

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/14/2019**

Bill/Resolution No.: HB 1511

- 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.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>						
<b>Expenditures</b>			\$83,400,000		\$83,400,000	
<b>Appropriations</b>			\$83,400,000		\$83,400,000	

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 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).*

House Bill 1511 removes the dollar limits on ND academic or career & technical education scholarship awards.

- 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.*

Currently, ND AC & CTE scholarships are \$750 per semester or \$500 per quarter, with a \$6,000 lifetime cap. HB1511 removes those caps and increases the awards to the full tuition and fees charged at the institution.

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.*

- 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.*

Fall 2018 AC/CTE awards were made to 5,059 students. 2018-19 tuition and fees average approximately \$9,000 at ND research institutions, \$7,000 at 4-year regional universities and \$4,900 at two-year colleges. If the award amount was increased to full tuition and fees, scholarship awards would total about \$41.7 million per year, or \$83.4 million each biennium.

- 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.*

Total program costs are estimated at \$83.4 million. The base level appropriation for the current AC/CTE scholarship program is \$12.0 million. An ongoing \$71.4 million appropriation increase would be required as a result of the proposed changes.

**Name:** Tammy Dolan

**Agency:** NDUS

**Telephone:** 328-4116

**Date Prepared:** 01/17/2019

**2019 HOUSE EDUCATION**

**HB 1511**

# 2019 HOUSE STANDING COMMITTEE MINUTES

**Education Committee**  
Coteau A Room, State Capitol

HB 1511  
1/29/2019  
31645

☐ Subcommittee  
☐ Conference Committee

Committee Clerk: Bev Monroe
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## Explanation or reason for introduction of bill/resolution:

Relating to removing limits on scholarship awards provided to eligible students under ND academic scholarship program and ND career and technical education scholarship program

## Minutes:

Attachment 1, 2, 3, 4, 5, 6
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**Chairman Owens:** Opened the hearing on HB 1511.

**Rep. Ron Guggisberg: (See Attachments 1-6)** By increasing the amount of money put toward these scholarships, we could increase human capital in North Dakota. In trying to predict any economy's growth, the best measure is how well we educate our children. It would encourage the students to do well. They would need to have a 2.75 GPA to earn and keep these scholarships. It also encourages communities to strive to improve their education system, drawing young families to ND. This would give us bragging rights as a state. I think it will draw families to ND. This is just another way to encourage our citizens and communities to strive to do better. Also, for future consideration, modifying the structure of the scholarships for more needs-based (also included in the testimony) NCES did a report on merit-based scholarships around the country also included a needs-based component to it. In the future, adding adult education or changing career capacity as we are hearing how the job environment is changing quickly in the future and this may be something we need to look at. Those losing their jobs through automation or changes in the economy will need to go back to school and this could be a way to keep them here.

**Chairman Owens:** Are there any questions from the committee? Any others in support? Any in opposition? Any neutral testimony? Seeing none, we close the hearing on HB 1511.



# 2019 HOUSE STANDING COMMITTEE MINUTES

**Education Committee**  
Coteau A Room, State Capitol

HB 1511  
1/30/2019  
31763

☐ Subcommittee  
☐ Conference Committee

Committee Clerk: Bev Monroe
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## Explanation or reason for introduction of bill/resolution:

Relating to removing limits on scholarship awards provided to eligible students under ND academic scholarship program and ND career and technical education program scholarship program

## Minutes:

Committee work:

**Chairman Owens:** We have HB 1511 before us. Rep. Ron Guggisberg, this is basically free college?

**Rep. Ron Guggisberg:** Mr. Chairman, it's merit based scholarships. So you have to earn a certain grade.

**Chairman Owens:** But you don't pay anything and the taxpayer picks it up?

**Rep. Ron Guggisberg:** Yes.

**Chairman Owens:** You do have bottom level there where if you don't make the grade you don't keep the scholarship? It's \$83.4M and that's what they're expecting now. When everyone finds out it's free college, then what happens?

**Rep. Ron Guggisberg:** This is about the Legacy Fund. I put this in the last day to submit bills and part of the reason was that I was looking at all the conversation around the Legacy Fund, for example, the Library, money for UAS's, it looks like the OMB budget to me. It's not a strategic investment in the future, which is what the Legacy Fund is meant to be. When they put the committee together to look at the Legacy Fund and any other committees that talks about that fund, one of the suggestions is always some type of tuition. That is why I brought this bill forward. They call it an extraction tax for a reason. We are extracting value from our state that future generations can no longer use. The idea of these sovereign funds is to give future generations opportunity. When all students are offered a way to earn free tuition, it motivates the parent, the teachers and the school system and is one thing we can use as a "carrot" to get people into the state. This is a big bill and big fiscal note, but during my canvassing of neighborhoods while campaigning I would ask people what they thought

the purpose of the Legacy Fund was. Besides comments about roads and bridges, I asked them about merit based scholarships. I didn't have one person say it was a waste of money or that we shouldn't do it. I brought this forward for discussion. I do think it's a good idea and if we don't pass it we can certainly consider something for education out of the Legacy Fund in the future.

**Chairman Owens:** I'll support spending the interest out of the Legacy Fund going forward but going five years into it, I wouldn't touch the principal. I fought to get the Legacy Fund and I personally believe it is for future generations, which means we're not going to spend it now and claim it's for future generations.

**Rep. Ron Guggisberg:** I don't think the principal should be touched.

**Chairman Owens:** Any further discussion?

**Representative Denton Zubke:** Mr. Chairman, I move a **Do Not Pass** on HB 1511.

**Rep. Daniel Johnston:** **Seconded.**

**Chairman Owens:** Any further discussion?

A **Roll Call Vote** was taken: Yes 11, No 2, Absent, 1. **Do Not Pass** carries. Rep. Brandy Pyle will carry HB 1511.

Date: 1-30-19  
Roll Call Vote #: 1

2019 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 1511

House Education 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 Rep. Zubke Seconded By Rep. D. Johnston

Representatives	Yes	No	Representatives	Yes	No
Chairman M. Owens	✓		Rep. Guggisberg		✓
V. Chair. Schreiber-Beck	✓		Rep. Hager		✓
Rep. Heinert	✓				
Rep. Hoverson	A				
Rep. D. Johnson	✓				
Rep. M. Johnson	✓				
Rep. Johnston	✓				
Rep. Longmuir	✓				
Rep. Marschall	✓				
Rep. Pyle	✓				
Rep. Strinden	✓				
Rep. Zubke	✓				

Total (Yes) 11 No 2

Absent 1

Floor Assignment Rep. B. Pyle

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

**REPORT OF STANDING COMMITTEE**

**HB 1511: Education Committee (Rep. Owens, Chairman)** recommends **DO NOT PASS** (11 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING). HB 1511 was placed on the Eleventh order on the calendar.

**2019 TESTIMONY**

**HB 1511**

HB 1511  
1-29-19  
#1

## Notes for HB 1511 Guggisberg

Good morning Chairman Owens and members of the Education Committee.

HB 1511 removes caps on two North Dakota Scholarships. The Academic Scholarship and the CTE scholarship.

Admittedly this is not a novel idea. The programs already exist and the funding source was recommended by the Legacy Fund Initiative.

### Benefits

- Increases human capital in North Dakota
- Encourages students to do well
- Encourages communities to strive to improve the education system
- Draws young families to North Dakota
- Assists low-income students in paying for education

### For Future Consideration

- Modifying the structure of scholarships for needs-based students
- Adding adult education or changing career capacity

Available in testimony folder:

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

2017 Academic-CTE Report

Wyoming Hathaway Scholarship Flyer

ND Merit Based Scholarship Fund Report (NCES Report)

# North Dakota University System

## 2018 Annual Report ND Academic and Career & Technical Education Scholarships



October 4, 2018

600 E Boulevard Ave Dept 215  
Bismarck, North Dakota 58505-0230  
Website: [www.ndus.edu](http://www.ndus.edu)

## Executive Summary

The Legislative Assembly created the North Dakota Academic and Career & Technical Education (CTE) scholarship programs in 2009. These programs are aimed at increasing high school rigor and retaining college students in North Dakota. High school students can receive up to \$6,000 by completing specific high school curriculum and fulfilling grade point average and testing score requirements.

This annual report provides detailed statistical information about the scholarship program since its inception. Highlights include:

- The state has dedicated over \$85 million in scholarships to more than 14,200 students. [Table 4E]
- North Dakota students have received more than \$43.8 million in scholarship disbursements. [Graph 4C] The majority of these award are made at the research institutions (63%), with the other public and private institutions realizing nearly the same proportion of 12-13% each. Tribal colleges account for .2%. [Graph 4D]
- 20% of graduating seniors have been awarded a scholarship. Over the last three years, an average of 23% of seniors have qualified. [Table 1A]
- 14,211 seniors have qualified for the scholarship over the span of 9 cohorts. [Graph 1C] Of these, 8,722 (61%) received the Academic scholarship, and 5,489 (39%) received the Career & Technical Education scholarship. [Graph 1B]
- Distribution of the scholarships across the state is broad, with most of the recipients coming from the larger urban areas. [Graph 2]
- The top five scholarship-producing counties as a percentage of seniors are Logan, Towner, Richland, Foster and Eddy. [Table 2]
- 2,701 students (19%) have been paid the \$6,000 maximum award. [Table 4A]
- 1,516 students (11%) have been suspended from program for not maintaining satisfactory academic progress, or other administrative hold. An additional 1,838 (13%) student scholarships expired (beyond 6 years) without receiving the full award of \$6,000. [Table 4A; Graph 4B]

Highlights for the current year are:

- 1,848 (24%) of the 2018 high school seniors qualified for the North Dakota scholarships. This is the largest cohort since the scholarship was first awarded.
- 50 of the 51 counties with high school seniors reported at least one scholarship recipient.
- 5,059 students attending ND institutions of higher education as full-time students received a scholarship disbursement in fall 2018. This is a 3% increase from the same reporting period last year. [Table 3A]
- Scholarships recipients received payment at the following institutional categories in fall 2018: [Table 3A; Graph 3B]
  - \$2.45 million (65%) at the state's research universities,
  - \$.51 million (13%) at public four-year universities;
  - \$.44 million (12%) at two-year public;
  - \$.39 million (10%) at private institutions;
  - \$.01 million (.4%) at tribal colleges.



## Program Overview

Two merit-based scholarships were created during the 2009 legislative session, the North Dakota Academic scholarship and the North Dakota Career & Technical Education (CTE) scholarship. These scholarships are aimed at increasing high school rigor and retaining college students in North Dakota. Specific high school curriculum, grade point average and testing score requirements are needed to obtain this merit-based scholarship. The program is authorized through N.D.C.C. § 15.1-21-02.4 through 15.1-21-02.9.

Students who meet the requirements and who apply for the scholarship with the ND Department of Public Instruction are awarded the \$6,000 state scholarship at a maximum of \$750 per semester or \$500 per quarter. Students have 6 years following high school graduation to fully utilize the scholarship at a qualifying North Dakota institution before it expires.

## Program Administration

The North Dakota Academic and North Dakota CTE scholarships are administered jointly by the ND Department of Public Instruction (DPI) and the North Dakota University System (NDUS). Through the Agency Administrative Agreement, DPI is responsible for the application process, including advertising, maintaining applications, verifying accuracy of the application (includes ACT and WorkKeys scores, high school grade point average (GPA), course work, and graduation requirements), and notifying recipients of their initial scholarship eligibility.

NDUS is responsible for post-award activities including student eligibility communications, notifying financial aid offices of a recipient's scholarship eligibility for financial aid packaging purposes, distributing scholarship payments to respective colleges and universities, tracking student transfers, verifying eligibility requirements for renewal purposes, and maintaining fiscal files and reporting.

## Program Requirements

Students can qualify for either the North Dakota Academic scholarship or the North Dakota CTE scholarship. Award amounts are limited to \$6,000 and must be utilized within six academic school years (does not have to be consecutive years) following high school graduation. The amount of each scholarship is \$750 per semester or \$500 per quarter. Students may use the scholarship for graduate or professional studies, provided all other eligibility criteria are met. Scholarship eligibility requirements are that:

- ✓ Students must be enrolled full time at an approved institution of higher learning within North Dakota;
- ✓ Students must maintain the 2.75 cumulative grade point average requirements, based on a 4.00 scale; and
- ✓ Students must maintain degree progress.

The 2017 Legislative Assembly approved changes to full time enrollment requirements. Prior to 2017, eligibility was based on enrolling in at least 15 credits following the first two terms of eligibility, with very few exceptions. Under revised statute, students must enroll full time based on the institution's definition of full time, which could be fewer than 15 credits. Additionally, students must now maintain degree progress, measured by cumulative earned credits, to qualify for a subsequent payment. Tracking earned credits provides flexibility in how and when students earn their credits, such as dual-credit,

summer coursework, and terms where enrollment exceeds the minimum requirement. Further, the need to monitor “special exemptions” is no longer required. The goal is to keep students on track to graduate timely, by rewarding them for completion rather than enrollment. In the fall 2019 semester, only a handful of students with full time enrollment did not receive a disbursement due to not maintaining progress toward degree completion based on cumulative credits earned.

Degree progress is defined as:

<b>Anticipated Payment #</b>	<b># of cumulative credits earned needed to qualify for the payment</b>
Payment #1	n/a – Must enroll “full time”
Payment #2	n/a – Must enroll “full time”
Payment #3	Must have earned 24 cumulative credits
Payment #4	Must have earned 39 cumulative credits
Payment #5	Must have earned 54 cumulative credits
Payment #6	Must have earned 69 cumulative credits
Payment #7	Must have earned 84 cumulative credits
Payment #8	Must have earned 99 cumulative credits

### **Scholarship Renewal Requirement**

Students must maintain a 2.75 cumulative GPA based on a 4.00 scale, which is reviewed following each term. If a student’s cumulative GPA falls below 2.75, the student will be given one probationary term to bring the cumulative GPA to 2.75 or higher. The scholarship will be suspended if the student fails to meet the GPA requirement following the probationary term.

### **Eligible North Dakota Institutions**

Eligible students may use the scholarship at the following institutions within North Dakota. Qualifying North Dakota institutions must be accredited and NDUS procedure further defines eligible institutions as those offering programs of at least 2 years in length.

#### **STATE RESEARCH UNIVERSITIES**

North Dakota State University  
University of North Dakota

#### **STATE 4-YEAR UNIVERSITIES**

Dickinson State University  
Mayville State University  
Minot State University  
Valley City State University

#### **TWO-YEAR STATE COLLEGES**

Bismarck State College  
Dakota College at Bottineau  
Lake Region State College  
North Dakota State College of Science  
Williston State College

#### **PRIVATE COLLEGES**

Rasmussen College – Fargo  
Trinity Bible College  
University of Jamestown  
University of Mary

#### **TRIBAL COLLEGES**

Cankdeska Cikana Community College  
Nueta Hidatsa Sahnish College  
Sitting Bull College  
Turtle Mountain Community College  
United Tribes Technical College

The tables and graphs on the following pages provide detail on scholarship eligibility and usage since the first awards were disbursed in the 2010-11 academic year.

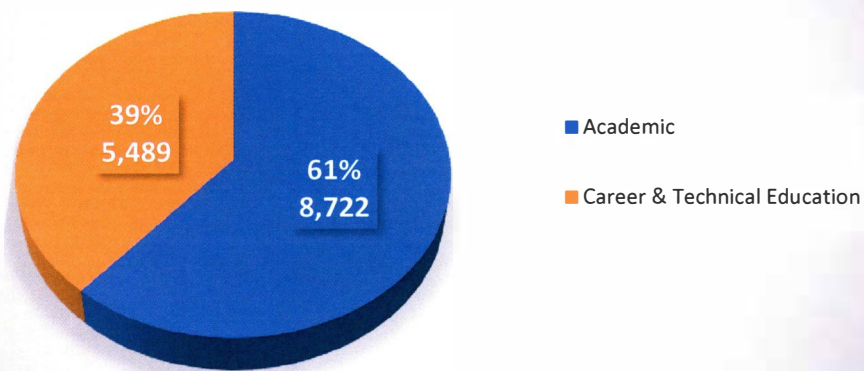
## Student Eligibility

Table 1A	How many high school seniors* have met the scholarship requirement?									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	TOTAL
# of HS Seniors	7,677	8,674	7,994	8,398	7,768	7,839	7,856	7,752	7,723	71,681
# of Awarded Students	1,589	1,201	1,350	1,499	1,556	1,724	1,665	1,779	1,848	14,211
% of HS Seniors Eligible	21%	14%	17%	18%	20%	22%	21%	23%	24%	20%

\*High school seniors reported by ND DPI.

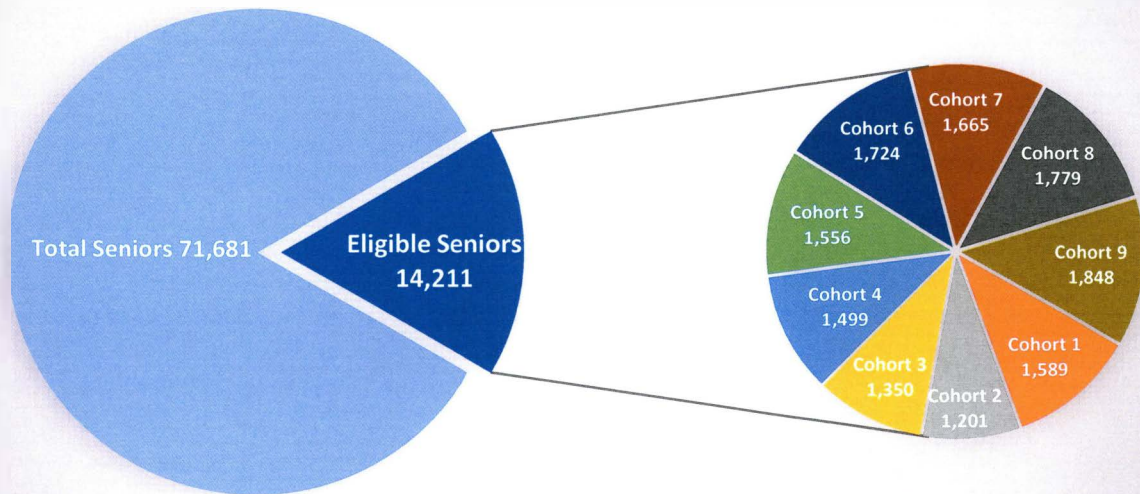
Graph 1B

Eligibility by Scholarship Type



Graph 1C

Eligibility by Cohort

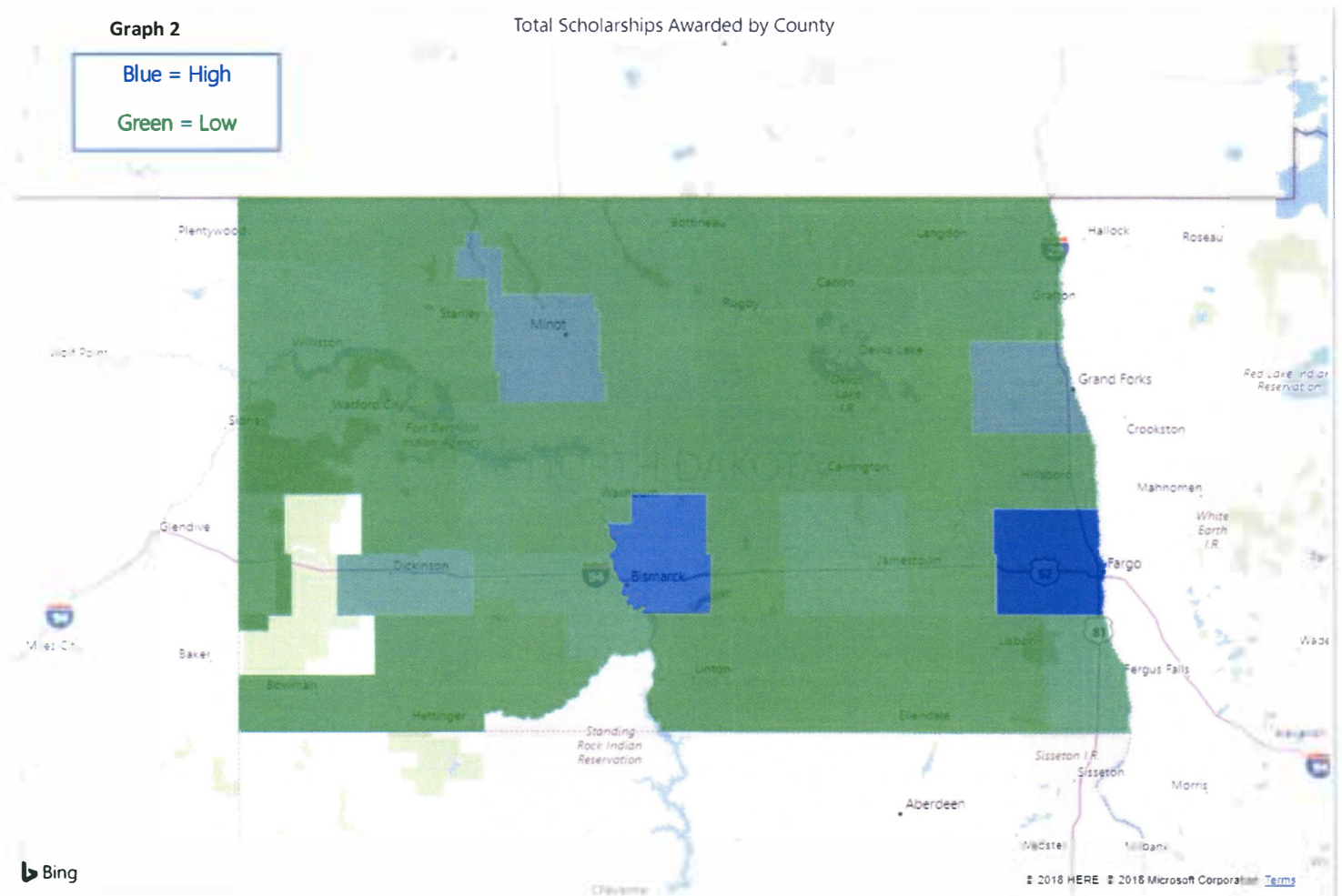


## Distribution of Scholarships

The following graph 2 and chart 2 show eligibility since inception by county. The data reflects that distribution of the scholarship across the state is broad but that the concentration of awards is in urban areas. Only three counties have had zero recipients, and two of those have not produced seniors. The top five scholarship-producing counties as a percentage of seniors are Logan, Towner, Richland, Foster and Eddy, all with over 35% of seniors qualifying. The most recipients come from the counties of Cass, Burleigh, Ward, Grand Forks, and Stark. Approximately 20% of seniors have qualified for the scholarship since its inception. The past four years have produced a higher percentage of nearly 23% on average.

Graph 2

Total Scholarships Awarded by County

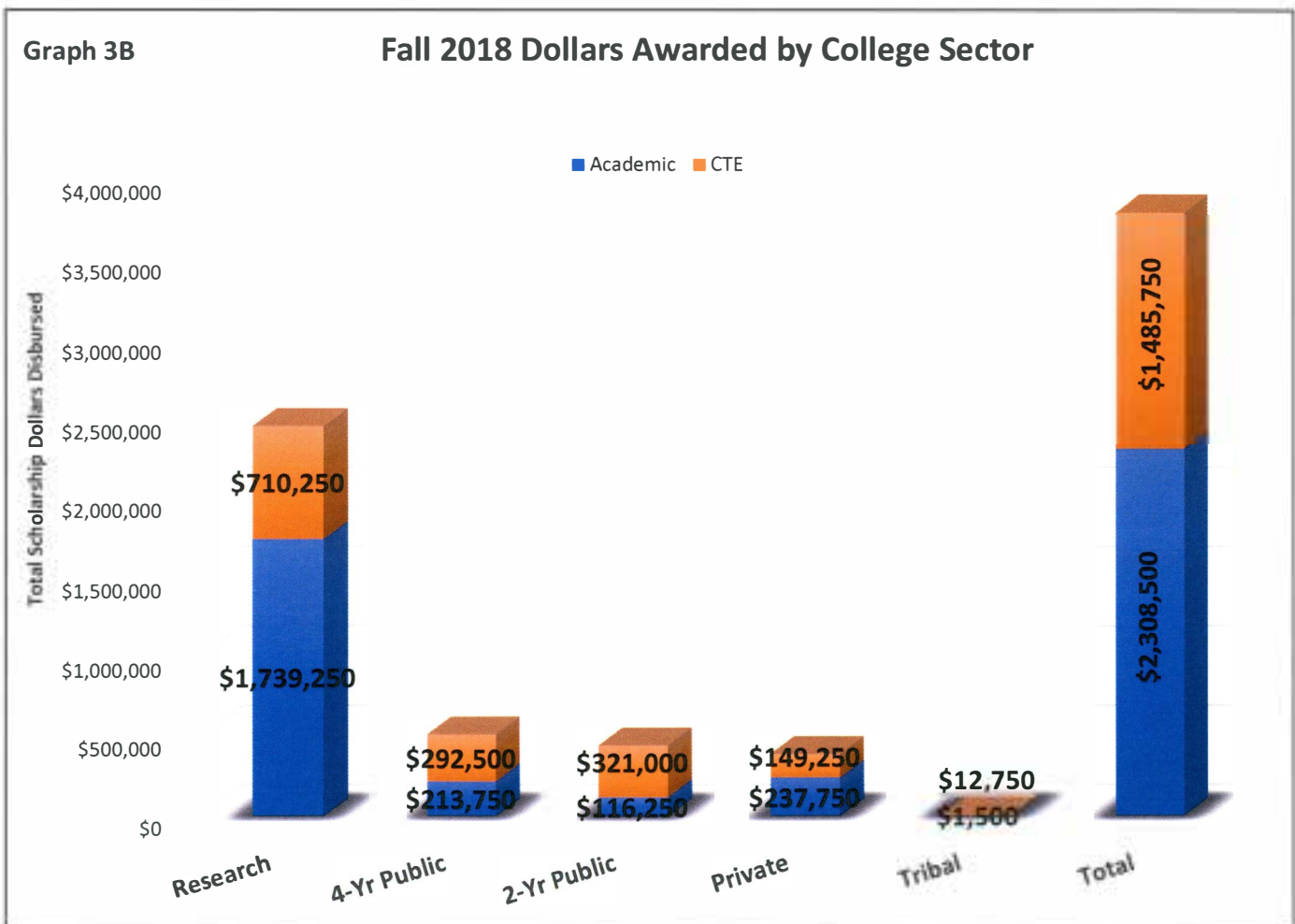




<b>County</b>	<b># of Seniors by County</b>	<b># Academic</b>	<b># CTE</b>	<b># of Awardees</b>	<b>% of Seniors Qualifying</b>
Adams 1	197	5	9	14	7%
Barnes 2	1,126	150	129	279	25%
Benson 3	745	15	41	56	8%
Billings 4	0	0	0	0	0%
Bottineau 5	631	66	90	156	25%
Bowman 6	393	57	47	104	26%
Burke 7	202	19	45	64	32%
Burleigh 8	8,979	1,299	484	1,783	20%
Cass 9	15,916	2,032	409	2,441	15%
Cavalier 10	379	30	58	88	23%
Dickey 11	580	85	86	171	29%
Divide 12	195	11	45	56	29%
Dunn 13	326	15	55	70	21%
Eddy 14	242	49	37	86	36%
Emmons 15	448	58	44	102	23%
Foster 16	401	85	63	148	37%
G. Valley 17	241	20	40	60	25%
Gr. Forks 18	6,076	785	315	1,100	18%
Grant 19	218	12	21	33	15%
Griggs 20	278	33	22	55	20%
Hettinger 21	298	28	55	83	28%
Kidder 22	269	30	26	56	21%
LaMoure 23	406	41	87	128	32%
Logan 24	249	4	107	111	45%
McHenry 25	662	79	108	187	28%
McIntosh 26	273	37	24	61	22%
McKenzie 27	691	39	19	58	8%
McLean 28	1,065	120	133	253	24%
Mercer 29	924	143	154	297	32%
Morton 30	2,895	267	205	472	16%
Mountrail 31	852	38	43	81	10%
Nelson 32	334	39	48	87	26%
Oliver 33	146	25	7	32	22%
Pembina 34	804	106	83	189	24%
Pierce 35	452	92	29	121	27%
Ramsey 36	1,343	125	110	235	17%
Ransom 37	657	70	98	168	26%
Renville 38	399	50	30	80	20%
Richland 39	1,608	298	299	597	37%
Rolette 40	2,016	68	96	164	8%
Sargent 41	515	90	85	175	34%
Sheridan 42	81	11	8	19	23%
Sioux 43	482	0	0	0	0%
Slope 44	0	0	0	0	0%
Stark 45	2,934	422	443	865	29%
Steele 46	263	27	49	76	29%
Stutsman 47	1,952	270	212	482	25%
Towner 48	195	33	42	75	38%
Traill 49	943	144	126	270	29%
Walsh 50	1,142	141	103	244	21%
Ward 51	6,098	649	457	1,106	18%
Wells 52	401	58	81	139	35%
Williams 53	2,759	254	66	320	12%
Homeschool/Other	Unknown	98	16	114	-
<b>Totals</b>	<b>71,681</b>	<b>8,722</b>	<b>5,489</b>	<b>14,211</b>	<b>20%</b>

## Current Awards – Fall 2018

Table 3A Fall 2018 Student Awards by College Sector												
	Research		4-Yr Public		2-Yr Public		Private		Tribal		TOTAL	
	#	%	#	%	#	%	#	%	#	%	#	%
Academic Scholarship	2,319	75%	285	9%	155	5%	317	10%	2	0.06%	3,078	61%
CTE Scholarship	947	48%	390	20%	428	22%	199	10%	17	1%	1,981	39%
TOTAL	3,266	65%	675	13%	583	12%	516	10%	19	0.4%	5,059	



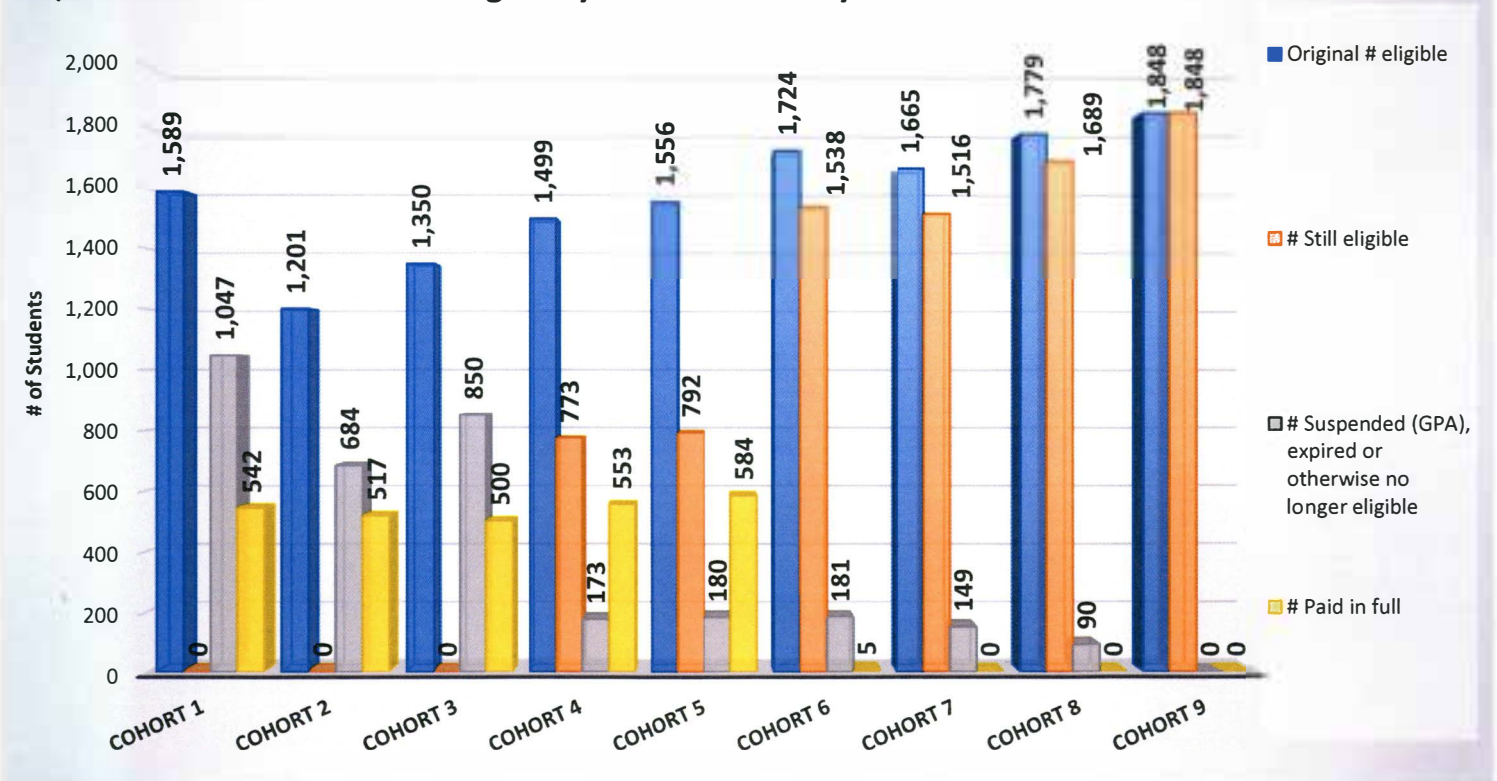
## Eligibility, Disbursements &amp; Attrition – (2010 through Summer 2018)

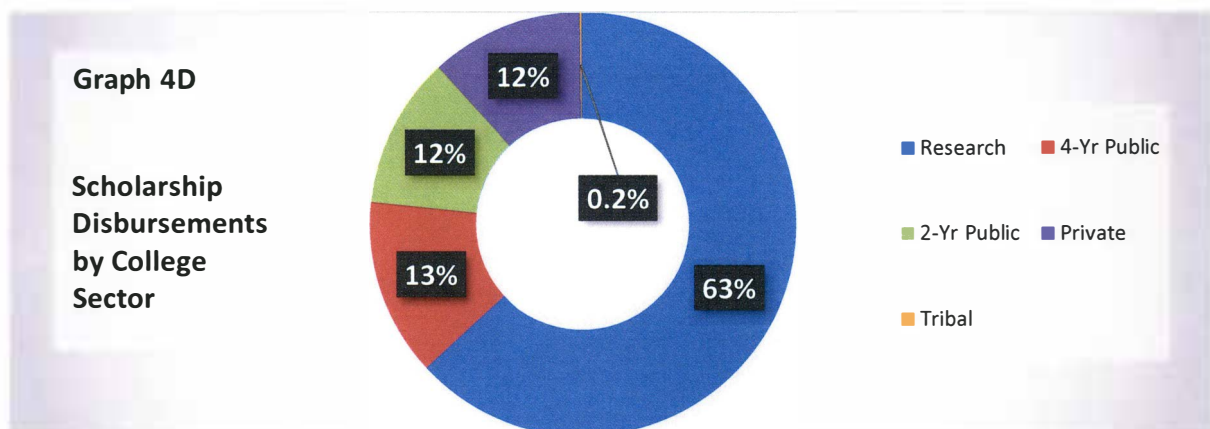
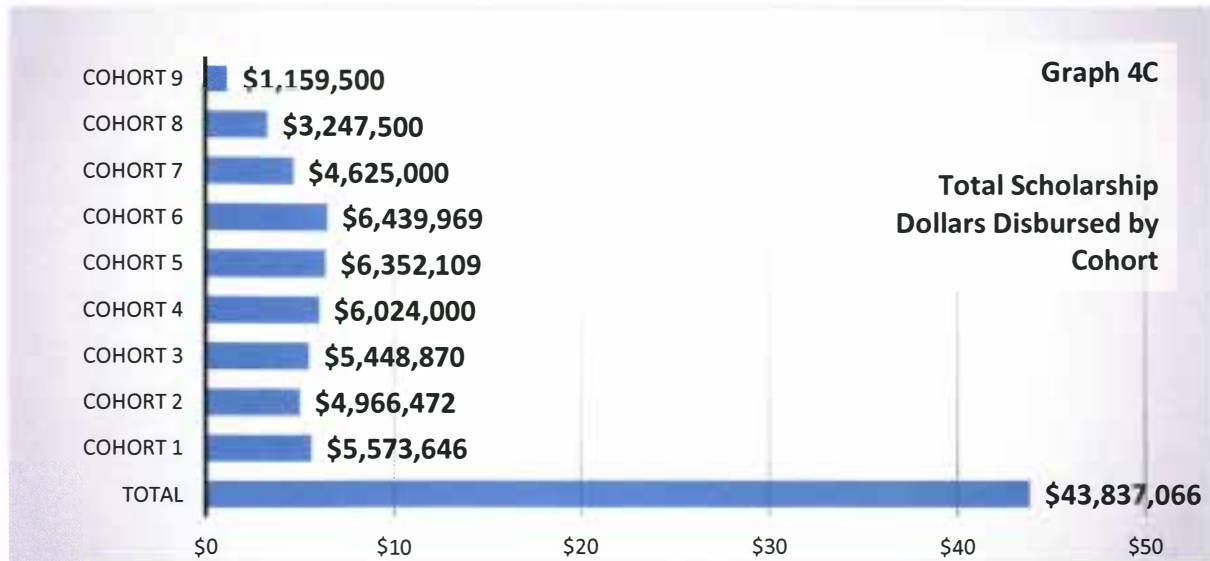
Table 4A Scholarship Statistics Since Inception	
# of Students Awarded Scholarship	14,211
\$ Disbursed To-Date	\$43,837,066
Suspended Scholarships (GPA/other)	
#	1,516
%	11%
Earned Full Scholarship \$6,000	
#	2,701
%	19%
Expired Scholarships (past 6 yr) but NOT Paid in Full or Suspended	
#	1,838
%	13%
Still Eligible	
#	8,156
%	57%

The NDUS was tracking 8,156 eligible students going into the 2018/19 academic year. The eligible students are in cohorts 4 - 9. Cohorts 1 - 3 expired after summer 2018.

Graph 4B

## Eligibility and Attrition by Cohort





The first three cohorts have expired (beyond 6 years). Of these first cohorts to expire, an average of 91% of the students who initially qualified for the scholarship received a disbursement on the award. Of these students, 1,559 (38%) received 100% of their \$6,000 award. Since inception, 89% of students that qualified for the award in high school received at least 1 payment of the award at a qualifying college within North Dakota. This translates into 51% of total state-committed dollars being awarded to students.

Table 4E Total State Committed Funds					
Cohort	Total Eligible	Maximum Award	Total Commitment	Total Disbursed	% of Committed \$ Disbursed
Cohort 1 (2010)	1,589	\$6,000	\$9,534,000	\$5,573,646	58%
Cohort 2 (2011)	1,201		\$7,206,000	\$4,966,472	69%
Cohort 3 (2012)	1,350		\$8,100,000	\$5,448,870	67%
Cohort 4 (2013)	1,499		\$8,994,000	\$6,024,000	67%
Cohort 5 (2014)	1,556		\$9,336,000	\$6,352,109	68%
Cohort 6 (2015)	1,724		\$10,344,000	\$6,439,969	62%
Cohort 7 (2016)	1,665		\$9,990,000	\$4,625,000	46%
Cohort 8 (2017)	1,779		\$10,674,000	\$3,247,500	30%
Cohort 9 (2018)	1,848		\$11,088,000	\$1,159,500	10%
<b>TOTAL</b>	<b>14,211</b>	<b>\$6,000</b>	<b>\$85,266,000</b>	<b>\$43,837,066</b>	<b>51%</b>





## REQUIREMENTS & ELIGIBILITY

DEVELOPED JULY 2016

## ABOUT HATHAWAY

In 1974, Governor Stanley Hathaway created the state of Wyoming Permanent Mineral Trust Fund, the income from which would support state government operations – including higher education. In 2005, state lawmakers created a scholarship fund with a \$400 million permanent endowment, whose income funds scholarships for qualified Wyoming high school graduates to attend the University of Wyoming or any of the state’s seven community colleges. They honored Hathaway’s many contributions to the state and accomplishments by naming the scholarship program in his honor.

“Learning today,  
leading tomorrow.”

The Hathaway Scholarship program was designed to provide an incentive for Wyoming students to prepare for and pursue post–secondary education within the state of Wyoming. The program consists of four separate merit scholarships, each with specific eligibility requirements, and a need–based scholarship for eligible students that supplements the merit awards.

Today, the Hathaway Scholarship grants \$16 million per year to over 5,500 Wyoming students, and is a privilege that offers the state’s students the opportunity to attend college. At a time when scholarships are competitive and often incredibly difficult for students to receive, the Hathaway Scholarship is a benefit available to all Wyoming students. Since the scholarship is merit based (with the exception of a need–based award), students compete with no one but themselves to earn the scholarship. This program is unique to Wyoming and is a true and lasting benefit passed down to our state and our children.



# REQUIREMENTS

	HONORS	PERFORMANCE	OPPORTUNITY	PROVISIONAL
	\$1,680	\$1,260	\$840	\$840
<b>MAX AWARD AMOUNT</b>	8 full-time semesters			4 full-time semesters. Students with a certificate can extend for an additional 4 full-time semesters at a community college.*
<b>WHERE YOU CAN USE IT</b>	May be used at a WY community college or UW			Must start at a WY community college
<b>LANGUAGE ARTS (YEARS)</b>	4 (9-12 grade only)			Current HS graduation requirements
<b>MATH (YEARS)</b>	4 (grades 7-12) Algebra I, Algebra II, Geometry and one additional math course			Current HS graduation requirements; at least 2 of these courses: Algebra I, Algebra II, Geometry
<b>SOCIAL STUDIES (YEARS)</b>	3 (9-12 grade only)			Current HS graduation requirements
<b>SCIENCE (YEARS)</b>	4 (9-12 grade only)			Current HS graduation requirements
<b>FOREIGN LANGUAGE (YEARS)</b>	2 Sequential Courses 1 HS level course before 9th grade allowed			NONE
<b>ACT SCORE</b>	25	21	19	17 (Or score a 12 on WorkKeys)
<b>HIGHSCHOOL GPA</b>	3.5	3.0	2.5	2.5
<b>ADDITIONAL REQUIREMENTS</b>	2 years of either fine arts, career and technical education, or additional foreign language (non-sequenced) (9-12 grade only)			2 years of either fine arts, career and technical education, or 2 years foreign language (sequenced) (9-12 grade only)

\*Students with an associate's degree can extend for an additional 4 full-time semesters at UW.



# MIDDLE SCHOOL

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## PAYING

College can be expensive and it may take years of planning to find the school that's the right fit and the right cost for you, so it's never too early to start saving for college!

All the work you'll put in planning and studying really does pay off because a college education means a higher salary after graduation. So start thinking about it and planning for it now!

## PLANNING

### 7TH GRADE STUDENTS

- Improve your reading and writing skills, and take a foreign language class in 8th grade. You can also take 3 of the 4 math classes required by Hathaway before you start 9th grade.
- Work for A's and B's and join a school club or athletic team.
- Participate in a GEAR UP program.
  - **Gaining Early Awareness and Readiness for Undergraduate Programs** helps 7th–12th grade income–eligible students prepare for college.
- Talk to your parents about a 529 college savings plan
  - A 529 plan is sponsored by states, state agencies, or educational institutions, and can help you start saving for college early)

### 8TH GRADE STUDENTS

- Keep your grades up to prepare for high school courses.
- Choose a college prep curriculum when you enroll in high school.
- Attend a community or school workshop on how to pay for college.
- Talk to family, friends, and teachers about your college plans and ask questions to discover what may be right for you!



## CAREER

Do you like to be outdoors? Do you like to read and write? Would you rather build things with your hands? Think about what you like to do and find out if there's a way to turn it into a career at one of Wyoming's seven state schools!

# FRESHMAN

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## PAYING

Paying for college takes time, so go ahead and start thinking about where you might like to go to school and how you can save for tuition and expenses. Talk with your parents and make a plan to save!

## PLANNING

- Focus on your GPA, but don't forget about clubs, sports, and volunteer opportunities. Colleges consider grades and extracurricular activities!
- Take the free ASPIRE test which is given to Wyoming 9th graders each spring. It can help you learn more about your skills, interests, and talents so you can make a better college plan.
  - The ASPIRE test measures English, math, reading, and science skills and helps match your interests to a career.
  - Ask your guidance counselor exactly when you'll take the test.
- Maintain your GPA – colleges and scholarships make decisions based on grades you earn from 9th–12th grades.

## CAREER

You'll be offered classes in high school that you've never seen before. Explore your interests and discover new ones – it could lead you to the career that's right for you.





# SOPHOMORE

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## PAYING

College isn't far off, so take steps to make sure you can afford the colleges you're interested in attending. Remember, college tuition is only one part of your savings plan – there are housing, meals, and textbook expenses to think about too.

The Hathaway Scholarship is just for Wyoming students, and no other state has anything like it. So don't miss out! Work with your counselor to make sure you remain eligible from now through senior year.

Talk to your counselor or teacher and ask questions to make sure you're enrolled in the right classes to satisfy the Hathaway Scholarship eligibility requirements.

## PLANNING

- Think about what you want from your college education and start preparing for the ACT.
- Take the free ASPIRE test in the spring. It can help you get ready for college and it's a practice test for the ACT you'll take as a junior. Talk to your counselor to find out more.
- Make a college plan with your counselor and find out more about AP (Advanced Placement) and Concurrent/Dual Enrollment classes at your high school.

## CAREER

Research on-demand careers and hot job fields. Talk to your counselor and learn about what industries, jobs, and majors are most in demand and might fit you best. There are tons of options, and now is the time to start planning!



# JUNIOR

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## PAYING

Get serious about securing the grants, scholarships, and financial aid packages you've decided on. Talk to your counselor about what's available nationally and in your community.

Attend college fairs and talk to college admissions staff to learn about specific college scholarships and financial aid.

## PLANNING

- Talk with your counselor to find resources that give you the best chance to score higher on the ACT.
- Take the ACT test – it's free and you need it to earn scholarships and get into college. Your school will provide the ACT test during your junior year.
- Find colleges you're interested, learn about their admission requirements and deadlines, and visit them if you can. Your junior year is a great time to visit a few schools with your parents and find out which one is right for you!
- Continue to participate in extracurricular activities at school, and get a part-time job or internship in a field you're interested in.
- Start to write a resume that covers your activities and accomplishments at school and in the community.
- Focus on grades and give yourself the best chance at your first-choice college.
- Are you taking AP classes? Have you considered Concurrent/Dual Enrollment classes at your high school? Make sure you and your counselor explore all the options!

## CAREER

Have you figured out what you want to be yet? If not, that's OK! Now is the time to explore and experiment with what interests you, what you're good at, and what career paths are most compelling and which state schools align with them. Talk to teachers, counselors, and family members who attended college and find out how they made their decision about a career.





# SENIOR

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## PAYING

Attend college funding workshops and make sure you're on track to wrap up all the classes you'll need for the Hathaway Scholarship.

## PLANNING

- You can take the ACT again as a senior – the better you score, the more financial help will be available to you.
- Work with your school counselor to make a senior checklist for high school graduation and college enrollment so you can:
  - Submit college and scholarship applications in the fall
  - Complete the Free Application for Federal Student Aid (FAFSA) in January
  - Retake the ACT in the fall and/or spring to improve your score
- Choose a college! Some schools, such as UW, require confirmation by May 1.
- Visit the college you're interested in with your family if you haven't already.
- Apply for scholarships using scholarship search sites like Fastweb.
- Talk to your school counselor and parents about creating a college budget – know how much money you have to pay for the college you want to attend.
- Plan for housing and meals at school and sign up for the plans you need.
- Attend college orientation in the summer after you graduate from high school.

## CAREER

Get an internship or find a career mentor who works in the field you're interested in pursuing. Be open to learning and exploring your future options when you get to school.







## LEARN MORE

Talk to your counselors and teachers to make sure you're on track for the Hathaway Scholarship. Need more information? Contact us today!

### JENNIFER PETERSON

Hathaway Scholarship Consultant

307.777.6840

[jennifer.peterson@wyo.gov](mailto:jennifer.peterson@wyo.gov)

### BRADLEY S. BARKER III

Hathaway Scholarship Consultant

307.777.6226

[bradley.barker@wyo.gov](mailto:bradley.barker@wyo.gov)



## This response was prepared for North Dakota State Representative Ron Guggisberg

### Your Question:

Which states have large-scale merit-based financial aid programs?

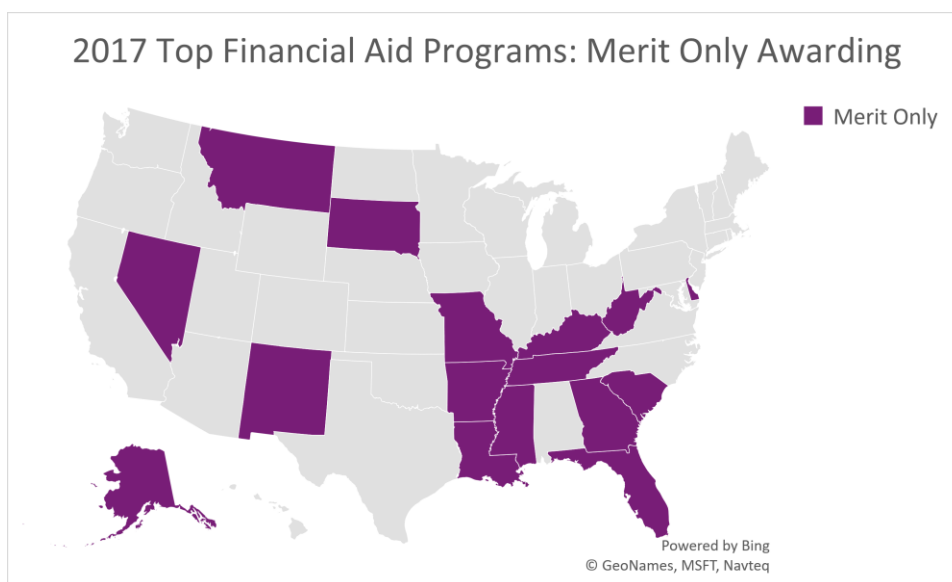
### Our Response:

Across the country, the majority of state financial aid programs award grants and scholarships on the basis of financial need. Education Commission of the States analyzed 100 financial aid programs and found 19 programs in 16 states which award on the basis of merit only. Those states in which only merit-based programs are found are highlighted in the map below.

### Additional Resources

[Redesigning State Financial Aid: Principles to Guide State Aid Policymaking](#). Policy Report. Education Commission of the States. August 2018.

[Can Students Afford to Pay for College?](#) Blog Post. Education Commission of the States. December 2018.



Source: [2017 NASSGAP survey](#). 2017 top 100 financial aid programs by total dollars disbursed in each state. Analysis completed by Education Commission of the States.



### Examples of Merit Only Aid Programs

The criteria used to determine student eligibility can vary between programs, but academic scores, such as GPA and ACT or SAT scores are commonly used. Maximum award amounts also vary. Some states add additional criteria such as enrollment intensity to the program's eligibility requirements.

[Delaware: Student Excellence Equals Degree \(SEED\)](#) – a merit only aid program. To be eligible for SEED a student must meet GPA requirements, start their postsecondary program immediately after high school graduation and be enrolled full-time. The maximum value of the award can be up to the full cost of tuition.

[Georgia: HOPE Scholarship](#) – a merit only aid program. To be eligible for HOPE a student must meet GPA requirements, have completed academically rigorous courses and attended a HOPE eligible high school in Georgia. The maximum value of the award is determined by the postsecondary institution attended.

[Montana: Governor's Postsecondary Scholarship \(Merit\)](#) – a merit only aid program. To be eligible a student must meet GPA and ACT or SAT requirements and be enrolled full-time. The maximum value of the award is \$2,000 per academic year.

[South Dakota: Opportunity Scholarship](#) – a merit only aid program. To be eligible for an Opportunity Scholarship a student must meet GPA requirements and ACT or SAT requirements and start their postsecondary program within five years of high school graduation. The maximum value of the award is a total of \$6,500 over the course of four academic years.

### Examples of Merit and Additional Criteria Aid Programs

In our analysis, we found 18 programs which use merit in conjunction with additional awarding criteria, such as financial need. In Wyoming, merit is the primary basis for awarding, with an additional need-based award component. Indiana also uses both merit- and need-based awarding criteria however the primary basis is need followed by merit.

[Wyoming: Hathaway Scholarship](#) – a merit aid program with an additional financial need-based award. To be merit-eligible, a student must meet GPA and ACT requirements and high school subject completion requirements. The maximum award is \$1,680 per semester. The need-based award is in addition to the merit award.

[Indiana: Twenty-First Century Scholars](#) – a need-based award with additional merit criteria. To be need eligible, a student must come from a household with income eligibility for free or reduced-price lunch. To be merit eligible, a student must meet GPA criteria. Other eligibility criteria include the completion of a success program while attending high school and full-time postsecondary enrollment within one year of high school graduation. The maximum award is up to full tuition and associated fees.

### Factors to Consider in Financial Aid Program Design

State financial aid programs are best designed when they support state goals for postsecondary outcomes. In addition to merit-based financial aid, many states also include non-merit need-based aid programs as part of their complete portfolio of student aid spending. For additional information on factors to consider for financial aid program design, please see the additional resources linked in this paper.

Education Commission of the States remains available to assist you as your team considers questions related to postsecondary financial aid programs. Please do not hesitate to reach out to us if we can be of any further assistance.

# 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

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**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.*

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

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

## PROJECT OVERVIEW

**Rationale.** North Dakota's rapidly growing Legacy Fund currently stands at \$2.2 billion and has been projected conservatively to reach \$6 billion by 2017, when Fund returns first become available for expenditure. Assuming no change to existing state tax treatment of oil and gas production, the principal of the Legacy Fund could reach tens of billions of dollars by 2030 and well over \$100 billion by 2050—in a state with a population of just 725,000 people.

**Stakeholder Dialogue.** GPI brought together North Dakota leaders in 2013 and 2014 to participate in the Initiative's broad-based and collaborative policy dialogue. The key deliverable of the dialogue is consensus policy recommendations - the cornerstone of this report - that Initiative participants hope will inform the public and policy-makers and help guide future evolution of the Fund.

**Citizen Participation.** The work of stakeholders participating in the policy dialogue was strengthened by community forums and online input surveys that gathered citizen input on a long-term vision for the future of North Dakota and how the Legacy Fund can serve as a mechanism to help achieve that vision. The community forums incorporated and expanded upon citizen input already gathered through the North Dakota Chamber of Commerce's 2020 & Beyond and USDA Rural Development's North Dakota 2.0 initiatives.

**Consensus Recommendations.** Following deliberations that incorporated briefing materials and expert input, Legacy Fund Initiative participants prepared this report to:

- articulate broader long-term purposes for the Fund;
- propose governance mechanisms appropriate to its future multi-billion dollar scale; and
- outline principles, strategies and priorities for Fund investments and expenditure of future returns.

**Informing State Policy.** Later in 2014 and early 2015, dialogue participants will formally present their report and results of the statewide community forums to state legislators and other officials, private sector leaders, the media and the public.

**Project Funding.** The Legacy Fund Initiative was convened with grant funding from the Northwest Area Foundation. The North Dakota Consensus Council and North Dakota Natural Resources Trust provided grant funding to support the community and online input project elements.

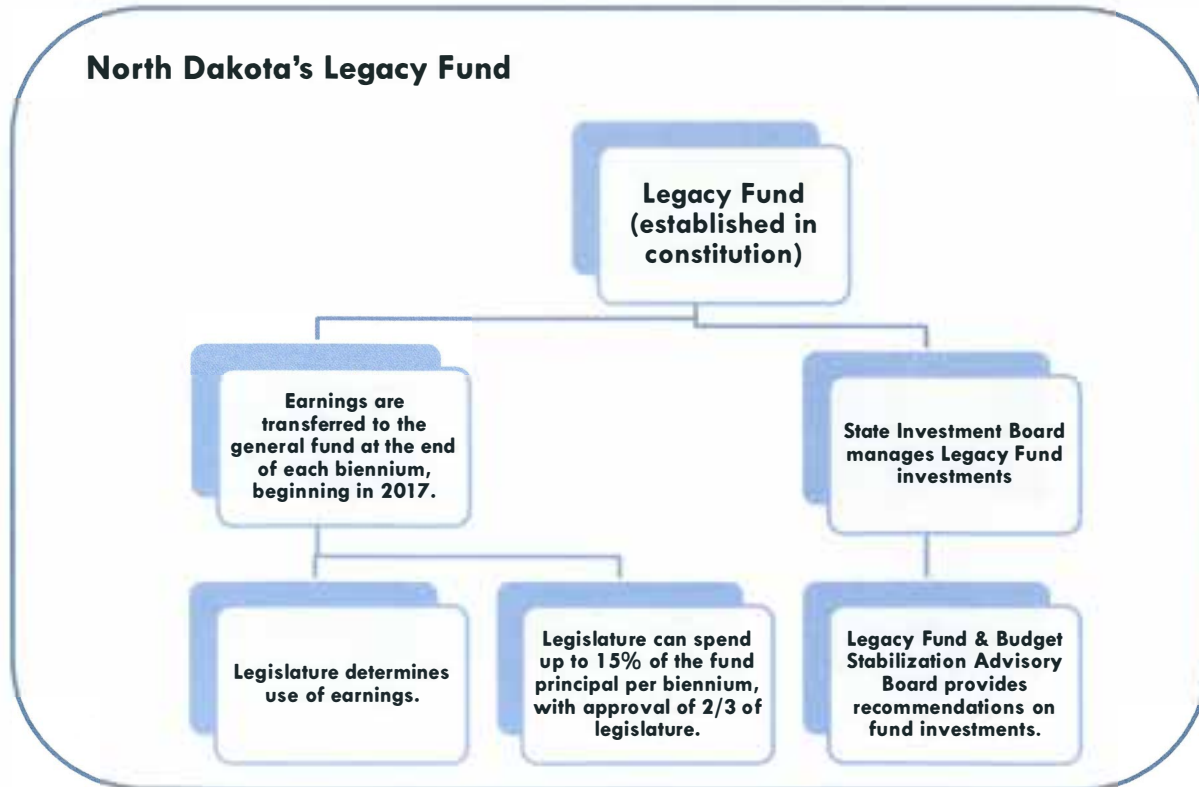
## NORTH DAKOTA'S LEGACY FUND

Sixty-three percent of North Dakota voters passed a legislative-referred constitutional measure in 2010 establishing the Legacy Fund and mandating a formula set-aside of 30 percent of the state's oil and gas revenues for the future. The measure placed limits on how and when the future principal and returns can be spent, but was silent with respect to specific investment and expenditure priorities of 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, when the principal and earnings first become available for expenditure. Monthly deposits are made into the Legacy Fund from the oil and gas tax collections. In addition, the legislature has the authority to deposit additional monies from other sources into the Legacy Fund. Current law requires that if the balance of the state's Strategic Investment & Improvement fund exceeds \$300 million, 25 percent of additional revenue going to that fund must be transferred to the Legacy Fund.

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. The earnings must be transferred to the general fund; however, the legislature has the option either to spend those funds or reinvest the earnings back into the Legacy Fund, or a combination of both.

The principal of the Legacy Fund can also be utilized after 2017. The constitutional language prescribes a method by which principal from the Legacy Fund can be expended. 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's Legacy Fund: Building a Bridge to the Future**

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The constitutional language adopted in 2010 directs the State Investment Board to manage investments for the Legacy Fund. The State Investment Board is responsible for investment of several funds, including the Legacy Fund. The board hires the state investment director and other advisors.

<b>State Investment Board</b>
Governor
State Treasurer
Commissioner of University & School Lands
Director of Workforce Safety & Insurance
Insurance Commissioner
Teachers' Fund for Retirement Board (3 members)
Public Employees Retirement System Board (2 of the elected board members)
Public Employees Retirement System Board (1 member)

In addition, the legislature established a Legacy Fund & Budget Stabilization Advisory Board to develop recommendations for the investment of funds in the Legacy Fund and the Budget Stabilization Fund. The legislature also established a goal for the investment of the Legacy Fund, which is "principal preservation while maximizing total return."

<b>Legacy Fund &amp; Budget Stabilization Advisory Board</b>
Two state senators (appointed by majority leader)
Two state representatives (appointed by majority leader)
Director of the Office of Management & Budget
President of the Bank of North Dakota
Tax Commissioner

## WHAT WE LEARNED FROM OTHERS

In 2012, GPI organized a high-level delegation of North Dakota public and private leaders to learn from Norway's world class experience in fossil and renewable energy production, environmental best practices, and responsible management of oil and gas wealth for future generations. There, they were briefed by representatives of Norway's \$893 billion Pension Fund Global, the world's largest sovereign wealth fund and widely recognized as a global model.

Norway has worked hard to avoid the so-called "Dutch Disease" or "resource curse" that can result after a significant natural resource discovery. A term coined by *The Economist* after The Netherlands' discovery of significant natural gas deposits in the North Sea in the 1960s, an economic crisis occurred from the new energy wealth that caused the value of the Dutch Guilder to rise substantially, leading to all other non-oil and gas related products losing competitiveness in important export markets.

Great Britain experienced the same economic problems in the 1970s when the price of oil spiked and oil drilling in the North Sea quickly became economical. Britain ultimately became a net exporter of oil; however, their currency (the pound) increased in value and a recession occurred as a result of uncompetitive exports and the demand for higher wages.

Some of the key lessons learned from Norway's experience with its sovereign wealth fund were to 1) develop an approach to governance, investments and expenditures that is based on a shared, long-term vision for the future, rooted in the values of the society that the fund serves; and 2) achieve consensus on that approach before the fund accrues substantial value and makes decisions more complex and potentially contentious.

North Dakota stands at a critical juncture in this regard. There has not yet been a broad public conversation in North Dakota about the future of the Legacy Fund since its inception, yet legislative and interest group proposals to earmark a portion of the Fund emerged during the 2013 legislative session.

Legacy Fund Initiative participants studied additional national sovereign wealth fund and state-level funds to gain additional insight on the purposes and management of various funds. There are more than 50 sovereign or state/provincial funds across the globe, each with assets of \$2 billion or more. According to the Sovereign Wealth Fund Institute, wealth funds around the world control more than \$6.7 trillion in assets.

There are several state-level permanent funds in the United States, with long-standing models in Texas, Alaska, New Mexico and Wyoming. Texas was the first state to establish a permanent fund for education in 1854. That fund was established with a \$2 million appropriation from the Texas legislature with the express purpose of benefitting public schools in Texas. Texas established a second permanent fund to help fund public higher education in the state. The Public University Fund provides revenue to the University of Texas and the Texas A&M University systems.

Alaska established a permanent fund in 1976 by constitutional measure. The Alaska Permanent Fund receives revenue from the royalties of oil and gas production, and Alaska citizens are paid an annual dividend from the fund. State law governs how the fund principal is invested and includes an asset allocation class for infrastructure investment.



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Wyoming established their permanent fund in 1974 from a portion of mineral severance tax revenues. Income from the Permanent Wyoming Mineral Trust Fund is transferred to the state's general fund for state use. The Wyoming fund can also make low interest loans to local entities.

The Severance Tax Permanent Fund in New Mexico was established by the state legislature in 1973 from oil and gas severance taxes. New Mexico voters later enshrined the fund in the constitution to protect the corpus of the fund. The income from the fund is transferred to the state government for use.

In addition to studying other state permanent fund models and uses, LFI participants reviewed several international and academic methods to measure and evaluate the governance, accountability and transparency standards and practices of funds worldwide.

An international framework for governance and transparency was established in 2008 by an international working group of sovereign wealth funds. The working group worked in conjunction with the International Monetary Fund to develop a framework of principles for governance and accountability, investment practice conduct and to ensure better understanding of sovereign wealth funds. Their work led to the creation of the Santiago Generally Accepted Principles and Practices for sovereign wealth funds. Several studies have been conducted to assess the degree of compliance with the Santiago Principles for major sovereign wealth funds. In addition to the Santiago Principles, other indices, including the Truman Blueprint and the Linaburg-Maudell Transparency Index encompass elements that address governance, accountability and transparency.

## LEGACY FUND PROJECTIONS: THE LANDSCAPE OF THE FUTURE

Legacy Fund Initiative (LFI) participants considered a number of scenarios for the management of the Legacy Fund in coming decades. Projections for oil production published by the Department of Mineral Resources at the time of writing, as well as data on historical revenue and fund balances for recent biennia, were used to estimate the future growth of the Legacy Fund under these scenarios. More details on this analysis are provided in Appendix 1.

For this report, LFI participants present the results of four scenarios to illustrate the factors that were considered when formulating recommendations on how to manage the Legacy Fund. These scenarios are:

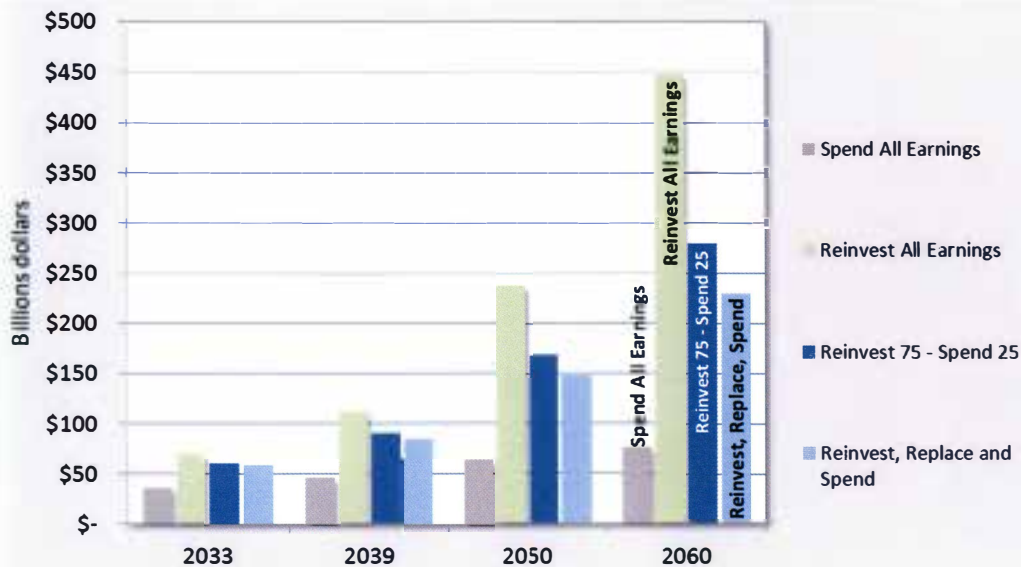
1. **Spend All Earnings:** As allowed under current law, the Legislature spends 100 percent of annual earnings starting in 2017.
2. **Reinvest All Earnings:** The Legislature would reinvest 100 percent of earnings back into the Legacy Fund.
3. **Spend 25—Reinvest 75:** The Legislature would spend 25 percent of annual earnings starting in 2017, while reinvesting the remaining 75 percent back into the Fund.
4. **LFI Preferred Scenario: Reinvest, Replace, and Spend:** Under this preferred scenario, the Legislature would spend 25 percent of annual earnings starting in 2017 and reinvest the remaining 75 percent. Then, once oil revenue starts to decline, the Legislature would continue to spend 25 percent of annual earnings, but use a portion of the remaining 75 percent of earnings to replace diminishing oil and gas revenue, while reinvesting the remaining earnings into the Fund.

Scenario 1 of Spend All Earnings and Scenario 2 of Reinvest All Earnings represent the Fund's potential "floor" and "ceiling", respectively, illustrating projected outcomes if annual earnings are either completely spent or completely reinvested. Scenario 3, or Spend 25-Reinvest 75, presents a management plan that provides near term benefits to North Dakota, while reinvesting significant earnings and rapidly growing Fund principal for future generations. Finally, LFI participants preferred Scenario 4, or Reinvest, Replace and Spend, which combines near term benefits and long term sustainability, while sustainably offsetting declining state oil and gas revenue as projected oil production peaks and begins to fall in the decades to come.

The following figures illustrate the Legacy Fund's growth under the four scenarios detailed above. Figure 1 portrays the growth of the Legacy Fund's principal balance over the next four and a half decades. If all earnings are spent starting in 2017, the Legacy Fund may reach a maximum balance of about \$77 billion dollars by 2060. However, if all earnings are reinvested, the Fund may reach a balance of \$448 billion by 2060 (this, however, prevents any near- to mid-term benefit or use of the Fund). Under LFI participants' preferred scenario of Reinvest, Replace and Spend, near to mid-term use of some Fund earnings, along with substantial reinvestment of earnings, achieves a balance of about \$230 billion by 2060.

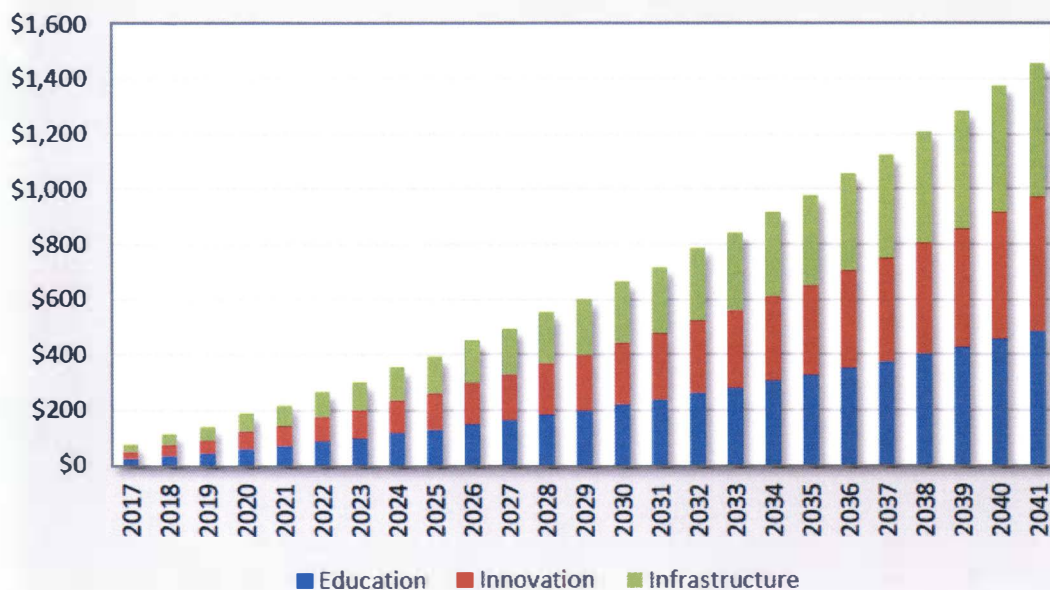
# North Dakota's Legacy Fund: Building a Bridge to the Future

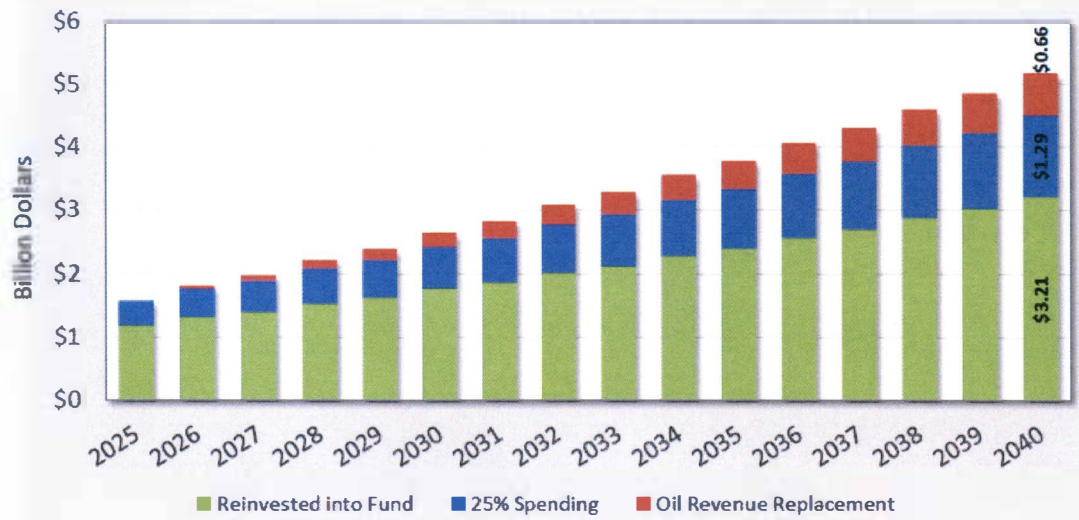
**Figure 1. Legacy Fund principal balance amount under four scenarios over time**



The next figure demonstrates how much funding might be made available for higher education scholarship, innovation and infrastructure investment initiatives proposed by LFI participants from withdrawals of 25 percent of Legacy Fund annual interest earnings, as in Scenarios 3 and 4. By 2020, the Legacy Fund could provide about \$63 million to each of the three purposes, 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 purposes.

**Figure 2. 25 percent of annual earnings to three proposed initiatives (in millions of \$)**



**Figure 3. Three simultaneous uses of Legacy Fund annual earnings**

The final figure (above) in this executive summary breaks down the Legacy Fund's annual earnings into three uses under LFI participants' preferred Reinvest, Replace and Spend scenario:

1) spending 25 percent of earnings, 2) replacing declining state oil revenue, and 3) reinvesting the remainder of annual earnings into the Fund. By 2040, the Legacy Fund could be providing \$1.29 billion in additional state spending, \$660 million to offset declining oil revenue, and \$3.21 billion for reinvestment into the Fund—all from annual earnings alone. Under responsible management scenarios, these figures only grow larger with every year, along with the Fund's potential to deliver extraordinary benefits to North Dakotans.

# Overview of Consensus Recommendations for the Future of the Legacy Fund

## VISION, GUIDING PRINCIPLES AND PURPOSES OF THE LEGACY FUND

The constitutional ballot measure that created the Legacy Fund established explicit limitations on how and when the principal and earnings from the Fund can be spent. However, the constitutional language otherwise provides policy-makers with little guidance for charting the Legacy Fund's future. Therefore, Legacy Fund Initiative (LFI) participants made it one of their first priorities to forge agreement on a proposed vision, principles and goals, which they recommend for consideration by state leaders and citizens to supplement existing constitutional provisions and help guide the Legacy Fund going forward.

### VISION

LFI participants offer the following vision to guide long-term stewardship of 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

LFI participants recommend three core principles to guide the decisions and actions of state policy-makers and Legacy Fund managers:

- ***Implement the highest standards and practices of governance, accountability and transparency to guide Fund policies, procedures, decisions and actions.***

Despite their different viewpoints and backgrounds, LFI participants consider sound governance, accountability and transparency to be the first priority and that the ultimate success of the Legacy Fund will depend on policy-makers and managers achieving the highest standards and practices of

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integrity and openness. Citizens consulted in community meetings across the state strongly concurred with this emphasis.

- ***Make long-term, sustainable investments in North Dakota's future through the responsible stewardship of revenue generated from a finite natural resource.***

The 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. Although we cannot predict future priorities with certainty, LFI members emphasize our obligation to manage the Legacy Fund sustainably and permanently to provide future generations with options and opportunities comparable to our own and to ensure that any near-term use of the Fund clearly benefits both citizens today and generations to come.

- ***Foster and reinforce core values of hard work, self-sufficiency, innovation, equity, and stewardship.***

LFI participants encourage policy-makers to be mindful of the “resource curse” and negative economic, social and cultural impacts from sudden wealth experienced by other states and countries and to manage the Legacy Fund in ways that sustain and strengthen the core values we cherish and which define North Dakotans at their best. We should avoid, for example, the complacency and dependency fostered by the Alaska Permanent Fund's practice of issuing annual checks from earnings to all individual residents.

## KEY GOALS

Informed by insights gleaned from the projections and scenarios presented previously in this report, LFI participants propose three goals for the Legacy Fund. These goals build on one another and will require intentional management to grow the Legacy Fund's principal over a 25-year timeframe. Achieving these goals is feasible under a range of earnings reinvestment scenarios for the Fund.

### 1. ***Provide a resource of last resort in times of exceptional need.***

Based on current projections, the principal of the Legacy Fund will reach \$6 billion in the 2017 biennium, which LFI participants believe amply meets this first goal. LFI participants deliberately set a very high bar for “exceptional need” that would merit the Legislature drawing on earnings and potentially the principal of the Legacy Fund. They recommend defining exceptional need according to two criteria: 1) exceeds the combined resources of state “rainy day” funds such as the Foundation Aid Stabilization Fund, Property Tax Relief Fund, Budget Stabilization Fund and other state special funds and programs; and 2) the federal government is unwilling or unable to offer significant financial assistance.

### 2. ***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.***

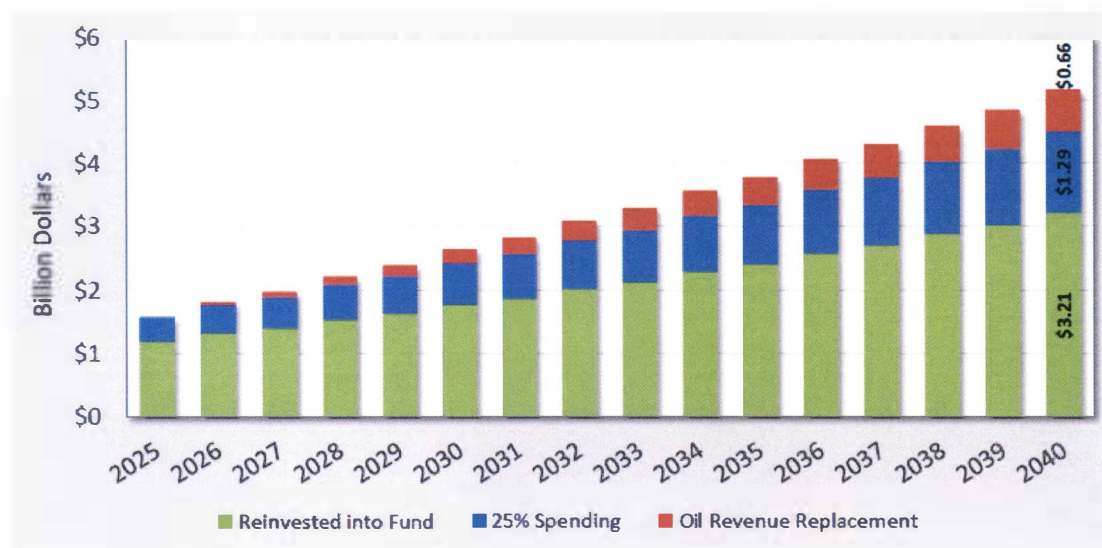
To fulfill a commitment to provide future generations of North Dakotans with options and opportunities comparable to our own, LFI participants recommend that the Legacy Fund be managed to achieve sufficient growth in principal, so that future earnings from the Fund can offset fully, and sustainably over time, the post-peak reduction in oil and gas revenues that will occur once production starts to fall. Based on conservative oil production projections used in this report, this peak and subsequent decline in production could begin in the latter half of the next decade.



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By growing the Legacy Fund's corpus through reinvestment of 75 percent of earnings from 2017 through 2039, Figure 3 shows that earnings from the Fund easily replace the projected oil and gas revenue shortfall and continue to do so as the revenue gap grows during the latter years of the 2017-39 period, while still allowing for expenditure of 25 percent of annual earnings in the interim. Indeed, under LFI participants' preferred Reinvest, Replace and Spend scenario for the Legacy Fund, North Dakota can sustainably 1) spend an 25 percent of annual Fund earnings through 2039 and beyond; 2) replace future state revenue losses from declining oil and gas production; and 3) still grow the Fund balance in real inflation-adjusted dollars through reinvestment of earnings—all indefinitely into the future.

**Figure 3: Three simultaneous uses of Legacy Fund annual earnings**



### 3. *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.*

Starting in 2017, LFI participants urge state policy-makers to dedicate a portion of Legacy Fund earnings to extraordinary and transformative initiatives that benefit North Dakotans today and well into the future. Toward that end, LFI participants recommend that the Governor and Legislature identify a major state priority each biennium to be addressed with Legacy Fund earnings, and they also propose three ongoing initiatives described later in this report—higher education, innovation and infrastructure investment initiatives—to be supported by annual earnings from the Fund.

LFI participants believe these initiatives will not only position the state for the future, but also demonstrate tangible, ongoing benefits to the public, thereby reducing the likelihood of legislation or an initiated measure that risks undermining the long-term integrity and potential of the Fund. As shown in Figure 3, annual utilization of 25 percent of the earnings after 2017 still enables the Fund to replace state oil revenue after it begins to decline and for the Fund balance to grow at a healthy rate into the foreseeable future, while guarding against unforeseen risk. Under this approach, the Legacy Fund can serve as an engine of opportunity and quality of life for North Dakotans today and a sustainable resource for future generations.

## 25-YEAR STRATEGY FOR ACCOMPLISHING LEGACY FUND GOALS

As the preceding scenarios amply demonstrate, the Legacy Fund goals described above—providing a resource of last resort at times of exceptional need, sustainably replacing state oil and gas revenue with Fund earnings after production begins to decline, and financing transformative investments in world-class education, innovation, infrastructure and other key priorities for North Dakota—can only be accomplished through the power of compounding interest.

Turning this potential into reality will require citizens and their elected representatives to sustain a commitment over time to 1) manage the Legacy Fund as a truly permanent fund; and 2) reinvest sufficient earnings in early years to grow the principal to a level that generates annual earnings adequate to support the above goals, while still increasing the real value of the Fund after inflation.

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 current spending priorities. For the first and perhaps only time in our state's history, we can now meet the needs and opportunities of the present *and* steward the development of an extraordinary and permanent resource for the future. We cannot afford to squander this moment.

Recognizing our privileged position and the responsibility placed on North Dakotans and their leaders today, LFI participants recommend a broad strategy to manage the Legacy Fund over the next quarter century. The 25-year duration of the strategy is intentional. The timeframe corresponds well with different scenarios for reinvestment of earnings to achieve desired growth in the principal of the Fund and to mitigate impacts on state revenue after projected oil and gas production peaks and starts to fall. In addition, we mark the 125<sup>th</sup> anniversary of statehood this year, and North Dakota will celebrate its 150<sup>th</sup> birthday 25 years from now in 2039, encouraging us to look to the future and the transformative role the Legacy Fund can play in shaping our state.

LFI participants hope that the proposed strategies for the Legacy Fund outlined below will inform an ongoing and evolving dialogue about how the Legacy Fund can meet our obligations to future generations, while contributing meaningfully to the lives of North Dakotans today.

1. ***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.***

LFI projections for the Legacy Fund indicate that this level and timeframe for earnings reinvestment from 2017 (when the Legislature first has the option to spend earnings) through 2039 can position the Fund to provide a resource of last resort in times of exceptional need and sustainably replace state oil and gas revenue through annual Fund earnings once production begins to decline (holding constant estimates of oil production and price and state tax treatment of oil and gas production).

2. ***Use existing state resources to address critical needs and priorities of citizens and communities today, rather than drawing on the Legacy Fund.***

LFI participants recognize that our state currently faces critical issues and challenges driven primarily by rapid oil and gas development that require urgent attention, and they call on state policy-makers to utilize available non-Legacy Fund resources to respond to these needs. State revenues continue to grow, and state special funds, such as the Property Tax Relief Fund, the Strategic Investment and

LFI participants recommend that state policy-makers undertake statutory and constitutional reforms to North Dakota's approach to allocating revenue to multiple funds or "buckets" to facilitate their more effective use. This method utilized for historically smaller existing funds has been adapted to new funds in order to manage rapidly growing and much greater state revenues. As the chart below prepared by North Dakota Legislative Counsel illustrates, the resulting state budget structure can be confusing, makes difficult basic citizen understanding of and accountability for available funds, and creates barriers in responding to current state needs and priorities. This complex budget system may, if unaddressed, make the Legacy Fund politically vulnerable to demands for short-term expenditures that undermine the long-term integrity and potential of the Fund.

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Development's North Dakota 2.0, which consulted citizens of all walks of life from communities across the state:<sup>1</sup>

- Establish a world-class pre-K through 12 and higher education system that includes adequate resources for early childhood education.
- Provide access to quality and affordable housing for all North Dakotans.
- Ensure adequate and affordable health care for all North Dakotans and address the immediate needs of our rural health care systems.
- Attract, develop and retain a strong workforce, while providing access to quality child care.
- Protect and enrich North Dakota's natural resources and environment to provide continued recreation and tourism opportunities.
- Maintain North Dakota's friendly business climate, while reducing North Dakotans' tax burden.
- Ensure that North Dakota's primary industries – agriculture and energy – are sustained for the long-term.
- Provide for a robust, long-term statewide transportation and infrastructure system, including water projects and flood control.
- Identification of current Legacy Fund uses to demonstrate near-term benefits and maintain public support for safeguarding the Fund for future generations.

**3. *Allocate 25 percent of annual Legacy Fund earnings from 2017 through 2039 to bold and visionary purposes that build a bridge to a future.***

Public support for a 25-year strategy to manage the Legacy Fund for significant future growth in principal will erode over time without clear evidence of benefits to citizens today. Fortunately, the preferred Reinvest, Replace and Spend scenario in Figure 3 demonstrates that spending 25 percent of annual Fund earnings from 2017 through 2039, while reinvesting the remaining 75 percent each year, can responsibly replace declining state oil and gas revenue on an ongoing basis after production starts to fall and still provide an additional and rapidly rising annual income stream estimated at \$189 million in 2020 and over \$1.2 billion by 2039.

LFI participants recommend that any expenditure of Fund earnings by the Legislature after 2017—as allowed under the state Constitution—be limited to transformative investments that demonstrably benefit both future generations and North Dakotans today. They encourage legislators to seek broad statewide public input and expert review and assessment before spending Legacy Fund earnings.

Toward that end, LFI participants propose the creation of a North Dakota Legacy Foundation in state statute, modeled after the existing Economic Development Foundation, to provide a mechanism to advise and assist the Legislature in utilizing this proposed revenue stream of 25 percent of Fund earnings over the 2017-2039 period.

To stimulate discussion among North Dakota policy-makers and the public regarding the most impactful potential uses of Legacy Fund earnings in advance of 2017, LFI participants recommend that the Governor and the Legislature work with the proposed Legacy Foundation to identify a major state priority each biennium to be addressed by the Foundation with Legacy Fund earnings. They recommend that the first priority for the 2017-19 biennium be the development of a strategy and action plan for building a world class pre-K through 20 educational system.

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<sup>1</sup> This list combines the results from both planning efforts, and Initiative participants have tentatively proposed the first five as the top priorities for the state.



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In addition to identifying a biennial priority for the state, LFI participants recommend the following ongoing initiatives that would also be supported by a portion of annual earnings not reinvested into the Legacy Fund:

- **Endowing a higher education scholarship program** to help North Dakotans reach their full potential and to attract talent and capital to our state and communities;
- **Establishing a “Genius Initiative” to foster transformative private and public sector innovation** that increases prosperity, creates opportunity and enhances quality of life;
- **Investing in 21<sup>st</sup>-century economic and community infrastructure** to expand and diversify North Dakota's productive potential and to improve our communities.

The proposed North Dakota Legacy Foundation and recommended initiatives are described in greater detail later in this report.

**ENSURING BEST PRACTICE GOVERNANCE, ACCOUNTABILITY & 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. It is helpful to compare our state's performance in this area against other states and countries, especially given that the projected growth of the Legacy Fund will likely place North Dakota in the top rankings among the largest sovereign wealth funds and state natural resource funds in the world today.

LFI participants have developed a checklist in order to enable North Dakota policy-makers, the media and citizens 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 sovereign wealth funds internationally and state natural resource funds in the U.S.

**BEST PRACTICES CHECKLIST****Governance**

1. The legislature sets the overall objectives for the Legacy Fund.
2. A mechanism is in place, with diverse representation, by which to receive public input periodically on Fund objectives and investment policy and to recommend any changes to the legislature and Fund governing body or bodies, taking into account sound management principles.
3. The governance framework establishes clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence.
4. The state's statutory framework supports effective operations.
5. Diverse representation and clearly defined procedures are in place for the appointment of members of the governing body or bodies that exercise oversight. In

addition, professional and ethical standards are clearly defined and made known to the members of the governing body, management and staff.

### **Accountability**

6. The accountability framework is clearly defined in legislation, rules and policies.

6-a. The investment policy is clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the governing body or bodies, and is based on sound portfolio management principles.

6-b. There are clear policies, rules, procedures, and arrangements regarding the general approach to the receipt, investment, withdrawal, and expenditure of funds, with all appointees, staff and other responsible parties having fiduciary responsibilities, including the prudent investor rule<sup>2</sup>.

6-c. Asset management is consistent with what is generally accepted as sound asset management principles.

6-d. Investment decisions aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

6-e. A framework that identifies, assesses, and manages operational risks is in place.

7. Third-party involvement in operational management is based on economic and financial grounds and follows clear rules and procedures.

8. A comprehensive annual report and accompanying annual audit of operations and performance financial statements is clearly disseminated to the public, including summary content accessible to laypersons.

### **Transparency**

9. The governing body operates and maintains a prominent and easy-to-use public website that includes:

9-a. The history, policy purpose and funding sources for the Legacy Fund;

9-b. The membership of the governing body(ies) and minutes of their meetings;

9-c. The legal relationship with other state funds and institutions;

9-d. Laws, policies, rules, procedures, or arrangements in relation to the general approach to funding, withdrawal, and spending;

9-e. Clear and updated information regarding investment fees paid and returns on investment of principal;

9-f. Annual reports and independent annual audit results;

<sup>2</sup> The prudent investment rule is a fiduciary standard that governs investment decisions. The rule requires investment diversification to help alleviate shortfalls in any one particular investment category.



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9-g. A description of professional and ethical standards, investment policies and the risk management framework; and

9-h. Relevant contact information for operational staff and governing body or bodies.

10. More frequent information from an annual to even daily frequency, such as investment returns, investment fees paid, annual independent audits and annual reports, that is automatically and continuously updated and posted electronically in an easily accessible and readily understandable manner for the general public.

**Future Changes to Legacy Fund Oversight**

LFI participants recommend that state policy-makers consider modifying the current governance of the Legacy Fund as it grows in scale and importance. Historically, the State Investment Board has been tasked with managing retirement funds. Specifically, the Legislature should consider modifying the make-up of the State Investment Board by the time the Legacy Fund balance exceeds the combined total balance of the retirement funds managed by the Board. In addition, a separate board may need to be established to manage retirement accounts, which would maintain representation of appropriate stakeholders.

**THE NORTH DAKOTA LEGACY FOUNDATION: BUILDING A BRIDGE TO THE FUTURE**

LFI participants are urging state policy-makers to be both responsible and bold by committing to a prudent strategy of reinvesting 75 percent of Legacy Fund earnings for the next quarter century, while dedicating the remaining quarter of annual earnings to transformative initiatives that provide significant benefit to North Dakotans today and also help to build a bridge to the future. They propose the establishment of a North Dakota Legacy Foundation to involve the legislative and executive branches of government to administer these initiatives and guide the use of annual Fund earnings, subject to oversight by the Legislature. Addressing future priorities for the state effectively will require the participation and guidance of public and private sector experts who may not serve in 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.

**Proposed Structure and Approach**

In creating a North Dakota Legacy Foundation, LFI participants suggest that legislators look to the North Dakota Economic Development Foundation as an effective model in state law for supplementing state legislative capabilities and oversight with private sector expertise and participation. They suggest that the North Dakota Legacy Foundation have a nine-member board of directors appointed by the Governor and with qualifications set by the Legislature to ensure diverse personal and professional backgrounds; geographic, gender and ethnic diversity; and interdisciplinary experience and expertise that spans priority areas identified by the Legislature. Board terms should be staggered to ensure that members possess the appropriate expertise and background as major priorities change under executive and legislative branch direction. Board appointments and requirements should focus on needed disciplines and expertise, rather than specific officeholders. Additional temporary and/or ex-officio board members could be appointed to provide sufficient expertise in identified topic area(s).

The Legacy Foundation should focus on a few key priorities for impact. LFI participants propose three ongoing initiatives in education scholarships, innovation and infrastructure which are described below. In addition to these three ongoing initiatives, they encourage the Governor and Legislature to work with the Legacy Foundation board of directors to identify a major statewide priority each biennium for the work of the Legacy Foundation and the use of Legacy Fund earnings during the upcoming two-year period. LFI participants believe the Legacy Foundation must evolve to reflect changing needs of our state over time. The Governor and Legislature affirming a biennial priority for the Legacy Foundation every two years will help ensure that the use of Legacy Fund earnings remains adaptable and responsive to future issues and opportunities as they emerge.

After approving the biennial priority for the state, the Governor and legislators would task the Legacy Foundation board and staff with undertaking a fundamental, broad-based and statewide assessment of the identified issue. Based on this assessment, the Legacy Foundation would outline a strategic program of action for consideration by the Governor and Legislature, recommend a funding level to accomplish the work, and incorporate clear milestones and outcomes for accountability and success.

The Governor would include in biennial budget requests modest funding for the administration of the Legacy Foundation and for its assessment, program development, and coordination roles. The Legislature would also appropriate the more significant funding required to support the program of action for the biennial priority of the Legacy Foundation and the entities selected to help implement it through a competitive request for proposal (RFP) process, as well as funding for the ongoing education scholarship, innovation and infrastructure programs.

## **PRIORITY INITIATIVES FOR THE LEGACY FOUNDATION**

LFI participants have engaged in extensive deliberations and sought citizen input on ways that the Legacy Fund can meaningfully impact the lives of North Dakotans today, while safeguarding a prudent earnings reinvestment strategy that will deliver much greater dividends for our state in the future. This final section of the report outlines proposed initiatives that will enhance opportunity and quality of life for citizens now and far into the future, including three ongoing initiatives aimed at achieving world-class education, innovation and infrastructure.

As previously discussed, under the preferred scenario of reinvesting 75 percent of Fund earnings from 2017-2039, allocating 25 percent of annual earnings to priority initiatives over the same period, and sustainably replacing state oil and gas revenues as they begin to decline, LFI projections indicate that a quarter of annual Fund earnings would yield an estimated \$78 million in 2017 and rise to \$1.2 billion by 2039.

LFI participants hope that these recommended priority initiatives, together with the opportunity to provide a substantial annual income stream without jeopardizing the long-term growth objectives of the Fund, will inspire further dialogue among state policy-makers and the public regarding potential targeted, high-impact uses of Legacy Fund earnings.

## **PROPOSED STATE PRIORITY FOR THE 2017-19 BIENNIUM: DEVELOPING A STRATEGY AND ACTION PLAN FOR A WORLD CLASS PRE-K THROUGH 20 EDUCATIONAL SYSTEM**

As noted above, 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. They propose this initial focus for the Legacy Foundation in conjunction with a complementary recommendation that Legacy Fund earnings or principal endow an ongoing higher education scholarship program described below.

### **Background**

Targeted use of Legacy Fund earnings—together with existing state and other resources as part of a broader strategy for educational excellence—can help our state build a global top-tier education system, from pre-kindergarten through K-12, vocational-technical, undergraduate and graduate programs. This will help North Dakotans realize their full potential in our rapidly changing and diversifying economy that demands increasing skills and education. Furthermore, comprehensive excellence in education will serve as a magnet to attract experienced and skilled people and their families to North Dakota, who can help meet our current workforce challenges and enrich our state and communities.

Some U.S. states have deployed resources from their permanent natural resource funds to improve their educational systems significantly. For example, Wyoming draws on permanent funds to support a scholarship program and to endow university faculty positions. On a larger scale, Texas has harnessed its state endowment from oil revenues to help transform its universities into an internationally recognized higher education system that provides opportunity to Texas students, while attracting faculty, students and resources from all over the world.

### **Recommendations**

LFI participants believe that North Dakota policy-makers should learn from and improve upon the examples of other energy-producing states and countries that have capitalized on their resource funds to achieve educational excellence.

Toward that end, they specifically recommend that state policy-makers task the proposed Legacy Foundation with coordinating the development of a comprehensive and system-wide strategy for fostering educational excellence that includes three major components:

- 1) an integrated pre-K through 20 approach (early childhood education through graduate and professional programs);
- 2) improving and building institutions; and
- 3) targeted efforts to increase affordability of, access to and completion of vocational-technical, academic and professional programs.

The Legacy Foundation could convene key education stakeholders in the state to coordinate development of this strategy for how Legacy Fund resources, in conjunction with the Common Schools Trust Fund, other

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state special funds and other public and private resources, could help build a world class pre-K through 20 system and report back to legislators and other state policy-makers.

In addition to strategic investments in higher education, LFI participants believe that expanding access to early childhood education represents an urgent need in our state, and that we must strengthen our K-12 system to improve the achievement and preparedness of students entering vocational-technical and academic programs.

## **PROPOSED ONGOING INITIATIVES TO BE SUPPORTED BY LEGACY FUND RESOURCES**

In addition to the Legacy Foundation focusing on a major priority of the state each biennium at the Governor and Legislature's direction, LFI participants propose the following ongoing initiatives for consideration by state policy-makers in order to harness the portion of Legacy Fund earnings not reinvested to the benefit of citizens today and far into the future.

### **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 outlined above, LFI participants encourage state legislators to continue exploring how Legacy Fund resources could be utilized to endow a higher education scholarship program.

#### **Background on Scholarship Discussions in the Legislature**

Education represents the one policy area where legislators have already begun active consideration of options for utilizing Legacy Fund resources. During the 2013 North Dakota legislative session, two ideas were proposed to dedicate a portion of Legacy Fund dollars—one using earnings and the other principal of the Fund—to a new higher education scholarship fund. Each was introduced as a resolution, which if passed by the legislature, would have placed a constitutional measure on a future ballot. These scholarship ideas did not pass the legislature.

#### **Recommendations**

LFI participants support legislators' efforts to endow a higher education scholarship program with Legacy Fund resources (either through appropriation of earnings or dedication of a portion of Fund principal), especially given the high and growing level of student indebtedness in North Dakota. However, they also urge state policy-makers to craft a scholarship program as one component of the larger educational strategy described above and to address barriers beyond affordability, including access and degree/certificate completion.

In addition, LFI participants encourage legislators to provide support for North Dakotans to study out of state and for out of state students to attend North Dakota institutions. They believe that Legacy Fund resources should be used to expand and diversify the skills base and experience of our state's workforce. Toward that end, North Dakota students who seek education or training out of state, but commit to return to work in our state for a given period of time, should be eligible for tuition or other support. Similarly,

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providing tuition support to qualified out-of-state students who agree to work in North Dakota after graduation can help expand our state's talent pool, spur economic development and innovation, and strengthen our communities.

**Initiative #2: Fostering Innovation that Builds a Bridge to the Future**

North Dakotans today are blessed with an extraordinary bounty of oil and gas resources that most states and even countries will never share and that is available to us for a limited time. We have an obligation 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.

Therefore, LFI participants recommend that a "Genius Initiative" be established under the auspices of the proposed North Dakota Legacy Foundation to foster transformative private and public sector innovation that leverages our current success in energy and agriculture to expand and accelerate economic diversification and to 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.

**Genius Initiative Objectives**

LFI participants suggest the following objectives to guide the Genius Initiative:

- Move our state's economy up the value chain and down the supply chain in energy, agriculture, technology, manufacturing and other sectors to avoid oil and agricultural boom-and-bust cycles of the past;
- Position our state as a Silicon Valley of renewable and alternative energy innovation and commercialization;
- Extend production of oil and coal-based energy over generations, while offsetting emissions and environmental impacts through carbon capture and enhanced oil recovery;
- Foster asset-building, self-sufficiency and permanent elimination of poverty among low-income children, families, and senior citizens;
- Enhance communities, stewardship of natural resources and iconic places, and our history, arts and culture to attract creative and skilled people to live, work and innovate in North Dakota; and
- Reduce long-term cost and improve effectiveness of government services and operations.

**Targeted Support for Innovation**

Under executive and legislative branch oversight, the Legacy Foundation would, through the Genius Initiative:

- Provide risk capital for critical private, government and nonprofit sector innovation that is unlikely to garner adequate support through conventional channels;
- Enable development and demonstration of economic, social and environmental solutions that, if successful, can be scaled up and implemented by the private and public sectors; and
- Attract further investment from government, private sector and philanthropic sources to increase impact.



**Role of the Legacy Foundation in Administering the Genius Initiative**

The Governor and Legislature would work with the Legacy Foundation board of directors to identify priorities for innovation and then task the Foundation with developing a proposed scope of work and program each biennium for legislative review. With approval of the program and required appropriations by the Legislature, the Legacy Foundation would issue a Genius Initiative RFP(s) to which public, private and nonprofit institutions would be eligible to respond, with a preference for consortia of collaborating institutions. The successful institutions or consortia would then implement the funded activities under the oversight of the Foundation's board and staff and with periodic progress reports to the Governor and Legislature.

In those cases where feasibility and demonstration efforts supported by the Genius Initiative prove successful, regular public and private sector funds would be used to scale up broader implementation, rather than drawing further on Legacy Fund earnings.

**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.

However, 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.

LFI participants believe that immediate needs for traditional infrastructure investment are urgent and must be addressed now by the Legislature with current resources drawn from state special funds other than the Legacy Fund. Depending on the type of infrastructure in question, options include the Oil and Gas Impact Grant Fund, Resources Trust Fund, Strategic Investment and Improvement Fund, and Common Schools Trust Fund. Specifically, the Legislature should consider statutory or other changes needed to facilitate the flexible and responsible use of these funds to respond to the state's broad range of infrastructure needs, rather than drawing on proceeds from the Legacy Fund in the near term.

In addition, community leaders participating in meetings hosted by the Legacy Fund Initiative recommended that the 25 percent of all revenues in excess of \$300 million that currently flows from the Strategic Investments and Improvements Fund into the Legacy Fund should, instead, be allocated and spent on critical infrastructure needs in the near to medium term.

**Considerations and Criteria for Investing Legacy Fund Earnings in Infrastructure**

Based on their own extensive deliberations and on input from North Dakota citizens, LFI participants recommend the following considerations and criteria to guide potential investment of Legacy Fund earnings in infrastructure:



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

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- Limit any infrastructure investment role to utilizing a portion of annual Legacy Fund earnings, avoiding investment of principal;
- Supplement existing private and public capital by targeting critical needs and opportunities that the private market and existing government programs cannot adequately address;
- Realize benefits for North Dakotans today, while investing, instead of spending, Legacy Fund proceeds in order to sustain principal or even grow the Fund for the future (or potentially establish a separate infrastructure fund(s));
- Engage genuinely long-term through investments up to 40 years in duration, for assets that last up to 50 years or more; and
- Focus on extra-ordinary opportunities that generate economic, social and environmental benefits and enhance quality of life for North Dakotans well into the future.

### Potential Infrastructure Applications for Legacy Fund Investment

LFI participants encourage state policy-makers to think broadly about the types of infrastructure that might be eligible for investment of Legacy Fund earnings. For example, pressing workforce development needs and overall livability concerns in North Dakota are expanding our understanding of critical community infrastructure today to include both affordable housing and child care facilities.

Future infrastructure priorities will look very different than the overwhelming needs of today's energy boom. Therefore, LFI participants emphasize that we cannot and should not decide today what all future priorities for Legacy Fund infrastructure investment ought to be. In that spirit, they offer the following examples of potential infrastructure investment as illustrative of opportunities that Legacy Fund earnings might address (no order of priority):

- Accessible and affordable statewide high-speed broadband capacity;
- CO<sub>2</sub> pipelines to help sustain and extend oil production over decades, while reducing the environmental impact of our energy sector;
- Intra-state natural gas pipeline capacity to provide a market for Bakken gas, while enabling value-added economic development such as fertilizer production and addressing problems such as the recent propane shortage;
- Essential regional water supply for municipal, rural and industrial purposes;
- Permanent community flood protection across the state;
- Real estate development that meets critical local demand for affordable housing and child care facilities; and
- Alternative transportation systems to serve evolving state and community needs.

### Recommendations for Oversight and Implementation

Accountability and transparency in the investment of Legacy Fund earnings in infrastructure will be critical. The Legislature could designate the proposed North Dakota Legacy Foundation to administer the future investment of Legacy Fund earnings in infrastructure projects. The Foundation could coordinate project planning, review, and implementation with state agencies, federal and local governments, and relevant private entities. Alternatively, given the pace of development and the scale and duration of long-term infrastructure plans in our state, the Legislature may wish to consider establishing a broader infrastructure authority to ensure a coordinated and integrated approach, including oversight of any investments of Legacy Fund earnings in infrastructure projects.

In addition, state policy-makers should explore new and flexible models for implementing infrastructure projects that utilize Legacy Fund earnings. For example, LFI participants have discussed how community development block grants could serve as a model for disbursing resources to local governments to finance

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community infrastructure revolving loan funds. Such an approach would ensure that Legacy Fund earnings deliver infrastructure benefits to North Dakota communities in perpetuity.

## CONCLUSION

Through wise management, North Dakota's Legacy Fund has the potential to truly provide a permanent, sustainable resource for future generations that fosters self-sufficiency, creates opportunity and enhances quality of life for all citizens.

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. Turning this potential into reality will require citizens and their elected representatives to sustain a commitment over time.

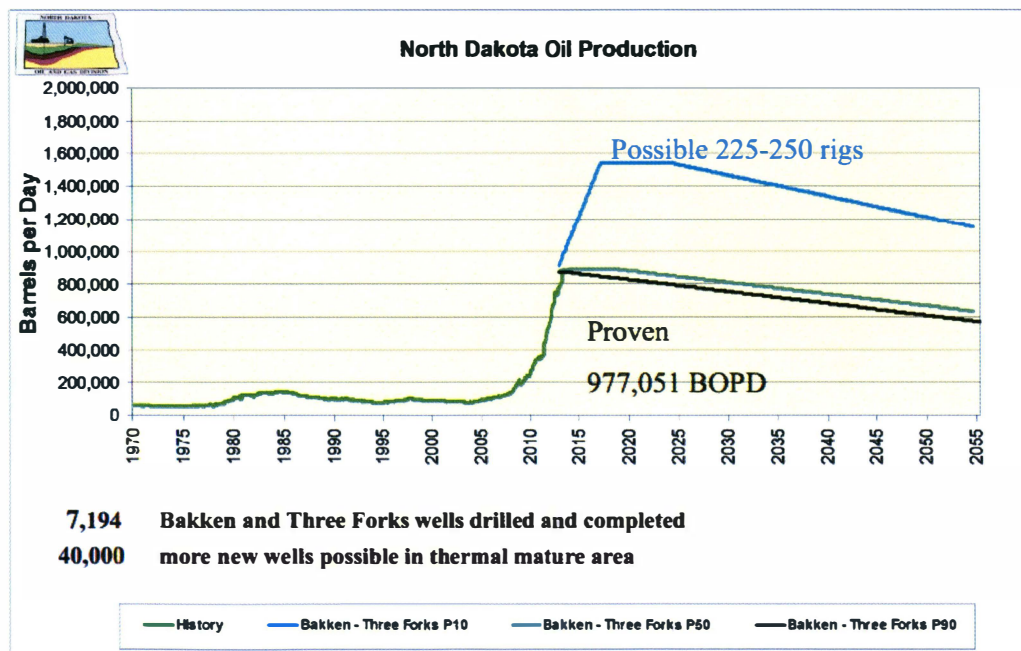
The Legacy Fund can serve as an engine of opportunity and quality of life for North Dakotans today and a sustainable resource for future generations.

## APPENDIX A

### Oil Production

To estimate future growth of the Legacy Fund, projections for North Dakota oil production were used to calculate potential production and extraction tax revenue. At the time of this analysis, the Department of Mineral Resources (DMR) has published three projections for oil production: a conservative projection based on historical production (*Proven*), a minimum projection depicting a linear decline in production from current levels (*P90*), and a moderately aggressive production growth scenario (*P10*). In both the *Proven* and *P90* scenarios, oil production never exceeds about 930 thousand barrels per day and only diminishes from 2014 and on. In reality, oil production actually exceeded one million barrels per day in 2014. Therefore, the *P10* scenario was used for this analysis, with oil production reaching a peak of about 1.7 million barrels per day between the 2017 and 2025. While the *P10* scenario was originally meant as an aggressive projection by DMR, it is possible that this is still a somewhat conservative estimate, especially since actual 2014 production slightly exceeds the levels projected by the *P10* scenario, and more recent estimates even put peak production at around 2 million barrels per day.

**Figure 1.1 Department of Mineral Resources Oil Production Scenarios**



Source:

<https://www.dmr.nd.gov/oilgas/presentations/ActivityUpdate2014-06-11NCSLBismarck.pdf>

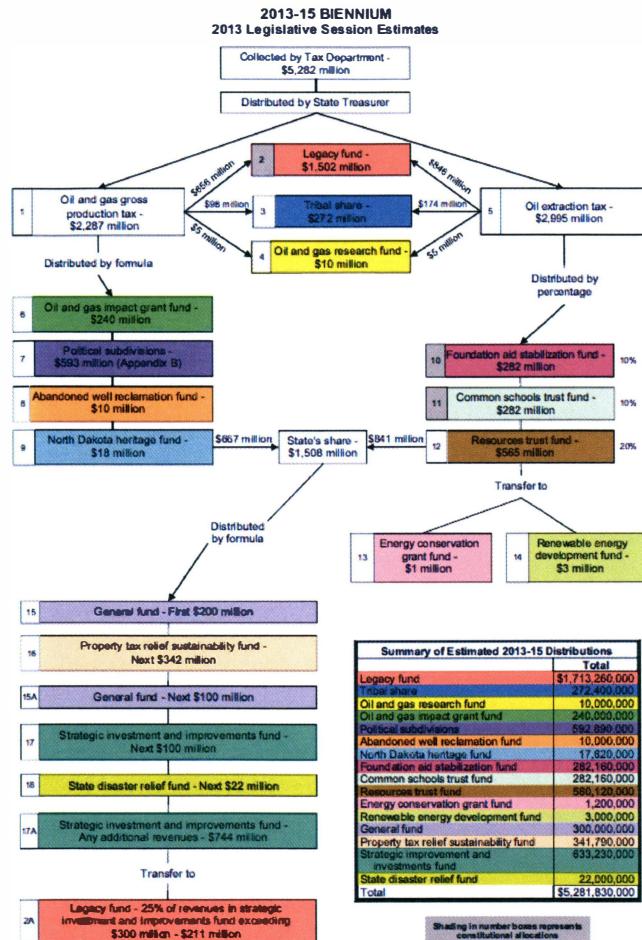
### Revenue Projection

By combining projections for oil production with extraction and production tax revenue estimates for 2014 and 2015, proportional revenues for future years were calculated. Thirty percent of this revenue is allocated annually to the Legacy Fund as part of the initial Fund contribution, while the remainder goes to other programs. As detailed in Figure 1.2, as the remainder of production and extraction tax revenue is allocated to other programs and funds in the North Dakota's Biennium budget, any remaining funds after

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

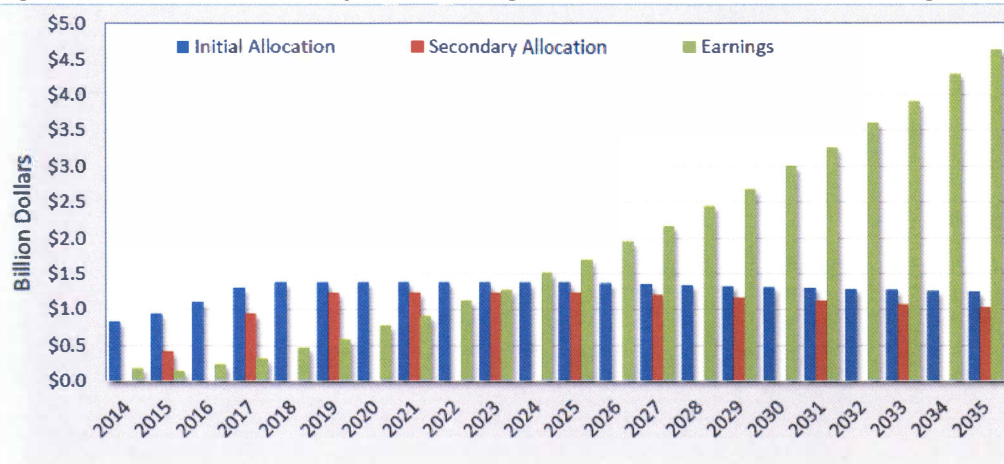
all other funds' needs are met are then transferred to the Legacy Fund (box 2A in Figure 1.2). For this analysis, 2013-2015 Biennium budget allocations to the Legacy Fund, done annually for the initial allocation and biennially for the final remaining funds transfer, were used as a basis for calculating increases in future Legacy Fund contributions in proportion to growth in oil production according to the P10 projection discussed above.

**Figure 1.2**



For consistency and for the purposes of projection, this analysis held all other values constant so that contribution limits in other funds and programs remained the same. In reality, budget decisions, economic factors and political choices may result in modifications to many of the funds that receive production and tax revenues between the Legacy Fund's initial and secondary revenue allocations. However, as shown in Figure 1.3, while the secondary revenue allocation does provide a significant contribution to the Fund and would be sensitive to such changes, in the long run earnings represent the most significant factor in Fund growth (but only in scenarios in which earnings are retained and contributed back into the principal).



**Figure 1.3 Initial, secondary and earnings contributions under an earnings retained scenario****Fund management assumptions and scenarios**

Under the Constitution, earnings from the Legacy Fund will be transferred to the state general fund, beginning in 2017. Legislators will have the option to spend those earnings or to reinvest all or a portion of those earnings back into the Fund to grow the principal. A number of scenarios for the management of the Legacy Fund principal and earnings were considered by Legacy Fund Initiative participants. Among these were:

**Scenario 1: Spend All Earnings** As allowed under current law, the Legislature may spend 100 percent of annual earnings starting in 2017.

**Scenario 2: Reinvest All Earnings :**

The Legislature would reinvest 100 percent of earnings back into the Legacy Fund.

**Scenario 3: Spend 25—Reinvest 75**

The Legislature would spend 25 percent of annual earnings starting in 2017, while reinvesting the remaining 75 percent back into the Fund.

**\*Scenario 4: Reinvest, Replace and Spend (LFI Preferred Scenario)**

The Legislature would spend 25 percent of annual earnings starting in 2017 and reinvest the remainder. Then, once oil revenue starts to decline, the Legislature would continue to spend 25 percent of annual earnings, but use a portion of the remaining 75 percent of earnings to replace diminishing oil and gas revenue, while reinvesting the rest into the Fund.

Scenarios 1 and 2 are meant for illustrative purposes. Scenario 1, or “Spend All Earnings”, shows the minimum amount of growth that the Legacy Fund might see when all annual earnings are spent from 2017 on (as under current law) and the Fund’s principal balance depends solely on oil production revenue. Scenario 2, or “Reinvest All Earnings” provides a maximum ceiling under which all earnings are retained. It is between these two scenarios that Legacy Fund Initiative participants considered other possible scenarios for managing Fund earnings and contributions.

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

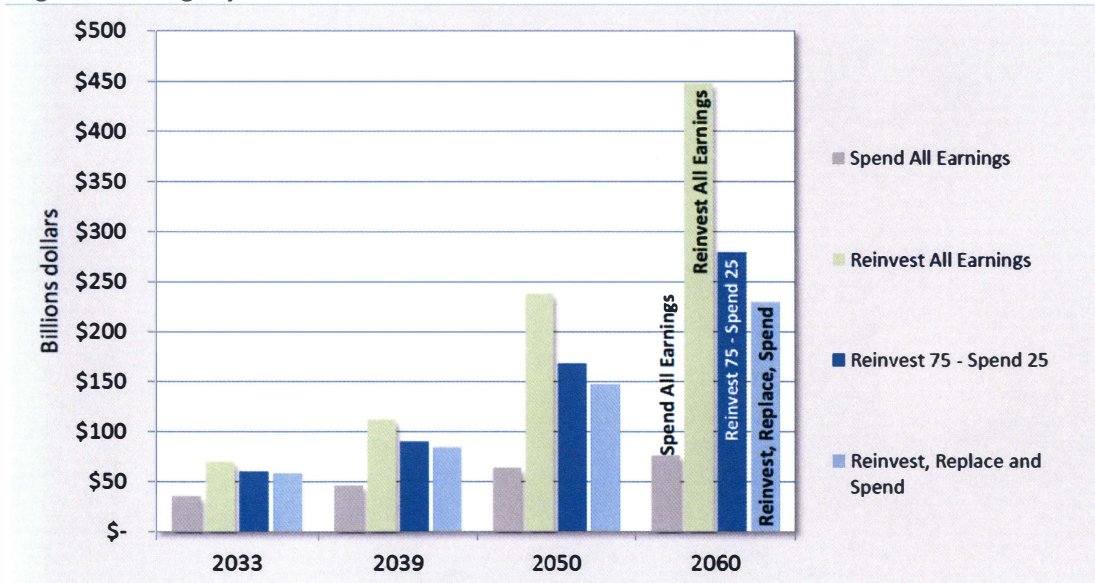
Scenario 3, or “Spend 25-Reinvest 75” provides for a nearer-term allocation of Fund resources by taking one quarter (25 percent) of annual earnings starting in 2017 to spend on other programs and uses, while retaining the remaining 75 percent of earnings for reinvestment. This scenario illustrates that with a modest withdrawal of a portion of earnings, a large revenue stream can be created in the near-term while still preserving long-term growth of the Fund.

Scenario 4, or “Reinvest, Replace and Spend”, represents LFI participants’ preferred scenario. It replicates the same 25 percent annual expenditure of Fund earnings, while also providing additional funding to replace diminishing state oil and gas revenues. At some point after North Dakota has met its maximum oil production potential, production and extraction tax revenue will begin to decline and the Legacy Fund can be used to provide supplemental income to make up the balance. As a result of the additional funding in this scenario, the state will see an effectively constant level of revenue despite declining oil production (see below for more information).

### Projection of Legacy Fund Balance

Projections were calculated for each of the four scenarios according to the methodology detailed above. Annual levels of extraction and production tax revenue, principal balance and earnings were estimated in proportion to oil production projections.

**Figure 1.4 Legacy Fund balance over time under four scenarios**



According to the assumptions used in this analysis, the Legacy Fund will grow to about \$35 billion by 2033 under the Spend All Earnings scenario, and will see modest growth relative to other scenarios to about \$77 billion by 2060. This scenario assumes that all earnings from the Fund will be spent each year (which is allowed as of 2017 under current law), rather than reinvested into the Fund. Thus, Legacy Fund growth under the Spend All Earnings scenario is entirely dependent on oil production and extraction tax revenue rather than on earnings.



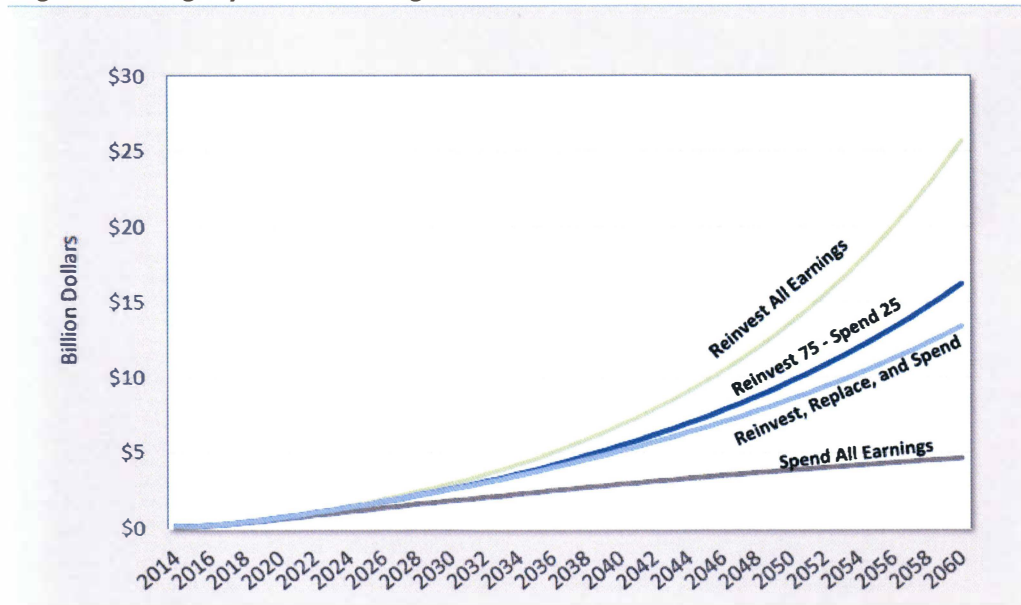
### North Dakota's Legacy Fund: Building a Bridge to the Future

Under the three scenarios in which earnings are either totally or partially retained, the Legacy Fund sees virtually exponential growth over a few decades as earnings are compounded and reinvested into the Fund balance. Under the maximum Reinvest All Earnings scenario, in which all annual earnings are reinvested, the Fund has the potential to grow to almost \$450 billion by 2060. The Legacy Fund also sees great potential for growth in the remaining scenarios in which a portion of earnings are spent: up to \$279 billion in the Spend 25-Reinvest 75 scenario and \$230 billion in the Reinvest, Replace and Spend scenario.

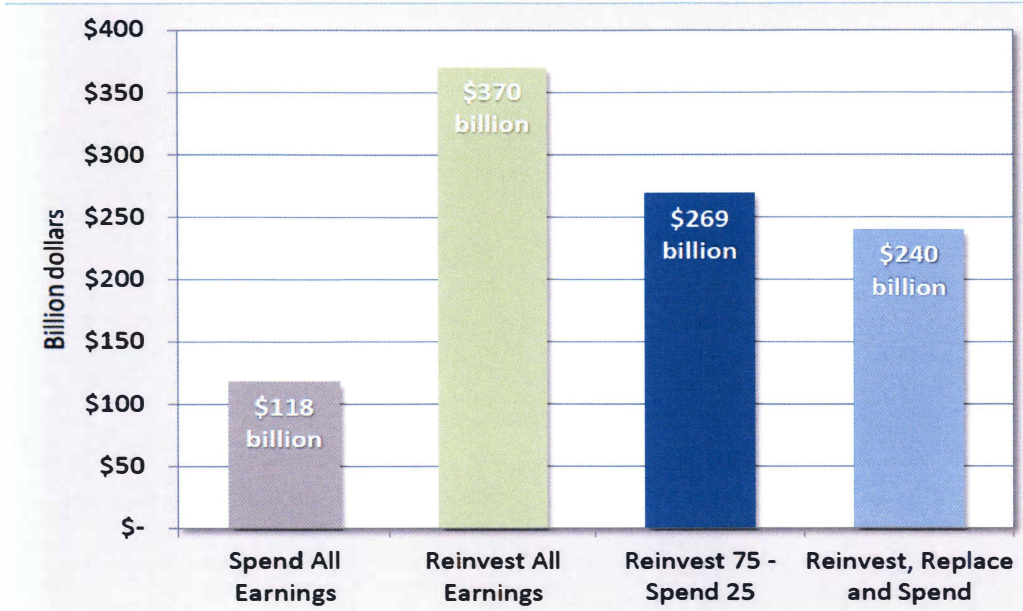
### Annual Earnings

As explained above, the primary driver of growth in the Spend All Earnings scenario is revenue from oil production and extraction tax revenue contributions to the Legacy Fund. Under the three other scenarios, in which earnings are partially or totally retained, earnings become the primary driver of growth and far exceed contributions made by production and extraction tax revenue. By the year 2034, annual earnings in these three scenarios (about \$5 billion) are double those earned in the Spend All Earnings scenario (about \$2.5 billion), and continue to grow at an accelerating rate as earnings are retained and compounded.

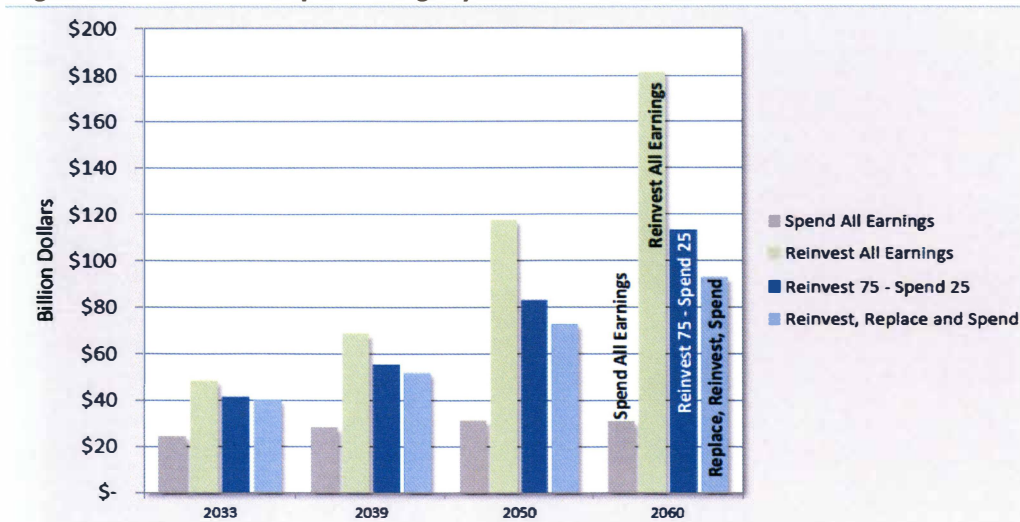
**Figure 1.5 Legacy Fund Earnings under four scenarios**



The difference in annual earnings adds up quickly over a few decades, and by 2060 the resulting sums provides a dramatic contrast between scenarios (see Figure 1.6). Under the Spend All Earnings scenario, where no earnings are reinvested, the Legacy Fund will earn a total of about \$118 billion dollars by 2060. Under the Reinvest All Earnings scenario, however, the Legacy Fund has the potential to earn more than triple that figure, or about \$370 billion dollars in earnings alone. Finally, the two remaining scenarios--Spend 25-Reinvest 75 and Spend, Replace, and Reinvest—earn a total of about \$269 billion and \$240 billion in earnings, respectively. A closer look at these scenarios takes place later in the following pages.

**Figure 1.6 Total earnings by 2060 under four Legacy Fund scenarios****Adjusting for inflation**

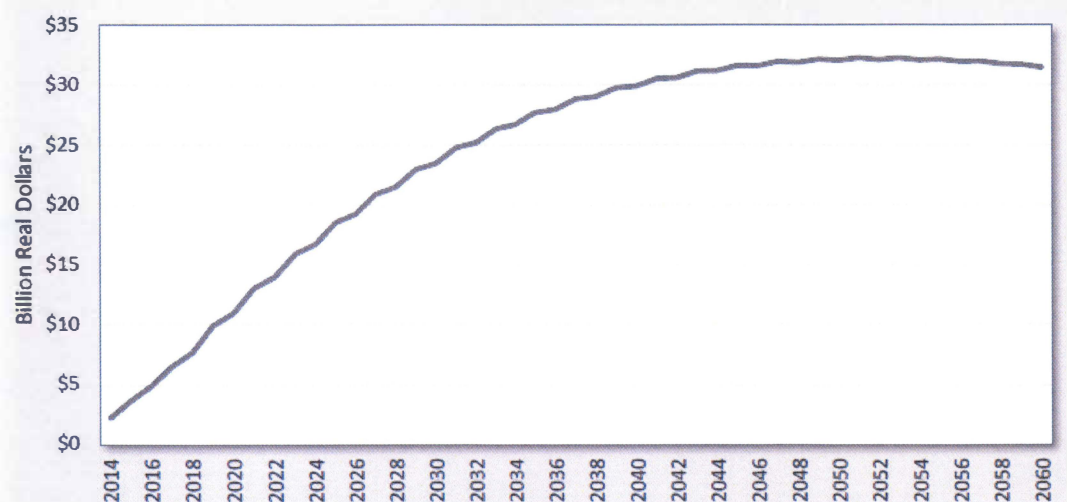
The figures presented in this analysis are meant to report the nominal dollar amounts that the Legacy Fund will achieve and earn as a managed account and do not reflect the potential effects of inflation. To consider the actual purchasing power of the Legacy Fund in the decades ahead, an average long term inflation rate of 2 percent was assumed and applied to the results of this analysis. Figure 1.7 presents the results from Figure 1.4 after being adjusted for inflation.

**Figure 1.7 Inflation adjusted Legacy Fund balance under four scenarios**

While the adjustment does reduce the long term projection for growth when diminished purchasing power under inflation is considered, the contrast between scenarios remains just as significant. By 2033, the Legacy Fund under the Reinvest All Earnings scenario (\$49 billion) is almost double the value of the Fund under the Spend All Earnings scenario (\$25 billion). By 2060, this difference becomes even starker as the Spend All Earnings scenario sees relatively minimal growth (\$31 billion) while the Reinvest All Earnings scenario grows to \$181 billion. Meanwhile, the remaining two scenarios grow to \$113 billion under the Spend 25-Reinvest 75 scenario and \$93 billion in the Spend, Replace, and Reinvest scenario.

Adjusting for inflation reveals an important factor in determining how to manage the Legacy Fund. While inflation may diminish the purchasing power of the Fund, in most scenarios the annual compounding of earnings will exceed the effect of inflation to achieve very significant growth. However, in the Spend All Earnings scenario, in which all earnings are spent and not reinvested in the Fund, inflation may have a detrimental effect. As shown in Figure 1.8, as Fund growth is solely dependent on diminishing oil tax revenues, inflation may actually reduce purchasing power significantly enough to negate any growth, effectively *shrinking* the Fund over time, if no earnings are reinvested.

**Figure 1.8 Legacy Fund balance adjusted for 2 percent annual inflation under Spend All Earnings Scenario**



### Revenue Stream from Spending 25 Percent of Annual Earnings

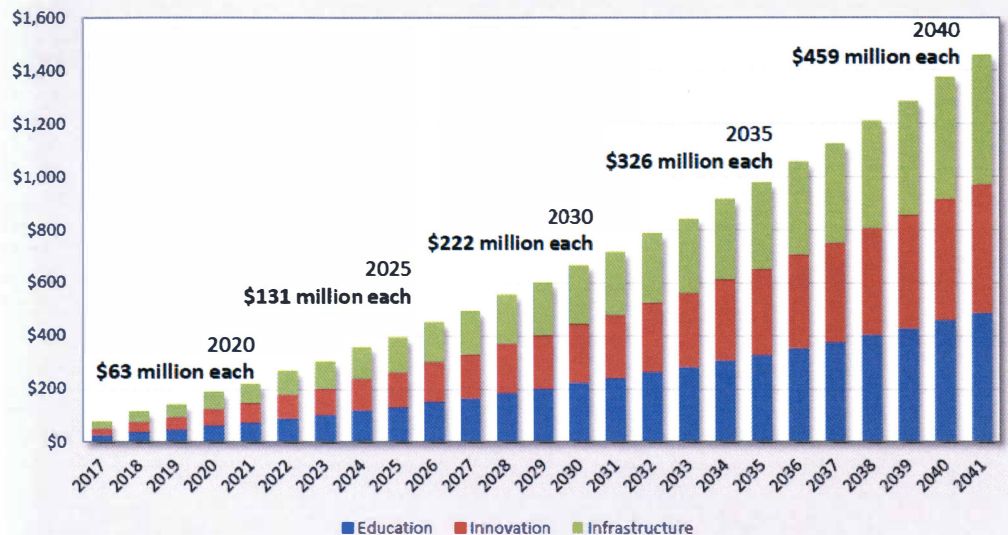
Scenario 3, or Spend 25-Reinvest 75, is meant to estimate the amount of funds available and the long term growth of the Legacy Fund, if 25 percent of annual earnings were used starting in 2017. As shown above, this scenario does produce significant growth, resulting in a fund balance of about \$60 billion by 2033, \$168 billion by 2050, and \$279 billion by 2060. By reinvesting 75 percent of earnings each year, the Fund is still able to achieve significant growth, while also providing a generous stream of state revenue.

To illustrate how much funding just 25 percent of annual earnings would provide, this analysis assumed the earnings would be split equally for three different purposes such as education, an innovation grant

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program, and long-term infrastructure investment. Figure 1.9 presents the growth of these three programs over time. By 2020, the Legacy Fund could provide about \$63 million annually to each of the three purposes, or about \$189 million total. This could grow to \$131 million each in 2025 and to \$222 million each in 2030. By 2040, funding could reach \$459 million annually to each of the three purposes.

**Figure 1.9 Annual contributions to three purposes from 25 percent of annual earnings**



The Legacy Fund clearly has the potential to contribute very significant amounts to state revenue with just a portion of its projected annual earnings. Not all of the revenue would necessarily have to be spent each year, and Legacy Fund Initiative participants were interested in estimating how a potential program fund might grow, if an annual contribution of earnings from the Legacy Fund were saved for a number of years. Three management scenarios for a theoretical infrastructure investment fund were used to illustrate this concept:

- In the first management scenario (1. Annual Spending), funds would be spent annually on applicable infrastructure projects.
- In the second scenario (2. Savings), funds would not need to be spent annually and could be carried over and saved over time.
- A third scenario (3. Reinvestment) would not only save the funds, but also reinvest them to grow the principal and allow for very significant infrastructure projects in the future.

Figure 1.10 shows the resulting amount of funds available to an infrastructure investment program depending on three scenarios for managing Legacy Fund contributions: 1. Annual spending of the funds and not saving, 2. Saving the funds, and 3. Saving and reinvesting the funds to yield earnings similar to the Legacy Fund (6.1 percent per year).

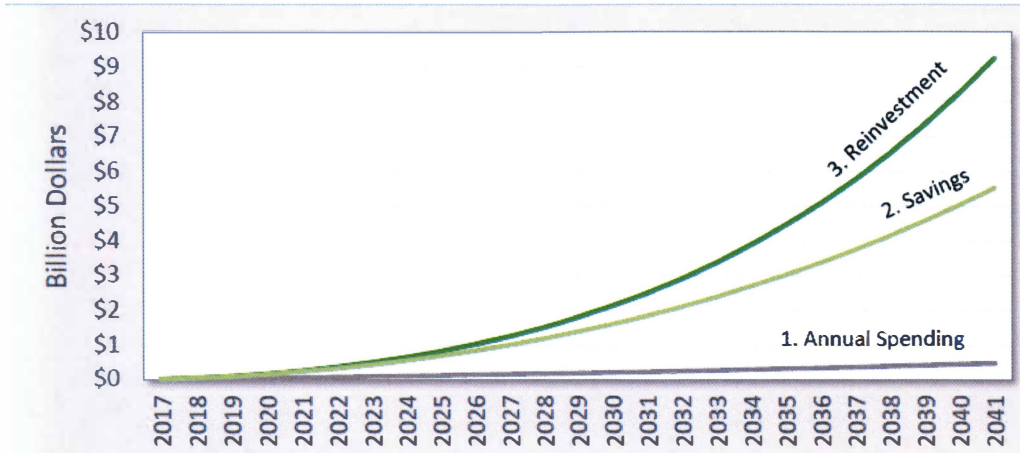
After 25 years, the contrast is apparent. Under the scenario in which funds are spent annually rather than saved, the infrastructure fund would have \$459 million available to it each year. Under the savings only scenario, the fund would have a total of \$5.5 billion available. Finally, if the funding were saved and



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managed to earn a return on investment, the infrastructure fund could grow to a potential \$9.3 billion dollars.

**Figure 1.10 Management scenarios for an infrastructure fund**

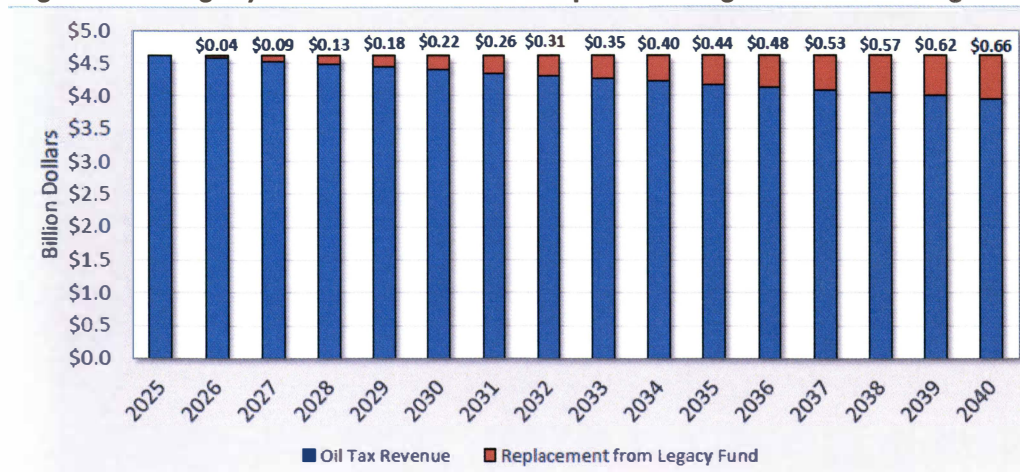


#### Preferred Scenario: Reinvest, Replace and Spend

The oil projections used for this scenario predict that peak production will occur between 2017 and 2025 (see figure 1.1), after which oil production will begin a slow but steady decline through the 2050s and probably further. With diminishing oil production comes falling tax revenue, but LFI participants' preferred scenario in this analysis illustrates a way to provide constant levels of revenue after production has peaked and begins to fall.

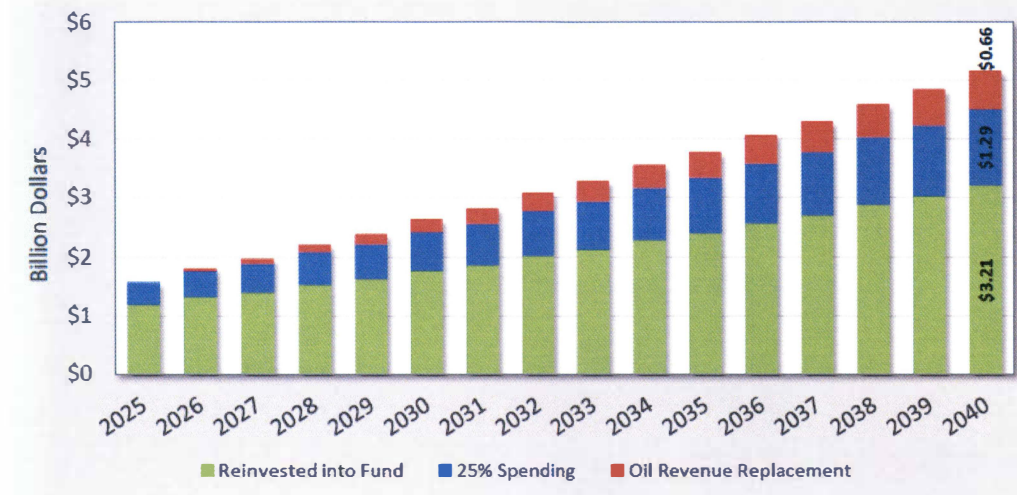
This Reinvest, Replace and Spend scenario features the same expenditure of 25 percent of annual earnings from the Fund as the previous scenario. This will result in similar levels of available funding as seen in figures 1.9 and 1.10. In addition, Fund earnings replace the amount of state revenue lost once oil production peaks and begins to fall. Figure 1.11 demonstrates the "wedge" of increasing levels of revenue to be replaced after projected oil production begins to decline in 2026.

**Figure 1.11 Legacy Fund contributions to replace "wedge" of diminishing oil tax revenue**



According to the P10 projection, the gradual rate of decline means that amount the Legacy Fund will need to replace is relatively small compared to the Fund's earnings. In 2026, under the preferred Spend, Replace, and Reinvest scenario, the Legacy Fund will need to make up for a projected \$44 million decline in oil tax revenue while also expending \$452 million of Fund earnings. Because the Fund is also projected to generate \$1.8 billion in earnings that same year, however, plenty of scope remains to continue growing the principal the Legacy Fund. Figure 1.12 compares the amounts of each use of annual Legacy Fund's earnings: reinvestment into the Fund, expenditure for specific purposes, and replacement of declining state oil revenue.

**Figure 1.12 Allocation of Legacy Fund earnings by purpose under preferred Reinvest, Replace and Spend**



By 2040, \$660 million dollars annually will be needed to make up for lost oil revenue after 15 years of decline. Meanwhile, \$1.29 billion dollars will be allocated to specific purposes, and \$3.21 billion in earnings will be retained and reinvested into the Fund. As Figure 1.12 shows, the Legacy Fund will still see sustainable growth, if moderate levels of annual earnings expenditure (25 percent proposed under preferred scenario) take place after 2017 and additional Fund revenue is used to make up the loss of revenue in the decades after oil production in North Dakota begins to decline.

## Conclusion

This analysis was meant to illustrate a variety of management options for North Dakota's Legacy Fund. For consistency, these projections and scenarios hold many assumptions constant. Therefore, they do not reflect exact reality and cannot predict future political decisions that will impact budget amounts or revenue sources, especially as the projections extend out many years. A good methodology for analytical projection in an uncertain world is to determine those factors that can be decided by institutions and individuals making decisions, and to observe the effects of those decisions with all other factors held constant. Thus, from this analysis, the state of North Dakota clearly faces important decisions in how to manage the Legacy Fund in coming years. The results of the projections discussed in this report illustrate the dramatic differences between scenarios in which most or all of Legacy Fund earnings are spent early on, and scenarios in which a significant portion of earnings are saved for future growth. The analysis described in the previous pages amply demonstrates that allowing room and time for Fund growth in early years will result in a manifold payback in the decades to come.



## APPENDIX B

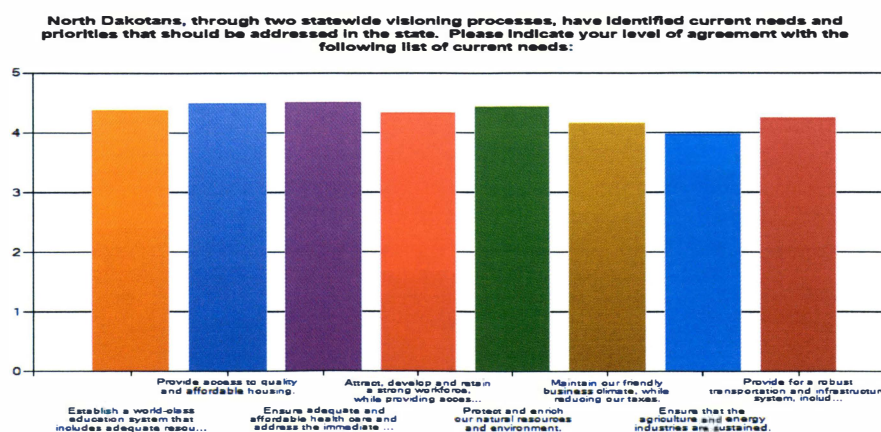
## Community Meeting and Online Survey Input Summary

The Legacy Fund Initiative conducted public input outreach in May and June 2014 to gather input from North Dakotans on the draft vision, principles, goals and draft recommendations. An online survey was conducted in May across North Dakota's tribal college campuses. In June, four community input forums were held in Watford City, Velva, Grand Forks and Lisbon. An additional community input forum was held in Fargo in August. Approximately 180 citizens participated in the combined outreach activities of the Legacy Fund Initiative.

In the online survey, respondents were asked to provide their level of support and concurrence with the following list of current statewide needs compiled from the work and recommendations of the North Dakota Department of Commerce's 2020 and Beyond and USDA Rural Development North Dakota 2.0 statewide visioning processes:

- Establish a world-class pre-K through 12 and higher education system that includes adequate resources for early childhood education.
- Provide access to quality and affordable housing for all North Dakotans.
- Ensure adequate and affordable health care for all North Dakotans and address the immediate needs of our rural health care systems.
- Attract, develop and retain a strong workforce, while providing access to quality child care.
- Protect and enrich North Dakota's natural resources and environment to provide continued recreation and tourism opportunities.
- Maintain North Dakota's friendly business climate, while reducing North Dakotans' tax burden.
- Ensure that North Dakota's primary industries – agriculture and energy – are sustained for the long-term.
- Provide for a robust, long-term statewide transportation and infrastructure system, including water projects and flood control.
- Identification of current uses for the Legacy Fund to demonstrate near-term benefits and maintain public support for safeguarding the Fund for future generations.

Online survey respondents strongly agreed with all eight current needs identified:



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In addition, online survey respondents were asked to share their opinion on the use of Legacy Fund earnings that will be annually transferred into North Dakota's general fund beginning in 2017:

- 51 percent of respondents felt that Legacy Fund earnings should be utilized to support bold initiatives.
- 28 percent of respondents felt that Legacy Fund earnings should be spent on current state needs.
- 21 percent of respondents felt that Legacy Fund earnings should be reinvested back into the Legacy Fund.

Nearly 77 percent of survey respondents indicated that they supported the state addressing current needs with existing state resources before tapping into Legacy Fund earnings or principal.

Project stakeholders and staff facilitated each of the community forums and provided a background presentation on the project, including a snapshot of oil and gas production, the state budget, projections on growth of the Legacy Fund and the group's work to date.

Following the presentation, community input participants were asked: ***"Looking back twenty-five years from now, what would you like the Legacy Fund to have accomplished thanks to its wise management and use?"***

We received input in the following areas:

#### **Accountability & Transparency**

- There will need to be some strict standards for use of the Legacy Fund, otherwise ND may simply rely on the Fund to keep reducing taxes and still have poor infrastructure, underpaid teachers and an under-performing educational system.
- Transparency and accountability principles are needed across state government, in addition to the Legacy Fund.
- The governance recommendations provide a solid "foundation" to build public confidence in the management of the Legacy Fund.
- Affordable Housing/Child Care/Poverty Reduction/Trafficking.
- Affordable and sustainable housing is available for all North Dakotans.
- ND has a strong structure in place that helps eradicate human trafficking. ND has become a leader in anti-trafficking policy and enforcement.
- We have significantly reduced the number of hungry and homeless families in North Dakota.
- North Dakota has world-class, affordable child and elder care.

#### **Education**

- We have a world-class education system that is affordable and has a long-term, positive impact on students (pre-K through higher education), with increased quality and established niches for success. Tuition is reduced, and a fund is in place for scholarships.

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

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**Infrastructure & Public Services**

- We have excellent, well-maintained infrastructure and have found productive uses for the infrastructure built to serve oil and gas development. We have a diversification plan in place. Infrastructure includes water, airports, roads, communications, rail, and pipelines and more.
- Infrastructure investments have been made that lead to improvements in people's quality of life (e.g., swimming pools).
- Establish a long-term, low interest, infrastructure fund (either whole or partial projects).
- Self-sustaining emergency responder services (911 centers, law enforcement, fire, EMS) are in place.
- Strong and innovative transportation systems are in place. High speed rail connecting Fargo, Grand Forks, Bismarck, and other population centers is available.

**Natural Resources & Quality of Life**

- North Dakota's natural resources are protected, preserved, and restored. There is a high value placed on preservation and protection with an eye towards tourism, hunting/fishing, and agriculture. Natural resources are accessible to the public for the purpose of increasing quality of life and for hospitality of guests/tourism.
- Strong investments have been made in energy conservation and renewable energy.
- North Dakota is a place where people want to live (quality of living, infrastructure, culture, education, etc.).
- ND (and especially Western ND) is a place where families want to move and stay (e.g., reasonable housing, health care, recreational activities—the full package of amenities that make up quality of life).
- We have more government capacity and services available locally to monitor and safeguard the region's water resources.

**Tax Relief & Direct Payments to Citizens**

- North Dakota is like Alaska and its Permanent Fund and the state makes annual payments to residents from the earnings of the Legacy Fund.
- North Dakota should make resources available to every resident (as Alaska does with its Permanent Fund) but the money should be tied to higher education and training. The money doesn't necessarily have to come from the Legacy Fund.
- The tax burden for our citizens has been greatly reduced.

**Work Force Development/Job Creation/Future Industries**

- Comprehensive affordability is established. Sustained wealth is created, and working North Dakotans can achieve a good living standard that meets basic needs and expenses.
- We have more financial products that make it possible for business start-ups (e.g., becoming a new young farmer). We are helping small businesses thrive, which helps diversify our economy in the process.
- We are investing research and development for other industries so that we are diversifying our industrial base beyond just oil and gas (for if/when that declines).

- North Dakota has an economy that allows us sustained growth in human resources.
- Thousands of high paying jobs are available through the efforts of long-term job creation.
- Rural areas are restored and experiencing robust growth.
- Economic mobility for future residents.

Input forum participants also offered suggestions on additional recommendations that the stakeholder group should consider prior to finalizing their work product.

#### **Additional Recommendation Suggestions**

- Need to incorporate support for **services, not just infrastructure**, especially with respect to **public safety**.
- In terms of the priority initiatives identified for potential near to medium-term expenditure of Legacy Fund earnings, there should be a fourth initiative that focuses on **environment and natural resources**.
- Would like to **increase emphasis on affordability of higher education** for ND students (in-state tuition costs, continued student loan program, and other institutional changes that would keep higher education generally affordable, not just scholarships).
- The 25% of **“overflow” dollars** (over and above the cap of \$300 million for the Strategic Investment & Improvement Fund) should be **made available to impacted communities at reduced interest rates**. This could replace and/or complement what the Bank of North Dakota was originally intended to do (the Bank has, over time, become more risk-averse and focused only on return).
- Spend some of the money on **medical research** (e.g., cancer and Alzheimer's).
- Emphasis should be on places where ND has a **strategic or comparative advantage**.
- ND has a world-class wind and biomass (bioproducts and biochemicals) and could position the state for a **more diversified economy longer-term**.

13.3106.01000

Sixty-third  
Legislative Assembly  
of North Dakota

**SENATE CONCURRENT RESOLUTION NO. 4026**

Introduced by

Senators Grindberg, Lyson, Schneider

Representatives Beadle, Delmore, N. Johnson

- 1 A concurrent resolution to create and enact a new section to article X of the Constitution of  
2 North Dakota, relating to the creation of a legacy scholarship fund; and to amend and reenact  
3 section 26 of article X of the Constitution of North Dakota, relating to the legacy fund.

4 **STATEMENT OF INTENT**

- 5 This measure provides for a transfer of moneys from the legacy fund in order to endow a legacy  
6 scholarship fund that will be available to eligible residents who attend accredited institutions of  
7 higher education in this state.

8 **BE IT RESOLVED BY THE SENATE OF NORTH DAKOTA, THE HOUSE OF**  
9 **REPRESENTATIVES CONCURRING THEREIN:**

- 10 That the following proposed new section to article X and the amendment to section 26 of  
11 article X of the Constitution of North Dakota are agreed to and must be submitted to the  
12 qualified electors of North Dakota at the general election to be held in 2014, in accordance with  
13 section 16 of article IV of the Constitution of North Dakota.

- 14 **SECTION 1. AMENDMENT.** Section 26 of article X of the Constitution of North Dakota is  
15 amended and reenacted as follows:

16 **Section 26.**

- 17 1. Thirty percent of total revenue derived from taxes on oil and gas production or  
18 extraction must be transferred by the state treasurer to a special fund in the state  
19 treasury known as the legacy fund. The legislative assembly may transfer funds from  
20 any source into the legacy fund and such transfers become part of the principal of the  
21 legacy fund.  
22 2. The principal and earnings of the legacy fund may not be expended until after  
23 June 30, 2017, ~~and. Except as provided in section 2 of this resolution,~~ an expenditure  
24 of principal after that date requires a vote of at least two-thirds of the members elected

Sixty-third  
Legislative Assembly

1 to each house of the legislative assembly. Not more than fifteen percent of the  
2 principal of the legacy fund may be expended during a biennium.

3 3. Statutory programs, in existence as a result of legislation enacted through 2009,  
4 providing for impact grants, direct revenue allocations to political subdivisions, and  
5 deposits in the oil and gas research fund must remain in effect but the legislative  
6 assembly may adjust statutory allocations for those purposes.

7 The state investment board shall invest the principal of the North Dakota legacy fund. The state  
8 treasurer shall transfer earnings of the North Dakota legacy fund accruing after June 30, 2017,  
9 to the state general fund at the end of each biennium.

10 **SECTION 2.** A new section to article X of the Constitution of North Dakota is created and  
11 enacted as follows:

12 Notwithstanding the provisions of section 26 of article X, on July 1, 2018, the state treasurer  
13 shall transfer four hundred fifty million dollars of the North Dakota legacy fund into a special  
14 fund in the state treasury known as the legacy scholarship fund. The principal of the legacy  
15 scholarship fund may not be expended and the earnings of the legacy scholarship fund may be  
16 expended by the legislative assembly only for the purpose of granting scholarships to eligible  
17 residents of this state who meet academic standards and other criteria established by law and  
18 who attend accredited institutions of higher education in this state.