

PROGRAM NARRATIVE

226 Department of Trust Lands

Date: 12/07/2012

Time: 14:13:48

Program: Trust Lands

Reporting level: 26-226-100-00-00-00-00000000

Program Performance Measures

Performance within the Department of Trust Lands is measured by its continued ability to manage the assets of 13 permanent trusts and four other funds under its control; to preserve their purchasing power; and to maintain stable distributions to beneficiaries.

Program Statistical Data

1. The Bakken and Three Forks energy development activity has, and will continue to create significant growth for the trust funds managed by the Department.
 - Combined permanent trust fund financial assets managed by the Department have grown 127% in 3 years from \$900 million on June 30, 2009 to \$2.041 billion on June 30, 2012.
 - Combined non-permanent financial assets managed by the Department have increased from \$95.5 million on June 30, 2009 to \$456 million on June 30, 2012.
2. During FY 2011, a total of 1,886 oil and gas leases were issued on 143,840 mineral acres. During FY 2012, a total of 1,133 leases involving 95,039 mineral acres were issued.
3. Total bonuses received for mineral leases in FY 2011 were \$173.58 million and \$125.47 million in FY 2012.
4. As of June 30, 2012, the Department managed 9,720 active oil and gas leases of which 4,355 were "held by production" status. At the end of FY 2011, the total number of active leases was 8,587 including 4,204 in "held by production" status.
5. As of June 30, 2012, the Department monitored production from 2,089 producing wells, up from approximately 500 four years earlier. The Department staff processed over 13,000 revenue records, of which 6,900 were royalty revenue, during FY 2012 a 48% and 97% increase respectively from four years earlier.
6. The Department collected oil and gas royalty revenue of \$192 million during FY 2012 and \$113 million during FY 2011, an increase of 280% from four years earlier.
7. The Revenue Compliance Division collected more than \$6 million of additional royalties, penalties, and taxes during FY 2012 as a result of revenue compliance efforts.
8. The investment program for the permanent trusts provided solid returns, and though the trusts were not severely impacted by the financial crisis of 2008-09, they were well positioned to take advantage of the subsequent financial recovery.
9. The Surface Management Division continued with more than a 99% leasing rate for agricultural tracts. Land improvement projects such as biological weed control and the range improvement program contributed to improved conditions of trust lands.
10. Surface income from easements and permits increased dramatically as a result of energy activity. Right-of-way applications have increased 436% since FY 2007 to a total of 420 applications in FY 2012.
11. Gravel leasing and reclamation has become a substantial part of the surface management activities, growing from only one prospecting application in FY 2011 to 31 applications in FY 2012.
12. Enhanced technology, automated programs and GIS data systems for better and more accurate management of trust acreage. Right-of-way applications and field inspections are electronically submitted and managed. Four field employees work from home based offices outside of Bismarck but are fully integrated into the Department's computer systems and programs thus increasing responsiveness to energy industry requests and reducing travel time and expense.
13. The Unclaimed Property Division processed 5,109 property owner claims totaling \$3.6 million during fiscal year 2012. The division increased public exposure by posting notices in all newspapers in the state and has reached a broader audience through local and cooperative national internet awareness campaigns.
14. The Department through the Energy Infrastructure and Impact Office (formally the Energy Development Impact Office) instituted a major expansion of the oil and gas impact grants from \$8 million to \$130 million.
15. The Energy Infrastructure and Impact Office application processing increased 31% from 422 in FY 2011 to 565 in FY 2012. The total amount of award commitments increased from \$3.9 million in 2011 to \$114 million in 2012.
16. The Energy Infrastructure and Impact Office payment reimbursement requests increased from \$3,766,389 in FY 2011 to \$27,414,110 in FY 2012, and the average reimbursement payment increasing from \$9,032 in 2011 to \$69,579 in 2012.
17. The Energy Infrastructure and Impact Office average award amount increased from \$14,704 in FY 2011 to \$474,732 in FY 2012, an increase of 31.29%.
18. Number of grant rounds performed increased from 1 in 2011 to 5 in 2012 and already three rounds in FY 2013.

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19. Established procedures and policies to implement a \$30 million Flood Impacted Political Subdivision Infrastructure Development Grant program to assist communities and other political subdivisions in responding to flood repairs and relocation needs.

Explanation of Program Costs

The Minerals Management Division is responsible for leasing and managing over 2.5 million minerals acres including oil, gas, potash, and coal. The division is responsible for the leasing of minerals acres and the maintenance of all records and requests pertaining to mineral activity. This division has three (3) FTEs including the division director; a land professional dedicated exclusively to oversight of the complex and controversial issues of sovereign minerals, beneath the bed of the navigable rivers; and a mineral title specialist who reviews both historical records as well as assesses the unique leasing arrangements requested by lessees. The division tracks and interprets business transactions by lessees of the state minerals; assignments by depth, formation, wellbore or value; requests for pooling agreements; lease interpretation; royalty; authorization for participation in production; override; and interpretation of drilling and production data necessary to hold a producing lease.

The Surface Management Division is responsible for leasing and managing 708,000 surface acres. The division has five (5) FTEs, including the division director, and eight (8) temporary employees. The land management specialists and field inspectors all have the objective of managing surface acreage to obtain a "fair market" return from the lands while maintaining and improving its condition and value. The division manages leasing of land to farmers and ranchers. The division is responsible for the maintenance of farm and range land integrity; monitoring surface use and disturbance including easement and right-of way processing, well locations, aggregate and other surface mineral prospecting and leasing; and reclamation monitoring. Two (2) individuals within the division are contributing ¼ of their respective time to the minerals division to assist with improvements in records management and helping with title interpretation.

The Financial Services Division is responsible for providing accounting, revenue compliance, investment and other financial services to the department. This division currently has six (6) FTEs; including the division director who also has the responsibility for directing, implementing, balancing and monitoring the Land Board's investment program; the three (3) FTEs in revenue compliance are responsible for timely and accurate accounting of all royalties, bonuses, rents and other revenues received by the department; and the two (2) FTEs in accounting are responsible for financial reporting, the department's general ledger, monitoring fund distributions, tracking operational expenses, budget management, payroll and overseeing procurement.

The Operations Group supports the department with office administrative support and information technology. This group currently has nine (9) FTEs, including the director of operations, and three (3) temporary employees. The office support staff includes three (3) administrative assistants, two (2) office assistants and a temporary staff. The information technology section has three (3) FTEs including an information technology manager, a programmer analyst, a computer and network specialist, and two (2) temporary programmer analysts. The IT section maintains database services, digital record management and the department website. The director of operations and the operations group is responsible for the Unclaimed Property Division, which administers the Unclaimed Property Act involving holder compliance and the processing of owner claims for lost or forgotten property. The operations director is also responsible for human resource management within the department.

The Energy Infrastructure and Impact Office consist of the Department of Trust Lands Commissioner serving as a half time director and one additional FTE serving as the deputy director (authorized as an office assistant). The office is responsible for administering the \$130 million grant program to assist cities, townships, emergency services and other political subdivisions realizing direct impacts to public infrastructure from oil and gas development. The office also administers a loan program for coal development impacted political subdivisions from funds in the coal development trust fund, and implemented a one-time \$30 million flood impact grant program.

Program Goals and Objectives

The primary role of the Board of University and School Lands and the Department of Trust Lands is to manage the 13 permanent trust funds under its control, to preserve the purchasing power of the trusts and to maintain stable distributions to trust beneficiaries. Those beneficiaries include local school districts, various colleges and universities, and other institutions in North Dakota. Permanent Trust revenues are generated for the trusts through the prudent management of trust assets, consisting of 697,000 surface acres, over 1.8 million mineral acres, and \$2.0 billion of assets (loans, marketable securities, and cash equivalents). The surface acres are leased to ranchers and farmers across the state. The mineral acres are offered for oil, gas, coal, potash, gravel, scoria, and more recently, clay leasing.

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Revenues are deposited into the permanent trust funds and are invested in various assets including U.S. government and agency securities, corporate bonds, publicly traded stocks, North Dakota farm real estate loans, and cash equivalents. Distributions to permanent trust beneficiaries are made at specified intervals throughout the biennium and are determined based upon the average value of the financial assets of the trusts.

The Department also manages four additional funds. The Strategic Investment and Improvements Fund consist of 704,750 mineral acres of State acquired and sovereign minerals located under navigable streams, rivers, and lakes. The Coal Development Trust Fund is managed to provide loans to coal development impacted counties, cities, and school districts; and to provide school construction loans statewide. The Capitol Building Trust Fund consist of 10,000 acres and its' funds are managed for the construction and maintenance of public buildings at the capitol. The Indian Cultural Education Trust Fund consist of 160 acres and its' funds are managed to benefit Native American cultural purposes. These additional non-permanent funds had total financial assets of \$456 million at the end of fiscal year 2012.

The Department also administers the Unclaimed Property Act. In this capacity the Department collects "unclaimed property" (uncashed checks, unused bank accounts, etc.), and processes owners' claims. This property is held in trust for the owner to claim, but the revenue from the investment of the property benefits the Common Schools Trust Fund.

An expanded role of the Department is operating the Energy Infrastructure and Impact Office which provides financial support to political subdivisions that are affected by energy development in the state. Assistance is provided through both the oil and gas impact grant program and the coal impact loan program. The office also administered the Flood Impacted Political Subdivision Infrastructure Development Grant program.

REQUEST DETAIL BY PROGRAM

226 Department of Trust Lands

Bill#: SB2013

Date: 12/07/2012

Biennium: 2013-2015

Time: 14:13:48

Program: Trust Lands		Reporting Level: 26-226-100-00-00-00-00000000			
Description	Expenditures 2009-2011 Biennium	Present Budget 2011-2013	Budget Request Change	Requested Budget 2013-2015 Biennium	Optional Request 2013-2015
Salaries and Wages					
Salaries - Permanent	2,108,631	2,830,744	68,504	2,899,248	709,976
Salaries - Other	0	0	77,304	77,304	0
Temporary Salaries	102,345	249,246	754	250,000	0
Overtime	1,080	0	0	0	0
Fringe Benefits	746,599	1,073,832	32,527	1,106,359	306,780
Salary Increase	0	0	0	0	0
Benefit Increase	0	0	0	0	0
Total	2,958,655	4,153,822	179,089	4,332,911	1,016,756
Salaries and Wages					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	2,958,655	4,153,822	179,089	4,332,911	1,016,756
Total	2,958,655	4,153,822	179,089	4,332,911	1,016,756
Operating Expenses					
Travel	138,157	290,398	(20,960)	269,438	37,500
Supplies - IT Software	18,749	47,078	4,708	51,786	7,799
Supply/Material-Professional	11,457	13,001	1,300	14,301	0
Food and Clothing	2,245	0	0	0	0
Bldg, Ground, Maintenance	62,549	0	0	0	0
Miscellaneous Supplies	3,389	950	3,595	4,545	0
Office Supplies	14,519	21,849	2,185	24,034	12,000
Postage	25,637	31,600	3,160	34,760	0
Printing	19,061	19,200	4,427	23,627	0
IT Equip Under \$5,000	20,328	30,350	54,298	84,648	17,050
Other Equip Under \$5,000	2,754	0	10,324	10,324	0
Office Equip & Furn Supplies	13,750	28,600	12,860	41,460	33,600
Utilities	6,348	0	58,985	58,985	0
Insurance	3,629	9,300	4,930	14,230	0
Rentals/Leases-Equip & Other	566	11,820	(10,000)	1,820	0
Rentals/Leases - Bldg/Land	25,150	95,000	9,500	104,500	0
Repairs	6,425	21,200	56,900	78,100	0
IT - Data Processing	98,197	170,635	17,064	187,699	36,146
IT - Communications	28,917	37,199	4,802	42,001	8,976
Professional Development	33,880	68,841	6,884	75,725	7,500
Operating Fees and Services	109,372	302,925	(72,054)	230,871	500
Fees - Professional Services	145,559	231,150	243,115	474,265	0

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Description	Expenditures 2009-2011 Biennium	Present Budget 2011-2013	Budget Request Change	Requested Budget 2013-2015 Biennium	Optional Request 2013-2015
Total	790,638	1,431,096	396,023	1,827,119	161,071
Operating Expenses					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	790,638	1,431,096	396,023	1,827,119	161,071
Total	790,638	1,431,096	396,023	1,827,119	161,071
Capital Assets					
Equipment Over \$5000	0	10,000	55,550	65,550	0
Total	0	10,000	55,550	65,550	0
Capital Assets					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	10,000	0	65,550	0
Total	0	10,000	55,550	65,550	0
Other Grants					
Grants, Benefits & Claims	2,723,423	104,778,269	(104,778,269)	0	0
Total	2,723,423	104,778,269	(104,778,269)	0	0
Other Grants					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	2,723,423	104,778,269	(104,778,269)	0	0
Total	2,723,423	104,778,269	(104,778,269)	0	0
Flood Infrastructure Develop. Grants					
Salaries - Permanent	0	43,325	(43,325)	0	0
Temporary Salaries	0	25,000	(25,000)	0	0
Travel	0	13,500	(13,500)	0	0
Postage	0	175	(175)	0	0
Operating Fees and Services	0	28,000	(28,000)	0	0
Grants, Benefits & Claims	0	29,890,000	0	0	0
Total	0	30,000,000	(110,000)	0	0

Flood Infrastructure Develop. Grants

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Description	Expenditures 2009-2011 Biennium	Present Budget 2011-2013	Budget Request Change	Requested Budget 2013-2015 Biennium	Optional Request 2013-2015
General Fund	0	30,000,000	(30,000,000)	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	0	30,000,000	(110,000)	0	0
Contingencies					
Operating Fees and Services	0	100,000	0	100,000	0
Total	0	100,000	0	100,000	0
Contingencies					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	100,000	0	100,000	0
Total	0	100,000	0	100,000	0
Energy Infrastructure and Impact Office					
Salaries - Permanent	0	0	119,280	119,280	223,104
Temporary Salaries	0	0	0	0	50,000
Fringe Benefits	0	0	44,184	44,184	90,298
Travel	0	0	11,780	11,780	16,000
Supplies - IT Software	0	0	709	709	2,836
Supply/Material-Professional	0	0	50	50	300
Miscellaneous Supplies	0	0	385	385	0
Office Supplies	0	0	990	990	1,600
Postage	0	0	2,225	2,225	0
Printing	0	0	90	90	0
IT Equip Under \$5,000	0	0	3,200	3,200	6,200
Other Equip Under \$5,000	0	0	0	0	4,800
Office Equip & Furn Supplies	0	0	4,800	4,800	14,400
Rentals/Leases - Bldg/Land	0	0	9,801	9,801	19,602
Salary Increase	0	0	0	0	0
Benefit Increase	0	0	0	0	0
IT - Data Processing	0	0	41,281	41,281	13,144
IT - Communications	0	0	1,103	1,103	3,264
Professional Development	0	0	0	0	7,600
Operating Fees and Services	0	0	1,710	1,710	0
Fees - Professional Services	0	0	75,100	75,100	0
Grants, Benefits & Claims	0	0	100,000,000	100,000,000	0
Total	0	0	100,316,688	100,316,688	453,148

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Description	Expenditures 2009-2011 Biennium	Present Budget 2011-2013	Budget Request Change	Requested Budget 2013-2015 Biennium	Optional Request 2013-2015
Energy Infrastructure and Impact Office					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	100,316,688	100,316,688	453,148
Total	0	0	100,316,688	100,316,688	453,148
Total Expenditures	6,472,716	140,473,187	(33,886,469)	106,642,268	1,630,975
Funding Sources					
General Fund					
Total	0	30,000,000	(30,000,000)	0	0
Special Funds					
206 Trust Lands Maint. Fund	3,749,293	5,694,918	575,112	6,325,580	1,177,827
238 Energy Development Impact Fund	2,723,423	104,778,269	(4,461,581)	100,316,688	453,148
Total	6,472,716	110,473,187	(3,886,469)	106,642,268	1,630,975
Total Funding Sources	6,472,716	140,473,187	(33,886,469)	106,642,268	1,630,975
FTE Employees	21.75	24.75	0.00	24.75	9.25

CHANGE PACKAGE DETAIL

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Biennium: 2013-2015

Program: Trust Lands			Reporting Level: 26-226-100-00-00-00-00000000			
Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds

Base Budget Changes**One Time Budget Changes**

A-B 22606 Capital Asset - UTV and Trailer		0.00	0	0	43,700	43,700
A-B 22607 Capital Asset - UTV and Trailer		0.00	0	0	21,850	21,850
A-B 91000 Funding for flood impacted infrastructure de		0.00	(29,931,675)	0	0	(29,931,675)
Total One Time Budget Changes		0.00	(29,931,675)	0	65,550	(29,866,125)

Ongoing Budget Changes

A-A 22601 Inflationary increase in base budget		0.00	0	0	151,747	151,747
A-A 22602 Service usage increase in base budget		0.00	0	0	330,576	330,576
A-A 22603 Service usage savings in base budget		0.00	0	0	(130,000)	(130,000)
A-A 22604 Building repairs and maintenance increase in		0.00	0	0	60,900	60,900
A-A 22605 Service usage savings in base budget - Build		0.00	0	0	(17,200)	(17,200)
A-A 23801 Transfer to EIIO		0.00	0	0	(99,778,269)	(99,778,269)
A-A 23802 Reduce Other Grants		0.00	0	0	(5,000,000)	(5,000,000)
A-A 23807 Establish budget for Energy & Infrastructure		0.00	0	0	100,153,224	100,153,224
A-F 22608 Remove capital asset		0.00	0	0	(10,000)	(10,000)
Base Payroll Change		0.00	(68,325)	0	342,553	274,228
Total Ongoing Budget Changes		0.00	(68,325)	0	(3,896,469)	(3,964,794)
Total Base Budget Changes		0.00	(30,000,000)	0	(3,830,919)	(33,830,919)

Optional Budget Changes**Ongoing Optional Changes**

A-C 20604 New FTE - Land Management Specialist	1	1.00	0	0	170,830	170,830
A-C 20611 New 1/4 FTE - Administrative Assistant	1	0.25	0	0	45,285	45,285
A-C 20613 Temporary - Programmer Analyst	1	0.00	0	0	7,611	7,611
A-C 23803 New FTE - EIIO Director (Contracts Officer)	1	1.00	0	0	196,900	196,900
A-C 20606 New FTE - Mineral Title Specialist	2	1.00	0	0	168,756	168,756

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Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
A-C 20615 Temporary - Legal Assistant	2	0.00	0	0	9,111	9,111
A-C 23804 NEW FTE - EIIO Account Budget Specialist	2	1.00	0	0	168,126	168,126
A-C 20607 New FTE - Audit Technician	3	1.00	0	0	123,862	123,862
A-C 20614 Temporary - Administrative Assistant	3	0.00	0	0	7,611	7,611
A-C 23806 Temporary - EIIO Compliance Inspector	3	0.00	0	0	41,561	41,561
A-C 20605 New FTE - Land Management Specialist	4	1.00	0	0	170,830	170,830
A-C 20616 Temporary - Programmer Analyst	4	0.00	0	0	6,361	6,361
A-C 23805 Temporary - EIIO Engineer	4	0.00	0	0	46,561	46,561
A-C 20609 New FTE - Account Budget Specialist II	5	1.00	0	0	174,756	174,756
A-C 20610 New FTE - Administrative Assistant I	6	1.00	0	0	116,014	116,014
A-C 20608 New FTE - Unclaimed Property Auditor I	7	1.00	0	0	176,800	176,800
Total Ongoing Optional Changes		9.25	0	0	1,630,975	1,630,975
Total Optional Budget Changes		9.25	0	0	1,630,975	1,630,975