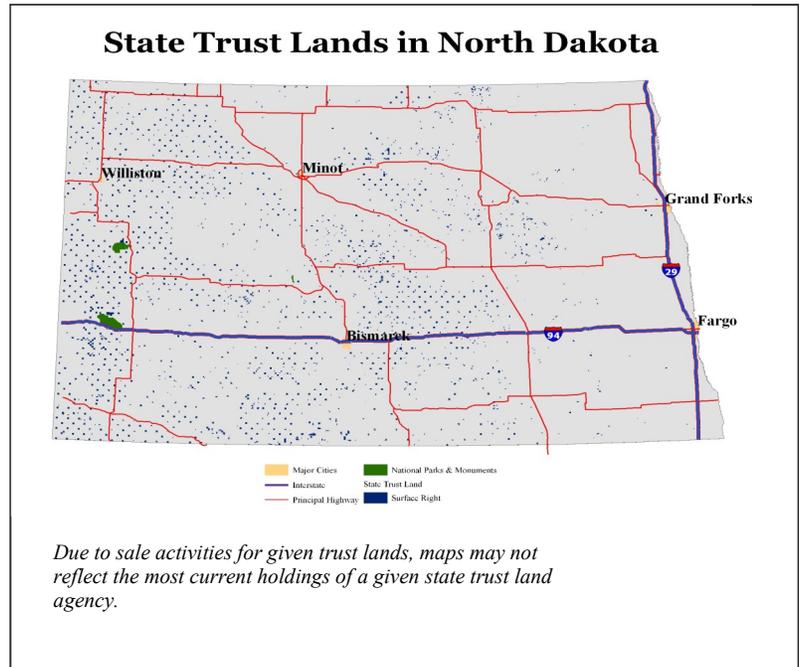


North Dakota Trust Lands & Education Funding

As new states entered the union, Congress made land grants to those states to provide support for a variety of public institutions, principally public schools. These lands were accepted through ratification of state constitutions that contained provisions guiding the state's management of these lands. Unlike public lands, state trust lands are held in trust by the state for designated beneficiaries. As trustees, state land managers have a fiduciary duty to manage the lands for the benefit of the beneficiaries of the trust grant. They lease and sell these lands for a diverse range of uses to meet that responsibility – generating revenue for the designated beneficiaries, today and for future generations.

There are approximately 700,000 surface acres and 1.8 million mineral acres of trust land in North Dakota.¹ Surface acres include land that is managed for agriculture, grazing, and right-of-way uses.² The mineral acres contain deposits of oil, gas and coal.³



Map: Sonoran Institute

How are trust lands in North Dakota managed?



Photo: Tim Kiser

The management of North Dakota's trust lands is overseen by the Board of University and School Lands (Board), whose members include the top five statewide elected officials: the Governor, Attorney General, Secretary of State, State Treasurer, and Superintendent of Public Instruction. The members of the Board appoint a Commissioner to administer North Dakota's trust lands and to direct the North Dakota State Land Department (NDSLDD) with the Board's oversight and approval.⁴ The Board was granted control of appraisal, sale, rental, and disposal of North Dakota's trust lands, with a constitutional direction to invest the proceeds of the trust lands.⁵ The North Dakota Constitution limits the surface use of trust lands to leasing for grazing and meadow purposes.

The mission statement of NDSLDD is consistent with the State Constitution, and is to "serve as a trustee for the benefit of the common schools (public grades K-12), various institutions of higher education, and certain other state institutions."⁶ The goal of the NDSLDD, as set in statute, is to "maximize distributable income and trust growth" given the laws and policies governing the department and is subject to the "prudent investor rule."⁷

Who are the beneficiaries of trust lands in North Dakota?

Revenues generated from North Dakota’s trust lands are deposited into thirteen separate trust funds that provide revenues for fifteen beneficiary groups. A specific acreage of trust lands was granted to each beneficiary, and the revenue generated from those lands is deposited into the corresponding beneficiary’s fund.

Public schools are the designee of over 91% of the trust land in North Dakota and receive the majority of the revenue generated by trust land in the state.⁸

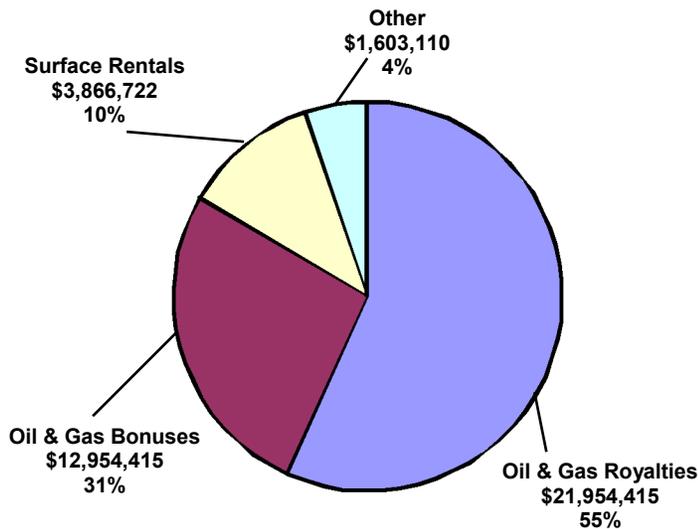
North Dakota Trust Land Beneficiary Funds and Acreage Dedicated to Each⁹

Fund	Beneficiary	Surface Acres in Fund	% Acres
Common Schools	Public Schools	636,099	91.1%
N.D. State University	N.D. State University	15,306	2.2%
State Hospital	N.D. State Hospital	2,242	0.3%
Ellendale State College	Dickinson State University Minot State University MSU-Bottineau Veterans Home School for the Blind State Hospital State College of Science	5,033	0.7%
Valley City State University	Valley City State University	4,961	0.7%
Mayville State University	Mayville State University	3,229	0.5%
N.D. School for the Blind	N.D. School for the Blind	3,522	0.5%
N.D. School for the Deaf	N.D. School for the Deaf	4,895	0.7%
Industrial School	Youth Correctional Center	3,800	0.6%
State College of Science	N.D. State College of Science	3,774	0.5%
Schools of Mines	University of North Dakota	3,450	0.5%
Veterans Home	N.D. Veterans Home (A Soldier’s Home)	2,800	0.4%
University of North Dakota	University of North Dakota	9,104	1.3%
	Total	698,215	100%



Photo:Hephaestos GFDL

How are revenues generated from trust lands?



Revenue Streams from North Dakota Trust Lands for All Beneficiaries Combined, FY 2006 ¹¹

North Dakota's trust land managers generate revenue from these lands through resource extraction (including oil and gas royalties and bonus revenues), grazing and hay farming leases, and land sales. The three largest sources of revenues from trust lands in FY2006 ¹⁰ were from oil and gas royalties, surface rentals, and oil and gas bonus revenues.

Over the last five years, the biggest source of income for the public schools has come from oil and gas royalties.¹²

How does the revenue get to the beneficiaries?

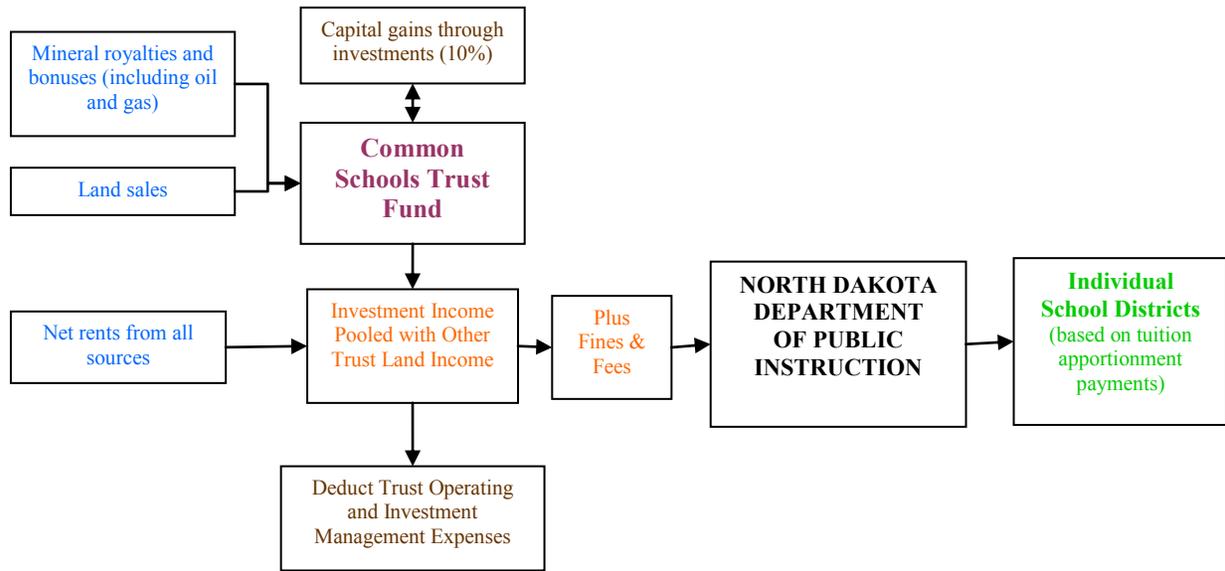
Revenues generated from trust land uses are deposited into the given beneficiary group's Trust Fund or to their expendable income account, depending on the source of the land revenues. The Common Schools Trust Fund receives revenues from non-renewable sources, such as land sales and mineral royalties and bonuses. The Common Schools Trust Fund also receives 45% of the state's tobacco lawsuit settlement proceeds, plus the net proceeds from unclaimed property and 10% of the state's oil extraction tax collections. Revenues from renewable sources, such as surface rentals for grazing or agricultural purposes or mineral rentals, are combined with investment income and realized capital gains from the Common Schools Trust Fund and made available for distribution to the beneficiaries, less operating and investment management expenses. For FY 2006, North Dakota's trust lands generated \$5.5 million in land revenue for the beneficiaries and investment income of \$31.5 million from the investment of the Permanent Funds.¹³ The market value of all of the Permanent Funds combined was \$817 million at the end of FY 2006.¹⁴ The trust beneficiaries received a total of over \$33 million in distributions from trust lands and funds during FY 2006.¹⁵

In 2006, voters approved Constitutional Measure No. 1, which would allow for a distribution method for trust land revenues based on a 5-year average of the value of the trust funds.¹⁶ However, implementation of this measure still awaits federal legislation to amend the 1889 Enabling Act for North Dakota. If this change is made, the distribution to the beneficiaries will change beginning with the 2009-2011 biennium. If Congress does not approve the Enabling Act change, distributions to the beneficiaries will continue according to current methods.¹⁷

The Board of University and School Lands is responsible for the investment of the trust funds and are required to apply the prudent investor rule as they manage trust funds, which states that the Board must invest as would an "institutional investor of ordinary prudence, discretion and intelligence."¹⁸ Only interest from the trust funds is available for distribution to the beneficiaries, while the corpus of the fund remains untouched.

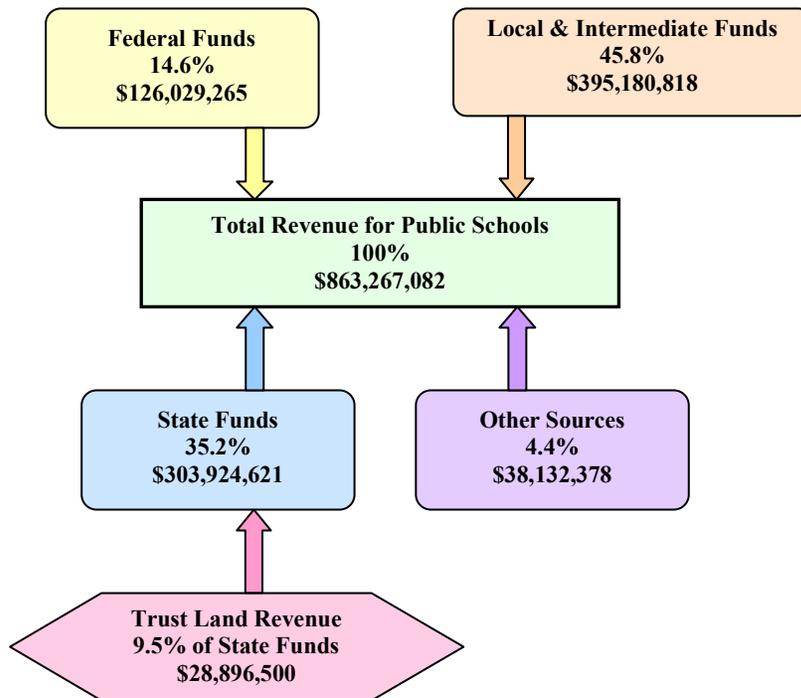
The total amount of trust land revenues provided to the public schools in FY 2006 was \$31.1 million, and was derived from the combined investment, capital gains, and rental income from the Common Schools Trust Fund.¹⁹ These revenues are pooled with fines and fees and are subsequently distributed to the school districts directly as a part of the tuition apportionment payments made by the Department of Public Instruction.

Public School Funding Flow Chart ²⁰



Public schools in North Dakota receive funding from a combination of federal, state and local funds. State funding provides 35.2% of total education funding, and of the state’s portion, trust land revenues make up 9.5% of that amount.

FY 2003 Public School Funding Source Diagram ²¹ Local and Intermediate Funds





Trust lands in North Dakota make up nearly 10% of state funding for education, giving them a significant role in overall funding for public schools. Commissioner Preszler notes that trust land funding is a “meaningful” source of revenue, especially as other sources of revenue languish due to tax revenues losses from a declining and aging population within the state.²²

Photo: Hephaestos GFDL

Sources:

- ¹ North Dakota State Land Department 2003-2005 Biennial Report. Mineral acreage provided by Jeff Engelson, Director of the Investment Division, North Dakota State Land Department, Personal Communication (2006).
- ² Ibid.
- ³ Ibid.
- ⁴ North Dakota Century Code § 15-02-01.
- ⁵ North Dakota State Constitution, Article IX § 3.
- ⁶ Jeff Engelson, Director of the Investment Division, North Dakota State Land Department, Personal Communication (2006).
- ⁷ Ibid.
- ⁸ North Dakota State Land Department 2003-2005 Biennial Report.
- ⁹ Ibid.
- ¹⁰ Ibid.
- ¹¹ Ibid.
- ¹² Ibid.
- ¹³ Ibid.
- ¹⁴ Ibid.
- ¹⁵ Ibid.
- ¹⁶ North Dakota State Land Department Fact Sheet “Frequently Asked Questions About Constitutional Amendment #1” Rev 03-06.
- ¹⁷ Ibid.
- ¹⁸ North Dakota Century Code § 15-3-04.
- ¹⁹ Gary Preszler, Commissioner, North Dakota State Land Department, Personal Communication (2007).
- ²⁰ Data provided by Keith Bayley, Account Budget Specialist, and Jeff Engelson, Director of Investment Division, Personal Communication (2006).
- ²¹ FY 2003 data from National Center for Education Statistics (NCES) with the exception of the Trust Land Revenue data, which comes from the North Dakota State Land Department 2003 *Biennial Report*. “Other Sources” is defined as “Revenue from bond principal and premiums, sale of school property, or compensation from loss of fixed assets.” NCES Database, Glossary, <http://nces.ed.gov/ccd/bat/Glossary.Asp?letter=O>.
- ²² Gary Preszler, Commissioner, North Dakota State Land Department. Personal Communication (2006).

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