

**Minutes of the Meeting of the
Board of University and School Lands
September 26, 2019**

The September 26, 2019 meeting of the Board of University and School Lands was called to order at 9:05 AM in the Governor’s Conference 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

Members Absent:

Kirsten Baesler	Superintendent of Public Instruction
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Department of Trust Lands Personnel present:

Jodi Smith	Commissioner
Catelin Newell	Office Manager
Kristie McCusker	Paralegal
Kate Schirado	Administrative Assistant
Michael Shackelford	Investments Division Manager
Allie Nagel	Minerals Division Land Professional
Rick Owings	Grants Administrator
Michael Humann	Surface Division Manager
Joseph Stegmiller	Natural Resources Professional
Susan Dollinger	Unclaimed Property Administrator

Guests in Attendance:

Dave Garner	Attorney General’s Office
Matt Sagsveen	Attorney General’s Office
Leslie Bakken Oliver	Governor’s Legal Counsel
Reice Haase	Governor’s Office
Geoff Simon	Western Dakota Energy Association
Greg Petrick	BNI Coal

A P P R O V A L O F M I N U T E S

A motion to approve the minutes of the August 29, 2019 meeting was made by Attorney General Wayne Stenehjem and seconded by Treasurer Kelly Schmidt and the motion carried unanimously on a voice vote.

O P E R A T I O N S

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 of Trust Lands (Department) executed a contract with Kadrmas, 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.

Acreage Adjustment Township Survey Status attachments were provided to the Board and are available upon request.

Oil and Gas Mineral Estate Assessment

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

The Department has been tasked with 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.

The Request for Proposal for the Assessment was released September 20, 2019. The Department will sign an executed contract after January 1, 2020. Once the data is compiled and completed, the findings will be presented to the Board.

General Administration, Surface Land Management, Investments and Minerals Management Administrative Rules

In House Bill 1300, the Sixty Fifth Legislative Assembly directed the Board no longer be exempt from the Administrative Agencies Practice Act (Act). In Senate Bill 2264, the Sixty Sixth Legislative Assembly directed the Board be exempt from the adjudicative proceeding requirements and procedures under North Dakota Century Code §§ 28-32-21 through 28-31-51 of the Act.

The Department considered existing rules, together with policies and procedures, to incorporate necessary wording from those into rules which comply with the North Dakota Administrative Code. North Dakota Century Code § 28-32-07 states: “Any rule change, including a creation, amendment, or repeal, made to implement a statutory change must be adopted and filed with the legislative council within nine months of the effective date of the statutory change.”

Revisions to rules concerning General Administration and rules for Surface Land Management, Investments, and Minerals Management were posted on the Department’s website, publication of a notice of intent has been completed, and copies of these rules were sent to sponsoring legislators. A public hearing on these rules was held August 28, 2019, where the Department received oral and written comments. The Department continued to receive comments until September 9, 2019. A summary of the written comments, together with the Department’s discussion and proposed revisions to the rules, has been completed and is attached.

The next step in the process is for the Board to approve the amended rules which will then be submitted for review by the Attorney General’s Office. Pending review by the Attorney General’s Office, the General Administration, Surface Land Management, Investments, and Minerals Management Administrative Rules will be presented to the Administrative Rules Committee in December 2019, to become effective January 1, 2021.

Motion: The Board approved the adoption of the attached redline version as amended of the General Administration, Surface Land Management, Investments, and Minerals Management Administrative Rules and authorize the Commissioner to proceed with
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finalizing and submitting the proposed rules and required information to the Attorney General for an opinion as to their legality.

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

Attachments were provided to the Board and are available upon request.

S U R F A C E

County Rents and Prices Survey

In order to provide a uniform and equitable leasing system for trust lands, the Fair Market Value Minimum Rent policy of the Board of University and School Lands was developed and uses a market value approach to establish a minimum opening bid at public auction. A similar method is used to determine the estimated land use asset values of trust lands.

The basis for these methods is a survey of cash rental rates and land prices in North Dakota. A County Rents and Prices survey is conducted annually under a contract funded by the Department to survey private pastureland, cropland, and hay land cash rents and pasture, crop, and hay prices on a county by county basis in North Dakota. Data is collected during the months of November through February from a survey pool of samples obtained from a list of all North Dakota agricultural owners/producers provided by the United States Department of Agriculture Farm Service Agency. A statistical sample of agricultural producers and owners in each county is contacted and asked to provide opinions as to cash rents and land prices in the county (Attachment 1 - County Rents and Prices Survey Questionnaire).

From 1989, when the Department began conducting this survey, through 2017 the survey was conducted by the United States Department of Agriculture’s National Agricultural Statistics Service (NASS) North Dakota Field Office. In the spring of 2017, NASS informed the Department that due to reorganization at the federal level, it would no longer be able to complete the cash rent survey as it had in past years and it would no longer be collecting land price data. County rent data would be collected every other year and if the Department wanted data collected in the off-year, there would be at a substantial cost increase to complete the survey. The Department decided to secure the survey through a Request For Proposal (RFP) using the same data collection and analysis format as in previous years. A vendor, DISC Information Services Corporation (DISC), was secured through the RFP process and DISC completed the survey the past two years (Attachment 2 - 2019 County Rents and Prices Survey). The contract with DISC has been renewed for two more years.

While providing valuable information to the Department, the survey is also used by North Dakota private landowners to establish cash rental rates on their lands. The survey is also used by North Dakota State University’s Agricultural Economics Department in developing annual crop budgets. The survey allows the Department to obtain county rent and price data at a reasonable cost, versus hiring full time appraisers, which is a common practice in some western states. Attached for your information is a copy of the most recent County Rents and Prices survey, the Fact Sheet – How

Are Minimum Bids Calculated (Attachment 3 - Fact Sheet), and a land asset value chart (Attachment 4 – Total Value of Land Asset Value Per Acre Growth Chart). Note that Fact Sheet and the land asset value were developed over time from the County Rent and Price Survey.

Attachments were provided to the Board and are available upon request.

Surface Division Overview

The Surface Management Division manages surface acres owned by the various trust funds under the control of the Board of University and School Lands. The major source of income from these lands, that provide revenue to the various trusts comes from grazing and agricultural leases, with significant revenue generated from rights-of-way, surface damage agreements and construction aggregate mining. The objective of surface management is to obtain a “fair market” return from the lands while maintaining or improving their condition and value. The Surface Management Division currently manages approximately 706,600 surface acres, 15,200 acres are leased as cropland and 5,193 acres are leased as improved hay land.

Surface Acres by County					
As of June 30, 2019					
County	Acres	County	Acres	County	Acres
Adams	17,097.52	Golden Valley	28,983.55	Ramsey	2,056.50
Barnes	2,803.32	Grant	33,517.76	Ransom	1,120.00
Benson	11,999.60	Griggs	1,741.24	Renville	1,910.12
Billings	30,927.06	Hettinger	9,892.50	Richland	513.68
Bottineau	3,271.94	Kidder	28,643.79	Rolette	6,226.08
Bowman	29,310.48	LaMoure	1,435.72	Sargent	1,128.17
Burke	16,137.16	Logan	9,421.53	Sheridan	25,826.44
Burleigh	27,891.66	McHenry	22,720.56	Sioux	23,411.56
Cass	40.00	McIntosh	6,209.87	Slope	23,605.98
Cavalier	556.47	McKenzie	64,586.70	Stark	6,150.13
Dickey	3,981.51	McLean	20,890.99	Stutsman	15,627.81
Divide	20,791.24	Mercer	15,129.38	Towner	8,076.00
Dunn	25,673.31	Morton	18,101.82	Walsh	160.00
Eddy	10,292.81	Mountrail	32,445.59	Ward	10,798.98
Emmons	13,533.97	Nelson	2,694.45	Wells	5,251.89
Foster	3,111.51	Oliver	7,588.41	Williams	38,380.84
Grand Forks	1,274.77	Pierce	13,664.93	Total	706,607.30

Professional staff work day-to-day on land management projects that result in the generation of surface revenue and land improvement on school trust lands. These projects include:

- Linear easements.
- Oil well pad, saltwater disposal sites, pipeline and road siting, and reclamation.
- Construction Aggregate Mining and Royalties.
- Wind Energy Projects.

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- Developing water wells, pipelines, dams and dugouts for livestock water and wildlife enhancement.
- Grazing management plans for improving range condition and productivity.
- Cooperative trash site clean-up and abandoned water well sealing.
- Gravel and scoria mine site reclamation.
- Noxious weed chemical and biological control.
- Coal mine reclamation.
- Monitoring flood affected tracts.
- Seismic permitting.
- Lessee and right-of-way contracts and public inquiries.

The Department reimburses lessees for control of noxious and invasive weeds through a cost-share program. County weed boards and weed officers are involved in the reporting and verification of lessees work on school trust lands.

Total active surface land leases managed by the department is nearly 4,790. Leasing interest continues to be high with over 99 percent of the tracts offered successfully leased. The surface acres managed by the department are inspected at least once during the five-year lease period by trained field inspectors to help with early detection of noxious and invasive weed species and to monitor land integrity. Reclamation inspections on rights-of-ways are also part of the inspections program are conducted by trained field inspectors and company inspectors. Reclamation inspections assist in determining whether a right-of-way having surface disturbance is meeting agreement vegetation standards, erosion and noxious and invasive weed control.

The surface inspection program generates approximately 1,500 tract inspections on an annual basis. These inspections are generally fall integrity inspections, reclamation inspections, livestock grazing, noxious weed, unleased tract and posting inspections. To aid in the inspection of surface acres, the Department has implemented field tablets (Panasonic Toughpads) to collect data remotely and has purchased a small Unmanned Aircraft Vehicle (sUAV). Assistance was provided for a surface division employee (Joseph Stegmiller) to become a FAA Certified Unmanned Aircraft Pilot. Joseph recently received a Geographical Information System (GIS) Certificate from the University of North Dakota Geography Graduate School, which will help the Department utilize the sUAV to provide the following services:

- On demand aerial imagery
- Near-Infrared imagery for pasture health
- 3-D Analysis for aggregate stockpile measurements
- Photos and Videos

Through Joseph's work with the ITD GIS Technical Committee, he has been asked to be part of a discussion panel regarding State Government use of sUAV's at the upcoming Geospatial Summit Conference in Bismarck.

MINERALS

Approval of Surface and Coal Acres – Oliver County, BNI Coal

In accordance with Chapter 1 of the Board Minerals Policy Manual relating to coal (Policies), the Board received a nomination from BNI Coal (BNI) for the right to lease 320 surface acres and 320 net coal acres located in: T141N, R84W, Section 16: E½, Oliver County, North Dakota (Attachment

1 - BNI Proposed State Coal Lease Map and Attachment 2 – BNI Coal Nomination of State Tracts Map).

On July 17, 2019, the Board indicated its willingness to lease the tracts and approved BNI's application for surface and coal leases of the E½ of Section 16, T141N, R84W, and directed the Commissioner to begin term discovery and lease negotiations on its behalf.

The Department of Trust Lands (Department) completed due diligence on the title to verify ownership, lease status, legal, etc., to prepare the tracts to be leased. Notice of Application of Coal Lease was posted to the Department's website on July 29, 2019, for fourteen days for public comment. No public comments were received.

The Policies provide that the Department may negotiate the lease terms with the applicant and the application may propose modifications. The Department and BNI negotiated \$100.00 bonus/net surface acre or a total of \$32,000.00 and \$100.00 bonus per net coal acre or a total of \$32,000.00 for the right to a 10-year renewable lease. BNI also offered annual rental payments of \$5.00 per net acre of surface and \$5.00 per net acre of coal. Further, BNI offered \$0.20 per ton of coal mined and removed and a surface royalty of \$0.15 surface royalty per ton of coal mined.

The proposed leases are now presented to the Board for approval (Attachment 3 - Coal Lease-CO-19-00001 and Attachment 4 - Coal Lease-CO-19-00002).

Motion: The Board authorizes the Commissioner to issue two leases covering 320 surface acres and 320 net coal acres, with the negotiated terms including a royalty rate at \$0.20 per ton of coal mined and removed, \$0.15 surface royalty per ton of coal mined, \$100.00 bonus/net surface acre or a total of \$32,000.00, and \$100.00 bonus per net coal acre or a total of \$32,000.00 for the right to a 10-year renewable lease.

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

Attachments were provided to the Board and are available upon request.

I N V E S T M E N T S

Theodore Roosevelt Presidential Library and Museum Endowment Fund Asset Management Agreement

The proposed Theodore Roosevelt Presidential Library and Museum Endowment Fund Asset Management Agreement (Agreement) by and between the Office of the North Dakota Governor and the Board to manage the assets of the Theodore Roosevelt Presidential Library and Museum Endowment Fund was provided at the meeting.

The Agreement provides for the establishment of an investment account maintained by the Board. It provides for the investment of assets as a permanent trust fund and managed under

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the prudent investor rule, pursuant to N.D.C.C. §15-03-04. It further provides for the distribution of investment returns for the uses specified in N.D.C.C. § 54-07-12.

Motion: That the Board enter into the Asset Management Agreement with the Office of the North Dakota Governor to manage the assets of the Theodore Roosevelt Presidential Library and Museum Endowment Fund for the prudent investment of the fund assets as a permanent trust fund.

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

Proposed agreement was provided to the Board and is available upon request.

Investment Policy Statement Review and Update – Second Reading

Per the Board Investment Policy Statement (IPS), the Board’s IPS is to be formally reviewed at least every four years. However, the Commissioner has chosen to review the IPS on an annual basis to ensure it remains relevant with continued asset growth.

At the August 29, 2019, Board meeting a first reading of proposed IPS changes occurred. The majority of the proposed changes to the IPS are to address outdated language and modify the IPS based upon changes the Board has made over the last year.

The substantive changes from 2019 include the following:

- **Securities Litigation (page 10):** In August of 2018, the Board directed the Commissioner to contract with Financial Recovery Technologies (FRT), a securities litigation monitoring and claims filing services firm. The Commissioner and staff are in the process of finalizing a contract with FRT. Over the next year FRT will work with the Commissioner and staff to update the Board’s current securities litigation program and policies to more actively engage in securities litigation monitoring.
- **Distribution Policy (page 12-13):** By law, distributions from the Common Schools Trust Fund occur from August through April of each school year. In the past lower amounts were paid out early in the year and higher amounts were paid out later in the year; this was an attempt to match distributions with income as it was earned. Starting in fiscal year 2018, at OMB’s request, distributions are being made in approximately equal amounts each month.
- **Capitol Building Fund Strategic Asset Allocation (page 22):** When the first IPS was adopted, in August 2015, the Board adopted investment guidelines for the Capitol Building Fund. At that time, the Commissioner was of the belief that the Capitol Grounds Planning Commission (CGPC) had also adopted those guidelines, when in fact, the guidelines had been presented to the Commission, but were never formally adopted. This change corrects the policy to state that the Board, not the Commission, has adopted the guidelines.
- **Strategic Asset Allocation Target (page 14):** The IPS was updated to include the revised asset allocation targets that were adopted by the Board on May 30, 2019, as a result of the termination of Westwood Holdings Group.

- **Policy Benchmark for the Permanent Trust Funds (page 16):** The policy benchmark for the permanent trusts funds was updated to reflect the new target allocation adopted by the Board on May 30, 2019. In addition, the benchmark used to measure fixed income performance was changed to the Barclays US Universal Index, from the previously blended benchmark. This change more closely aligns the target benchmark for fixed income portion of the portfolio with the current generally US focus of the fixed income portfolio.
- **National Statistical Ratings Organization (NSRO) (page 17):** The definition of a national ratings agency eligible to rate collateralized obligations was expanded to include any NSROs registered with the SEC, not just Moody's and Standard and Poor's.

Motion: The Board approves the amended Investment Policy Statement as presented with additional instruction to further review proxy representation.

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

Attachment was provided to the Board and is available upon request.

Summary of Investment Fees Paid in Fiscal Year 2019

Report of investment related fees and expenses paid during the fiscal year ended June 30, 2019 was provided to the Board. During fiscal year 2019, the pooled investments of the permanent trusts paid \$22,711,405 of investment fees; the average market value of assets invested was \$4.63 billion for fiscal year 2019. The average fee rate paid for the fiscal year was 0.49% of average assets, or 49.0 basis points. Net of fees, the permanent trust pool realized a total return of 3.87% in fiscal year 2019.

The pooled investments of the Strategic Investment and Improvements Fund, the Coal Development Trust Fund, and the Capitol Building Fund paid investment fees of \$247,497 during fiscal year 2019 on an average market value of \$609.8 million. This portfolio paid a graduated fee of 6.0 basis points on the first \$500 million and 3.0 basis points thereafter; the portfolio does not pay a custody fee. This investment pool posted a total return of 3.66% net of fees for the fiscal year.

On March 28, 2019, the Board of University and Schools Lands directed the Commissioner to enter into an agreement with Novarca to review the current investment expenses and work with the investment managers to reduce trust fees, subject to final review and approval of all legal documents by the Office of the Attorney General. The Department of Trust Lands (Department) entered into a contract with Novarca in June 2019. Novarca anticipates completing their work in October 2019 and will make recommendations to the Department at that time.

Attachment was provided to the Board and is available upon request.

Other Funds Managed by the Board – 2nd Quarter 2019

Due to delays in getting all necessary and relevant data for the Strategic Investment and Improvements Fund, the Coal Development Trust Fund and the Capitol Building Fund, the Other Funds report was not presented to the Board in August.

This report provides the activities of the Strategic Investment and Improvements Fund, the Coal Development Trust Fund and the Capitol Building Fund during the quarter, as well as the performance of Northern Trust separate investment pool that holds the assets of these three funds.

Attachments were provided to the Board and are available upon request.

R E P O R T S

Report of Easements Issued by Land Commissioner 08/21/2019 to 09/17/2019

Granted to:	AURORA WIND PROJECT, LLC, LENEXA-KS
For the Purpose of:	Easement: Electric-Wind Transmission line
Right-of-Way Number:	RW0008236
Trust:	A- Common Schools
Legal Description:	WIL-157-95-16-NE4, NW4

Granted to:	EMMONS-LOGAN WIND LLC, JUNO BEACH-FL
For the Purpose of:	Easement: Electric-Wind Transmission line
Right-of-Way Number:	RW0008246
Trust:	A – Common Schools
Legal Description:	EMM-133-76-36-SE4

Granted to:	RIVER WATER LLC, WILLISTON-ND
For the Purpose of:	Easement: Drop Line-Raw Water Pipeline
Right-of-Way Number:	RW0008297
Trust:	A – Common Schools
Legal Description:	WIL-155-99-16-NE4, NW4

Granted to:	BATTELLE MEMORIAL INSTITUTE, COLUMBUS-OH
For the Purpose of:	Easement-Amend: Site-Tower Site
Right-of-Way Number:	RW0008362
Trust:	A- Common Schools
Legal Description:	STU-143-67-36-ALL

Granted to:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT
For the Purpose of:	Easement: Pipeline-Gas Gathering Pipeline
Right-of-Way Number:	RW0008370
Trust:	A – Common Schools
Legal Description:	MCK-150-97-36-NW4

Granted to:	LIBERTY MIDSTREAM SOLUTIONS LLC, DENVER-CO
For the Purpose of:	Easement: Pipeline-Multiple Pipelines
Right-of-Way Number:	RW0008468
Trust:	A – Common Schools
Legal Description:	BRK-159-93-16-NW4, SW4

<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>GOODNIGHT MIDSTREAM BAKKEN LLC, DALLAS-TX Easement: Pipeline-Salt Water Pipeline RW0008487 A – Common Schools MCK-152-97-36-NE4, SE4</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>GOODNIGHT MIDSTREAM BAKKEN LLC, DALLAS-TX Easement: Pipeline-Salt Water Pipeline RW0008506 A – Common Schools MOU-154-93-36-SE4</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT Easement: Pipeline-Gas Gathering Pipeline RW0008510 A – Common Schools WIL-155-102-16-NE4</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>ND GAME & FISH DEPT, BISMARCK-ND Letter of Permission: Access to School Land RW0008520 A – Common Schools MOR-135-83-36-NE4, SE4, SW4</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT Easement: Drop Line-Gas Gathering Pipeline RW0008525 A – Common Schools DUN-146-95-36-SE4</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>LEGACY RESERVES OPERATING LP, CODY-WY Easement: Well-Salt Water Disposal Well Extension RW0008526 A – Common Schools GOL-143-103-36-NE4, NW4, SE4</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>GOODNIGHT MIDSTREAM BAKKEN LLC, DALLAS-TX Easement: Drop Line-Saltwater Pipeline RW0008537 A – Common Schools MCK-151-96-36-SE4, SW4</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:</p>	<p>ELKAN INC, WATFORD CITY-ND Easement-Amend: Pipeline-Raw Water Pipeline RW0008562 A – Common Schools MCK-150-98-36-NW4, SW4</p>
<p>Granted to: For the Purpose of: Right-of-Way Number: Trust: (09/26/19)</p>	<p>ENVIRONMENTAL RESOURCES MANAGEMENT, PORTLAND-OR Permit: Planning & Preconstruction Survey RW0008568 A – Common Schools</p>

Legal Description: N/A

Granted to: RIVER WATER LLC, WILLISTON-ND
 For the Purpose of: Easement: Drop Line-Raw Water Pipeline
 Right-of-Way Number: RW0008573
 Trust: A – Common Schools
 Legal Description: WIL-155-99-16-NE4

Granted to: SELECT ENERGY SERVICES LLC, WILLISTON-ND
 For the Purpose of: Permit: Temporary Water Layflat Line
 Right-of-Way Number: RW0008576
 Trust: A – Common Schools
 Legal Description: MCK-153-94-36-SW4

Granted to: TRILOGY, LLC, MINOT-ND
 For the Purpose of: Permit: Temporary Water Layflat Line
 Right-of-Way Number: RW0008581
 Trust: A – Common Schools
 Legal Description: MOU-151-92-36-W2NE4SW4, NW4SW4, S2SW4

ENERGY INFRASTRUCTURE AND IMPACT OFFICE

Energy Infrastructure and Impact Office Program Report

The Energy Infrastructure and Impact Office (EIIO) is a division within the Department. EIIO provides financial assistance to local units of government that are impacted by oil and gas activity. In turn, EIIO 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, EIIO has dispersed over \$624 million in funding.

The Oil and Gas Impact Grant Fund currently has 51 grants with a balance of \$19,963,193.67 as of September 13, 2019. The following shows grant activity for the last four months:

Oil and Gas Impact Grant Fund	Grants with balances	Current Balance Obligated to Grants
5/31/2019	70	\$28,202,091.20
6/30/2019	63	\$23,780,767.68
7/31/2019	55	\$21,669,388.00
8/31/2019	51	\$19,963,193.67

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 four grants with a balance of \$4,971,638.80 as of

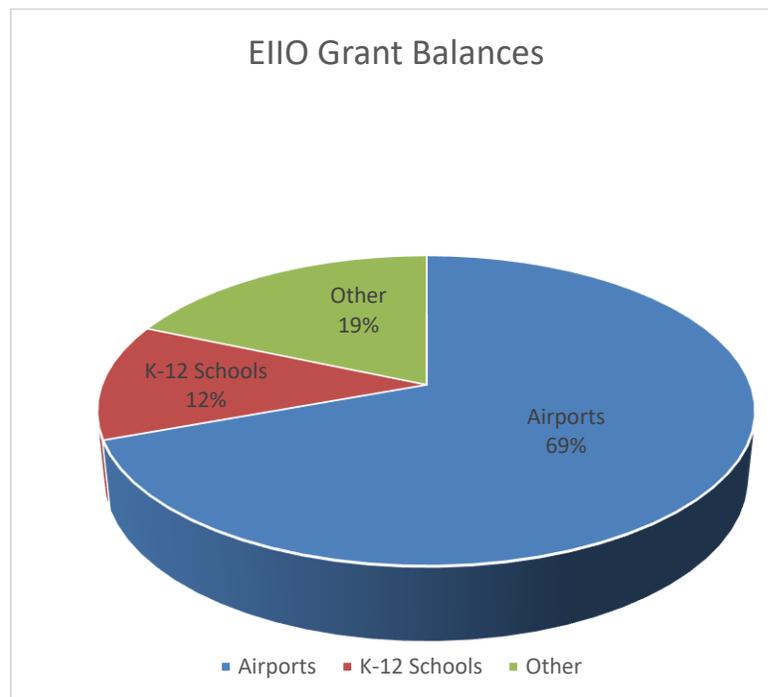
September 13, 2019. House Bill 1013 of the Sixty-sixth Legislative Assembly requires the Commissioner of University and School Lands to transfer any unexpended funds remaining in the Energy Impact Fund when the fund is repealed on June 30, 2021, to the Oil and Gas Impact Grant Fund. The following shows grant activity for the last four months:

Energy Impact Fund	Grants with balances	Current Balance Obligated to Grants
5/31/2019	5	\$4,997,365.24
6/30/2019	5	\$4,997,365.24
7/31/2019	4	\$4,971,638.80
8/31/2019	4	\$4,971,638.80

The Energy Infrastructure and Impact Office is currently managing 55 grants for a total of \$24,934,832.47. 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
5/31/2019	70	\$28,202,091.20	5/31/2019	5	\$4,997,365.24	\$33,199,456.44
6/30/2019	63	\$23,780,767.68	6/30/2019	5	\$4,997,365.24	\$28,778,132.92
7/31/2019	55	\$21,669,388.00	7/31/2019	4	\$4,971,638.80	\$26,641,026.80
8/31/2019	51	\$19,963,193.67	8/31/2019	4	\$4,971,638.80	\$24,934,832.47

The chart below represents the remaining grant balances of the Oil and Gas Impact Grant Fund:



2019-2021 Biennium Funding

N.D.C.C. § 15-01-02(6) provides the Board of University and School Lands has:

Authority to award and distribute energy infrastructure and impact grants from moneys deposited in the oil and gas impact grant fund, except that grants awarded annually may not exceed sixty percent of the biennial appropriation for energy infrastructure and impact grants. The board may create an advisory committee to assist the board in making its grant award determinations.

The total of appropriated funding for grants to political subdivisions impacted by oil and gas development activities in House Bill 1013 for the 2019-2021 biennium is \$2 million, thus total grants in either fiscal year cannot exceed \$1.2 million.

EIO plans to open a contingency grant round in December 2019, using funds from the \$2 million allocation appropriated by the Sixty-sixth Legislative Assembly. It is anticipated that applications will be accepted through January 31, 2020, with scoring completed and the advisory committee meeting held in February. A list of potential awards will likely be presented to the Board at the March 2020 Board meeting.

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 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.

The Department's 2017-2019 biennial budget appropriation included \$3.6 million to replace legacy information technology systems as authorized by Senate Bill 2013 of the Sixty-fifth Legislative Assembly. This included funding to replace the Division's information technology system. On April 29, 2019, the new system was successfully launched. The number of monthly claims issued over the past four months has increased as a result of the more efficient information technology system and increased community education.

For the month of August 2019, the Division received 48 holder reports with a property value of \$119,724.60 and paid 610 claims with a total value of \$374,654.52.

Investment Updates**Asset Allocation**

The table below shows the status of the permanent trusts' asset allocation as of August 31, 2019. The figures provided are unaudited.

Account/Asset Class	Long-Term Asset Allocation	8/31/19 Actual Allocation \$	8/31/19 Actual Allocation %	8/31/19 % Diff.
Large Cap US Equity	14.5%	\$ 699,647,094	14.6%	0.1%
Mid/Small Cap US Equity	4.0%	\$ 188,529,381	3.9%	-0.1%
International Equity	14.5%	\$ 695,039,186	14.5%	0.0%
Emerging Market Equity	4.0%	\$ 194,060,740	4.0%	0.0%
Total Equities	37.0%	\$ 1,777,276,401	37.1%	0.1%
Core Fixed Income	13.8%	\$ 746,344,972	15.6%	1.8%
Non-Core Fixed Income	9.2%	\$ 360,927,766	7.5%	-1.7%
Total Fixed Income	23.0%	\$ 1,107,272,738	23.1%	0.1%
Total Absolute Return	15.0%	\$ 713,484,855	14.9%	-0.1%
Commodities	3.0%	\$ 145,705,658	3.0%	0.0%
MLPs	3.0%	\$ 143,100,673	3.0%	0.0%
TIPS	2.0%	\$ 98,949,577	2.1%	0.1%
Natural Resource Equities	2.0%	\$ 92,212,978	1.9%	-0.1%
Total Inflation Strategies	10.0%	\$ 479,968,886	10.0%	0.0%
Core Real Estate	8.0%	\$ 386,152,565	8.1%	0.1%
Core Plus Real Estate	7.0%	\$ 330,698,621	6.9%	-0.1%
Total Real Estate	15.0%	\$ 716,851,186	15.0%	0.0%
Total Asset	100.0%	\$ 4,794,854,066	100.0%	

Angelo Gordon (\$71.61 million, 1.5% of PTF assets as of 8/31/19)

Direct Lending Fund

The Angelo Gordon Direct Lending Fund III portfolio was initially funded in late-August 2018. As of August 31, 2019, the funded capital amounted to \$69.75 million out of the \$150 million commitment.

Another \$15 million capital call was recently received and was funded on September 12, 2019, this would bring the amount funded to \$84.75 million out of a total commitment of \$150 million. This represents 56.5% of the total commitment to the fund. According to Angelo Gordon, the Board's commitment should be fully drawn by late-2020.

Upcoming Investment Manager Meetings

The following meetings with investment managers were planned to discuss updates on strategy, compliance, and performance. It will be held in the Department's conference room. Please inform the Commissioner ahead of time if you plan to attend, so that we can make sure enough presentation materials are available.

Oct. 17, 2019, 10:00AM **Gresham Commodities**
Diversified Inflation Strategies (\$145.7M, 3% of PTF assets)

Oct. 24, 2019, 3:00PM **JP Morgan**
Non-Core Real Estate (\$133.5M, 2.8% of PTF assets)
Nancy Brown, Melissa Anezinis and Jim Sakelaris

Board of University and School Lands Meeting Dates For 2020

North Dakota Century Code 15-01-03 states that the Board shall meet on the last Thursday of each month, unless it appears a quorum will not be present at which time it may be rescheduled. Special meetings of the Board may be held at any time at the written call of the chairman, the commissioner, or any two members of the Board.

(09/26/19)

The statutory meeting dates serve as the starting point in efforts to schedule meetings of the Board. The meetings are set at 9:00 AM in the Governor’s Conference Room, unless otherwise noted. Board members should anticipate the meetings will last two hours each month. The quarterly meetings including Investment reporting will begin at 8:00 AM and are expected to last three hours.

The following dates will be shared with Board members’ offices for scheduling purposes.

- January 30, 2020 - 9:00 AM
- February 27, 2020 – 8:00 AM
- March 26, 2020 – 9:00 AM
- April 30, 2020 – 9:00 AM
- May 28, 2020 – 8:00 AM
- June 25, 2020 – 8:00 AM
- July 30, 2020 – 9:00 AM
- August 27, 2020 – 8:00 AM
- September 24, 2020 – 9:00 AM
- October 29, 2020 – 9:00 AM
- November 26, 2020 – 8:00 AM Tuesday before Thanksgiving
- December 22, 2020 – 9:00 AM Tuesday before Christmas Eve

LITIGATION

The Commissioner recommends the Board consider entering executive session for consultation with legal counsel regarding pending and potential litigation. Executive session began at 10:50 AM.

EXECUTIVE SESSION

Under the authority of North Dakota Century Code Sections 44-04-19.1 and 44-04-19.2, the Board close the meeting to the public and go into executive session for purposes of attorney consultation relating to:

- **Newfield Exploration Company et al Civ. No. 27-2018-CV-00143**
- **Northwest Landowners Association Civ. No. 05-2019-CV-00085**
- **William S. Wilkinson et al. Case No. 53-2012-CV-00038**
- **Paul Sorum et al. Civ. No. 09-2018-CV-00089**

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

EXECUTIVE SESSION**Members Present:**

Doug Burgum	Governor
Alvin A. Jaeger	Secretary of State
Wayne Stenehjem	Attorney General
Kelly Schmidt	State Treasurer

Members Absent:

Kirsten Baesler	Superintendent of Public Instruction
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Department of Trust Lands Personnel present:

Jodi Smith	Commissioner
Kristie McCusker	Paralegal
Catelin Newell	Office Manager
Kate Schirado	Administrative Assistant
Allie Nagel	Land Professional

Guests in Attendance:

Reice Haase	Governor's Office
Matt Sagsveen	Attorney General's Office
Leslie Bakken Oliver	Governor's Legal Counsel
Dave Garner	Attorney General's Office
Mark Hanson	Nilles Law Office (Via teleconference for Sorum only)

The executive session adjourned at 11:50 AM and the Board returned to open session and the public was invited to return to the meeting. During the executive session, the Board was provided information regarding the Continental Interpleader and Newfield litigation.

A D J O U R N

There being no further business, the meeting was adjourned at 11:50 AM.

Doug Burgum, Chairman
Board of University and School Lands

Jodi Smith, Secretary
Board of University and School Lands