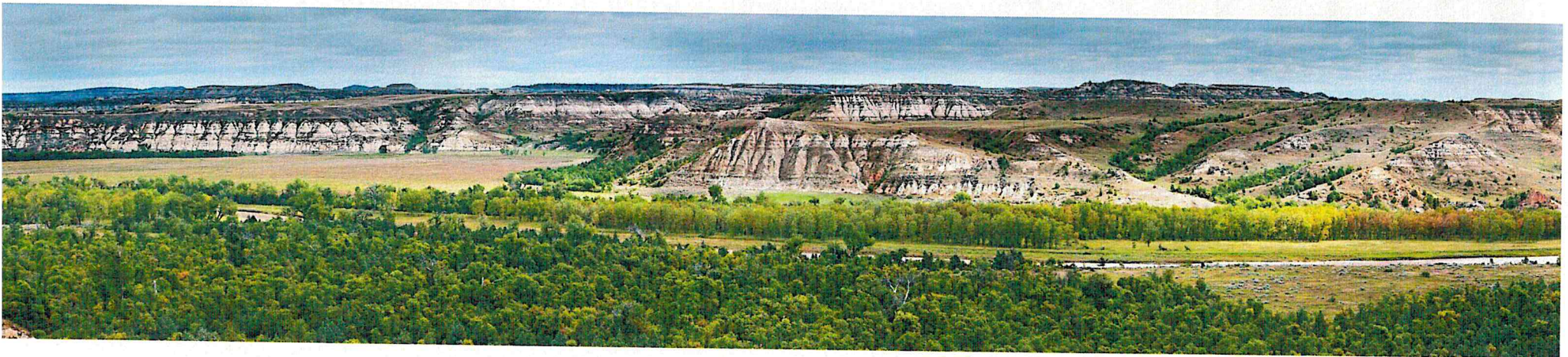


COMMON SCHOOLS TRUST FUND 2023-25 (CSTF) DISTRIBUTIONS

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Monthly Distribution to the State Tuition Fund for the 2023-25 Biennium \$27,770,000
Multiplied by 9 months per year = \$250,000,000
Divided by 115,740 students = \$2,160/student per year

North Dakota Cost to Educate Per Student \$13,778/year
75.7% State Funding Share = \$10,430
\$2,160 CSTF per Student Annual Distribution **=21% of state funding share**



COMMON SCHOOLS TRUST FUND 2025-27 (CSTF) DISTRIBUTIONS

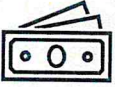
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Monthly Distribution to the State Tuition Fund for the 2025-27 Biennium \$32,500,000
Multiplied by 9 months per year = \$292,500,000
Divided by 116,598 students = \$2,508/student per year

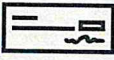
North Dakota Cost to Educate Per Student \$13,778/year
75.7% State Funding Share = \$10,430
\$2,508 CSTF per Student Annual Distribution **=24% of state funding share**



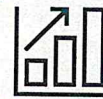
COMMON SCHOOLS TRUST FUND (CSTF)



**\$7 BILLION VALUE AS
OF FISCAL YEAR 25**

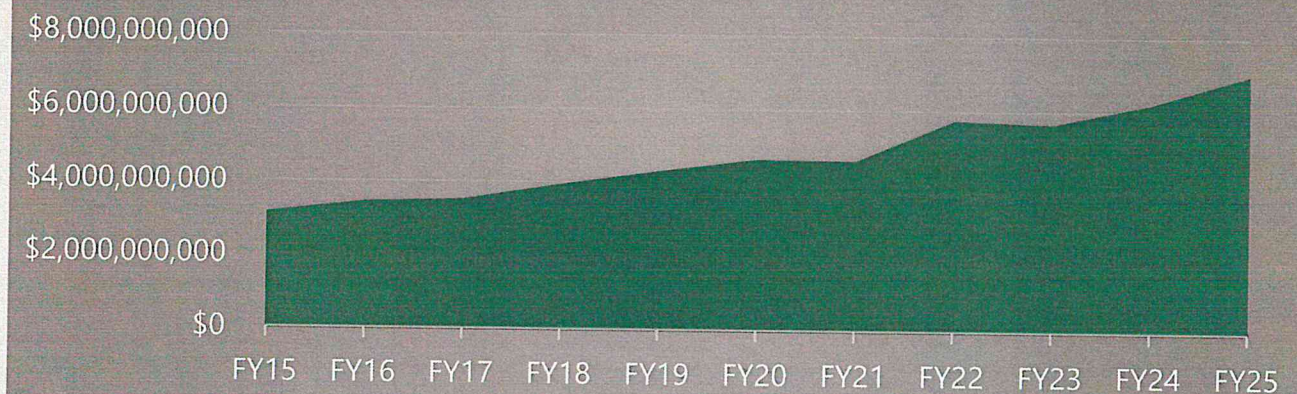


**\$585 MILLION TO BE
DISTRIBUTED IN
2025-27 BIENNIUM**



**17% INCREASE IN
DISTRIBUTION OVER
LAST BIENNIUM**

COMMON SCHOOLS FUND GROWTH



**\$2.2 BILLION IN K-12 DISTRIBUTIONS FROM 2018 - 2027 DIRECTLY
OFFSETTING THE LEVEL OF FINANCIAL RESPONSIBILITY REQUIRED OF THE
GENERAL FUND AND PROPERTY TAXES.**

DEPARTMENT OF TRUST LANDS REVENUE STREAMS CONTRIBUTING TO CSTF

MINERALS

- 10% OF THE OIL EXTRACTION TAX
- MINERAL LEASE BONUSES
- ROYALTY REVENUE



SURFACE

- RIGHTS OF WAY INCOME
- SURFACE RENTAL INCOME
- AGGREGATE LEASING



COMMON SCHOOLS TRUST FUND DISTRIBUTION CALCULATION

**10% OF FIVE-YEAR
AVERAGE VALUE OF TRUST
INVESTMENTS (N.D.
CONST ART. 9, SEC. 2)**

**3.17% NET AVERAGE
ANNUAL DISTRIBUTION
OVER PAST 10 YEARS**

**PERCENTAGE OF ROLLING
AVERAGE VALUE FORMULA
SMOOTHS DISTRIBUTIONS
FOR LONG-TERM GROWTH**

*** LOWER FUND VALUES IN THE EARLY YEARS OF THE FORMULA PERIOD RESULTS IN A NET
ANNUAL DISTRIBUTION OF LESS THAN 5%**

COMMON SCHOOLS TRUST FUND SHARE OF STATE SCHOOL PAYMENTS

The distribution of funds from the Common School Trust Fund (CSTF) has experienced a significant increase over the past 25 years.

In 1999-2001, the total distribution from the Trust Fund was \$47,550,000. Fast forward to the years 2025-2027 and we will distribute an astonishing \$585,000,000 – more than 12 times the previous amount.

Since the 2013-15 biennium, the CSTF share of state aid payments to schools has risen from 8 percent to 25.2 percent. These funds have replaced money that would normally come from the general fund.

The CSTF has provided almost \$2 billion (\$1.987B) in state aid to schools. (2013-15 through 2023-25).

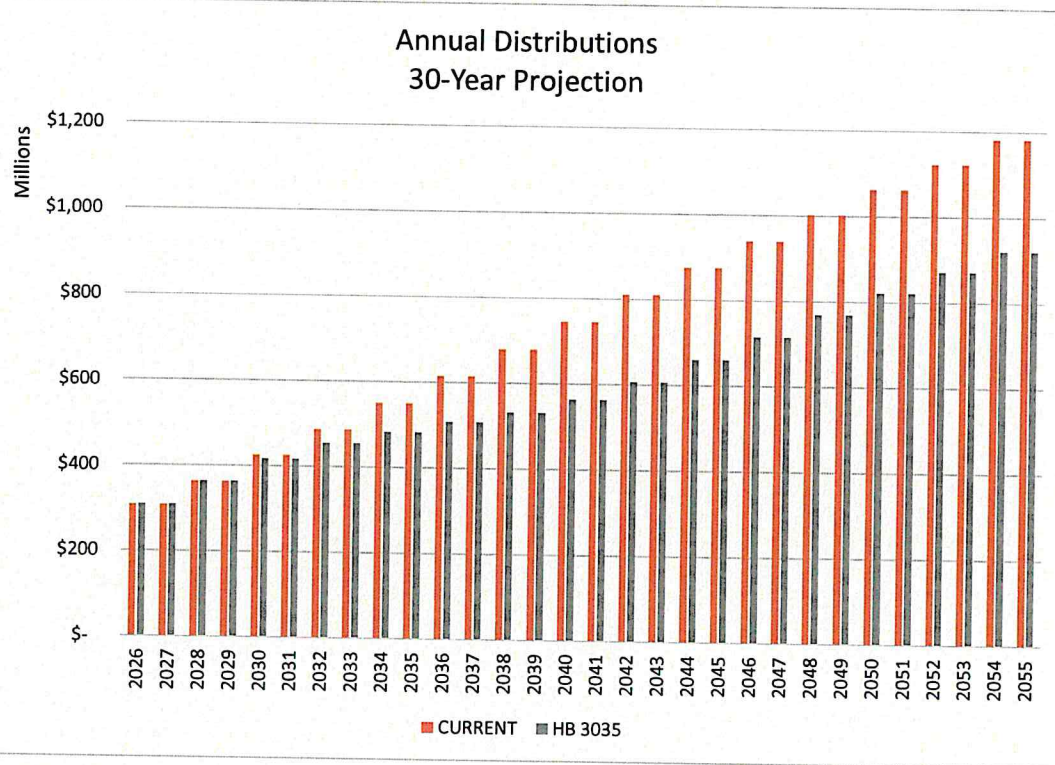
Biennium	Formula Payment	Common Schools Trust Fund	Percentage of Formula	Increase
2013-15	\$1,752,100,000	\$140,326,000	8 percent	\$38,688,000
2015-17	\$1,916,640,000	\$219,134,000	11.4 percent	\$78,808,000
2017-19	\$1,935,204,163	\$305,546,905	15.8 percent	\$86,412,905
2019-21	\$2,098,202,429	\$377,764,000	18 percent	\$72,217,095
2021-23	\$2,131,825,000	\$433,020,000	20.3 Percent	\$55,256,000
2023-25	\$2,299,674,851	\$510,860,000	22.2 Percent	\$77,840,000
2025-27	\$2,359,674,851	\$595,677,350	25.2 Percent	\$84,817,350

“Formula payment” is listed in the Legislative Council’s budget details as “Integrated Formula Payment.” This is, by far, the largest source of state support for K-12 education.

The “Common Schools” expenditures are listed in the Legislative Council’s budget documents as money from the “Tuition Fund.” The Tuition Fund expenditures include money from state fines along with the Common Schools Trust Fund distributions. The trust fund distributions make up almost all of the “tuition fund” money.

Updated March 7, 2025 with information provided by the Department of Public Instruction

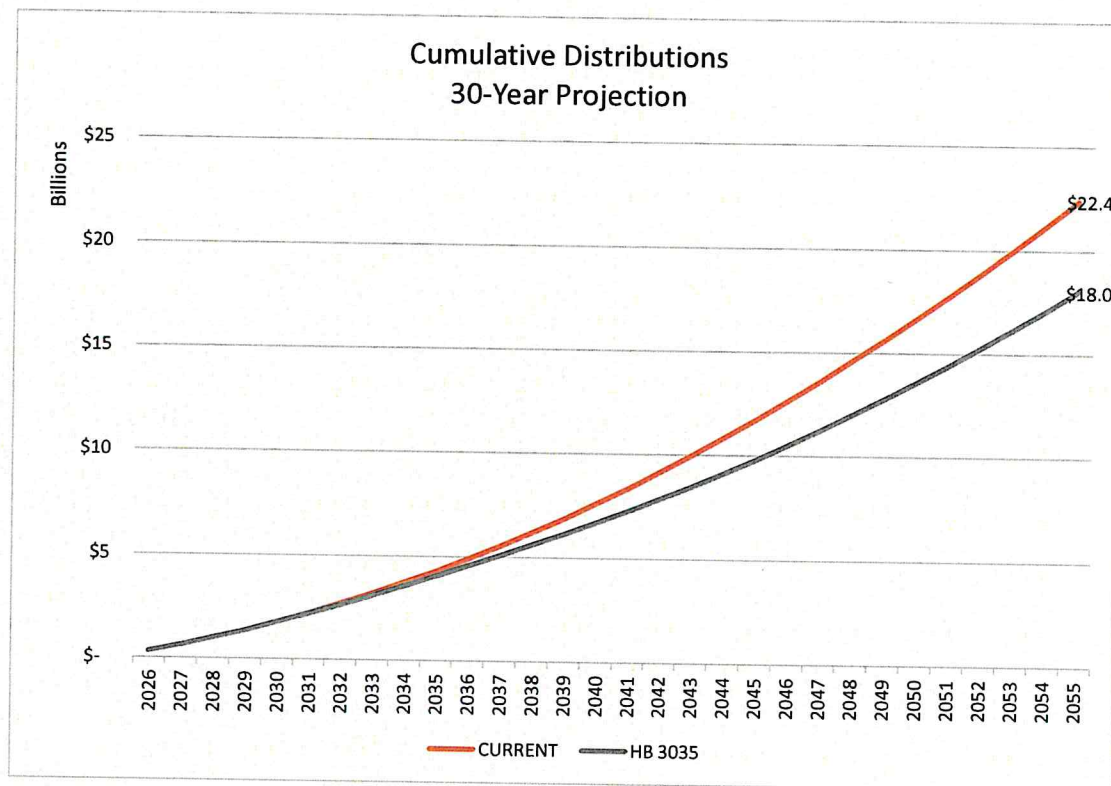
YEAR	ANNUAL DISTRIBUTIONS		BIENNIAL IMPACT
	CURRENT	HB 3035	
2026	\$ 308,642,000	\$ 308,642,000	
2027	\$ 308,642,000	\$ 308,642,000	\$ -
2028	\$ 363,568,000	\$ 363,568,000	
2029	\$ 363,568,000	\$ 363,568,000	\$ -
2030	\$ 426,937,000	\$ 417,426,000	
2031	\$ 426,937,000	\$ 417,426,000	\$ (19,022,000)
2032	\$ 488,351,000	\$ 455,286,000	
2033	\$ 488,351,000	\$ 455,286,000	\$ (66,130,000)
2034	\$ 552,131,000	\$ 483,171,000	
2035	\$ 552,131,000	\$ 483,171,000	\$ (137,920,000)
2036	\$ 616,780,000	\$ 508,724,000	
2037	\$ 616,780,000	\$ 508,724,000	\$ (216,112,000)
2038	\$ 681,912,000	\$ 532,376,000	
2039	\$ 681,912,000	\$ 532,376,000	\$ (299,072,000)
2040	\$ 747,325,000	\$ 563,953,000	
2041	\$ 747,325,000	\$ 563,953,000	\$ (366,744,000)
2042	\$ 812,505,000	\$ 607,604,000	
2043	\$ 812,505,000	\$ 607,604,000	\$ (409,802,000)
2044	\$ 877,521,000	\$ 661,691,000	
2045	\$ 877,521,000	\$ 661,691,000	\$ (431,660,000)
2046	\$ 941,547,000	\$ 716,207,000	
2047	\$ 941,547,000	\$ 716,207,000	\$ (450,680,000)
2048	\$ 1,004,043,000	\$ 769,732,000	
2049	\$ 1,004,043,000	\$ 769,732,000	\$ (468,622,000)
2050	\$ 1,064,965,000	\$ 821,639,000	
2051	\$ 1,064,965,000	\$ 821,639,000	\$ (486,652,000)
2052	\$ 1,124,768,000	\$ 872,178,000	
2053	\$ 1,124,768,000	\$ 872,178,000	\$ (505,180,000)
2054	\$ 1,183,767,000	\$ 921,596,000	
2055	\$ 1,183,767,000	\$ 921,596,000	\$ (524,342,000)



Assumptions:

6.72% annual investment return based on strategic asset allocation and capital markets assumptions.
Cash inflows based on Mineral Tracker projections.

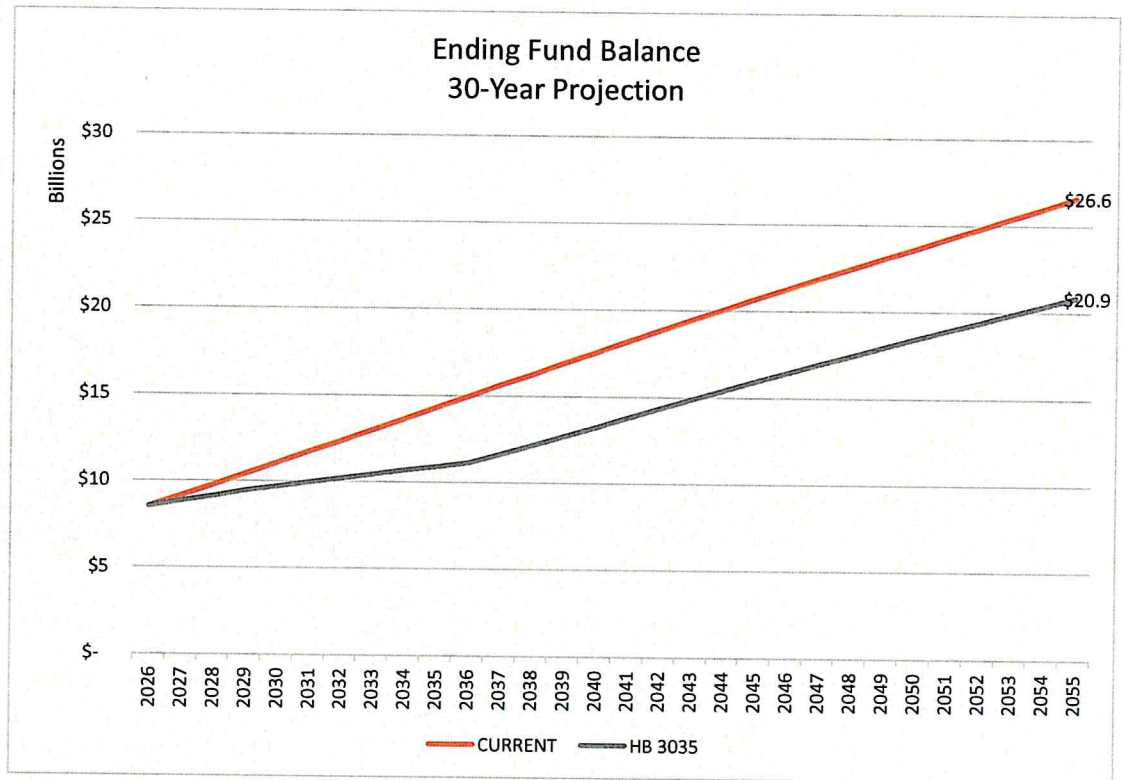
CUMULATIVE DISTRIBUTIONS			IMPACT
YEAR	CURRENT	HB 3035	
2026	\$ 308,642,000	\$ 308,642,000	\$ -
2027	\$ 617,284,000	\$ 617,284,000	\$ -
2028	\$ 980,852,000	\$ 980,852,000	\$ -
2029	\$ 1,344,420,000	\$ 1,344,420,000	\$ -
2030	\$ 1,771,357,000	\$ 1,761,846,000	\$ (9,511,000)
2031	\$ 2,198,294,000	\$ 2,179,272,000	\$ (19,022,000)
2032	\$ 2,686,645,000	\$ 2,634,558,000	\$ (52,087,000)
2033	\$ 3,174,996,000	\$ 3,089,844,000	\$ (85,152,000)
2034	\$ 3,727,127,000	\$ 3,573,015,000	\$ (154,112,000)
2035	\$ 4,279,258,000	\$ 4,056,186,000	\$ (223,072,000)
2036	\$ 4,896,038,000	\$ 4,564,910,000	\$ (331,128,000)
2037	\$ 5,512,818,000	\$ 5,073,634,000	\$ (439,184,000)
2038	\$ 6,194,730,000	\$ 5,606,010,000	\$ (588,720,000)
2039	\$ 6,876,642,000	\$ 6,138,386,000	\$ (738,256,000)
2040	\$ 7,623,967,000	\$ 6,702,339,000	\$ (921,628,000)
2041	\$ 8,371,292,000	\$ 7,266,292,000	\$ (1,105,000,000)
2042	\$ 9,183,797,000	\$ 7,873,896,000	\$ (1,309,901,000)
2043	\$ 9,996,302,000	\$ 8,481,500,000	\$ (1,514,802,000)
2044	\$ 10,873,823,000	\$ 9,143,191,000	\$ (1,730,632,000)
2045	\$ 11,751,344,000	\$ 9,804,882,000	\$ (1,946,462,000)
2046	\$ 12,692,891,000	\$ 10,521,089,000	\$ (2,171,802,000)
2047	\$ 13,634,438,000	\$ 11,237,296,000	\$ (2,397,142,000)
2048	\$ 14,638,481,000	\$ 12,007,028,000	\$ (2,631,453,000)
2049	\$ 15,642,524,000	\$ 12,776,760,000	\$ (2,865,764,000)
2050	\$ 16,707,489,000	\$ 13,598,399,000	\$ (3,109,090,000)
2051	\$ 17,772,454,000	\$ 14,420,038,000	\$ (3,352,416,000)
2052	\$ 18,897,222,000	\$ 15,292,216,000	\$ (3,605,006,000)
2053	\$ 20,021,990,000	\$ 16,164,394,000	\$ (3,857,596,000)
2054	\$ 21,205,757,000	\$ 17,085,990,000	\$ (4,119,767,000)
2055	\$ 22,389,524,000	\$ 18,007,586,000	\$ (4,381,938,000)



Assumptions:

6.72% annual investment return based on strategic asset allocation and capital markets assumptions.
Cash inflows based on Mineral Tracker projections.

YEAR	ENDING FUND BALANCE		IMPACT
	CURRENT	HB 3035	
2026	\$ 8,503,094,220	\$ 8,503,094,220	\$ -
2027	\$ 9,123,427,006	\$ 8,813,347,006	\$ (310,080,000)
2028	\$ 9,746,507,305	\$ 9,105,509,929	\$ (640,997,376)
2029	\$ 10,416,715,132	\$ 9,422,562,733	\$ (994,152,400)
2030	\$ 11,045,343,837	\$ 9,684,134,965	\$ (1,361,208,871)
2031	\$ 11,687,634,449	\$ 9,934,702,911	\$ (1,752,931,538)
2032	\$ 12,316,855,225	\$ 10,170,222,671	\$ (2,146,632,553)
2033	\$ 12,991,932,405	\$ 10,425,142,129	\$ (2,566,790,277)
2034	\$ 13,636,253,069	\$ 10,658,171,542	\$ (2,978,081,527)
2035	\$ 14,301,006,459	\$ 10,883,994,909	\$ (3,417,011,550)
2036	\$ 14,945,121,146	\$ 11,100,093,102	\$ (3,845,028,045)
2037	\$ 15,604,222,374	\$ 11,612,495,126	\$ (3,991,727,248)
2038	\$ 16,245,928,048	\$ 12,140,517,138	\$ (4,105,410,909)
2039	\$ 16,912,807,154	\$ 12,686,073,042	\$ (4,226,734,113)
2040	\$ 17,542,450,037	\$ 13,221,212,691	\$ (4,321,237,346)
2041	\$ 18,213,279,742	\$ 13,791,188,546	\$ (4,422,091,196)
2042	\$ 18,837,626,304	\$ 14,330,156,253	\$ (4,507,470,051)
2043	\$ 19,479,789,591	\$ 14,881,203,227	\$ (4,598,586,365)
2044	\$ 20,081,509,110	\$ 15,396,979,630	\$ (4,684,529,480)
2045	\$ 20,707,649,605	\$ 15,931,401,632	\$ (4,776,247,974)
2046	\$ 21,297,759,503	\$ 16,433,459,090	\$ (4,864,300,413)
2047	\$ 21,915,358,931	\$ 16,957,088,954	\$ (4,958,269,977)
2048	\$ 22,494,236,851	\$ 17,444,954,981	\$ (5,049,281,870)
2049	\$ 23,098,916,313	\$ 17,952,506,550	\$ (5,146,409,762)
2050	\$ 23,670,552,351	\$ 18,429,805,607	\$ (5,240,746,744)
2051	\$ 24,271,100,787	\$ 18,929,677,615	\$ (5,341,423,172)
2052	\$ 24,841,904,076	\$ 19,402,614,291	\$ (5,439,289,785)
2053	\$ 25,443,034,852	\$ 19,899,301,818	\$ (5,543,733,035)
2054	\$ 26,016,380,895	\$ 20,371,088,946	\$ (5,645,291,949)
2055	\$ 26,621,509,886	\$ 20,867,834,263	\$ (5,753,675,623)



Assumptions:

6.72% annual investment return based on strategic asset allocation and capital markets assumptions.
Cash inflows based on Mineral Tracker projections.