

**Minutes of the Meeting of the
Board of University and School Lands
May 28, 2020**

The May 28, 2020 meeting of the Board of University and School Lands was called to order at 8:03 AM in the Coteau Meeting Room of the State Capitol by Chairman Doug Burgum.

Members Present:

Doug Burgum	Governor
Alvin A. Jaeger	Secretary of State
Wayne Stenehjem	Attorney General
Kelly Schmidt	State Treasurer
Kirsten Baesler	Superintendent of Public Instruction

Department of Trust Lands Personnel present:

Jodi Smith	Commissioner
Dennis Chua	Investment Analyst – via Microsoft Teams
Susan Dollinger	Unclaimed Property Administrator – via Microsoft Teams
Michael Humann	Surface Division Director
Kristie McCusker	Paralegal – via Microsoft Teams
Catelin Newell	Administrative Staff Officer
Adam Otteson	Revenue Compliance Division Director
Rick Owings	Administrative Officer – via Microsoft Teams
Mike Shackelford	Investment Division Director
David Shipman	Minerals Division Director – via Microsoft Teams
Kayla Spangelo	Range Management Specialist

Guests in Attendance:

Leslie Bakken Oliver	Governor's Legal Counsel
Reice Haase	Governor's Policy Advisor – via Microsoft Teams
Amy Hsiang	RVK – via Microsoft Teams
Josh Kevan	RVK – via Microsoft Teams
George Hicks	Varde Investment Group – via Microsoft Teams
Brad Bauer	Varde Investment Group – via Microsoft Teams
Mona Girotra	Varde Investment Group – via Microsoft Teams
Casey Anderson	ND Game & Fish Department – via Microsoft Teams
Marty Egeland	ND Game & Fish Department – via Microsoft Teams
Brady Pelton	ND Petroleum Council
Joel Brown	Mineral Tracker
Greg Kernohan	Ducks Unlimited
Trenton Hieb	Ducks Unlimited
Geoff Simon	Western Dakota Energy Association

APPROVAL OF MINUTES

A motion to approve the minutes of the April 30, 2020 meeting was made by Secretary Alvin Jaeger and seconded by Attorney General Wayne Stenehjem and the motion carried unanimously on a voice vote.

R E P O R T S

COVID-19 Update

North Dakota received \$1.25 billion from the Coronavirus Relief Fund as part of the \$2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act. The North Dakota Budget Section voted last week to utilize more than half a billion dollars in federal funding for North Dakota's COVID-19 response and recovery efforts, with the majority of the money directed to support economic recovery.

The Commissioner cancelled all surface lease auctions scheduled for March 23, 2020 thru March 27, 2020. There were 141 tracts in 30 counties available for auction. Executive Order 2020-25 allowed the Department of Trust Lands (Department) to host surface auctions outside of the county seat. The Department of Trust Lands was able to secure \$100,000 in funding to pay the 3% convenience fee associated with the online surface lease auctions hosted by EnergyNet. The Department has issued refund checks to lessee's who participated in the online spring auction.

Additionally, the Department received \$20,000 to complete an analysis of shut-in and deferred producing wells analysis based upon various economic scenarios to anticipate production and the resulting direct impact on cash flow for the Department. The analysis will allow the Department to better manage cash flows and disbursement obligations through cash deposits versus being required to sell investments. A copy of the analysis has been attached for Board review.

The North Dakota Department of Trust Lands Deferred Production Analysis report was provided to the Board for review and is available at the Department upon request.

Summary of EnergyNet Surface Spring Auction

From April 28th to May 4th the Department held their very first online surface lease auction with EnergyNet. The auction had 70 registered bidders with 56 placing bids.

The table below is a snapshot comparing prior years' spring auctions to EnergyNet's online auction.

	2018	2019	2020
Number of counties	26	27	24
Total tracts offered	82	99	144
Number of tracts bid	66 (80.5%)	79 (79.8%)	108 (75%)
Number of bid tracts bid-up	14 (21% of bid tracts)	27 (34% of bid tracts)	27 (25% of bid tracts)
Total amount of minimum advertised bids	\$151,276.00	\$220,960.00	\$283,859.00
Total amount received	\$156,286.00	\$273,177.00	\$255,173.00

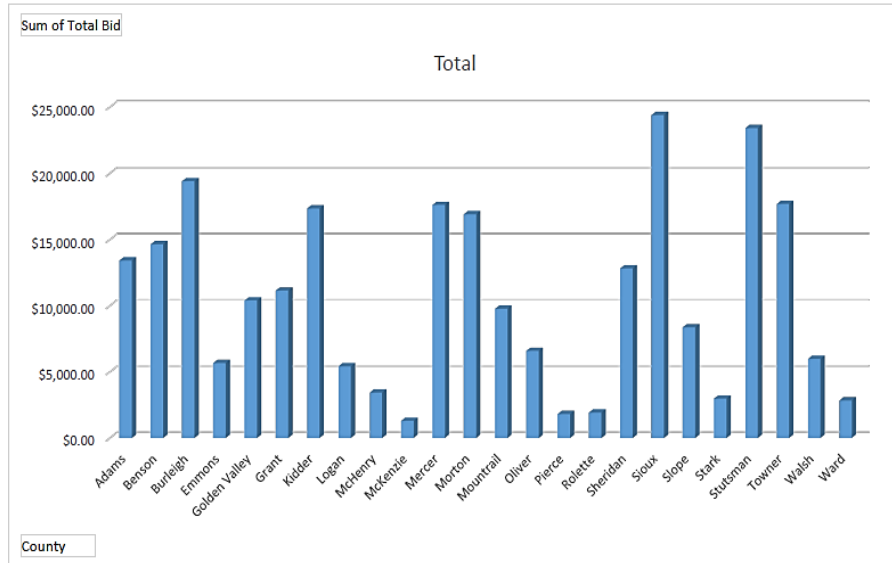
Unleased tracts offered at the spring auction are available on a first come first serve basis for minimum opening bid until August 31, 2020.

As of May 28th an additional 7 tracts had been leased.

(05/28/20)

ND-AG-2020-Q2 Surface Lease Sale
Bid Totals by County

County	Sum of Total Bid
Adams	\$13,423.00
Benson	\$14,633.00
Burleigh	\$19,402.00
Emmons	\$5,659.00
Golden Valley	\$10,400.00
Grant	\$11,138.00
Kidder	\$17,333.00
Logan	\$5,412.00
McHenry	\$3,434.00
McKenzie	\$1,295.00
Mercer	\$17,605.00
Morton	\$16,915.00
Mountrail	\$9,774.00
Oliver	\$6,586.00
Pierce	\$1,806.00
Rolette	\$1,914.00
Sheridan	\$12,814.00
Sioux	\$24,389.00
Slope	\$8,363.00
Stark	\$2,970.00
Stutsman	\$23,407.00
Towner	\$17,679.00
Walsh	\$5,986.00
Ward	\$2,826.00
Grand Total	\$255,163.00



Report of Shut-Ins Approved by Land Commissioner

All shut-in requests in this report are Covid-19 related.

Granted to: WINDRIDGE OIL
Date Issued: 04/30/2020
Trust: L- Bank of North Dakota
Lease: OG-13-00025

Granted to: WINDRIDGE OIL
Date Issued: 04/30/2020
Trust: A - Common Schools
Lease: OG-13-00027
Lease: OG-05-00110
Lease: OG-05-00108

Granted to: PetroHunt
Date Issued: 5/13/2020
Trust: A - Common Schools
Lease: OG-84-00954
Lease: OG-84-00023
Lease: OG-10-03568
Lease: OG-10-02437

Granted to: PetroHunt
Date Issued: 05/14/2020
Trust: A - Common Schools
Lease: OG-08-00533
Lease: OG-08-00534
Lease: OG-08-00535
Lease: OG-08-00536

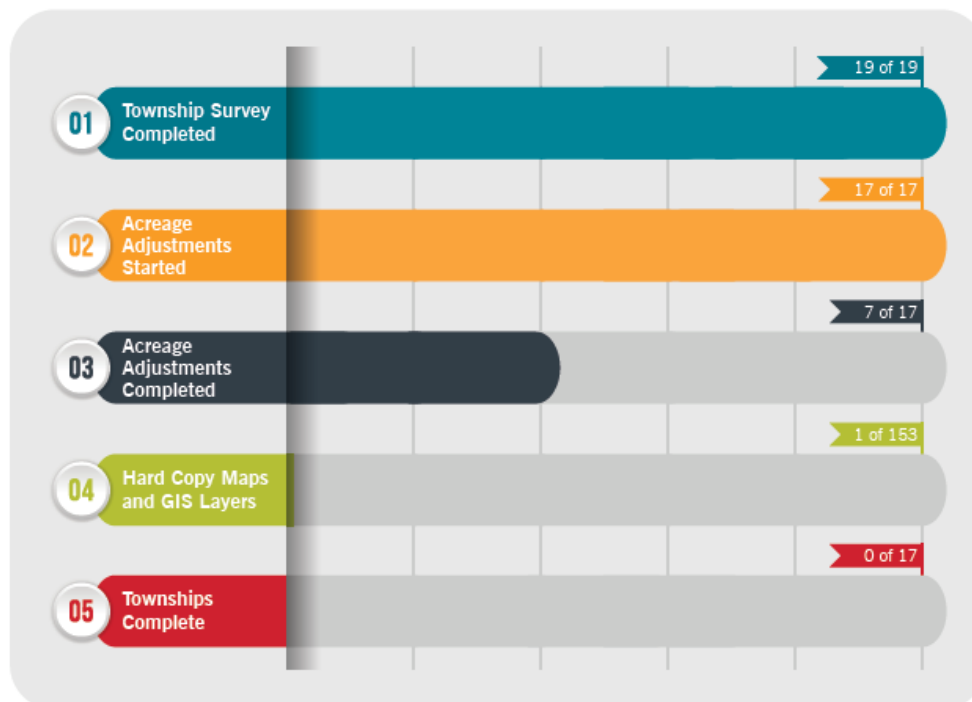
Report of Extensions Approved by Land Commissioner

Granted to: Oasis Petroleum
 Date Issued: 05/20/2020
 Trust: A– Common Schools
 Lease: OG-15-00406
 Lease: OG-15-00407
 Lease: OG-15-00408
 Lease: OG-15-00409

Granted to: Oasis Petroleum
 Date Issued: 05/20/2020
 Trust: D– School for the Deaf
 Lease: OG-15-00410

Acreage Adjustment Survey

Senate Bill 2211 of the Sixty-Sixth Legislative Assembly amended N.D.C.C. ch. 61-33.1 relating to the ownership of mineral rights of land subject to inundation by Pick-Sloan Missouri basin project dams. Under N.D.C.C. § 61-33.1-03(8), the Department executed a contract with Kadmas, Lee & Jackson, Inc. “to analyze the final review findings and determine the acreage on a quarter-quarter basis or government lot basis above and below the ordinary high water mark as delineated by the final review findings of the industrial commission.” The contract’s scope of work concludes twelve months from the date of execution, at a total cost of \$1,088,635.



(05/28/20)

Report of Encumbrances Issued by Land Commissioner 3-17-2020 to 5-12-2020

Granted to: **GOODNIGHT MIDSTREAM BAKKEN LLC, DALLAS-TX**
 For the Purpose of: Easement: Pipeline-Salt Water Pipeline
 Right-of-Way Number: RW0008250
 Trust: A – Common Schools
 Legal Description: MCK-150-97-36-S2

Granted to: **GOODNIGHT MIDSTREAM BAKKEN LLC, DALLAS-TX**
 For the Purpose of: Easement: Pipeline-Salt Water Pipeline
 Right-of-Way Number: RW0008253
 Trust: A – Common Schools
 Legal Description: MCK-149-96-16-NE4, S2

Granted to: **VAN HOOK GATHERING SERVICES LLC, IRVING-TX**
 For the Purpose of: Easement: Pipeline-Multiple Pipelines
 Right-of-Way Number: RW0008389
 Trust: A – Common Schools
 Legal Description: MOU-150-92-15-W2SW4

Granted to: **EQUINOR PIPELINES LLC, WILLISTON-ND**
 For the Purpose of: Easement: Pipeline-Multiple Pipelines
 Right-of-Way Number: RW0008421
 Trust: A – Common Schools
 Legal Description: MOU-155-92-16-NW4

Granted to: **BILLINGS COUNTY, MEDORA-ND**
 For the Purpose of: Easement-Amend: Road Right-of-Way
 Right-of-Way Number: RW0008452
 Trust: A – Common Schools
 Legal Description: BIL-141-101-21-NE4

Granted to: **EQUINOR ENERGY LP, WILLISTON-ND**
 For the Purpose of: Permit: Road-Access Road
 Right-of-Way Number: RW0008479
 Trust: A – Common Schools
 Legal Description: WIL-155-100-36-W2

Granted to: **HILAND PARTNERS HOLDINGS LLC, HOUSTON-TX**
 For the Purpose of: Easement: Pipeline-Gas Gathering Pipeline
 Right-of-Way Number: RW0008606
 Trust: A – Common Schools
 Legal Description: MCK-148-98-16-NE4, SW4

Granted to: **ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT**
 For the Purpose of: Easement: Pipeline-Gas Gathering Pipeline
 Right-of-Way Number: RW0008618
 Trust: A – Common Schools
 Legal Description: MCK-150-98-36-E2, SW4

Granted to: **XTO HOLDINGS, LLC, SPRING-TX**
 For the Purpose of: Permit: Road-Access Road
 Right-of-Way Number: RW0008631
 Trust: A – Common Schools
 Legal Description: GOL-143-103-36-E2

Granted to: **MOUNTRAIL-WILLIAMS ELECTRIC COOP, WILLISTON-ND**
For the Purpose of: Easement: Drop Line-Above Ground Electric Distribution Line
Right-of-Way Number: RW0008635
Trust: A – Common Schools
Legal Description: WIL-158-95-36-SE4

Granted to: **MOUNTRAIL-WILLIAMS ELECTRIC COOP, WILLISTON-ND**
For the Purpose of: Easement: Release of Easement
Right-of-Way Number: RW0008636
Trust: A – Common Schools
Legal Description: WIL-158-95-36-S2

Granted to: **MOUNTRAIL-WILLIAMS ELECTRIC COOP.,WILLISTON-ND**
For the Purpose of: Easement-Amend: Electric-Above Ground Distribution Line
Right-of-Way Number: RW0008659
Trust: A – Common Schools
Legal Description: WIL-158-95-36-E2

Granted to: **USDA-NRCS, JAMESTOWN-ND**
For the Purpose of: Letter of Permission: Access (National Resource Inventory)
Right-of-Way Number: RW0008671
Trust: A – Common Schools
Legal Description: MOU-155-92-25-SW4
SLO-134-106-36-NE4
SLO-134-98-36-NE4
WIL-153-104-36-NE4 W OF HWY

Granted to: **B O B ENTERPRISES LLC, KILLDEER-ND**
For the Purpose of: Permit: Temporary Water Layflat Line
Right-of-Way Number: RW0008675
Trust: A – Common Schools
Legal Description: DUN-146-95-16-NE4

Granted to: **B O B ENTERPRISES LLC, KILLDEER-ND**
For the Purpose of: Permit: Temporary Water Layflat Line
Right-of-Way Number: RW0008677
Trust: A – Common Schools
Legal Description: DUN-148-96-36-LOTS 1,2,6,7
DUN-148-96-36-NW4SE4, S2SE4, LOT 8
DUN-148-96-36-S2NW4, LOTS 3,4,5
DUN-148-96-36-SW4

Granted to: **USDA-NRCS MLRA 53B SOIL SURVEY OFFICE, BISMARCK**
For the Purpose of: Letter of Permission: Access (Soil Survey Update)
Right-of-Way Number: RW0008680
Trust: A – Common Schools
Legal Description: Numerous tracts in 9 ND Counties

Granted to: **EQUINOR ENERGY LP, WILLISTON-ND**
For the Purpose of: On-lease Act. Amend: Site-Tank Battery Site
Right-of-Way Number: RW0008682
Trust: A – Common Schools
Legal Description: MOU-155-92-16-NW4

(05/28/20)

Granted to:	NTB ASSOCIATES INC, SHREVEPORT-LA
For the Purpose of:	Permit: Planning & Preconstruction Survey
Right-of-Way Number:	RW0008688
Trust:	A – Common Schools
Legal Description:	N/A
Granted to:	NORTH RANGE RESOURCES LLC, DICKINSON-ND
For the Purpose of:	On-lease Activity: Well-Vertical Oil Well
Right-of-Way Number:	RW0008690
Trust:	A – Common Schools
Legal Description:	MCK-146-100-36-SE4
Granted to:	NORTH RANGE RESOURCES LLC, DICKINSON-ND
For the Purpose of:	On-lease Activity: Well-Horizontal Oil Well
Right-of-Way Number:	RW0008691
Trust:	A – Common Schools
Legal Description:	MCK-146-100-36-SW4
Granted to:	WEST DAKOTA WATER LLC, WILLISTON-ND
For the Purpose of:	Permit: Temporary Water Layflat Line
Right-of-Way Number:	RW0008697
Trust:	A – Common Schools
Legal Description:	WIL-158-95-16-N2
Granted to:	NDSU (School of Natural Resource Science), FARGO-ND
For the Purpose of:	Letter of Permission: Access to School Land (Native Pollinator
Right-of-Way Number:	RW0008699
Trust:	N - NDSU
Legal Description:	Numerous tracts in 6 ND Counties
Granted to:	CALIBER MIDSTREAM NORTH DAKOTA LLC, DENVER
For the Purpose of:	Permit: Temporary Construction
Right-of-Way Number:	RW0008706
Trust:	A – Common Schools
Legal Description:	MCK-152-102-36-SE4

Unclaimed Property Program Report

Unclaimed property is all property held, issued, or owing in the ordinary course of a holder's business that has remained unclaimed by the owner for more than the established time frame for the type of property. It can include checks, unpaid wages, stocks, amounts payable under the terms of insurance policies, contents of safe deposit boxes, etc.

An owner is a person or entity having a legal or equitable interest in property subject to the unclaimed property law. A holder can include a bank, insurance company, hospital, utility company, retailer, local government, etc.

Since 1975, the Unclaimed Property Division (Division) of the Department of Trust Lands has been responsible for reuniting individuals with property presumed abandoned. The Division acts as custodian of the unclaimed property received from holders. The property is held in trust in perpetuity by the State and funds are deposited in the Common Schools Trust Fund. The 1981 Uniform Unclaimed Property Act created by the national Uniform Law Commission was adopted by the State in 1985.

For the month of April 2020, the Division received 98 holder reports with a property value of \$808,690 and paid 600 claims with a total value of \$610,019.

Energy Infrastructure and Impact Office Program Report

The Energy Infrastructure and Impact Office (EIO) is a division within the Department of Trust Lands (Department). EIO provides financial assistance to local units of government that are impacted by oil and gas activity. In turn, EIO receives a portion of the Oil and Gas Gross Production Tax. The office has been a part of the Department since 1977 and was formally known as the Energy Development Impact Office created under N.D.C.C. ch. 57-62. Over the course of the past 40 years, EIO has dispersed over \$624 million in funding.

The Oil and Gas Impact Grant Fund currently has 28 grants with a balance of \$7,049,556.08 as of May 13, 2020. The following shows grant activity for the last five months:

Oil and Gas Impact Grant Fund	Grants with balances	Current Balance Obligated to Grants
12/9/2019	36	\$15,477,345.77
12/31/2019	30	\$14,388,087.28
2/13/2020	21	\$7,207,988.75
5/13/2020	28	\$7,049,556.08

The Energy Impact Fund, established within Senate Bill 2013 as enacted by the Sixty-fifth Legislative Assembly, was created to supplement the Oil and Gas Impact Grant Fund for the 2017-2019 biennium. This fund currently has three grants with a balance of \$2,394,929.22 as of May 13, 2020. House Bill 1013 of the Sixty-sixth Legislative Assembly requires the Commissioner of University and School Lands to transfer any unexpended funds remaining in the Energy Impact Fund when the fund is repealed on June 30, 2021, to the Oil and Gas Impact Grant Fund. The following shows grant activity for the last five months:

Energy Impact Fund	Grants with balances	Current Balance Obligated to Grants
12/9/2019	4	\$4,793,191.14
12/31/2019	4	\$4,108,325.39
2/13/2020	3	\$3,447,448.60
5/13/2020	3	\$2,394,929.22

The Energy Infrastructure and Impact Office is currently managing 31 grants for a total of \$9,444,485.30. The following shows grant activity for the last four months:

Oil and Gas Impact Grant Fund	Grants with balances	Current Balance Obligated to Grants	Energy Impact Fund	Grants with balances	Current Balance Obligated to Grants	Total between both Funds
12/9/2019	36	\$15,477,345.77	12/9/2019	4	\$4,793,191.14	\$20,270,536.91
12/31/2019	30	\$14,388,087.28	12/31/2019	4	\$4,108,325.39	\$18,496,412.67
2/13/2020	21	\$7,207,988.75	2/13/2020	3	\$3,447,448.60	\$10,655,437.35
5/13/2020	31	\$7,049,556.08	5/13/2020	3	\$2,394,929.22	\$9,444,485.30

(05/28/20)

The Financial Position (Unaudited) for Period Ending February 29, 2020 was provided to the Board and is available at the Department upon request.

Investment Updates

Asset Allocation

The table below shows the status of the permanent trusts' asset allocation as of May 11, 2020. The figures provided are unaudited.

Account/Asset Class	Long-Term Asset Allocation	5/11/20 Actual Allocation \$	5/11/20 Actual Allocation %	5/11/20 % Diff.
Large Cap US Equity	15.0%	\$ 707,657,371	15.3%	0.27%
Mid/Small Cap US Equity	4.0%	\$ 171,677,041	3.7%	-0.30%
Total Broad US Equities	19.0%	\$ 879,334,412	19.0%	-0.03%
International Equity	12.0%	\$ 628,251,275	13.6%	1.55%
Emerging Market Equity	7.0%	\$ 173,048,140	3.7%	-3.27%
Total Broad Int'l Equities	19.0%	\$ 801,299,415	17.3%	-1.71%
Core Fixed Income	13.0%	\$ 724,519,861	15.6%	2.63%
Non-Core Fixed Income	9.0%	\$ 434,848,464	9.4%	0.38%
Total Fixed Income	22.0%	\$ 1,159,368,325	25.0%	3.01%
Transition Account	0.0%	\$ 102,577,794	2.2%	2.21%
Total Absolute Return	15.0%	\$ 658,518,394	14.2%	-0.79%
Commodities	0.0%	\$ 114,684,273	2.5%	2.47%
MLPs	0.0%	\$ 96,695,041	2.1%	2.09%
Natural Resource Equities	0.0%	\$ 77,774,895	1.7%	1.68%
Total Inflation Strategies	0.0%	\$ 289,154,209	6.2%	6.24%
Core Real Estate	8.0%	\$ 397,114,752	8.6%	0.57%
Core Plus Real Estate	7.0%	\$ 347,475,975	7.5%	0.50%
Total Real Estate	15.0%	\$ 744,590,727	16.1%	1.07%
Private Equity	5.0%	\$ -	0.0%	-5.00%
Private Infrastructure	5.0%	\$ -	0.0%	-5.00%
Opportunistic Investments	0.0%	\$ -	0.0%	
Total Asset	100.0%	\$ 4,634,843,276	100.0%	0.0%

Portfolio Rebalancing

On May 8, 2020, the Treasury Inflation-Protected Security (TIPS) Fund was liquidated with the proceeds transferred to an actively managed "transition account" that will hold all cash proceeds through the transition to the new asset allocation. The transition account is managed similar to the Strategic Investment Improvement Fund Ultra-Short Bonds account.

Gresham was informed of the Board of University and School Land's decision to liquidate the Gresham Commodities investments on May 14, 2020 and an exit strategy has been determined.

Upcoming Investment Manager Meetings

There is no upcoming meeting scheduled.

Gross Production Tax Backed School Construction Loans

In 2013, the Legislature amended N.D.C.C. ch. 15.1-36 to provide for a mechanism for schools to use a portion of the gross production tax (GPT) revenues received under N.D.C.C. § 57-51-15 to repay school construction loans that have been approved by the Department of Public Instruction (DPI). The first GPT backed school construction loan was funded in March 2015.

DPI is responsible for the school construction loan program; the Board University and School Lands (Board) is only responsible for funding the loans and collecting loan payments. The Board does not have any formal policies related to school construction loans.

Department (Department) of Trust Lands' staff worked with DPI, the Bank of North Dakota (BND), the State Treasurer's Office, and bond counsel to develop a GPT backed loan program that works for schools, while also seeking to ensure that the money gets repaid in a timely manner.

In March 2020, the Department received notification that DPI had approved a school construction loan application from the Bottineau School District for a loan principal amount of \$650,000 at an interest rate of 2% for a loan term of 20 years.

The following is a brief overview of the processes and procedures used to manage GPT backed school construction loans:

- BND will review all paperwork, provide amortization schedules, coordinate the closing, and hold the actual bond in safe keeping. For these services BND will charge school districts a one-time fee of \$200.
- The maximum amount of a GPT backed loan will be determined based on the school district's previous fiscal year's GPT revenues. With voter approval of the debt, school districts can get a loan with an annual payment that totals up to 80% of the previous year's GPT revenues. If there is no voter approval of the debt (as it is not classified as a debt by law), the annual loan payment may equal up to 50% of the previous year's GPT revenues.
- Loans will be set up with annual payments for up to 20 years with an annual payment due date of December 1.
- Starting in September of each year (this is when GPT distributions "reset" and are thus at their highest rate), the State Treasurer will withhold GPT payments to the school district until 100% of the annual loan payment in the amortization schedule is withheld. Once the authorized amount is withheld and paid over to the Department, the State Treasurer will continue distributing all the GPT revenues to the school district as provided by law.
- Payments will be applied each month, first to interest and then to principal. Because there is a yearly amortization schedule but monthly payments, at any given point in time a school district could be slightly over- or underpaid versus what is state on the annual loan amortization schedule. Any difference will be made up in the final year of the loan.
- If by April 1st of each year it appears that GPT revenues owed to the school district by law are not enough to cover the loan payment due, the Department will contact the district and make arrangements to collect the additional amount due either from the DPI distribution or from other sources the district may have.

Information Technology Project Status Update

The Department of Trust Land's (Department) 2017-2019 biennial budget appropriation includes \$3.6 million to replace legacy information technology (IT) systems as authorized by Senate Bill 2013 of the Sixty-fifth Legislative Assembly.

(05/28/20)

Severe limitations in the current IT system, including redundant manual processes, have hampered efficiencies. Many of the Department's core data management systems were developed in the 1980s and 1990s, using designs and tools no longer supported by vendors. Some supplemental system improvements and purchases have been implemented; however, the outdated database structure restricts many potential improvements.

On April 29, 2019, the new system for Unclaimed Property was successfully launched.

In 2017, Department created a Request for Proposals (RFP) for the Land Management and Accounting functions; however, the number of responses were limited and those proposals did not meet the Department's requirements.

Subsequently, the Department issued an RFP for the Financial Management and Accounting (FMA) system in October 2018. In December 2019, the Department awarded a contract to Ernst and Young to implement the Microsoft Dynamics 365 for Finance and Operations system with a go-live date of July 1, 2020.

During April 2020 the Investment Division participated in three demonstrations by vendors to implement the Microsoft Dynamics 365 product. On April 27, 2020 the RFP was issued to all three vendors. The Department received responses from all three vendors and is in the process of awarding the contract. The Investments Division, Commissioner and Project Manager are working to determine a go-live for software.

Additionally, the Revenue Compliance Division, Commissioner and Project Manager will be working with Wolters Kluwer on upgrading the auditing software used by the Department. The team is working on a go-live for the upgraded software and completion of data migration.

On December 16, 2019, the Department issued the RFP for the Land Management system with responses due February 2020. The Department reviewed responses from five vendors. A Best and Final Offer was requested from vendors that are reasonably susceptible for award on May 4, 2020 and responses were due May 22, 2020.

OPERATIONS

Fee Policy – First Reading

The Board of University and School Land's (Board) last comprehensive fee schedule was established on July 25, 1985 and was last reviewed by the Board on June 26, 2014. The recommended action will revise 2014 fee schedule. In 2019, the Department of Trust Lands (Department) participated in the North Dakota State Auditors Office's comprehensive study of North Dakota state agency fees overseen by the North Dakota Government Finance Committee. In this study, the Department provided information regarding:

- Review of the dates state agency fee provisions were created and modified.
- Revenue generated by the fee as compared to the expenditures related to the purposes for which the fee is imposed.
- The fund or funds in which fee revenue is deposited and from which fee revenue is expended.
- Consideration of whether the fees should be changed and whether the imposition of a fee is appropriate or if other government revenues should be used to fund the provision of services.

“Fees” in the context of this request are those payments which are not specific to any trust fund or tract of land but are deposited in the maintenance fund, which serves as the Department’s operating fund.

Attached is a red-lined and clean version of the proposed Fee Policy. Fees were revised based upon the Department’s expenditures related to the purposes for which the fee is imposed and if the fee is determined by the Board or the Commissioner.

The substantive changes include the following:

- A unified fee for certified copies has been established.
- Application and certain assignment, extension and amendment fees have been established for leasing based upon the internal expenses associated with processing the application.
- Fees that are determined by the Commissioner have been removed from the Board Fee Policy and placed in a Department Fee Policy.
 - Coal Amendment, renewal request fee
 - Coal Extension request fee
 - Oil and Gas Application and Nomination fee
 - Oil and Gas Application Shut-In Application Fee per Unit
 - Subsurface Mineral Lease Assignment Filing Fee
 - Salt-Water Disposal Site Application, Extension and Renewal Fee

The following attachments were provided to the Board and are available at the Department upon request: Attachment 1 – Board of University and School Lands Fee Policy (redline version) and Attachment 2 – Board of University and School Lands Fee Policy (clean version).

Continuing Appropriation Authority Policy – First Reading

The following North Dakota Century Code pronounces continuing authority:

- N.D.C.C. § 15-03-16
- N.D.C.C. § 15-04-23
- N.D.C.C. § 15-04-24
- N.D.C.C. § 15-05-19
- N.D.C.C. § 15-06-22
- N.D.C.C. § 15-07-22
- N.D.C.C. § 15-08-04
- N.D.C.C. § 47-30.1-23
- N.D.C.C. § 57-02.3-07

In 2016, the Board provided clarification on certain expenses allowed through continuing appropriation as outlined below:

Board of University and School Lands Continuing Appropriation Authority Policy

Continuing appropriation authority is provided in state law for certain operating expenditures.

A. Unclaimed Property - Continuing Authority.

Unclaimed property expenses as outlined in NDCC Section 47-30.1-23 may be paid under continuing appropriation authority including, but not limited to: payments of claims, service charges for address verification and updates, advertising costs, audit services, legal costs and outreach efforts.

(05/28/20)

B. Grant Land, Non-Grant Land and Mineral Leases - Continuing Authority.

NDCC Sections 15-04-24, 15-07-22 and 15-05-19 permit expenditures to be considered as continuing appropriation expenditures. These sections appropriate annually the expenses determined by the Board as necessary to manage, preserve, and enhance the value of the trust land and mineral assets.

Specifically authorized by the Board as continuing appropriation authority:

1. Salaries and travel expenses for temporary field men who conduct inspections to ensure rangeland integrity and surface reclamation.
2. Advertising surface and mineral lease auctions. Section 15-04-09 of the NDCC requires the Board to publish multiple notices of surface and mineral leases auctions. Advertising of the lease auctions are done to ensure the trusts receive competitive bids to enhance the trusts' value.
3. Legal expenditures that are incurred by a specific trust or trusts to maintain their value and integrity.
4. Costs of hiring independent contract firms to perform accounting, audit, compliance review or collection efforts to ensure the proper payment of oil, gas, coal or other mineral royalty.

The Commissioner has reviewed, in conjunction with the Attorney General's Office, the Continuing Appropriation Authority Policy and is recommending changes based upon statutory changes and to accommodate the consideration of technology as a continuing appropriation.

The following attachments were provided to the Board and are available at the Department upon request: Attachment 1 - Continuing Appropriation Authority Policy (red-line version) and Attachment 2 – Continuing Appropriation Authority Policy (clean version).

Mineral Valuation Policy – First Reading

Senate Bill 1013 of the Sixty-Sixth Legislative Assembly approved one-time funding for a mineral valuation study.

The Department of Trust Lands (Department) has been tasked with conducting a study to determine the estimated value of the mineral assets, 2.6 million acres, held in trust by the Board of University and School Lands (Board).

The oil and gas mineral estate assessment (Assessment) will reflect the estimated value of oil and gas mineral assets managed by the Board. This Assessment is complicated by the mineral assets' sheer size, variance in geological aspects, and topography. MineralTracker, LLC was awarded the project and is working with the Department to complete the Assessment.

As a part of the Assessment, MineralTracker needs three variables to be approved by the Board: (1) the commodity effective date, (2) Commodity Price Schedule, and (3) the discount rate.

The commodity effective date is the date set by the Board by which the asset shall be appraised. An effective date is a date that is used for determining the present value of a product or security that fluctuates in price. It is the date at which funds, assets or money's value becomes effective. Typically, value dates are used in determining the payment of financial products and accounts where there is a possibility for discrepancies due to differences in the timing of valuations.

Commodity Effective Date: the date as of which the State’s asset shall be appraised.

- Only production and cash flow forecasts from the effective date forward shall be considered subject to the appraisal.
- The effective date is not the same as the “report date”. The report date is the date on which the valuation report is submitted.
- Commonly, the effective date corresponds to a transaction date, inheritance date, or gifting date. The effective date in this instance is left to the discretion of the State.

Commodity Price Schedule: the oil and gas prices that shall be applied to forecasted cash flows.

- Appraisals performed for special purposes may employ a specified commodity pricing schedule to achieve the intended purpose. For fair market appraisals, the New York Mercantile Exchange pricing schedule is often employed. NYMEX pricing is based on the closing price of commodity futures contracts executed on a specified date. An example of a recent NYMEX price schedule is included below.

NYMEX as of March 31, 2020		
Year	WTI Oil Price (\$/BBL)	Henry Hub Natural Gas Price (\$/MMBtu)
2020	28.03	1.991
2021	36.22	2.484
2022	39.19	2.405
2023	41.19	2.419
2024	42.98	2.440
2025	44.61	2.464
2026	46.00	2.499
2027	47.17	2.557
2028	47.82	2.592
2029	48.09	2.615
2030	48.18	2.674
2031	49.65	2.849

- Often, commodity pricing is tied to the effective date (i.e. – an appraisal with an effective date of 1/1/2020 would use a NYMEX Strip price as of 1/1/2020), however a combination of historical and forward looking data could be employed. For example, if the State were to specify an effective date of 1/1/2020, the State could dictate that MineralTracker use available historical data from the effective date to the reporting date and NYMEX pricing from the reporting date forward (see example below).

Historical - NYMEX as of March 31, 2020		
Year	WTI Oil Price (\$/BBL)	Henry Hub Natural Gas Price (\$/MMBtu)
Jan 2020	57.52	2.020
Feb 2020	51.23	1.930
Mar 2020	33.15	1.850
Apr-Dec 2020	28.03	1.991
2021	36.22	2.484
2022	39.19	2.405
2023	41.19	2.419
2024	42.98	2.440
2025	44.61	2.464
2026	46.00	2.499
2027	47.17	2.557
2028	47.82	2.592
2029	48.09	2.615
2030	48.18	2.674
2031	49.65	2.849

- Alternatively, a “flat” pricing schedule may be employed using a single price for oil and a single price for natural gas for all forward-looking cash flow projections.
- The projected commodity pricing will have a significant impact on the overall valuation of the State’s mineral assets.

In the oil and gas industry, standardized reporting and industry analysis typically use a 10% discount rate on projects’ future cash flows. This standardized discount rate also appears in other calculations where a quick, rough estimate of the present value of a project’s cash flow is needed.

Net Present Value Discounting Rates: the various discounting rates employed in the net present value calculations applied to the forecasted cash flows.

- Variable discounting rates are applied to account for increasing risk factors associated with various reserve categories.
- Mineral Tracker had indicated typical fair market valuation discounting rates as follows:
 - a) Proved Developed Producing (PDP) – 15.0%
 - b) Proved Developed Shut-In (PDSI) – 17.5%
 - c) Proved Developed Non-Producing (PDNP) – 20.0%
 - d) Proved Undeveloped (PUD) – 25.0%
 - e) Probable Undeveloped (PROB) – 30.0%
 - f) Possible Undeveloped (POSS) – 35.0%

Lands managed by the Board are different than privately held minerals in that they are held generationally and for the public good. Additionally, the minerals managed spread across the state, thus its overall risk profile is different than a typical mineral owner. These factors argue for a lower discount rate to be applied when valuing minerals managed by the Board.

The Department consulted with Mineral Tracker and the US Department of the Interior’s Division of Minerals Evaluation during the process of drafting a proposed the proposed policies. The Board will need to adopt an Effective Date and Discount Rate Policy. Attached is a recommended policy.

The Commissioner is seeking Board feedback prior to the June 25, 2020, Board meeting.

The Mineral Valuation Policy was provided to the Board and is available at the Department upon request.

S U R F A C E

Wetland Restoration Project, also known as the Leeson In-Lieu Fee Mitigation Site (Mountrail County: SW¼-36-157-88)

Project Objectives and Location

Ducks Unlimited, Inc. (DU) is proposing to include a tract of state owned School Trust Land (Trust Land) in their proposed wetland restoration project known as the Leeson In-lieu Fee Mitigation Project (LMP) which will establish wetland mitigation credits in the Missouri River Basin Northern Zone Service Area (see Figure 1 Project Location and Service Area). Objectives to achieve high quality wetland mitigation credits consist of restoring and enhancing wetland hydrology, re-establishing native wetland and upland vegetation communities, and providing long-term management and site protection to ensure the wetlands and adjacent uplands function individually and collectively as healthy, sustainable resources. In addition to restoring wetland hydrology and water quality within the watershed, the proposed LMP also presents the opportunity to reestablish

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a portion of the adjacent upland grass community which will provide additional habitat and connectivity to adjacent areas that consist of several permanently protected state and federally owned properties. This will create an ecologically valuable patch of habitat and connectivity (see Figure 2 Additive Conservation Value).

The proposed LMP area is located approximately 4 miles north and 12 miles west of Berthold, North Dakota, within the Missouri River Basin Northern Zone Service Area. The proposed LMP area consists of approximately 40 acres of private land and approximately 50 acres of Trust Land that together will consist of approximately 90 acres located within the W $\frac{1}{2}$, Section 36, T157N, R88W, Mountrail County (see figure 3 Land Ownership). The private land is located in the S $\frac{1}{2}$ NW $\frac{1}{4}$ of the section and is characterized by mostly grassland with two drained wetlands in an area of a field that is unsuitable for farming. The grassland portion of the private property is currently not being utilized for grazing or haying. The remainder of the private property consists of a minimal amount of property which drains a wetland basin running west to east into a larger co-owned basin. This basin also contains a drain on the neighboring Trust Land which effectively drains the entire wetland. The 50 acres of Trust Land is located directly south of the private property in the N $\frac{1}{2}$ SW $\frac{1}{4}$ of the section. The Trust Land is characterized by native grasslands and wetlands used for cattle grazing. The three drained wetland basins are in the NW corner of the SW $\frac{1}{4}$ (see Figure 4 Project Boundary). It is believed these wetlands were drained prior to 1950.

Restoration Design & Credit Determination

The primary source of water for the wetlands will be surface water runoff, which is typical of the Prairie Pothole Region. Construction of the project will be completed by a contractor and a DU construction manager. It is likely the project will be constructed in phases, with the private land portion considered Phase 1 and the Trust Land portion being Phase 2. Constructed ditch plugs, embankments, excavations, and fill areas will be used to raise the outlet elevations to historical wetland and overflow elevations and will have gradual slopes to minimize erosion due to moving water and will be protected with erosion control materials. Fill material would be sourced locally (see Figure 5 Design Concept). The cultivated upland areas on the private land will be seeded to native grasses and forbs representative of the local grassland community. Shallow wetland plant communities and deeper areas of the wetlands will rely on revegetation by the existing wetland seed bank. Credits are determined using the mitigation ratios from the Wetland Mitigation Banking In North Dakota Interagency Guidance for Mitigation Bank Sponsors Document. It is anticipated that the project should produce approximately 29 wetland credits. Credits would be released based on project milestones and monitoring results.

Monitoring & Management

DU will monitor the site for a period of five years starting with the first growing season after construction completion. Monitoring will consist of delineating wetland boundaries based on hydrology and vegetation criteria in the Regional Supplement to the Corps of Engineers Wetland Delineation Manual: Great Plains Region (Version 2.0). DU will implement maintenance activities to maintain the success and viability of the wetland mitigation site which may include haying, grazing, weed control, planting/seeding, prescribed fire, hydrological modifications, or other management activities as needed. Monitoring and management activities will be reported in an annual report given to the United States Army Corps of Engineers (USACE) to determine the status of achieving performance standards.

Long-term management and maintenance would be provided by DU, its heirs, assigns or successors, unless the easement lands are transferred to a state or federal resource management agency or this responsibility is contractually conveyed to another entity, subject to approval by USACE. DU will be responsible for a long-term management endowment fund to include a minimum of \$100,000 to be held by DU in an interest-bearing account dedicated for long term management of the LMP as required by USACE. Long-term management fund amount (05/28/20)

are determined by estimating the average annual cost for long term management activities. Yearly control of noxious weeds and other minor items was estimated at \$1,000. Periodic erosion control or various repairs due to flood events was estimated at \$60,000 every 20 years, at a rate of \$3,000 per year. A capitalization rate of 4% and average annual cost of \$4,000 equates to the \$100,000 endowment amount.

Project Site Agreements

DU and the private landowner have signed a Site-Specific Agreement (SSA) for the approximate 40-acre private land mitigation parcel. As part of the SSA, the private landowner agreed to sign a conservation easement. The easement is a combination wetland and grassland conservation easement with the United States Fish and Wildlife Service (USFWS). In the event the USFWS declines to accept an easement, the private landowner agreed to a 99 year DU easement to protect the private land site.

The approximate 50-acre Trust Land portion of the LMP would be protected by a 99 year Mitigation Easement Agreement (Easement Agreement (see Attachment 1 – Mitigation Easement Agreement)), having an Initial Period of five (5) years to study project feasibility. The compensation rate for the proposed Easement Agreement is based on a per-acre payment of \$1,300 for approximately 15 restored wetland acres (based on the Mountrail County cropland rental value from the 2020 County Rents and Prices Survey - \$1,282), which is a payment of \$19,500.00 for the restored wetland acres. The remaining amount of \$75,000.00 is equivalent to 10% of the estimated potential revenues from the wetland credits developed on Trust Land. The compensation rate negotiated for the Easement Agreement is consistent with what the private landowner will be paid for the Project.

DU has been investigating the feasibility of this proposed project and working with the private landowner and the Department of Trust Lands since 2014. This proposed project has been developed under the DU North Dakota In-Lieu Fee Mitigation Instrument. The Easement Agreement is based on easement templates used by the Department with guidance provided by the Attorney General's Office and the Office of Risk Management. It allows for the restoration, maintenance, and protection of wetlands, while allowing for potential future mineral development and agricultural use of Trust Lands.

Motion: The Board approves the Mitigation Easement Agreement with Ducks Unlimited, Inc., for the Leeson In-lieu Fee Mitigation site.

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Jaeger	X		X		
Superintendent Baesler			X		
Treasurer Schmidt			X		
Attorney General Stenehjem		X	X		
Governor Burgum			X		

The following items were presented to the Board and are available at the Department upon request: Figure 1. Project Location and Service Area, Figure 2. Additive Conservation Value, Figure 3. Land Ownership, Figure 4. Project Boundary, Figure 5. Design Concept , Attachment 1 – Mitigation Easement Agreement.

North Dakota Game and Fish Department, N.D.C.C. ch. 15-09 Purchase Request (114 acres in the E¹/₂SW¹/₄, E¹/₂W¹/₂SW¹/₄ Section 16, Township 130 North, Range 50 West, Richland County)

At the December 18, 2019 Board of University and School Lands' (Board) meeting, information was provided regarding the North Dakota Game and Fish Department's (NDGFD) application to

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purchase 114 acres for a shooting range and wildlife management area. The application was brought pursuant to N.D.C.C. ch. 15-09 which allows for the purchase of trust lands by public entities for public purposes. The application covers trust land in the E $\frac{1}{2}$ SW $\frac{1}{4}$, E $\frac{1}{2}$ W $\frac{1}{2}$ SW $\frac{1}{4}$ Section 16, T130N, R50W, Richland County (map attached), along North Dakota State Highway 11, 2.25 miles west of Hankinson, North Dakota. Much of the trust land tract is herbaceous wetland with open water. There are approximately 40 acres of upland, much of which has saline soils not conducive to agricultural production.

Two appraisals were completed as follows:

		Total
Richland County Appraisal	\$2,500.00/acre	\$285,000.00
RM Hoefs & Associates, Inc. (Hoefs Appraisal)	\$720.00/acre	\$82,000.00

The Richland County Appraisal was completed by the Richland County Tax Equalization Director and is comprised of four sales. All four sales were agricultural cropland sales which are not comparable to the trust land. The Richland County appraisal is an agricultural value appraisal which over-estimates the value of the trust land; the trust land's overall utility for agricultural production is poor due to a high-water table, open water, and saline upland soils. The Richland County Appraisal did not consider the tract's highest and best use.

The Hoefs Appraisal considers the trust lands' highest and best use, which was determined to be recreation, wetland, and wildlife conservation land. The Hoefs Appraisal was completed by Rose M. Hoefs, a certified general appraiser, and is comprised of six sales. The Hoefs Appraisal discounts the sales because of the trust lands' high percentage of herbaceous wetlands, reasoning the overall sales price would be discounted since it cannot be cropped and has limited use for livestock forage production. Overall, the water table and salinity of the soils create limitations on the use of the trust lands so it was also reasoned that the sales price would be discounted comparable to land encumbered with wetland easements. The Hoefs Appraisal is well-documented, complete, and is a more accurate reflection of the trust lands' value.

N.D.C.C. § 15-09-04 states, in part:

The board of university and school lands may sell the property described in the application to the applicant at a price not less than the appraised value if the board concludes that the land described in the application is required for the purposes stated in such application and that a conveyance of the property is consistent with this title and the fiduciary responsibilities of the board.

Motion: The Board 1) approves the appraised value of E $\frac{1}{2}$ SW $\frac{1}{4}$, E $\frac{1}{2}$ W $\frac{1}{2}$ SW $\frac{1}{4}$ Section 16, Township 130 North, Range 50 West, Richland County, for public purpose and at a total sales price of \$82,000, plus appraisal (\$3,800) and sales costs, including a Land Sale Fee for conveyance preparation and recording costs (\$100 total), and advertising costs (amount to be determined); and 2) authorizes the Commissioner to advertise the proposed sale, conduct a public hearing, and refer the matter to the Board if needed, or complete the sale to NDGFD on the Board's behalf.

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Jaeger	X		X		
Superintendent Baesler		X	X		
Treasurer Schmidt			X		
Attorney General Stenehjem			X		
Governor Burgum			X		

The Richland County Proposed 15-09 Sale Map was provided to the Board for reference and is available at the Department up on request.

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INVESTMENTS

April Performance Report

Josh Kevan from RVK reviewed the performance of the Board of University and School Land's (Board) investment program for the period ending April 30, 2020 and discuss current market conditions. The report to be reviewed is prepared by RVK to enable the Board to monitor and evaluate the collective performance of the permanent trusts' investments and the performance of individual managers within the program. In order to provide an overview of the program and highlight critical information, an executive summary has been incorporated into the Board report with a more comprehensive report available upon request.

The following items were provided to the Board for their review and are available at the Department upon request: Attachment 1: RVK April 2020 Board Report, Attachment 2: RVK 1st Quarter 2020 Permanent Trust Fund Performance Analysis Report, Attachment 3: RVK 1st Quarter 2020 Ultra-short Performance Report.

Opportunistic Investments

On April 30, 2020 the Board of University and School Lands' approved an asset allocation to Opportunistic Investments within the broader Strategic Asset Allocation for the Permanent Trusts.

Dislocation and Distressed Fund Strategy: Due to the current COVID-19 pandemic and the related economic crisis there are currently opportunities in the credit (non-Treasury) bond market for liquid asset purchases at favorable market values (i.e., "dislocated" prices). As the economic recession unfolds there will be further opportunities in the "distressed" credit market as well – where managers that focus on credit and asset-based underwriting can find value in rescue lending, corporate restructuring and special situation lending. These strategies have limited terms from 4 to 7 years and may or may not employ leverage (borrowing to invest and thereby increase returns).

RVK began the manager search by compiling a list of all managers that are currently raising dislocated credit funds and distressed credit funds or both. After reviewing product details and holding discussions with RVK, the list of managers was reduced down to three based upon strategy, leverage, track record, etc. During early-May, RVK and Department of Trust Lands (Department) staff interviewed the three managers (Apollo, KKR and Varde) with the team recommending Varde to the Board.

Varde is an investment manager founded in 1993 and headquartered in Minneapolis and New York, with offices throughout Europe and Asia. They have over \$12 Billion in assets under management and over 26 years of credit investment experience, including distressed and dislocated credit. Varde has over 90 investment professionals with expertise in various areas of the credit market. Varde plans to invest the Fund methodically throughout multiple stages of the recession during the Fund's 18-month investment period and will not move into opportunities that do not yet present an attractive risk-adjusted return.

Varde's experience suggests that major credit cycles play out in several stages. Varde believes this will present opportunities that offer private equity-like returns for credit risk. Therefore, Varde's has chosen a dual strategy of investing in both dislocated credit and distressed credit. Varde views the current stage of the recession as favorable to dislocated high-quality credits. Varde's belief is that distressed credit will not become attractive until the economy enters the later stages of the recession when there is more visibility as to the depths of the economic damage and thereby to corporate revenues and underlying asset values.

Motion: **The Board approves a \$100 Million investment in The Varde Dislocation Fund L.P. as part of the Opportunistic Investment allocation, subject to final review and approval of all legal documents by the Office of the Attorney General.**

Action Record	Motion	Second	Aye	Nay	Absent
Secretary Jaeger		X	X		
Superintendent Baesler			X		
Treasurer Schmidt			X		
Attorney General Stenehjem	X		X		
Governor Burgum			X		

The following items were provided to the Board are available at the Department upon request: Attachment 1: RVK Recommendation Memo and Attachment 2: The Varde Dislocation Fund Presentation.

A D J O U R N

There being no further business, the meeting was adjourned at 10:15 AM.

Doug Burgum, Chairman
Board of University and School Lands

Jodi Smith, Secretary
Board of University and School Lands