

The Honorable John Hoeven  
Governor of North Dakota  
State Capitol  
Bismarck ND 58505

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

Dear Governor Hoeven and Mr. Jaeger:

It is my privilege to present the 2007-2009 Biennial Report for the Board of University and School Lands. The report presents an overview of the Board's authority under the Constitution and state law, and the activity of the Board as reported by each of the Land Department's division directors and the Energy Development Impact Office.

I am pleased to report that all trust funds remain remarkably healthy. The Board's commingled investments have largely avoided the significant realized losses that have plagued many institutional investors during the recessionary period that extended throughout much of the biennium. That being said, the Board's investments were not immune from experiencing market depreciation. However, depressed investment prices also created opportunities for the Board to invest during market lows. New money being generated by the trust funds from the robust oil activity in the state has allowed the trust funds to capture these buying opportunities.

What is also noteworthy is that during this challenging investment period, the Board was able to meet budgeted distributions for every trust fund under its control.

This report is traditionally confined to a snap shot picture of the financial results over the biennium. What the results also reveal is that the trust funds are now positioned to experience tremendous growth driven by oil and gas leasing activity. Throughout the biennium quarterly oil and gas lease sales were historic in the number of acres and bonus money received for leases. Royalty income also increased, and continues to grow, as leases are being developed in a very large Bakken oil resource play. With the trust funds having a mineral interest in about one out of every nine wells completed in the state, projections of thousands of wells yet to be drilled in this play means that the future is extremely bright for the beneficiaries and all North Dakota citizens.

Early in 2009 Congress enacted federal legislation that will now allow for distributions to be calculated on a "total return" basis, further benefiting future beneficiaries. This report will mark the final report presented under the earnings and income approach for determining distributions that existed since statehood.

Special recognition and appreciation is due to the Land Department employees for their dedication and efforts to the benefit of trust beneficiaries. Trust beneficiaries continue to be well served.

Respectfully submitted,



Gary D. Preszler  
Secretary, Board of University  
and School Lands  
Commissioner, State Land Department

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## POLICY OF NON-DISCRIMINATION ON THE BASIS OF DISABILITY

The State Land Department 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

On February 22, 1889, Congress passed "An act to provide for the division of Dakota into two states, and to enable the people of North Dakota, South Dakota, Montana and Washington to form constitutions and state governments . . ." This Act is commonly known as the Enabling Act. 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 sold prior to statehood, indemnity or "in-lieu" selections were allowed. In North Dakota, this grant of land totaled over 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" (the 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.

The Land Board currently consists of the following members:



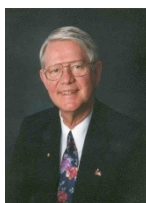
*Governor John Hoeven  
Chairman*



*Alvin A. Jaeger  
Secretary of State  
Vice Chairman*



*Wayne Stenehjem  
Attorney General*



*Dr. Wayne Sanstead  
Supt. of Public Instruction*



*Kelly Schmidt  
State Treasurer*

## COMMISSIONER OF UNIVERSITY & SCHOOL LANDS

Under N.D.C.C. § 15-02-01, the Board of University and School Lands is required to appoint a commissioner to act on its behalf. Specific responsibilities of the Board and the Commissioner are set out in N.D.C.C. ch. 15-01 through ch. 15-08.1.

Generally, the Commissioner of University and School Lands is responsible for the following:

- ◆ Acting as the general agent for the Board.
- ◆ Supervising all aspects and activities of the State Land Department.
- ◆ Having general charge and supervision of all grant lands and associated records, maps, books and papers.
- ◆ Enforcing the Unclaimed Property Act (N.D.C.C. § 15-02-05.2 and ch. 47-30.1).

The office of the Commissioner of University and School Lands has been commonly called the State Land Department.

In 1989, the Energy Development Impact Office became a division of the Office of the Commissioner, however, the EDIO Director is appointed directly by the Board of University and School Lands (N.D.C.C. § 57-62-04).

## LAND SALES & 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. Today, the Land Department manages in excess of 656,700 of the original, grant land surface acres, and over 1.8 million of the original mineral acres. Approximately 50,700 acres have since been acquired through foreclosure or other means, bringing the total surface acreage to approximately 707,400 acres.

In 1977, the legislature transferred management authority for minerals acquired by the Bank of North Dakota and State Treasurer and for the minerals under sovereign land (navigable rivers/lakes) to the Department. This brings the total mineral acres managed to over 2.5 million acres.

# Agency Overview

The primary responsibility of the Land Department is to manage the permanent trust funds under the Board's control.

The land grant from the federal government and the State Constitution both provide that the Board shall manage the land and minerals it received, and the proceeds there from, for the exclusive benefit of the institutions for which they were granted. The income earned by the permanent trusts is distributed according to N.D.C.C. § 15-03-05.2. (See "Schedule of Net Asset Balances" and "Schedule of Distributions by Trust", page 19.)

Both income and trust growth are generated through the prudent management of permanent trust assets, consisting of approximately 707,400 surface acres, over 2.5 million mineral acres, and over \$903 million of financial assets. The surface acres are leased to ranchers and farmers across the state. The 2.5 million mineral acres are offered for oil, gas, coal, gravel and scoria leasing. For the permanent trusts, revenues generated from mineral bonuses, mineral royalties and the sale of grant lands are deposited into the appropriate trust fund and are invested in a diversified portfolio of financial assets. The income generated from these investments, together with surface and mineral rentals, is distributed to schools (public grades K-12) and other public institutions at specified intervals throughout the biennium. (See "Investments", pages 14-18.)

The following is a list of beneficiaries of the various permanent trust funds administered by the Land Department 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
- ND 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.*

The Common Schools Trust Fund is the largest of the permanent trusts administered by the Board. Distributions from the Common Schools Trust Fund are paid out to school districts throughout the state by the Department of Public Instruction in monthly payments from August to April of each year. Distributions for the 2007-2009 biennium totaled \$66.8 million and were approximately \$345 per year for each K-12 grade student in the state.

In addition to the sources of trust growth listed above, the Common Schools Trust Fund receives 10 percent of the oil and gas extraction tax collected by the state (ND Constitution Article X, Section 24) and 45 percent of the subsection 1X(c)1 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. ch. 47-30.1) until such time that property may be reunited with its owner. (See "Schedule of Permanent Fund Receipts by Trust", page 19.)

The Board manages a number of other trust funds either for the State of North Dakota or other beneficiaries. (See "Schedule of Other Funds", page 19.)

## Capitol Building Trust Fund

The Capitol Building Trust Fund was created under Article IX of the North Dakota Constitution for the construction and maintenance of "public buildings at the capital". This trust fund is not permanent; the entire balance of the trust is subject to legislative appropriation each biennium.

## Indian Cultural Education Trust

The Indian Cultural Education Trust is the newest trust managed by the Board. It was created by the 2003 Legislative Assembly (N.D.C.C. ch. 15-68) for the purpose of generating income to benefit Indian culture. It was funded in late-2007 by a donation of 160 acres of land and \$626,700 by Coteau Properties Company to the Mandan, Hidatsa, and Arikara Nation Cultural Education Foundation. The trust will be managed for the foundation, and potential distributions will be determined, in the same manner as for the Common Schools Trust Fund.

### **Lands and Minerals Trust Fund**

The Lands and Minerals Trust Fund was created by N.D.C.C. ch. 15-08.1 and § 61-33-07. This trust fund consists of approximately 704,750 mineral acres formerly owned by the Bank of North Dakota and State Treasurer, and the minerals located under navigable streams, rivers, and lakes, which are owned by North Dakota as a sovereign state. This trust fund also serves as a collection vehicle for repayment of the developmentally disabled facilities loans that are funded by the Common Schools Trust Fund. The entire balance of this trust is subject to legislative appropriation each biennium.

### **Coal Development Trust Fund**

The Coal Development Trust Fund was established by N.D.C.C. § 57-62-02 and pursuant to Section 21 of Article X of the North Dakota Constitution. The Fund receives 30% of the coal severance tax. This fund is held in trust and administered by the Board for loans to coal impacted counties, cities, and school districts as provided by section 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 out is invested according to the policies of the Board. The income earned by this trust is subject to legislative appropriation each biennium.

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

### **Unclaimed Property**

The Land Department administers the Uniform Unclaimed Property Act (N.D.C.C. ch. 47-30.1). In this capacity the Department collects "unclaimed property" (uncashed checks, unused bank accounts, etc.), and by various methods of publication, tries to reunite owners with their property. Property acquired under this Act is held in trust in perpetuity on behalf of the owner; therefore, owners have one place they can search for their property. The interest income from unclaimed property is distributed to ND public grades K-12. (See "Unclaimed Property Division", page 13.)

### **Energy Development Impact Office**

The Energy Development Impact Office (EDIO) (N.D.C.C. ch. 57-62) is also a part of the Land Department. The EDIO allocates funds appropriated by the legislature to assist local political subdivisions in dealing with problems arising from oil development. In the allocation of these funds, the Director of the office accepts applications for funding, travels to visit with subdivisions requesting the funding, allocates the funds, and administers the payout of the funds to the grantees. (See "Energy Development Impact Office", page 6.)

## ***Mission Statement***

***The mission of the State Land Department, under the direction of the Board of University and School Lands, 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.***

### **Land Department Statement of Goals**

The primary goal of the Department is to maximize distributable income and trust growth within the parameters allowed by state law, board policy, the prudent investor rule and sound land and mineral management practices. To achieve this primary goal, the following subgoals have been established:

1. To obtain a "fair market" return from the surface lands while improving their condition and value.
2. To develop and pursue a strong, effective minerals management program which maximizes revenue to the trusts.
3. To develop and pursue an aggressive, fair minerals audit program to ensure that the trusts receive all royalties.
4. To continue to raise awareness of the Uniform Unclaimed Property Act among businesses and potential claimants.

5. To preserve the purchasing power of the trusts by maintaining and increasing, relative to inflation, the income distributable to trust beneficiaries.
6. To manage the permanent financial assets of the trusts within the guidelines of the Prudent Investor Rule.

### **Energy Development Impact Office Statement of Goals**

The primary goal of the office is to ensure that local subdivisions hosting energy activity are not required to bear a disproportionate share of the costs associated with that activity (both in its "boom" and "bust" cycles.) The guiding principle of the office is to ensure that the benefit to all of the people of North Dakota, from the extraction of energy resources will not be gained at the expense of those whose lives or property are disturbed, without adequate compensation, in the process.

# Funding Sources and Expenses

- Funding for the State Land Department is received through the State Lands Maintenance fund. This fund consists of fees charged for services, plus a portion of the interest and income earned by the various trusts (N.D.C.C. § 15-03-01.1).
- Funds for oil impact grants are requested from the Oil Impact Grant Fund. The administration expenses of the Energy Development Impact Office are paid out of the Oil Impact Grant Fund.

## Land Department Statement of Appropriations and Expenditures

Land Department and Energy Development Impact Office	2007-2009 Appropriations	2007-2009 Expenditures	Unexpended Appropriations
Salaries and wages	\$2,229,222	\$2,139,284	\$89,938
Operating expenses	648,700	589,034	59,666
Capital Assets	10,000	0	10,000
Contingencies	50,000	0	50,000
Grants	4,888,100	4,888,100	0
<b>Total</b>	<b>\$7,826,022</b>	<b>\$7,616,418</b>	<b>\$209,604</b>

## Other Land Department Information

### PUBLICATIONS

In addition to this report, the Department publishes:

- A semi-annual newsletter which is distributed to surface lessees and other interested parties.
- Lists of tracts to be leased at quarterly oil and gas lease sales, together with a summary of the results of these sales.
- Lists of individuals entitled to unclaimed property (N.D.C.C. § 47-30.1-19.1).
- Summaries of grant awards made by the Energy Development Impact Office.
- 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 State Land Department.

Notice of the leasing and sale of surface and mineral tracts is given by publication in the official county newspaper where the land 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, unless there is insufficient business to require a Board meeting. The regular meeting day is the last Thursday of the month.

Minutes of the Board and other information regarding the activities of the State Land Department can be obtained from:

*State Land Department  
1707 N 9<sup>th</sup> Street  
P.O. Box 5523  
Bismarck, ND 58506-5523*

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

### WORLD WIDE WEB ADDRESS

The Land Department maintains a web site at:  
**[www.land.nd.gov](http://www.land.nd.gov)**

## ND STATE LAND DEPARTMENT PERSONNEL

Employee	Position	Land Department Employment Dates
Bayley, Keith	Database Design Analyst	1988-Present
Brand, Mike	Director of Surface Management	1979-Present
Engleson, Jeff	Director of Investments, Energy Development Impact Director	1986-Present
Erdmann, Levi	Programmer Analyst	2003-Present
Feeney, John Thomas	Director of Minerals Management	2008-Present
Fisher, Linda	Administrator of Unclaimed Property; Leasing Coordinator	1991-Present
Glanville, Monica	Audit Technician	2003-Present
Gudvangen, Peggy	Account Budget Specialist	2005-Present
Humann, Mike	Rangeland Professional	1987-Present
Haupt, Mike	Land Management Professional	1987-Present
Jacobs, Debra	Administrative Assistant	1998-Present
Jacobson, Bev	Office Assistant	2006-Present
Larson, Rick	Director of Minerals Management	1987-2007
Pascua, Jayden	Data Processing Information Specialist	1999-Present
Pazdernik, Bonnie	Office Assistant	1997-Present
Preszler, Gary D.	Commissioner	2001-Present
Reichert, Michael	Auditor	2006-2008
Saude, Jerry	Trust Land Specialist	1991-Present
Schell, Judith F.	Administrative Assistant	2000-Present
Tober, Loa	Administrative Assistant	1998-Present



*First row (left to right): Bev Jacobson, Judith Schell, Linda Fisher, Deb Jacobs  
 Second row: Keith Bayley, Monica Glanville, Loa Tober, Bonnie Pazdernik, Michael Humann  
 Third row: Jeff Engleson, Jerry Saude, Jayden Pascua, Michael Haupt, Peggy Gudvangen  
 Fourth row: Levi Erdmann, Gary Preszler, Michael Brand,*

*(Not pictured: Tom Feeney, Rick Larson, Michael Reichert)*

# Energy Development Impact Office

Jeff Engleson, Director

The Energy Development Impact Office (EDIO) was organized in 1975 by legislative authorization of the Coal Development Impact Program under N.D.C.C. ch. 57-62. On July 1, 1989 the EDIO was combined with the Land Department and is currently under the direction of the Board of University and School Lands. The coal program began in 1975 and expired in 1989. The Oil Impact Grant Program began in 1981 and is still in existence.

The purpose of the Oil Impact Grant Program is to provide financial assistance to local units of government that experience negative impacts as a result of oil and gas activity in the state. The program is funded by 6.67 percent of the Oil & Gas Gross Production Tax. For the 2007-09 biennium, the amount available to this program was capped at \$6.0 million; prior to the 2007-09 biennium, the cap was \$5.0 million per biennium.

### To receive funding under this program, applicants must:

1. Demonstrate that oil activity in the area has created a hardship which cannot be handled without help from the Oil Impact Grant Program;
2. That the proposed project will alleviate the hardship that resulted from oil activity; and
3. That the applicant's financial resources to handle the project are insufficient (this implies that the applicant has made a diligent local taxing effort to accomplish its goal).

During the biennium, the EDIO conducted two grant rounds, one in the spring of 2008 and the other in the spring of 2009. During each grant round, the EDIO Director spent close to a month traveling western North Dakota, meeting with each political subdivision that requested funding to discuss projects, and driving the roads that are being impacted by oil and gas development. The EDIO Director gathers information from many other sources in addition to the information received from grant applicants. Oil and gas production data, salt water production/disposal data, well and pipeline location data, and other information are gathered from the Oil and Gas Division of the Industrial Commission. The EDIO Director also gathers oil tax and property tax information from the Treasurer's Office and the Tax Department, as well as other financial information from the various County Auditors' office.

With the development of the Bakken play continuing at a rapid pace; more political subdivisions of every type were impacted by oil and gas development during the biennium. A total of 753 grant requests were received in the two grant rounds from counties, cities, townships, schools, fire and ambulance districts and other local units of government in an

<b>2007-2009 Biennium Oil Impact Grant Applications and Awards</b>			
<b>Summary by Class of Subdivision</b>			
<b>Class</b>	<b>\$ Requested</b>	<b>\$ Awarded</b>	<b>%</b>
<b>County</b>	\$ 26,613,845	\$940,000	16.1
<b>School</b>	1,555,024	158,500	2.7
<b>City</b>	16,856,638	1,041,500	17.8
<b>Park District</b>	203,375	0	0.0
<b>Airport Auth.</b>	650,000	5,000	0.1
<b>Township</b>	13,712,577	2,834,500	48.6
<b>Fire/Ambul.</b>	4,586,444	860,500	14.7
<b>TOTAL</b>	<b><u>\$64,177,903</u></b>	<b><u>\$5,840,000</u></b>	<b><u>100.0</u></b>

<b>2007-2009 Biennium Oil Impact Grant Applications and Awards</b>			
<b>Summary by County</b>			
<b>County</b>	<b>\$ Requested</b>	<b>\$ Awarded</b>	<b>%</b>
<b>Billings</b>	\$ 7,235	\$ 0	0.0
<b>Bottineau</b>	1,712,450	301,500	5.2
<b>Bowman</b>	12,202,362	293,500	5.0
<b>Burke</b>	1,840,323	438,000	7.5
<b>Divide</b>	4,155,858	446,500	7.7
<b>Dunn</b>	8,289,927	890,400	15.2
<b>G. Valley</b>	1,468,390	211,200	3.6
<b>McHenry</b>	60,000	0	0.0
<b>McKenzie</b>	1,139,985	189,500	3.2
<b>McLean</b>	5,500	1,000	0.0
<b>Mercer</b>	52,880	32,000	0.5
<b>Mountrail</b>	15,290,505	1,644,000	28.2
<b>Renville</b>	2,291,395	349,400	6.0
<b>Slope</b>	1,245,115	101,000	1.7
<b>Stark</b>	2,998,480	155,000	2.7
<b>Ward</b>	363,000	50,000	0.9
<b>Williams</b>	11,054,498	737,000	12.6
<b>TOTAL</b>	<b><u>\$64,177,903</u></b>	<b><u>\$5,840,000</u></b>	<b><u>100.0</u></b>

area west of a line from Bottineau to Bowman. With the limited funding available for this program, financial need was a driving factor in determining who received grants during the biennium. There were many entities with large impacts that received little or no funding, only because they had less financial need than other entities.

During the 2009 legislative session, the EDIO Director provided testimony to various committees as to how oil development impacts political subdivisions in western North Dakota. He also expressed the need for more funding for political subdivisions to help alleviate the hardships caused by oil development. In the end, the Legislature increased the amount of funding that goes directly to political subdivision via the gross production tax distribution formula by almost \$30.0 million, and also increased the biennial appropriation for the EDIO to \$8.0 million per biennium.



# **Audit Division**

*Peggy J. Gudvangen, Director*

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The Audit Division is responsible for planning, coordinating and conducting reviews to ensure the state trust funds receive their entitled proceeds from abandoned property, mineral royalties and other programs offered through the State Land Department. The Audit Division also monitors the internal control structure of the Department and provides the Commissioner with updates.

## **UNCLAIMED PROPERTY**

The Audit Division helps businesses gain a better understanding of the Uniform Unclaimed Property Act reporting requirements, and assists them with compliance. This is accomplished through compliance telephone calls, on-site visits and educational seminars to individual businesses and professional groups throughout the State.

Audit Division personnel contacted over 75 businesses in two different industry groups during the biennium. As a result of these contacts a total of \$8,190 of unclaimed property was reported by 12 holders with approximately 20 holders filing "negative" reports. A list was compiled of businesses that did not respond to compliance mailings or follow-up telephone calls. From this list, 28 businesses were selected for audit. As a result of these audits, demandable and reportable property totaling \$52,200 was collected plus \$9,195 in interest and \$4,000 in audit costs.

The Division continues to help holders within these industry groups to gain a better understanding of the Uniform Unclaimed Property Act reporting requirements and assist them with compliance.

## **MINERAL ROYALTIES**

The Audit Division is responsible for reviewing royalty payment transactions and lessee production reports for compliance with Board lease terms, rules and regulations, and North Dakota statutes. The auditors review royalty transactions on selected leases or wells for proper gross production or market value as defined.

During the biennium, the Audit Division completed a review of oil and gas production and values where the Board had an interest. From this analysis, additional royalties of \$20,220 were collected plus \$8,590 in interest and penalties.

# **Minerals Management**

*Tom Feeney, Director*

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The Minerals Management Division administers mineral interests held in trust for the benefit of various North Dakota schools and institutions. The Division also administers mineral interests formerly owned by the Bank of North Dakota and State Treasurer, plus the minerals under navigable rivers and lakes.

## **OIL AND GAS ACTIVITY**

This biennium was historical in many ways. The Bakken formation and the Three Forks formation directly underlying the Bakken gained attention as the biggest oil resource play in the continental United States. As a result, North Dakota moved up in ranking to become the fourth largest oil producing state.

On January 2, 2008 oil hit \$100 (NYM) a barrel for the first time ever. It continued to rise until reaching an all time high of \$147 a barrel in July of 2008. This led to record prices at the pump for consumers, with gasoline selling locally for over \$4.00 per gallon. The department was well positioned to capitalize on this boom due to the large number of mineral acres owned by the trusts. The trust funds now share in 641 producing oil and gas wells, as compared to 398 wells on June 30, 2007. This is an increase of 243 wells over two years, for an average of 10 new wells per month. North Dakota barrels produced per day have also risen significantly from 124,649 to 231,219, an increase of approximately 86%. Transporting production to market remains a bottleneck as pipeline capacity out of North Dakota is maxed out at 160,000 barrels per day. New pipelines and railroad shipping facilities for unit trains of oil are now under construction near Stanley and New Town.

Horizontal drilling technology continues to evolve at a rapid pace as does fracturing technology. Twenty stage fracs over 10,000 feet of horizontal well stem have successfully produced record volumes of production per well as daily barrels over 4,000 during the initial 24-hour tests have been reported. Interest remains high for continued development with estimates of 10,000 to 15,000 wells remaining to be drilled. This forecast, if fully realized, will provide significant growth opportunity for the trust funds.

Oil and gas royalty revenue was \$108.7 million this biennium compared to \$58.4 million the previous biennium.

High prices, horizontal drilling, improved fracturing techniques, new field discoveries and favorable response to unitization have all been factors that contributed to these revenues, which provide additions to the permanent trust funds and the state's general fund. During the biennium, Bowman County was the leading oil producing county in the state with approximately 26% of the state's production. Mountrail County was close behind at approximately 25%, followed by McKenzie County at 13%, Dunn County at 9%, and Williams County at 8%. These top five counties produced 80% of the 122.4 million barrels produced in North Dakota during the biennium. By the end of the biennium, Mountrail County had become the largest oil producing county in the state.

In April 2008, the U.S. Geological Survey issued an assessment of the Bakken total petroleum system recoverable reserves indicating an enormous resource of 3.65 billion barrels within North Dakota and Montana. During 2009, however, operators also drilled a number of successful wells in the upper Three Forks/Sanish Sands. It is believed that this reservoir is separate from the Middle Bakken and will add significant additional reserves to the above noted 3.65 billion barrels.

Board of University and School Land's mineral lease auctions continue to attract bidders from all over the nation. Quarterly lease sales are conducted by public oral auctions. This biennium 173,943 net mineral acres were auctioned off, fetching \$39,697,648 in bonuses, for an average bonus per acre of \$228. Actual bonuses paid during the biennium range from a low of \$1.00 per acre to a high of around \$5,000 per acre. The standard lease royalty remains at one-sixth (1/6).

**COAL PRODUCTION**

Total coal royalty, rental and bonus revenue for this biennium was \$4,162,654. Falkirk Mining Company, BNI Coal, Ltd., and Dakota Westmoreland Corporation were actively mining tracts where the state owned a mineral interest.

<b>Oil and Gas Leasing Activity</b>		
	<u>2005-2007</u>	<u>2007-2009</u>
Net Mineral Acres Owned*	2,558,833	2,550,071
Acres Under Lease	738,305	788,304
# of Oil/Gas Lease Sales	8	8
Net Mineral Acres Leased	314,987	173,943
Ave. Bonus/Net Mineral Acre	\$71.66	\$228.00
<i>*Approximate acreage only. Total acreage will vary due to estimates of the acreage owned by the state under navigable rivers and lakes.</i>		

<b>Mineral Division Receipts</b>		
	<u>2005-2007</u>	<u>2007-2009</u>
Oil and gas royalty	\$58,378,390	\$108,708,398
Oil and gas bonus	\$22,570,515	\$39,697,648
Coal royalty and bonus	\$2,386,060	\$4,162,654
Oil and gas rental	\$1,406,708	\$1,354,930
Seismic and other damage payments	\$448,919	\$1,135,619
<b>TOTAL</b>	<b><u>\$85,190,592</u></b>	<b><u>\$155,059,249</u></b>

# OIL AND GAS LEASE SALE RESULTS

## North Dakota State Minerals

COUNTY		Aug-07	Nov-07	Feb-08	May-08	Aug-08	Nov-08	Feb-09	May-09	TOTAL
BILLINGS	TOTAL \$	\$0.00	\$4,000.00	\$0.00	\$0.00	\$0.00	\$319,307.05	\$312,968.00	\$443,443.00	\$1,079,798.05
	MIN. ACRES	0.00	160.00	0.00	0.00	0.00	3,193.19	1,048.08	1,840.16	6,321.43
	\$/MIN ACRE	\$0.00	\$25.00	\$0.00	\$0.00	\$0.00	\$100.00	\$298.61	\$240.98	\$665.59
BOTTINEAU	TOTAL \$	\$20,200.00	\$75.50	\$0.00	\$14,456.00	\$188,048.90	\$87,690.00	\$45,160.00	\$5,040.00	\$360,670.40
	MIN. ACRES	328.00	75.50	0.00	496.00	4,519.37	445.50	264.00	160.00	6,288.37
	\$/MIN ACRE	\$61.59	\$1.00	\$0.00	\$29.15	\$41.61	\$196.84	\$171.06	\$31.50	\$532.74
BOWMAN	TOTAL \$	\$0.00	\$4,800.00	\$5,781.00	\$0.00	\$0.00	\$0.00	\$7,612.10	\$9,920.00	\$28,113.10
	MIN. ACRES	160.00	160.00	160.3	0.00	0.00	0.00	480.65	320.00	1,280.95
	\$/MIN ACRE	\$0.00	\$30.00	\$36.06	\$0.00	\$0.00	\$0.00	\$15.84	\$31.00	\$112.90
BURKE	TOTAL \$	\$0.00	\$43,520.00	\$33,205.20	\$0.00	\$26,219.25	\$0.00	\$3,043.90	\$0.00	\$105,988.35
	MIN. ACRES	0.00	320.00	79.06	0.00	24.39	0.00	48.03	0.00	471.48
	\$/MIN ACRE	\$0.00	\$136.00	\$420.00	\$0.00	\$1,075.00	\$0.00	\$63.37	\$0.00	\$1,694.37
BURLEIGH	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	MIN. ACRES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
DIVIDE	TOTAL \$	\$85,079.60	\$0.00	\$49,600.00	\$9,200.00	\$406,800.00	\$202,317.50	\$66,667.20	\$138,728.58	\$958,392.88
	MIN. ACRES	412.18	0.00	160.00	80.00	1,280.00	347.25	1,081.84	991.63	4,352.90
	\$/MIN ACRE	\$206.41	\$0.00	\$310.00	\$115.00	\$317.81	\$582.63	\$61.62	\$139.90	\$1,733.38
DUNN	TOTAL \$	\$0.00	\$652,386.25	\$497,712.00	\$1,220,500.00	\$318,000.00	\$0.00	\$4,400.00	\$2,429,967.00	\$5,122,965.25
	MIN. ACRES	0.00	1,797.94	789.52	1,760.00	560.00	0.00	80.00	1,191.72	6,179.18
	\$/MIN ACRE	\$0.00	\$362.85	\$630.40	\$693.47	\$567.86	\$0.00	\$55.00	\$2,039.04	\$4,348.62
G. VALLEY	TOTAL \$	\$0.00	\$0.00	\$0.00	\$2,767.13	\$1,241,412.79	\$179,056.60	\$0.00	\$0.00	\$1,423,236.52
	MIN. ACRES	0.00	0.00	0.00	1,468.95	7,084.47	14,808.30	0.00	0.00	23,361.72
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$1.88	\$175.23	\$12.09	\$0.00	\$0.00	\$189.21
GRANT	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$400.00	\$0.00	\$0.00	\$0.00	\$400.00
	MIN. ACRES	0.00	0.00	0.00	0.00	200.00	0.00	0.00	0.00	200.00
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$2.00	\$0.00	\$0.00	\$0.00	\$2.00
HETTINGER	TOTAL \$	\$0.00	\$0.00	\$1,360.00	\$0.00	\$6,400.00	\$0.00	\$2,720.00	\$0.00	\$10,480.00
	MIN. ACRES	0.00	0.00	240.00	0.00	800.00	0.00	80.00	0.00	1,120.00
	\$/MIN ACRE	\$0.00	\$0.00	\$5.67	\$0.00	\$8.00	\$0.00	\$34.00	\$0.00	\$47.67
MCHENRY	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$40.00	\$0.00	\$0.00	\$0.00	\$40.00
	MIN. ACRES	0.00	0.00	0.00	0.00	20.00	0.00	0.00	0.00	20.00
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$2.00	\$0.00	\$0.00	\$0.00	\$2.00
MCKENZIE	TOTAL \$	\$137,600.00	\$58,240.64	\$47,200.00	\$0.00	\$7,102,020.00	\$498,522.50	\$510,271.78	\$7,381,469.15	\$15,736,324.07
	MIN. ACRES	320.00	702.32	40.00	0.00	2,427.63	937.28	954.6	5,556.76	10,938.59
	\$/MIN ACRE	\$430.00	\$84.35	\$1,180.00	\$0.00	\$2,925.50	\$531.88	\$534.54	\$1,328.38	\$7,014.64
MCLEAN	TOTAL \$	\$1,423,858.50	\$1,700,555.70	\$1,891.50	\$54,767.86	\$1,200.00	\$0.00	\$400.00	\$0.00	\$3,182,673.56
	MIN. ACRES	4,091.46	7,516.87	601.50	4,098.03	80.00	0.00	80.00	0.00	16,467.86
	\$/MIN ACRE	\$348.01	\$226.23	\$3.14	\$13.36	\$15.00	\$0.00	\$5.00	\$0.00	\$610.75
MERCER	TOTAL \$	\$0.00	\$979.02	\$2,449,880.58	\$0.00	\$215,161.70	\$0.00	\$0.00	\$0.00	\$2,666,020.70
	MIN. ACRES	0.00	163.17	21,728.59	0.00	1,309.87	0.00	0.00	0.00	23,201.63
	\$/MIN ACRE	\$0.00	\$6.00	\$112.75	\$0.00	\$164.26	\$0.00	\$0.00	\$0.00	\$1.00
MORTON	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$229.81	\$0.00	\$0.00	\$0.00	\$229.81
	MIN. ACRES	0.00	0.00	0.00	0.00	229.81	0.00	0.00	0.00	229.81
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00	\$0.00	\$0.00	\$0.00	\$1.00
MOUNTRAIL	TOTAL \$	\$448,068.20	\$279,651.70	\$194,873.50	\$1,789,366.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2,711,959.40
	MIN. ACRES	1,044.39	284.67	53.39	931.87	0.00	0.00	0.00	0.00	2,314.32
	\$/MIN ACRE	\$429.02	\$982.37	\$3,650.00	\$1,920.19	\$0.00	\$0.00	\$0.00	\$0.00	\$6,981.58
PIERCE	TOTAL \$	\$0.00	\$0.00	\$0.00	\$0.00	\$20.00	\$0.00	\$0.00	\$0.00	\$20.00
	MIN. ACRES	0.00	0.00	0.00	0.00	20.00	0.00	0.00	0.00	20.00
	\$/MIN ACRE	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00	\$0.00	\$0.00	\$0.00	\$1.00
RENVILLE	TOTAL \$	\$35,200.00	\$23,680.00	\$223,723.00	\$418,073.27	\$386,671.40	\$4,240.00	\$0.00	\$37,285.00	\$1,128,872.67
	MIN. ACRES	1,048.00	320.00	844.86	3,652.87	2,671.82	0.00	0.00	959.00	9,664.55
	\$/MIN ACRE	\$33.59	\$74.00	\$264.80	\$114.45	\$144.72	\$0.00	\$0.00	\$38.88	\$695.68
SLOPE	TOTAL \$	\$27,190.20	\$12,958.51	\$11,353.48	\$3,275.53	\$35,160.00	\$0.00	\$0.00	\$0.00	\$89,937.72
	MIN. ACRES	319.86	1,336.93	993.96	2,034.74	2,880.00	0.00	0.00	0.00	7,565.49
	\$/MIN ACRE	\$85.01	\$9.69	\$11.42	\$1.61	\$12.21	\$0.00	\$0.00	\$0.00	\$119.94
STARK	TOTAL \$	\$18,329.81	\$21,888.36	\$38,703.00	\$0.00	\$19,454.74	\$0.00	\$4,560.00	\$477,531.22	\$590,162.98
	MIN. ACRES	1,049.81	2,336.62	978.28	0.00	2,067.37	0.00	560.00	15,663.32	23,617.37
	\$/MIN ACRE	\$17.46	\$9.37	\$39.56	\$0.00	\$9.41	\$0.00	\$8.14	\$30.49	\$124.51
WARD	TOTAL \$	\$44,863.97	\$137,963.60	\$938,687.07	\$777,424.00	\$197,608.95	\$0.00	\$7,072.96	\$64,611.85	\$2,175,688.40
	MIN. ACRES	1,434.10	855.48	8,063.56	2,552.32	1,532.82	0.00	619.20	4,799.08	20,304.56
	\$/MIN ACRE	\$31.28	\$161.27	\$116.41	\$304.60	\$128.92	\$0.00	\$11.42	\$13.46	\$784.01
WELLS	TOTAL \$	\$0.00	\$237.08	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$237.08
	MIN. ACRES	0.00	237.08	0.00	0.00	0.00	0.00	0.00	0.00	237.08
	\$/MIN ACRE	\$0.00	\$1.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00
WILLIAMS	TOTAL \$	\$2,396.03	\$1,600.00	\$2,400.00	\$0.00	\$0.00	\$0.00	\$605,358.60	\$924,618.45	\$2,260,905.88
	MIN. ACRES	476.03	80.00	160.00	0.00	0.00	0.00	3,893.49	2,177.01	9,761.25
	\$/MIN ACRE	\$5.03	\$20.00	\$15.00	\$0.00	\$0.00	\$0.00	\$155.48	\$424.72	\$863.80
TOTALS	TOT BONUS \$	\$2,242,786.31	\$2,943,536.36	\$4,496,370.33	\$4,289,909.79	\$10,144,846.94	\$4,571,595.90	\$1,570,234.54	\$11,912,614.25	\$39,633,116.82
	MIN. ACRES	10,683.83	16,346.58	34,893.02	17,154.78	27,707.55	114,298.18	9,189.89	33,658.68	173,918.54
	\$/MIN ACRE	\$209.92	\$180.07	\$128.86	\$250.07	\$366.14	\$40.00	\$170.87	\$353.92	\$227.88

# Surface Management

Michael D. Brand, Ph.D., Director

This division leases and manages surface acres held in trust for various schools and institutions. The major source of income on these lands comes from grazing and agricultural leases, with significant revenue also being 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

Much 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.
- Reseeding marginal cropland with native grasses.
- Developing dams and dugouts for livestock water and wildlife enhancement.
- Cooperative clean-up of trash sites and sealing abandoned water wells.
- Routing, siting and reclamation of oil well sites, pipeline rights-of-way, gravel mines and coal mines.
- 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.

A total of 1,041 grazing and agricultural leases were issued this biennium. Public auctions were held in the spring, 2008 and 2009, and in the fall, 2007. Leasing interest continued to be high with a success rate over 99 percent. As with last biennium, flooding continued to be a problem in the eastern part of the state but the flood waters have been receding making more acres available for leasing.

Total rental income for the biennium was \$10.6 million, an increase of 8.2 percent over last biennium.

The rental market for grazing lands has remained strong with continued increase in private land rental rates. Private land rental rates are the basis for calculating the minimum opening bid on school trust lands.

Record high prices for small grains also helped maintain a strong demand for cropland. Cropland only makes up 2.8 percent of school trust lands, but it is higher value land with more potential for competitive bidding.

## FIELD PERSONNEL

Roger Martin, Napoleon	1992-Present
Chris Hansen, Napoleon	1998-Present
Larry Veikley, Minot	2002-Present
Dale Ferebee, Beach	2005-Present
Frank Kartch, Bismarck	2006-Present
Mike Sondeland, Bowman	2008-Present

## LEASING

For the first time in 30+ years, a fall lease auction was skipped. This was the culmination of a five year lease consolidation project that began in 2003 to improve efficiency and reduce auction expenses. By selectively adjusting lease expirations it was possible to make sure that no leases would expire in 2008 and thus, there were no fall lease auctions. Now that this lease expiration schedule has been implemented, it will carry through to future years. There will be no fall lease auctions in 2013, 2018, 2023 and etc.

### Land Sales and Acquisitions 2007-2009

Acquisitions:	Acres
Acreage Corrections	2.60
Railroad Abandonment	15.22
Indian Cultural Trust	160.00
<b>Total Acquisitions</b>	<b>177.82</b>
<b>Sales:</b>	
Severed Property.	18.37
Adams Co. Landfill	30.38
Flood Control Project	159.21
Farm Loan Pool Land	774.00
<b>Total Sales</b>	<b>981.96</b>

**INVASIVE PLANTS**

Noxious weed control continued to focus on leafy spurge as the major weed problem on school trust lands. Biocontrol by flea beetles remains the most effective control measure while chemical control was important on sandy soils, small infestations and areas without effective biocontrol.

Canada thistle has become a major problem in grassland areas. Previously it was found predominantly in cropland and areas of increased moisture such as drainage ways and brush patches. It is now commonly found in open prairie. Houndstongue is also being found more frequently on the state's grasslands. This plant is poisonous to both cattle and horses and the seeds can be a nuisance both to livestock and people as they attach to hair and clothing.

The State Land Department continues to pay 100 percent of the cost of controlling saltcedar, yellow star thistle, knapweed and Canada thistle on trust lands. This commitment has been an important part of preventing the establishment and spread of these weeds.

Kentucky bluegrass has also been moving westward and appears to be reducing the native grass identity on school trust lands. These lands are mostly native grass prairie but the increasing dominance of non-native Kentucky bluegrass is a cause for concern both for its potential impacts on grazing and also biodiversity.

**RIGHTS-OF-WAY**

The basis for the rights-of-way program is two-fold, 1) protecting the land resource and 2) collecting a competitive payment for the easements. Most rights-of-way are related to oil and gas development in western North Dakota. Roads and oil well drilling pads are needed to extract the oil and gas while pipelines provide the infrastructure to transport the product. In addition, salt water is disposed into deep formations under easements on school trust lands. With the recent rapid expansion in exploration and development of the Bakken and Three Forks formations, work in this area has increased substantially.

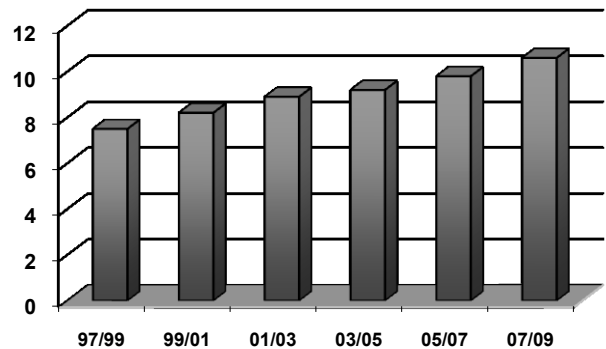
To try to work with the rapidly increasing demand for reclamation oversight on school trust lands, a sixth field inspector was hired in 2008. Rights-of-way produced over \$1.5 million in revenue during the 2007-2009 biennium.

The first wind energy easement was issued to Rugby Wind, L.L.C. for a tower to be constructed north of the city of Rugby in Pierce County.

<b>Trust Fund</b>	<b>Acres</b>
Common Schools	632,392.91
School for the Blind	3,481.69
Capitol Building	9,994.45
School for the Deaf	4,830.44
Ellendale State College	4,904.17
State Hospital	2,205.73
ND Youth Correctional Center	3,744.42
School of Mines <sup>1</sup>	3,313.81
N.D.S.U.	15,117.68
Veterans Home	2,753.69
U.N.D.	8,977.98
Valley City State University	640.00
ND State College of Science	3,712.94
Mayville State University	640.00
Valley City/Mayville <sup>2</sup>	6,818.76
Farm Loan Pool <sup>3</sup>	3,714.00
Indian Cultural Education	160.00
<b>Total</b>	<b><u>707,402.67</u></b>

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.

**Surface Rental \$ in Millions**



## DIGITAL RECORDS AND SCANNING

**Scanning.** A major two year project to convert most of the records in the surface management division to scanned digital documents was mostly completed. Easements, deeds, patents, productivity worksheets, and land inventory records were scanned and indexed. These digital documents were then available for use by staff in day-to-day work. This reduced the need for physical file space and also increased work efficiency.

**Digital Field Inspection Data Collection and Reporting.** Field inspectors were provided with digital cameras and personal computers to record and report field inspections. The inspection data and digital photographs are entered using a custom designed program. The data is mailed to the State Land Department on a USB drive and uploaded directly into the main database. This creates a historical record of the land that can be efficiently searched to determine tracts that need improvement. The condition of tracts can also be monitored over time.

**Geographic Information System.** To improve planning efficiency with rights-of-way in the oil development areas, pipelines, roads, well pads and other easements were digitized. The project focused first on Mountrail, McKenzie and Williams Counties where the Bakken and Three Forks oil and gas development is occurring. Over time, all of the rights-of-way will be digitized as part of the G.I.S. system.

**Digital Right-of-Way Work Flow Program.** Increased oil and gas development required more efficient processing of right-of-way applications to keep up with demand. This was done through a custom digital work flow process that integrates scanned documents, a digital database and the internet. Applications for a right-of-way are now submitted on-line and tracked through the process digitally rather than with paper files. Applicants can also monitor the status of their applications using an on-line utility.

**On-Line Tools.** Companies wishing to search rights-of-way on school trust lands can now view and print the scanned documents from the State Land Department website.

## SURFACE ACRES BY COUNTY As of June 30, 2009

County	Acres	County	Acres	County	Acres
Adams	17,097.52	Golden Valley	28,983.55	Ramsey	2,056.50
Barnes	2,803.32	Grant	33,478.72	Ransom	1,120.00
Benson	11,957.28	Griggs	1,741.24	Renville	1,910.12
Billings	30,927.06	Hettinger	9,883.69	Richland	513.68
Bottineau	3,591.94	Kidder	28,643.79	Rolette	6,226.08
Bowman	29,310.48	LaMoure	1,435.72	Sargent	1,127.79
Burke	16,119.43	Logan	9,404.92	Sheridan	25,826.44
Burleigh	27,890.13	McHenry	22,720.56	Sioux	23,411.56
Cass	40.00	McIntosh	6,209.87	Slope	23,605.98
Cavalier	596.47	McKenzie	64,714.78	Stark	6,142.64
Dickey	3,981.51	McLean	21,042.50	Stutsman	15,664.01
Divide	20,795.84	Mercer	15,129.38	Towner	8,076.00
Dunn	25,653.18	Morton	18,113.89	Walsh	201.02
Eddy	10,274.62	Mountrail	32,445.36	Ward	11,038.98
Emmons	13,516.93	Nelson	2,694.45	Wells	5,248.80
Foster	3,111.51	Oliver	7,588.41	Williams	38,399.32
Grand Forks	1,274.77	Pierce	13,660.93	<b>Total</b>	<b><u>707,402.67</u></b>

# Unclaimed Property

Linda Fisher, Administrator

The Unclaimed Property Division administers and enforces the Uniform Unclaimed Property Act (N.D.C.C. ch. 47-30.1). The purpose of the Act is: to collect and safeguard property remitted by holders; to make efforts to locate owners, and to support the Common Schools Trust Fund with interest earned on funds that remain unclaimed. The Act has been in effect since July 1, 1975.

## LEGISLATIVE CHANGES

Prior to August 1, 2009 unclaimed property law required the reporting of "utility" deposits. During the 2009 legislative session, the division proposed changes to unclaimed property statutes to expand reporting obligations to all types of security deposits.

Legislation was also passed that imposed regulations on "pre-escheat" locators doing business in the state. These individuals or businesses typically try to connect owners with unclaimed property before it is required to be reported to state unclaimed property offices. Prior to changes in the law, it was common for pre-escheat locators to charge large percentages of the property value (30%-50% in most cases) for their services. The bill requires that locators contracting with owners for a percentage of the property value must provide the owner with some specific information related to the property - including the fact that the property at issue would likely and eventually be reported to the State where it could be claimed free of charge.

## CURRENT UNCLAIMED PROPERTY ISSUES

Retailer rebates were the "story" in this biennium. A class-action law suit which was filed by the State of Iowa against third party rebate giant, Young America, late in the previous biennium is still ongoing. However, as a possible result of that litigation we saw an increase in unclaimed rebate reporting from previous years. The vast majority was related to electronics rebates (cell phones, computers, etc.). We expect the trend to decrease as many rebate claims are now being offered in the form of gift cards which have been exempted from

reporting requirements in a large number of states, including North Dakota. Despite an increase in outreach efforts, the rebate issue has negatively impacted the value of "Claims Paid" during this biennium as 41% of properties paid were less than \$100 (see chart below).

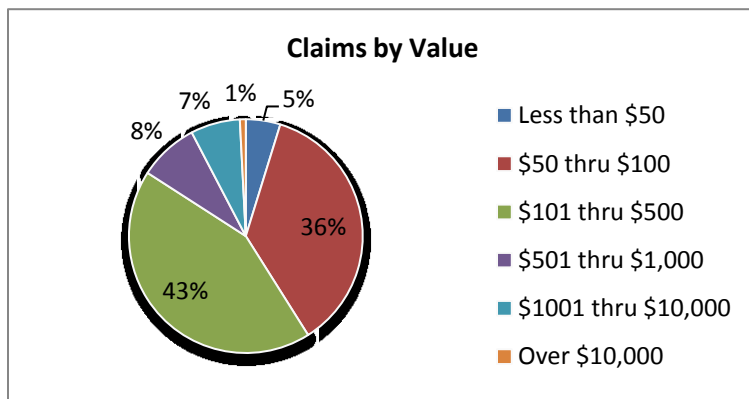
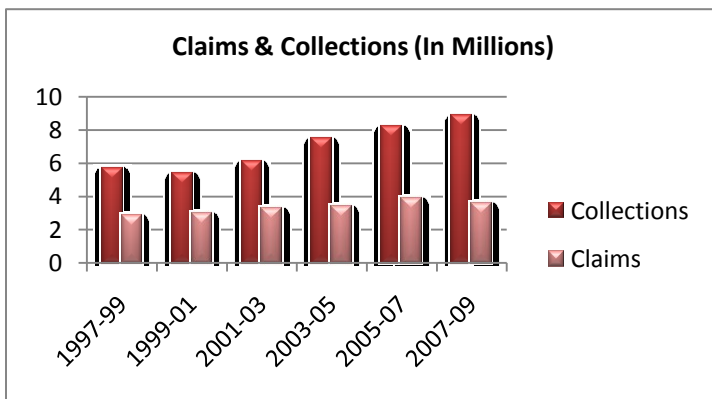
## OUTREACH SUMMARY

The following is a summary of efforts to educate and increase public awareness of unclaimed property:

- Fee-free searchable websites:
  - [www.land.nd.us](http://www.land.nd.us) (search by name or by city)
  - [www.missingmoney.com](http://www.missingmoney.com) (States' National database)
- County newspaper legal publication - names and last known address.
- Display ads in county newspapers.
- E-mail distribution to on-line user groups (State government, County government, education system etc.).
- Television interviews and radio talk-shows.
- Service club presentations.
- Public contact at fairs and tradeshows.
- Address updates and direct mailings.
- Restaurant Trivia publications in various urban markets.
- Cooperative Agreement for data matching with ND Child Support and Enforcement.

## COMPLIANCE AND EDUCATION

Refer to Audit Division Report on Page 7.



# Investments

Jeff Engleson, Director

The Investment Division is responsible for directing, implementing, coordinating and monitoring all aspects of the Land Board's investment program.

As of June 30, 2009, the total value of investment assets managed by the Division was approximately \$982.32 billion. The bulk of these assets (\$888.45 million) are owned by 13 permanent education trusts under the Board's control, while the remainder are owned by the Coal Development, Land & Minerals, Capitol Building and Indian Cultural Education trust funds. Listed below is a breakdown of the investment assets managed by the Division, by asset type:

- ◆ **Marketable Securities and CDs:** The total value of investment securities and cash equivalents managed by the Board as of June 30, 2009 was \$880.99 million. \$868.62 million of investment securities were held at our custodian bank, Northern Trust Company, and were managed by investment professionals that are hired by the Board to achieve specific investment goals and objectives. The Land and Minerals Trust owned \$11.04 million of cash equivalents, located at both Northern Trust and the Bank of North Dakota (BND), and the Capitol Building Trust owned \$1.33 million of cash equivalents as of June 30, 2009.
- ◆ **Farm Loan Pool:** As of June 30, 2009, the total value of the Board's pool of farm real estate loans was \$41.34 million. Although BND handles the day-to-day administration of the farm loan pool, the Investment Division works closely with the bank in developing and implementing policies, goals and strategies for farm loans and in monitoring and evaluating the program on an ongoing basis.
- ◆ **Other Loans:** As of June 30, 2009, the Board had total outstanding loans, to political subdivisions and other governmental entities, of \$59.85 million. Legislatively directed loan programs from the Coal Development Trust Fund totaled \$38.66 million as of that date, and included \$33.55 million in school construction loans and \$5.11 million in loans to energy impacted political entities. In addition, the Common Schools Trust had \$1.19 million of loans outstanding to group homes for the developmentally disabled and the Land and Minerals Trust had a \$20.0 million line of credit outstanding to the State Mill and Elevator on that date.

## INVESTMENT GOALS AND OBJECTIVES

The type of investment assets owned by each trust fund managed by the Board is determined by the nature or purpose of the fund, and investment goals and objectives of the fund.

The 13 educational trust funds managed by the Board are permanent in nature, and were established to provide funding for education in North Dakota, both today, and for future generations. The Indian Cultural Education trust is similar in nature to the 13 permanent educational trusts and is invested in an investment pool with those trusts. The long range goal for all of these trusts is to have an investment program that will allow trust assets and distributions to beneficiaries to increase 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 and other financial assets.

The primary purpose of the Coal Development Trust Fund is to provide loans to political subdivisions, as directed by the Legislature. The Board is responsible for administering the trust, and investing any monies that have not been loaned. As of June 30, 2009, outstanding loans to political subdivisions totaled \$38.66 million, while the Board invested the remaining \$22.13 million of this trust's assets. Because of the limited authority the Board has over this trust, its assets are invested in a relatively short-term, high-quality bond portfolio, that can be liquidated as needed, to fund loan programs adopted by the Legislature.

The expendable nature of the Land & Minerals and Capitol Building trust funds result in these trusts being invested in short-term, high-quality bonds, loans, CDs and cash equivalents, that have minimal chance of principal loss.

Over the past two years, both stock and bond markets have taken investors on a wild ride. Although the value of permanent trust assets was down for the biennium, each trust met its budgeted distribution goals. The other funds under the Board's control also met their distribution objectives for the biennium. The Commissioner and staff will continue to develop and improve an investment program that already incorporates the purpose and nature of each trust into a specific investment plan.



## **PERMANENT TRUST INVESTMENT ASSETS**

### **Portfolio Changes:**

There were very few major changes implemented in the investment portfolio during the 2007-2009 biennium. Rather, the biennium was one where we monitored things closely and acted defensively to deteriorating market conditions, as we waited for the final adoption of the changes that North Dakota voters approved as Constitutional Measure No. 1 on November 7, 2006.

In August 2007, the Board approved changes to the farm loan pool program that were designed to stimulate demand for these loans. Changes included lowering origination fees, rate premiums, and interest rate floors. The changes appear to have worked as the value of outstanding loans in the portfolio increased from \$28.45 million on June 30, 2007 to \$38.33 million on June 30, 2009.

During October 2008, the Board dealt with a number of investment issues. As credit spreads widened to historic levels, the Board increased the permanent trusts' exposure to high yield securities from 8% to 10%. In addition, the Board agreed to invest \$20 million of Land & Minerals trust money in a line of credit to the State Mill and Elevator through the Bank of North Dakota. This helped increase the yield of the trust without increasing the risks substantially. The Board also authorized an oil impact area construction loan program; although to date, we have not participated in any loans under this program.

On September 18, 2008, Northern declared a "collateral deficiency" in their securities lending collateral pool. This problem was caused by the historic credit crises and meant that the value of the collateral pool was worth less than \$1.00 per share. As a result of the collateral deficiency, our trusts were charged, but not required to pay, a total of \$1.22 million.

Although the liability charged to our accounts was material, what was enlightening was how securities lending issues impacted the liquidity of various funds in which the Board invests. In October, the Board, on the Commissioner's recommendation, directed the Commissioner to cease investing additional funds into securities lending based funds and to start putting all new monies into non-lending based investment vehicles. As credit markets continue to improve, we expect to recover some of the funds lost as a result of the collateral deficiency; the exact amount is unclear at this time. We will also use this as an opportunity to reevaluate all the risks and rewards associated with securities lending before deciding if we want to continue to use this service going forward.

### **Constitutional Measure #1:**

On June 30, 2009, Attorney General Stenehjem certified to Secretary of State Jaeger that recent amendments to two federal statutes, the 1889 Enabling Act and the 1862 Morrill Act, removed any inconsistencies between those federal laws and sections 1 and 2 of article IX of the North Dakota State Constitution. With that certification, the historic changes that were approved by North Dakota voters as Constitutional Measure No. 1 (CM No. 1) during the November 7, 2006 general election became effective on July 1, 2009.

The most obvious change resulting from CM No. 1 is that starting in fiscal year 2010, distributions from the permanent trust funds will be determined based on the amount of assets in the trusts and the growth of those assets over time. Historically, distributions have been based on the amount of "interest and income" generated by each trust during a given year. Although it will be easy to adopt the new distribution method immediately, it will take the Board and investment staff at least a couple of years to transition the investment portfolio to a total return approach to trust management.

Implementing CM No. 1 will allow the Board to better manage the permanent trusts to protect them from the impact of inflation while also providing stable, reliable distributions to trust fund beneficiaries. In addition, it will give the Board the ability to more optimally invest trust fund assets to meet its responsibilities to both current and future beneficiaries. The change to a total return methodology of trust management will be a benefit to North Dakota children for generations to come.

### Asset Allocation:

During the biennium, the permanent trusts' asset allocation remained basically unchanged, with one exception. As previously noted, the Land Board increased the target allocation for high yield securities from 8% to 10%. This was done for opportunistic reasons in the fall of 2008 as the credit crises was reaching its peak and credit spreads for high yield bonds were reaching historical highs. The target asset allocation for the permanent trusts remains at 51% equities and 49% fixed income; the additional 2% allocation to high yield came from the GNMA/Short Bond Fund portion of the multi-bond portfolio. A more detailed look at the amounts allocated to each asset class can be found in the tables that follow.

### Fixed Income Investments:

The primary objective of permanent trusts' fixed income portfolio is to generate the long-term, predictable, income and cash flows needed to meet distribution goals. To meet this objective, a portion of the fixed income portfolio is dedicated to high quality, relatively high yielding, loans and fixed income securities, that are managed in more of a "buy and hold" manner than most institutional fixed income portfolios. The fixed income assets managed in this yield-oriented strategy include long-term government and corporate fixed income securities, mortgage backed securities, farm real estate loans, and developmentally disabled loans (DD Loan #3). The total amount dedicated to the yield-oriented fixed income portfolio was about \$271.73 million as of June 30, 2009.

<b>FIXED INCOME ASSETS MANAGED FOR YIELD FOR PERIODS ENDED JUNE 30, 2009, 2008 AND 2007</b>					
<b>Manager/Asset Class</b>	<b>6/30/09 Alloc. (\$ million)</b>	<b>% of Total Portfolio</b>	<b>FY Ended 6/30/09</b>	<b>FY Ended 6/30/08</b>	<b>FY Ended 6/30/07</b>
Bank of North Dakota	\$ 5.57	0.6%	7.40%	7.46%	7.47%
Payden & Rygel Long Term	\$126.94	14.3%	5.72%	5.91%	6.01%
<b>Avg. Yield on Cost – Fixed Income Securities</b>	<b>\$132.51</b>	<b>14.9%</b>	<b>5.79%</b>	<b>5.99%</b>	<b>6.10%</b>
Farm Loan Pool	\$ 41.34	4.7%	6.87%	7.28%	7.49%
DD Loan #3	\$ 1.19	0.1%	9.00%	9.00%	9.00%
<b>Avg. Yield on Cost – Loans</b>	<b>\$ 42.53</b>	<b>4.8%</b>	<b>6.94%</b>	<b>7.38%</b>	<b>7.61%</b>
Payden & Rygel GNMA/Short Bond Funds	\$ 96.69	10.9%	3.97%	4.42%	4.81%
<b>Avg. Yield on Cost – All Fixed Income Investments</b>	<b>\$271.73</b>	<b>30.6%</b>	<b>5.31%</b>	<b>5.66%</b>	<b>5.90%</b>
Primary Objective - Yield-Oriented Fixed Income Assets			7.50%	7.50%	7.50%

Although the yield of the yield-oriented fixed income portfolio fell steadily throughout the biennium, the permanent trusts still generated enough interest and income to meet their distribution goals. The Board did not need to use any amortized capital gains to meet budgeted distributions for the 2007-2009 biennium.

The remainder of the fixed income portfolio is allocated to fixed income strategies that are managed for total return, rather than yield. The table below compares the total return earned by each portfolio to the benchmark return for that portfolio over various periods of time.

<b>FIXED INCOME ASSETS MANAGED FOR TOTAL RETURN FOR PERIODS ENDED JUNE 30, 2009</b>								
<b>MANAGER - Strategy Index</b>	<b>6/30/09 Allocation (\$ mil.)</b>	<b>% of Total Portfolio</b>	<b>Last Qtr. (%)</b>	<b>Last 1 Year (%)</b>	<b>Last 3 Years (%)</b>	<b>Last 5 Years (%)</b>	<b>Since Inception (%)</b>	<b>Inception Date</b>
<b>NORTHERN TRUST – TIPS Index Fund</b>	<b>\$85.42</b>	<b>9.6%</b>	<b>0.55</b>	<b>-2.02</b>	<b>5.59</b>	<b>4.82</b>	<b>4.79</b>	<b>6/1/04</b>
Barclays US Treasury Inflation Notes Index			0.65	-1.11	5.77	4.94	4.86	
<b>EVERGREEN – Intl. Fixed Income</b>	<b>\$42.00</b>	<b>4.7%</b>	<b>0.91</b>	<b>8.52</b>	<b>5.11</b>	<b>4.88</b>	<b>4.53</b>	<b>4/5/04</b>
ML Broad Global Bond (Ex-US) – Hedged			1.38	7.50	5.05	4.91	4.59	
<b>LAZARD – High Yield Bonds</b>	<b>\$89.58</b>	<b>10.1%</b>	<b>12.59</b>	<b>-1.48</b>	<b>3.16</b>	<b>4.23</b>	<b>4.18</b>	<b>1/1/04</b>
Merrill Lynch HY Bond Index			22.55	-3.62	1.77	4.06	3.93	
Merrill Lynch HY BB/B Index			17.80	-3.33	2.10	4.12	3.96	
<b>Payden &amp; Rygel Cash Management</b>	<b>\$4.98</b>	<b>0.5%</b>	<b>0.16</b>	<b>0.80</b>	<b>3.50</b>	<b>3.31</b>	<b>4.08</b>	<b>8/1/95</b>
6 Month T-Bill			0.11	1.67	3.80	3.36	3.99	

## Equity Securities:

The purpose of the permanent trusts' equity and convertible securities portfolio is to provide the growth needed to reach the Board's goal of increasing both trust assets, and distributions, at a rate greater than or equal to inflation. In order to help accomplish this goal, the Board has set a target asset allocation of 51% equities and 49% fixed income.

The permanent trusts' equity asset mix includes allocations to large-capitalization U.S equities, small- and mid-capitalization U.S equities, real estate investment trusts (REITs), international equities, and convertible securities. The current weighting of each asset class in the equity portfolio is based on the DiMeo Schneider study, which was completed in 2003. The schedule below summarizes the position of our combined equity and convertible securities portfolio as of June 30, 2009, and its performance since the Board implemented an asset allocation plan in August 1995.

EQUITY & CONVERTIBLE SECURITIES NET RETURNS FOR PERIODS ENDED JUNE 30, 2009								
<u>Asset Class</u> <u>MANAGER</u> <u>Benchmark/Index</u>	<u>6/30/09</u> <u>Allocation</u> <u>(\$ mil.)</u>	<u>% of</u> <u>Total</u> <u>Portfolio</u>	<u>Last</u> <u>Qtr.</u> <u>(%)</u>	<u>Last 1</u> <u>Year</u> <u>(%)</u>	<u>Last 3</u> <u>Years</u> <u>(%)</u>	<u>Last 5</u> <u>Years</u> <u>(%)</u>	<u>Since</u> <u>Inception</u> <u>(%)</u>	<u>Inception</u> <u>Date</u>
<b>Large Cap U.S. Equities</b>								
NORTHERN TRUST – Enhanced S&P 500 S&P 500	\$69.27	7.8%	13.87 15.93	-36.23 -26.21	N/A N/A	N/A N/A	-17.26 -9.64	9/1/06
STATE STREET – S&P 500 Index S&P500	\$47.95	5.4%	15.91 15.93	-26.17 -26.21	N/A N/A	N/A N/A	-23.28 -23.31	4/1/08
<b>Small/Mid Cap U.S. Equities</b>								
NORTHERN TRUST – Small/Mid Cap NTGA Benchmark (composite index + 2.00%)	\$69.65	7.8%	20.44 20.41	-25.92 -24.16	-9.57 -6.91	-1.22 1.16	7.15 7.67	3/1/96
STATE STREET – Small/Mid Index Russell Small Cap Completeness	\$9.75	1.1%	21.64 21.62	N/A N/A	N/A N/A	N/A N/A	19.47 19.40	2/1/09
<b>Real Estate Investment Trusts (REITs)</b>								
DELAWARE INVESTMENT ADVISERS NAREIT Equity REIT	\$39.92	4.5%	24.88 28.85	-41.24 -43.29	-16.40 -18.01	-2.36 -2.74	-0.49 -0.90	12/1/03
<b>International Equities</b>								
STATE STREET – International Alpha MSCI EAFE	\$81.52	9.2%	26.80 25.43	-33.90 -31.36	-9.99 -7.98	N/A N/A	-7.82 -6.02	2/1/06
<b>Convertible Securities</b>								
TRUST COMPANY OF THE WEST Merrill Lynch All Convertibles	\$77.26	8.7%	12.34 17.71	-24.92 -18.84	-6.30 -4.26	-2.94 -0.57	6.35 7.56	6/30/90
<b>Combined Equity and Convertibles</b>	<b>\$395.32</b>	<b>44.5%</b>	<b>18.64</b>	<b>-31.19</b>	<b>-10.99</b>	<b>-2.49</b>	<b>5.20</b>	<b>8/1/95</b>
All total return figures for periods of 1 year or greater have been annualized.								

The permanent trusts' combined equity and convertible securities portfolio could not escape the devastation that hit equity markets during the biennium. The combined portfolio posted a total return loss of -14.01% during fiscal year 2008 and a total return loss of -31.19% during fiscal year 2009. The overall investment portfolio, which reached an all time high of \$980.52 million in May 2008, fell by more than \$216 million over the next 9 months before reaching a biennial low of \$763.59 million in February 2009.

Fortunately, when the stock market started to rebound during the spring of 2009, so did the portfolio. The combined equity and convertible securities portfolio posted a return of 24.71% over the final 4 months of the biennium. Between new oil royalty and bonus money, tobacco lawsuit proceeds and strong investment returns, the overall investment portfolio grew by over \$125 million between March 1, 2009 and the end of the biennium.

## MONITORING AND EVALUATING PERFORMANCE

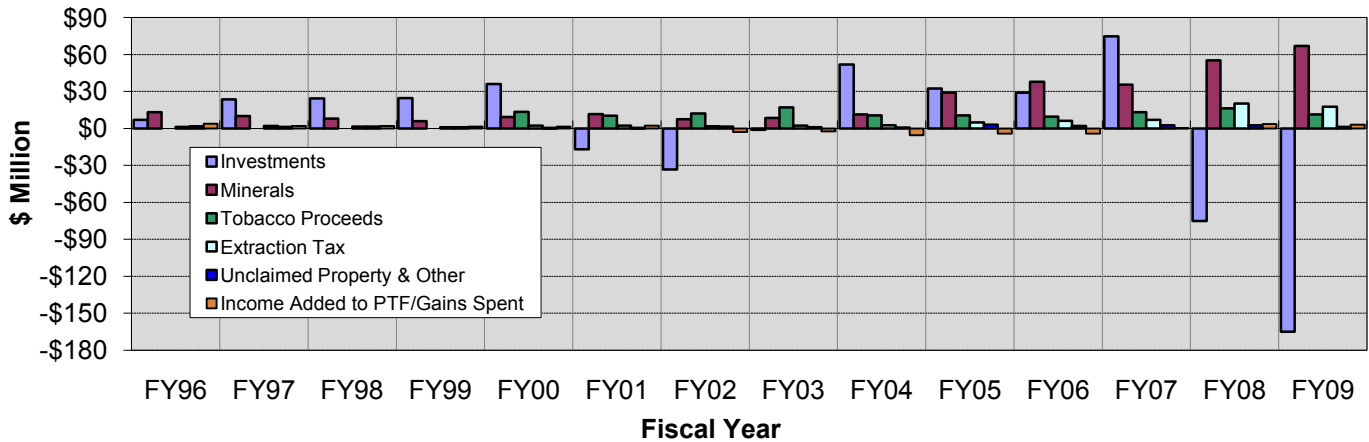
The Investment Division continued to prepare quarterly performance reports for the Board that summarize both the performance of the investment program as a whole and the performance of individual managers, and compares it to established benchmarks and goals. The reports are reviewed by an independent accounting firm to help ensure that accurate data is being presented to the Board.

**SUMMARY**

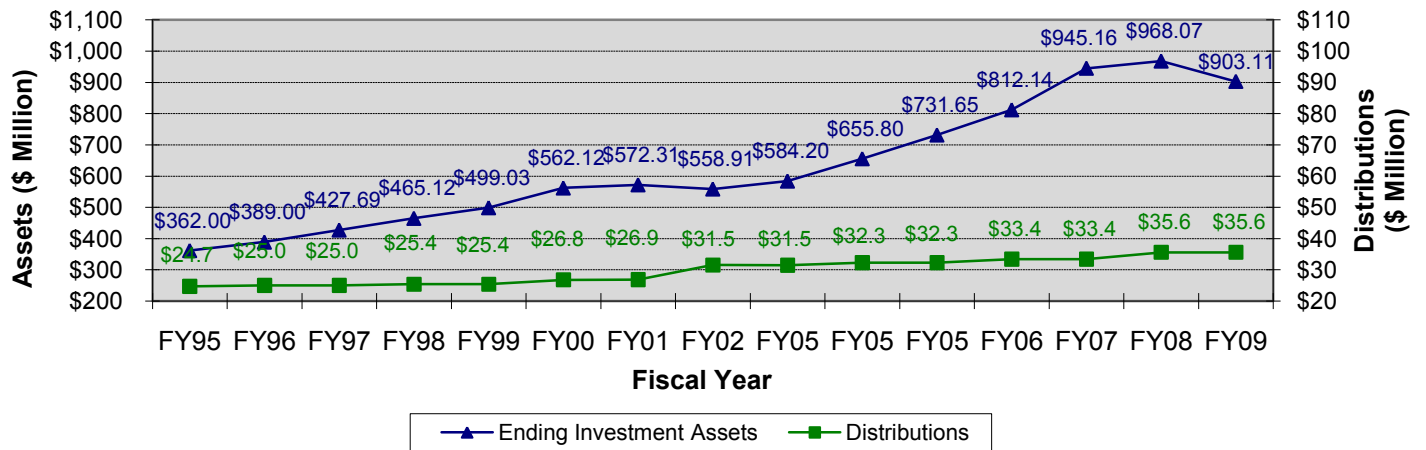
The 2007-2009 biennium was a difficult two years for all investors. While equities declined in market value, credit spreads were widening and fixed income markets were all but shutting down. For investors, there was no place to hide. At the end of the biennium, U.S Treasury rates were at historic lows and money market funds were yielding less than one tenth of one percent. For the first time in a long time, most investors were more worried about risk than potential future returns.

Although the Board's conservative approach to investing helped the trusts weather the current financial crises better than many entities, the market value of the trusts did decline during the biennium. However, even with all the turmoil, every trust under the Board's management met its distribution goals. With financial markets starting to recover and the current Bakken/Three Forks play continuing to develop, the permanent trusts are poised for unprecedented growth going forward.

**SOURCES OF PERMANENT TRUST GROWTH**



**PERMANENT TRUST ASSET AND DISTRIBUTIONS**



# Permanent Funds

	<b>Schedule of Net Asset Balances</b>		<b>Schedule of Income Available for Distribution by Trust</b>	
	<b>6/30/07</b>	<b>6/30/09</b>	<b>7/05 to 6/07</b>	<b>7/07 to 6/09</b>
Common Schools	\$888,741,715	\$865,092,944	\$86,301,319	\$92,665,468
North Dakota State University	14,127,183	14,569,237	1,593,204	1,695,115
School for the Blind	2,294,644	2,340,586	288,314	280,172
School for the Deaf	4,150,847	4,710,445	464,817	500,097
State Hospital	5,556,818	5,753,707	502,154	607,506
Ellendale State College	2,123,712	2,610,296	291,062	289,502
Valley City State University	2,958,012	2,779,890	366,870	367,753
Mayville State University	2,048,531	1,871,108	254,873	250,553
Industrial School	4,942,137	4,644,641	571,118	566,608
State College of Science	4,616,497	5,266,372	474,617	518,924
School of Mines	5,152,956	6,288,289	503,517	579,488
Veterans Home	2,778,630	2,352,183	314,172	304,230
University of North Dakota	7,848,894	7,259,850	910,802	935,874
<b>Total</b>	<b>\$947,340,575</b>	<b>\$925,539,548</b>	<b>\$92,836,839</b>	<b>\$99,561,288</b>

	<b>Schedule of Distributions By Trust</b>		<b>Schedule of Permanent Fund Receipts By Trust</b>	
	<b>7/05 to 6/07</b>	<b>7/07 to 6/09</b>	<b>7/05 to 6/07</b>	<b>7/07 to 6/09</b>
Common Schools	\$62,200,000	\$66,800,000	\$104,004,338	\$182,840,347
North Dakota State University	1,146,000	1,070,000	1,292,320	2,310,447
School for the Blind	208,000	176,000	46,882	144,896
School for the Deaf	322,000	310,000	495,861	1,150,515
State Hospital	310,000	390,000	1,251,866	1,481,778
Ellendale State College	235,200	168,000	61,829	383,124
Valley City State University	268,000	226,000	199,372	228,264
Mayville State University	176,000	156,000	165,570	45,828
Industrial School	404,000	378,000	232,344	413,737
State College of Science	306,000	338,000	850,636	1,198,074
School of Mines	322,000	370,000	1,050,254	1,959,202
Veterans Home	236,000	214,000	71,446	67,499
University of North Dakota	664,000	604,000	310,731	388,836
<b>Total</b>	<b>\$66,797,200</b>	<b>\$71,200,000</b>	<b>\$110,033,448</b>	<b>\$192,612,547</b>

## Schedule of Sources of Income Available for Distribution

	<b>7/05 to 6/07</b>	<b>7/07 to 6/09</b>
Investment Income	\$49,208,994	\$62,560,927
Loan Income	4,429,237	5,210,413
Rents	9,286,839	10,315,462
Amortization of Gains & Losses	29,900,736	21,426,156
Other	11,032	48,329
<b>Total</b>	<b>\$92,836,839</b>	<b>\$99,561,288</b>

## Schedule of Sources of Permanent Fund Receipts

	<b>7/05 to 6/07</b>	<b>7/07 to 6/09</b>
Mineral Bonus	\$17,138,675	\$27,660,236
Oil Extraction Taxes	13,135,956	37,901,593
Tobacco Collections	22,753,729	24,753,324
Royalties	52,988,732	95,815,668
Unclaimed Property	3,568,088	5,349,466
Other	448,269	1,132,260
<b>Total</b>	<b>\$110,033,448</b>	<b>\$192,612,547</b>

# Other Funds

	<b>Schedule of Net Asset Balances</b>		<b>Schedule of Distributions</b>	
	<b>6/30/07</b>	<b>6/30/09</b>	<b>7/05 to 6/07</b>	<b>7/07 to 6/09</b>
Capitol Building Fund	\$905,223	\$1,478,010	\$34,000	\$488,452
Coal Development Fund	59,535,297	61,147,592	3,413,769	8,252,540
Land & Minerals Fund	14,056,679	32,586,643	7,025,000	16,498,349
Indian Cultural Education Fund	0	537,480	0	0
<b>Total</b>	<b>\$74,497,199</b>	<b>\$95,749,725</b>	<b>\$10,472,769</b>	<b>\$25,239,341</b>