From the Williston Herald on March 12, 2020

North Dakota will Need the Legacy Fund earnings in the future

The Legislature is considering two questions about the Legacy Fund; what percentage of earnings, if any should be spent, and how that money would be spent. In recent hearings, legislators heard many ideas on how to spend this money. The Legacy Fund has $6.8 billion today.

The Legacy Fund was a constitutional amendment approved by 67% of the voters in 2010. It was designed to convert oil revenue, a finite resource, to cash and create a permanent fund for future generations. The more that is saved, the better for future generations. To gain support, we told the public in 2010 that, "The Legacy Fund would secure North Dakota's financial future by providing a consistent state revenue stream for our children and grandchildren, long after the oil industry takes a downturn." And, the oil industry will have a downturn.

The oil industry pays a whopping 50% of all the taxes paid to the state of North Dakota. Of that, 70% goes into various state funds and to local governments and 30% is saved in the Legacy Fund.

Today, the General Fund is $4.8 billion. This is the operating budget for most programs and state agencies. Twenty seven percent of this revenue comes from ONE source, oil taxes. One of every four dollars in the general fund comes from oil production and extraction taxes. (This doesn't include income and sales tax from the industry.) The state has built a budget that is unsustainable and is reliant on one revenue stream ... oil production. State officials with the Department of Mineral Resources project oil production will peak in about five years.

A peak in oil production within five years, is a strong enough reason for saving most of the Legacy Fund earnings. It's the smart thing to do, and the State is going to need this money to fund their near future. Ask yourself this simple question, if your 401K grows 5% a year, how much of that 5% do you spend? The likely answer is you don't. You continue to save it for your future and the lifestyle you wish to live in the future.

The Legacy Fund Founders group has offered suggestions to the Legislature regarding the fund we helped to craft. The Founders suggested:

- Don't spend any principle ... except in case of a catastrophic event.
- Don't spend earnings until they are banked.
- Save 75% of the earnings and re-invest those dollars back in the Legacy Fund. Spending 25% of the earnings is a realistic option.
- Avoid permanent commitments of Legacy Fund earnings.
- Beneficiaries must have financial commitment (no "free money"). Meaning, beneficiaries must commit money of their own. An example of this is the Roosevelt Presidential Library.
- Spending should be based upon long-term strategic planning, not short-term spending demands.

In recent history, North Dakota has seen wild swings of state revenues based on oil production and prices (1980s and 2015), which required extreme adjustments in state spending. In 2015 we had to use all the savings accounts to balance the budget and had to cut $1.7 billion of the budget the following year. Oil prices have dropped $20 in the last 60 days and lost 30% more on Monday! When will we learn? The Legacy Fund was created in part to mitigate against these wild swings in state revenues. In the previous two biennium's $300,000,000 were used to balance the budget. This means, these dollars are already being used just to balance the budget allowing state agencies to continue to operate.

Governor Burgum declared in his 2020 State of the State address, the number one priority of the Legacy Fund is to protect ourselves from declining oil revenues. He's right. Norway has a $1 trillion fund. Their policy is to

not spend more than 3% of the fund. Alaska's oil trust fund is $65 billion and they too, urge to save most of the revenues. In 2014 the Great Plains Institute assembled people from across North Dakota including legislators, business people, engineers, accountants, former state officials, and they also recommended saving 75% of the earnings. Our parents taught us the power of compound interest. We should take their advice on public money, like the Legacy Fund and continue to save it.

So, how much should we spend? 25%? 50%? 75%? The more we save, the faster this fund will grow.

The Legislature should assemble data to answer these questions, before deciding how much we should spend.

1. How much will the general fund grow annually in the next 30 years?
2. How much of the general fund is from oil taxes?
3. When will oil taxes begin to decline? (We will need legacy earnings then.)
4. What will legacy fund earnings be if we save 25, 50, 75 or 100% of earnings until oil revenues decline?

Only until we know these answers should we think about spending ANY Legacy Fund earnings.

Governor Art Link, in 1973 in relation to the one-time harvest of coal development said, “And when we are through with that and the landscape is quiet again ... and the last patch of barren earth has been seeded to grass or grain, let those who follow and repopulate the land be able to say, our grandparents did their job well. The land is as good, and in some cases, better than before. Only if they can say this, will we be worthy of the rich heritage of our land and its resources.”

Oil is also a one-time harvest, so the same can be said of the Legacy Fund and how we manage it ... “only then will we be worthy of the rich heritage of our land and its resources.”