

# North Dakota's Legacy Fund: Building a Bridge to the Future

HARNESSING TODAY'S OIL WEALTH TO BUILD A POSITIVE FUTURE  
FOR NORTH DAKOTA

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*We are grateful for the dedication of our Legacy Fund Initiative participants who volunteered their time over the course of seven meetings, several webinars and many conference calls. It has been an inspiration and privilege to work with a group of people who care deeply about the future of our state.*

*We also thank the many citizens across our North Dakota who took the time to participate in our community meetings and online survey. Their input helped shape these recommendations. Special thanks are due to the North Dakota Association of Tribal Colleges for their assistance in preparing and delivering our online survey to gather citizen input.*

*Officials from North Dakota, federal agencies, other states, and the country of Norway gladly provided information and presentations to Legacy Fund Initiative participants that informed their recommendations. We want to acknowledge contributions from a number of state and federal agencies, including the Bank of ND, ND Department of Commerce, Office of Management and Budget, ND Public Finance Authority, ND University System, and USDA Rural Development. We also recognize representatives of state natural resource funds in New Mexico and Wyoming who generously shared their own experiences and Norwegian officials and colleagues who helped inspire this project in the first place. We thank Peter Beck for allowing the use of his photo on the front cover of this report.*

*Finally, none of this work would have been possible without the Northwest Area Foundation, North Dakota Natural Resources Trust and the Consensus Council in partnership with the Bush Foundation. We extend our thanks and appreciation for their generous financial support of this project.*

~ Patrice Lahlum and Brad Crabtree, Great Plains Institute

## EXECUTIVE SUMMARY

For the first and perhaps only time in our state's history, we can meet the needs and opportunities of the present and steward the development of an extraordinary and permanent resource for the future.

In November 2013, the Great Plains Institute convened a diverse group of North Dakota public, private, community and nonprofit leaders and citizens to develop a consensus vision and policy recommendations to guide the purposes, governance, investments and future expenditures of the state's oil and gas Legacy Fund.

North Dakota's Legacy Fund is special. It differs from other constitutional and state special funds in that North Dakota voters established the Legacy Fund to safeguard a portion of oil and gas revenue and grow it for the future. With 30 percent of oil and gas tax revenue flowing into the Fund, the balance of the Legacy Fund has grown substantially and now stands at more than \$2.2 billion. Legislative forecasts predict that the Legacy Fund balance will grow to at least \$6 billion by 2017.

Under the state's Constitution, the earnings from the Legacy Fund become available for expenditure by North Dakota's legislature in 2017. State officials estimate the earnings from the Fund will be at least \$300 million annually by 2017, and those earnings will be deposited into the state general fund. After July 1, 2017, the state legislature can spend up to 15 percent of the principal balance of the Legacy Fund per biennium, if two-thirds of each house of the legislature agrees to the spending.

North Dakota stands at a critical juncture. There has not yet been a broad public conversation in North Dakota about the future of the Legacy Fund since its inception.

Legacy Fund Initiative participants studied national sovereign wealth funds and state-level natural resource funds to gain insight into the purposes and management of various funds. In addition, project participants considered a number of scenarios for the management of North Dakota's Legacy Fund in coming decades.

Identifying a common vision and principles upon which to formulate recommendations for the Legacy Fund was one of the first steps taken by participants in the process:

### Vision for the Legacy Fund

*North Dakota's Legacy Fund will provide a permanent, sustainable resource for future generations that fosters self-sufficiency, creates opportunity and enhances quality of life for all citizens.*

### Guiding Principles

- *Implement the highest standards and practices of governance, accountability and transparency to guide Fund policies, procedures, decisions and actions.*
- *Make long-term, sustainable investments in North Dakota's future through the responsible stewardship of revenue generated from a finite natural resource.*
- *Foster and reinforce core values of hard work, self-sufficiency, innovation, equity, and stewardship.*

Priority Number One: Governance, Accountability and Transparency

In their deliberations, LFI participants have consistently emphasized the fundamental importance of managing the Legacy Fund according to the highest standards and practices of governance, accountability and transparency in policies, procedures, decisions and actions. Therefore, LFI participants have developed a “Best Practices” checklist for this report to enable North Dakotans to compare the governance, accountability and transparency of the Legacy Fund against a set of best practices drawn from guiding principles and codes of conduct for other sovereign and state wealth funds. They also recommend that state policy-makers consider modifying the current governance of the Legacy Fund as it grows in scale and importance.

Scenarios for the Future

With a vision and principles in place, project participants analyzed various revenue scenarios for the Legacy Fund over time. The revenue scenarios were developed utilizing oil production projections published by the North Dakota Department of Mineral Resources at the time of writing, as well as data on recent and historical revenue and fund balances.

Project participants ultimately selected a preferred 25-year scenario on which to base their goals and recommendations in this report. It offers state policy-makers a pragmatic middle ground between spending everything and spending nothing. The preferred “Reinvest, Replace and Spend” scenario achieves a balance for the Legacy Fund of \$230 billion by 2060, while providing North Dakotans important benefits in the near to medium term. Under the scenario, the Legislature would spend 25 percent of annual earnings from 2017-2039 and reinvest the remaining 75 percent back into the Legacy Fund until oil production peaks and begins to decline (currently projected for the latter half of the next decade). At that point, the Legislature would still spend 25 percent of annual earnings, but use a portion of the remaining 75 percent of earnings to replace diminishing state oil and gas revenue, while reinvesting the rest into the Fund.

At a time of rapidly growing oil production and state revenues, but also growing concern over the recent decline in oil prices, the “Reinvest, Replace and Spend” scenario represents a responsible approach to the future that relies on conservative projections for oil production and price. It also appropriately balances benefits for North Dakotans today and for future generations.

Having selected a preferred scenario, participants established goals for the future of the Fund. These goals build on one another and will require prudent, intentional management to grow the Legacy Fund’s principal over a 25-year timeframe:

Goals for the Legacy Fund

- *Provide a resource of last resort in times of exceptional need.*
- *Provide for a significant portion of the state’s future needs by compensating for the reduction in revenues once oil and gas production begins to decline.*
- *Beginning in 2017, invest in bold, visionary, and transformative actions that build assets and enhance quality of life for North Dakota citizens today and in the future.*

The Legacy Fund goals described above can only be accomplished through the power of compounding interest. Turning potential into reality will require citizens and their elected representatives to sustain a commitment to wise management of the Fund over time.

Fortunately, given North Dakota's present fiscal strength—with billions of dollars in oil and gas, sales tax and other revenue flowing into and overflowing out of multiple state funds—we have abundant alternatives to the Legacy Fund to meet the current spending priorities in our state.

Building upon the vision, principles and goals, this report outlines a broad strategy to manage the Legacy Fund over the next quarter century that meets our obligations to future generations, while contributing meaningfully to the lives of North Dakotans today.

#### Legacy Fund Strategies

- *Reinvest 75 percent of annual Legacy Fund earnings from 2017 through 2039 to grow the Fund principal, after inflation, to benefit future generations of North Dakotans.*
- *Use existing state resources to address critical needs and priorities of citizens and communities today, rather than drawing on the Legacy Fund.*
- *Allocate 25 percent of annual Legacy Fund earnings from 2017 through 2039 to bold and visionary purposes that build a bridge to a future.*

In order to achieve the strategies outlined above, the report includes detailed recommendations for the proposed allocation and use of 25 percent of the annual Legacy Fund earnings from 2017 through 2039.

Participants propose the establishment of a North Dakota Legacy Foundation to involve the legislative and executive branches of government to administer Legacy Fund initiatives and guide the use of annual Fund earnings, subject to oversight by the Legislature. The Legacy Foundation's role would include gathering public and expert input, identifying priorities for recommendation to the Governor and Legislature, and coordinating state agencies and private sector entities in planning and undertaking initiatives.

LFI participants recommend that the Governor and Legislature identify a critical priority for the state each biennium and charge the Legacy Foundation with developing a program of action to address that priority with Legacy Fund earnings and other state and private resources. They envision that priorities chosen each biennium will span a wide range of important issues as future governors and Legislatures respond proactively to the changing circumstances of our state over time.

Based on their own discussions and input from citizens, LFI participants strongly encourage the Governor and Legislature to choose the development of a comprehensive strategy and action plan for building a world class pre-K through 20 education system as the first Legacy Foundation priority for the 2017-19 biennium.

Additionally, project participants recommend that the Legacy Foundation focus on a few key priorities for impact. Three ongoing initiatives are proposed in education scholarships, innovation and infrastructure that the Foundation could coordinate. By 2020, the Legacy Fund could provide about \$63 million to each of the three initiatives, or about \$189 million total. This could grow to \$131 million in 2025, \$222 million in 2030 and \$459 million annually in 2040 to each of the three recommended initiatives:

## **INITIATIVE #1: ENDOW A HIGHER EDUCATION SCHOLARSHIP PROGRAM IN NORTH DAKOTA**

As part of developing and implementing the broader strategy and action plan for pre-K through 20 educational excellence recommended in this report, LFI participants encourage state legislators to continue exploring how Legacy Fund resources could be utilized to endow a higher education scholarship program.

## **INITIATIVE #2: FOSTERING INNOVATION THAT BUILDS A BRIDGE TO THE FUTURE**

LFI participants recommend that a “Genius Initiative” be established to foster transformative private and public sector innovation that builds a bridge to the future by leveraging our current success in energy and agriculture to expand and accelerate economic diversification and increase our state’s productive potential.

Funded by a portion of annual Legacy Fund earnings not reinvested, the proposed Genius Initiative would support applied research, development and demonstration of technologies and best practices, program and service delivery, and public-private partnerships that have significant potential to increase prosperity, create opportunity and enhance quality of life for citizens today and generations to come.

## **INITIATIVE #3: INVESTING IN 21<sup>ST</sup> CENTURY ECONOMIC AND COMMUNITY INFRASTRUCTURE**

The LFI participants encourage state policy-makers to dedicate a portion of annual Legacy Fund earnings not reinvested after 2017 toward long-term economic and community infrastructure investments that are bold, visionary and transformative and that provide returns or allow for repayment of principal to the Fund. They specifically recommend investing rather than spending Fund earnings on infrastructure in order to leverage the impact over time.

LFI participants do not advocate appropriating Legacy Fund earnings for traditional infrastructure purposes. North Dakota’s infrastructure needs in the near term are enormous and driven to a large extent by oil and gas development. These needs will exceed available proceeds from Legacy Fund earnings by a large margin in the early years.

In offering these consensus recommendations for consideration by state policy-makers and citizens, LFI participants believe that we as North Dakotans today are blessed with an extraordinary bounty of oil and gas resources, which most states and countries will never share, and that is available to us for a limited time. We have an obligation through the Legacy Fund to take advantage of this window of opportunity to build a bridge to a future that provides our children and grandchildren with opportunities and options similar to those we enjoy today.

## PROJECT OVERVIEW

**Rationale.** North Dakota's rapidly growing Legacy Fund currently stands at \$2.2 billion and has been projected conservatively to reach \$6 billion by 2017, when Fund returns first become available for expenditure. Assuming no change to existing state tax treatment of oil and gas production, the principal of the Legacy Fund could reach tens of billions of dollars by 2030 and well over \$100 billion by 2050—in a state with a population of just 725,000 people.

**Stakeholder Dialogue.** GPI brought together North Dakota leaders in 2013 and 2014 to participate in the Initiative's broad-based and collaborative policy dialogue. The key deliverable of the dialogue is consensus policy recommendations - the cornerstone of this report - that Initiative participants hope will inform the public and policy-makers and help guide future evolution of the Fund.

**Citizen Participation.** The work of stakeholders participating in the policy dialogue was strengthened by community forums and online input surveys that gathered citizen input on a long-term vision for the future of North Dakota and how the Legacy Fund can serve as a mechanism to help achieve that vision. The community forums incorporated and expanded upon citizen input already gathered through the North Dakota Chamber of Commerce's 2020 & Beyond and USDA Rural Development's North Dakota 2.0 initiatives.

**Consensus Recommendations.** Following deliberations that incorporated briefing materials and expert input, Legacy Fund Initiative participants prepared this report to:

- articulate broader long-term purposes for the Fund;
- propose governance mechanisms appropriate to its future multi-billion dollar scale; and
- outline principles, strategies and priorities for Fund investments and expenditure of future returns.

**Informing State Policy.** Later in 2014 and early 2015, dialogue participants will formally present their report and results of the statewide community forums to state legislators and other officials, private sector leaders, the media and the public.

**Project Funding.** The Legacy Fund Initiative was convened with grant funding from the Northwest Area Foundation. The North Dakota Consensus Council and North Dakota Natural Resources Trust provided grant funding to support the community and online input project elements.

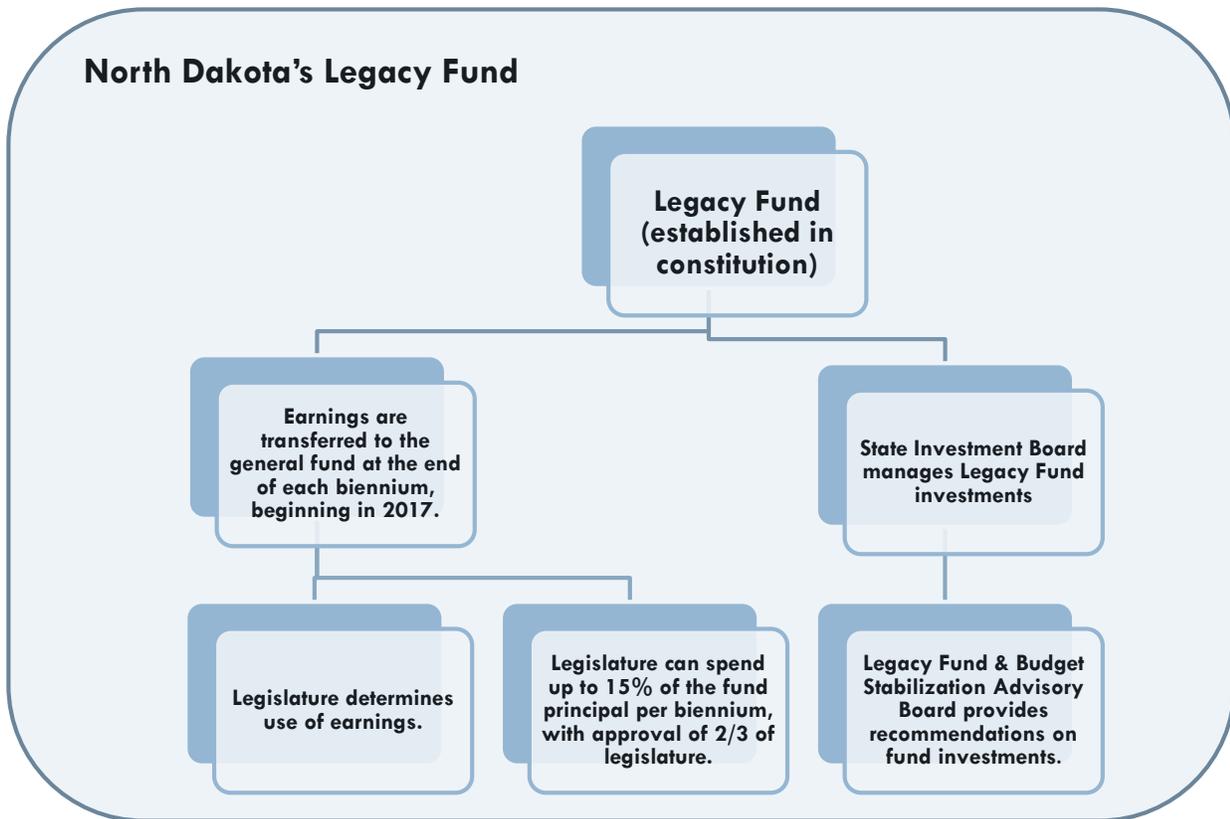
## NORTH DAKOTA'S LEGACY FUND

Sixty-three percent of North Dakota voters passed a legislative-referred constitutional measure in 2010 establishing the Legacy Fund and mandating a formula set-aside of 30 percent of the state's oil and gas revenues for the future. The measure placed limits on how and when the future principal and returns can be spent, but was silent with respect to specific investment and expenditure priorities of the Fund.

The balance of the Legacy Fund has grown substantially and now stands at more than \$2.2 billion. Legislative forecasts predict that the Legacy Fund balance will grow to at least \$6 billion by 2017, when the principal and earnings first become available for expenditure. Monthly deposits are made into the Legacy Fund from the oil and gas tax collections. In addition, the legislature has the authority to deposit additional monies from other sources into the Legacy Fund. Current law requires that if the balance of the state's Strategic Investment & Improvement fund exceeds \$300 million, 25 percent of additional revenue going to that fund must be transferred to the Legacy Fund.

The earnings from the Legacy Fund become available for expenditure by North Dakota's legislature in 2017. State officials estimate the earnings from the Fund will be at least \$300 million annually by 2017, and those earnings will be deposited into the state general fund. The earnings must be transferred to the general fund; however, the legislature has the option either to spend those funds or reinvest the earnings back into the Legacy Fund, or a combination of both.

The principal of the Legacy Fund can also be utilized after 2017. The constitutional language prescribes a method by which principal from the Legacy Fund can be expended. After July 1, 2017, the state legislature can spend up to 15 percent of the principal balance of the Legacy Fund per biennium, if two-thirds of each house of the legislature agrees to the spending.



The constitutional language adopted in 2010 directs the State Investment Board to manage investments for the Legacy Fund. The State Investment Board is responsible for investment of several funds, including the Legacy Fund. The board hires the state investment director and other advisors.

<b>State Investment Board</b>
Governor
State Treasurer
Commissioner of University & School Lands
Director of Workforce Safety & Insurance
Insurance Commissioner
Teachers' Fund for Retirement Board (3 members)
Public Employees Retirement System Board (2 of the elected board members)
Public Employees Retirement System Board (1 member)

In addition, the legislature established a Legacy Fund & Budget Stabilization Advisory Board to develop recommendations for the investment of funds in the Legacy Fund and the Budget Stabilization Fund. The legislature also established a goal for the investment of the Legacy Fund, which is "principal preservation while maximizing total return."

<b>Legacy Fund &amp; Budget Stabilization Advisory Board</b>
Two state senators (appointed by majority leader)
Two state representatives (appointed by majority leader)
Director of the Office of Management & Budget
President of the Bank of North Dakota
Tax Commissioner

## WHAT WE LEARNED FROM OTHERS

In 2012, GPI organized a high-level delegation of North Dakota public and private leaders to learn from Norway's world class experience in fossil and renewable energy production, environmental best practices, and responsible management of oil and gas wealth for future generations. There, they were briefed by representatives of Norway's \$893 billion Pension Fund Global, the world's largest sovereign wealth fund and widely recognized as a global model.

Norway has worked hard to avoid the so-called "Dutch Disease" or "resource curse" that can result after a significant natural resource discovery. A term coined by *The Economist* after The Netherlands' discovery of significant natural gas deposits in the North Sea in the 1960s, an economic crisis occurred from the new energy wealth that caused the value of the Dutch Guilder to rise substantially, leading to all other non-oil and gas related products losing competitiveness in important export markets.

Great Britain experienced the same economic problems in the 1970s when the price of oil spiked and oil drilling in the North Sea quickly became economical. Britain ultimately became a net exporter of oil; however, their currency (the pound) increased in value and a recession occurred as a result of uncompetitive exports and the demand for higher wages.

Some of the key lessons learned from Norway's experience with its sovereign wealth fund were to 1) develop an approach to governance, investments and expenditures that is based on a shared, long-term vision for the future, rooted in the values of the society that the fund serves; and 2) achieve consensus on that approach before the fund accrues substantial value and makes decisions more complex and potentially contentious.

North Dakota stands at a critical juncture in this regard. There has not yet been a broad public conversation in North Dakota about the future of the Legacy Fund since its inception, yet legislative and interest group proposals to earmark a portion of the Fund emerged during the 2013 legislative session.

Legacy Fund Initiative participants studied additional national sovereign wealth fund and state-level funds to gain additional insight on the purposes and management of various funds. There are more than 50 sovereign or state/provincial funds across the globe, each with assets of \$2 billion or more. According to the Sovereign Wealth Fund Institute, wealth funds around the world control more than \$6.7 trillion in assets.

There are several state-level permanent funds in the United States, with long-standing models in Texas, Alaska, New Mexico and Wyoming. Texas was the first state to establish a permanent fund for education in 1854. That fund was established with a \$2 million appropriation from the Texas legislature with the express purpose of benefitting public schools in Texas. Texas established a second permanent fund to help fund public higher education in the state. The Public University Fund provides revenue to the University of Texas and the Texas A&M University systems.

Alaska established a permanent fund in 1976 by constitutional measure. The Alaska Permanent Fund receives revenue from the royalties of oil and gas production, and Alaska citizens are paid an annual dividend from the fund. State law governs how the fund principal is invested and includes an asset allocation class for infrastructure investment.

Wyoming established their permanent fund in 1974 from a portion of mineral severance tax revenues. Income from the Permanent Wyoming Mineral Trust Fund is transferred to the state's general fund for state use. The Wyoming fund can also make low interest loans to local entities.

The Severance Tax Permanent Fund in New Mexico was established by the state legislature in 1973 from oil and gas severance taxes. New Mexico voters later enshrined the fund in the constitution to protect the corpus of the fund. The income from the fund is transferred to the state government for use.

In addition to studying other state permanent fund models and uses, LFI participants reviewed several international and academic methods to measure and evaluate the governance, accountability and transparency standards and practices of funds worldwide.

An international framework for governance and transparency was established in 2008 by an international working group of sovereign wealth funds. The working group worked in conjunction with the International Monetary Fund to develop a framework of principles for governance and accountability, investment practice conduct and to ensure better understanding of sovereign wealth funds. Their work led to the creation of the Santiago Generally Accepted Principles and Practices for sovereign wealth funds. Several studies have been conducted to assess the degree of compliance with the Santiago Principles for major sovereign wealth funds. In addition to the Santiago Principles, other indices, including the Truman Blueprint and the Linaburg-Maudell Transparency Index encompass elements that address governance, accountability and transparency.

## LEGACY FUND PROJECTIONS: THE LANDSCAPE OF THE FUTURE

Legacy Fund Initiative (LFI) participants considered a number of scenarios for the management of the Legacy Fund in coming decades. Projections for oil production published by the Department of Mineral Resources at the time of writing, as well as data on historical revenue and fund balances for recent biennia, were used to estimate the future growth of the Legacy Fund under these scenarios. More details on this analysis are provided in Appendix 1.

For this report, LFI participants present the results of four scenarios to illustrate the factors that were considered when formulating recommendations on how to manage the Legacy Fund. These scenarios are:

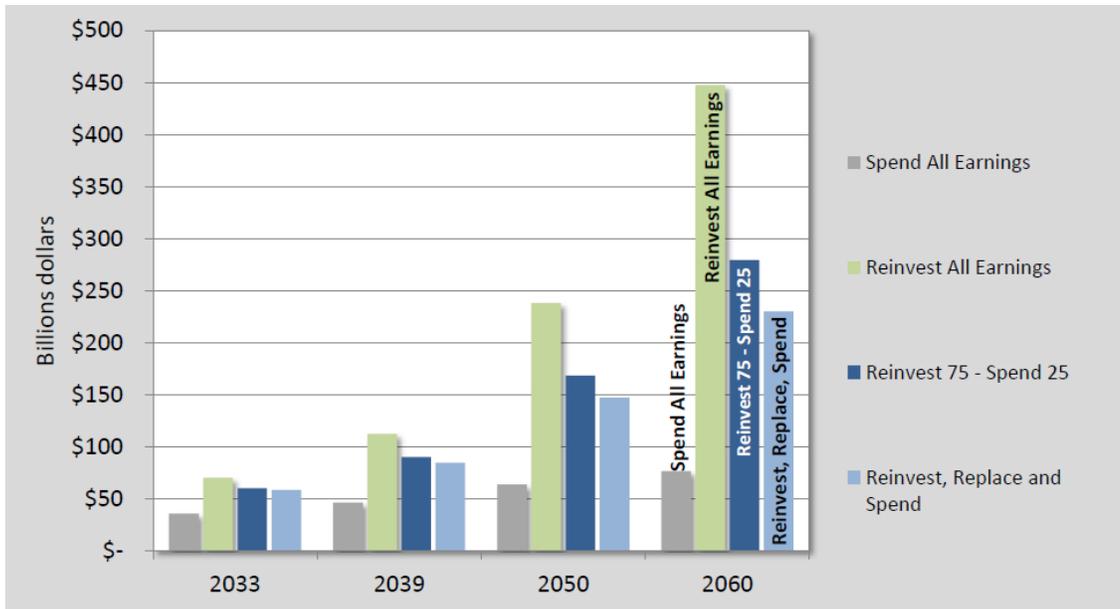
1. **Spend All Earnings:** As allowed under current law, the Legislature spends 100 percent of annual earnings starting in 2017.
2. **Reinvest All Earnings:** The Legislature would reinvest 100 percent of earnings back into the Legacy Fund.
3. **Spend 25—Reinvest 75:** The Legislature would spend 25 percent of annual earnings starting in 2017, while reinvesting the remaining 75 percent back into the Fund.

4. **LFI Preferred Scenario: Reinvest, Replace, and Spend:** Under this preferred scenario, the Legislature would spend 25 percent of annual earnings starting in 2017 and reinvest the remaining 75 percent. Then, once oil revenue starts to decline, the Legislature would continue to spend 25 percent of annual earnings, but use a portion of the remaining 75 percent of earnings to replace diminishing oil and gas revenue, while reinvesting the remaining earnings into the Fund.

Scenario 1 of Spend All Earnings and Scenario 2 of Reinvest All Earnings represent the Fund's potential "floor" and "ceiling", respectively, illustrating projected outcomes if annual earnings are either completely spent or completely reinvested. Scenario 3, or Spend 25-Reinvest 75, presents a management plan that provides near term benefits to North Dakota, while reinvesting significant earnings and rapidly growing Fund principal for future generations. Finally, LFI participants preferred Scenario 4, or Reinvest, Replace and Spend, which combines near term benefits and long term sustainability, while sustainably offsetting declining state oil and gas revenue as projected oil production peaks and begins to fall in the decades to come.

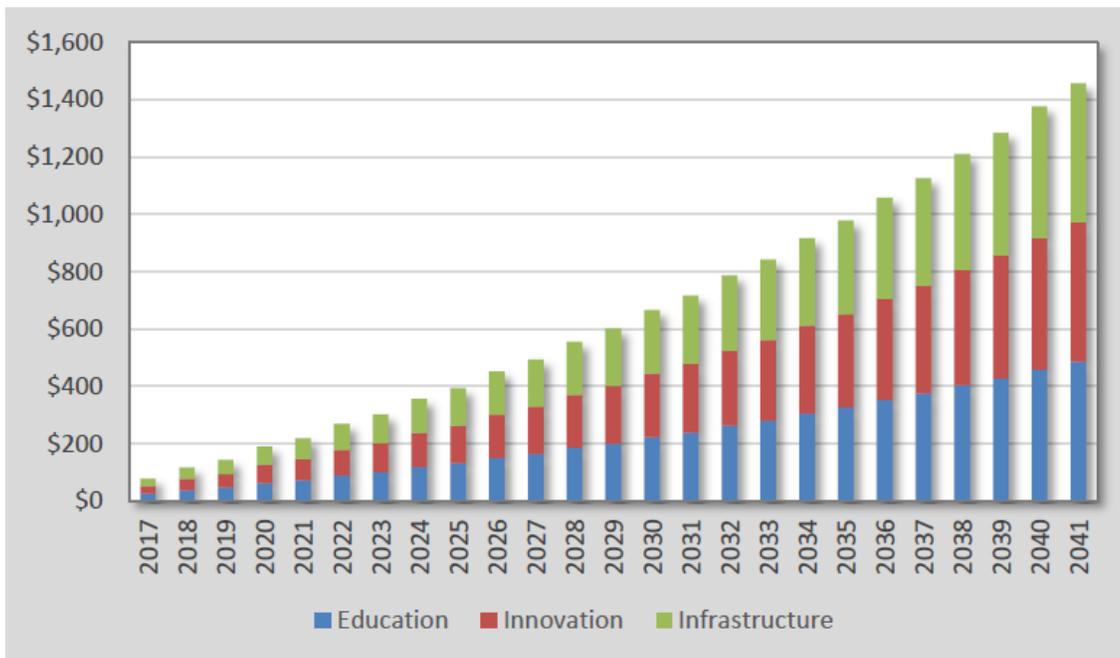
The following figures illustrate the Legacy Fund's growth under the four scenarios detailed above. Figure 1 portrays the growth of the Legacy Fund's principal balance over the next four and a half decades. If all earnings are spent starting in 2017, the Legacy Fund may reach a maximum balance of about \$77 billion dollars by 2060. However, if all earnings are reinvested, the Fund may reach a balance of \$448 billion by 2060 (this, however, prevents any near- to mid-term benefit or use of the Fund). Under LFI participants' preferred scenario of Reinvest, Replace and Spend, near to mid-term use of some Fund earnings, along with substantial reinvestment of earnings, achieves a balance of about \$230 billion by 2060.

**Figure 1. Legacy Fund principal balance amount under four scenarios over time**

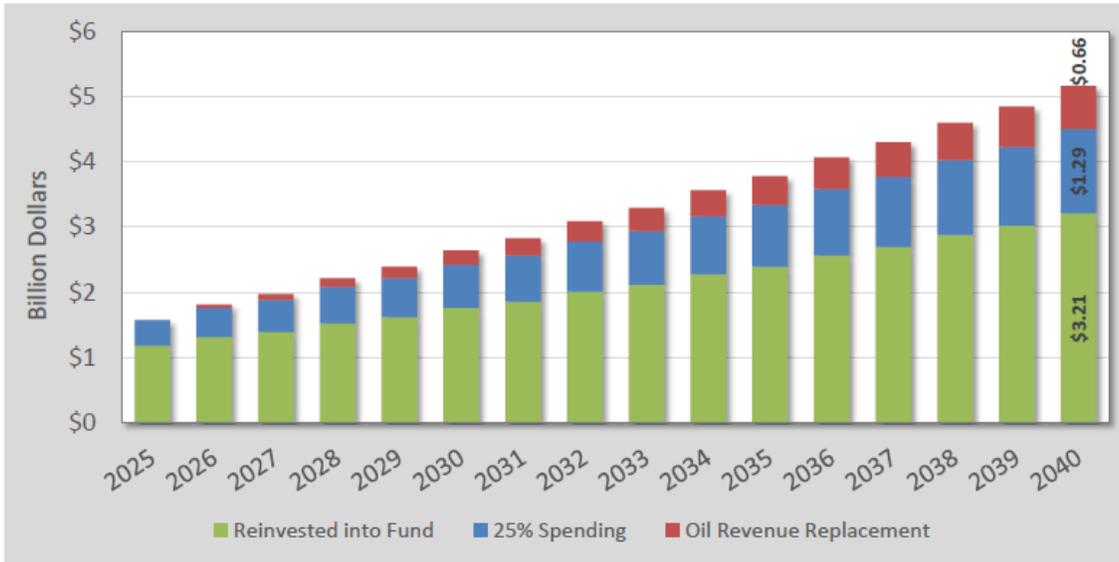


The next figure demonstrates how much funding might be made available for higher education scholarship, innovation and infrastructure investment initiatives proposed by LFI participants from withdrawals of 25 percent of Legacy Fund annual interest earnings, as in Scenarios 3 and 4. By 2020, the Legacy Fund could provide about \$63 million to each of the three purposes, or about \$189 million total. This could grow to \$131 million in 2025, \$222 million in 2030 and \$459 million annually in 2040 to each of the three recommended purposes.

**Figure 2. 25 percent of annual earnings to three proposed initiatives (in millions of \$)**



**Figure 3. Three simultaneous uses of Legacy Fund annual earnings**

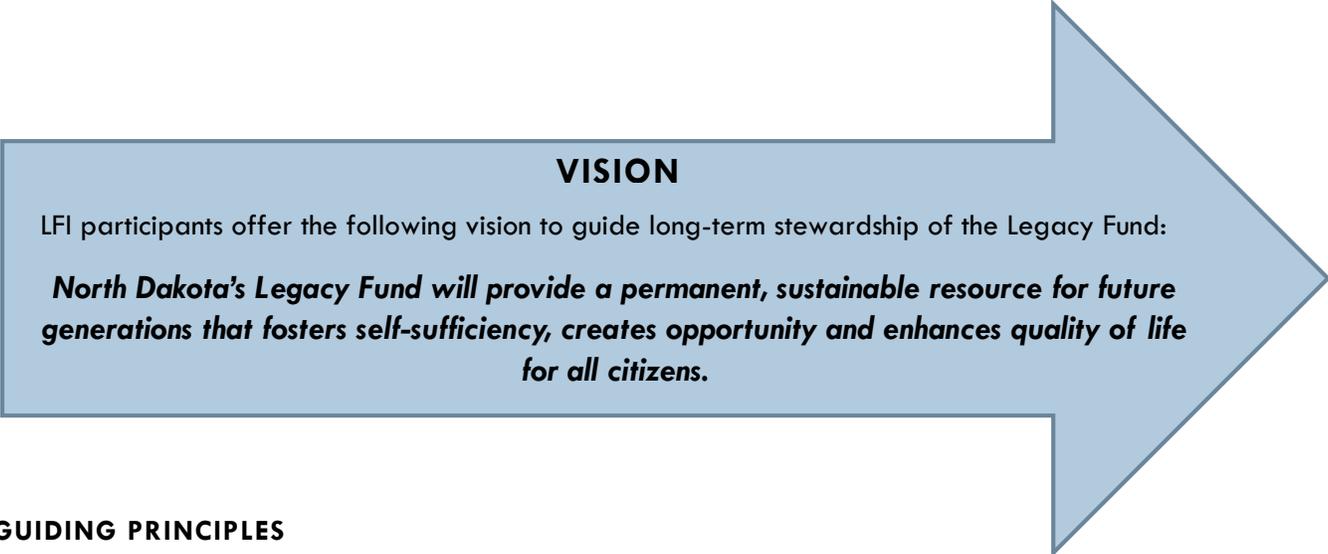


The final figure (above) in this executive summary breaks down the Legacy Fund’s annual earnings into three uses under LFI participants’ preferred Reinvest, Replace and Spend scenario: 1) spending 25 percent of earnings, 2) replacing declining state oil revenue, and 3) reinvesting the remainder of annual earnings into the Fund. By 2040, the Legacy Fund could be providing \$1.29 billion in additional state spending, \$660 million to offset declining oil revenue, and \$3.21 billion for reinvestment into the Fund—all from annual earnings alone. Under responsible management scenarios, these figures only grow larger with every year, along with the Fund’s potential to deliver extraordinary benefits to North Dakotans.

# Overview of Consensus Recommendations for the Future of the Legacy Fund

## VISION, GUIDING PRINCIPLES AND PURPOSES OF THE LEGACY FUND

The constitutional ballot measure that created the Legacy Fund established explicit limitations on how and when the principal and earnings from the Fund can be spent. However, the constitutional language otherwise provides policy-makers with little guidance for charting the Legacy Fund's future. Therefore, Legacy Fund Initiative (LFI) participants made it one of their first priorities to forge agreement on a proposed vision, principles and goals, which they recommend for consideration by state leaders and citizens to supplement existing constitutional provisions and help guide the Legacy Fund going forward.



### VISION

LFI participants offer the following vision to guide long-term stewardship of the Legacy Fund:

***North Dakota's Legacy Fund will provide a permanent, sustainable resource for future generations that fosters self-sufficiency, creates opportunity and enhances quality of life for all citizens.***

## GUIDING PRINCIPLES

LFI participants recommend three core principles to guide the decisions and actions of state policy-makers and Legacy Fund managers:

- ***Implement the highest standards and practices of governance, accountability and transparency to guide Fund policies, procedures, decisions and actions.***

Despite their different viewpoints and backgrounds, LFI participants consider sound governance, accountability and transparency to be the first priority and that the ultimate success of the Legacy Fund will depend on policy-makers and managers achieving the highest standards and practices of

integrity and openness. Citizens consulted in community meetings across the state strongly concurred with this emphasis.

- ***Make long-term, sustainable investments in North Dakota's future through the responsible stewardship of revenue generated from a finite natural resource.***

The Legacy Fund is special. It differs from other constitutional and state special funds in that North Dakota voters established the Legacy Fund to safeguard a portion of oil and gas revenue and grow it for the future. Although we cannot predict future priorities with certainty, LFI members emphasize our obligation to manage the Legacy Fund sustainably and permanently to provide future generations with options and opportunities comparable to our own and to ensure that any near-term use of the Fund clearly benefits both citizens today and generations to come.

- ***Foster and reinforce core values of hard work, self-sufficiency, innovation, equity, and stewardship.***

LFI participants encourage policy-makers to be mindful of the “resource curse” and negative economic, social and cultural impacts from sudden wealth experienced by other states and countries and to manage the Legacy Fund in ways that sustain and strengthen the core values we cherish and which define North Dakotans at their best. We should avoid, for example, the complacency and dependency fostered by the Alaska Permanent Fund’s practice of issuing annual checks from earnings to all individual residents.

## **KEY GOALS**

Informed by insights gleaned from the projections and scenarios presented previously in this report, LFI participants propose three goals for the Legacy Fund. These goals build on one another and will require intentional management to grow the Legacy Fund’s principal over a 25-year timeframe. Achieving these goals is feasible under a range of earnings reinvestment scenarios for the Fund.

1. ***Provide a resource of last resort in times of exceptional need.***

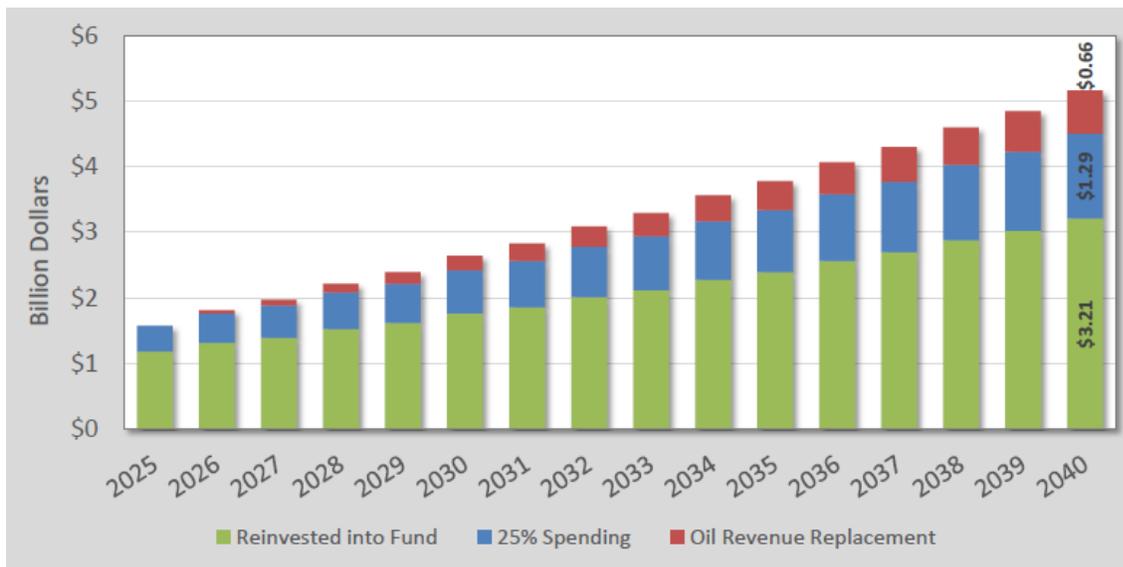
Based on current projections, the principal of the Legacy Fund will reach \$6 billion in the 2017 biennium, which LFI participants believe amply meets this first goal. LFI participants deliberately set a very high bar for “exceptional need” that would merit the Legislature drawing on earnings and potentially the principal of the Legacy Fund. They recommend defining exceptional need according to two criteria: 1) exceeds the combined resources of state “rainy day” funds such as the Foundation Aid Stabilization Fund, Property Tax Relief Fund, Budget Stabilization Fund and other state special funds and programs; and 2) the federal government is unwilling or unable to offer significant financial assistance.

2. ***Provide for a significant portion of the state's future needs by compensating for the reduction in revenues once oil and gas production begins to decline.***

To fulfill a commitment to provide future generations of North Dakotans with options and opportunities comparable to our own, LFI participants recommend that the Legacy Fund be managed to achieve sufficient growth in principal, so that future earnings from the Fund can offset fully, and sustainably over time, the post-peak reduction in oil and gas revenues that will occur once production starts to fall. Based on conservative oil production projections used in this report, this peak and subsequent decline in production could begin in the latter half of the next decade.

By growing the Legacy Fund's corpus through reinvestment of 75 percent of earnings from 2017 through 2039, Figure 3 shows that earnings from the Fund easily replace the projected oil and gas revenue shortfall and continue to do so as the revenue gap grows during the latter years of the 2017-39 period, while still allowing for expenditure of 25 percent of annual earnings in the interim. Indeed, under LFI participants' preferred Reinvest, Replace and Spend scenario for the Legacy Fund, North Dakota can sustainably 1) spend an 25 percent of annual Fund earnings through 2039 and beyond; 2) replace future state revenue losses from declining oil and gas production; and 3) still grow the Fund balance in real inflation-adjusted dollars through reinvestment of earnings—all indefinitely into the future.

**Figure 3: Three simultaneous uses of Legacy Fund annual earnings**



**3. Beginning in 2017, invest in bold, visionary, and transformative actions that build assets and enhance quality of life for North Dakota citizens today and in the future.**

Starting in 2017, LFI participants urge state policy-makers to dedicate a portion of Legacy Fund earnings to extraordinary and transformative initiatives that benefit North Dakotans today and well into the future. Toward that end, LFI participants recommend that the Governor and Legislature identify a major state priority each biennium to be addressed with Legacy Fund earnings, and they also propose three ongoing initiatives described later in this report—higher education, innovation and infrastructure investment initiatives—to be supported by annual earnings from the Fund.

LFI participants believe these initiatives will not only position the state for the future, but also demonstrate tangible, ongoing benefits to the public, thereby reducing the likelihood of legislation or an initiated measure that risks undermining the long-term integrity and potential of the Fund. As shown in Figure 3, annual utilization of 25 percent of the earnings after 2017 still enables the Fund to replace state oil revenue after it begins to decline and for the Fund balance to grow at a healthy rate into the foreseeable future, while guarding against unforeseen risk. Under this approach, the Legacy Fund can serve as an engine of opportunity and quality of life for North Dakotans today and a sustainable resource for future generations.

## 25-YEAR STRATEGY FOR ACCOMPLISHING LEGACY FUND GOALS

As the preceding scenarios amply demonstrate, the Legacy Fund goals described above—providing a resource of last resort at times of exceptional need, sustainably replacing state oil and gas revenue with Fund earnings after production begins to decline, and financing transformative investments in world-class education, innovation, infrastructure and other key priorities for North Dakota—can only be accomplished through the power of compounding interest.

Turning this potential into reality will require citizens and their elected representatives to sustain a commitment over time to 1) manage the Legacy Fund as a truly permanent fund; and 2) reinvest sufficient earnings in early years to grow the principal to a level that generates annual earnings adequate to support the above goals, while still increasing the real value of the Fund after inflation.

Fortunately, given North Dakota's present fiscal strength—with billions of dollars in oil and gas, sales tax and other revenue flowing into and overflowing out of multiple state funds—we have abundant alternatives to the Legacy Fund to meet current spending priorities. For the first and perhaps only time in our state's history, we can now meet the needs and opportunities of the present *and* steward the development of an extraordinary and permanent resource for the future. We cannot afford to squander this moment.

Recognizing our privileged position and the responsibility placed on North Dakotans and their leaders today, LFI participants recommend a broad strategy to manage the Legacy Fund over the next quarter century. The 25-year duration of the strategy is intentional. The timeframe corresponds well with different scenarios for reinvestment of earnings to achieve desired growth in the principal of the Fund and to mitigate impacts on state revenue after projected oil and gas production peaks and starts to fall. In addition, we mark the 125<sup>th</sup> anniversary of statehood this year, and North Dakota will celebrate its 150<sup>th</sup> birthday 25 years from now in 2039, encouraging us to look to the future and the transformative role the Legacy Fund can play in shaping our state.

LFI participants hope that the proposed strategies for the Legacy Fund outlined below will inform an ongoing and evolving dialogue about how the Legacy Fund can meet our obligations to future generations, while contributing meaningfully to the lives of North Dakotans today.

**1. *Reinvest 75 percent of annual Legacy Fund earnings from 2017 through 2039 to grow the Fund principal, after inflation, to benefit future generations of North Dakotans.***

LFI projections for the Legacy Fund indicate that this level and timeframe for earnings reinvestment from 2017 (when the Legislature first has the option to spend earnings) through 2039 can position the Fund to provide a resource of last resort in times of exceptional need and sustainably replace state oil and gas revenue through annual Fund earnings once production begins to decline (holding constant estimates of oil production and price and state tax treatment of oil and gas production).

**2. *Use existing state resources to address critical needs and priorities of citizens and communities today, rather than drawing on the Legacy Fund.***

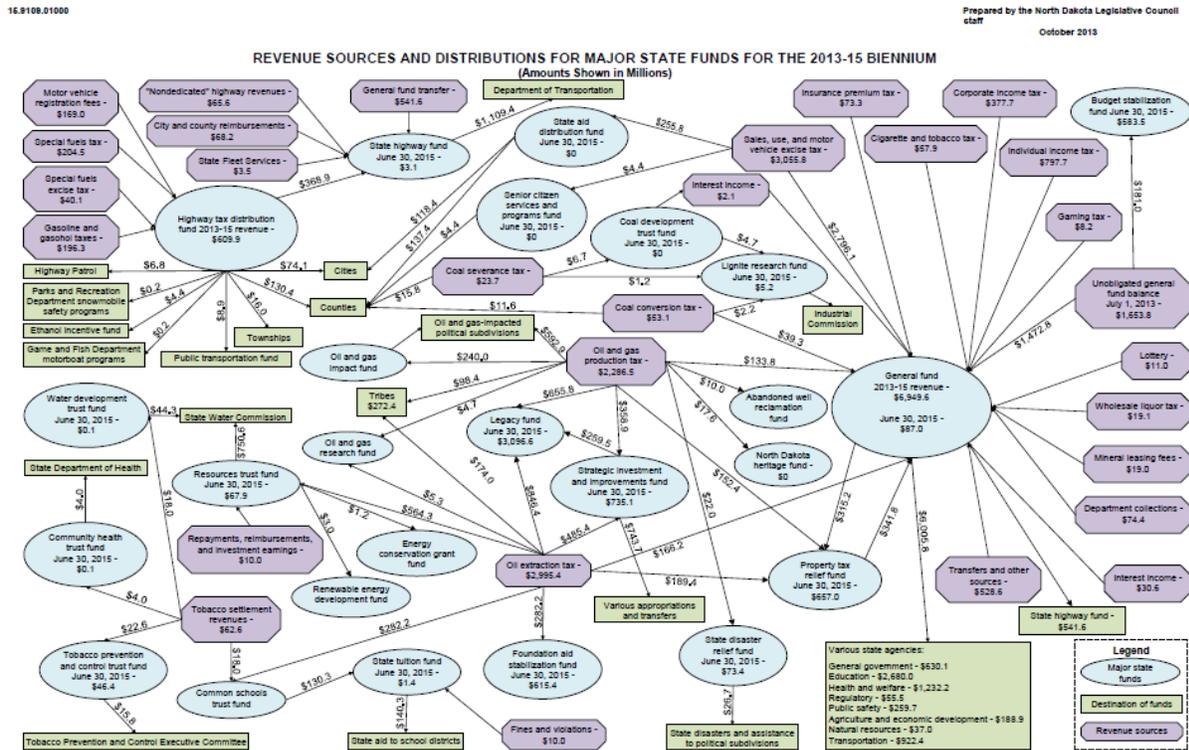
LFI participants recognize that our state currently faces critical issues and challenges driven primarily by rapid oil and gas development that require urgent attention, and they call on state policy-makers to utilize available non-Legacy Fund resources to respond to these needs. State revenues continue to grow, and state special funds, such as the Property Tax Relief Fund, the Strategic Investment and

Improvement Fund, the Budget Stabilization Fund, the Resources Trust Fund and the General Fund, all enjoy robust and growing balances, which will exceed \$3.5 billion this biennium based on Legislative Council estimates.

In LFI community meetings organized to gather public input, citizens from across the state expressed frustration at what they perceive to be significant unmet local needs at a time when state coffers are overflowing. Members of the public warned that the Legacy Fund risks being targeted as source of immediate funding, if state policy-makers fail to take steps to allocate other state tax resources to respond adequately to short-term priorities.

LFI participants recommend that state policy-makers undertake statutory and constitutional reforms to North Dakota's approach to allocating revenue to multiple funds or "buckets" to facilitate their more effective use. This method utilized for historically smaller existing funds has been adapted to new funds in order to manage rapidly growing and much greater state revenues. As the chart below prepared by North Dakota Legislative Council illustrates, the resulting state budget structure can be confusing, makes difficult basic citizen understanding of and accountability for available funds, and creates barriers in responding to current state needs and priorities. This complex budget system may, if unaddressed, make the Legacy Fund politically vulnerable to demands for short-term expenditures that undermine the long-term integrity and potential of the Fund.

### North Dakota State Budget Structure



In responding to unmet needs in the state, LFI participants encourage policy-makers to tackle the following current priorities identified through two comprehensive statewide community planning efforts, the Greater North Dakota Chamber of Commerce's 2020 and Beyond and USDA Rural

Development's North Dakota 2.0, which consulted citizens of all walks of life from communities across the state:<sup>1</sup>

- Establish a world-class pre-K through 12 and higher education system that includes adequate resources for early childhood education.
- Provide access to quality and affordable housing for all North Dakotans.
- Ensure adequate and affordable health care for all North Dakotans and address the immediate needs of our rural health care systems.
- Attract, develop and retain a strong workforce, while providing access to quality child care.
- Protect and enrich North Dakota's natural resources and environment to provide continued recreation and tourism opportunities.
- Maintain North Dakota's friendly business climate, while reducing North Dakotans' tax burden.
- Ensure that North Dakota's primary industries – agriculture and energy – are sustained for the long-term.
- Provide for a robust, long-term statewide transportation and infrastructure system, including water projects and flood control.
- Identification of current Legacy Fund uses to demonstrate near-term benefits and maintain public support for safeguarding the Fund for future generations.

**3. *Allocate 25 percent of annual Legacy Fund earnings from 2017 through 2039 to bold and visionary purposes that build a bridge to a future.***

Public support for a 25-year strategy to manage the Legacy Fund for significant future growth in principal will erode over time without clear evidence of benefits to citizens today. Fortunately, the preferred Reinvest, Replace and Spend scenario in Figure 3 demonstrates that spending 25 percent of annual Fund earnings from 2017 through 2039, while reinvesting the remaining 75 percent each year, can responsibly replace declining state oil and gas revenue on an ongoing basis after production starts to fall *and* still provide an additional and rapidly rising annual income stream estimated at \$189 million in 2020 and over \$1.2 billion by 2039.

LFI participants recommend that any expenditure of Fund earnings by the Legislature after 2017—as allowed under the state Constitution—be limited to transformative investments that demonstrably benefit both future generations and North Dakotans today. They encourage legislators to seek broad statewide public input and expert review and assessment before spending Legacy Fund earnings.

Toward that end, LFI participants propose the creation of a North Dakota Legacy Foundation in state statute, modeled after the existing Economic Development Foundation, to provide a mechanism to advise and assist the Legislature in utilizing this proposed revenue stream of 25 percent of Fund earnings over the 2017-2039 period.

To stimulate discussion among North Dakota policy-makers and the public regarding the most impactful potential uses of Legacy Fund earnings in advance of 2017, LFI participants recommend that the Governor and the Legislature work with the proposed Legacy Foundation to identify a major state priority each biennium to be addressed by the Foundation with Legacy Fund earnings. They recommend that the first priority for the 2017-19 biennium be the development of a strategy and action plan for building a world class pre-K through 20 educational system.

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<sup>1</sup> This list combines the results from both planning efforts, and Initiative participants have tentatively proposed the first five as the top priorities for the state.

In addition to identifying a biennial priority for the state, LFI participants recommend the following ongoing initiatives that would also be supported by a portion of annual earnings not reinvested into the Legacy Fund:

- **Endowing a higher education scholarship program** to help North Dakotans reach their full potential and to attract talent and capital to our state and communities;
- **Establishing a “Genius Initiative” to foster transformative private and public sector innovation** that increases prosperity, creates opportunity and enhances quality of life;
- **Investing in 21<sup>st</sup>-century economic and community infrastructure** to expand and diversify North Dakota's productive potential and to improve our communities.

The proposed North Dakota Legacy Foundation and recommended initiatives are described in greater detail later in this report.

## ENSURING BEST PRACTICE GOVERNANCE, ACCOUNTABILITY & TRANSPARENCY

In their deliberations, LFI participants have consistently emphasized the fundamental importance of managing the Legacy Fund according to the highest standards and practices of governance, accountability and transparency in policies, procedures, decisions and actions. It is helpful to compare our state's performance in this area against other states and countries, especially given that the projected growth of the Legacy Fund will likely place North Dakota in the top rankings among the largest sovereign wealth funds and state natural resource funds in the world today.

LFI participants have developed a checklist in order to enable North Dakota policy-makers, the media and citizens to compare the governance, accountability and transparency of the Legacy Fund against a set of best practices drawn from guiding principles and codes of conduct for sovereign wealth funds internationally and state natural resource funds in the U.S.

### BEST PRACTICES CHECKLIST

#### **Governance**

1. The legislature sets the overall objectives for the Legacy Fund.
2. A mechanism is in place, with diverse representation, by which to receive public input periodically on Fund objectives and investment policy and to recommend any changes to the legislature and Fund governing body or bodies, taking into account sound management principles.
3. The governance framework establishes clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence.
4. The state's statutory framework supports effective operations.
5. Diverse representation and clearly defined procedures are in place for the appointment of members of the governing body or bodies that exercise oversight. In

addition, professional and ethical standards are clearly defined and made known to the members of the governing body, management and staff.

**Accountability**

6. The accountability framework is clearly defined in legislation, rules and policies.

6-a. The investment policy is clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the governing body or bodies, and is based on sound portfolio management principles.

6-b. There are clear policies, rules, procedures, and arrangements regarding the general approach to the receipt, investment, withdrawal, and expenditure of funds, with all appointees, staff and other responsible parties having fiduciary responsibilities, including the prudent investor rule<sup>2</sup>.

6-c. Asset management is consistent with what is generally accepted as sound asset management principles.

6-d. Investment decisions aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

6-e. A framework that identifies, assesses, and manages operational risks is in place.

7. Third-party involvement in operational management is based on economic and financial grounds and follows clear rules and procedures.

8. A comprehensive annual report and accompanying annual audit of operations and performance financial statements is clearly disseminated to the public, including summary content accessible to laypersons.

**Transparency**

9. The governing body operates and maintains a prominent and easy-to-use public website that includes:

9-a. The history, policy purpose and funding sources for the Legacy Fund;

9-b. The membership of the governing body(ies) and minutes of their meetings;

9-c. The legal relationship with other state funds and institutions;

9-d. Laws, policies, rules, procedures, or arrangements in relation to the general approach to funding, withdrawal, and spending;

9-e. Clear and updated information regarding investment fees paid and returns on investment of principal;

9-f. Annual reports and independent annual audit results;

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<sup>2</sup> The prudent investment rule is a fiduciary standard that governs investment decisions. The rule requires investment diversification to help alleviate shortfalls in any one particular investment category.

9-g. A description of professional and ethical standards, investment policies and the risk management framework; and

9-h. Relevant contact information for operational staff and governing body or bodies.

10. More frequent information from an annual to even daily frequency, such as investment returns, investment fees paid, annual independent audits and annual reports, that is automatically and continuously updated and posted electronically in an easily accessible and readily understandable manner for the general public.

### **Future Changes to Legacy Fund Oversight**

LFI participants recommend that state policy-makers consider modifying the current governance of the Legacy Fund as it grows in scale and importance. Historically, the State Investment Board has been tasked with managing retirement funds. Specifically, the Legislature should consider modifying the make-up of the State Investment Board by the time the Legacy Fund balance exceeds the combined total balance of the retirement funds managed by the Board. In addition, a separate board may need to be established to manage retirement accounts, which would maintain representation of appropriate stakeholders.

## **THE NORTH DAKOTA LEGACY FOUNDATION: BUILDING A BRIDGE TO THE FUTURE**

LFI participants are urging state policy-makers to be both responsible and bold by committing to a prudent strategy of reinvesting 75 percent of Legacy Fund earnings for the next quarter century, while dedicating the remaining quarter of annual earnings to transformative initiatives that provide significant benefit to North Dakotans today and also help to build a bridge to the future. They propose the establishment of a North Dakota Legacy Foundation to involve the legislative and executive branches of government to administer these initiatives and guide the use of annual Fund earnings, subject to oversight by the Legislature. Addressing future priorities for the state effectively will require the participation and guidance of public and private sector experts who may not serve in the Legislature. The Legacy Foundation's role would include gathering public and expert input, identifying priorities for recommendation to the Governor and Legislature, and coordinating state agencies and private sector entities in planning and undertaking initiatives.

### **Proposed Structure and Approach**

In creating a North Dakota Legacy Foundation, LFI participants suggest that legislators look to the North Dakota Economic Development Foundation as an effective model in state law for supplementing state legislative capabilities and oversight with private sector expertise and participation. They suggest that the North Dakota Legacy Foundation have a nine-member board of directors appointed by the Governor and with qualifications set by the Legislature to ensure diverse personal and professional backgrounds; geographic, gender and ethnic diversity; and interdisciplinary experience and expertise that spans priority areas identified by the Legislature. Board terms should be staggered to ensure that members possess the appropriate expertise and background as major priorities change under executive and legislative branch direction. Board appointments and requirements should focus on needed disciplines and expertise, rather than specific officeholders. Additional temporary and/or ex-officio board members could be appointed to provide sufficient expertise in identified topic area(s).

The Legacy Foundation should focus on a few key priorities for impact. LFI participants propose three ongoing initiatives in education scholarships, innovation and infrastructure which are described below. In addition to these three ongoing initiatives, they encourage the Governor and Legislature to work with the Legacy Foundation board of directors to identify a major statewide priority each biennium for the work of the Legacy Foundation and the use of Legacy Fund earnings during the upcoming two-year period. LFI participants believe the Legacy Foundation must evolve to reflect changing needs of our state over time. The Governor and Legislature affirming a biennial priority for the Legacy Foundation every two years will help ensure that the use of Legacy Fund earnings remains adaptable and responsive to future issues and opportunities as they emerge.

After approving the biennial priority for the state, the Governor and legislators would task the Legacy Foundation board and staff with undertaking a fundamental, broad-based and statewide assessment of the identified issue. Based on this assessment, the Legacy Foundation would outline a strategic program of action for consideration by the Governor and Legislature, recommend a funding level to accomplish the work, and incorporate clear milestones and outcomes for accountability and success.

The Governor would include in biennial budget requests modest funding for the administration of the Legacy Foundation and for its assessment, program development, and coordination roles. The Legislature would also appropriate the more significant funding required to support the program of action for the biennial priority of the Legacy Foundation and the entities selected to help implement it through a competitive request for proposal (RFP) process, as well as funding for the ongoing education scholarship, innovation and infrastructure programs.

## **PRIORITY INITIATIVES FOR THE LEGACY FOUNDATION**

LFI participants have engaged in extensive deliberations and sought citizen input on ways that the Legacy Fund can meaningfully impact the lives of North Dakotans today, while safeguarding a prudent earnings reinvestment strategy that will deliver much greater dividends for our state in the future. This final section of the report outlines proposed initiatives that will enhance opportunity and quality of life for citizens now and far into the future, including three ongoing initiatives aimed at achieving world-class education, innovation and infrastructure.

As previously discussed, under the preferred scenario of reinvesting 75 percent of Fund earnings from 2017-2039, allocating 25 percent of annual earnings to priority initiatives over the same period, and sustainably replacing state oil and gas revenues as they begin to decline, LFI projections indicate that a quarter of annual Fund earnings would yield an estimated \$78 million in 2017 and rise to \$1.2 billion by 2039.

LFI participants hope that these recommended priority initiatives, together with the opportunity to provide a substantial annual income stream without jeopardizing the long-term growth objectives of the Fund, will inspire further dialogue among state policy-makers and the public regarding potential targeted, high-impact uses of Legacy Fund earnings.

**PROPOSED STATE PRIORITY FOR THE 2017-19 BIENNIUM: DEVELOPING A STRATEGY AND ACTION PLAN FOR A WORLD CLASS PRE-K THROUGH 20 EDUCATIONAL SYSTEM**

As noted above, LFI participants recommend that the Governor and Legislature identify a critical priority for the state each biennium and charge the Legacy Foundation with developing a program of action to address that priority with Legacy Fund earnings and other state and private resources. They envision that priorities chosen each biennium will span a wide range of important issues as future governors and Legislatures respond proactively to the changing circumstances of our state over time.

Based on their own discussions and input from citizens, LFI participants strongly encourage the Governor and Legislature to choose the development of a comprehensive strategy and action plan for building a world class pre-K through 20 education system as the first Legacy Foundation priority for the 2017-19 biennium. They propose this initial focus for the Legacy Foundation in conjunction with a complementary recommendation that Legacy Fund earnings or principal endow an ongoing higher education scholarship program described below.

**Background**

Targeted use of Legacy Fund earnings—together with existing state and other resources as part of a broader strategy for educational excellence—can help our state build a global top-tier education system, from pre-kindergarten through K-12, vocational-technical, undergraduate and graduate programs. This will help North Dakotans realize their full potential in our rapidly changing and diversifying economy that demands increasing skills and education. Furthermore, comprehensive excellence in education will serve as a magnet to attract experienced and skilled people and their families to North Dakota, who can help meet our current workforce challenges and enrich our state and communities.

Some U.S. states have deployed resources from their permanent natural resource funds to improve their educational systems significantly. For example, Wyoming draws on permanent funds to support a scholarship program and to endow university faculty positions. On a larger scale, Texas has harnessed its state endowment from oil revenues to help transform its universities into an internationally recognized higher education system that provides opportunity to Texas students, while attracting faculty, students and resources from all over the world.

**Recommendations**

LFI participants believe that North Dakota policy-makers should learn from and improve upon the examples of other energy-producing states and countries that have capitalized on their resource funds to achieve educational excellence.

Toward that end, they specifically recommend that state policy-makers task the proposed Legacy Foundation with coordinating the development of a comprehensive and system-wide strategy for fostering educational excellence that includes three major components:

- 1) an integrated pre-K through 20 approach (early childhood education through graduate and professional programs);
- 2) improving and building institutions; and
- 3) targeted efforts to increase affordability of, access to and completion of vocational-technical, academic and professional programs.

The Legacy Foundation could convene key education stakeholders in the state to coordinate development of this strategy for how Legacy Fund resources, in conjunction with the Common Schools Trust Fund, other

state special funds and other public and private resources, could help build a world class pre-K through 20 system and report back to legislators and other state policy-makers.

In addition to strategic investments in higher education, LFI participants believe that expanding access to early childhood education represents an urgent need in our state, and that we must strengthen our K-12 system to improve the achievement and preparedness of students entering vocational-technical and academic programs.

## PROPOSED ONGOING INITIATIVES TO BE SUPPORTED BY LEGACY FUND RESOURCES

In addition to the Legacy Foundation focusing on a major priority of the state each biennium at the Governor and Legislature's direction, LFI participants propose the following ongoing initiatives for consideration by state policy-makers in order to harness the portion of Legacy Fund earnings not reinvested to the benefit of citizens today and far into the future.

### **Initiative #1: Endow a Higher Education Scholarship Program in North Dakota**

As part of developing and implementing the broader strategy and action plan for pre-K through 20 educational excellence outlined above, LFI participants encourage state legislators to continue exploring how Legacy Fund resources could be utilized to endow a higher education scholarship program.

#### **Background on Scholarship Discussions in the Legislature**

Education represents the one policy area where legislators have already begun active consideration of options for utilizing Legacy Fund resources. During the 2013 North Dakota legislative session, two ideas were proposed to dedicate a portion of Legacy Fund dollars—one using earnings and the other principal of the Fund—to a new higher education scholarship fund. Each was introduced as a resolution, which if passed by the legislature, would have placed a constitutional measure on a future ballot. These scholarship ideas did not pass the legislature.

#### **Recommendations**

LFI participants support legislators' efforts to endow a higher education scholarship program with Legacy Fund resources (either through appropriation of earnings or dedication of a portion of Fund principal), especially given the high and growing level of student indebtedness in North Dakota. However, they also urge state policy-makers to craft a scholarship program as one component of the larger educational strategy described above and to address barriers beyond affordability, including access and degree/certificate completion.

In addition, LFI participants encourage legislators to provide support for North Dakotans to study out of state and for out of state students to attend North Dakota institutions. They believe that Legacy Fund resources should be used to expand and diversify the skills base and experience of our state's workforce. Toward that end, North Dakota students who seek education or training out of state, but commit to return to work in our state for a given period of time, should be eligible for tuition or other support. Similarly,

providing tuition support to qualified out-of-state students who agree to work in North Dakota after graduation can help expand our state's talent pool, spur economic development and innovation, and strengthen our communities.

## **Initiative #2: Fostering Innovation that Builds a Bridge to the Future**

North Dakotans today are blessed with an extraordinary bounty of oil and gas resources that most states and even countries will never share and that is available to us for a limited time. We have an obligation to take advantage of this window of opportunity to build a bridge to a future that provides our children and grandchildren with opportunities and options similar to those we enjoy today.

Therefore, LFI participants recommend that a "Genius Initiative" be established under the auspices of the proposed North Dakota Legacy Foundation to foster transformative private and public sector innovation that leverages our current success in energy and agriculture to expand and accelerate economic diversification and to increase our state's productive potential. Funded by a portion of annual Legacy Fund earnings not reinvested, the proposed Genius Initiative would support applied research, development and demonstration of technologies and best practices, program and service delivery, and public-private partnerships that have significant potential to increase prosperity, create opportunity and enhance quality of life for citizens today and generations to come.

### **Genius Initiative Objectives**

LFI participants suggest the following objectives to guide the Genius Initiative:

- Move our state's economy up the value chain and down the supply chain in energy, agriculture, technology, manufacturing and other sectors to avoid oil and agricultural boom-and-bust cycles of the past;
- Position our state as a Silicon Valley of renewable and alternative energy innovation and commercialization;
- Extend production of oil and coal-based energy over generations, while offsetting emissions and environmental impacts through carbon capture and enhanced oil recovery;
- Foster asset-building, self-sufficiency and permanent elimination of poverty among low-income children, families, and senior citizens;
- Enhance communities, stewardship of natural resources and iconic places, and our history, arts and culture to attract creative and skilled people to live, work and innovate in North Dakota; and
- Reduce long-term cost and improve effectiveness of government services and operations.

### **Targeted Support for Innovation**

Under executive and legislative branch oversight, the Legacy Foundation would, through the Genius Initiative:

- Provide risk capital for critical private, government and nonprofit sector innovation that is unlikely to garner adequate support through conventional channels;
- Enable development and demonstration of economic, social and environmental solutions that, if successful, can be scaled up and implemented by the private and public sectors; and
- Attract further investment from government, private sector and philanthropic sources to increase impact.

### **Role of the Legacy Foundation in Administering the Genius Initiative**

The Governor and Legislature would work with the Legacy Foundation board of directors to identify priorities for innovation and then task the Foundation with developing a proposed scope of work and program each biennium for legislative review. With approval of the program and required appropriations by the Legislature, the Legacy Foundation would issue a Genius Initiative RFP(s) to which public, private and nonprofit institutions would be eligible to respond, with a preference for consortia of collaborating institutions. The successful institutions or consortia would then implement the funded activities under the oversight of the Foundation's board and staff and with periodic progress reports to the Governor and Legislature.

In those cases where feasibility and demonstration efforts supported by the Genius Initiative prove successful, regular public and private sector funds would be used to scale up broader implementation, rather than drawing further on Legacy Fund earnings.

### **Initiative #3: Investing in 21<sup>st</sup> Century Economic and Community Infrastructure**

The LFI participants encourage state policy-makers to dedicate a portion of annual Legacy Fund earnings not reinvested after 2017 toward long-term economic and community infrastructure investments that are bold, visionary and transformative and that provide returns or allow for repayment of principal to the Fund. They specifically recommend investing rather than spending Fund earnings on infrastructure in order to leverage the impact over time.

However, LFI participants do not advocate appropriating Legacy Fund earnings for traditional infrastructure purposes. North Dakota's infrastructure needs in the near term are enormous and driven to a large extent by oil and gas development. These needs will exceed available proceeds from Legacy Fund earnings by a large margin in the early years.

LFI participants believe that immediate needs for traditional infrastructure investment are urgent and must be addressed now by the Legislature with current resources drawn from state special funds other than the Legacy Fund. Depending on the type of infrastructure in question, options include the Oil and Gas Impact Grant Fund, Resources Trust Fund, Strategic Investment and Improvement Fund, and Common Schools Trust Fund. Specifically, the Legislature should consider statutory or other changes needed to facilitate the flexible and responsible use of these funds to respond to the state's broad range of infrastructure needs, rather than drawing on proceeds from the Legacy Fund in the near term.

In addition, community leaders participating in meetings hosted by the Legacy Fund Initiative recommended that the 25 percent of all revenues in excess of \$300 million that currently flows from the Strategic Investments and Improvements Fund into the Legacy Fund should, instead, be allocated and spent on critical infrastructure needs in the near to medium term.

### **Considerations and Criteria for Investing Legacy Fund Earnings in Infrastructure**

Based on their own extensive deliberations and on input from North Dakota citizens, LFI participants recommend the following considerations and criteria to guide potential investment of Legacy Fund earnings in infrastructure:

- Limit any infrastructure investment role to utilizing a portion of annual Legacy Fund earnings, avoiding investment of principal;
- Supplement existing private and public capital by targeting critical needs and opportunities that the private market and existing government programs cannot adequately address;
- Realize benefits for North Dakotans today, while investing, instead of spending, Legacy Fund proceeds in order to sustain principal or even grow the Fund for the future (or potentially establish a separate infrastructure fund(s));
- Engage genuinely long-term through investments up to 40 years in duration, for assets that last up to 50 years or more; and
- Focus on extra-ordinary opportunities that generate economic, social and environmental benefits and enhance quality of life for North Dakotans well into the future.

### **Potential Infrastructure Applications for Legacy Fund Investment**

LFI participants encourage state policy-makers to think broadly about the types of infrastructure that might be eligible for investment of Legacy Fund earnings. For example, pressing workforce development needs and overall livability concerns in North Dakota are expanding our understanding of critical community infrastructure today to include both affordable housing and child care facilities.

Future infrastructure priorities will look very different than the overwhelming needs of today's energy boom. Therefore, LFI participants emphasize that we cannot and should not decide today what all future priorities for Legacy Fund infrastructure investment ought to be. In that spirit, they offer the following examples of potential infrastructure investment as illustrative of opportunities that Legacy Fund earnings might address (no order of priority):

- Accessible and affordable statewide high-speed broadband capacity;
- CO<sub>2</sub> pipelines to help sustain and extend oil production over decades, while reducing the environmental impact of our energy sector;
- Intra-state natural gas pipeline capacity to provide a market for Bakken gas, while enabling value-added economic development such as fertilizer production and addressing problems such as the recent propane shortage;
- Essential regional water supply for municipal, rural and industrial purposes;
- Permanent community flood protection across the state;
- Real estate development that meets critical local demand for affordable housing and child care facilities; and
- Alternative transportation systems to serve evolving state and community needs.

### **Recommendations for Oversight and Implementation**

Accountability and transparency in the investment of Legacy Fund earnings in infrastructure will be critical. The Legislature could designate the proposed North Dakota Legacy Foundation to administer the future investment of Legacy Fund earnings in infrastructure projects. The Foundation could coordinate project planning, review, and implementation with state agencies, federal and local governments, and relevant private entities. Alternatively, given the pace of development and the scale and duration of long-term infrastructure plans in our state, the Legislature may wish to consider establishing a broader infrastructure authority to ensure a coordinated and integrated approach, including oversight of any investments of Legacy Fund earnings in infrastructure projects.

In addition, state policy-makers should explore new and flexible models for implementing infrastructure projects that utilize Legacy Fund earnings. For example, LFI participants have discussed how community development block grants could serve as a model for disbursing resources to local governments to finance

community infrastructure revolving loan funds. Such an approach would ensure that Legacy Fund earnings deliver infrastructure benefits to North Dakota communities in perpetuity.

## CONCLUSION

Through wise management, North Dakota's Legacy Fund has the potential to truly provide a permanent, sustainable resource for future generations that fosters self-sufficiency, creates opportunity and enhances quality of life for all citizens.

By embracing a sound 25-year strategy, we can advance bold and visionary ideas that provide benefits now, while building a bridge to our future. Turning this potential into reality will require citizens and their elected representatives to sustain a commitment over time.

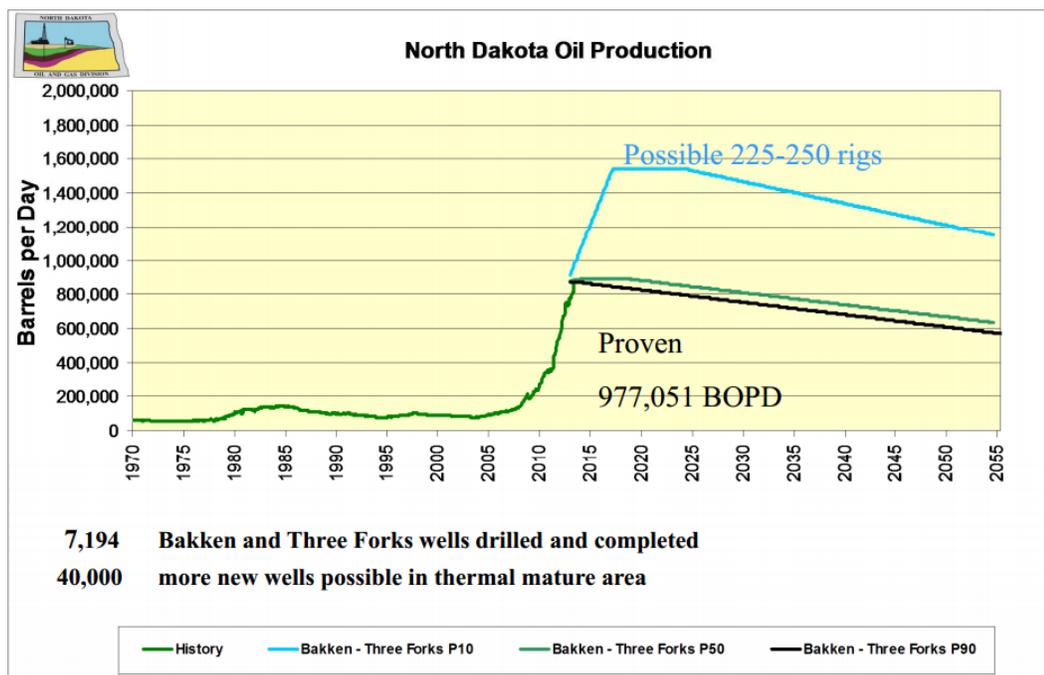
The Legacy Fund can serve as an engine of opportunity and quality of life for North Dakotans today and a sustainable resource for future generations.

## APPENDIX A

### Oil Production

To estimate future growth of the Legacy Fund, projections for North Dakota oil production were used to calculate potential production and extraction tax revenue. At the time of this analysis, the Department of Mineral Resources (DMR) has published three projections for oil production: a conservative projection based on historical production (*Proven*), a minimum projection depicting a linear decline in production from current levels (*P90*), and a moderately aggressive production growth scenario (*P10*). In both the Proven and P90 scenarios, oil production never exceeds about 930 thousand barrels per day and only diminishes from 2014 and on. In reality, oil production actually exceeded one million barrels per day in 2014. Therefore, the P10 scenario was used for this analysis, with oil production reaching a peak of about 1.7 million barrels per day between the 2017 and 2025. While the P10 scenario was originally meant as an aggressive projection by DMR, it is possible that this is still a somewhat conservative estimate, especially since actual 2014 production slightly exceeds the levels projected by the P10 scenario, and more recent estimates even put peak production at around 2 million barrels per day.

**Figure 1.1 Department of Mineral Resources Oil Production Scenarios**



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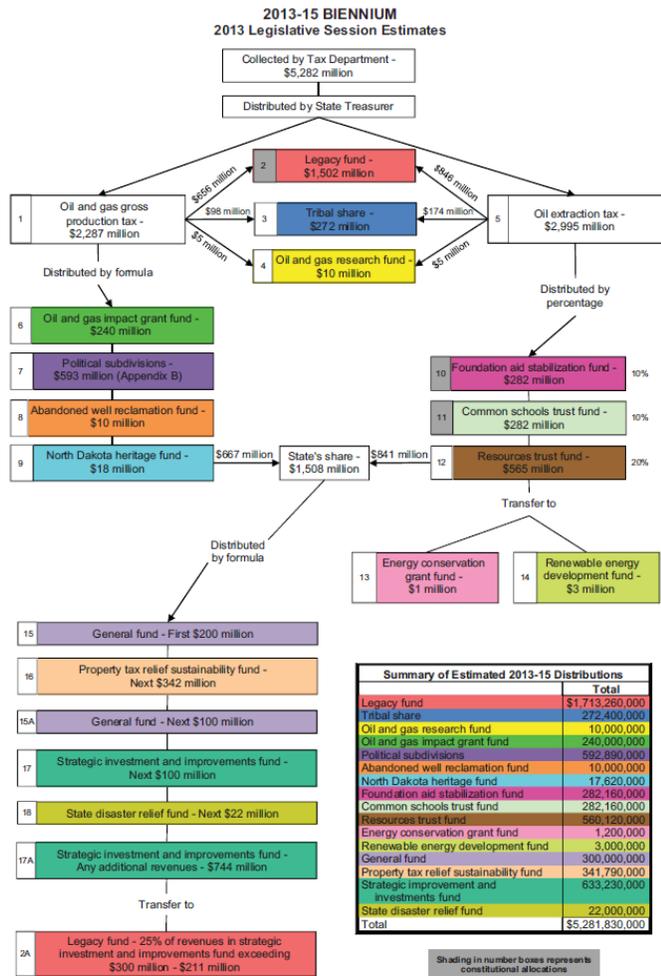
<https://www.dmr.nd.gov/oilgas/presentations/ActivityUpdate2014-06-11NCSLBismarck.pdf>

### Revenue Projection

By combining projections for oil production with extraction and production tax revenue estimates for 2014 and 2015, proportional revenues for future years were calculated. Thirty percent of this revenue is allocated annually to the Legacy Fund as part of the initial Fund contribution, while the remainder goes to other programs. As detailed in Figure 1.2, as the remainder of production and extraction tax revenue is allocated to other programs and funds in the North Dakota's Biennium budget, any remaining funds after

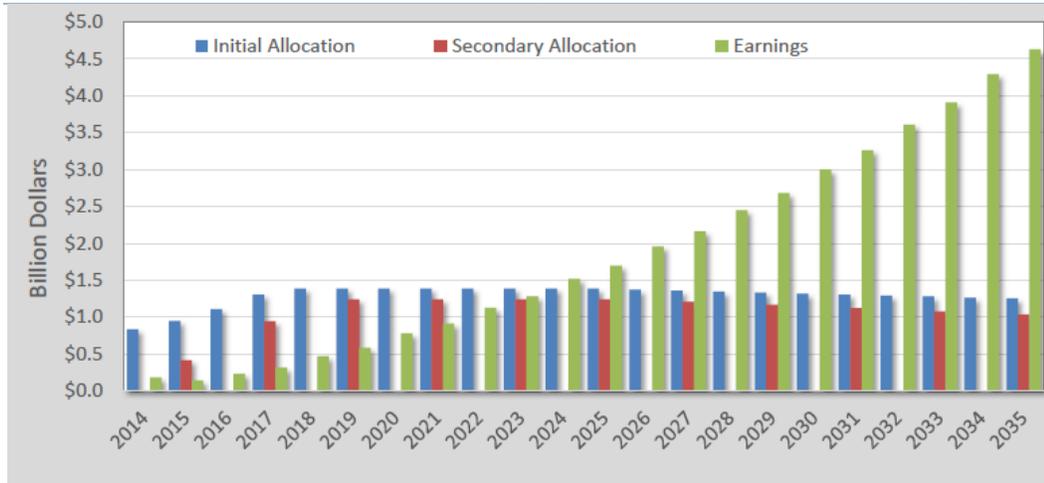
all other funds' needs are met are then transferred to the Legacy Fund (box 2A in Figure 1.2). For this analysis, 2013-2015 Biennium budget allocations to the Legacy Fund, done annually for the initial allocation and biennially for the final remaining funds transfer, were used as a basis for calculating increases in future Legacy Fund contributions in proportion to growth in oil production according to the P10 projection discussed above.

Figure 1.2



For consistency and for the purposes of projection, this analysis held all other values constant so that contribution limits in other funds and programs remained the same. In reality, budget decisions, economic factors and political choices may result in modifications to many of the funds that receive production and tax revenues between the Legacy Fund's initial and secondary revenue allocations. However, as shown in Figure 1.3, while the secondary revenue allocation does provide a significant contribution to the Fund and would be sensitive to such changes, in the long run earnings represent the most significant factor in Fund growth (but only in scenarios in which earnings are retained and contributed back into the principal).

**Figure 1.3 Initial, secondary and earnings contributions under an earnings retained scenario**



**Fund management assumptions and scenarios**

Under the Constitution, earnings from the Legacy Fund will be transferred to the state general fund, beginning in 2017. Legislators will have the option to spend those earnings or to reinvest all or a portion of those earnings back into the Fund to grow the principal. A number of scenarios for the management of the Legacy Fund principal and earnings were considered by Legacy Fund Initiative participants. Among these were:

**Scenario 1: Spend All Earnings** As allowed under current law, the Legislature may spend 100 percent of annual earnings starting in 2017.

**Scenario 2: Reinvest All Earnings :**  
The Legislature would reinvest 100 percent of earnings back into the Legacy Fund.

**Scenario 3: Spend 25–Reinvest 75**  
The Legislature would spend 25 percent of annual earnings starting in 2017, while reinvesting the remaining 75 percent back into the Fund.

**\*Scenario 4: Reinvest, Replace and Spend (LFI Preferred Scenario)**  
The Legislature would spend 25 percent of annual earnings starting in 2017 and reinvest the remainder. Then, once oil revenue starts to decline, the Legislature would continue to spend 25 percent of annual earnings, but use a portion of the remaining 75 percent of earnings to replace diminishing oil and gas revenue, while reinvesting the rest into the Fund.

Scenarios 1 and 2 are meant for illustrative purposes. Scenario 1, or “Spend All Earnings”, shows the minimum amount of growth that the Legacy Fund might see when all annual earnings are spent from 2017 on (as under current law) and the Fund’s principal balance depends solely on oil production revenue. Scenario 2, or “Reinvest All Earnings” provides a maximum ceiling under which all earnings are retained. It is between these two scenarios that Legacy Fund Initiative participants considered other possible scenarios for managing Fund earnings and contributions.

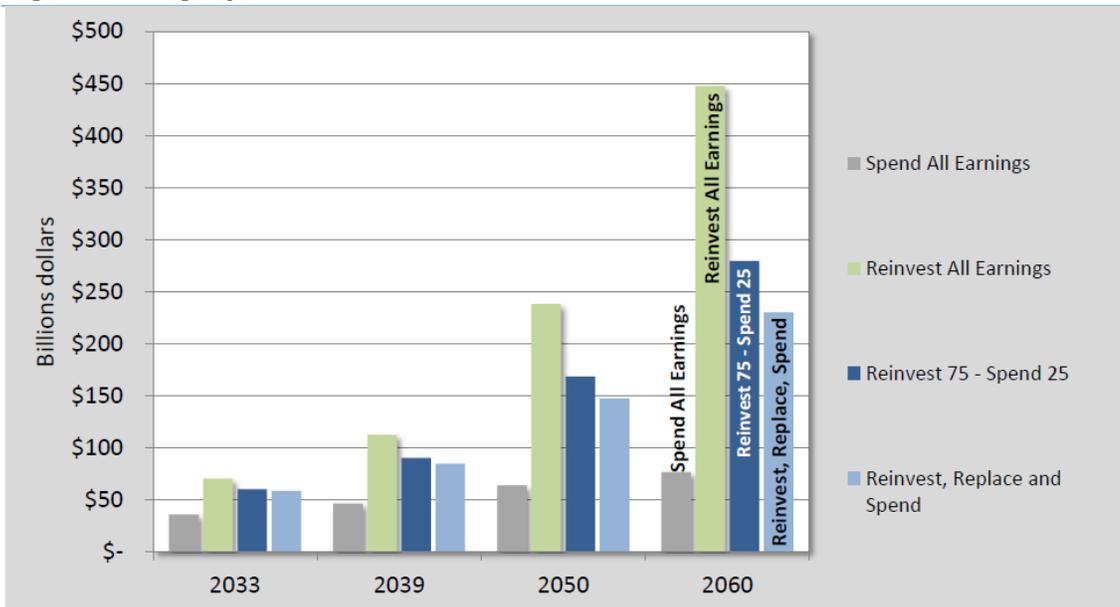
Scenario 3, or “Spend 25-Reinvest 75” provides for a nearer-term allocation of Fund resources by taking one quarter (25 percent) of annual earnings starting in 2017 to spend on other programs and uses, while retaining the remaining 75 percent of earnings for reinvestment. This scenario illustrates that with a modest withdrawal of a portion of earnings, a large revenue stream can be created in the near-term while still preserving long-term growth of the Fund.

Scenario 4, or “Reinvest, Replace and Spend”, represents LFI participants’ preferred scenario. It replicates the same 25 percent annual expenditure of Fund earnings, while also providing additional funding to replace diminishing state oil and gas revenues. At some point after North Dakota has met its maximum oil production potential, production and extraction tax revenue will begin to decline and the Legacy Fund can be used to provide supplemental income to make up the balance. As a result of the additional funding in this scenario, the state will see an effectively constant level of revenue despite declining oil production (see below for more information).

**Projection of Legacy Fund Balance**

Projections were calculated for each of the four scenarios according to the methodology detailed above. Annual levels of extraction and production tax revenue, principal balance and earnings were estimated in proportion to oil production projections.

**Figure 1.4 Legacy Fund balance over time under four scenarios**



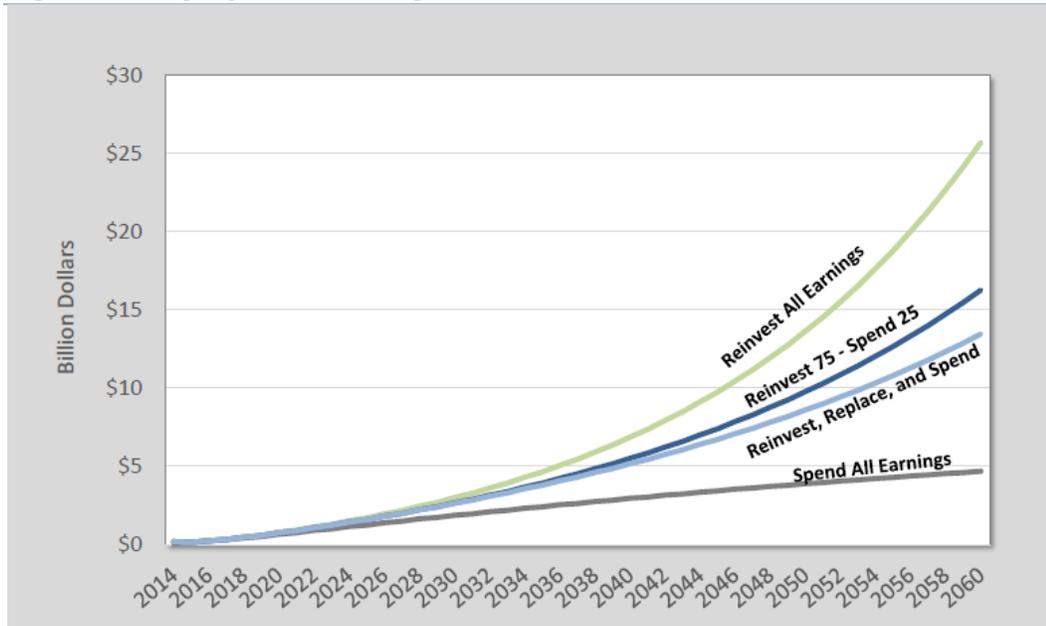
According to the assumptions used in this analysis, the Legacy Fund will grow to about \$35 billion by 2033 under the Spend All Earnings scenario, and will see modest growth relative to other scenarios to about \$77 billion by 2060. This scenario assumes that all earnings from the Fund will be spent each year (which is allowed as of 2017 under current law), rather than reinvested into the Fund. Thus, Legacy Fund growth under the Spend All Earnings scenario is entirely dependent on oil production and extraction tax revenue rather than on earnings.

Under the three scenarios in which earnings are either totally or partially retained, the Legacy Fund sees virtually exponential growth over a few decades as earnings are compounded and reinvested into the Fund balance. Under the maximum Reinvest All Earnings scenario, in which all annual earnings are reinvested, the Fund has the potential to grow to almost \$450 billion by 2060. The Legacy Fund also sees great potential for growth in the remaining scenarios in which a portion of earnings are spent: up to \$279 billion in the Spend 25-Reinvest 75 scenario and \$230 billion in the Reinvest, Replace and Spend scenario.

### Annual Earnings

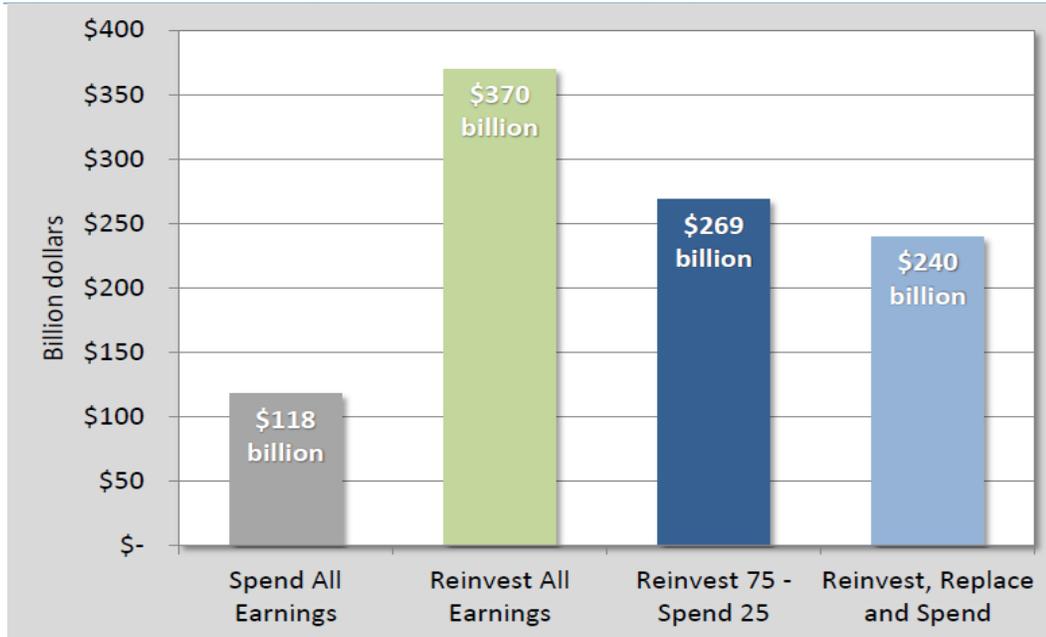
As explained above, the primary driver of growth in the Spend All Earnings scenario is revenue from oil production and extraction tax revenue contributions to the Legacy Fund. Under the three other scenarios, in which earnings are partially or totally retained, earnings become the primary driver of growth and far exceed contributions made by production and extraction tax revenue. By the year 2034, annual earnings in these three scenarios (about \$5 billion) are double those earned in the Spend All Earnings scenario (about \$2.5 billion), and continue to grow at an accelerating rate as earnings are retained and compounded.

Figure 1.5 Legacy Fund Earnings under four scenarios



The difference in annual earnings adds up quickly over a few decades, and by 2060 the resulting sums provides a dramatic contrast between scenarios (see Figure 1.6). Under the Spend All Earnings scenario, where no earnings are reinvested, the Legacy Fund will earn a total of about \$118 billion dollars by 2060. Under the Reinvest All Earnings scenario, however, the Legacy Fund has the potential to earn more than triple that figure, or about \$370 billion dollars in earnings alone. Finally, the two remaining scenarios--Spend 25-Reinvest 75 and Spend, Replace, and Reinvest—earn a total of about \$269 billion and \$240 billion in earnings, respectively. A closer look at these scenarios takes place later in the following pages.

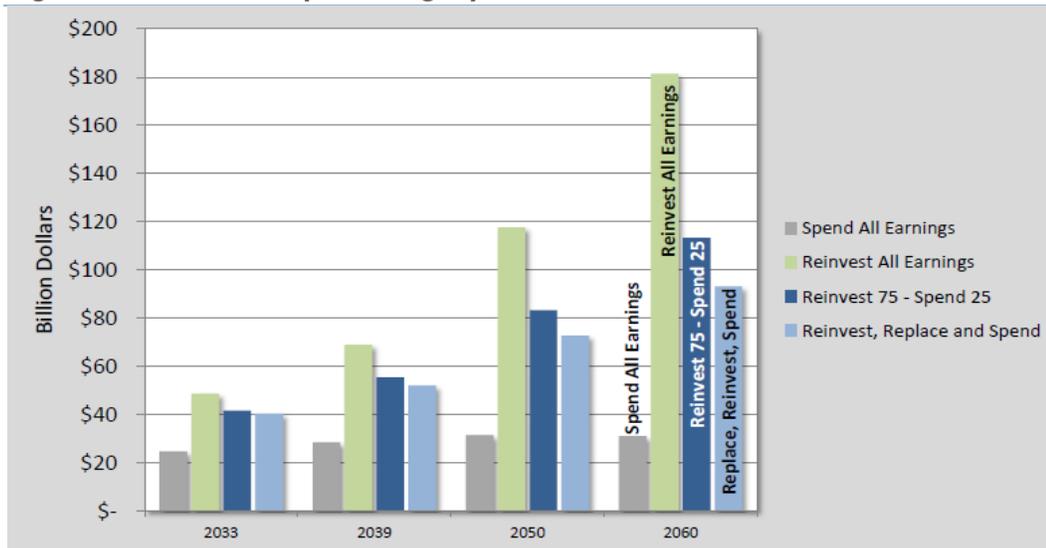
**Figure 1.6 Total earnings by 2060 under four Legacy Fund scenarios**



**Adjusting for inflation**

The figures presented in this analysis are meant to report the nominal dollar amounts that the Legacy Fund will achieve and earn as a managed account and do not reflect the potential effects of inflation. To consider the actual purchasing power of the Legacy Fund in the decades ahead, an average long term inflation rate of 2 percent was assumed and applied to the results of this analysis. Figure 1.7 presents the results from Figure 1.4 after being adjusted for inflation.

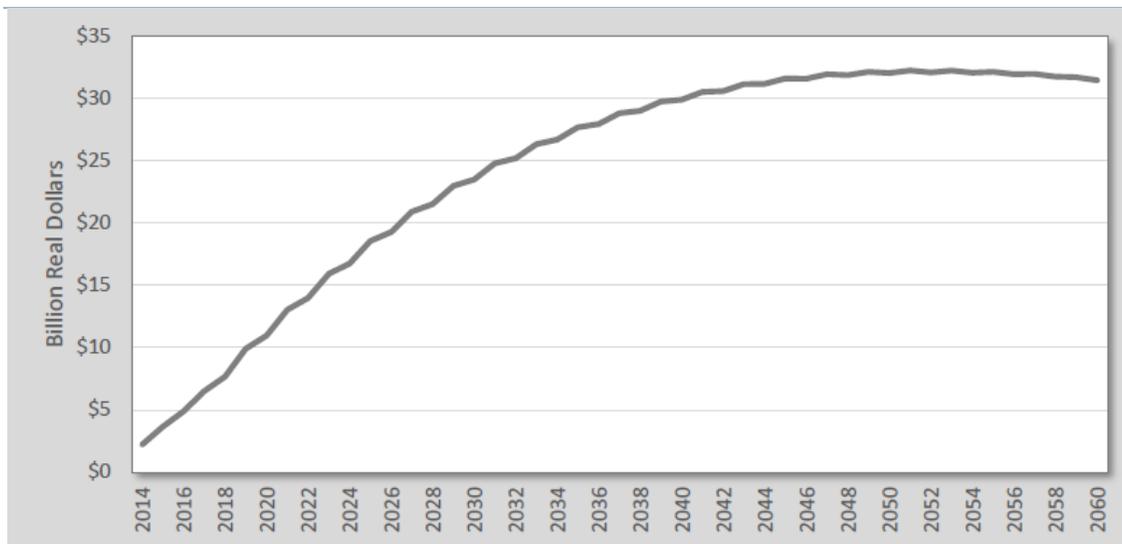
**Figure 1.7 Inflation adjusted Legacy Fund balance under four scenarios**



While the adjustment does reduce the long term projection for growth when diminished purchasing power under inflation is considered, the contrast between scenarios remains just as significant. By 2033, the Legacy Fund under the Reinvest All Earnings scenario (\$49 billion) is almost double the value of the Fund under the Spend All Earnings scenario (\$25 billion). By 2060, this difference becomes even starker as the Spend All Earnings scenario sees relatively minimal growth (\$31 billion) while the Reinvest All Earnings scenario grows to \$181 billion. Meanwhile, the remaining two scenarios grow to \$113 billion under the Spend 25-Reinvest 75 scenario and \$93 billion in the Spend, Replace, and Reinvest scenario.

Adjusting for inflation reveals an important factor in determining how to manage the Legacy Fund. While inflation may diminish the purchasing power of the Fund, in most scenarios the annual compounding of earnings will exceed the effect of inflation to achieve very significant growth. However, in the Spend All Earnings scenario, in which all earnings are spent and not reinvested in the Fund, inflation may have a detrimental effect. As shown in Figure 1.8, as Fund growth is solely dependent on diminishing oil tax revenues, inflation may actually reduce purchasing power significantly enough to negate any growth, effectively *shrinking* the Fund over time, if no earnings are reinvested.

**Figure 1.8 Legacy Fund balance adjusted for 2 percent annual inflation under Spend All Earnings Scenario**



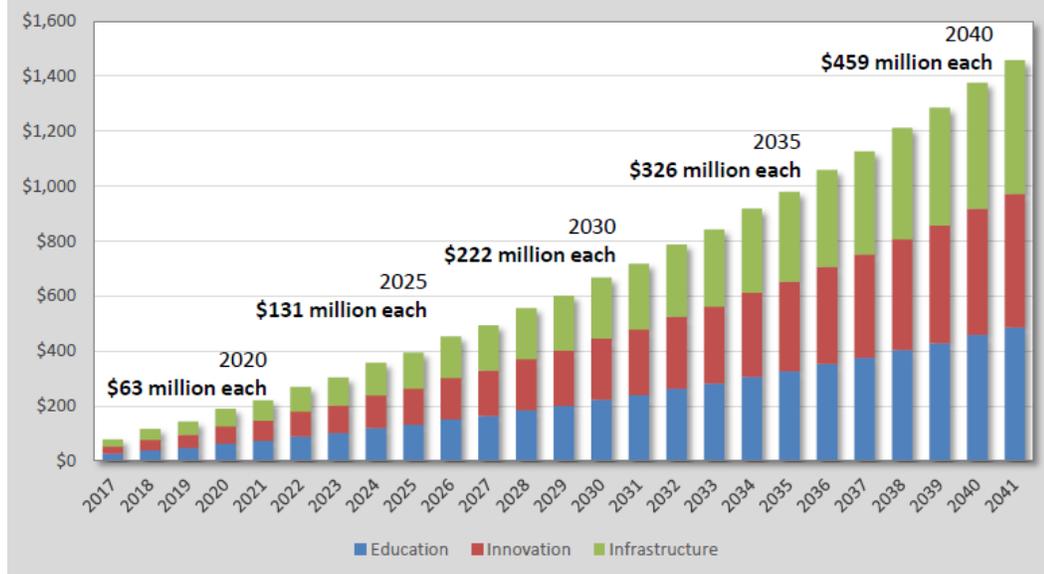
**Revenue Stream from Spending 25 Percent of Annual Earnings**

Scenario 3, or Spend 25-Reinvest 75, is meant to estimate the amount of funds available and the long term growth of the Legacy Fund, if 25 percent of annual earnings were used starting in 2017. As shown above, this scenario does produce significant growth, resulting in a fund balance of about \$60 billion by 2033, \$168 billion by 2050, and \$279 billion by 2060. By reinvesting 75 percent of earnings each year, the Fund is still able to achieve significant growth, while also providing a generous stream of state revenue.

To illustrate how much funding just 25 percent of annual earnings would provide, this analysis assumed the earnings would be split equally for three different purposes such as education, an innovation grant

program, and long-term infrastructure investment. Figure 1.9 presents the growth of these three programs over time. By 2020, the Legacy Fund could provide about \$63 million annually to each of the three purposes, or about \$189 million total. This could grow to \$131 million each in 2025 and to \$222 million each in 2030. By 2040, funding could reach \$459 million annually to each of the three purposes.

**Figure 1.9 Annual contributions to three purposes from 25 percent of annual earnings**



The Legacy Fund clearly has the potential to contribute very significant amounts to state revenue with just a portion of its projected annual earnings. Not all of the revenue would necessarily have to be spent each year, and Legacy Fund Initiative participants were interested in estimating how a potential program fund might grow, if an annual contribution of earnings from the Legacy Fund were saved for a number of years. Three management scenarios for a theoretical infrastructure investment fund were used to illustrate this concept:

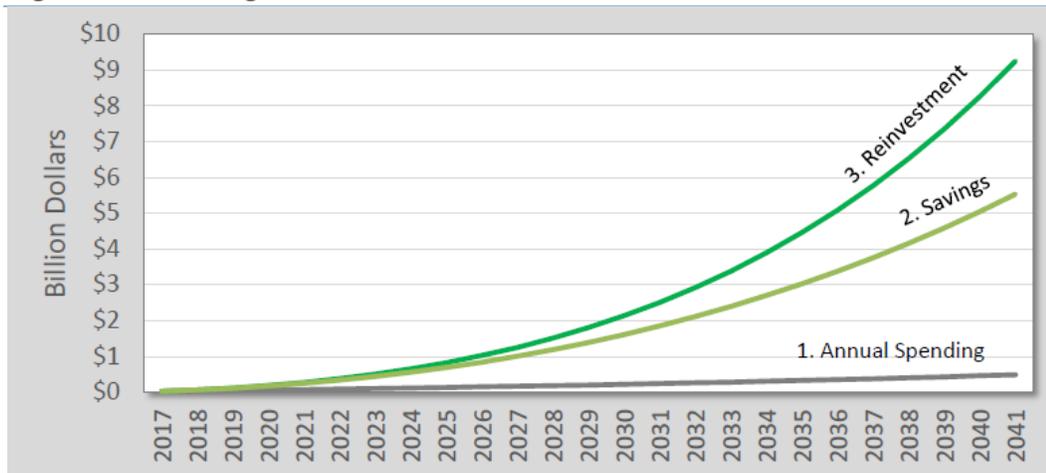
- In the first management scenario (1. Annual Spending), funds would be spent annually on applicable infrastructure projects.
- In the second scenario (2. Savings), funds would not need to be spent annually and could be carried over and saved over time.
- A third scenario (3. Reinvestment) would not only save the funds, but also reinvest them to grow the principal and allow for very significant infrastructure projects in the future.

Figure 1.10 shows the resulting amount of funds available to an infrastructure investment program depending on three scenarios for managing Legacy Fund contributions: 1. Annual spending of the funds and not saving, 2. Saving the funds, and 3. Saving and reinvesting the funds to yield earnings similar to the Legacy Fund (6.1 percent per year).

After 25 years, the contrast is apparent. Under the scenario in which funds are spent annually rather than saved, the infrastructure fund would have \$459 million available to it each year. Under the savings only scenario, the fund would have a total of \$5.5 billion available. Finally, if the funding were saved and

managed to earn a return on investment, the infrastructure fund could grow to a potential \$9.3 billion dollars.

**Figure 1.10 Management scenarios for an infrastructure fund**



**Preferred Scenario: Reinvest, Replace and Spend**

The oil projections used for this scenario predict that peak production will occur between 2017 and 2025 (see figure 1.1), after which oil production will begin a slow but steady decline through the 2050s and probably further. With diminishing oil production comes falling tax revenue, but LFI participants’ preferred scenario in this analysis illustrates a way to provide constant levels of revenue after production has peaked and begins to fall.

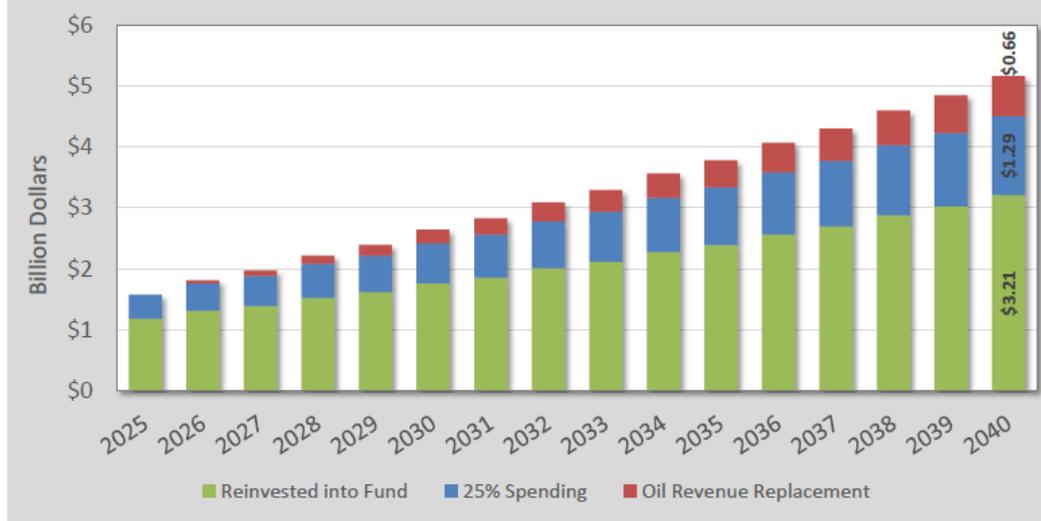
This Reinvest, Replace and Spend scenario features the same expenditure of 25 percent of annual earnings from the Fund as the previous scenario. This will result in similar levels of available funding as seen in figures 1.9 and 1.10. In addition, Fund earnings replace the amount of state revenue lost once oil production peaks and begins to fall. Figure 1.11 demonstrates the “wedge” of increasing levels of revenue to be replaced after projected oil production begins to decline in 2026.

**Figure 1.11 Legacy Fund contributions to replace “wedge” of diminishing oil tax revenue**



According to the P10 projection, the gradual rate of decline means that amount the Legacy Fund will need to replace is relatively small compared to the Fund's earnings. In 2026, under the preferred Spend, Replace, and Reinvest scenario, the Legacy Fund will need to make up for a projected \$44 million decline in oil tax revenue while also expending \$452 million of Fund earnings. Because the Fund is also projected to generate \$1.8 billion in earnings that same year, however, plenty of scope remains to continue growing the principal the Legacy Fund. Figure 1.12 compares the amounts of each use of annual Legacy Fund's earnings: reinvestment into the Fund, expenditure for specific purposes, and replacement of declining state oil revenue.

**Figure 1.12 Allocation of Legacy Fund earnings by purpose under preferred Reinvest, Replace and Spend**



By 2040, \$660 million dollars annually will be needed to make up for lost oil revenue after 15 years of decline. Meanwhile, \$1.29 billion dollars will be allocated to specific purposes, and \$3.21 billion in earnings will be retained and reinvested into the Fund. As Figure 1.12 shows, the Legacy Fund will still see sustainable growth, if moderate levels of annual earnings expenditure (25 percent proposed under preferred scenario) take place after 2017 and additional Fund revenue is used to make up the loss of revenue in the decades after oil production in North Dakota begins to decline.

**Conclusion**

This analysis was meant to illustrate a variety of management options for North Dakota's Legacy Fund. For consistency, these projections and scenarios hold many assumptions constant. Therefore, they do not reflect exact reality and cannot predict future political decisions that will impact budget amounts or revenue sources, especially as the projections extend out many years. A good methodology for analytical projection in an uncertain world is to determine those factors that can be decided by institutions and individuals making decisions, and to observe the effects of those decisions with all other factors held constant. Thus, from this analysis, the state of North Dakota clearly faces important decisions in how to manage the Legacy Fund in coming years. The results of the projections discussed in this report illustrate the dramatic differences between scenarios in which most or all of Legacy Fund earnings are spent early on, and scenarios in which a significant portion of earnings are saved for future growth. The analysis described in the previous pages amply demonstrates that allowing room and time for Fund growth in early years will result in a manifold payback in the decades to come.

## APPENDIX B

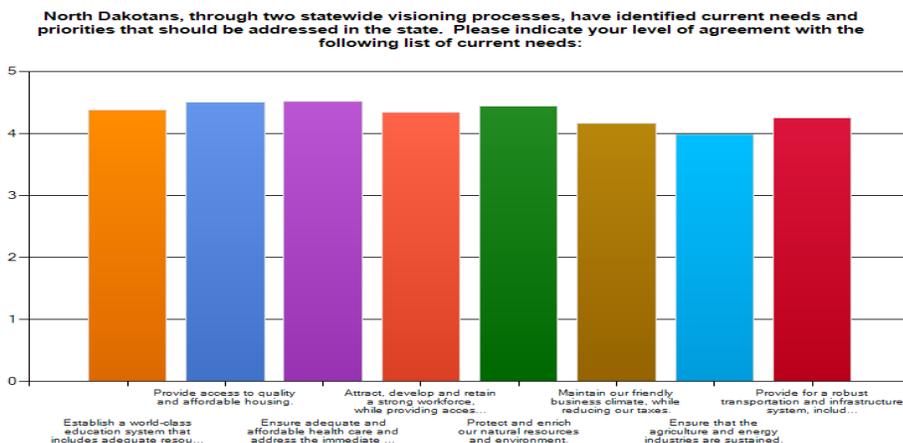
### Community Meeting and Online Survey Input Summary

The Legacy Fund Initiative conducted public input outreach in May and June 2014 to gather input from North Dakotans on the draft vision, principles, goals and draft recommendations. An online survey was conducted in May across North Dakota's tribal college campuses. In June, four community input forums were held in Watford City, Velva, Grand Forks and Lisbon. An additional community input forum was held in Fargo in August. Approximately 180 citizens participated in the combined outreach activities of the Legacy Fund Initiative.

In the online survey, respondents were asked to provide their level of support and concurrence with the following list of current statewide needs compiled from the work and recommendations of the North Dakota Department of Commerce's 2020 and Beyond and USDA Rural Development North Dakota 2.0 statewide visioning processes:

- Establish a world-class pre-K through 12 and higher education system that includes adequate resources for early childhood education.
- Provide access to quality and affordable housing for all North Dakotans.
- Ensure adequate and affordable health care for all North Dakotans and address the immediate needs of our rural health care systems.
- Attract, develop and retain a strong workforce, while providing access to quality child care.
- Protect and enrich North Dakota's natural resources and environment to provide continued recreation and tourism opportunities.
- Maintain North Dakota's friendly business climate, while reducing North Dakotans' tax burden.
- Ensure that North Dakota's primary industries – agriculture and energy – are sustained for the long-term.
- Provide for a robust, long-term statewide transportation and infrastructure system, including water projects and flood control.
- Identification of current uses for the Legacy Fund to demonstrate near-term benefits and maintain public support for safeguarding the Fund for future generations.

Online survey respondents strongly agreed with all eight current needs identified:



In addition, online survey respondents were asked to share their opinion on the use of Legacy Fund earnings that will be annually transferred into North Dakota's general fund beginning in 2017:

- 51 percent of respondents felt that Legacy Fund earnings should be utilized to support bold initiatives.
- 28 percent of respondents felt that Legacy Fund earnings should be spent on current state needs.
- 21 percent of respondents felt that Legacy Fund earnings should be reinvested back into the Legacy Fund.

Nearly 77 percent of survey respondents indicated that they supported the state addressing current needs with existing state resources before tapping into Legacy Fund earnings or principal.

Project stakeholders and staff facilitated each of the community forums and provided a background presentation on the project, including a snapshot of oil and gas production, the state budget, projections on growth of the Legacy Fund and the group's work to date.

Following the presentation, community input participants were asked: ***“Looking back twenty-five years from now, what would you like the Legacy Fund to have accomplished thanks to its wise management and use?”***

We received input in the following areas:

### **Accountability & Transparency**

- There will need to be some strict standards for use of the Legacy Fund, otherwise ND may simply rely on the Fund to keep reducing taxes and still have poor infrastructure, underpaid teachers and an under-performing educational system.
- Transparency and accountability principles are needed across state government, in addition to the Legacy Fund.
- The governance recommendations provide a solid “foundation” to build public confidence in the management of the Legacy Fund.
- Affordable Housing/Child Care/Poverty Reduction/Trafficking.
- Affordable and sustainable housing is available for all North Dakotans.
- ND has a strong structure in place that helps eradicate human trafficking. ND has become a leader in anti-trafficking policy and enforcement.
- We have significantly reduced the number of hungry and homeless families in North Dakota.
- North Dakota has world-class, affordable child and elder care.

### **Education**

- We have a world-class education system that is affordable and has a long-term, positive impact on students (pre-K through higher education), with increased quality and established niches for success. Tuition is reduced, and a fund is in place for scholarships.

### **Infrastructure & Public Services**

- We have excellent, well-maintained infrastructure and have found productive uses for the infrastructure built to serve oil and gas development. We have a diversification plan in place. Infrastructure includes water, airports, roads, communications, rail, and pipelines and more.
- Infrastructure investments have been made that lead to improvements in people's quality of life (e.g., swimming pools).
- Establish a long-term, low interest, infrastructure fund (either whole or partial projects).
- Self-sustaining emergency responder services (911 centers, law enforcement, fire, EMS) are in place.
- Strong and innovative transportation systems are in place. High speed rail connecting Fargo, Grand Forks, Bismarck, and other population centers is available.

### **Natural Resources & Quality of Life**

- North Dakota's natural resources are protected, preserved, and restored. There is a high value placed on preservation and protection with an eye towards tourism, hunting/fishing, and agriculture. Natural resources are accessible to the public for the purpose of increasing quality of life and for hospitality of guests/tourism.
- Strong investments have been made in energy conservation and renewable energy.
- North Dakota is a place where people want to live (quality of living, infrastructure, culture, education, etc.).
- ND (and especially Western ND) is a place where families want to move and stay (e.g., reasonable housing, health care, recreational activities—the full package of amenities that make up quality of life).
- We have more government capacity and services available locally to monitor and safeguard the region's water resources.

### **Tax Relief & Direct Payments to Citizens**

- North Dakota is like Alaska and its Permanent Fund and the state makes annual payments to residents from the earnings of the Legacy Fund.
- North Dakota should make resources available to every resident (as Alaska does with its Permanent Fund) but the money should be tied to higher education and training. The money doesn't necessarily have to come from the Legacy Fund.
- The tax burden for our citizens has been greatly reduced.

### **Work Force Development/Job Creation/Future Industries**

- Comprehensive affordability is established. Sustained wealth is created, and working North Dakotans can achieve a good living standard that meets basic needs and expenses.
- We have more financial products that make it possible for business start-ups (e.g., becoming a new young farmer). We are helping small businesses thrive, which helps diversify our economy in the process.
- We are investing research and development for other industries so that we are diversifying our industrial base beyond just oil and gas (for if/when that declines).

- North Dakota has an economy that allows us sustained growth in human resources.
- Thousands of high paying jobs are available through the efforts of long-term job creation.
- Rural areas are restored and experiencing robust growth.
- Economic mobility for future residents.

Input forum participants also offered suggestions on additional recommendations that the stakeholder group should consider prior to finalizing their work product.

### **Additional Recommendation Suggestions**

- Need to incorporate support for **services, not just infrastructure**, especially with respect to **public safety**.
- In terms of the priority initiatives identified for potential near to medium-term expenditure of Legacy Fund earnings, there should be a fourth initiative that focuses on **environment and natural resources**.
- Would like to **increase emphasis on affordability of higher education** for ND students (in-state tuition costs, continued student loan program, and other institutional changes that would keep higher education generally affordable, not just scholarships).
- The 25% of “**overflow**” dollars (over and above the cap of \$300 million for the Strategic Investment & Improvement Fund) should be **made available to impacted communities at reduced interest rates**. This could replace and/or complement what the Bank of North Dakota was originally intended to do (the Bank has, over time, become more risk-averse and focused only on return).
- Spend some of the money on **medical research** (e.g., cancer and Alzheimer's).
- Emphasis should be on places where ND has a **strategic or comparative advantage**.
- ND has a world-class wind and biomass (bioproducts and biochemicals) and could position the state for a **more diversified economy longer-term**.