North Dakota Department of Trust Lands

61ST BIENNIAL REPORT OF THE BOARD OF UNIVERSITY AND SCHOOL LANDS
AND COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS

JULY 1, 2013 – JUNE 30, 2015

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DEPARTMENT OF ND TRUST LANDS
INVESTING FOR EDUCATION

Lance D. Gaebe, Commissioner

December 1, 2015

The Honorable Jack Dalrymple
Governor of North Dakota
State Capitol
Bismarck ND 58505

The Honorable Alvin A. Jaeger
Secretary of State
State Capitol
Bismarck ND 58505

Dear Governor Dalrymple and Secretary Jaeger:

It is my privilege to present the 2013-2015 Biennial Report for the Board of University and School Lands and the Office of the Commissioner of University and School Lands. This report presents an overview of the responsibilities of the Board and Commissioner under the state constitution and statutes to manage permanent trusts for the benefit of education and certain state institutions, as well as operate programs designated in law.

The Office of the Commissioner of University and School Lands, commonly referred to The Department of Trust Lands, serves as the administrative arm of the Board.

This document summarizes the activities of the Department to manage permanent trust assets, operate the Energy Infrastructure and Impact Office, run the State's Unclaimed Property Division, as well as oversee several statutory funds.

I am pleased to report that all trust balances and funds overseen by the Board remain healthy and continue to grow, many at a remarkable pace. The combination of market based rents paid by farmers and ranchers, consistent investment returns, and robust production of trust minerals resulted in the value of the Common Schools and other permanent trusts nearly quadrupling in size over three biennia, collectively growing from $900 million to $3.6 billion since 2009.

Permanent trust distributions are constitutionally based upon the average value of the trusts' financial assets, thus with this growth, allocations to beneficiaries have increased. Collectively, the trusts disbursed $138.7 million during 2013-2015, nearly 41 percent more than the previous biennium's $98.4 million distribution. As a result of the trusts' growth in recent years, the amounts approved for distribution by the 2015 Legislature will increase 58 percent to $219.1 million during the 2015-2017 biennium.

With the strong agricultural economy, the trusts continued to benefit from the partnership with ranchers and farmers whose stewardship of the land supports the Board's and Department's role to safeguard its value. The Department works with producers to protect and enhance the quality of the land through prudent grazing management and weed control.

The expansion of North Dakota's energy economy has led to active leasing and production of the trusts' mineral interests. Royalty income to the trusts continued to grow as oil and gas leases were developed. During the biennium, mineral related revenue increased the trusts' permanent value by over $776 million. This money is invested to provide income and trust growth that will benefit education both today and for future generations.

The Board and Department spent considerable time and energy in the development and implementation of a new asset allocation for trusts' investments. The investments are now diversified into several new classes of investments, though the approach remains conservative. Prudent and conscientious investment policies enabled trust growth to contribute to the healthy distributions to beneficiaries. The combination of capital gains and investment income contributed $400.6 million to the trusts' growth during the biennium.

The Board also oversees, and the Department manages, two other programs and a major fund not directly related to their permanent trust responsibilities:

- The Energy Infrastructure and Impact Office provides financial assistance to energy impacted local governments. During the biennium, the Board awarded $240 million of grants to cities, schools, counties, and other political subdivisions.

- The State Unclaimed Property Division manages funds from uncashed checks, dormant bank accounts, lost securities, safe deposit boxes, unclaimed insurance proceeds, etc. and works to reunite owners with their abandoned property.

- The Strategic Investment and Improvements Fund earns revenue from production of the State's sovereign minerals and a portion of oil and gas production and extraction taxes. During the biennium, the Department implemented $1.4 billion of transfers and $218 million of programs related to improving State infrastructure including highways, cities, schools and hospitals.

Special acknowledgment and appreciation is also extended to the employees of the Department of Trust Lands. Their everyday dedication in serving the trust beneficiaries and the people of North Dakota is exemplary. Rapid changes and dramatic growth have created challenges, but the State's educational system, impacted communities and abandoned property owners continue to be served well by these committed and talented professionals.

With stable investment returns, expanding income sources, and sensible maintenance of real property, the trust beneficiaries and all North Dakotans benefit from the work of the Board and the Department staff.

Respectfully submitted,

Lance D. Gaebe
Commissioner

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Policy of Non-Discrimination on the Basis of Disability

The Department of Trust Lands does not discriminate on the basis of disability in the admission or access to, or treatment or employment in, its programs or activities. A coordinator has been designated to ensure compliance with the non-discrimination requirements contained in §35.107 of the Department of Justice regulations. Please call (701) 328-2800 for information concerning the provisions of the Americans with Disabilities Act, and the rights provided thereunder as they relate to the agency and access to its records.

Historical Overview

BOARD OF UNIVERSITY AND SCHOOL LANDS
In 1889, Congress passed the Enabling Act[1] which was adopted in part to "provide for the division of Dakota [Territory] into two states, and to enable the people of North Dakota, South Dakota, Montana and Washington to form constitutions and state governments and to be admitted into the Union on an equal footing with the original States, and to make donations of public lands to such States."

Section 10 of this Act granted sections 16 and 36 in every township to the new states "for the support of common schools." In cases where portions of sections 16 and 36 had been privately acquired prior to statehood, indemnity or "in lieu" selections were allowed. In North Dakota, this grant of land totaled more than 2.5 million acres.

Under sections 12, 14, 16 and 17 of the Enabling Act (and other acts referred to therein), Congress provided further land grants to the State of North Dakota for the support of colleges, universities, the state capitol and other public institutions. These additional grants totaled approximately 668,000 acres, bringing the grand total of Enabling Act land grants to nearly 3.2 million acres.

CONSTITUTIONAL AUTHORITY
North Dakota's Constitution (Article IX), adopted on October 1, 1889, entrusted the management of these lands (both acquired land and grant land) to the "board of university and school lands" (Board). The Board was initially made up of the Governor as chairperson, the Secretary of State as vice-chair, the Attorney General, Superintendent of Public Instruction, and the State Auditor. On June 10, 1986, a constitutional amendment replaced the State Auditor with the State Treasurer as member of the Board.

BOARD MEMBERS 2013-2015 BIENNIUM

Governor Jack Dalrymple
Chairman

Alvin A. Jaeger
Secretary of State
Vice Chairman

Kirsten Baesler
Supt. of Public Instruction

Kelly Schmidt
State Treasurer

Wayne Stenehjem
Attorney General

DISTRIBUTIONS
As a result of a North Dakota constitutional amendment[2] approved by voters in 2006 and 2009 federal legislation[3] that amended authorizing laws and validated the state constitutional change, a total return approach to trust distributions was implemented starting in 2009. Educational and institutional trust distributions are now based upon the growth in value of the trusts' financial assets over time, rather than on the amount of interest and income earned by each trust during the year.

Biennial distributions from the permanent trust funds must be ten percent of the five-year average value of trust assets, excluding the value of lands and minerals. Equal amounts must be distributed during each year of the biennium.

COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS
Under N.D.C.C. § 15-02-01, the Board is required to appoint a commissioner to act on its behalf. Specific responsibilities of the Board and the Commissioner of University and School Lands (Commissioner) are set out in N.D.C.C. chapters 15-01 through 15-08.1.

The Commissioner is responsible for:

- Acting as the general agent for the Board, and
- Supervising all aspects and activities of the Department of Trust Lands, and
- Having general charge and supervision of all lands and associated records, maps, books and papers, and
- Appointing an administrator and overseeing the State Unclaimed Property Office,
- Serving as the Director of the Energy Infrastructure and Impact Office starting in 2011.

DEPARTMENT OF TRUST LANDS

The Department serves as the administrative agency of the Board and Commissioner. It operates with an a authorized 31 full-time equivalent employees and several temporary staff in the management of the surface and mineral lands, the collection of revenue from their use, the prudent oversight of financial records and investment assets of the permanent trusts and other funds, the administration of the responsibilities outlined in unclaimed property statues and the operation of the energy impact grant program.

In 2011, the Board adopted the name "*Department of Trust Lands"* as the common reference for the Office of the Commissioner of University and School Lands. Prior to that time, it was informally called the *State Land Department*.

LAND SALES AND ACQUISITIONS

Since statehood in 1889, much of the grant land has been sold. Beginning in 1939, whenever the state sold grant land, it reserved five percent of the minerals. In 1941, the reservation was increased to 50 percent, and, since June 28, 1960, the North Dakota Constitution has mandated a 100 percent mineral reservation.

Presently the Department manages 656,160 of the original grant land surface acres, and more than 1.8 million of the original mineral acres. Approximately 50,660 surface acres have since been acquired through foreclosure or other means, bringing the total surface acreage to 706,820 acres.

In 1977, the legislature transferred management authority for minerals acquired by the Bank of North Dakota and State Treasurer and responsibility for the minerals under sovereign land (navigable rivers/lakes) to the Board's oversight. The Department manages approximately 800,000 sovereign mineral acres.

1. The Enabling Act of 1889: Approved February 22, 1889 [25 U.S. Statutes at Large, Chapter 180 p 676.]
2. HCR 3037 of the 59th North Dakota Legislative Session proposed an amendment of Sections 1 and 2 of Article IX of the Constitution of North Dakota, relating to distributions from and the management of the common schools trust fund and the trust funds of other educational or charitable institutions; and approved by the voters of the State on November 7, 2006.
3. H.R.146 (Omnibus Public Land Management Act of 2009 [Enrolled Bill]) Title XIII, Section 13001, which amended the Enabling Act of 1889 and the First Morrill Act: The Act of July 2, 1862 (7 U.S.C. 301 et seq.)

Department Overview

Lance Gaebe, Commissioner

The primary responsibility of the Department of Trust Lands is to manage the permanent educational trust funds and assets under the control of the Board of University and School Lands, as outlined in the North Dakota Constitution. State law also gives the Department the responsibility for managing the State Unclaimed Property Division and the Energy Infrastructure and Impact Office, as well as overseeing sovereign mineral acres and several other statutory funds.

PERMANENT TRUST FUNDS

The land grant from the federal government at statehood and the state constitution both provide that the Board of University and School Lands manage the trust land and minerals and their proceeds, for the exclusive benefit of supporting primary education and the institutions for which the lands were granted. In accordance with Article IX of the North Dakota Constitution, the trust funds must be managed to preserve purchasing power and to maintain stable distributions to trust beneficiaries.

Revenues are generated through the prudent management of permanent trust assets, consisting of 706,819 surface acres, 1.8 million mineral acres, and $3.6 billion of financial assets. The surface acres are leased to ranchers and farmers, who assist in their care; mineral acres are leased for oil, gas, coal, gravel and scoria development. All revenues generated are deposited into the trust funds and are invested in a diversified portfolio of financial assets.

The following institutions are the beneficiaries of the various permanent trust funds administered by the Department of Trust Lands pursuant to Article IX of the North Dakota Constitution:

- Common Schools
- North Dakota State University
- School for the Blind
- School for the Deaf
- State Hospital
- Ellendale State College*
- Valley City State University
- Mayville State University
- Youth Correctional Center
- State College of Science
- School of Mines (UND)
- Veterans Home
- University of North Dakota

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

According to Section 2 of Article IX of the North Dakota State Constitution, biennial distributions from the perpetual trust funds must be ten percent of the five-year average value of trust assets, excluding the value of lands and minerals. The average value of trust assets is determined by using the assets' ending value for the fiscal year that ends one year before the beginning of the biennium and the assets' ending value for the four preceding fiscal years. Equal amounts must be distributed during each year of the biennium.

The Common Schools Trust Fund is the largest of the permanent trusts managed by the Board. Total distributions from the trust to K-12 education for the 2013-2015 biennium were $130,326,000, which equaled approximately $631 per year for each K-12 grade student in the state. Distributions from the Common Schools Trust Fund are paid to the state's school districts by the Department of Public Instruction monthly from August to April of each year. A total of $8,357,996 was distributed from the other 12 permanent trust funds during the biennium to their respective institutions.

In addition to the revenues from the surface lands, minerals, and investments that the permanent trusts own; the Common Schools Trust Fund receives ten percent of the oil and gas extraction tax collected by the State (ND Constitution Article X, Section 24) and 45 percent of the proceeds from the tobacco class-action lawsuit settlement (N.D.C.C. § 54-27-25). It also holds the net unclaimed property proceeds collected by the Department (N.D.C.C. § 47-30.1-23) until such time that property may be reunited with its owner.

The Board manages a number of other funds either for the State of North Dakota or other beneficiaries:

CAPITOL BUILDING FUND
The Capitol Building Fund was established in N.D.C.C. § 48-10-02 pursuant to Article IX of the North Dakota Constitution. Section 12 of the Enabling Act of 1889, authorized the land grant "for the purpose of erecting public buildings at the capital". The Statute defines the fund, outlines its purposes and assigns management of the land and the fund's investment to the Board. Unlike the permanent trust funds created under Article IX, this trust fund is fully expendable and is subject to legislative appropriation each biennium.

INDIAN CULTURAL EDUCATION TRUST
The Indian Cultural Education Trust was created in 2003 for the purpose of generating income to benefit Indian culture (N.D.C.C. Ch. 15-68). The trust is managed for the benefit of the Mandan, Hidatsa, and Arikara Nation Cultural Education Foundation. This trust's assets are managed and distributions are determined in the same manner as the Permanent Trust Funds.

STRATEGIC INVESTMENT AND IMPROVEMENTS FUND
The Strategic Investment and Improvements Fund (SIIF) is a fund financed by the revenues earned from approximately 800,000 sovereign mineral acres including those formerly owned by the Bank of North Dakota and State Treasurer and minerals located under navigable rivers and lakes (N.D.C.C. Ch. 15-08.1 and § 61-33-07). The SIIF also receives a substantial portion of the oil and gas production and extraction taxes collected by the State (N.D.C.C. § 57-51.1-07.5). This fund may be appropriated by the legislature for one-time expenditures relating to improving state infrastructure or for initiatives to improve the efficiency and effectiveness of state government.

COAL DEVELOPMENT TRUST FUND
The Coal Development Trust Fund is established by N.D.C.C. Ch. 57-62 pursuant to Section 21 of Article X of the North Dakota Constitution. The Fund receives 30 percent of the coal severance tax. This fund is held in trust and is administered by the Board for loans to coal impacted counties, cities, and school districts as provided by N.D.C.C. § 57-62-03 and for loans to school districts pursuant to N.D.C.C. Ch. 15.1-36. Any balance not loaned is invested according to the policies of the Board. The income earned by this fund is transferred to the State General Fund each year.

The agency also manages two other programs that are not directly related to permanent trust management:

UNCLAIMED PROPERTY
The Department administers the Uniform Unclaimed Property Act (N.D.C.C. Ch. 47-30.1) Under this authority, the Department collects "abandoned property" (uncashed checks, dormant bank accounts, lost securities, safe deposit boxes, unclaimed insurance proceeds, etc.), and attempts to reunite owners with that property. Property acquired under this Act is held in perpetuity on behalf of the owner. The investment income from unclaimed property becomes part of the Commons Schools Trust Fund. Owners or the beneficiaries will always have the opportunity to claim their property.

ENERGY INFRASTRUCTURE AND IMPACT OFFICE
The Energy Infrastructure and Impact Office (EIIO) provides financial assistance to local units of government which experience impacts of energy activity (N.D.C.C. Ch. 57-62). The office receives grant applications from cities, schools, counties, and other political subdivisions and makes recommendations to the Board, which awards the grants (N.D.C.C. § 15-1-02). As part of the review process, grant requests are reviewed by staff and advisory boards comprised of local officials. The EIIO administers the payout of funds to grant recipients as projects are completed.

Funding Sources and Expenses

- Funding for the Department of Trust Lands operations is received through the State Lands Maintenance fund. This fund consists of fees charged for services, plus a portion of the trust assets held by the various trusts (N.D.C.C. § 15-03-01.1).

- Energy impact grants are made from the Oil and Gas Impact Grant Fund. The administration expenses of the Energy Development Impact Office are paid from the Oil and Gas Impact Grant Fund.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Statement of Appropriations
2013-2015 Biennium

	Original Appropriation	Final Adjusted Appropriation	First Year 2014 Expenditures	Second Year 2015 Expenditures	Unexpended Appropriation on 6/30/15
State Lands Maintenance Fund:					
Salaries and Wages	$5,157,015	$5,157,015	$2,143,343	$2,440,877	$572,795
Accrued Leave Payments	108,541	108,541	5,009	23,382	80,150
Operating Expenses	1,975,863	1,975,863	558,291	673,301	744,271
Capital Assets	65,550	65,550	4,596	0	60,954
Contingencies	200,000	200,000	0	0	200,000
Total	$7,506,969	$7,506,969	$2,711,239	$3,137,559	$1,658,170
Energy Development Impact Office:					
EIIO Grants	$239,299,174	$239,299,174	$30,258,826	$95,997,197	$113,043,151
EIIO Operating	700,826	700,826	242,213	369,197	89,416
Flood Infrastructure Development Grants	0	26,154,763	13,676,627	6,496,905	5,981,231
Total	$240,000,000	$266,154,763	$44,177,666	$102,863,299	$119,113,798
Strategic Investment and Improvements Fund:					
Sixty-third Legislative Assembly					
North Dakota General Fund	$520,000,000	$520,000,000	$0	$520,000,000	$0
ND Dept of Human Services (HB 1358)	9,600,000	9,600,000	5,150,000	4,450,000	0
ND Commerce Dept (HB 1358)	2,000,000	2,000,000	1,000,000	1,000,000	0
ND Commerce Dept (SB 2018)	2,500,000	2,500,000	0	2,500,000	0
ND Attorney General (HB 1358)	9,600,000	9,600,000	9,600,000	0	0
BUSL (HB 1358)	50,000	50,000	0	50,000	0
Sixty-fourth Legislative Assembly					
ND State Treasurer (SB 2103)	0	298,000,000	0	298,000,000	0
ND Department of Transportation (SB 2103)	0	450,000,000	0	450,000,000	0
ND Department of Transportation (SB 2103)	0	352,000,000	0	115,000,000	237,000,000
Total	$543,750,000	$1,643,750,000	$15,750,000	$1,391,000,000	$237,000,000

OPERATIONS

Operating expenses increased to accommodate the growth in the energy sector, which has impacted all responsibility areas within the Department of Trust Lands. The Department has 31 permanent staff and 11 part-time employees. The 65th Legislative Assembly approved two additional positions for Department in 2015.

The workload of staff has expanded due to added responsibilities and expanded activity in all divisions. Tract inspections, easement and surface use requests, lease activity, reclamation efforts and title work have all increased with expanded energy activity. Similarly, the number of producing properties under management, the quantity and magnitude of damage, bonus and royalty transactions, unclaimed property receipts, have increased the size of the funds under management. The dedicated staff directly manages the surface, mineral and financial assets of trusts utilizing effective accounting and computer tools that assist in the tracking of the revenues and assets of 18 funds. The employees handle hundreds of requests for information and grants, process thousands of transactions, manage tens of thousands of property tracts, oversee millions of mineral acres and administers billions of dollars of financial assets.

Other Department of Trust Lands Information

PUBLICATIONS
In addition to this report, the Department publishes:

- Lists of tracts to be leased at quarterly oil and gas lease sales, together with a summary of the results of these sales.
- Summaries of grant awards made by the Energy Infrastructure and Impact Office.
- Lists of individuals entitled to unclaimed property (N.D.C.C. § 47-30.1-19.1).
- An informational brochure relating to owners of unclaimed property.
- An informational brochure relating to holders of unclaimed property.
- An informational brochure relating to the operations of the Department of Trust Lands.

Notice of the leasing and sale of surface and mineral tracts is published in the official county newspaper where the property is located.

Newly reported unclaimed property owners are published in the official county newspaper of the owner's last known address.

MEETINGS
The Board of University and School Lands meets monthly. The statutory meeting day is the last Thursday of each month.

Minutes of the Board and other information regarding the activities of the Department of Trust Lands can be obtained from:

Department of Trust Lands
1707 N 9th Street
P.O. Box 5523
Bismarck, ND 58506-5523

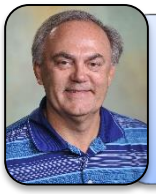
General Information	701-328-2800
Fax	701-328-3650

INTERNET ADDRESS

The Department of Trust Lands maintains a web site at: **https://land.nd.gov**

Department Personnel

Grants and Claims



ENERGY INFRASTRUCTURE AND IMPACT OFFICE (Gerry Fisher)

Responsible for administering the grant and loan program that supports local governments impacted by oil, gas, and coal development.

UNCLAIMED PROPERTY (Susan Dollinger)

Responsible for administering the Uniform Unclaimed Property Act by collecting, documenting and advertising unclaimed financial and tangible assets and providing owners with opportunities to claim their property.

Investments

INVESTMENTS (Jeff Engleson)

Responsible for the prudent investment of $4.3 billion in trust and other financial assets by allocating funds, monitoring performance and reviewing money managers' compliance with Board policy.

Natural Resources

SURFACE MANAGEMENT (Mike Humann)

Responsible for oversight and active management of 707,000 acres of grazing and farm land, including leasing land for Agriculture use and surface minerals, processing easement requests, and enhancing tract value.

MINERALS MANAGEMENT (Drew Combs)

Responsible for managing 2.6 million acres of mineral interests by maintaining title and lease records, issuing leases, tracking production status of tracts, and promoting development.

Operations

OPERATIONS AND HUMAN RESOURCES (Linda Fisher)

Responsible for personnel management and oversight of intra-agency service sectors, including Accounting, Revenue Compliance, Administrative Support and Information Technology.

ACCOUNTING AND BUDGET (Peggy Gudvangen)

Responsible for financial reporting, maintaining the general ledger, monitoring fund distributions, payroll and benefits, budget preparation and monitoring operational expenditures, and procurement.

Operations Continued

REVENUE COMPLIANCE (Taylor K. Lee)

Responsible for collecting and accurately recording royalty, lease payments and surface rent payments. Responsible for compliance audits and maintaining proper internal controls.

ADMINISTRATIVE SUPPORT (Catelin Newell)

Responsible for overseeing support functions of the Department, acting Assistant Secretary to the Board, leasing coordinator, coordinating publications, building manager, and assisting with procurement and purchasing.

INFORMATION TECHNOLOGY (Mark Weninger)

Responsible for oversight and maintenance of the Department's information systems; providing software development and database design and managing the web page.

EMPLOYEE	POSITION	SERVING SINCE:
Engleson, Jeff	Deputy Commissioner and CIO	1986
Haupt, Michael	Land Management Professional	1987
Humann, Michael	Surface Division Manager	1987
Bayley, Keith	Senior Land Professional	1988
Fisher, Linda	Operations and Human Resources	1991
Saude, Jerry	Trust Land Specialist	1991
Jacobs, Debra	Administrative Assistant	1998
Pascua, Jayden	Computer Network Specialist	1999
Schell, Judith	Administrative Assistant	2000
Erdmann, Levi	Investment Analyst	2003
Glanville, Monica	Audit Technician	2003
Gudvangen, Peggy	Accounting Director	2005
Jacobson, Bev	Office Assistant	2006
Gaebe, Lance	Commissioner	2010
Combs, Drew	Minerals Management Director	2011
Nelson, Diane	Land Professional	2011
Otteson, Adam	Revenue Compliance Auditor	2011
Fisher, Gerard	Energy Impact Office Administrator	2011
McGregor, Geraldine	Office Support	2012
Barth, Cory	Natural Resources Professional	2012
Lengenfelder, Matthew	Programmer/Analyst	2013
Owings, Rick	Assistant Energy Impact Director	2013
Lee, Taylor	Revenue Compliance Director	2014
Newell, Catelin	Office Manager	2014
Bement, Allisen	Land Professional	2014
Dollinger, Susan	Unclaimed Property Administrator	2015
Weninger, Mark	Information Technology Director	2015
Entzel, Susie	Claims Processor	2015
Hendrickson, Trent	Programmer Analyst	2015
Weixel, Diane	Office Assistant	2015

Left to Right: Drew Combs, Jayden Pascua, Diane Nelson, Mike Brand, Trent Hendrickson, Mike Haupt, Linda Fisher, Mark Weninger, Lance Gaebe, Mike Humann, Diane Weixel, Allisen Bement, Catelin Newell, Levi Erdmann, Gerry Fisher, Matt Lengenfelder, Missy Seifert, Gerry McGregor, Susan Dollinger, Jerry Saude, Taylor Lee, Rick Owings, Cory Barth, Bev Jacobson, Susie Entzel, Adam Otteson, Jeff Engleson, Judith Schell

Not pictured: Keith Bayley, Monica Glanville, Peggy Gudvangen, Deb Jacobs

Also employed during the biennium: Pamela Rennich, Revenue Compliance Director; Loa Tober, Claims Processor; Bonnie Pazdernik, Office Assistant; Ann Tongen, Claims Processor/Office Assistant; Michael Kurle, Programmer Analyst; Michael Brand, Surface Management Director; Melissa Seifert, Account/Budget Specialist

Surface Management

Michael Humann, Manager

This Division leases and manages surface acres owned by the various trust funds under the control of the Board of University and School Lands. The major source of income from these lands comes from grazing and agricultural leases, with significant revenue generated from rights-of-way, salt water disposal, and gravel and scoria mining. The objective of surface management is to obtain a "fair market" return from the lands while maintaining or improving their condition and value.

LAND MANAGEMENT

Staff time is spent on day-to-day land management projects that are not remarkable individually but in aggregate result in significant improvement in school trust lands. These projects include:

- Grazing management plans for improving range condition and productivity.
- Developing dams and dugouts for livestock water and wildlife enhancement.
- Cooperative trash site clean-up and abandoned water well sealing.
- Gravel and scoria mine site reclamation.
- Oil well pad, saltwater disposal site, pipeline, and road siting and reclamation.
- Seismic permitting.
- Coal mine reclamation.
- Monitoring flood affected tracts.

Many of these projects are initiated and completed each biennium, while some, such as grazing management plans, require 10-15 years or more to achieve lasting results.

FIELD PERSONNEL

Part-time field personnel make a valuable contribution to successful management of trust lands. They provide a local and rapid response to issues. Their inspection work has allowed the Division to absorb increased workloads generated by energy activity.

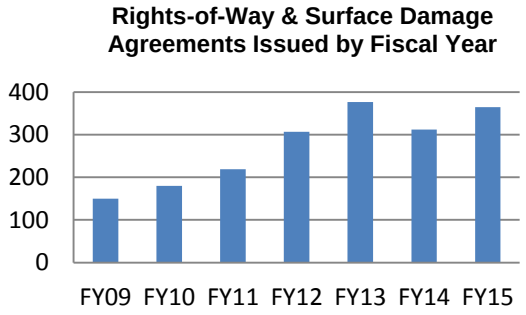
	Serving since
Chris Hansen, Napoleon	1998
Dale Ferebee, Beach	2005
Mike Sondeland, Bowman	2008
Dennis Froemke, Dickinson	2011
Karrie Froemke, Dickinson	2012
Jim Alfonso, Devils Lake	2012
Tim Kuntz, Mandan	2014
Bill Klein, Ashley	2014
Randy Kreil, Bismarck	2015

Top row left to right: Bill Klein, Tim Kuntz, Mike Sondeland, Dale Ferebee, Jim Alfonso. Bottom row left to right: Randy Kreil, Karrie Froemke, Dennis Froemke, Chris Hansen.

RIGHTS-OF-WAY

Most requests for rights-of-way are directly related to the impact of oil and gas development. There has been a steady increase in this area since 2009 and a plateau is not expected until sufficient pipelines and electrical lines have been installed to support the new wells in the expanding fields. In 2015, new applications for well pads were predominantly for multi-bore locations.

Rights-of-way payments generated $11.1 million in revenue for the trusts during the 2013-2015 biennium, compared to $7.4 million the previous biennium. The increase is a reflection of higher per unit payments.



RECLAMATION

With nearly 350 rights-of-way issued in 2014, reclamation oversight remains a major activity. Pipelines, roads and well pads require detailed input during the construction phase to ensure that the land is reclaimable. Topsoil reservation, erosion control, noxious weed control, and native grass seeding are essential to return the land to a productive and ecologically stable condition.

To help with the inspection and monitoring of reclamation on rights-of-way, the Department developed a new online reclamation reporting system to allow right-of-way holders to self-complete a reclamation inspection. The system documents the progress of the reclamation of the right-of-way. A second program was developed to manage and audit the reclamation inspection forms being submitted to verify reports submitted by permit holders.

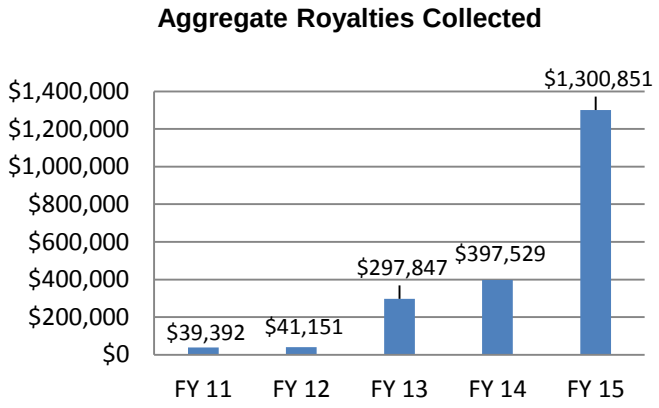
CONSTRUCTION AGGREGATE MINING AND ROYALTIES

The demand and price of construction aggregate, primarily gravel, increased. As of June 30, 2015 there were 10 active gravel leases on trust lands. Construction aggregate royalties increased markedly.

Surface Acres by Trust Fund
As of June 30, 2015

Trust Fund	Acres
Common Schools	632,034.65
School for the Blind	3,481.69
Capitol Building	9,994.45
School for the Deaf	4,830.44
Ellendale State College	4,912.82
State Hospital	2,206.11
Youth Correctional Center	3,584.42
School of Mines [1]	3,313.81
North Dakota State University	15,117.68
Veterans Home	2,753.69
University of North Dakota	8,897.98
Valley City State University	640.00
State College of Science	3,712.94
Mayville State University	640.00
Valley City/Mayville [2]	6,824.08
Farm Loan Pool [3]	3,714.00
Indian Cultural Education	160.00
Total	**706,818.76**

1. The benefits of the original grant to the School of Mines are distributed to the University of North Dakota.
2. Receipts from acreage held jointly by Valley City and Mayville State Universities are allocated 62.5% to Valley City and 37.5% to Mayville.
3. Receipts from this acreage are allocated to the permanent trusts that have an interest in the Board's Farm Loan Pool.



MARKET ANALYSIS OF EAST BISMARCK TRACT

In 2013, the Board completed a Marketability Study and Property Analysis of a tract of land in east Bismarck (Section 36-139-80) relating to the land's "highest and best use." The study contractor indicated high sale potential for commercial and residential real estate.

In 2014, the Board requested proposals for a study of options to subdivide and sell all or portions of the tract, considering access, infrastructure, terrain, drainage and value. A vendor was selected to conduct a market analysis of the land east of Bismarck.

The report is to provide recommendations to survey the 590 acres into smaller lots for public auction. The vendor was directed to survey:

- present and future development land needs
- zoning and platting requirements
- natural topography assets and liabilities
- existing utilities
- future infrastructure needs for the city
- land use and easement restrictions

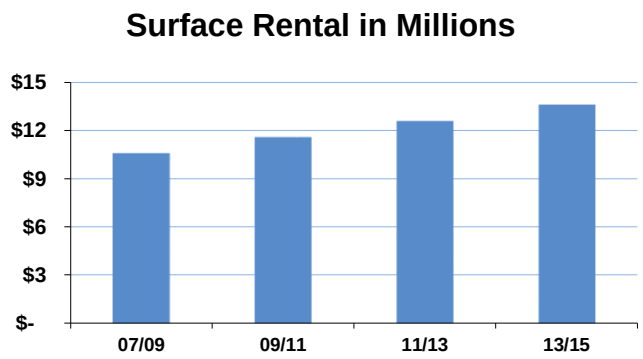
The vendor was also directed to analyze comparable land values and suggest a sales strategy to market all 590 acres.

This study will also provide guidance on possible sales options of similar lands near Minot, Williston and Dickinson.

LEASING

A total of 1,194 grazing and agricultural leases were issued during the 2013-2015 biennium. Leasing interest continued to be high with over 99 percent of the tracts offered successfully leased. Flooded acres have remained relatively constant with the previous biennium.

Total rental income for the biennium was $13.6 million, an increase of 7.9 percent over the previous biennium.



Private land rental rates are the basis for calculating the minimum opening bid on school trust lands. The rental market for grazing lands has remained strong with continued increases in private land rental rates. Normally there is at least one significant decline in rents during each 20 year period, but the private grassland rental market prices have been increasing for 25 years.

Continued high prices for crops have helped maintain a strong demand for cropland rental property. Higher commodity prices have contributed to conversion of private grassland to cropland. This is likely a factor in maintaining the strong rental market for grazing land.

Surface leasing information and other detailed tract information is provided on the Department's web site.

Land Sales and Acquisitions
FY14-FY15

Acquisitions:	**Acres**
(+)Acreage Corrections	61.85
Railroad Abandonment	97.28
Rights-of-Way Reversions	0.00
Farm Loan Pool Foreclosure	0.00
Total Acquisitions	**159.13**
Sales:	
Sales to public entities*	15.00
Sales at public Auction	0.00
(-)Acreage Corrections	46.08
Total Reductions	**61.08**

*The 15 acres sold in Williams County to the City of Ray generated $120,000 for the Common Schools Trust.

INVASIVE PLANTS

Noxious weed control continues to remain an important focus on trust lands. Leafy spurge, Canada thistle and Houndstongue are the major concerns at this time with the potential to increase exponentially if ignored. Saltcedar was not inventoried during this biennium so it is not known if it has increased. Russian knapweed, Spotted knapweed and star thistle appear to be under control.

The Department continues to pay 100 percent of the cost of controlling Saltcedar, Yellow star thistle, knapweed, Houndstongue and Canada thistle on trust lands. Tracts with Leafy spurge receive a rent reduction when the lease is bid and a 50 percent cost share after the control work is completed. This commitment has been an important part of preventing the establishment and spread of these weeds.

Kentucky bluegrass has been increasing over at least the past decade and is moving into native grasslands in central and west central North Dakota. There has not been any indication that this trend has reversed and it poses a continued threat to the ecological integrity of the native prairies.

No new potentially invasive weeds have been reported this biennium, though monitoring is ongoing.

SURFACE ACRES BY COUNTY As of June 30, 2015					
County	**Acres**	**County**	**Acres**	**County**	**Acres**
Adams	17,097.52	Golden Valley	28,983.55	Ramsey	2,056.50
Barnes	2,803.32	Grant	33,517.76	Ransom	1,120.00
Benson	11,999.60	Griggs	1,741.24	Renville	1,910.12
Billings	30,927.06	Hettinger	9,889.95	Richland	513.68
Bottineau	3,271.94	Kidder	28,643.79	Rolette	6,226.08
Bowman	29,310.48	LaMoure	1,435.72	Sargent	1,128.17
Burke	16,137.16	Logan	9,404.92	Sheridan	25,826.44
Burleigh	27,906.66	McHenry	22,720.56	Sioux	23,411.56
Cass	40.00	McIntosh	6,209.87	Slope	23,605.98
Cavalier	556.47	McKenzie	64,578.70	Stark	6,150.13
Dickey	3,981.51	McLean	20,890.99	Stutsman	15,627.81
Divide	20,791.24	Mercer	15,129.38	Towner	8,076.00
Dunn	25,673.31	Morton	18,101.82	Walsh	160.00
Eddy	10,292.81	Mountrail	32,445.59	Ward	11,038.98
Emmons	13,533.97	Nelson	2,694.45	Wells	5,251.89
Foster	3,111.51	Oliver	7,588.41	Williams	38,368.46
Grand Forks	1,274.77	Pierce	13,660.93	**Total**	**706,818.76**

STUDY OF FEDERAL RESERVOIR LAND

The 2013 Legislature adopted HB 1338 which directed the Board to study options to address concerns of landowners adjacent to land under the control of the United States Army Corps of Engineers (COE) surrounding Lake Sakakawea and Lake Oahe. The study considered noxious weed issues, access for hunting and fishing, the costs of conveying land from the COE to the State and the interests of North Dakota Indian Tribes.

The legislature appropriated $50,000 from the Strategic Investment and Improvements Fund for the study. With the help of a contractor, a study was completed in August of 2014 and the report and summary were delivered to Legislative Management and the interim Water Topics Overview Committee on October 1, 2014.

The study's purpose was to provide the Legislature with different options regarding the COE's lands. Several ownership changes and management options were presented including:

1. No change in present management structure
2. Transfer of lands back to the original landowners or their heirs
3. Transfer of the land from the COE to the State, with the land to be managed by the State
4. Transfer the land from the COE to the State and to associated Tribes, with each entity managing the acquired land
5. Similar to number 4, but with local government management
6. Corps of Engineers retains ownership, but turns over management to State, Tribal and local governments
7. A direct transfer to preferential lease holders, including grazing lease holders, the North Dakota Game and Fish and State Parks and Recreation Departments and county park boards were suggested as potential owners

In response to the study, the 2015 Legislature adopted HB 1456, which defined excess lands around Lake Oahe and encouraged federal legislation to authorize the return of lands and mineral rights to the State of North Dakota.

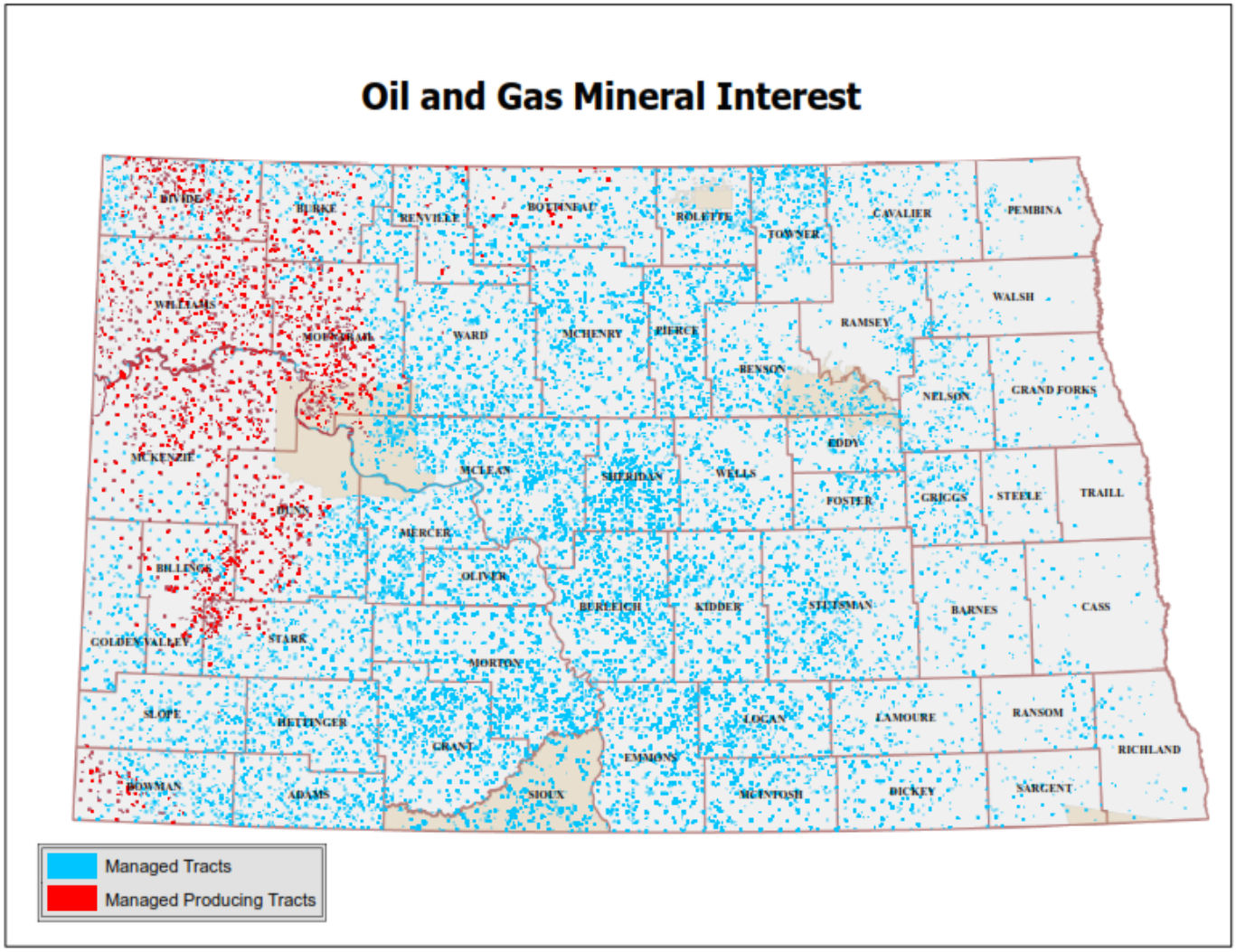
Minerals Management

Drew Combs, Director

OIL AND GAS ACTIVITY

Over one-third of the oil and gas wells operating in North Dakota have some part of their unit containing a mineral asset managed by the Department, making State managed assets one of the largest footprints in the Williston Basin. In recent years, the Department has experienced a marked expansion of leasing activity, due to the innovations in recovering hydrocarbons from tight oil formations and the geographic position of the Bakken within the boundaries of the State. The majority of these leases have moved to the production phase of their terms, so the large bonus averages, historically seen at the quarterly auctions have subsided. There are still attractive holdings in oil producing areas and quarterly auctions continue to have hundreds of nominated tracts available for leasing. Interest in conventional plays have increased, as these wells are typically cheaper than nonconventional to bring online.

The second year of the biennium was marked by the effects of the downturn in the price of crude oil. With lower drilling rig counts, the Division is witnessing slower rates of drilling and completion. Bonus payments for lease of open tracts, compared to the previous two biennia, are reduced as bidders are less aggressive than in the past. Though the frantic pace of leasing and drilling to hold a lease has eased, the work of the Division in sorting title conflicts, issuing assignments and other lease maintenance activity has increased.



SOVEREIGN MINERALS

Sovereign lands are the surface and mineral estates that were acquired at statehood as part of the equal footing doctrine, which provides that the State owns title to the beds of waters that were navigable at the time of statehood. Under N.D.C.C. § 61-33-01, the State's interest in sovereign lands extend up to the ordinary high watermark (OHWM).

On December 26, 2013, the North Dakota Supreme Court issued a decision in *Reep, et al v. State of North Dakota, et al* affirming that the State holds title to minerals within the OHWM of navigable rivers and water bodies, unless the State has contractually granted or conveyed part of its equal footing interest to upland owners by deed.

By statute, the State Engineer's Office is responsible for defining and managing these sovereign lands and the Board of University and School Lands is designated to manage the oil and gas and other hydrocarbon minerals.

Oil and Gas Lease Bonus Statistics by County 2013-2015

	Acres		Bonus		Avg Bonus per Acre
Billings	11,727.58	$	2,789,654.45	$	237.87
Bottineau	2,182.08	$	47,203.43	$	21.63
Bowman	7,832.13	$	298,105.97	$	38.06
Burke	7,764.39	$	1,241,603.22	$	159.91
Divide	8,810.63	$	1,909,713.68	$	216.75
Dunn	14,993.49	$	2,296,638.72	$	153.18
Golden Valley	8,028.68	$	1,843,669.16	$	229.64
Hettinger	160.00	$	7,680.00	$	48.00
McKenzie	13,561.42	$	19,667,706.75	$	1,450.27
McLean	13,767.14	$	279,350.58	$	20.29
Mercer	3,442.97	$	9,097.19	$	2.64
Mountrail	9,243.03	$	3,133,961.17	$	339.06
Renville	3,670.21	$	104,428.77	$	28.45
Slope	19,700.13	$	1,180,458.46	$	59.92
Stark	13,792.61	$	848,448.56	$	61.51
Towner	9,007.67	$	9,007.67	$	1.00
Ward	6,044.88	$	104,633.27	$	17.31
Williams	3,416.85	$	10,692,917.00	$	3,129.47

There has been considerable oil and gas development of the minerals which lie beneath the Missouri and Yellowstone Rivers, and other navigable waters. The Minerals Division dedicates substantial time and resources toward managing sovereign mineral acres including those formerly managed by the Bank of North Dakota and State Treasurer.

Revenues generated from sovereign minerals are deposited into the Strategic Investment and Improvements Fund. While challenging to manage due to inherent issues with meandering waters these minerals have provided a steady revenue stream for the benefit of all of North Dakota, through appropriations and programs funded by this revenue.

LIGNITE

Lignite coal continues to be a profitable asset to the Trusts. Coteau Properties Company, Falkirk Mining Company, BNI Coal, American Colloid Company, and Dakota Westmoreland Corporation all actively mine trust minerals. There are currently 63 coal production leases containing 6,059 mineral acres.

A major revision to the Board's coal leasing program occurred this biennium. The Board's coal leasing rules were modified and adopted to apply to forthcoming or renegotiated leases. These changes were initiated because coal leases were historically issued at a statutory minimum royalty rate. With changes authorized by the 2013 Legislature in SB 2312 now codified under N.D.C.C. § 15-05-01, coal leases are now negotiated to achieve fair market price. The Department has the responsibility of providing the Board with a recommended coal lease that contains terms that are reasonable and fair. Several coal leases were renegotiated during the biennium to ensure their continued integration into mine plans and eventual production.

During the 64th Legislative Assembly, SB 2377 separated the legal definition of leonardite from lignite. Leonardite is oxidized lignite that is used for soil conditioning and industrial applications like in drilling fluids. Currently, the Department of Trust Lands manages assets located under one, of two, leonardite operations in the State.

LEASED OIL AND GAS TRACTS BY COUNTY AND STATUS

County	Leases in Primary Term	Leases Held by Production	Total Leases	Primary Term Lease Acres	Acres Held by Production	Total Acres
Adams	357	-	357	28,811.7	-	28,811.7
Billings	235	326	561	23,655.5	29,276.9	52,932.3
Bottineau	170	60	230	9,891.6	4,119.9	14,011.5
Bowman	151	188	339	12,629.8	18,340.8	30,970.6
Burke	330	221	551	24,493.5	19,377.0	43,870.5
Divide	269	532	801	22,137.8	40,783.2	62,921.1
Dunn	389	586	975	31,049.4	51,875.3	82,924.7
Emmons	25	-	25	1,809.4	-	1,809.4
Golden Valley	201	27	228	19,861.0	3,616.0	23,477.0
Grant	19	-	19	1,618.8	-	1,618.8
Hettinger	153	-	153	12,491.0	-	12,491.0
McHenry	43	5	48	2,553.8	213.6	2,767.3
McIntosh	34	-	34	1,739.8		1,739.8
McKenzie	249	1,667	1,916	27,726.3	129,269.3	156,995.6
McLean	207	11	218	15,225.8	840.0	16,065.8
Mercer	46	2	48	3,131.1	158.7	3,289.7
Mountrail	277	940	1,217	18,571.4	70,316.7	88,888.1
Renville	129	35	164	9,669.7	2,707.5	12,377.1
Slope	426	4	430	43,133.0	240.0	43,373.0
Stark	309	171	480	23,200.2	12,822.3	36,022.5
Stutsman	6	-	6	471.3	-	471.3
Towner	123		123	9,007.7		9,007.7
Ward	319	6	325	21,190.8	253.1	21,443.9
Wells	39	-	39	3,070.0	-	3,070.0
Williams	80	979	1,059	6,684.0	80,745.9	87,429.9
	4,586.0	5,760.0	10,346.0	373,824.2	464,956.0	838,780.2

Leased Oil and Gas Acres by Trust Fund
As of June 30, 2015

Trust Fund	Acres
Common Schools	523,014.52
School for the Blind	2,326.13
Capitol Building	3,431.34
School for the Deaf	3,735.40
Ellendale State College	2,751.67
State Hospital	2,071.09
Youth Correctional Center	7,082.93
School of Mines	2,621.33
North Dakota State University	11,172.35
Veterans Home	1,216.24
University of North Dakota	4,986.90
Valley City State University	2,616.25
State College of Science	2,350.12
Mayville State University	2,366.45
Farm Loan Pool	160.35
Sovereign Minerals	266,877.10
Total	**838,780.17**

OTHER MINERAL ASSETS

In past years, interest was shown in North Dakota's lesser known minerals including potash, uranium, and industrial grade diamonds. With lower commodity prices and difficulty in producing these assets, fewer prospecting firms have contacted the Department.

Potash had a period from 2010 to 2011 when its global price was high enough to generate interest and several parties indicated interest in the exploration of North Dakota potash. Upon subsequent exploration by a major potash producer and the downturn in potash prices, the North Dakota deposits proved to be uneconomical to mine as the formation lies too deep and is of a lesser quality than deposits in other parts of the world.

The Division continues to receive inquiries regarding the exploration of various resources. Although the conversations about the potential for industrial grade diamonds have slowed in recent years, interested parties still inquire, which is also true for uranium.

Revenue Compliance

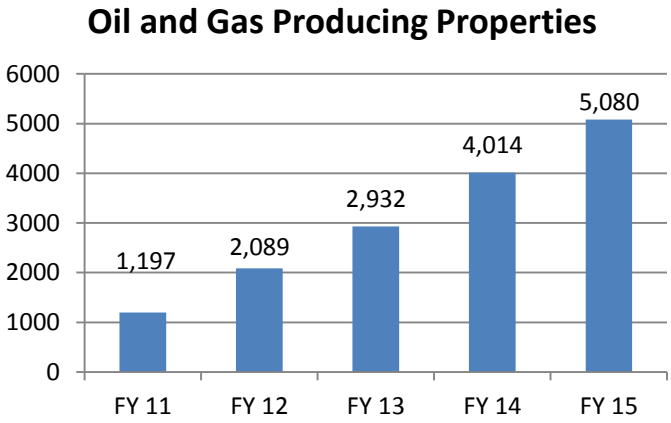
Taylor K. Lee, Director

The Revenue Compliance Division is responsible for developing and implementing procedures to assure the timely and accurate accounting of all royalties, bonuses, rentals, and other revenues received by the Department. Much of the division's time is dedicated to the appropriate accounting and collection of oil and gas royalties.

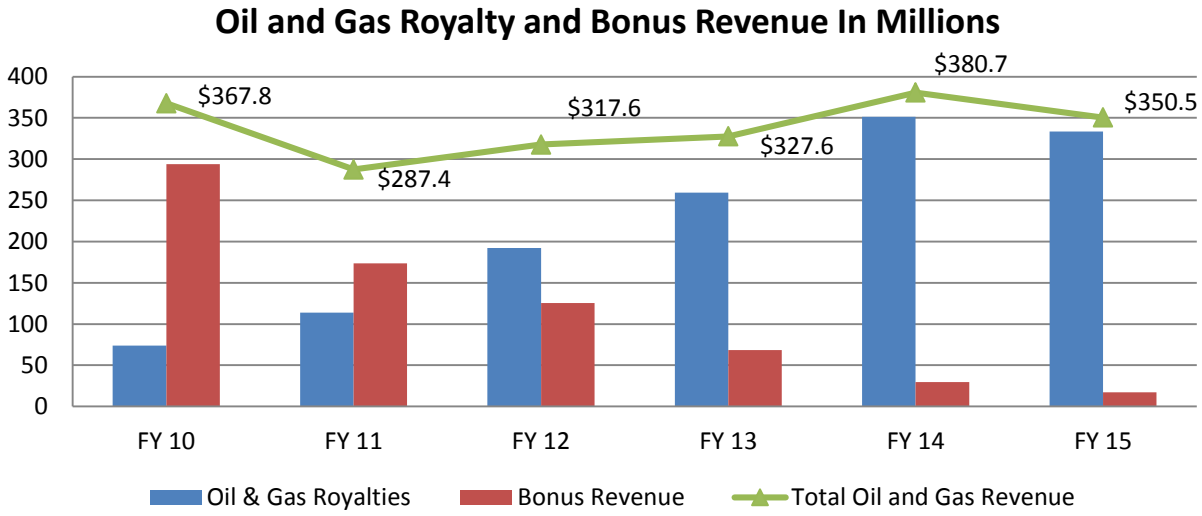
OIL AND GAS ROYALTIES

As of the close of the biennium, the Division monitored production from 5,080 producing properties including both unitized fields and wells, up significantly from FY 2014 when producing properties totaled 4,014. This is an increase of 27 percent in FY 2015 and an increase of 37 percent in FY 2014. As of June 30, 2015, the Department managed an interest in over 39 percent of the 12,868 producing wells in North Dakota.

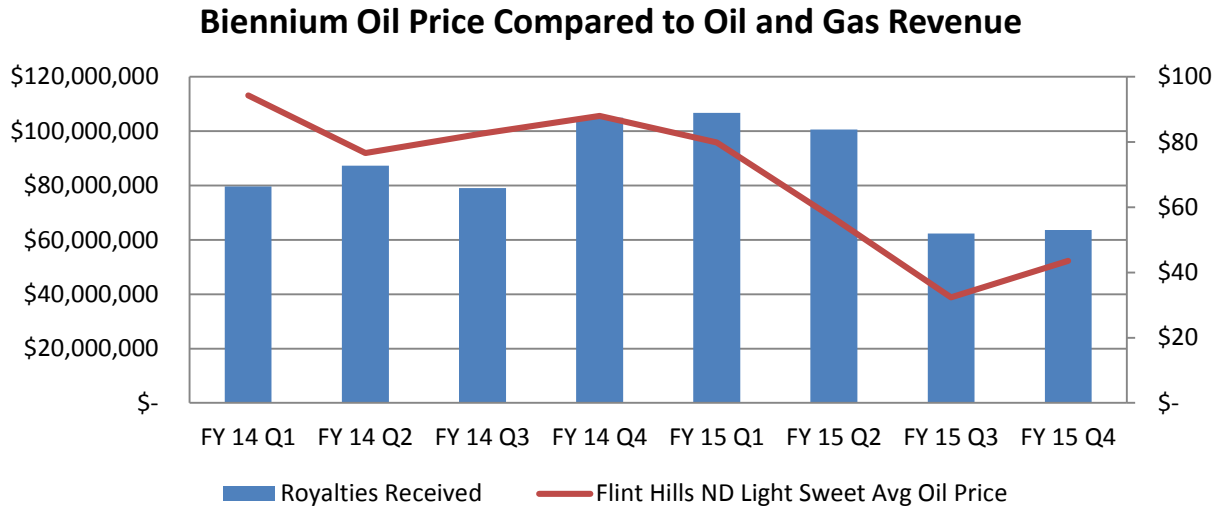
During FY 2015, the Department collected oil and gas royalties of $333.4 million, down slightly from $351.3 million in FY 2014. Bonus revenue received in FY 2015 totaled $17.1 million, a decline from $29.4 million in FY 2014. The bonus revenue has declined as the majority of favorable oil and gas production areas have been leased. As the bonus revenues have declined, the oil and gas royalties have generally increased with the growth in production. The FY 2015 decline is largely a result of lower prices.



Total oil and gas revenues have remained over $300 million five out of the last six fiscal years.



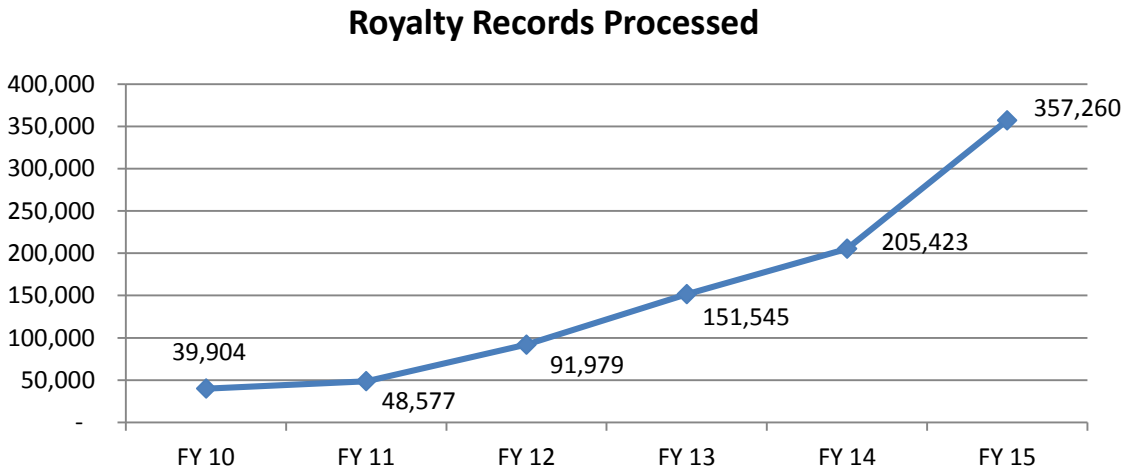
There is a clear relationship between declining oil prices and total oil and gas royalties received by the Department on behalf of trust funds and the Strategic Investment and Improvements Fund. As prices decline, there is a lag before the royalties drop as well.



RECORDS ENTRY

Despite a decline in oil prices, the Revenue Compliance Division has seen a continued increase in the volume of royalty records entered into the royalty management system. In FY 2015, there was an increase of 73.9 percent in records processed from FY 2014, while FY 2014 exhibited an increase of 35.6 percent from FY 2013.

Royalty records include royalties paid and corrections. Often, multiple transactions will occur for the same property due to adjustments, multiple tracts in the same spacing, and reporting of various products. Declining oil prices do not have an immediate effect on the volume of royalty records, only the amount of proceeds.



Due to the exponential growth of royalty data and increasing third party data collection costs, the Division has worked extensively with the staff information technology specialists on developing a new digital royalty reporting form that will permit operators to report electronically. This form will eliminate third party data collection costs, save time, and increase accuracy.

The new electronic royalty reporting form is a rendition of the royalty reporting form used by the Colorado State Land Board. By utilizing this form, the Department is moving toward a standardized report with other western states which may result in better data and more efficient reporting by operators.

COLLECTIONS

The Division reviews royalty data for discrepancies in volume, ownership, and lease terms. These efforts have recovered additional revenue to the Trusts that may not have otherwise been collected.

The majority of the collections are a result of additional royalties being owed, while a smaller portion is obtained from the collection of wrongly withheld taxes and deductions and enforcement of penalties and interest.

Collection Efforts Results

	FY 12	FY 13	FY 14	FY 15
Additional Royalties Collected	$5,033,003	$4,511,386	$8,052,757	$2,467,181
Additional Taxes and Deductions Collected	541,319	743,283	248,958	471,200
Penatlies Collected	437,279	225,346	224,201	339,525
Total Collections	**$6,011,601**	**$5,480,015**	**$8,525,916**	**$3,277,906**

Most of the money collected is a result of discrepancies in volume, ownership disputes, or noncompliance to lease terms; and not the deliberate underpayment of royalties by operators. The increased education of operators has led to enhanced compliance.

AUDIT

The 2015 Legislature authorized one additional auditor and the Division is working to enhance its reviews with more comprehensive oil and gas audits. This coupled with the efficiencies gained from the electronic royalty reporting will permit more in-depth audits of oil and gas operators, focused on oil and gas pricing. This increased audit exposure is expected to increase collections and enhance lease compliance.

RIVER ROYALTY ISSUES

The Revenue Compliance Division has also worked extensively with the Minerals Management Division and the Office of the Attorney General in conjunction with operators to either pay or escrow royalties attributed to the State's interest in the minerals associated with navigable waters. The Department has started engaging operators individually on all sovereign tracts associated with navigable waters to resolve these payment issues. This has resulted in increased royalty payments or additional escrowing of royalties rather than funds remaining in operators' suspense accounts.

Investments

Jeff Engleson, Director

The Investment Division is responsible for directing, implementing, and monitoring the Board's investment program. As of June 30, 2015, the total value of investment assets was approximately $4.33 billion. The majority of these assets, $3.64 billion, are owned by 13 permanent educational trusts under the Board's control, while the rest of the assets are owned by the Strategic Investment and Improvements Fund (SIIF), Coal Development Trust Fund, Capitol Building Fund and Indian Cultural Education Trust.

The type of investment assets owned by each trust fund managed by the Board is determined by the nature and purpose of the fund, the investment goals and objectives of the fund, and the timing and amount of distributions from that fund.

The 13 educational trust funds managed by the Board are permanent; they were established to provide ongoing funding for education. The Indian Cultural Education Trust, which has a similar purpose to the educational trust funds, is pooled with and invested alongside these trust funds. The investment goal is to grow trust assets and distributions at a rate that meets or exceeds the historic annual rate of inflation. To that end, the Board has developed an investment allocation plan that includes a well-diversified portfolio of stocks, bonds, real estate and other financial assets.

The primary purpose of the Coal Development Trust Fund is to provide loans to political subdivisions. The Board is responsible for administering the Trust and investing any monies that have not been lent. While loans to political subdivisions totaled $49.81 million, the remaining $17.32 million of this Trust was invested in a short-term, high-quality bond portfolio, to ensure that funds are available to make loans when needed.

The expendable nature of both the SIIF and Capitol Building Fund resulted in these funds being invested in short-term, high-quality Treasury bonds, Bank of North Dakota (BND) CDs and cash equivalents.

The ending value of investment assets managed by the Board was $4.33 billion. The following is a description of the types of assets held by the Trusts and funds:

- **Marketable Securities:** $3.64 billion of investment securities were held at the custodian bank, The Northern Trust Company, and were managed by investment professionals hired by the Board to achieve specific investment goals and objectives.

  An additional $498.17 million of SIIF and Capitol Building Fund assets were held in cash equivalents at both The Northern Trust Company and the BND, pending investment in a new ultra-short account funded in July 2015.

- **Farm and Energy Construction Loan Pools:** The permanent trust funds owned $12.91 million of farm real estate loans in the Farm Loan Pool.

  In addition, the Common Schools Trust owned $1.36 million of loans for hotels, apartments and multi-family housing in western North Dakota in the Energy Construction Loan Pool.

  The Department works closely with the BND, which administers individual loans, in developing and monitoring policies, goals and strategies for loans.

- **Other Loans:** The Board supervised $192.88 million of school construction loans with $150.00 million lent from the SIIF and $42.88 million from the Coal Development Trust Fund. The Coal Trust also owned $6.93 million of coal warrants from coal impacted political subdivisions.

- **Loan Guarantee:** $17.88 million of SIIF funds were held in an interest bearing account at the BND, where the funds are used to guarantee a loan for the Dakota Spirit AgEnergy biofuels plant near Spiritwood.

INVESTMENT STUDY

The Board's investment program had been relatively unchanged since 2003. The permanent trusts were invested in a portfolio of 51 percent equities and 49 percent fixed income, while the other funds managed were invested primarily in short-term fixed income securities. This conservative investment strategy performed well, especially during the 2007-08 financial crisis, when the trusts and funds lost less value than many similar funds nationally.

As the size of the investment assets increased, the Board recognized the need to secure outside advice on how to best manage its growing investment program. In April of 2013, the Board hired R.V. Kuhns and Associates (now known as RVK) to perform an investment study.

The purpose of the study was to provide:

- Recommendations for updated investment policies and procedures to help ensure that the Board meets its long-term goals and objectives for the permanent trusts.
- A proposed asset allocation for the permanent trusts that recognizes the Board's risk tolerance and return expectations, coupled with the Board's legal responsibilities to support trust beneficiaries, maintain the assets in the funds and follow the prudent investor rule.
- A strategy to transition the permanent trusts' investments to the recommended asset allocation.
- A recommendation for establishing specific goals, objectives and investment policies for the SIIF.

This investment study and the work with RVK to implement the recommendations of the study were a biennium-long focus of the Department and the Board. By the end of the biennium, a more diversified asset allocation for the permanent trusts was adopted, a comprehensive investment policy statement for all trusts was developed and several new managers were hired to help implement the adopted asset allocation.

ASSET ALLOCATION

The study initially focused on governance and fiduciary responsibility of the Board. The risks and potential benefits of various asset classes, including stocks, bonds, real estate, absolute return strategies and inflation hedge strategies were all examined by the Board.

Various methods to implement and manage an investment program, including direct Board decision making, the use of an investment committee, delegation to staff, delegation to the State Investment Board and using an outsourced Chief Investment Officer approach were reviewed.

The study focused on possible new asset class structures. The Board indicated its preference for liquid investment strategies when it decided not to invest in private equity, hedge funds or any other non-liquid investment products.

In September of 2013, the Board adopted a long-term asset allocation for the permanent trust funds which included 17 percent U.S. equities, 15 percent international equities, 23 percent fixed income, 15 percent real estate, 10 percent diversified inflation strategies, and 20 percent absolute return strategies.

IMPLEMENTATION

In December of 2013, the Board entered into a term agreement with RVK to help implement the new asset allocation and to provide performance monitoring services.

The Board and staff worked closely with RVK to implement the new asset allocation. The implementation processes involved evaluating the structure of each asset class, evaluating both passive and active alternatives for investing and then interviewing and selecting investment management firms to help meet the objectives for each asset class.

For equities it was decided that large cap equities, both domestic and international, should be invested passively, while small cap and emerging market equities should be managed actively.

A summary of the implementation phase:

- Three different firms were hired to manage the permanent trusts 20 percent allocation to global tactical asset allocation strategies (also known as absolute return strategies).
- Two firms were hired to manage core real estate portfolios while three firms were hired to manage non-core real estate portfolios.
- All fixed income managers were retained, though the amount allocated to each changed, and one new global fixed income manager was added to further diversify the fixed income portfolio.
- Three new managers were hired for the diversified inflation strategies portion of the portfolio. The new strategies include commodities (excluding oil), master limited partnerships and natural resource equities.

The TIPS (Treasury Inflation Protected Securities) investment was moved to the diversified inflations strategies category, and REITs (Real Estate Investment Trust) were dropped from the portfolio due to their limited inflation benefit.

The Board also took action relating to the other funds not pooled with the permanent educational trusts:

- The Board adopted an investment policy for the SIIF that focuses on short-term fixed income securities and hired Northern Trust to manage an ultra-short fixed income portfolio for the SIIF.
- The Board accepted a similar investment policy for the Capitol Building Fund with the intent of commingling its investments with the SIIF in the new ultra-short strategy.

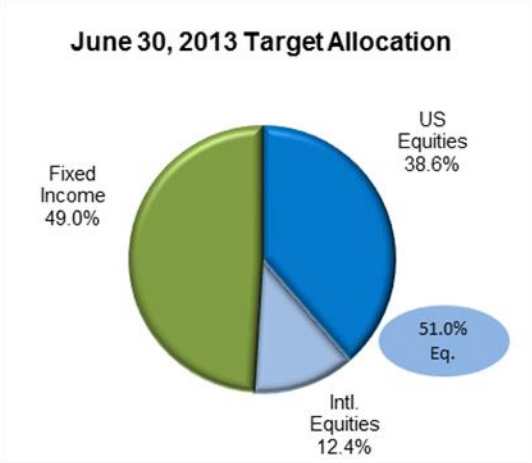
At the end of the biennium, most of the asset allocation and policy changes that resulted from the RVK study had been implemented. Shortly after the end of the biennium the Board:

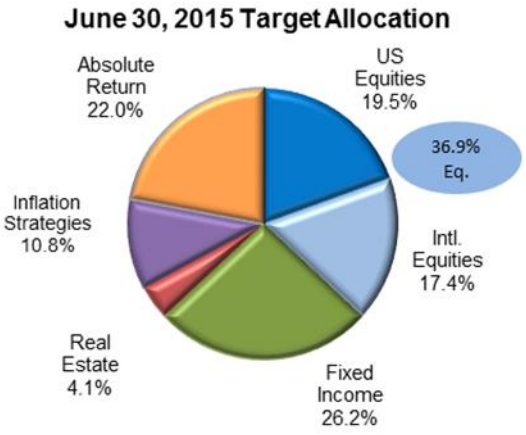
- Formally adopted the final investment study report and investment policy statement, which outline within a single document, the governance, asset allocation and approved strategies for all investments under the Board's responsibility.
- Adopted an interim asset allocation that allocates slightly more assets to equities, fixed income, inflation strategies and absolute return strategies until such time that all real estate portfolios can be fully funded.
- Drafted and adopted investment guidelines for the Coal Development Trust Fund that mirrors those for the SIIF.
- Approved the commingling of the investments of the SIIF, Coal Development Trust Fund and Capitol Building Fund in the Northern Trust ultra-short portfolio.

PERMANENT TRUST INVESTMENTS

The net assets of the combined permanent trust funds stood at $3.64 billion on June 30, 2015, an increase of $1.07 billion over the $2.57 billion balance two years earlier. The primary sources of trust growth for the biennium were mineral royalties and bonuses ($494.56 million), investment income and capital gains ($400.66 million) and oil extraction tax deposits ($279.42 million).

The new asset allocation adopted by the Board further diversifies the portfolio and should result in increased return and reduced risk.





Large reductions in the Trusts' exposure to equities and fixed income were offset by increases in the three new broad asset classes added by the Board. The interim target allocation as of June 30, 2015 does not equal the long-term target allocation adopted by the Board in September of 2013. As real estate investments are funded, the target allocation to other asset classes will be reduced until they match the long-term objective.

ACTUAL VERSUS TARGET ASSET ALLOCATION AS OF JUNE 30, 2015

Asset Class	Actual $ Million	Actual %	Target $ Million	Target %	Difference $ Million	% Diff.
Equities	$1,357.47	37.7%	$1,327.75	36.9%	$29.72	0.8%
Fixed Income	922.26	25.6%	942.74	26.2%	(20.48)	(0.6%)
Real Estate	147.85	4.1%	147.53	4.1%	0.32	0.0%
Diversified Inflation Strategies	387.12	10.8%	388.60	10.8%	(1.48)	(0.0%)
Absolute Return	783.54	21.8%	791.62	22.0%	(8.08)	(0.2%)
Total Portfolio	$3,598.24	100.0%	$3,598.24	100.0%		

PORTFOLIO RETURNS AND PERFORMANCE

The following table summarizes the returns earned by the primary asset classes in the portfolio, and for the portfolio as a whole.

PORTFOLIO RETURNS

RETURNS FOR PERIODS ENDED JUNE 30, 2015						
Asset Class	6/30/15 Allocation ($ mil.)	% of Total Portfolio	Last 1 Year	Last 3 Years	Last 5 Years	Last 10 Years
Broad US Equities	$707.23	19.7%	5.96	15.88	15.46	N/A
Broad International Equities	650.24	18.0%	-5.31	13.29	9.36	N/A
Fixed Income	922.26	25.6%	1.73	2.80	4.46	N/A
Real Estate	147.85	4.1%	(initial funding June 2015)			
Diversified Inflation Strategies	387.12	10.8%	4.02	N/A	N/A	N/A
Absolute Return	783.53	21.8%	-2.59	N/A	N/A	N/A
Total Portfolio	$3,598.24	100.0%	0.81	8.45	9.14	N/A
Total Portfolio (Net of fees)			0.50	8.16	8.87	5.78
All figures for periods of 1 year or greater have been annualized. All returns are gross of fees unless noted.						

The new asset allocation adopted by the Board for the permanent trusts did not produce strong returns during fiscal year 2015. Absolute return strategies that were funded in June of 2014 have produced negative returns, while new emerging markets portfolios were hurt by a weak economy and strengthening U.S. dollar. While initial short-term results have been poor, the diversified allocation was designed to produce better returns, with less risk, over the long-term.

OTHER TRUST INVESTMENT ASSETS

Continued low interest rates have had a significant impact on the investment returns earned by the SIIF, the Coal Development Trust Fund and the Capitol Building Fund. Each of these funds can be either fully appropriated by legislative action or completely lent out; thus the funds are invested in relatively short-term fixed income portfolios focused on capital preservation. As interest rates have dropped and remained low in recent years, the yield earned by these portfolios has fallen.

The SIIF and Capitol Building Fund were invested entirely in U.S. Treasuries that matured during the biennium. Both funds earned an average of only 0.2 to 0.3 percent on invested funds. The Coal Development Trust Fund had a slightly longer investment horizon and earned a better return at slightly less than 1 percent per year.

STAFF ADDITION

Based upon the increase in assets, managers and complexity of the investment program, an additional full time employee was allocated to the Investment Division. The new investment analyst will help improve investment manager due diligence processes and work to enhance automation of investment program.

Unclaimed Property

Susan Dollinger, Administrator

The Unclaimed Property Division administers and enforces the Uniform Unclaimed Property Act (N.D.C.C. Ch. 47-30.1). North Dakota enacted this law to protect owner funds from reverting to a business or other holder if contact has been lost. This law also directs companies to turn forgotten funds over to the Unclaimed Property Administrator who makes a diligent effort to find the owner or their heirs. The Division also supports the Common Schools Trust Fund with revenues earned on funds that are not claimed. The Act has been in effect since July 1, 1975.

OUTREACH ACTIVITIES

The North Dakota Unclaimed Property Act requires the following annual efforts to locate unclaimed property owners:

- County newspaper legal publication names/last known address
- Display ads in county newspapers

In addition to the statutory outreach requirements, the Unclaimed Property Division performs additional efforts during the biennium by:

- Supporting free searchable websites at https://land.nd.gov and www.missingmoney.com
- E-mailing to online user groups (state and county government, education system etc.)
- Conducting television, radio and newspaper interviews
- Presenting to service clubs
- Updating addresses and completing direct mailings to owners
- Participating in cooperative agreement for data matching with North Dakota Department of Human Services - Child Support

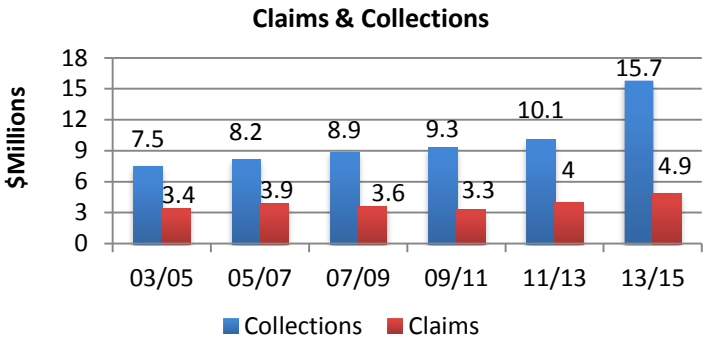
The Internet has become the most effective outreach tool via a claims "wizard" which allows searchers to receive customized instructions for filing a claim. As a result, claimants are not requested to provide any more documentation than what is needed, and there is an increase in the number of accurately documented claims resulting in less follow-up with claimants.

INCREASED STAFF

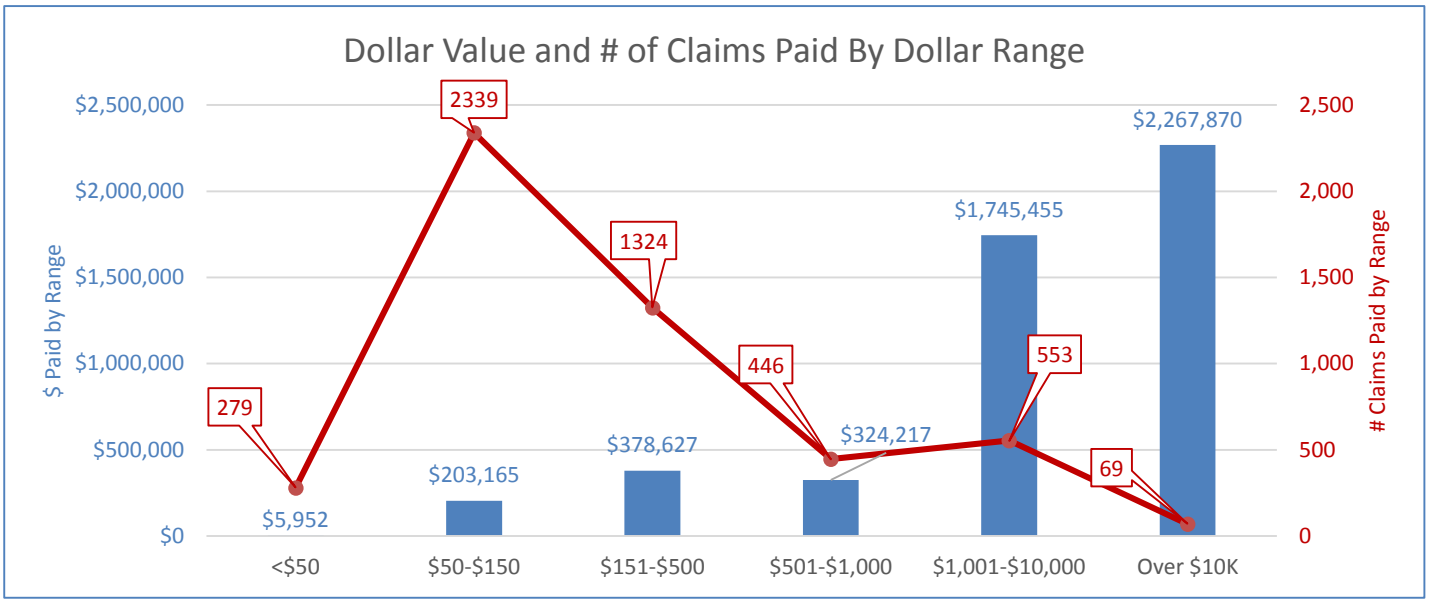
The most notable change to the Division during the 2013-2015 biennium was the addition of one and a quarter full time equivalent staff dedicated solely to Unclaimed Property responsibilities. This adjustment has allowed for an increased focus on owner outreach activities, as well as additional education of holders regarding their legal responsibilities. An increase in the number of claims paid as well as a continued increase in collections is anticipated.

COLLECTIONS AND CLAIMS

The Division saw a distinct increase in the amount of funds received from holders. This is attributed primarily to an increase in unclaimed oil and gas royalties. Collections included approximately $4.3 million from oil and gas proceeds compared to $1.5 million in the prior biennium. The total amount of collections for the current biennium was $15.7 million compared to $10.1 million in the previous biennium.



The number of claims paid in the current biennium was 5,010 compared to 7,138 in the previous biennium. This is somewhat attributable to reciprocity payments to other state unclaimed property programs being completed later in 2015 than in earlier years and outside of the 2013-2015 biennium. A total of $4.9 million of property was returned to the rightful owner/heir. The largest percentage of claims paid fall within the $50-150 range. The total number of claims paid is expected to rise with the increased focus on outreach and education.



Unclaimed Property not only belongs to individuals but to businesses as well. As part of the increased outreach and education, the Division works to increase claims made and paid to businesses. Of the 5,010 total claims paid, 975 (15%) were paid to businesses and 4,236 (85%) were paid to individuals.

COMPLIANCE AND EDUCATION

The Division continues to rely on third-party contingency auditors to provide compliance and education services in certain holder sectors. External auditors have been used since 1984. As of June 30, 2015 there were six active compliance contracts in place.

Staff education efforts, limited mostly to direct mailings and phone contact, have focused on specifically identified industry groups identified as having a poor compliance history

UNIFORM LAW COMMISSION

While unclaimed property laws and programs have operated in most states for many decades. Unclaimed property laws and programs have operated in most states for many decades, however there have been changes in the way business is conducted that are not addressed in previous Uniform Unclaimed Property Acts. Many of these changes relate to e-commerce and advances in technology. Newspapers, telephones, and the U.S. Postal Service are no longer the only acceptable forms of maintaining contact with owners in the context of due diligence or owner outreach.

Both the amount of unclaimed property generated in the U.S. economy and the volumes reported to states have significantly increased.

In 2013, the Uniform Law Commission (ULC) began the drafting process to update the Uniform Unclaimed Property Act. The most recent revision to the Uniform Act was enacted in 1995; although North Dakota currently operates under the 1985 version.

Revisions to the Uniform Act are currently under consideration. A revised Uniform Unclaimed Property Act will likely have several changes that could significantly impact unclaimed property administration in North Dakota. These changes would require Legislative approval prior to implementation.

Energy Infrastructure and Impact Office

Gerry Fisher, Administrator

The Energy Infrastructure and Impact Office (EIIO), formerly known as the Energy Development Impact Office, was legislatively organized in 1975 as the Coal Development Impact Office. The Oil and Gas Impact Grant Program, established to address oil and gas impact needs, began in 1981. In 1989 the EIIO was combined with the Department of Trust Lands, and is currently under the direction of the Board of University and School Lands.

The purpose of the Energy Infrastructure and Impact Office is to provide financial assistance to local units of government experiencing adverse impacts as a direct result of oil and gas activity. The program is funded from one of the five percent of the Oil and Gas Gross Production Taxes.

The amount of funding available to this program was:

- $6 million in the 2007-2009 biennium
- $8 million in the 2009-2011 biennium
- $135 million in the 2011-2013 biennium

For the 2013-2015 biennium, $240 million was appropriated to the oil and gas impact grant fund, with $700,826 authorized for program administration. The 2013 Legislature provided allocation targets totaling $103.5 million for the following areas:

New Oil And Gas Counties	$5,000,000
Airports	$60,000,000
Higher Education Institutions	$4,000,000
Dust Control Efforts	$3,000,000
Sheriffs' Offices	$7,000,000
Emergency Medical Services	$7,000,000
Fire Departments	$3,500,000
Hub Cities	$14,000,000

Of the $240 million appropriated for oil and gas impacts, the legislature targeted $103.5 million to specific areas, the Board allocated $25 million for grants to K-12 schools, $80 million to cities' infrastructure, an additional $2.5 million for fire districts, a supplemental $6.5 million to fire and EMS, and $8 million for a general grant round for other political subdivisions without a specific grant round.

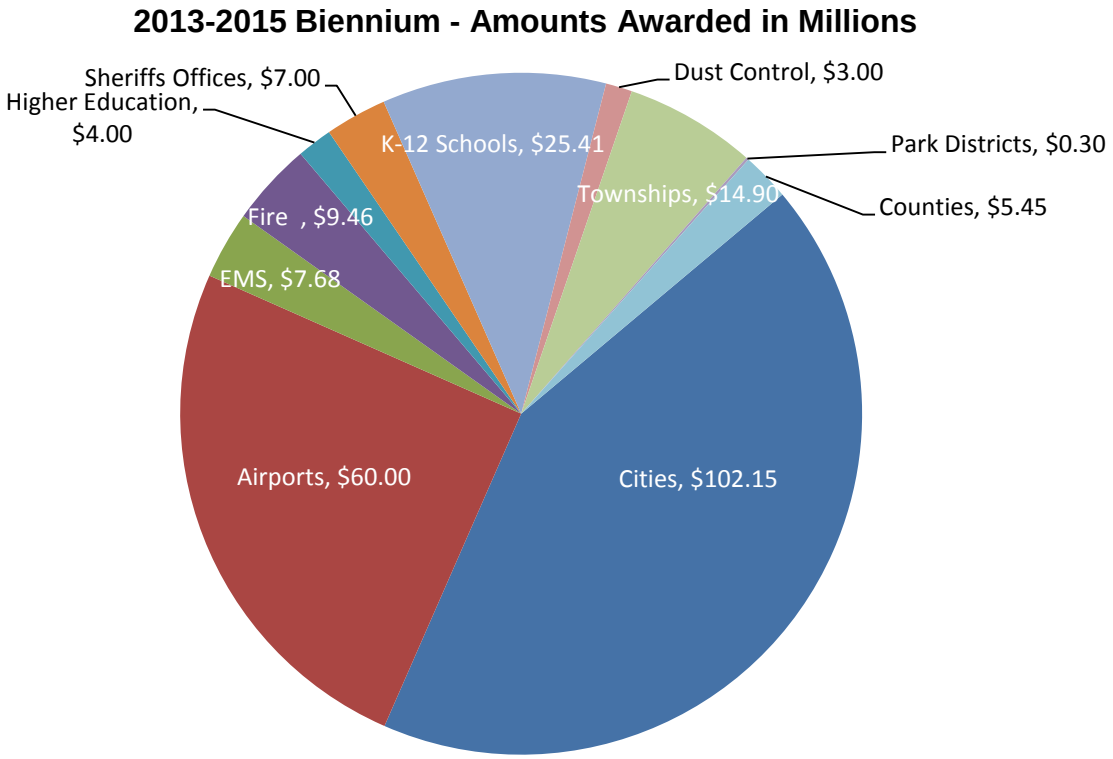
Oil and Gas Impact Grants

County	Amount Requested	Amount Awarded
Adams	$725,323	$223,200
Barnes	755,000	0
Billings	14,924,784	1,668,581
Bottineau	11,585,394	2,105,505
Bowman	7,416,293	5,512,842
Burke	19,456,004	5,758,241
Burleigh	5,643,182	0
Cass	1,198,400	0
Cavalier	125,000	0
Dickey	$25,000	0
Divide	28,769,209	10,612,645
Dunn	46,467,303	15,704,795
Emmons	$680,000	0
Foster	$70,000	0
Golden Valley	18,262,068	4,975,829
Grand Forks	31,200	0
Grant	28,000	0
Hettinger	283,234	144,311
LaMoure	20,000	0
Logan	147,071	0
McHenry	913,939	115,773
McKenzie	298,635,896	43,452,001
Mclean	5,703,380	366,922
Mercer	8,017,890	291,326
Morton	7,567,801	0
Mountrail	87,120,846	32,726,568
Pembina	48,600	0
Pierce	1,120,000	0
Renville	5,738,210	1,919,157
Richland	25,350	0
Sheridan	78,830	0
Slope	1,344,083	643,446
Stark	107,407,035	21,736,051
Stutsman	235,000	0
Walsh	110,000	0
Ward	224,162,063	35,169,579
Williams	221,352,748	56,562,953
Cancellation for re-awards		-$390,551
TOTAL	**$1,126,194,135**	**$239,299,174**

Criteria used for award consideration by the Board included:

- Project need as a direct result of impacts caused by oil and gas development and production.
- The safety of the public, emergency services responders and providers and others protected or improved by completion of the project.
- How well the focused objective of the grant round is met by the proposed project.
- The applicant demonstrating financial need upon review of local finances, tax levy, cash, debt, unused award funds and other revenue sources.
- Project being ready and achievable based on design, planning, cost estimates and project organization being completed.
- Completion of the project resulting in long-term economic benefit.

During the 2013-2015 biennium, there were 19 grant rounds. The focus for these grant rounds was city infrastructure needs (mainly potable water and sanitary sewer), dust control, airports, sheriff departments, K-12 schools, emergency medical services, fire districts, higher education, and a general grant round for all other political subdivisions.



The Energy Impact Grant program addressed several developing needs during the biennium. The Board was able to fund an emergency request from Watford City to address water/sewer/utility infrastructure needs to support a new high school. A grant was provided to the McKenzie County Public School District to assist with site preparation for the new school in FY 2015. The Board funded emergency requests from the Tioga and Powers Lake school districts for financial and construction planning assistance.

The EIIO worked with the State Bureau of Criminal Investigation in determining recommendations for sheriffs and other law enforcement needs; with the University System Chancellor regarding awards to higher education; and with the Aeronautics Commission in suggesting priorities for awards to airports.

The EIIO staff spent several weeks and traveled thousands of miles meeting with political subdivision officials. Staff also drove roads and visited the projects included in applications for impact grants. Information was gathered from many sources, including oil and gas production data and rig counts, oil tax and property tax information, and receipt of other state funds, as well as other financial information from the various county and city auditors' offices.

During the 2013 legislative session, $5 million was targeted for counties emerging into the energy sector. A trigger was defined indicating that counties having less than 100,000 barrels of production in the month of November 2012 and having more than four active drilling rigs in any one month following would qualify for $1.25 million. The Department of Mineral Resources confirmed that in July of 2013, Golden Valley County met the trigger, and it subsequently received $1.25 million. Funds not distributed to emerging counties as of January 1, 2015, became available for grants to other eligible entities.

With many legislatively focused areas of grant consideration, the Board established several advisory committees, which assisted with award recommendations.

Committees included:

- City and General Advisory Committee consisting of mayors, county commissioners, township officers, a representative of the Department of Transportation and from the energy industry;
- Law Enforcement Advisory Committee consisting of the North Dakota Attorney General's Drug and Violent Crime Policy Board; a K-12 Schools Advisory Committee which included superintendents;
- Airports Advisory Committee comprised of the North Dakota Aeronautics Commission;
- Fire Districts Advisory Committee made up of fire chiefs and a representative of the State Fire Marshal;
- Emergency Medical Services Advisory Committee included EMS leaders and a representative of the Department of Health.

Many political subdivisions have been impacted by the oil and gas development within the Bakken region. During the biennium, 1,178 grant requests were received totaling more than $1.13 billion. Applications were received from 37 of the 53 North Dakota counties. The Board approved $239.30 million in awards to communities, counties, fire departments, EMS and schools.

FLOOD IMPACTED POLITICAL SUBDIVISION INFRASTRUCTURE DEVELOPMENT GRANTS

Separate from the oil and gas impact grant program, $30 million was appropriated by the legislature during a November 2011 special session to address needs resulting from the 2011 floods. The Energy Infrastructure and Impact Office was designated to implement and administer a grant program to address impacts not being funded by other state or federal response or insurance coverage. During 2012, the Board approved 141 grants totaling $29.90 million.

The 2013 Legislature provided carryover authority for the funds that had not yet been distributed, allowing their use beyond the 2011-2013 biennium. As of June 30, 2015, $23.90 million of grants had been reimbursed to completed projects and just under $6 million of the awarded funds remained to be distributed to several projects that were still being completed during the 2015 construction season.

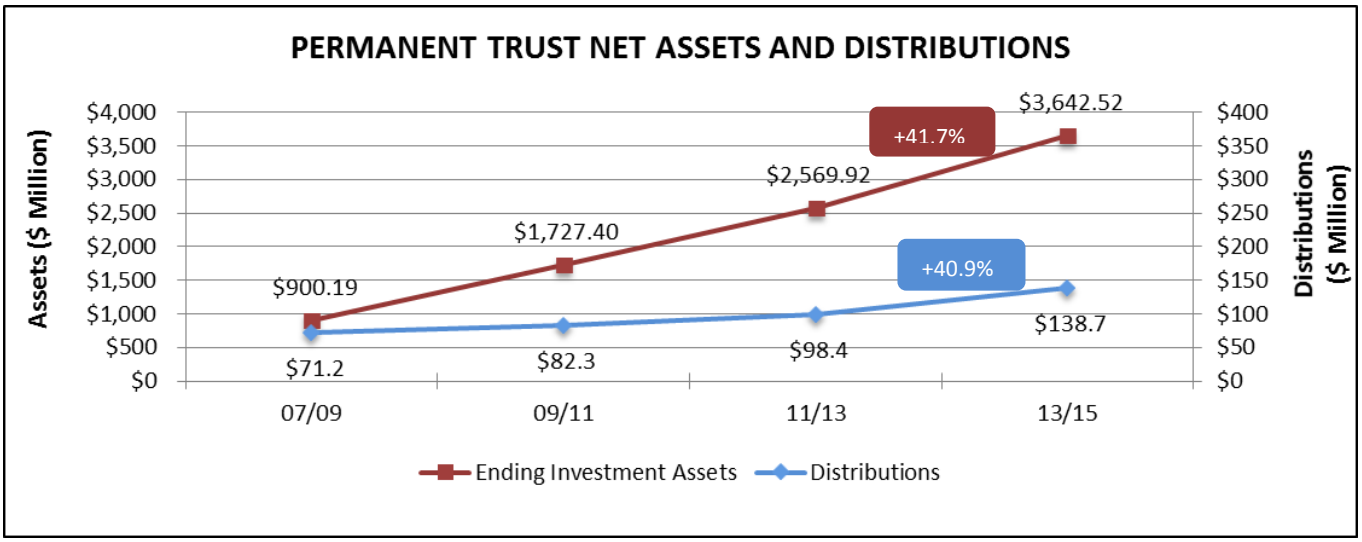
2013-2015 Biennium
Flood Impacted Political Subdivision Infrastructure Development Grants

County	Amount Awarded	Amount Remaining
Barnes	$500,000	$0
Benson	1,000,000	49,670
Burleigh	2,685,606	114,374
McHenry	1,027,547	315,726
Morton	1,079,749	266,843
Ramsey	1,000,000	22,802
Renville	893,682	597,738
Richland	500,048	57,598
Ward	21,208,448	4,561,558
TOTAL	$29,895,080	$5,986,311.10

Financial Reports

Permanent Funds

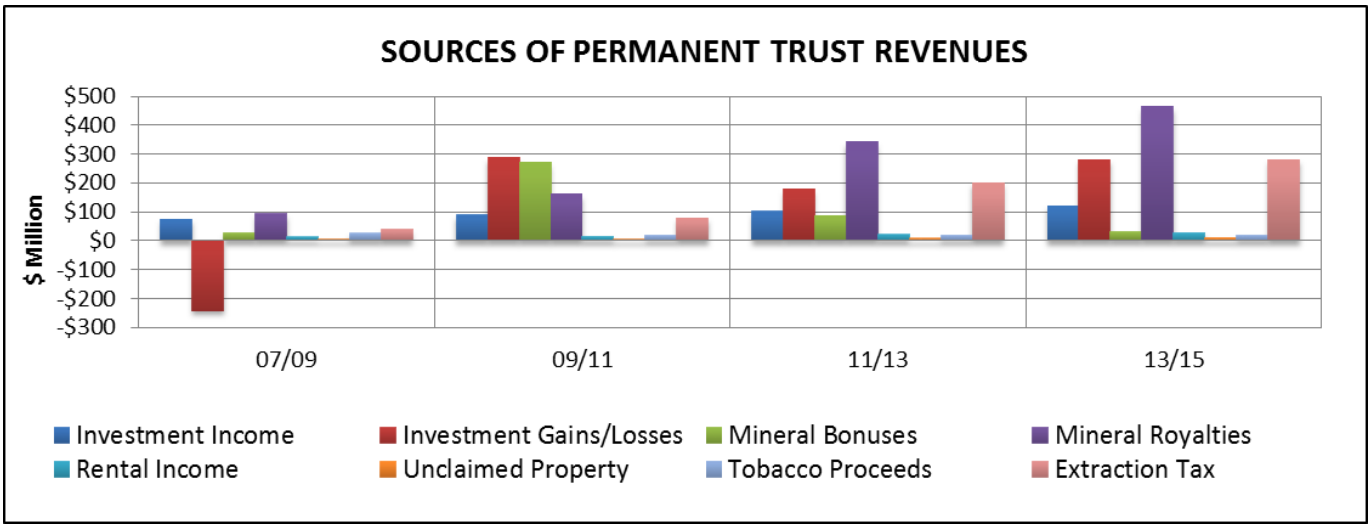
Net Asset Balances by Trust	June 30, 2009	June 30, 2011	June 30, 2013	June 30, 2015
Common Schools	$846,314,086	$1,622,412,984	$2,417,363,782	$3,437,998,002
North Dakota State University	12,926,989	26,211,666	40,849,758	55,758,440
School for the Blind	1,892,385	3,130,370	5,642,741	7,617,521
School for the Deaf	4,232,854	9,352,875	14,035,624	18,477,691
State Hospital	5,632,733	9,300,413	11,124,623	12,809,810
Ellendale State College	2,008,718	4,592,559	6,528,016	8,625,605
Valley City State University	2,482,888	4,453,923	6,677,677	9,801,420
Mayville State University	1,620,969	2,854,879	4,755,521	6,412,308
Industrial School	4,171,174	10,387,494	16,341,908	23,046,599
State College of Science	4,630,622	8,593,518	11,165,942	14,463,078
School of Mines (UND)	5,726,268	10,132,213	12,794,656	16,554,375
Veterans Home	2,176,905	3,035,395	4,036,445	4,748,255
University of North Dakota	6,376,620	12,942,682	18,602,001	26,204,749
Total	**$900,193,211**	**$1,727,400,971**	**$2,569,918,694**	**$3,642,517,853**



Distributions By Trust	7/07 to 6/09	7/09 to 6/11	7/11 to 6/13	7/13 to 6/15
Common Schools	$66,800,000	$77,178,000	$92,514,000	$130,326,000
North Dakota State University	1,070,000	1,238,000	1,424,000	2,066,000
School for the Blind	176,000	206,000	216,000	282,000
School for the Deaf	310,000	360,000	454,000	720,000
State Hospital	390,000	456,000	572,000	754,000
Ellendale State College*	168,000	196,000	220,003	345,996
Valley City State University	226,000	260,000	286,000	372,000
Mayville State University	156,000	178,000	184,000	236,000
Industrial School	378,000	438,000	528,000	810,000
State College of Science	338,000	388,000	492,000	682,000
School of Mines (UND)	370,000	428,000	560,000	794,000
Veterans Home	214,000	248,000	248,000	276,000
University of North Dakota	604,000	692,000	750,000	1,020,000
Total	**$71,200,000**	**$82,266,000**	**$98,448,003**	**$138,683,996**
Increase From Previous Biennium	**6.6%**	**15.5%**	**19.7%**	**40.9%**

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

Permanent Trust Revenues by Trust				
	07/09	09/11	11/13	13/15
Common Schools	$34,050,810	$863,203,537	$899,547,681	$1,170,639,211
North Dakota State University	140,150	14,714,384	16,320,293	17,358,335
School for the Blind	(161,898)	1,476,307	2,770,039	2,316,931
School for the Deaf	471,578	5,544,552	5,224,176	5,287,019
State Hospital	500,736	4,181,005	2,461,790	2,522,717
Ellendale State College	140,076	2,820,533	2,205,740	2,510,740
Valley City State University	(159,071)	2,279,205	2,564,651	3,570,453
Mayville State University	(211,092)	1,443,349	2,123,213	1,946,463
Industrial School	(299,223)	6,731,725	6,590,087	7,670,780
State College of Science	391,484	4,410,980	3,134,279	4,078,830
School of Mines (UND)	978,275	4,898,211	3,298,466	4,662,940
Veterans Home	(329,200)	1,136,568	1,281,524	1,029,791
University of North Dakota	(684,718)	7,362,237	6,444,075	8,814,282
Total	**$34,827,907**	**$920,202,593**	**$953,966,014**	**$1,232,408,492**



Permanent Trust Revenues By Source				
	07/09	09/11	11/13	13/15
Investment Income	$74,967,590	$88,258,418	$100,417,162	$120,097,821
Investment Gains/Losses	(242,259,582)	286,647,894	178,153,865	280,564,891
Mineral Bonuses	27,660,236	268,760,195	87,628,350	30,584,547
Mineral Royalties	93,203,034	159,652,727	340,364,328	463,977,085
Mineral Rentals	1,020,914	1,404,486	754,167	2,325,677
Surface Rentals	11,579,335	13,899,500	19,698,331	24,802,338
Unclaimed Property	6,001,464	5,724,147	8,168,244	11,667,540
Tobacco Settlement Proceeds	24,753,324	18,102,049	18,024,419	18,966,007
Extraction Tax	37,901,592	77,753,177	200,757,148	279,422,586
Total	**$34,827,907**	**$920,202,593**	**$953,966,014**	**$1,232,408,492**

OTHER FUNDS

STRATEGIC INVESTMENT AND IMPROVEMENTS FUND

Net Asset Balances & Biennial Transfers				
	6/30/09	6/30/11	6/30/13	6/30/15
Net assets	$32,586,643	$249,074,431	$969,920,162	$793,726,995
Total Transfers	$16,498,349	$35,814,077	$312,356,917	$1,428,930,109

Revenues By Source				
	07/09	09/11	11/13	13/15
Investment Income	$1,416,649	$2,188,864	$2,065,673	$6,309,054
Mineral Royalties	22,543,043	53,194,129	138,293,182	220,997,679
Mineral Bonuses	10,915,472	197,435,151	106,922,161	22,706,090
Rental Income	382,875	691,442	359,505	290,430
Oil and Gas Tax Transfer	-	-	786,998,032	1,004,342,045
Total	**$35,258,039**	**$253,509,586**	**$1,034,638,553**	**$1,254,645,298**

Non-Investment SIIF Assets Held as of June 30, 2015	
Medical Facilities Infrastructure Loan Program	$49,891,582
Loan Guarantee – Fuel Production Facility	18,068,688
School Construction Loans	150,000,000

The 63rd Legislative Assembly (2013) passed legislation that dedicated SIIF funds to various programs:

- SB 2187 created the Medical Facility Infrastructure Loan Program with an appropriation of $50 million from the SIIF. The Bank of North Dakota manages the loan program; the first loan under this program was funded by the BND during the spring of 2015. The SIIF lost money on the Medical Facility Infrastructure Program during 2013-15 biennium as a result of an allowance for losses charge made to the fund in June 2015.

- SB 2287 provided for the use of up to $25 million of the SIIF assets to guarantee a loan for a biomass fuel production facility. The provided guarantee was for $18 million to support a loan for one facility. The balance needed to guarantee this loan will decline as the loan is repaid. The money set aside to guarantee this loan is invested in a short-term fixed income portfolio.

- HB 1013 provided for the use of up to $150 million from the SIIF for school construction loans. The Department of Public Instruction is responsible for managing this loan program. As of June 30, 2015, the entire $150 million had been lent to 18 different school districts. All loans are expected to be paid in full over the next 20 years. These loans were yielding 1.43 percent as of June 30, 2015.

During the biennium $1.43 billion was transferred out of the SIIF:

Appropriated by 63rd Legislative Assembly:

HB 1015: $520 million to the State General Fund

HB 1358: $2.0 million to the Commerce Department for grants to nursing homes and basic care facilities

$9.6 million to the Department of Human Services for grants to critical access hospitals

$9.6 million to the Office of the Attorney General for grants to law enforcement agencies

SB 2018: $2.5 million to the Commerce Department to assist with a lease for the unmanned aerial system project

Appropriated by 64rd Legislative Assembly (by emergency clause):

SB 2103: $298 million to the State Treasurer for distributions to counties, cities and townships

$450 million to the State Highway Fund

$115.0 million to the Department of Transportation for road and bridge infrastructure (out of a total of $352.0 million appropriated, balance to be paid during 2015-2017)

$500,000 (North Dakota Geological Survey Core and Sample Library) - core library expansion project (out of a total of $13.6 million appropriated, balance to be paid during 2015-2017)

In addition to the monies specifically appropriated by the legislature, and additional $21.73 million of royalty, bonus and other SIIF revenues were transferred to the Legacy Fund in accordance with NDC 15-08.1-08. The provision that requires these transfers was repealed by the 64th Legislative Assembly.

COAL DEVELOPMENT TRUST FUND

Net Asset Balances & Biennial Transfers

	6/30/09	6/30/11	6/30/13	6/30/15
Net assets	$61,147,532	$63,449,567	$65,300,138	$67,371,340
Transfers to State General Fund	3,556,108	2,505,172	1,898,390	1,654,318

Revenues By Source

	07/09	09/11	11/13	13/15
Investment Income	$3,366,071	$2,397,776	$1,854,648	$1,865,761
Investment Gain/Losses	(98,740)	571,593	157,441	74,234
Severance Tax Income	2,012,756	1,939,375	1,869,177	1,940,158
Total	**$5,280,087**	**$4,908,744**	**$3,881,266**	**$3,880,153**

Coal Development Trust Fund Assets Held as of June 30, 2015 (excluding accruals)

School Construction Loans	$ 42,877,241
Coal Impact Loans	6,930,883
Investments	17,324,208

The Trust funded $17.15 million of new school construction loans. The $42.88 million in school construction loans is the closest that the loan balance has been to the $50 million cap in the program's 20 year history. As a result, the investable balance of the fund was at its lowest point in many years as the demand for coal impact loans also grew.

Distributions of profits from the Coal Development Trust to the State General Fund declined as below market rate loans increased.

CAPITOL BUILDING FUND

Net Asset Balances & Biennial Transfers				
	6/30/09	**6/30/11**	**6/30/13**	**6/30/15**
Net assets	$1,333,302	$3,367,502	$2,841,003	$5,903,878
Transfers to Facility Management	488,452	106,700	1,809,000	1,092,000

Revenues By Source				
	07/09	**09/11**	**11/13**	**13/15**
Investment Income	$65,193	$53,337	$21,249	$18,412
Mineral Royalties	60,717	487,419	956,004	3,849,838
Mineral Bonuses	624,333	1,435,621	28,539	24,722
Rental Income	215,236	209,729	326,546	318,813
Total	**$965,479**	**$2,186,106**	**$1,332,338**	**$4,211,785**

The Capitol Building Fund grew at an unprecedented rate during the 2013-15 biennium. The primary source of growth for this fund has been a series of new wells that were drilled on minerals owned by the Fund in Mountrail County.

INDIAN CULTURAL EDUCATION TRUST

Net Asset Balances & Biennial Transfers				
	6/30/09	**6/30/11**	**6/30/13**	**6/30/15**
Net assets	$486,067	$667,591	$759,091	$1,173,978
Transfers to Beneficiary	-	-	-	-

Revenues By Source				
	07/09	**09/11**	**11/13**	**13/15**
Investment Income	$37,750	$38,587	$33,978	$35,709
Investment Gain/Losses	(181,999)	140,980	58,339	80,608
Rental Income	7,800	6,601	4,000	4,000
Donation	673,622	-	-	300,000
Total	**$537,173**	**$186,168**	**$96,317**	**$420,317**

The Indian Cultural Education Trust grew to more than $1.1 million during the biennium, with the bulk of its growth coming from a $300,000 donation made by Coyote Creek Mining Company, a subsidiary of North American Coal. Annual reports are sent to the Mandan, Hidatsa, and Arikara Nation Cultural Education Foundation, the beneficiary of the Trust, which has never asked for a distribution from the Trust as provided for in the Trust Agreement.