

TESTIMONY OF COMMISSIONER JOSEPH HERINGER

Chairman Wanzek and members of the Senate Appropriations Committee, Government Operations Division, I am Joseph Heringer, North Dakota Commissioner of University and School Lands. I am here to testify regarding the Department of Trust Lands' (Department) total special funds appropriation found in Senate Bill 2013

1. EXPLAIN THE PURPOSE OF THE AGENCY'S VARIOUS DIVISIONS/PROGRAMS (ORGANIZATIONAL CHART)

The Board of University and School Lands (Board), as established by the North Dakota Constitution, is charged with overseeing the management of state trust lands and investing the revenue generated therefrom to grow as a source of long-term income for the support of certain trust beneficiaries. The Board is comprised of the Governor, Secretary of State, Attorney General, State Treasurer, and Superintendent of Public Instruction. The Department is the administrative arm of the Board, serving under the direction and authority of the Board. The Department is a special fund agency, operating off its own revenues and investments, and as such does not receive state general funds.

The Department manages approximately 2.6 million mineral acres with their roughly 8,600 associated oil & gas leases, and over 700,000 surface acres with their roughly 4,400 associated agricultural leases. Revenues generated from these leases, along with payments received from other income sources such as oil & gas lease bonus payments and easements granted for pipelines, roads, and well pads, are deposited into 13 permanent trust funds and invested to provide long-term income for trust beneficiaries. Beneficiaries of these trust funds include public K-12 education, various colleges and universities, and other institutions throughout North Dakota. The largest trust fund is the Common Schools Trust Fund (CSTF) which had a balance of \$7 billion as of June 30, 2024.

The Department manages five additional funds: (1) the Strategic Investment and Improvements Fund (SIIF), (2) the Coal Development Trust Fund, (3) the Capitol Building Fund, (4) the Indian Cultural Education Trust, and (5) the Theodore Roosevelt Presidential Library and Museum Endowment Fund.

The management of assets falls within the Minerals Management, Surface Management, Revenue Compliance, Investments, Unclaimed Property, and Accounting Divisions.

The Minerals Division manages 2.6 million minerals acres including oil, gas, coal and other subsurface minerals. The division is responsible for the leasing of minerals acres and the maintenance of all records and requests pertaining to mineral ownership and leasing activity. The division tracks and interprets business transactions by lessees; assignments by depth, formation, well bore or value; requests for pooling agreements; lease and title interpretation; royalty; authorization for participation in production; overrides; and analysis of drilling and production data necessary to hold a producing lease. This division has four FTEs consisting of the division director and three staff members who are dedicated to reviewing historical records, assessing the unique leasing arrangements, processing leases, division orders and assignments.

The Surface Division is responsible for leasing and managing 706,600 surface acres held in trust for various schools and institutions. The division has six FTEs including the division director, and nine temporary, non-classified employees who help inspect the vast acreage we manage. The major source of income for the Surface Division is agricultural leases, with grazing being the predominant

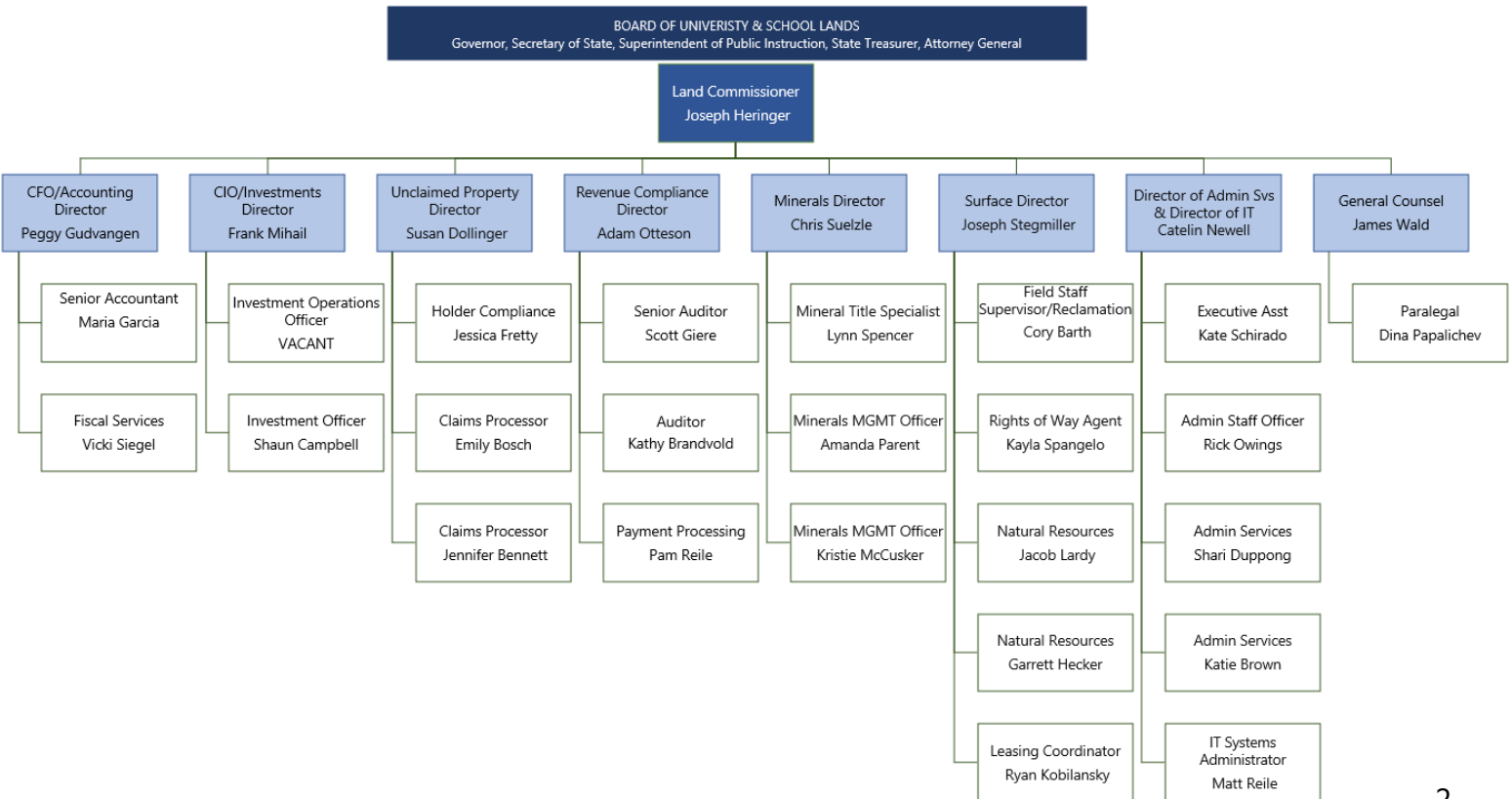
land use. Significant revenue is also generated from rights-of-way, salt-water disposal, and gravel and scoria mining.

The Revenue Compliance Division is responsible for developing and implementing procedures to assure the timely and accurate accounting of all royalties, bonuses, rents and other revenues received by the Department. The division is also responsible for developing, implementing, and monitoring the managerial and system controls used by the Department to detect and prevent the misappropriation of trust assets and revenues. The division has four FTEs including the division director.

The Accounting Division is responsible for fulfilling the agency’s constitutional, statutory laws and rules, and governmental accounting standard board requirements for budgeting, accounting practices, payroll, financial data management, investments, calculating distributions for beneficiaries, and safeguarding over \$8.8 billion in assets of 19 different trusts and funds plus two additional departments (Energy Infrastructure & Impact Office and Unclaimed Property).

The Investment Division is responsible for directing, implementing, coordinating, and monitoring all aspects of the Land Board’s investment program. The division has three FTEs, including the division director. Outside of monitoring funds and investment managers, the division administers the cash flows and obligations of the Permanent Trust Funds, SIF, the Coal Development Trust Fund, the Capitol Building Fund, the Indian Cultural Education Trust, and the Theodore Roosevelt Presidential Library and Museum Endowment Fund.

Additionally, the Department administers North Dakota Unclaimed Property Program. In this role, the Department collects “unclaimed property” (uncashed checks, unused bank accounts, etc.) from businesses that operate in the state and processes claims to reunite owners with their lost property. While holding unclaimed property, the Department invests it to benefit the CSTF. Unclaimed Property has four FTEs including the division director.





DEPARTMENT OF TRUST LANDS

The Department of Trust Lands (Department) is a special fund agency not reliant upon the general fund for its operations. Under the guidance of the Board of University & School Lands (Board) the Department oversees 13 permanent trusts: Common Schools, North Dakota State University, School for the Blind, School for the Deaf, State Hospital, Ellendale State College*, Valley City State University, Mayville State University, Youth Correctional Center, State College of Science, School of Mines (UND), Veterans Home, University of North Dakota.

* Dickinson State University, Minot State University, Dakota College at Bottineau, Veterans Home, School for the Blind, State Hospital, and the State College of Science are current beneficiaries of this trust.

In addition, Department oversees the management of the following funds: Indian Cultural Education Trust, Capitol Building Fund, Strategic Investment and Improvements Fund (SIIF), Coal Development Trust Fund, Theodore Roosevelt Presidential Library Fund.

DID YOU KNOW?

WE MANAGE 2.6 MILLION MINERAL ACRES WITH INTEREST IN MORE THAN 9,700 OF ND'S APPROXIMATELY 19,000 PRODUCING WELLS WITH MORE THAN 8,600 LEASES.



WE MANAGE MORE THAN 700,000 SURFACE ACRES IN 50 OF NORTH DAKOTA'S 53 COUNTIES WITH APPROX. 4,400 LEASES.



CURRENT AGENCY TEAM MEMBER STATS

33

FTE count

6

average yrs of service

45%

turnover since 2021

4

retirement eligible

HOW WE COMPARE TO OTHER PEER STATES TRUST LAND DEPARTMENTS

	ND DTL	UTAH	MINNESOTA	TEXAS GLO
STAFFING	33 FTE 1 FTE/\$262 Million	68 FTE 1 FTE/\$47 Million	88FTE 1 FTE/\$21 Million	801 FTE 1 FTE/\$65 Million
2023 ASSET VALUE	\$ 8,647,994,458	\$ 3,221,207,646	\$ 1,889,600,000	\$ 52,316,792,346
2023 OPERATING REVENUE	\$ 535,700,494	\$ 146,578,644	\$ 30,000,000	\$ 1,900,818,720

DEPARTMENT HIGHLIGHTS

\$2 BILLION IN ROYALTY REVENUE DEPOSITED INTO DTL TRUSTS AND FUNDS



COMMON SCHOOLS TRUST FUND (CSTF) FUNDING OF K-12 EDUCATION

\$2,501

CSTF funding per K-12 student

The CSTF distributions to the State Tuition Fund total \$2.2 billion over a 10-year span (2018-2027); helping to alleviate the financial responsibility of the General Fund and North Dakota property tax payers.

The 2025-2027 Biennium alone will see an 17% increase in distributions totaling nearly \$585 million translating to approximately \$2,501 in funding per K-12 student. This translates to the Department covering nearly 25% of the State's financial responsibility per student.



CSTF MAIN SOURCES OF REVENUE: 10% OF OIL EXTRACTION TAX, 9,700 BAKKEN WELL ROYALTIES, OIL & GAS LEASE BONUS PAYMENTS, INVESTMENT INCOME, SURFACE RIGHTS OF WAY, SURFACE RENTAL INCOME, AGGREGATE.



\$7 BILLION VALUE AS OF FISCAL YEAR 2025

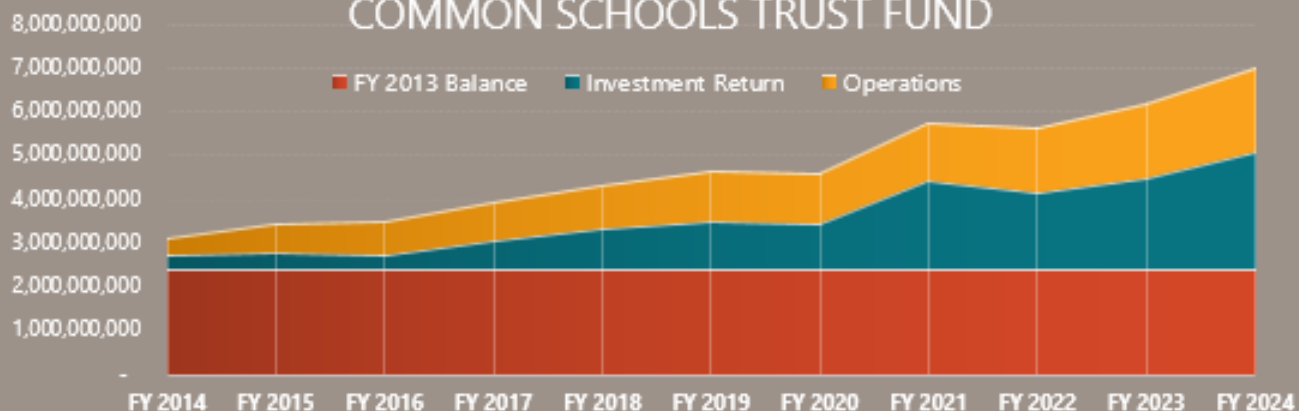


\$585 MILLION TO BE DISTRIBUTED IN 2025-27 BIENNIUM



17% INCREASE IN DISTRIBUTION OVER LAST BIENNIUM

COMMON SCHOOLS TRUST FUND





COMMON SCHOOLS TRUST FUND (CSTF)



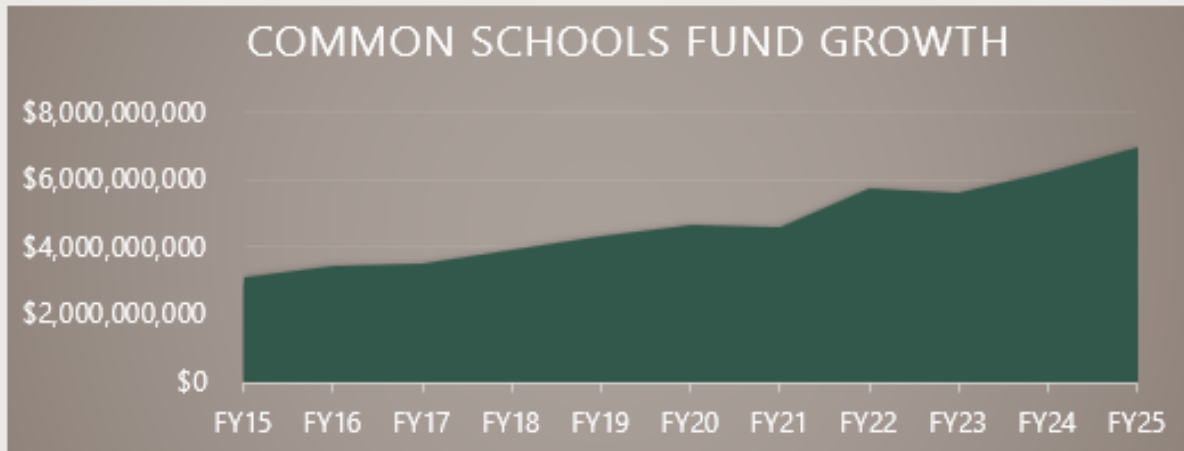
\$7 BILLION VALUE AS OF FISCAL YEAR 25



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



17% INCREASE IN DISTRIBUTION OVER LAST BIENNIUM



\$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%



ND LAND BOARD INVESTMENT PROGRAM



PERFORMANCE HIGHLIGHTS

9.42%

FY 2024
Return

\$606m

FY 2024
Gains

0.58%

3-Year
Excess Return

BOARD ACCOMPLISHMENTS



NEW ASSET ALLOCATION
REDUCING REAL ESTATE,
INCREASING HEDGE FUNDS



\$2.25B PROFIT DURING
5-YR PERIOD ENDING
JUNE 2024



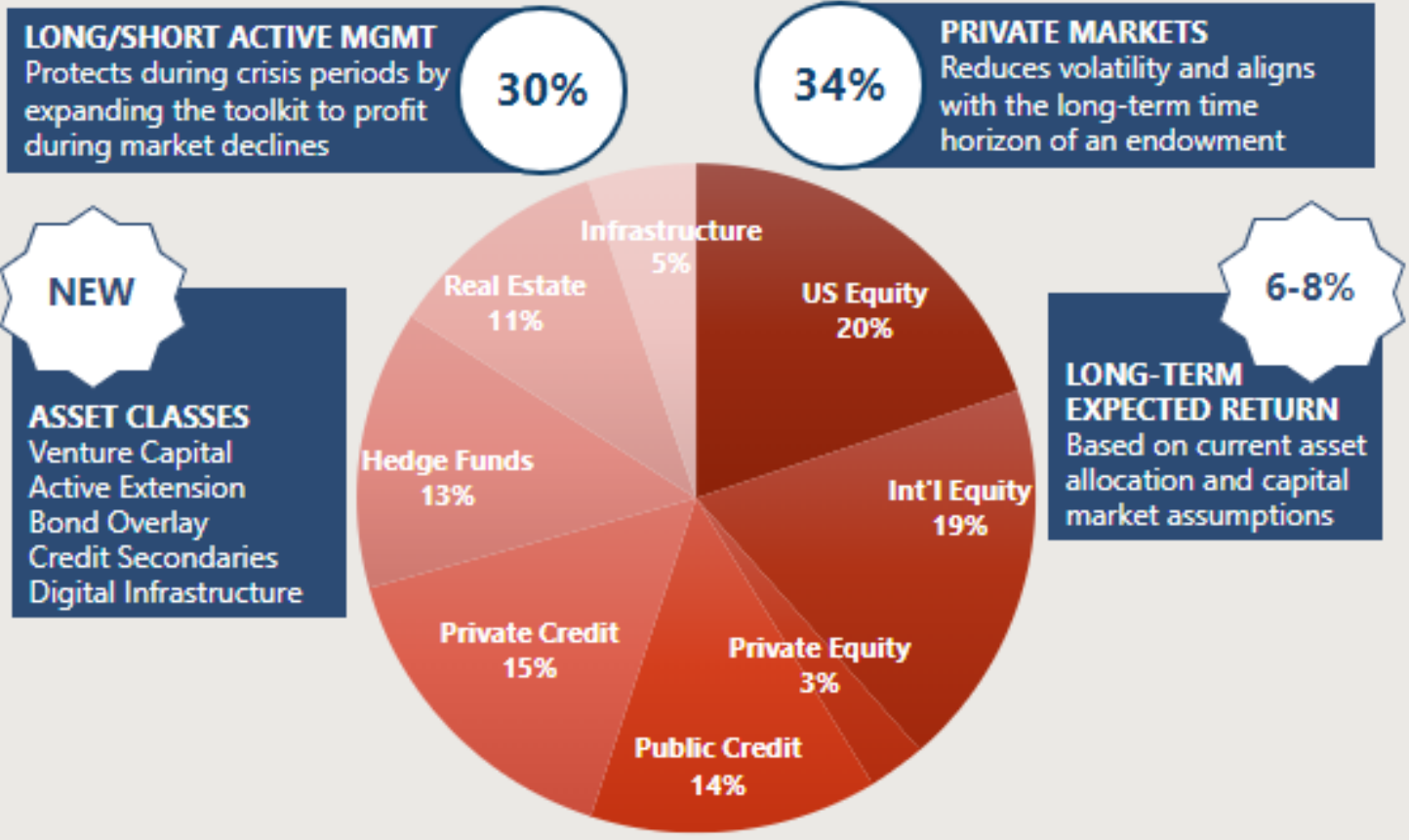
\$264M DEPLOYED TO
ALTERNATIVE STRATEGIES
IN FY 2024



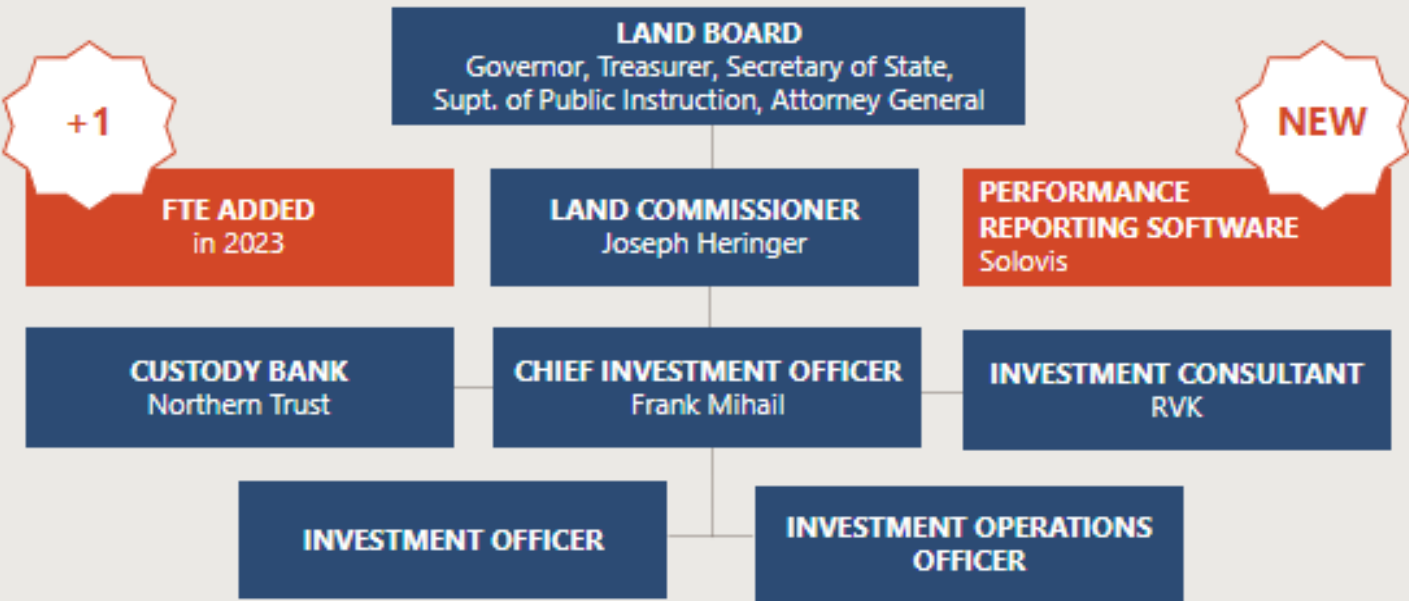
APPROVED 20 NEW
INVESTMENTS FOR \$4B
IN CY 2023 & 2024



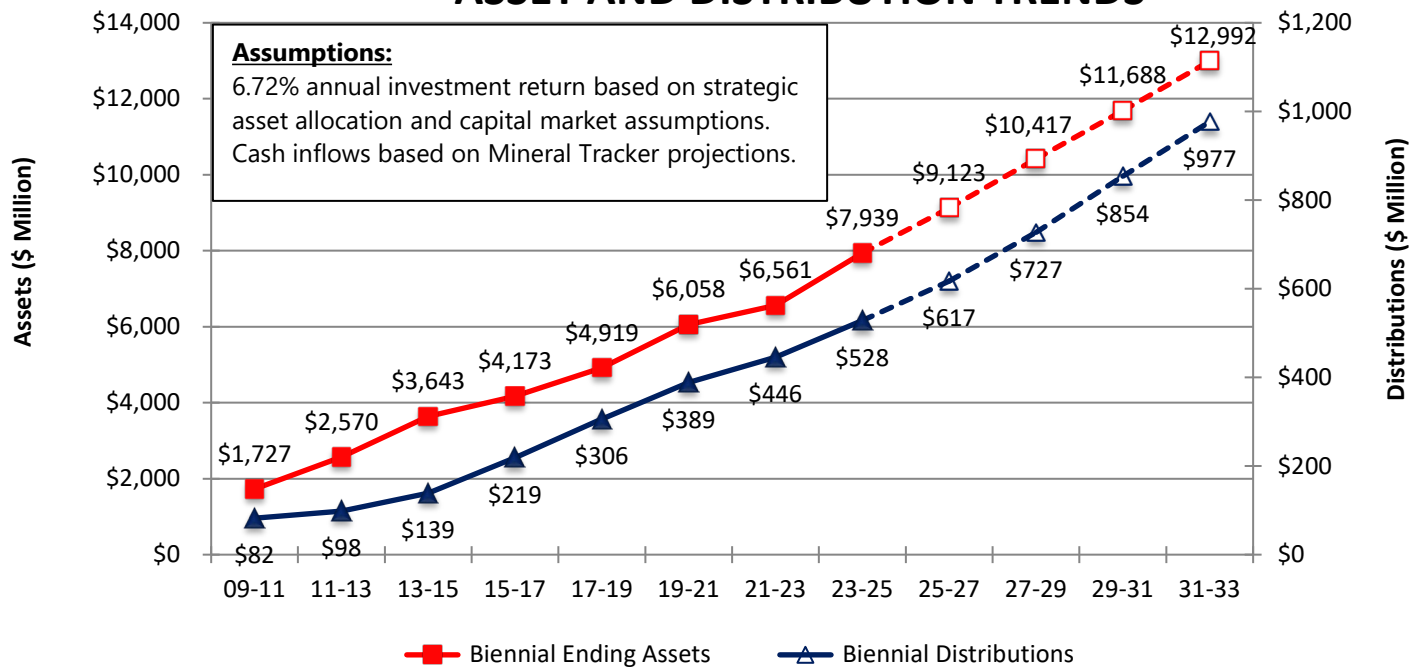
ASSET ALLOCATION (JUNE 30, 2024)



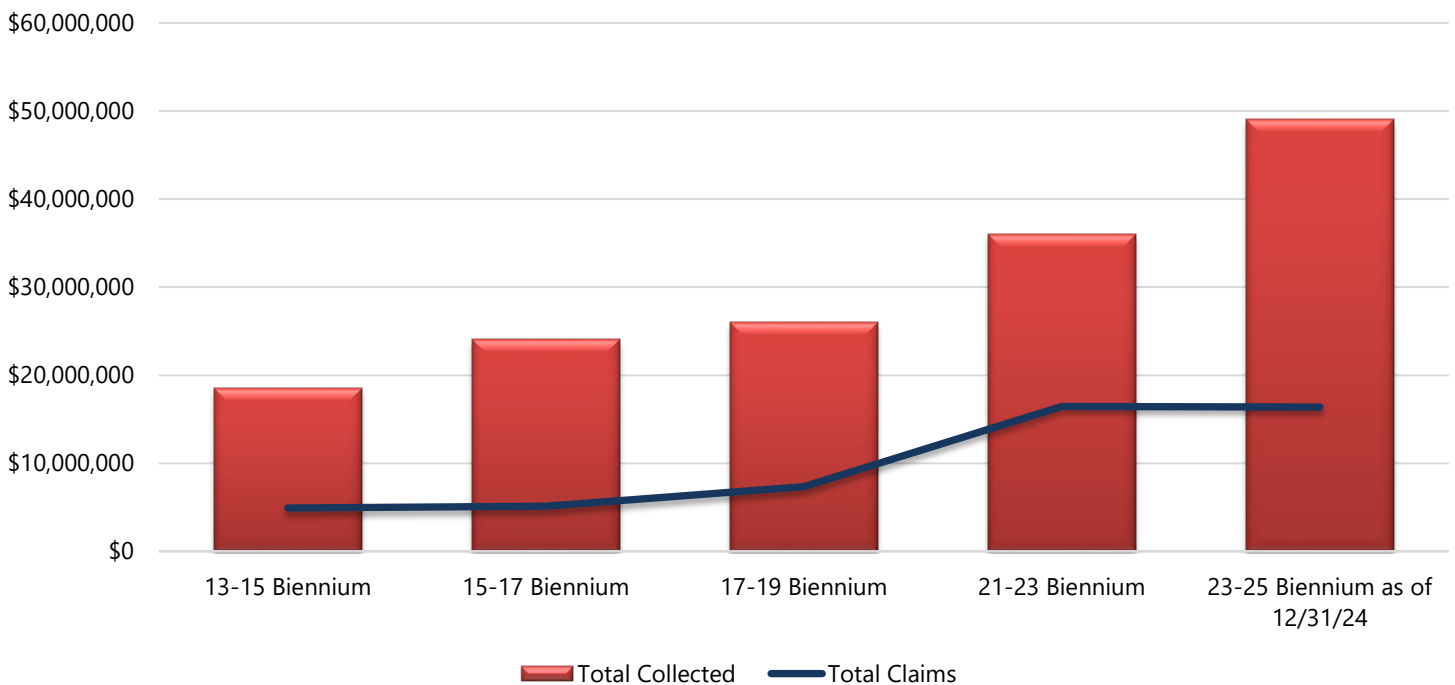
INVESTMENT TEAM



13 PERMANENT TRUST FUNDS ASSET AND DISTRIBUTION TRENDS



UNCLAIMED PROPERTY INCREASES (Cash Only Properties)



2. REPORT ANY FINANCIAL AUDIT FINDINGS INCLUDED IN THE MOST RECENT AUDIT OF YOUR DEPARTMENT OR INSTITUTION AND ACTION TAKEN TO ADDRESS EACH FINDING.

Eide Bailly recently completed its audit of Department financial statements for the year ended June 30, 2024. It was a clean audit with three minor misstatements identified that were corrected.

3. DISCUSS CURRENT BIENNIUM ACCOMPLISHMENTS AND CHALLENGES AND NEXT BIENNIUM GOALS AND PLANS.

Accomplishments

- Generated a record \$1 billion in oil and gas royalties
- Record \$585 million CSTF distribution for upcoming 2025-27 biennium; 17% increase over current biennium amount which was also a record
- Continued diversification of \$7 billion investment portfolio for more consistent performance through all market cycles
- Own interest in 9,700, or 51%, of total 19,00 producing oil and gas wells in North Dakota
- Own interest in 18 million, or 49%, of total 37 million oil barrels produced each month
- Own 1.20% of all oil & gas produced each month in North Dakota
- New Mineral Management System went live in January 2023
- New online customer portal with electronic payment processing go live May 2025
- Achieved numerous oil & gas royalties settlements totaling tens of millions of dollars
- Significant litigation reduction
- The Unclaimed Property Division returned a record \$16.5 million to owners during the 2022-2023 biennium by paying 31,975 claims. Additionally, the Unclaimed Property Division processed 7,054 holder reports totaling \$36 million. This is due to increased outreach efforts.
- Re-structured Unclaimed Property 3rd party auditor contracts to promote increased holder compliance

Goals/Plans

- Develop alternative revenue sources
- Start unclaimed property internal audit program
- Continue to increase operational efficiencies with new systems/technologies
- Reduce unnecessary red tape
- Continued improvement of information available to public via website
- Continued growth of revenue and investments
- Increase return rate of unclaimed property by increasing owner outreach

Challenges

- Talent recruitment and retention
- Managing workload with continually increasing responsibilities:
 - Record number of leases to manage
 - Record high in revenues to manage
 - Record value of trust funds to manage
 - More unclaimed property holder reports and claims to process

4. COMPARE THE AGENCY’S REQUEST/RECOMMENDATION TOTALS, INCLUDING FTE POSITIONS, FOR THE NEXT BIENNIUM COMPARED TO THE CURRENT BIENNIUM.

The Department is requesting a -\$108,862 decrease in operating expenses from the current biennium due to achieved administrative efficiencies and reduced legal costs. We are requesting a +\$720,037 increase in our current salary and benefits appropriation of \$8,823,877 to \$9,543,914. Of that amount, \$514,628 is to add two FTEs from 33 to 35, and the balance of approximately \$205,409 is for anticipated retirement payouts and additional flexibility to help recruit and retain qualified employees.

Diversified Revenue Officer - This position will leverage Land Board assets to create new revenue streams by tapping into the various growing industries in North Dakota such as carbon capture/storage, soil carbon markets, rare earth minerals, wind, solar, etc. Currently, 97% of revenues generated by Land Board surface and mineral rights come from oil & gas royalties, which are projected to begin declining in the early 2030’s. For sustainable trust distributions well into the future, we need to start diversifying our revenue streams. This is an investment to start building a Diversified Revenues Division with the goal of achieving 10% non-oil & gas royalty revenues by 2035.

Unclaimed Property Auditor - This position will fill a critical gap in auditing North Dakota centric businesses to ensure compliance with unclaimed property laws. Currently unclaimed property audits are done by contracted third party auditors that focus on large multi-state businesses, missing many North Dakota focused companies that have large operations in the state. This position will promote compliance from those businesses, resulting in millions more in unclaimed property being returned to rightful owners.

DESCRIPTION	CURRENT APPROPRIATION	DEPARTMENT REQUEST 2025-27	DOLLAR CHANGE	PERCENTAGE CHANGE
SALARY & WAGES	8,823,877	9,543,914	720,037	8.2%
OPERATING EXP.	1,769,094	1,660,232	(108,862)	(6.1%)
CAPITAL ASSETS	4,949,500	0	(4,949,500)	(100%)
CONTINGENCY	100,000	100,000	0	0%

BIENNIUM	FTE	ASSETS	OIL/GAS PRODUCING PROPERTIES
13 - 15	31	\$4.6 B	5,080
15 - 17	33	\$4.7 B	5,884
17 - 19	31	\$6.1 B	6,937
19 - 21	29	\$5.7 B	7,511
21 -23	30	\$7.1 B	8,600
23-25	33	\$8.8 B*	9,700
		* as of June 30, 2024	

It is important to note that the Department’s peer states have significantly more FTE’s than the Department while we manage more assets than most of our peers.



5. DISCUSS ANY NEW POSITIONS APPROVED FOR YOUR AGENCY FOR THE 2023-25 BIENNIUM BY THE 2023 LEGISLATIVE ASSEMBLY, THE TIMING OF FILLING THE POSITIONS, AMOUNTS TRANSFERRED FROM THE OMB POOL FOR THE FILLED POSITIONS, AND FUNDING APPROPRIATED AND THE AMOUNT ESTIMATED TO BE SPENT FOR EACH POSITION FOR THE 2023-25 BIENNIUM.

POSITION	DATE FILLED	FTE FUNDING POOL TRSFR	DATE TERMINATED	DATE FILLED	APPROPRIATE FUNDING	ESTIMATED FUNDING
Unclaimed Property Processor	07/01/23	\$149,207	11/15/24	12/16/24	\$154,886	\$166,811
Minerals Management Officer	09/05/23	\$215,194	-	-	\$239,104	\$228,033
Investment Operations Officer	10/01/23	\$292,987	01/31/24	05/01/24	\$334,842	\$233,775
<u>VACANT POSITION</u>						
Minerals Management Officer	09/01/23	\$161,158	06/21/24	10/07/24	\$201,588	\$333,875
		\$818,546			\$930,420	\$962,494

6. **DISCUSS EMPLOYEE TURNOVER AND THE NUMBER OF VACANT POSTIONS DURING THE 2023-25 BIENNIUM TO DATE, THE AMOUNT OF SAVINGS RELATIVN TO THE VACANT POSITIONS AND EMPLOYEE TURNOVER TO DATE COMPARED TO THE VACANT POSITION SAVINGS REMOVED FROM YOUR AGENCY’S BUDGET BY THE 2023 LEGILSATIVE ASSEMBLY, THE AMOUNT OF VACANT POSITION SAVING SPENT FOR OTHER PURPOSES, AND ANY AMOUNTS TRANSFERRED OR ANTICIPATED TO BE TRANSFERRED FROM THE OMB POOL.**

Position	Reason	Date Terminated	Date Filled
Administrative Assistant	Retirement	5/16/2024	09/03/24
Investment Operations Officer	Private Sector	12/13/2024	VACANT

Agency Vacancy Saving Worksheet

Est. Vacancy Savings \$ 197,237.00

Use of vacant position savings:

Accrued Leave Payouts	519
Extra Salary Increases	86,638
Bonuses	8,000
Incentive/location Pay	-
Reclassifications	24,238
Extra Temporary salary Funding	-
Extra Overtime Funding	-
Other (identify)	-

EST. TOTAL SAVINGS (as of 12/31/24) \$ 77,842.00

Vacant Positions (as of 12/31/24) 1

7. **EXPLAIN THE FUNDING INCLUDED IN EACH PROGRAM/LINE ITEM EITHER IN TOTAL OR BY DIVISION DEPENDING ON THE SIZE OF THE AGENCY:**

SEE #4 ABOVE

8. **DISCUSS THE PURPOSE AND USE OF ANY ONE-TIME FUNDING ITEMS FOR THE CURRENT BIENNIUM.**

Our IT systems project is proceeding on-time and within budget, with completion scheduled for May 2025. A new UTV for land inspections was purchased in 2024.

9. **IDENTIFY AND JUSTIFY THE NEED FOR ANY ONE-TIME FUNDING BEING REQUESTED.**

N/A

10. DISCUSS AGENCY COLLECTIONS THAT ARE DEPOSITED IN THE GENERAL FUND, OR A SPECIAL FUND, AND ANY ANTICIPATED CHANGES FROM 2021 LEGISLATIVE SESSION ESTIMATES DURING THE 2023-25 BIENNIUM AND ESTIMATED CHANGES FOR THE 2025-27 BIENNIUM.

	2023-25 Legislative Appropriation	2025-27 Executive Budget	Increase	Increase %
Common schools	\$499,860,000	\$584,677,350	\$84,817,350	17%
North Dakota State University	7,648,000	8,770,000	1,122,000	14.7%
University of North Dakota	5,986,000	6,948,000	962,000	16.1%
Youth Correctional Center	2,662,000	3,136,000	474,000	17.8%
School for the Deaf	2,198,000	2,388,000	190,000	8.6%
North Dakota State College of Science	2,259,700	2,570,284	310,584	13.7%
State Hospital	1,835,700	1,976,284	140,584	7.7%
Veterans' Home	893,700	994,284	100,584	11.3%
Valley City State University	1,354,000	1,566,000	212,000	15.7%
North Dakota Vision Services - School for the Blind	1,679,700	1,936,284	256,584	15.3%
Mayville State University	894,000	1,102,000	208,000	23.3%
Dakota College at Bottineau	343,700	406,284	62,584	18.2%
Dickinson State University	343,700	406,284	62,584	18.2%
Minot State University	343,700	406,284	62,584	18.2%
Total	\$528,301,900	\$617,283,338	\$88,981,438	

11. IDENTIFY AND FEDERAL STATE FISCAL RELIEF FUNDS REMAINING TO BE SPENT BY YOUR AGENCY BY DECEMBER 2026.

N/A

12. DISCUSS THE NEED FOR ANY OTHER SECTIONS TO BE ADDED TO THE APPROPRIATION BILL.

Potential increase to salary line and language authorizing the Land Board to adopt an incentive compensation plan for the Department, similar to what was included in the Retirement & Investment Office budget bill last session. This will depend on the Board's decisions at its January and/or February meetings after reviewing a compensation study procured on this issue.

13. DISCUSS ANY OTHER BILLS BEING CONSIDERED BY THE LEGISLATIVE ASSEMBLY AND THEIR POTENTIAL BUDGETARY IMPACT ON THE AGENCY.

Nothing material we are aware of at this time.

14. PROVIDE A ONE-PAGE ITEMIZED LISTING ANY CHANGES YOUR AGENCY IS REQUESTING THE COMMITTEE TO MAKE TO THE EXECUTIVE BUDGET RECOMMENDATION.

The executive budget recommendation does not include the two new FTEs discussed in #4 above: 1) Diversified Revenue Officer and 2) Unclaimed Property Auditor.

We look forward to working with the Committee on this bill and would be happy to answer any questions.