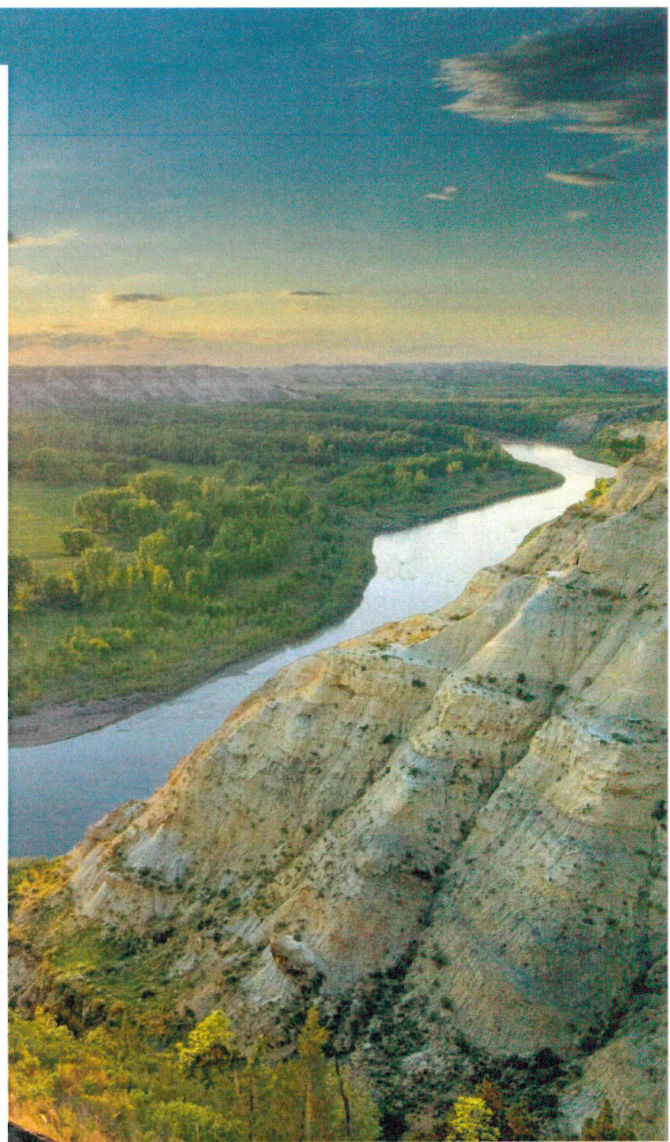


HOUSE APPROPRIATIONS COMMITTEE SB 2013

March 5, 2021

ND Department of Trust Lands' Testimony
Commissioner Jodi Smith



NORTH
Dakota | Trust Lands
Be Legendary.™

Testimony of Commissioner Jodi Smith

Chairman Delzer and members of the House Appropriations Committee, I am Jodi Smith, the Commissioner and Secretary for the Board of University and School Lands (Board). I am here to testify regarding the Department of Trust Lands' (Department) total special funds appropriation found in Senate Bill 2013.

1. CITE THE NORTH DAKOTA CENTURY CODE CHAPTERS ASSOCIATED WITH THE AGENCY AND LIST ITS MAJOR STATUTORY RESPONSIBILITIES.

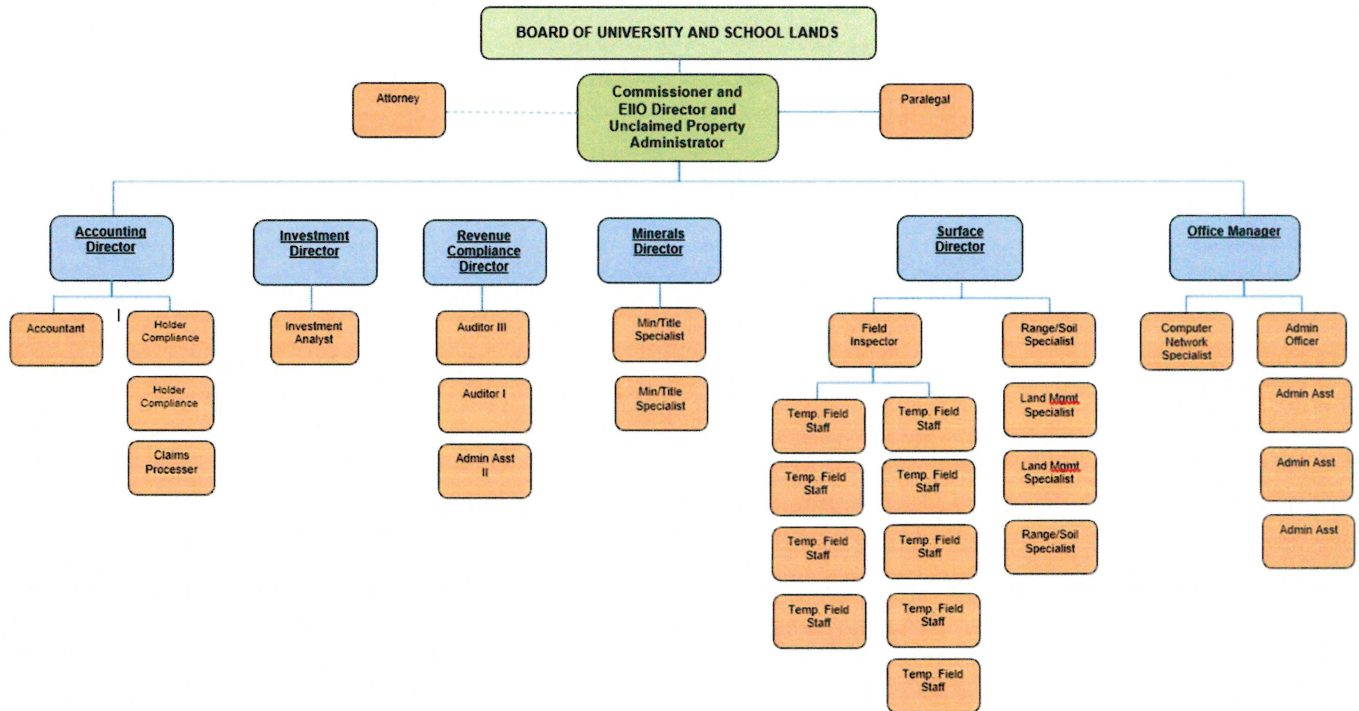
ND Constitution Articles IX and X, Section 21; North Dakota Century Code Chapters 15-01 through 15-09, 15-68, 38-09, 38-11, 47-30.1, 57-62, 61-33, 61-33.1, and Sections 15.1-36-02, 48-10-02 and 57-02.3-05.

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

The Department is the administrative arm of the Board, serving under the direction and authority of the Board. The Board is comprised of the Governor, Secretary of State, Attorney General, State Treasurer, and Superintendent of Public Instruction. The Department's primary responsibility is managing the Common Schools Trust Fund (CSTF) and 12 additional permanent educational trust funds. The beneficiaries of the trust funds include local school districts, various colleges and universities, and other institutions in North Dakota. The Department manages four additional funds: the Strategic Investment and Improvements Fund (SIIF), the Coal Development Trust Fund, the Capitol Building Fund, the Indian Cultural Education Trust, and the Theodore Roosevelt Presidential Library and Museum Endowment Fund.

The Department also administers the responsibilities outlined in the Uniform Unclaimed Property Act, N.D.C.C. ch. 47-30.1. In this role the Department collects "unclaimed property" (uncashed checks, unused bank accounts, etc.), and processes owners' claims. This property is held in permanent trust for owners to claim, with the revenue from the investment of the property benefiting the CSTF.

Additionally, the Department operates the Energy Infrastructure and Impact Office (EIIO), which provides financial support to political subdivisions that are affected by energy development. Assistance is provided through both the oil and gas impact grant program and the coal impact loan program. The EIIO also distributes energy and flood grants carried over from prior biennia.



Starting in mid-March 2020, the Department had all but three team members working from home until the first week in May. Currently, there are four team members still working remotely. The Department will have 100% of team members working in the office by the end of the biennium.

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

Eide Bailly CPAs and Business Advisors completed its review of the financial statements of the Department for the year ended June 30, 2020 and provided an opinion on the fair presentation of the financial statements. The draft report identified no audit findings or recommendations.

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

GOALS

CUSTOMER SERVICE



- Digital Transformation
- Outreach to Increase Access
- Effective Stakeholder Relationships
- Optimal Staffing

MISSION INTEGRATION



- Digital Transformation
- Eliminate 60% requirement in EIO statute
- Outreach to Increase Access
- Effective Stakeholder Relationships

ENHANCE MANAGEMENT OF ASSETS



- Digital Transformation
- Enhanced Field Inspections
- Real Estate Development
- Effective Stakeholder Relationships

Accomplishments

- Implemented Administrative Rules.
- Over 44% of the oil and gas wells operating in North Dakota contain a mineral asset managed in part by the Board.
- The Unclaimed Property Division returned \$7.3 million to owners during the 2017-2019 biennium by processing 8,807 claims. Additionally, the Unclaimed Property Division processed 5,365 holder reports totaling \$27,239,906.
- Implemented a new Unclaimed Property system on April 29, 2019, which resulted in an 55% efficiency increase in claims issued.
- Implemented a new Financial Management and Accounting system on July 1, 2020.
- Upgraded Revenue Compliance software in the fall of 2020.
- Will implement new Investments Management system in fall/winter 2020.
- Completed the acreage adjustment survey and began implementing acreage adjustments.

Challenges

The Board also manages state-owned minerals and the oil, gas, and related hydrocarbons within the beds of the State's navigable waters (sovereign minerals). On behalf of the State, the Board oversees the SIIF which receives the revenues from sovereign minerals. During the Sixty-fifth Legislative Assembly, SB 2134 was passed directing the Department of Mineral Resources to conduct a study which would determine the Ordinary High Water Mark (OHWM) along the Missouri River, for approximately 83 river miles, from New Town to several miles upstream of Williston.

Senate Bill 2211 of the Sixty-sixth Legislative Assembly amended N.D.C.C. ch. 61-33.1 relating to the ownership of mineral rights of land subject to inundation by Pick-Sloan Missouri basin project dams. Under N.D.C.C. § 61-33.1-03(8), the Board contracted with Kadrmas, Lee & Jackson, Inc. (KLJ) “to analyze the final review findings and determine the acreage on a quarter-quarter basis or government lot basis above and below the [Historical OHWM] as delineated by the final review findings of the industrial commission.” The contract’s scope of work concluded twelve months from the date of execution, May 30, 2019, at a total cost of \$1,088,635. Upon the Board’s adoption of the Acreage Adjustment Survey as prepared by KLJ, the Department promptly began updating records to satisfy the Board’s duty under N.D.C.C. § 61-33.1-04(2)(a).

The Department’s Land and Minerals information management systems need significant improvements in:

1. Royalty management systems automation of reporting data entry and royalty management/audit functions.
2. Enhanced internal and public access to more data for review and tabulating of aggregated or specific tracts or transaction information.
3. Electronic file management storage and retrieval tools.
4. Replacing in-house developed land and mineral management systems with software that is integrated with GIS (Esri ArcGIS), and includes workflow tracking, document management, payment calculation, and a public portal to support communications and transactions with lessees and users.

Over the course of the next 12 months, the Department will be implementing a new Land Management system. While these systems will create significant efficiencies for the office the data conversion, training, and implementation of new software will require substantial resources.

As fiduciary trust managers it is important that the Department has the resources to manage complicated transaction and collections effectively and efficiently. While the workload has not diminished due to the energy industry activity leveling off, any budget cuts to the Department have the potential to have a negative impact the Department and ultimately our constituents.

5. COMPARE THE AGENCY’S REQUEST/RECOMMENDATION TOTALS, INCLUDING FULL-TIME EQUIVALENT (FTE) POSITIONS, FOR THE NEXT BIENNIUM COMPARED TO THE CURRENT BIENNIUM.

In September 2020, the Budget Section approved the addition of one FTE for a Mineral Title Specialist to assist the Department’s Minerals Management Division in managing mineral assets and to specifically assist in the acreage adjustment calculations associated with N.D.C.C. ch. 61-33.1.

The Department is seeking continued approval for the one FTE for the Mineral Title Specialist (approved in September 2020) to assist the Minerals Divisions in day-to-day management of 8,200 leases and over 500 acreage adjustment calculations and for the addition of an Administrative Services IV position to assist the Department in responding to press inquiries and to promote the usage of Department assets.

Biennium	FTE	Assets	Oil/Gas Producing Properties
11 - 13	25	\$3.7 B	2,932
13 - 15	31	\$4.6 B	5,080
15 - 17	33	\$4.7 B	5,884
17 - 19	31	\$6.1 B	6,937
19 - 21	29	\$5.7 B*	7,511
21 -23	30		

* as of June 30,
2020

It is important to note that the Department's peer states have significantly more FTEs than the Department, even though the Department manages more assets than most of our peers.

Mineral Title Specialist Position

The Mineral Title Specialist Position was approved by the Budget Section on September 22, 2020. The Department is requesting the Mineral Title Specialist position be added permanently. As of July 30, 2020, the Department managed an interest in over 65 percent of the 17,339 producing wells in North Dakota. Production from 8,110 producing properties, including both unitized fields and wells, was up from 6,342 producing properties in FY 2018. During the 2017-2019 biennium, the Division offered 764 leases, generating \$6.3 million in bonuses. As of the end of the biennium, 718,991 acres are under 8,713 leases. The Board also manages state-owned minerals and the oil, gas, and related hydrocarbons within the beds of the State's navigable waters (sovereign minerals). On behalf of the State, the Board oversees the SIIF which receives the revenues from sovereign minerals.

During the Sixty-fifth Legislative Assembly, SB 2134 was passed directing the Department of Mineral Resources to conduct a study which would determine the OHWM along the Missouri River, for approximately 83 river miles, from New Town to several miles upstream of Williston.

Senate Bill 2211 of the Sixty-sixth Legislative Assembly amended N.D.C.C. ch. 61-33.1 relating to the ownership of mineral rights of land subject to inundation by Pick-Sloan Missouri basin project dams. Under N.D.C.C. § 61-33.1-03(8), the Board contracted with Kadrmas, Lee & Jackson, Inc. (KLJ) "to analyze the final review findings and determine the acreage on a quarter-quarter basis or government lot basis above and below the [Historical OHWM] as delineated by the final review findings of the industrial commission." The contract's scope of work concluded twelve months from the date of execution, May 30, 2019, at a total cost of \$1,088,635. Upon the Board's adoption of

the Acreage Adjustment Survey as prepared by KIJ, the Department promptly began updating records to satisfy the Board's duty under N.D.C.C. § 61-33.1-04(2)(a).

Working with operators and lessees to complete the acreage adjustments will require a significant amount of resources from the Department's Minerals Division which compounds the strain on current resources. As fiduciary trust managers, it is imperative the Department has the resources in place to manage those assets effectively and efficiently.

In addition to the day-to-day responsibilities, the Minerals Division will begin working with a Land Management Information Technology vendor to implement a new software system. While this system will create significant efficiencies for the office, the data conversion, training, and implementation of new software will require substantial resources.

The Minerals Division has been trying to "keep up," with the assistance of other Divisions within the Department lending their help. The Surface Land Management and Revenue Compliance Divisions, and all the administrative support staff, have worked to assist the Minerals Division with the increased workload.

Administrative Services IV

The Administrative Services IV position will assist the Department in coordinating the writing and editing of communications to stakeholders. The Department interacts with thousands of constituents every year and needs assistance in implementing strategic and consistent communications with them through various mediums. Additionally, the Administrative Services IV position will aid the Department in completing research, preparing reports for the Board and Legislative Council, and managing open records requests.

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

A. AMOUNTS INCLUDED IN THE BASE BUDGET AND THEIR PURPOSE AND USE; AND

B. AMOUNTS INCLUDED IN THE REQUEST/RECOMMENDATION AND JUSTIFICATION FOR THE CHANGE FROM THE BASE BUDGET.

Description	Legislative Base 2019-2021	2021-2023 Requested		Requested Budget 2021-2023	2021-2023 Recommended		Executive Recommendation 2021-2023
		Incr(Decr)	% Chg		Incr(Decr)	% Chg	
Salary & Wages	5,725,379	128,236	2.2%	5,853,615	689,817	12%	6,415,196
Operating Exp.	2,283,022	(128,236)	(5.6%)	2,154,786	(53,150)	2.3%	2,229,872
Capital Assets	0	0	0%	0	1,600,000	100%	1,600,000
EIIO	0	0	0%	0	0	0%	0
Contingency	100,000	0	0%	100,000	0	0%	100,000

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

The 2019-21 biennium budget has one-time funding for (1) \$2,000,000 for oil and gas impact grants, and (2) a mineral valuation study.

Oil and Gas Impact Grants

The \$2 Million appropriated during the Sixty-sixth Legislative Assembly was combined with \$400,000 of returned funds from cancelled grants. 100% of the \$2.4 Million has been awarded. In total, thirteen grants have remaining balances to:

Political Sub	Awarded	Balance
DICKINSON MUNICIPAL AIRPORT AUTHORITY	\$481,500.00	\$19,330.72
MOHALL AIRPORT AUTHORITY	\$30,000.00	\$30,000.00
DICKINSON MUNICIPAL AIRPORT AUTHORITY	\$1,568,900.00	\$433,867.25
DICKINSON MUNICIPAL AIRPORT AUTHORITY	\$558,000.00	\$141,798.57
SLOULIN INTERNATIONAL AIRPORT	\$1,364,953.00	\$80,638.14
SLOULIN INTERNATIONAL AIRPORT	\$338,825.00	\$136,555.49
SLOULIN INTERNATIONAL AIRPORT	\$744,030.00	\$61,558.46
		\$903,748.63

GLADSTONE CONSOLIDATED FIRE DISTRICT	\$187,500.00	\$187,500.00
TOLLEY FIRE DEPARTMENT	\$355,172.00	\$37,511.81
BILLINGS CO. RURAL FIRE PROTECTION DIST.	\$184,529.00	\$76,212.00
BOWMAN COUNTY RURAL AMBULANCE DISTRICT	\$50,000.00	\$50,000.00
COLUMBUS RURAL FIRE DISTRICT	\$141,589.00	\$12,518.82.00
WILLISTON TOWNSHIP	\$350,000.00	\$350,000.00
CITY OF STANLEY	\$210,000.00	\$5,947.29
		\$707,171.10

Mineral Valuation Study

Senate Bill 1013 of the Sixty-sixth Legislative Assembly approved one-time funding for a mineral valuation study. The Department was tasked with conducting a study to determine the estimated value of the mineral assets, 2.6 million acres, held in trust by the Board.

The analysis employed to form the opinion of value was conducted in compliance with the Society for Mining, Metallurgy, and Exploration (SME) Standards and Guidelines for the Valuation of Mineral Properties and the Society of Petroleum Engineers (SPE) Petroleum Resource Management System.

The valuation techniques that were performed utilized both an Income Approach and a Market Approach to provide a deterministic value of minerals managed by the Board. The data—such as oil and gas production, well information, mapping information, etc.—that was assembled for the purposes of the Mineral Estate Valuation, was obtained from reputable public sources, including the North Dakota Department of Mineral Resources. Additional information related to the ownership of the Subject Minerals was provided by the State.

In consideration of all relevant information, and the interpretation thereof, it is the opinion of the qualified appraiser that the value of all Subject Minerals as of December 31, 2019 is \$1,449,002,408.

8. IDENTIFY AND JUSTIFY THE NEED FOR ANY ONE-TIME FUNDING BEING REQUESTED/RECOMMENDED.

Severe limitations in the current IT system, including redundant manual processes, have hampered efficiencies. Many of the Department's core data management systems were developed in the 1980s and 1990s, using designs and tools no longer supported by vendors. Some supplemental system improvements and purchases have been implemented; however, the outdated database structure restricts many potential improvements. Severe limitations in the legacy IT system, including redundant manual processes, have hampered efficiencies throughout the Department.

The Department's 2017-2019 biennial budget appropriation included \$3.6 million to replace legacy IT systems as authorized by Senate Bill 2013 of the Sixty-fifth Legislative Assembly.

In planning for replacement of the IT systems a business process modeling contractor, Major Oak, was hired in 2016 to identify and document processes and to recommend efficiencies for most operations. Major Oak helped document current state processes for all functional areas of the Department. This was followed by preparation of a model of future-state suggestions to further enhance controls, increase efficiencies, and boost productivity.

Essentially, the Department is replacing all software and IT equipment. This requires a highly coordinated effort between North Dakota Information Technology (NDIT), Office of Management and Budget, and Department staff.

Unclaimed Property

The Department signed a contract with Kelmar, a software company providing specialized services and solutions to assist governments, to assist with the management and administration of the unclaimed property program. With substantial knowledge of state governments, system tools, and process workflows, Kelmar has been helping unclaimed property departments across the United States since 2001. By dedicating their organization exclusively to matters of unclaimed property, Kelmar maintains the necessary subject matter expertise and reliability to serve as a partner in unclaimed property resources and offer the next step in unclaimed property management. Not only has the Department partnered with Kelmar on software, but we have also drawn on its unclaimed property experience to: increase the amount of unclaimed property returned and reunited with rightful owners; reduce risk

associated with administering unclaimed property program operations; implement efficiencies and best practices to manage unclaimed property in safekeeping; and achieve program goals using dedicated and cost effective unclaimed property resources.

The go-live date for Kelmar was April 29, 2019. The URL for the new cloud-based software is <https://unclaimedproperty.nd.gov>. In October 2019, Kelmar visited the Department's Unclaimed Property Division (Division) to ensure the Division was using the software to its utmost capability. Kelmar identified several opportunities for improvement that the Division immediately implemented. Of significance is Kelmar's observation of the Department's administrative support staff, as Kelmar noted this team is the "gold standard" and is recommending unclaimed property agencies across the nation adopt the standards the Department has implemented.

A testament to the success of the new unclaimed property system is that the number of monthly claims issued have nearly doubled since implementation. Further, the Division advertises over 63,000 additional searchable claims online.

Financial Management and Accounting

In 2017, the Department created a Request for Proposal (RFP) for the combined needs of the Land Management and Financial Management and Accounting systems; however, the number of responses was limited, and those proposals did not meet the Department's requirements. Thereafter, in October 2018, the Department issued the RFP for the Financial Management and Accounting (FMA) system which did not include the Land Management system. In December 2019, the Department awarded a contract to Ernst and Young to implement the Microsoft Dynamics 365 for Finance and Operations system with a go-live date of July 1, 2020.

Land Management

On December 16, 2019, the Department issued the RFP for the Land Management system. The Department went through an extensive review process. On June 30, 2020, the Executive Review Committee approved the Department's vendor preference. In October 2020, the Department executed a contract with Ernst and Young to implement the Microsoft Dynamics 365 product to implement the Surface Land Management system. It is anticipated the go-live will be July 2021. The Department did not have funding to implement the Minerals Land Management System.

Project Successes

The implementation of the Division's unclaimed property software led to the creation of numerous Department efficiencies. Many of these efficiencies were identified in 2016 by Major Oak but were not implemented due to IT restraints. Additionally, the Department has been able to address findings identified by the 2016 Performance Audit Report Number 3036b (Unclaimed Property). Kelmar reviewed the Division's utilization of its system efficiencies six months after the go-live date. This allowed the Division to identify opportunities that were not implemented upon go-live. While the implementation of the FMA system does not create immediate efficiencies, the Department anticipates significant efficiencies upon the implementation of the Surface and Minerals Land

Management Systems. The Department is preparing another review of the Performance Audit findings as they may relate to FMA which were identified in the 2016 Performance Audit Report Number 3036c. Additionally, the implementation of new systems has allowed the Department to ensure necessary controls, previously unable to be implemented, are in place.

IT Capital Budget

The total cost of the Unclaimed Property system was \$66,956:

- | | |
|-----------------------------|----------|
| • Kelmar | \$38,000 |
| • NDIT (Project Management) | \$28,956 |

The total cost to-date of the FMA system is \$1,829,578:

- | | |
|---|-------------|
| • Ernst and Young | \$1,589,830 |
| • NDIT (Project Management and Data Conversion) | \$84,328 |
| • Major Oak | \$155,420 |

Estimated cost for the Surface Land Management system is \$1,494,318:

- | | |
|---|-------------|
| • Software vendor | \$1,259,985 |
| • NDIT (Project Management and Data Conversion) | \$135,546 |
| • Enterprise Project Management Oversight Fee | \$7,500 |
| • Risk Contingency | \$150,000 |
| • Major Oak | \$76,287 |

The Department has successfully implemented two systems; however, the expense of the Unclaimed Property and FMA systems leaves inadequate funding for the Minerals Land Management system. The Department was appropriated \$3,600,000 by the Sixty-fifth Legislative Assembly. It is anticipated the Department will need the additional \$1.6 million, as originally requested during the Sixty-fifth Legislative Assembly, to implement the Mineral Land Management system (original request was for \$5,250,000.)

The Department has incurred several unanticipated costs that have resulted in the need for additional funding. Those costs include:

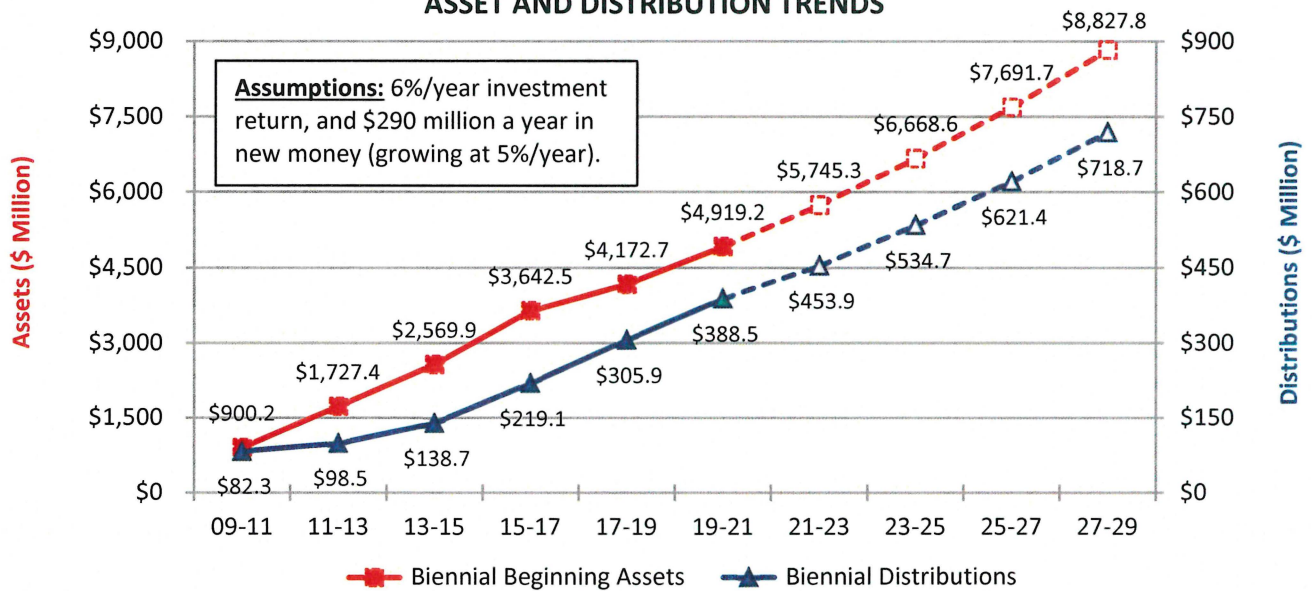
1. The cost associated with the implementation of the Microsoft Dynamics product for the FMA system exceeded the original estimates. The original estimate for this system was \$440,000.
2. Costs associated with ex-Department team members who were unified and now work for NDIT are charged at a per hour rate of \$85 and \$99 to assist with the data migration and implementation of the FMA system. There was no funding budgeted for this expense.
3. The Department contracted with Major Oak to consult on the FMA and Surface Land Management procurement processes for a total cost of \$231,707.

Without additional \$1.6 M in funding, the Department will not be able to replace the 1988 legacy system that currently manages the Board's mineral assets (inclusive of 2.6 million mineral acres and over 8,200 leases.)

9. DISCUSS AGENCY COLLECTIONS THAT ARE DEPOSITED IN THE GENERAL FUND OR A SPECIAL FUND, AND ANY ANTICIPATED CHANGES FROM 2019 LEGISLATIVE SESSION ESTIMATES DURING THE 2019-21 BIENNIUM AND ESTIMATED CHANGES FOR THE 2021-23 BIENNIUM.

REVENUES	FY 2020	Biennium				
		2019-21	2017-19	2015-17	2013-15	2011-13
Coal, SIIF & Capitol						
Interest on investments	16,429,644		20,254,115	8,953,062	4,110,191	2,793,603
Change in fair value of investments	2,882,713		10,058,345	1,138,750	74,036	157,167
Interest Income	-		269,748	171,483	238,389	-
Royalties	89,224,480		235,131,938	133,888,349	224,847,517	139,249,186
Bonuses	1,167,696		3,624,782	11,712,663	22,730,812	106,950,700
Rents	245,978		509,775	582,174	609,243	686,051
Loan income	616,240		1,413,636	4,704,132	3,844,545	1,148,241
Contributions to permanent funds	9,515,851		15,407,366	27,533,013	30,633,547	26,192,663
Taxes	80,816,356		1,003,017,135	333,389,941	1,530,231,827	1,093,985,769
Gain on Sale of Capital Asset - Land	24,950		-	4,632,862	121,021	528,831
Revenue	200,923,908		1,289,686,840	526,706,429	1,817,441,128	1,371,692,211
Common School & Permanent Funds						
Loan income	713,376		1,309,387	1,482,721	2,374,466	4,544,475
Interest on investments	116,609,611		247,128,582	172,073,995	117,723,355	95,872,687
Change in fair value of investments	(194,250,435)		232,742,259	180,953,947	280,564,891	178,153,865
Royalties	149,216,534		380,126,863	237,237,632	463,977,085	340,364,328
Bonuses	8,432,332		2,782,829	9,427,396	30,584,547	87,628,350
Rents	14,314,097		25,215,965	25,357,308	27,128,015	20,452,498
Fees to Maintenance fund	7,960,688		9,260,277	10,009,118	8,378,304	8,857,266
Revenue	102,996,203		898,566,162	636,542,117	930,730,663	735,873,469

13 PERMANENT TRUST FUNDS ASSET AND DISTRIBUTION TRENDS



10. DISCUSS THE NEED FOR ANY OTHER SECTIONS THAT ARE INCLUDED OR ARE REQUESTED/RECOMMENDED TO BE INCLUDED IN THE AGENCY APPROPRIATION BILL.

EIO receives grant applications from cities, schools, counties, and other political subdivisions, reviews the applications with an Advisory Committee whose members have been appointed by the Board of University & School Lands (Board), and then makes recommendations to the Board. Each grant's advisory committee considers the grant criteria, eligibility, and application guidelines, and all meetings are conducted under the Open Meetings Laws. Grants are reviewed and approved through a process of consensus, not a majority vote.

The Department has fourteen grantees who have not fully expended their award for a total of \$1.8 Million. Historically, the Legislative Assembly has exempted the Department, specifically the oil and gas impact grant fund, including grant awards returned to the fund, from N.D.C.C. § 54-44.1-11. Any unexpended funds are available for grants and administration costs associated with the fund during the biennium. The Senate Appropriations Committee added Section 4. EXEMPTION – OIL AND GAS IMPACT GRANT FUND. Without this exemption, the fourteen grantees will only have until June 30, 2021, to fully expend the granted funds.

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

House Bill (HB) 1080 is a bill regarding the obligation to pay oil and gas royalties on leases owned and managed by the Board. HB 1080 version 21.0369.03000 creates a six-year look back period which will eliminate approximately \$110 Million in revenue for the trusts. Additionally, the statute of limitations set at six years may require an FTE to assist in auditing of over 8,200 leases every six years.

HB 1081 is a bill regarding access to and activities on trust lands, and to provide a penalty. HB 1081 will have no budgetary impact on the agency.

Senate Bill (SB) 2048 is a bill regarding the Revised Uniform Unclaimed Property Act. SB 2048 will reduce the costs on the agency through continued appropriations.

All Senate and House Bills with SIIF appropriations will impact the remaining balance of that fund.

12. DISCUSS THE IMPACT OF ANY BUDGET CHANGES MADE TO THE GOVERNOR'S BUDGET GUIDELINES.

There are no impacts made to the Governor's budget guidelines.

13. PROVIDE A ONE-PAGE ITEMIZED LISTING OF CHANGES YOUR AGENCY IS REQUESTING THE COMMITTEE MAKE TO THE EXECUTIVE RECOMMENDATION.

The Department is not requesting any changes to the Executive Budget Recommendation.

14. PROVIDE A COMPARISON OF YOUR AGENCY'S OPTIONAL ADJUSTMENT REQUESTS TO THOSE RECOMMENDED IN THE EXECUTIVE BUDGET.

There are no changes made from the Department's optional budget to those recommended in the Executive Budget.

15. IDENTIFY THE AMOUNT OF FEDERAL FUNDING AVAILABLE TO YOUR AGENCY RELATING TO THE CORONAVIRUS (COVID-19) PANDEMIC, THE ACTUAL AMOUNT SPENT, AND FOR WHAT PURPOSE.

North Dakota received \$1.25 Billion from the Coronavirus Relief Fund as part of the \$2.2 Trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act with the Department being awarded \$120,000 in funding and a total of \$95,640 was spent.

The Commissioner cancelled all surface lease auctions scheduled for March 23, 2020 thru March 27, 2020. There were 141 tracts in 30 counties available for auction. Executive Order 2020-25 allowed the Department to host surface auctions outside of the county seat. The Department was able to secure \$100,000 in funding to pay the 3% convenience fee associated with the online surface lease auctions hosted by EnergyNet. The Department has issued refund checks to lessees who participated in the online spring auction. A total of \$77,340 was spent.

Additionally, the Department received \$20,000 to complete an analysis of shut-in and deferred producing wells based upon various economic scenarios to anticipate production and the resulting direct impact on cash flow for the Department. The analysis will allow the Department to better manage cash flows and disbursement obligations through cash deposits versus being required to sell investments. A total of \$18,300 was spent.

16. PROVIDE ADDITIONAL INFORMATION AS NECESSARY.

Energy Infrastructure and Impact Office

It is important to acknowledge and reflect upon the significant work the Legislature has done over the past forty years through the dedication of funding on projects throughout the state through the EIIO.

In 1977, the legislature authorized the Coal Development Impact Office resulting in the Energy Infrastructure and Development Office managed by the Board. In 1989, the Oil and Gas Impact Program was established and managed within the Energy Infrastructure and Development Office. In 2011, the Energy Development Impact Office underwent a name change to the EIIO. Over the past 40 years, EIIO has reviewed thousands of grant applications and dispersed over \$626 Million in funding.

***From July 1, 1981 to June 30, 2001** \$40,340,965.00 was awarded to help Townships, Counties, K-12 Schools, EMS, and Fire Districts to assist in projects related directly to oil and gas development.

***From July 1, 2001 to June 30, 2011** \$28,712,000 was awarded to help repair roads and for fire and ambulance districts to purchase necessary gear, trainings, new buildings, and equipment.

***During the 2011- 2013 biennium** \$135 Million was awarded, with \$35 Million appropriated during a special session for counties emerging as oil and gas producing areas. During the special session, EIIO was also tasked with the implementation of a \$30 Million Flood Impacted Program to assist political subdivisions with 2011 flood challenges.

***During the 2013 - 2015 biennium** \$240 Million was awarded to airports, higher education institutions, first responders, infrastructure projects, and hub cities.

***During the 2015- 2017 biennium** \$140 Million was appropriated to airports, higher education institutions, first responders, infrastructure projects, and hub cities; however, a sharp drop in gross production tax collections resulted in severely reduced revenues from the Gross Production Tax. The

reduced revenues limited the Board's ability to proceed with awarding grants appropriated by the Legislature.

***During the 2017- 2019 biennium** the Legislature appropriated \$40 Million to the oil and gas impact fund to the Williston and Dickinson Airports in SB 2013. The Board awarded 13 grants, for a total of \$3,145,558, to political subdivisions with contingency funding.

***During the 2019 - 2021 biennium** the Legislature appropriated \$2 Million to various projects. One grant round was held during the biennium. The grant round objective was to offset costs incurred for an emergency or unanticipated incident where the damage was directly related to or impacted by current oil and gas development.

The following is a distribution of funding from 2000 to 2020:

\$199,791,650	City Infrastructure and equipment
\$148,207,500	Airports
\$70,585,204	Road projects for townships and counties
\$63,498,744	K-12 Schools
\$26,196,205	Fire Districts
\$23,041,607	EMS Districts
\$21,625,000	Social Departments
\$17,119,500	Law Enforcement
\$4,000,000	Higher Education
\$574,065,410	Total Funding

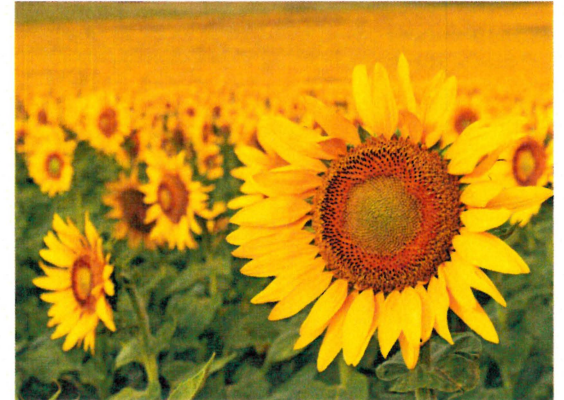
Additional funding was authorized by the legislature for social entities that do not adhere to N.D.C.C. ch. 57-62 which only authorizes EIO to fund taxing districts. This authorization allowed EIO to award grants to: domestic violence sexual assault organizations, local district health units, providers that serve individuals with development disabilities located in oil producing counties, critical access hospitals, nursing homes, basic care facilities, and providers of home health services and hospice programs.

Common Schools Trust Fund

The per pupil distributions to K-12 education have grown from approximately \$400 per pupil per year during the 2009-11 biennium to \$1,592 per student during the 2019-21 biennium. During that same period, distributions from the CSTF grew from approximately 4.0% of the cost of education to a

projected 13.9% of the cost of education. With the inclusion of the 2019-21 contribution, the CSTF will have supplied nearly \$1 billion (\$991,480,000) to public schools in the last eight years.

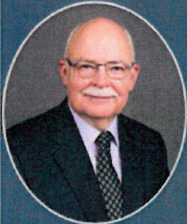
NORTH DAKOTA
DEPARTMENT OF
TRUST LANDS



JODI SMITH
COMMISSIONER



Chairman
Governor Doug
Burgum



Vice Chairman
Secretary of
State Al Jaeger



Attorney
General Wayne
Stenehjem



State Treasurer
Thomas Beadle



Superintendent
of Public
Instruction
Kirsten Baesler



BOARD OF UNIVERSITY & SCHOOL LANDS

The management of School Trust Lands in North Dakota is entrusted to the ND Department of Trust Lands, under the direction of the Board of University of School Lands.



MISSION & VISION

Mission

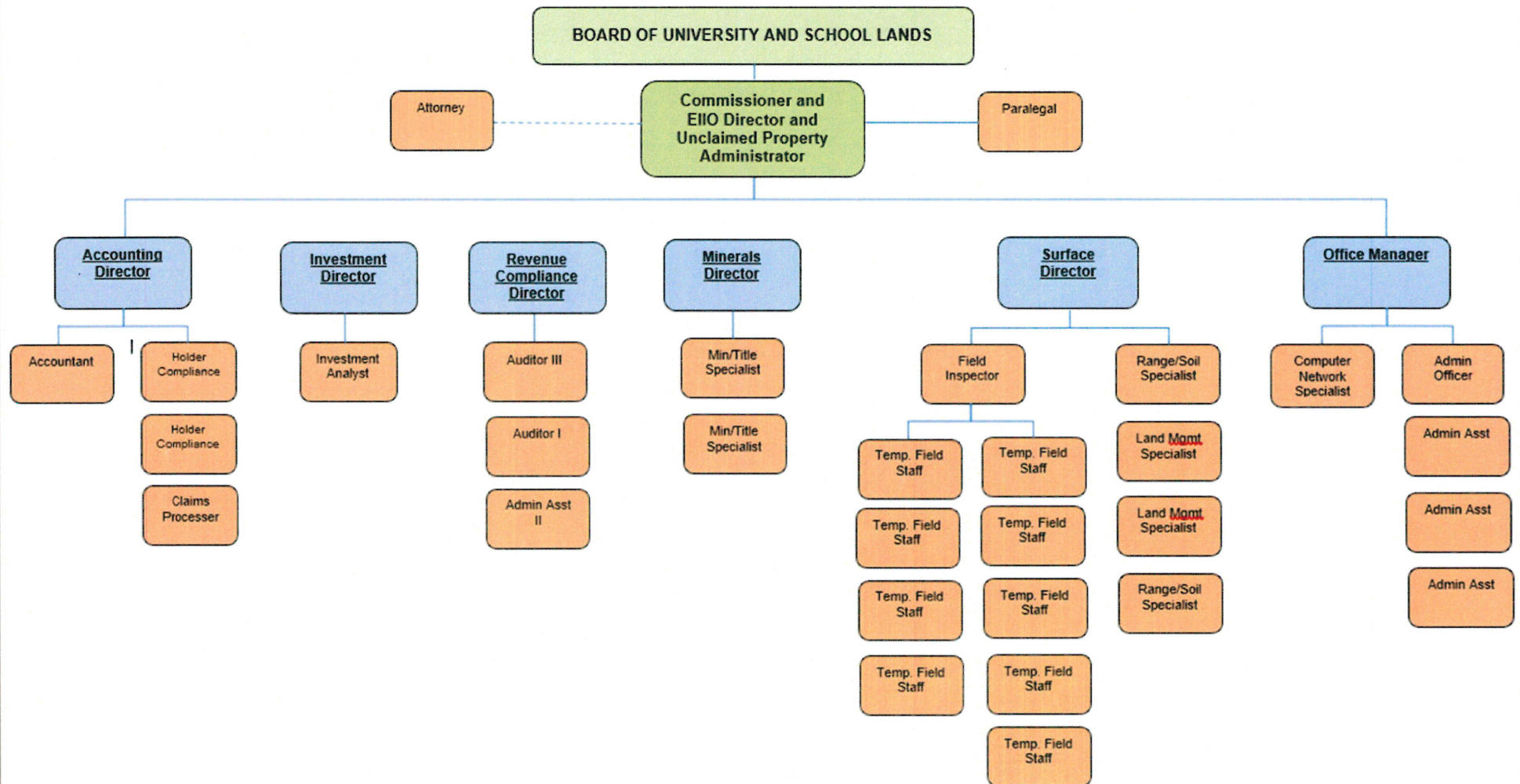
The mission of the Board of University and School Lands is to prudently and professionally manage assets of the permanent trusts in order to preserve the purchasing power of the funds, maintain stable distributions to fund beneficiaries, and manage all other assets and programs entrusted to the Board in accordance with the North Dakota Constitution and applicable state law.

Vision

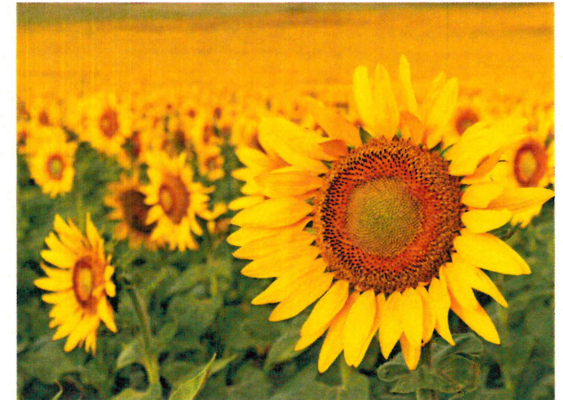
The Department of Trust Lands is known nationally for superior management of its assets and programs.

29 Full Time FTE

9 Temporary Field Staff



SURFACE



MIKE HUMANN
SURFACE
DIVISION
DIRECTOR

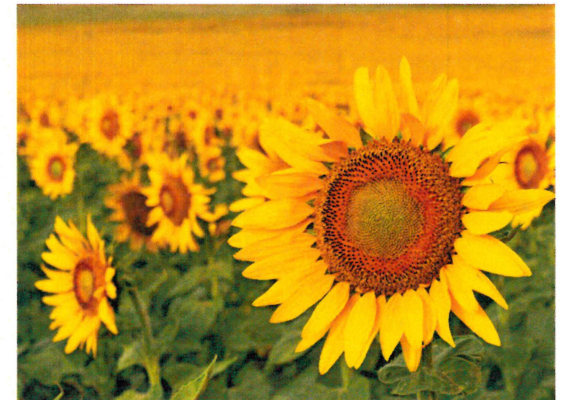


SURFACE DIVISION SNAPSHOT

706,000 Acres

- 365 Rights of Way Granted in the 2017-19 Biennium
- Over 1500 annual integrity and reclamation inspections
- Currently close to 5,000 active surface land leases

MINERALS



DAVID SHIPMAN
MINERALS
DIVISION
DIRECTOR

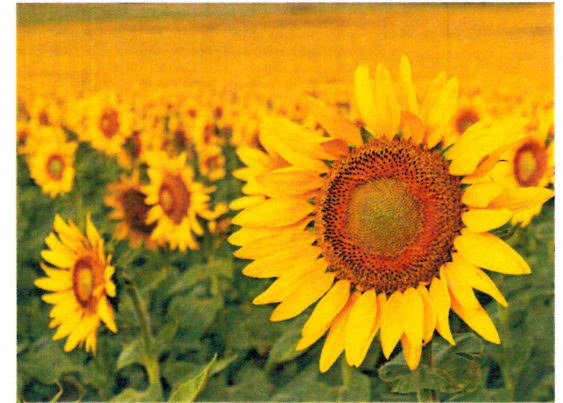


PRODUCING PROPERTIES

2.6 Million Mineral Acres

The Department currently manages over 8,200 oil and gas leases and interest in 7,511 producing properties which equates to over 45% of the 15,979 producing wells in North Dakota. Plus, coal, potash and other mineral leases.

REVENUE
COMPLIANCE



ADAM OTTESON
REVENUE
COMPLIANCE
DIVISION
DIRECTOR

REVENUE COMPLIANCE RESPONSIBILITIES

Manages the collection of revenues and verification of payments received through audits and other processes.

- \$238.4M Oil & Gas Royalties in FY 2020
- \$9.6M Lease Bonus in FY 2020
- Over 500,000 transaction processed annually
- Over \$100M Escrowed at BND – Title Disputes



INVESTMENTS



MIKE SHACKELFORD
INVESTMENTS
DIVISION
DIRECTOR

INVESTMENT RESPONSIBILITIES

The Investment Division is here to put the money earned by the other DTL Divisions to work! We prudently invest the financial assets entrusted to the Board of University and School Lands :

Permanent Trust Funds

- Common Schools Trust Fund
- 12 Other Permanent Trust Funds

Indian Cultural Education Trust

Strategic Investment and Improvements Fund

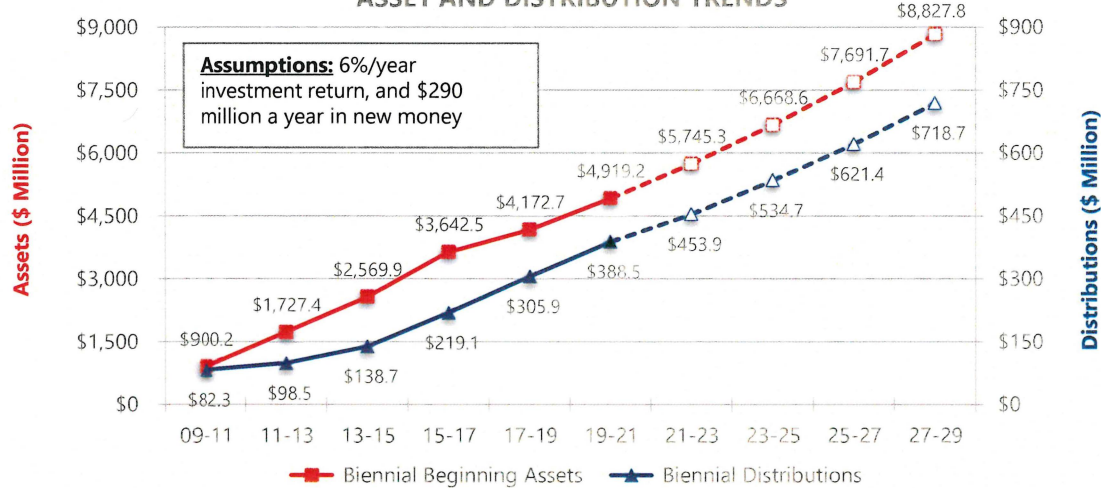
Coal Development Trust Fund

Capitol Building Fund

Theodore Roosevelt Library Endowment



13 PERMANENT TRUST FUNDS ASSET AND DISTRIBUTION TRENDS



The chart shows growth in the assets held by the Permanent Trust Funds and distributions from the funds since the 2009-11 biennium as well as projected future balances and distributions.

Biennial distributions have increased from approximately \$82.3 million during the 2009-11 biennium to \$388.5 million during the 2019-21 biennium.

Distributions are projected to increase an additional \$300 million per biennium by the 2027-29 biennium.

TRUST FUND DISTRIBUTIONS

STRATEGIC IMPROVEMENT & INVESTMENT FUND

This fund was created July 1, 2011 with the merger of the Lands and Minerals Trust Fund and Permanent Oil Tax Trust Fund. One-time disbursements are used to improve state infrastructure.

The SIIF collects revenues from approximately 800,000 mineral acres owned by the State of North Dakota including foreclosed minerals formerly owned by the Bank of North Dakota (BND) and the State Treasurer. Minerals under navigable rivers and lakes are also included in this fund.



SIIF Estimated Account Balance	12/31/2020	12/31/2018
Total Liabilities and Equities	\$534,489,226	\$715,468,318
Assigned Fund Balance	\$229,325,049	\$229,325,049
Legislative Appropriations/Transfer	\$873,239,120	\$278,815,907
Committed Balance	\$298,470,667	\$246,181,638
Uncommitted Balance	\$236,018,559	\$469,286,680

ENERGY
INFRASTRUCTURE
& IMPACT OFFICE
(EIIO)



RICK OWINGS
GRANTS
ADMINISTRATOR

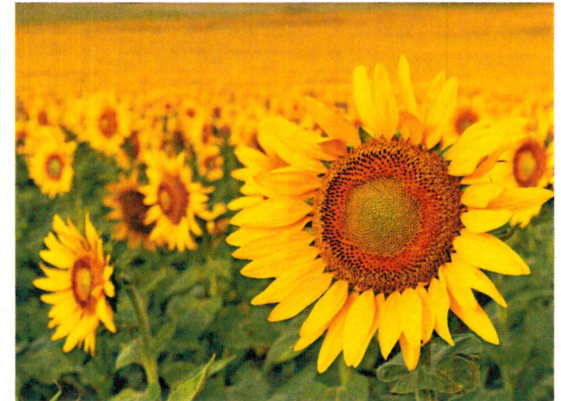
EIIO SNAPSHOT

Since 1979 disbursed over \$626M

\$574,065,410 distributed from 2000 to 2020:

- \$199,791,650 City Infrastructure and equipment
- \$148,207,500 Airports
- \$70,585,204 Road projects for townships and counties
- \$63,498,744 K-12 Schools
- \$26,196,205 Fire Districts
- \$23,041,607 EMS Districts
- \$21,625,000 Social Departments
- \$17,119,500 Law Enforcement
- \$4,000,000 Higher Education

UNCLAIMED
PROPERTY



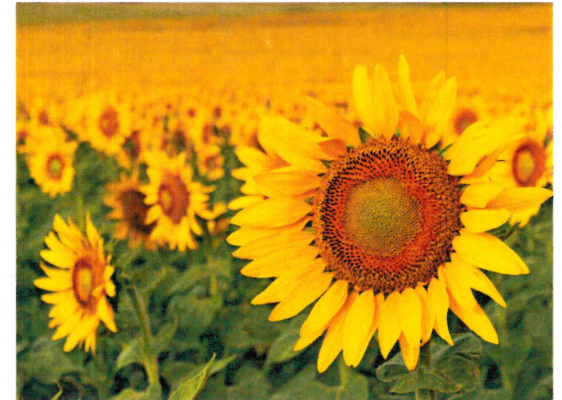
SUSAN DOLLINGER
HOLDER
COMPLIANCE &
EDUCATION

UNCLAIMED PROPERTY SNAPSHOT

2017-19 Biennium

- 8,807 claims paid for a total of \$7,355,431 returned to owners.
- 5365 holder reports received for a total of \$27,239,906 turned over to Unclaimed Property.
- 67 Safety Deposit Boxes Remitted
- New software efficiency 55% increase in claims issued

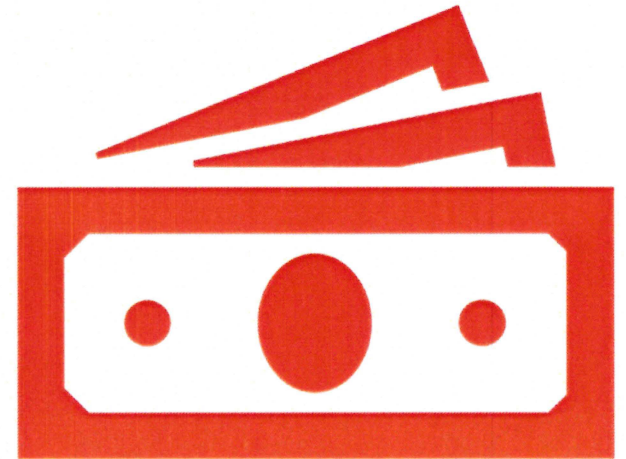
ACCOUNTING



PEGGY GUDVANGEN
ACCOUNTING
DIRECTOR

LOAN PROGRAMS

- Farm Loan Pool Program (35 loans)
- Coal Warrants (8 loans)
- School Construction Loan Program (25 loans)
- Fuel Production Facilities Loan Guarantee Program (3 loans)





SUCCESSSES

- Department Policies
- Board Policies
- Administrative Rules
- New Unclaimed Property Software
- New Financial Accounting Software
- Updated Auditing Software
- Completed Acreage Adjustment Survey
- Completed Mineral Valuation Study

GOAL: CUSTOMER SERVICE



TO IMPROVE AND ENHANCE THE EDUCATION AND SUCCESS OF OUR COMMUNITIES, OUR STATE, THE NATION, AND THE WORLD BY DEVELOPING MORE EFFECTIVE, SUSTAINABLE AND EQUITABLE RELATIONSHIPS WITH OUR CONSTITUENTS.

Digital Transformation

Outreach to Increase Access

Effective Stakeholder Relationships

Optimal Staffing

GOAL : MISSION INTEGRATION



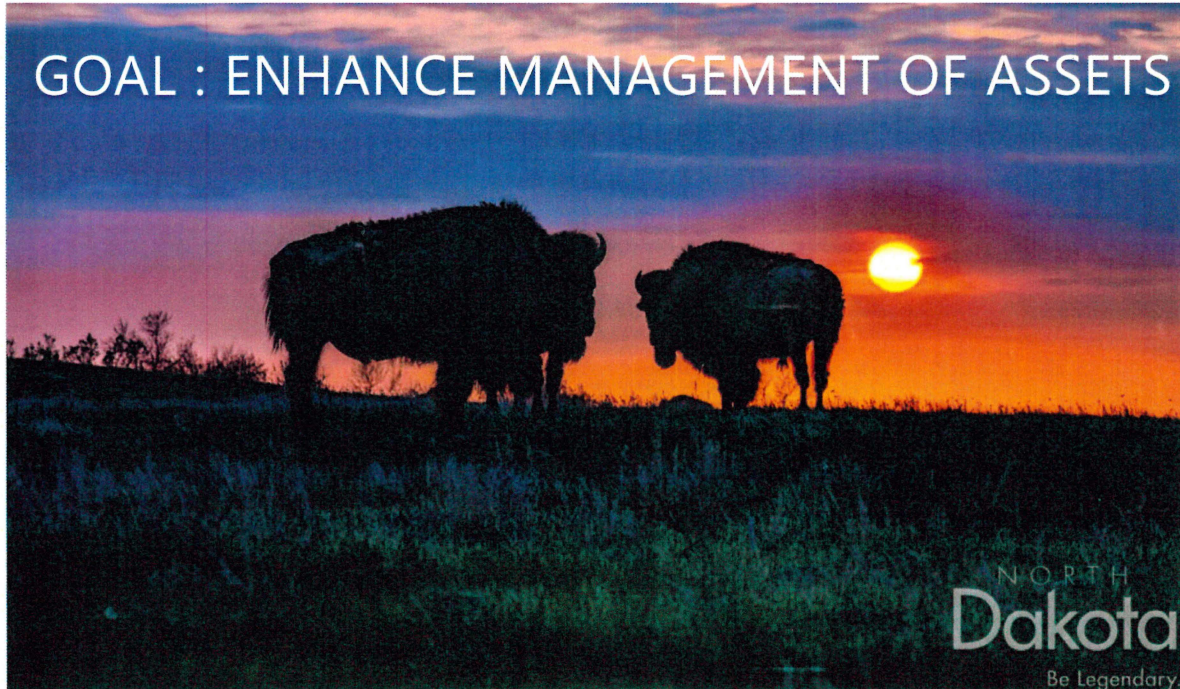
TO FOCUS ON THE IMPACTS TO OUR COMMUNITIES THROUGH THE ENGAGEMENT OF STRATEGIC AND COORDINATED ACTIVITIES THAT ALIGNS THE AGENCY MISSION AND THE NEEDS OF OUR CONSTITUENTS.

Digital Transformation

Outreach to Increase Access

Effective Stakeholder Relationships

GOAL : ENHANCE MANAGEMENT OF ASSETS



TO ADVOCATE FOR AND SUPPORT SUSTAINABLE ASSET MANAGEMENT STRATEGIES THAT MAXIMIZE REVENUE FOR PERPETUAL, INTER-GENERATIONAL DISBURSEMENTS.

Digital Transformation

Enhanced Field Inspections

Real Estate Development

Effective Stakeholder Relationships



20 YEAR OUTLOOK

Intergenerational Equity

Maximizing current distributions with the need to maintain the real value of the corpus for future generations.

- Replace Tobacco Tax
- Declining coal royalties
- Prepare for a decline in oil & gas royalties

Whole Trust Model

Treat the land & financial assets as two parts of a whole, allows us to more easily assess whether that the whole value is being maintained to provide long-term returns to beneficiaries.

- Assets Assessments
- In-Lieu Selections
- Distribution Policies



RESOURCES & CONSTRAINTS

- FTE
 - Oklahoma 64
 - New Mexico 161
 - Texas 650
 - Wyoming 51
 - Colorado 45
- Software

FTE HISTORY

Biennium	FTE	Assets	Oil/Gas Producing Properties
11-13	25	\$3.7 B	2,932
13-15	31	\$4.6 B	5,080
15-17	33	\$4.7 B	5,884
17-19	31	\$6.1 B	6,937
19-21	28	\$5.7 B *	7,511
21-23 Proposed Budget	30		
		* June 30, 2020	

EXPENDITURES BY LINE ITEM	2019-21 APPROPRIATION	2021-23 APPROPRIATION
SALARIES & WAGES	\$5,725,379	\$5,853,615
OPERATING EXPENSES	\$2,633,022	\$2,154,786
CAPITAL ASSETS	\$0.00	\$1,600,000
GRANTS	\$2,000,000	\$0
CONTINGENCIES	\$100,000	\$100,000
TOTAL EXPENDITURES	\$10,458,401	\$9,708,401

2021-2023 BUDGET

- Increase FTE's
- Funding for the modernization of Land Management System



2021 LEGISLATIVE SESSION INITIATIVES

- Appropriations
- Uniform Unclaimed Property Act
- Surface Management



SENATE BILL 2048

Revised Uniform
Unclaimed
Property Act



HOUSE BILL 1080

Relating to Oil
and Gas
Royalties



SENATE BILL 1081

Relating to
access to and
activities on trust
lands; and to
provide a penalty.