

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/26/2015**

Bill/Resolution No.: SB 2344

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>						
<b>Expenditures</b>			\$432,500		\$432,500	
<b>Appropriations</b>			\$432,500		\$432,500	

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
<b>Counties</b>			
<b>Cities</b>			
<b>School Districts</b>			
<b>Townships</b>			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The bill creates a stand-alone foundation, with nine-members appointed by the Governor. The foundation and its operations are not contained within any state agency. The Foundation would assess statewide priorities and develop a comprehensive strategic plan for use of legacy fund earnings.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Fiscal impacts of the bill include compensation, mileage, and expenses for members; contracted administration and secretarial costs (or salary/benefits for FTE); consulting services for strategic planning, writing/monitoring necessary legislation; consulting fees for writing and related printing costs for the required biennial report; and miscellaneous administrative costs.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

The bill allows the foundation to seek private sector revenue sources; however, we are unable to estimate the level of private sources that may be available.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Estimated biennial expenditures total \$432,500 as follows:

- \$61,500 for foundation compensation, meals and lodging for one meeting per month
- \$136,000 for contracted positions or FTE for a .25 foundation director and a .50 administrative support professional
- \$200,000 for consulting services to include strategic planning, legislative drafting/monitoring, biennial report drafting
- \$35,00 for printing, meeting space rental, computer and miscellaneous operating expenses.

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

Neither SB2344 or the executive budget include an appropriation for the bill's expenditures.

**Name:** Tammy Dolan

**Agency:** OMB

**Telephone:** 328-4947

**Date Prepared:** 01/28/2015

**2015 SENATE GOVERNMENT AND VETERANS AFFAIRS**

**SB 2344** /

# 2015 SENATE STANDING COMMITTEE MINUTES

## Government and Veterans Affairs Committee

Missouri River Room, State Capitol

SB 2344


2/5/2015

Job # 23263 & 23264

☐ Subcommittee

☐ Conference Committee

Committee Clerk Signature



### Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact a new chapter to title 54 of the North Dakota Century Code, relating to the North Dakota legacy foundation.

### Minutes:

Attachments 1 - 2

**Chairman Dever:** Opened the hearing on SB 2344.

**Senator Schneider, District 42:** See Attachment #1 for testimony as sponsor and in support of the bill.

**(5:34) Senator Cook:** The responsibility of making the proper decisions regarding how the legacy fund is spent lies with the legislature right now correct?

**Senator Schneider:** Absolutely.

**Senator Cook:** You would like to transfer that from the legislature to the Governor?

**Senator Schneider:** Absolutely not. What the legacy foundation would do is sort of as a research arm more than anything. Identify a biennial priority and take a deep look at it, collect input from around the state and then provide recommendations to the legislature and the Governor. The Governor and the legislature would still be in control here.

**Senator Cook:** Was there any legislation required to create the legacy fund initiative that you served on?

**Senator Schneider:** I do not think that there was.

**Senator Cook:** Could not the group of people be put together to come up with their ideas of what the legacy fund should be spent for and make recommendations to the legislature the same way that the legacy fund initiative was created without any legislation?

**Senator Schneider:** That is one approach. I think that we can look to the economic development foundation as a model that has worked well in that regard. Certainly we have been able to leverage the private sector expertise, but also there is a public component there too. Any group can come together and say the legacy fund earning should be spent on this or that, but I think having this public component is really important.

**Chairman Dever:** I think we heard at least one bill in this committee with suggestions on use with legacy fund dollars so even if we created this there would be competition for those dollars.

**Senator Schneider:** There are a lot of ideas of what to do with the legacy fund. We need to show the people that this fund is being used in their best interest and not just socked away. There is always going to be a competition of idea and I think this legacy foundation could work as a clearing house for those ideas.

**Senator Cook:** The Government and Finance Interim Committee was assigned the responsibility of studying what to do with the legacy fund. I see you came back with 75% of the interest is reinvested. The interim committee came back with 100% to be reinvested. Until such time as the fund grows. My idea of what it should be spent on is on future generations. What you are asking this task force to do - to me I think it be assigned to a legislative interim committee. Talk to me about the difference. Why would you not want to have this conversation go on in a legislative interim committee?

**Senator Schneider:** Certainly the legacy foundation would not preclude consideration by interim committees. Perhaps it could be done concurrently with what the legacy foundation would be doing in terms of gathering ideas from citizens around the state. In terms of the recommendation to reinvest 100%, I respect their recommendation on that. There was a sense among some legacy fund initiative members that if 100% of the earnings were reinvested there could be a risk of an initiated measure that says to liquidate the fund and give everyone a \$5000 check. I think the group agrees with investing this for future generations.

**Senator Cook:** Alaska, which does give everyone a check, started that fund in 1976 and they have over \$50 billion in that fund. I think if they could go back and revisit that decision they might make a different decision.

**Senator Schneider:** I think that is fair to say. The group was unanimous that we do not want to go down the road that Alaska has gone down.

**Chairman Dever:** I understand that most of the mineral rights are state owned in Alaska.

**Senator Schneider:** That is a critical difference.

**Chairman Dever:** When we talk about input from the citizens in legislative committees, do you think that citizens would contact the legacy foundation with their input on that?

**Senator Schneider:** I think the legacy foundation would do a lot of outreach and certainly the legacy fund initiative did a lot of outreach when it was going around the state. I think this is supplementary to what is going to happen one way or the other with the interim legislative committee process and complementary as well.

**Chairman Dever:** Regarding the fiscal note, my feeling is that the argument against it should be made in appropriations.

**Senator Schneider:** I like that argument. The bill quite clearly states that this only authorizes collection of private funds. Even I could win that argument.

**Chairman Dever:** I guess if it is private fund then it is up to them.

**Senator Schneider:** We are looking only to establish this and seek private funding.

**Chairman Dever:** So the foundation would be made up of the private sector?

**Senator Schneider:** the qualifications for the members are in the bill on page 1; appointed by the Governor.

**Senator Nelson:** I serve on the advisory council for the stabilization fund and on the legacy fund; where do we fit in?

**Senator Schneider:** I think right in the middle of this process. The legacy foundation would take good ideas from everywhere. Including, most prominently, members of the legislature through these committees that have been established.

**Senator Nelson:** When I attended my first meeting, they started talking about your initiative and I had no idea who you were, what you were, or anything that you did. The problem is communication. As far as I could see we were in charge of asset allocations and making sure we were getting up to where we supposed to have been. I really think there needs to be an improvement in communication here.

**Senator Schneider:** I agree and having the legacy foundation as the clearing house with these private sector leaders would be a good way to start in improving that communication.

**(15:20) Larry Skogen, Interim Chancellor, North Dakota University System:** See Attachment #2 for testimony in support of the bill.

**(19:00) Senator Cook:** I couldn't agree more. This is for our children and grandchildren, etc. To me, it is the only discussion that needs to happen is that it is not for us, it is for future generations. So, why would we create a foundation to talk about how we might start spending it if the decision is to be made so far in advance?

**Larry Skogen:** All I see is for this to be a mechanism to have that statewide discussion, and to make recommendations. It is just a possible venue. It was just a different venue and I think it was valuable. It is not a governing foundation whatsoever. It would be an established, recognized group that would get together and have these discussions about the children and grandchildren and make recommendations to the legislature.

**(21:42) Jon Godfreid, Greater North Dakota Chamber of Commerce:** Testified in support of the bill. We were part of the legacy fund initiative. It was a very diverse group and we felt that

it was very important to be at the table. With any broad policy discussion you have with a large group like that, no one gets everything they want. The recommendation that came out of it is something that we can support. We would lean to keeping the money reinvested. We want to be involved and have a seat at the table in the future.

**(22:38)Chairman Dever:** If you are involved in the process, and you make a decision, as part of the foundation, and other proposals come up, are you recommitted to your position?

**Jon Godfried:** I do not think so.

**Chairman Dever:** Closed the hearing on SB 2344.

## **2<sup>nd</sup> Recording Job # 23264**

**Committee discussion:** The committee and bill sponsor debated whether or not the bill should have a fiscal note due to the fact that the fiscal note states that it is private funds.

**Senator Schneider:** OMB put the fiscal note together. It is not justifiable. There are no public involved here. There is no public funding mechanism in this bill at all.

**Senator Cook:** The fiscal note does mandate the compensation. So if there are no private funds someone has to pay the bill.

**Senator Schneider:** I don't see a way that this would come back to the state.

**Chairman Dever:** The point of this foundation for being in law is first for the appointment by the Governor and second as an avenue to present it to the legislature.

**Senator Schneider:** It certainly gives it a good grounding and legitimate.

**Chairman Dever:** Closed the discussion on SB 2344.

# 2015 SENATE STANDING COMMITTEE MINUTES

## Government and Veterans Affairs Committee Missouri River Room, State Capitol

SB 2344  
2/5/2015  
Job # 23301

- ☐ Subcommittee  
☐ Conference Committee

Committee Clerk Signature



**Minutes:**

No Attachments

**Chairman Dever:** Opened SB 2344 for committee discussion.

**Senator Cook:** Reads from the fiscal note.

**Chairman Dever:** Asked the committee if there were any amendments to the bill.

**Senator Cook:** Moved a Do Not Pass.

**Senator Flakoll:** Seconded.

**Chairman Dever:** Any further discussion?

**Senator Cook:** So you know where I am coming from. I think this can happen just like the legacy fund or whatever they called it last interim, happened without legislation. I think this is a discussion that needs to stay within the legislative interim committee and furthermore, I think it way too early to start having all these conversations on what we are going to do with the legacy fund. We kind of made that decision this past interim and we will see how it fairs this legislative session. I would hope for the next years we keep reinvesting the interest into the fund unless we run into a situation where we have a downfall in revenue and we need to use the interest to balance the budget. It would have to be a severe case before I would ever do that.

**Chairman Dever:** Any private organization can exist on its own without any legislation.

**A Roll Call Vote Was Taken: 5 yeas, 2 nays, 0 absent.**

**Motion Carried.**

**Senator Flakoll will carry the bill.**



Date: 2/5  
Roll Call Vote #: 1

2015 SENATE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 2344

Senate Government and Veterans Affairs Committee

☐ Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation: ☐ Adopt Amendment  
☐ Do Pass ☒ Do Not Pass ☐ Without Committee Recommendation  
☐ As Amended ☐ Rerefer to Appropriations  
☐ Place on Consent Calendar  
Other Actions: ☐ Reconsider ☐ \_\_\_\_\_

Motion Made By Cook Seconded By Flakoll

Senators	Yes	No	Senators	Yes	No
Chairman Dever	✓		Senator Marcellais	.	✓
Vice Chairman Poolman	✓		Senator Nelson		✓
Senator Cook	✓				
Senator Davison	✓				
Senator Flakoll	✓				

Total (Yes) 5 No 2

Absent 0

Floor Assignment Flakoll

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE**

**SB 2344: Government and Veterans Affairs Committee (Sen. Dever, Chairman)**  
recommends **DO NOT PASS** (5 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING).  
SB 2344 was placed on the Eleventh order on the calendar.

**2015 TESTIMONY**

**SB 2344**

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**GOVERNMENT & VETERANS AFFAIRS COMMITTEE**

North Dakota State Senate  
Thursday, February 5, 2015, 9:00 a.m.  
Bismarck, North Dakota

**TESTIMONY OF DANIEL M. TRAYNOR**

1 Chairman Dever and Members of the Committee:

2 I am Dan Traynor, an attorney in Devils Lake, North Dakota. I was a participant in the  
3 Legacy Fund Initiative. I am pleased to offer this testimony in support of Senate Bill 2344,  
4 which would establish a Legacy Fund Foundation in state law.

5 The Legacy Foundation is patterned after the Economic Development Foundation that is  
6 already in law. As an Economic Development Foundation member, I suggested the foundation  
7 as a model for a new Legacy Fund Foundation to get policy makers, experts in the various fields  
8 of study and civic leaders in the same room to collaborate on developing long-term priorities for  
9 the Legacy Fund.

10 None of us knows what our state will need in 20 or 50 years. Our committee concluded,  
11 as much as possible, it was necessary to keep the Legacy Fund available to meet the needs of  
12 future generations. Establishing a Legacy Foundation in North Dakota is an important first step  
13 to ensure that long-term Legacy Fund planning occurs so that North Dakotans today, along with  
14 future generations, realize tangible benefits from the Legacy Fund.

15 The use of Legacy Fund proceeds will always be a legislative prerogative. The Legacy  
16 Foundation's role would include gathering public and expert inputs, identifying priorities to  
17 recommend to the Governor and Legislature, and coordinating state agencies and private sector  
18 entities in planning and undertaking initiatives.

19 LFI participants recommend that the Governor and Legislature identify a critical priority  
20 for the state each biennium and charge the Legacy Foundation with developing a program of

1 action to address that priority with Legacy Fund earnings and other state and private resources.  
2 Our group envisioned that priorities chosen each biennium will span a wide range of important  
3 issues as future governors and Legislatures respond proactively to the changing circumstances of  
4 our state over time. In doing so, the Foundation will avoid the inherent inertia of bureaucracy  
5 and encourage a periodic discussion among the political branches of what our state needs.

6 Other LFI participants testifying today will share our specific recommendations on other  
7 strategic initiatives that the Legacy Foundation could undertake.

8 North Dakotans today are blessed with an extraordinary bounty of oil and gas resources  
9 available to us for a limited time. Through our wise stewardship of the Legacy Fund we can  
10 preserve this abundance to convey to our children and grandchildren a future full of opportunities  
11 and options similar to those we enjoy today.

12 Chairman Dever and committee members, thank you for the opportunity to submit this  
13 written testimony. I encourage your committee to give this legislation a “do pass”  
14 recommendation.

15 I thank you and your committee for your consideration of this important issue.

Contact Information:

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**GOVERNMENT & VETERANS AFFAIRS COMMITTEE**

North Dakota State Senate  
Thursday, February 5, 2015, 9:00 a.m.  
Bismarck, North Dakota

**TESTIMONY OF DINA BUTCHER**

Chairman Dever and Members of the Committee:

I am Dina Butcher, a partner in WT Butcher & Associates, a private investigative agency in Bismarck, ND. I was fortunate enough to be a participant in the Legacy Fund Initiative and my testimony is in support of Senate Bill 2344, a bi-partisan bill which would establish a Legacy Fund Foundation in state law.

Because the 2017 legislature will set the precedent for how the interest from this constitutionally established fund is directed, I want to see steps taken now to enable more citizens of North to enjoy the kind of informed conversations we enjoyed during the meetings of the Initiative. Establishing the Legacy Fund Foundation this session, will enable time for broadening the discussion on how this potential "insurance policy" for a continued positive educational, economic and quality of life engine for North Dakota generations yet to come should be invested.

The Initiative members were a diverse group politically, demographically, and in my case, age and experience wise. We heard in depth presentations from states and countries with similar trust funds and considered the various investment scenarios presented by consultants and investment experts. Our members came together unanimously in feeling that the bulk of the interest should be reinvested to maximize the benefits to future generations. However, all also agreed that a small portion of the interest should be applied to the really "big idea"—the break-through technology or

inventions—to maintain North Dakota’s vibrant economy beyond the energy and agricultural booms and busts.

I am hopeful, that you have had the opportunity to review the Legacy Initiative report, so are aware of the “genius initiative” referred to in the bill and report, which I feel can position North Dakota as a “Silicon Valley” for new generation energy and agricultural applications and products. The Legacy Foundation would be instrumental in establishing the procedures to bring expertise to stimulate and encourage such activity.

Mr. Chairman and committee members, thank you for allowing me to submit this written testimony. I hope you will provide a “do pass” on this bill sponsored by these two visionary Senators with whom I had the privilege of serving on the Legacy Initiative.



**Government and Veterans Affairs Committee  
North Dakota State Senate  
Testimony of David Borlaug  
Thursday, February 5, 2015  
Senate Bill 2344**

Chairman Dever and Members of the Committee

I am David Borlaug, President of the Lewis & Clark Fort Mandan Foundation of Washburn and one of those privileged to have served on the Legacy Fund Initiative. I am grateful that you have before you this legislation, creating a Legacy Fund Foundation.

This committee, over many months and many meetings, including public input, came up with numerous and varied suggestions on how to best make use of the new wealth our state is enjoying with oil development. Throughout this process, we approached the subject with the clear understanding that the State Legislature will establish policies and procedures as we move into this brave new world, with all of its possibilities.

Establishing this Foundation is a vital early step in this process and I encourage you to agree with its sponsors, moving this bill forward with a recommendation for approval.

What we do today will impact our citizens for generations to come. It is a great responsibility, and one that I know you are taking to heart. Thank you.





Government and Veterans Affairs Committee  
North Dakota State Senate  
Testimony of Lorraine Davis  
Thursday, February 5, 2015  
Senate Bill 2344

Chairman Dever and Members of the Committee:

I am Lorraine Davis, Founder and Executive Director of the Native American Development Center (NADC) of Bismarck. Briefly, the NADC exists to provide Native Americans who reside in the Bismarck-Mandan-Lincoln and surrounding areas with the means to sustain the tribal cultural heritage, along with the access to events, opportunities, resources, and services for them to become successful in achieving self-sufficiency and prosperity.

I am honored to have been a member of the ND Legacy Fund Initiative and am extremely grateful that this Committee is considering the adoption of a Legacy Fund Foundation for the future of North Dakota. I am truly grateful to be a citizen of our state, and I would like to show my support and encourage the committee to approve this bill.

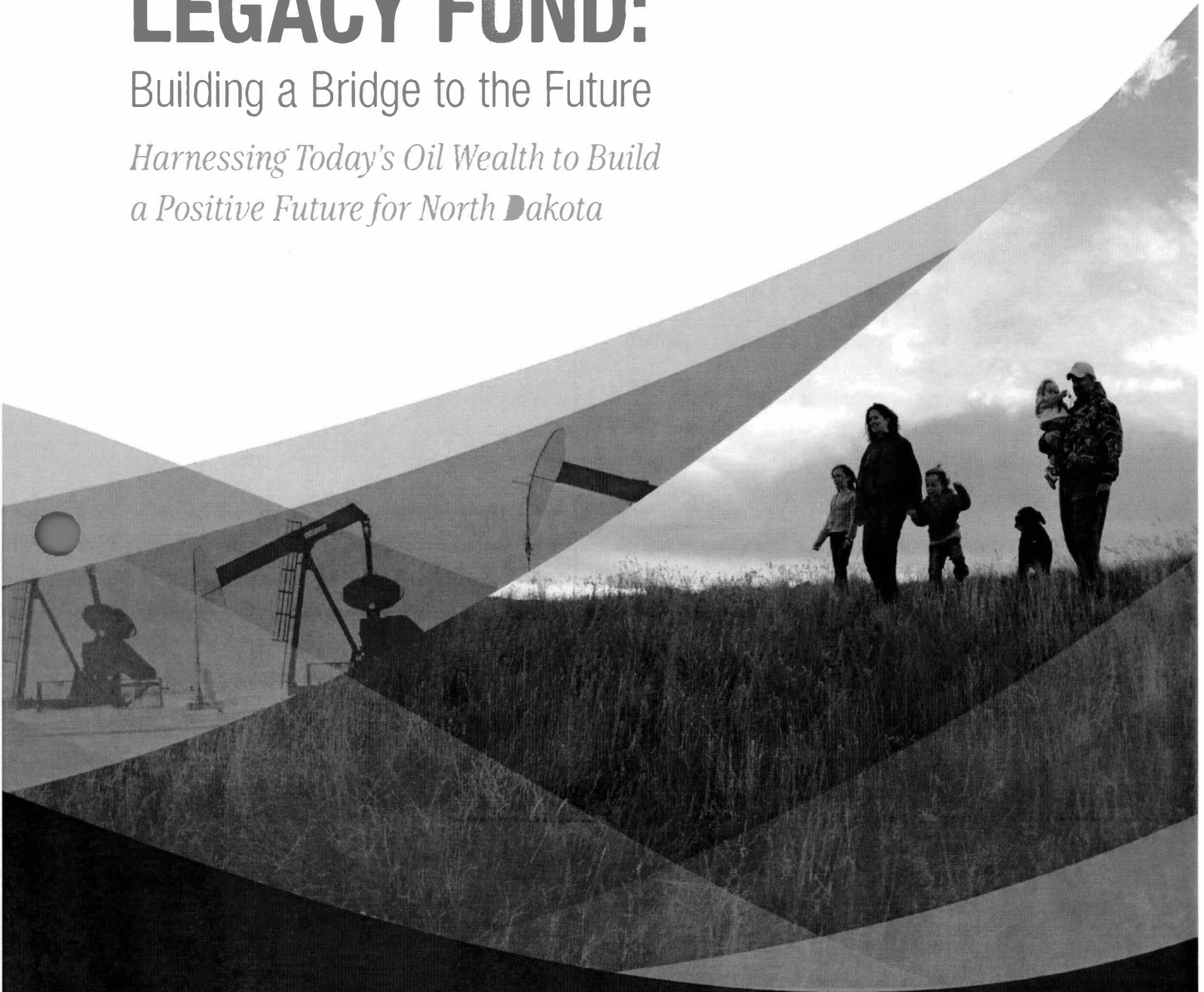
Over the last year, our Legacy Fund Committee provided outreach and collected public input from several rural communities, including tribal members through the Tribal College President's platform. Collectively, we dedicated our time to this very important initiative to ensure a bright future for all citizens of North Dakota.

It brings me great respect and appreciation to be able to present this testimony to you today, the great leaders of our state – the ND Legislatures of 2015. Thank you.

# ● NORTH DAKOTA'S LEGACY FUND:

Building a Bridge to the Future

*Harnessing Today's Oil Wealth to Build  
a Positive Future for North Dakota*



● NOVEMBER / 2014

RECOMMENDATIONS TO THE GOVERNMENT  
AND CITIZENS OF NORTH DAKOTA



**GREAT PLAINS  
INSTITUTE**

# North Dakota's Legacy Fund: Building a Bridge to the Future

HARNESSING TODAY'S OIL WEALTH TO BUILD A POSITIVE FUTURE  
FOR NORTH DAKOTA

## LEGACY FUND INITIATIVE PARTICIPANTS

- **Nick Archuleta**, President, North Dakota United
- **Kelly Armstrong**, State Senator, District 36-Dickinson
- **Rod Backman**, Former Director, North Dakota Office of Management and Budget
- **David Borlaug**, President, Lewis and Clark Fort Mandan Foundation
- **Phil Boudjouk**, Professor of Chemistry and former Vice President for Research, Creative Activities and Technology Transfer, NDSU
- **Dina Butcher**, Former Director of North Dakota Division of Community Services and Former Deputy Agriculture Commissioner
- **Steve Burian**, CEO, Advanced Engineering and Environmental Services
- **Lorraine Davis**, Member, Mandan School Board
- **Maria Effertz-Hanson**, Owner, Black Butte Communications and Consulting
- **Mike Eggl**, Senior Vice President, Communications and Administration, Basin Electric Power Cooperative
- **Jon Godfread**, Vice President, Government Affairs, North Dakota Chamber of Commerce
- **Pete Haga**, Community/Government Relations Officer, City of Grand Forks
- **Eric Hardmeyer**, CEO, Bank of North Dakota
- **Terryl Jacobs**, Rancher and President, Slope Electric Board of Directors
- **Cynthia Lindquist**, President, Cankdeska Cikana Community College, Spirit Lake Nation
- **Jim Ringelman**, Former Director of Conservation Programs, Ducks Unlimited
- **Mac Schneider**, Senate Minority Leader, District 42-Grand Forks
- **Cody Schuler**, United Methodist Pastor
- **Larry Skogen**, Interim Chancellor, North Dakota University System
- **Rose Stoller**, Executive Director, Consensus Council, Bismarck
- **Karen Stoker**, Owner, Hotel Donaldson
- **Jessica Thomasson**, Vice President for Social Enterprise, Lutheran Social Services of ND
- **Dan Traynor**, Attorney, Traynor Law Firm
- **Gene Veeder**, Executive Director, McKenzie County Jobs Development Authority

## ACKNOWLEDGEMENTS

*This report and its consensus recommendations for the future of North Dakota's Legacy Fund represent the efforts and contributions of many people and institutions.*

*We are grateful for the dedication of our Legacy Fund Initiative participants who volunteered their time over the course of seven meetings, several webinars and many conference calls. It has been an inspiration and privilege to work with a group of people who care deeply about the future of our state.*

*We also thank the many citizens across our North Dakota who took the time to participate in our community meetings and online survey. Their input helped shape these recommendations. Special thanks are due to the North Dakota Association of Tribal Colleges for their assistance in preparing and delivering our online survey to gather citizen input.*

*Officials from North Dakota, federal agencies, other states, and the country of Norway gladly provided information and presentations to Legacy Fund Initiative participants that informed their recommendations. We want to acknowledge contributions from a number of state and federal agencies, including the Bank of ND, ND Department of Commerce, Office of Management and Budget, ND Public Finance Authority, ND University System, and USDA Rural Development. We also recognize representatives of state natural resource funds in New Mexico and Wyoming who generously shared their own experiences and Norwegian officials and colleagues who helped inspire this project in the first place. We thank Peter Beck for allowing the use of his photo on the front cover of this report.*

*Finally, none of this work would have been possible without the Northwest Area Foundation, North Dakota Natural Resources Trust and the Consensus Council in partnership with the Bush Foundation. We extend our thanks and appreciation for their generous financial support of this project.*

*~ Patrice Lahlum and Brad Crabtree, Great Plains Institute*

## EXECUTIVE SUMMARY

For the first and perhaps only time in our state's history, we can meet the needs and opportunities of the present and steward the development of an extraordinary and permanent resource for the future.

In November 2013, the Great Plains Institute convened a diverse group of North Dakota public, private, community and nonprofit leaders and citizens to develop a consensus vision and policy recommendations to guide the purposes, governance, investments and future expenditures of the state's oil and gas Legacy Fund.

North Dakota's Legacy Fund is special. It differs from other constitutional and state special funds in that North Dakota voters established the Legacy Fund to safeguard a portion of oil and gas revenue and grow it for the future. With 30 percent of oil and gas tax revenue flowing into the Fund, the balance of the Legacy Fund has grown substantially and now stands at more than \$2.2 billion. Legislative forecasts predict that the Legacy Fund balance will grow to at least \$6 billion by 2017.

Under the state's Constitution, the earnings from the Legacy Fund become available for expenditure by North Dakota's legislature in 2017. State officials estimate the earnings from the Fund will be at least \$300 million annually by 2017, and those earnings will be deposited into the state general fund. After July 1, 2017, the state legislature can spend up to 15 percent of the principal balance of the Legacy Fund per biennium, if two-thirds of each house of the legislature agrees to the spending.

North Dakota stands at a critical juncture. There has not yet been a broad public conversation in North Dakota about the future of the Legacy Fund since its inception.

Legacy Fund Initiative participants studied national sovereign wealth funds and state-level natural resource funds to gain insight into the purposes and management of various funds. In addition, project participants considered a number of scenarios for the management of North Dakota's Legacy Fund in coming decades.

Identifying a common vision and principles upon which to formulate recommendations for the Legacy Fund was one of the first steps taken by participants in the process:

### Vision for the Legacy Fund

*North Dakota's Legacy Fund will provide a permanent, sustainable resource for future generations that fosters self-sufficiency, creates opportunity and enhances quality of life for all citizens.*

### Guiding Principles

- *Implement the highest standards and practices of governance, accountability and transparency to guide Fund policies, procedures, decisions and actions.*
- *Make long-term, sustainable investments in North Dakota's future through the responsible stewardship of revenue generated from a finite natural resource.*
- *Foster and reinforce core values of hard work, self-sufficiency, innovation, equity, and stewardship.*



Priority Number One: Governance, Accountability and Transparency

In their deliberations, LFI participants have consistently emphasized the fundamental importance of managing the Legacy Fund according to the highest standards and practices of governance, accountability and transparency in policies, procedures, decisions and actions. Therefore, LFI participants have developed a "Best Practices" checklist for this report to enable North Dakotans to compare the governance, accountability and transparency of the Legacy Fund against a set of best practices drawn from guiding principles and codes of conduct for other sovereign and state wealth funds. They also recommend that state policy-makers consider modifying the current governance of the Legacy Fund as it grows in scale and importance.

Scenarios for the Future

With a vision and principles in place, project participants analyzed various revenue scenarios for the Legacy Fund over time. The revenue scenarios were developed utilizing oil production projections published by the North Dakota Department of Mineral Resources at the time of writing, as well as data on recent and historical revenue and fund balances.

Project participants ultimately selected a preferred 25-year scenario on which to base their goals and recommendations in this report. It offers state policy-makers a pragmatic middle ground between spending everything and spending nothing. The preferred "Reinvest, Replace and Spend" scenario achieves a balance for the Legacy Fund of \$230 billion by 2060, while providing North Dakotans important benefits in the near to medium term. Under the scenario, the Legislature would spend 25 percent of annual earnings from 2017-2039 and reinvest the remaining 75 percent back into the Legacy Fund until oil production peaks and begins to decline (currently projected for the latter half of the next decade). At that point, the Legislature would still spend 25 percent of annual earnings, but use a portion of the remaining 75 percent of earnings to replace diminishing state oil and gas revenue, while reinvesting the rest into the Fund.

At a time of rapidly growing oil production and state revenues, but also growing concern over the recent decline in oil prices, the "Reinvest, Replace and Spend" scenario represents a responsible approach to the future that relies on conservative projections for oil production and price. It also appropriately balances benefits for North Dakotans today and for future generations.

Having selected a preferred scenario, participants established goals for the future of the Fund. These goals build on one another and will require prudent, intentional management to grow the Legacy Fund's principal over a 25-year timeframe:

Goals for the Legacy Fund

- *Provide a resource of last resort in times of exceptional need.*
- *Provide for a significant portion of the state's future needs by compensating for the reduction in revenues once oil and gas production begins to decline.*
- *Beginning in 2017, invest in bold, visionary, and transformative actions that build assets and enhance quality of life for North Dakota citizens today and in the future.*

The Legacy Fund goals described above can only be accomplished through the power of compounding interest. Turning potential into reality will require citizens and their elected representatives to sustain a commitment to wise management of the Fund over time.

Fortunately, given North Dakota's present fiscal strength—with billions of dollars in oil and gas, sales tax and other revenue flowing into and overflowing out of multiple state funds—we have abundant alternatives to the Legacy Fund to meet the current spending priorities in our state.

Building upon the vision, principles and goals, this report outlines a broad strategy to manage the Legacy Fund over the next quarter century that meets our obligations to future generations, while contributing meaningfully to the lives of North Dakotans today.

#### Legacy Fund Strategies

- *Reinvest 75 percent of annual Legacy Fund earnings from 2017 through 2039 to grow the Fund principal, after inflation, to benefit future generations of North Dakotans.*
- *Use existing state resources to address critical needs and priorities of citizens and communities today, rather than drawing on the Legacy Fund.*
- *Allocate 25 percent of annual Legacy Fund earnings from 2017 through 2039 to bold and visionary purposes that build a bridge to a future.*

In order to achieve the strategies outlined above, the report includes detailed recommendations for the proposed allocation and use of 25 percent of the annual Legacy Fund earnings from 2017 through 2039.

Participants propose the establishment of a North Dakota Legacy Foundation to involve the legislative and executive branches of government to administer Legacy Fund initiatives and guide the use of annual Fund earnings, subject to oversight by the Legislature. The Legacy Foundation's role would include gathering public and expert input, identifying priorities for recommendation to the Governor and Legislature, and coordinating state agencies and private sector entities in planning and undertaking initiatives.

LFI participants recommend that the Governor and Legislature identify a critical priority for the state each biennium and charge the Legacy Foundation with developing a program of action to address that priority with Legacy Fund earnings and other state and private resources. They envision that priorities chosen each biennium will span a wide range of important issues as future governors and Legislatures respond proactively to the changing circumstances of our state over time.

Based on their own discussions and input from citizens, LFI participants strongly encourage the Governor and Legislature to choose the development of a comprehensive strategy and action plan for building a world class pre-K through 20 education system as the first Legacy Foundation priority for the 2017-19 biennium.

Additionally, project participants recommend that the Legacy Foundation focus on a few key priorities for impact. Three ongoing initiatives are proposed in education scholarships, innovation and infrastructure that the Foundation could coordinate. By 2020, the Legacy Fund could provide about \$63 million to each of the three initiatives, or about \$189 million total. This could grow to \$131 million in 2025, \$222 million in 2030 and \$459 million annually in 2040 to each of the three recommended initiatives:

## **INITIATIVE #1: ENDOW A HIGHER EDUCATION SCHOLARSHIP PROGRAM IN NORTH DAKOTA**

As part of developing and implementing the broader strategy and action plan for pre-K through 20 educational excellence recommended in this report, LFI participants encourage state legislators to continue exploring how Legacy Fund resources could be utilized to endow a higher education scholarship program.

## **INITIATIVE #2: FOSTERING INNOVATION THAT BUILDS A BRIDGE TO THE FUTURE**

LFI participants recommend that a "Genius Initiative" be established to foster transformative private and public sector innovation that builds a bridge to the future by leveraging our current success in energy and agriculture to expand and accelerate economic diversification and increase our state's productive potential.

Funded by a portion of annual Legacy Fund earnings not reinvested, the proposed Genius Initiative would support applied research, development and demonstration of technologies and best practices, program and service delivery, and public-private partnerships that have significant potential to increase prosperity, create opportunity and enhance quality of life for citizens today and generations to come.

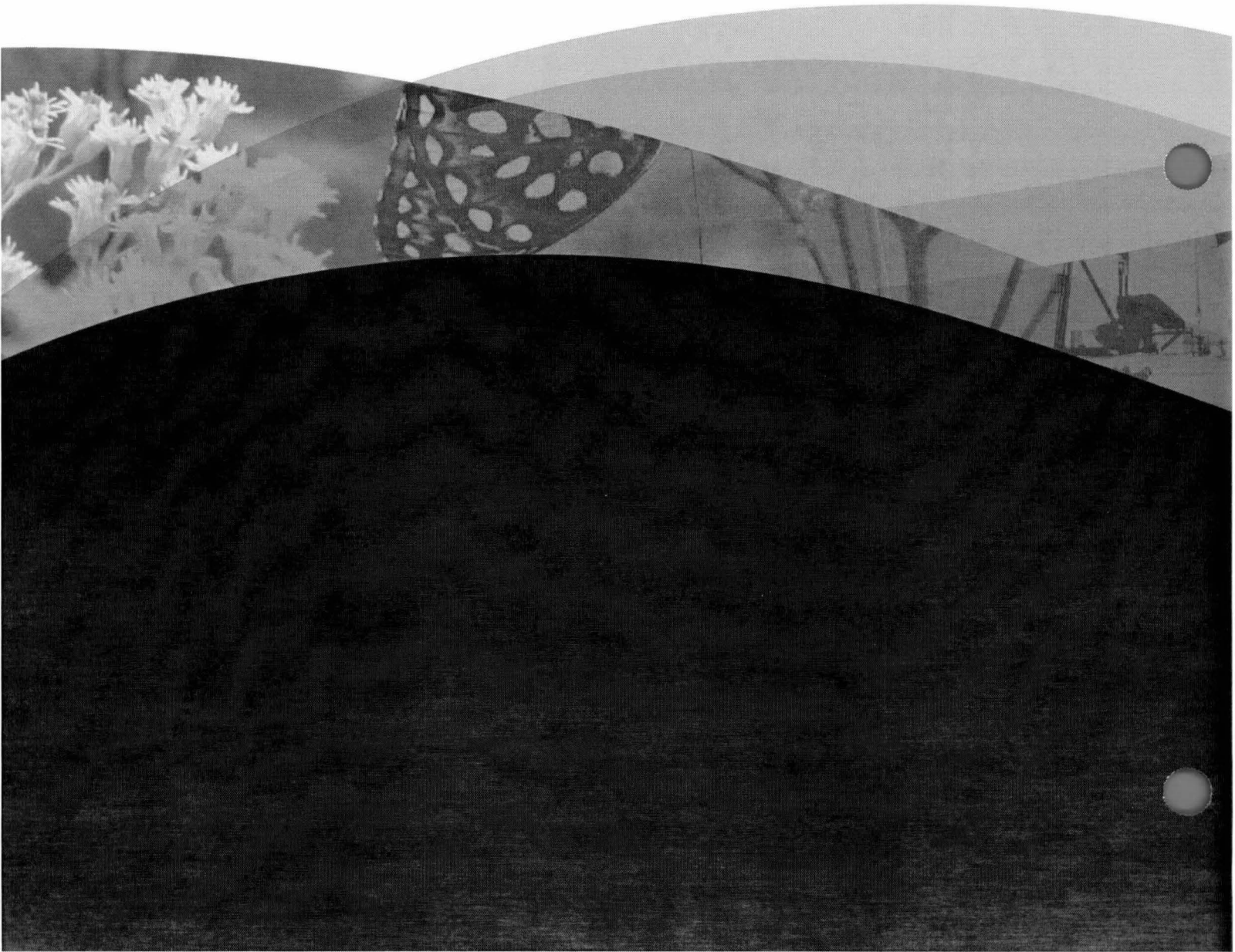
## **INITIATIVE #3: INVESTING IN 21<sup>ST</sup> CENTURY ECONOMIC AND COMMUNITY INFRASTRUCTURE**

The LFI participants encourage state policy-makers to dedicate a portion of annual Legacy Fund earnings not reinvested after 2017 toward long-term economic and community infrastructure investments that are bold, visionary and transformative and that provide returns or allow for repayment of principal to the Fund. They specifically recommend investing rather than spending Fund earnings on infrastructure in order to leverage the impact over time.

LFI participants do not advocate appropriating Legacy Fund earnings for traditional infrastructure purposes. North Dakota's infrastructure needs in the near term are enormous and driven to a large extent by oil and gas development. These needs will exceed available proceeds from Legacy Fund earnings by a large margin in the early years.

In offering these consensus recommendations for consideration by state policy-makers and citizens, LFI participants believe that we as North Dakotans today are blessed with an extraordinary bounty of oil and gas resources, which most states and countries will never share, and that is available to us for a limited time. We have an obligation through the Legacy Fund to take advantage of this window of opportunity to build a bridge to a future that provides our children and grandchildren with opportunities and options similar to those we enjoy today.







# \$260 billion by 2060: Group outlines goals, uses for ND Legacy Fund

By Mike Nowatzki on Nov 13, 2014 at 8:56 p.m.

**B** ISMARCK – A voter-approved trust fund that has socked away more than \$2.4 billion in North Dakota oil and gas tax revenue since 2011 could balloon to \$230 billion by 2060 under a scenario outlined Thursday by a group that spent the last year developing a road map for the fund.

The Legacy Fund Initiative, led by the Minneapolis-based nonprofit Great Plains Institute with participation from 24 leaders in the public, private and nonprofit sectors, released its 44-page report during a news conference at the Capitol.

The purpose of the Legacy Fund has been a source of debate since North Dakota voters approved a constitutional amendment in 2010 to set aside 30 percent of the state's revenue from taxes on oil and gas production and oil extraction, initiative co-director Brad Crabtree said.

With input from public meetings and an online survey, the bipartisan initiative group crafted a set of principles, strategies and priorities for the fund's management and future use.

"It looked into what I believe is probably the largest long-term public policy issue facing North Dakota lawmakers, and that is how we take this one-time harvest of natural resource revenue and make it a permanent investment in our people," said Senate Minority Leader Mac Schneider, D-Grand Forks.

State officials predict the Legacy Fund will grow to at least \$6 billion by 2017, earning \$300 million annually in interest and investment income.

Lawmakers may start appropriating money from those earnings before June 30, 2017, but the funds can't actually be spent until after that date. Any spending of the fund's principal requires a two-thirds vote of both houses of the Legislature.

The idea for the Legacy Fund Initiative arose after the Great Plains Institute led a delegation of North Dakota leaders to Norway in June 2012 to study the Norwegian energy system. The trip included a briefing by officials from Norway's Government Pension Fund Global, which was created in 1990 as a way to ensure present and future generations benefit from the country's petroleum wealth. The fund currently stands at about \$893 billion.

The group studied various scenarios for the Legacy Fund, ultimately basing their goals and recommendations on a preferred 25-year scenario that offers state policymakers a "pragmatic middle ground between spending everything and spending nothing," the report states.

Under the preferred "Reinvest, Replace and Spend" scenario, the Legislature would spend 25 percent of the fund's annual earnings from 2017 to 2039 and reinvest the remaining 75 percent back into the Legacy Fund until oil production peaks and starts to decline. At that point, lawmakers would use a portion of the 75 percent to replace diminishing state oil and gas revenue.

"I think it's a prudent approach," said Rod Backman, a member of the group and former director of the state Office of Management and Budget.

Officials said the scenario uses conservative oil production projections from the state and assumes a crude oil price of \$80 per barrel and no changes in the existing oil and gas tax formula.

The group recommends the governor and Legislature identify a spending priority for the fund in each biennium, suggesting that the first priority for 2017-19 be to develop a plan for building a "world class" pre-kindergarten to college education system.

Participants also recommend three ongoing spending initiatives: a higher education scholarship endowment, infrastructure investments and a “genius initiative” to foster innovation in the agriculture and energy sectors.

Sen. Kelly Armstrong, R-Dickinson, said the next step is to present the report to lawmakers for feedback. There’s no timeline for implementing the group’s recommendations, “but the discussion needs to start now,” he said.

Schneider said he can’t foresee any active opposition to the recommendations.

The initiative was funded with \$168,000 in grant funding from the Northwest Area Foundation, North Dakota Natural Resources Trust and the Consensus Council in partnership with the Bush Foundation, Crabtree said.

## Legacy leaders

Participants in the North Dakota Legacy Fund Initiative:

- Nick Archuleta, president, North Dakota United
- State Sen. Kelly Armstrong, R-Dickinson, an attorney
- Rod Backman, former director of the North Dakota Office of Management and Budget
- David Borlaug, president of the Lewis & Clark Fort Mandan Foundation
- Phil Boudjouk, chemistry professor and former vice president for research, creative activities and technology transfer at North Dakota State University
- Dina Butcher, former director of the North Dakota Division of Community Services and former state deputy agriculture commissioner
- Steve Burian, CEO of Advanced Engineering and Environmental Services Inc.
- Maria Effertz-Hanson, owner of Black Butte Communications and Consulting
- Mike Eggl, senior vice president of communications and administration at Basin Electric Power Cooperative, Bismarck
- Jon Godfread, vice president of government affairs for the Greater North Dakota Chamber

- Pete Haga, Grand Forks community/government relations officer
- Eric Hardmeyer, CEO of the Bank of North Dakota
- Terryl Jacobs, rural Regent rancher and president of the Slope Electric Cooperative board of directors
- Cynthia Lindquist, president of Cankdeska Cikana Community College, Spirit Lake Nation
- Bob Mau, president of MW Industries Inc., Kenmare
- Jim Ringelman, former director of conservation programs, Ducks Unlimited
- State Sen. Mac Schneider, D-Grand Forks, Senate minority leader and an attorney
- Cody Schuler, a United Methodist pastor from Fargo
- Larry Skogen, interim chancellor of the North Dakota University System
- Rose Stoller, executive director of the Consensus Council, Bismarck
- Karen Stoker, owner of the Hotel Donaldson, Fargo
- Jessica Thomasson, vice president for social enterprise for Lutheran Social Services of North Dakota
- Dan Traynor, attorney from Devils Lake
- Gene Veeder, executive director of the McKenzie County Job Development Authority

**Mike Nowatzki**

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## **OUR OPINION: A master class in N.D. politics**

By Tom Dennis Today at 5:00 a.m.

**T**he Legacy Fund's creators put the proposal on the right track. That's why the fund exists in North Dakota today.

Clearly, the Legacy Fund Initiative's backers have learned those lessons, too. The backers put together an impressive coalition, which in turn crafted an impressive proposal.

The proposal is sure to get a good hearing by the governor and Legislature. Some parts of it are very likely to become law.

If that happens, then anyone who'd like to make big changes in North Dakota should study these episodes, because they'll amount to a textbook description of how it's done.

Start with the Nov. 4 election: Eight measures were on the North Dakota ballot. Voters rejected seven of them, passing only a ban on a certain kind of tax.

It was enough to make copy editors recall the Herald's famous headline of Dec. 6, 1989, which captured voters' even deeper skepticism of eight other ballot measures: "No, no, no, no, no, no, no, no."

So, are North Dakota reformers doomed to failure at the polls?

Absolutely not. Consider the Nov. 2, 2010, election, in which nearly 64 percent of voters said Yes to amending the North Dakota Constitution to create the

Why did that effort succeed where so many others have failed?

In our view, success stemmed from two things: First, the care with which supporters drafted the measure; second, the wide range of endorsements that the supporters secured for their campaign.

Remember, a 2008 effort to create a Legacy Fund had failed by the same 2-1 margin. Clearly, supporters learned from that failure and tailored their 2010 proposal with the comments and criticisms from two years earlier in mind.

As important, the supporters worked hard to get the blessing of a diverse lineup of key groups, many of which had opposed the 2008 proposal.

So, as the 2010 campaign developed, supporters won the backing of the state teachers union, the Greater North Dakota Chamber, the North Dakota Farm Bureau, newspaper editorial boards and a wide range of Democratic and Republican elected officials.

Such diverse support lends a statewide sense of consensus and legitimacy to a political cause. And in North Dakota, that makes all the difference on Election Day.

More recently, the Great Plains Institute took pains to craft a similarly broad-based foundation of consensus and goodwill. The institute assembled an all-star cast to craft the Legacy Fund Initiative, a lineup that again features notables from all walks of North Dakota life.

The result is both a strong and a strongly backed proposal. The initiative is off to a great start, and we're confident North Dakota lawmakers will give it the attention it deserves.

# The Bismarck Tribune

## Legacy Fund report merits serious look

November 19, 2014 2:00 am • Tribune editorial

The Legacy Fund Initiative last week released what could be a road map for using money from the Legacy Fund.

The fund, approved by voters in 2010, reached \$2.4 billion in September. Thirty percent of all oil and gas production and extraction tax revenue goes into the Legacy Fund, which can't be accessed until June 30, 2017.

The Legacy Fund is expected to have approximately \$6 billion by 2017, according to Brad Crabtree of the Great Plains Institute, and the fund principal could be at \$230 billion by 2060.

A two-thirds vote of both chambers of the Legislature is needed to spend any of the fund's principal, capped at 15 percent per biennium. Earnings after June 30, 2017, are to be deposited into the state general fund at the end of each biennium by the state treasurer.

Crabtree headed the Legacy Fund Initiative committee composed of business leaders, officials with nonprofits, legislators and educators. Both political parties were represented on the committee.

After a year of work, members offered recommendations that involve the creation of a world-class state education system, a higher education scholarship program and long-term infrastructure investments.

They also suggested a "Genius Initiative" using a portion of earnings to foster public-private partnerships as well as support research and development of new technologies.

The committee should be commended for the work. It's well reasoned with a focus on building a strong foundation for the future of North Dakota. At the same time, it provides benefits for North Dakotans of today.

But it will be difficult to follow the same path for so many years. The economy, the legislative power structure and many other factors could change over the years. Those changes could alter how much the Legacy Fund grows and is used.

The committee's report, coming two years before the fund can be tapped, provides an opportunity for dialogue in the Legislature and the community.

During the 2013 legislative session, bills failed that would have used Legacy Fund money for students to attend college.

It's apparent the fund and how to use it is on the minds of lawmakers. Any discussion on using fund dollars should involve a broad discussion, and the committee's work offers a good starting point.



We are not suggesting the committee's work should be adopted as presented, but it merits a serious review.

Crabtree summed up the importance of dealing correctly with the Legacy Fund:

"For the first and perhaps only time in our state's history, we can meet needs and opportunities of the present and steward the development of an extraordinary and permanent resource for the future."

# Rod Backman: The preferred scenario: Benefits now, plus long-term growth

By Rod Backman Today at 5:15 a.m.



Rod Backman

**T**hrough wise management, North Dakota's Legacy Fund has the potential to provide a truly permanent, sustainable resource for future generations.

The fund, established in 2010 by constitutional measure, has a current balance exceeding \$2.4 billion and is projected to grow much larger in coming years. The question is: how much money can and should the Legacy Fund hold in the future?

Beginning in 2017, the earnings from the Legacy Fund become available for expenditure by North Dakota's Legislature. State officials estimate the earnings from the fund will be at least \$300 million annually by 2017, and those earnings will be deposited into the state general fund.

The Legislature will have the option of either spending that money funds, reinvesting the earnings back into the fund or a combination of both.

In order to think strategically about the future of the Legacy Fund, participants in the Legacy Fund Initiative analyzed various scenarios for the fund based on conservative assumptions of oil production and price. They found that if all earnings are spent starting in 2017, the Legacy Fund may reach a projected maximum balance of about \$77 billion dollars by 2060.

By contrast, reinvesting all earnings could yield a balance of \$448 billion by 2060 – a nearly six-fold increase – but without any public benefit from or use of the Fund.

Understanding the minimum and maximum potential for the fund, we developed a preferred scenario – “Reinvest, Replace and Spend” – that provides a responsible middle ground on which to base our recommendations.

Under the scenario, the Legacy Fund balance grows to \$230 billion by 2060, while providing North Dakotans important benefits in the near to medium term and fully replacing state oil and gas revenue once production peaks and eventually starts to decline.

This scenario has the potential to provide future North Dakotans with twice as much in annual earnings (inflation adjusted) from the fund as we are receiving today in oil tax revenue.

Under this preferred scenario, the Legislature would spend 25 percent of annual earnings and reinvest the remaining 75 percent back into the Legacy Fund until oil production peaks and begins falling.

At that point, the Legislature still would spend 25 percent of annual earnings, but use a portion of the remaining 75 percent of earnings to replace diminishing state oil and gas revenue, while reinvesting the rest into the fund.

At a time of rapidly growing oil production and state revenues, but also growing concern over the recent decline in oil prices, the “Reinvest, Replace and Spend” scenario represents a responsible approach to the future. It also appropriately balances benefits for North Dakotans today and for future generations.

Having selected a preferred scenario, participants established goals for the future of the fund. These goals build on one another and will require prudent, intentional management to grow the Legacy Fund’s principal over a 25-year

timeframe.

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The goals for the Legacy Fund are to provide a resource of last resort in times of exceptional need; provide for a significant portion of the state's future needs by compensating for the reduction in revenues once oil and gas production begins to decline; and beginning in 2017, invest in bold, visionary and transformative actions that build assets and enhance quality of life for North Dakota citizens today and in the future.

These Legacy Fund goals can be accomplished only through the power of compounding interest (earnings), which will grow the fund's principal today to generate significant earnings permanently and sustainably in the future. Turning this extraordinary potential into reality will require citizens and their elected representatives to sustain a commitment to wise management of the fund over time.

Fortunately, given North Dakota's present fiscal strength – with billions of dollars in oil and gas, sales tax and other revenue flowing into and overflowing out of multiple state funds – we have abundant alternatives to the Legacy Fund to meet the current spending priorities in our state.

By embracing a sound 25-year strategy, we can advance bold and visionary ideas that provide benefits now, while building a bridge to our future. It is our hope that our recommendations and projections offer a prudent starting point for legislative and citizen debate about the future of North Dakota's Legacy Fund.

*Backman, an accountant, served for 10 years as state budget director under Govs. Ed Schafer and John Hoeven. He was a participant in the Legacy Fund Initiative and submitted this on behalf of the other participants.*

# Steve Burian: Fund's earnings can finance 'bold and transformative strategies'

By Steve Burian Today at 5:10 a.m.



Steve Burian

**G**RAND FORKS – Here are important questions for all North Dakotans to consider: Looking back 25 years from now, what do you hope has been accomplished through North Dakota's Legacy Fund? What do we, as a state, want to accomplish?

What do we want our legacy to be?

Those very questions were posed in the first meeting of the Legacy Fund Initiative – a diverse group of North Dakota public, private, community and nonprofit leaders and citizens who came together to develop consensus recommendations on the purposes, governance, investments and future expenditures of our state's oil and gas Legacy Fund.

We recently released our recommendations as a proposed roadmap for the future. We believe that the Legacy Fund can serve both as an engine of opportunity and quality of life for North Dakotans today and a sustainable resource for future generations.

Our Legacy Fund is special. It differs from other constitutional and state special funds in that North Dakota voters established the Legacy Fund to safeguard a portion of oil and gas revenue and grow it for the future.

With 30 percent of oil and gas tax revenue flowing into it, the Legacy Fund has

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grown substantially and now stands at more than \$2.4 billion. Legislative forecasts predict that the fund's balance will grow to at least \$6 billion by 2017.

Under the state's constitution, earnings from the Legacy Fund become available for expenditure by the North Dakota Legislature in 2017. State officials estimate that earnings from the fund will be at least \$300 million annually by 2017, and those earnings will be deposited into the state general fund.

Projections we developed show that the Legacy Fund balance could reach \$230 billion by 2060, even while using 25 percent of annual fund earnings.

That's why we recommend that the Legislature reinvest 75 percent of annual earnings for the next quarter century to grow the principal of the Fund and its earnings potential for future generations, while offsetting declining state revenues once oil production begins to fall.

Meanwhile, we encourage the Legislature to spend the remaining 25 percent of annual earnings, starting in 2017, to carry out bold and transformative strategies for North Dakota's future that also provide clear benefits to citizens today.

We recommend establishing a North Dakota Legacy Foundation to involve the legislative and executive branches of government with the private sector in guiding the use of a portion of annual Legacy Fund earnings, subject to oversight by the Legislature.

Under the North Dakota Legacy Foundation model, the Legislature would establish a critical priority every biennium for long-term study, statewide planning and action. The group recommends a comprehensive strategy and action plan for building a world class pre-K through 20 education system as the first Legacy Foundation priority in the 2017-19 biennium.

We also propose three ongoing initiatives for the Legacy Foundation:

- Endowing a higher education scholarship program in North Dakota, as part of developing and implementing the broader strategy and action plan for pre-K through 20 educational excellence.
- Fostering innovation that builds a bridge to the future, by establishing a “Genius Initiative” to spur transformative private and public sector innovation that leverages our current success in energy and agriculture to expand and accelerate economic diversification and increase our state’s productive potential.
- Investing in 21st century economic and community infrastructure that is bold, visionary, and transformative and provides returns or allows for repayment of principal to the fund. We specifically recommend investing rather than spending fund earnings on infrastructure in order to leverage the impact over time.

Allocating 25 percent of Legacy Fund earnings could provide approximately \$190 million for these recommended priorities by 2020. This amount could grow to roughly \$390 million in 2025, \$670 million in 2030, and \$1.44 billion annually in 2040.

We, as North Dakotans, today are blessed with an extraordinary bounty of oil and gas resources that is available to us for a limited time. We have an obligation through the Legacy Fund to use this window of opportunity while building a bridge to a future that provides our children and grandchildren with opportunities and options similar to those we enjoy today.

*Burian is CEO of AE2S, a Grand Forks-based consulting firm that specializes in civil and environmental engineering. He was a participant in the Legacy Fund Initiative and submitted this on behalf of the other participants.*

# our OPINION

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## **OUR OPINION: Too soon to spend N.D.'s Legacy Fund money**

By Tom Dennis Today at 5:00 a.m.

**F**ive thousand dollars is a lot of money. That's how much every North Dakota newborn would get for college tuition and other purposes if lawmakers approve Senate Bill 2165.

But \$448 billion is a lot of money, too. And that's how much the North Dakota Legacy Fund could be overflowing with by 2060, if the state reinvests rather than spends the fund's earnings between now and then.

Which means the two numbers may well be mutually exclusive. In other words, only one of them may be able to come true. We can have a \$5,000 account for



every newborn starting in 2017, or we can have nearly half a trillion dollars in the Legacy Fund in 2060.

But we may not be able to have both, because the money for the \$5,000 accounts would come from the earnings on the Legacy Fund. And spending that money now obviously means it wouldn't be reinvested in the fund.

That's the choice that confronts North Dakotans. It's vital to remember, because it will underlie every proposal to spend the Legacy Fund's earnings or principal for as long as the fund is around.

And in our view, that's the reason why the Legacy Fund Initiative deserves more of a hearing than it's getting in Bismarck. For the initiative by the nonprofit Great Plains Institute laid out the Legacy Fund's various "futures" in clear and convincing detail.

So, what do North Dakotans want:

A Legacy Fund that grows unencumbered for decades, until it expands to truly astonishing size?

A Legacy Fund that grows much more modestly, because state leaders choose to spend the earnings on such projects as the \$5,000-for-every-newborn initiative?

Or something in between?

Rather than commit to new spending programs, however attractive, the North Dakota Legislature should debate and settle on a plan - an approach to how the Legacy Fund's earnings will be used.

The volunteers who put together the Legacy Fund Initiative got the ball rolling. They suggested a 25/75 split: that is, spend 25 percent of the fund's earnings,

while putting 75 percent back into the fund.

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This would create a revenue stream to serve North Dakota's most important needs, while also harnessing the magnificent power of compound interest to grow the fund. And to review the numbers the Initiative released in November, this would result in a fund balance of \$279 billion in 2060, vs. \$448 billion if all the earnings are reinvested, and \$77 billion if all the earnings are spent.

Of course, these numbers are estimates, and they're based on various assumptions, including predictions about the price of oil. But the point about the effect on the fund's balance of spending the earnings vs. saving them is indisputable, in any scenario and under any conditions.

Let's be clear: Creating the \$5,000 accounts might be the right choice. But North Dakota will be a lot better off if it settles on an approach to Legacy Fund spending before it starts doling out the cash.

Right now, the account-for-every-newborn idea has the advantage of being the first proposal out of the starting gate. But would it be the best use of the fund's revenue stream? That's an open question, and it ought to be answered not only in light of other ideas, but also in the context of a formal Legacy Fund plan.

**Tom Dennis**

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## SB 2344

Government & Veterans Affairs Committee

February 5, 2015

Larry C. Skogen, Interim Chancellor

701.328.2974 | larry.skogen@ndus.edu

Chairman Dever and members of the committee. I am Larry Skogen, Interim Chancellor, North Dakota University System. I am here to urge the committee to recommend a “do pass” on Senate Bill 2344.

I was a participant in the Legacy Fund Initiative. Membership of that group came from all across the state and from all walks of life. From my perspective, the goal of our work was to provide suggestions to the legislature and the citizens of our state as to a possible road forward in the uses of the Legacy Fund that would be of the greatest benefit to North Dakotans—especially our children and grandchildren.

I use that last phrase with much conviction and an appreciation of what I learned on a trip to Norway two years ago. A team of North Dakotans visited Norway for the purpose of discussing Norwegian energy and economic policies, to include what they call the Norway Government Pension Fund Global. It’s not really a pension fund, however; it really is much like our own Legacy Fund. As of just a couple of days ago, that fund amounted to \$893B.

Created in 1990, oil and gas revenues, exploration licenses, and so forth, which are paid to the nation, are deposited in the fund for future uses. Four percent of the fund is spent as part of the Norwegian budget each year, and, unlike Alaska, there are no dividends paid out to citizens. Although, while we were involved in discussions in Norway on this topic, we were told that routinely such plans are discussed in Parliament, but all such efforts have failed.

What struck me most in all the discussions we had about the Norway Government Pension Fund is that everyone, and I mean everyone, who spoke about it said that the fund was not about them, but about their children and grandchildren. It is my hope that as we consider the road forward in the uses of the Legacy Fund, that we, too, remember that it’s not about us, but it is about our children and our grandchildren.

Texas also has a similar fund that is called the Permanent University Fund. With their fund, Texans have built a world-class educational system that includes the University of Texas, Texas A&M, and all their associated campuses. Through this fund the universities have paid for instruction, research equipment, library acquisitions, scholarships, recruitments, and student services.

In short, for Norway, Texas, and soon to be North Dakota, these funds are vitally important to future prosperity. SB2344 establishes a Legacy Fund Foundation. The members of that foundation will be able to devote time to study and recommend long-term uses of the Legacy Funds proceeds. However, we all know that the use of those funds will continue to be the prerogative of the legislature. But the work of the Legacy Fund Foundation will provide a venue for statewide discussions leading to recommendations to the legislature on the best uses for those funds.

Thank you for the opportunity to provide these comments. I encourage you to vote “do pass” on this important legislation.