

**Minutes of the Meeting of the
Board of University and School Lands
July 30, 2015**

The July 30, 2015 meeting of the Board of University and School Lands was called to order in the Governor's Conference Room at 9:00 AM by Chairman Jack Dalrymple.

Members Present:

Jack Dalrymple	Governor
Alvin A. Jaeger	Secretary of State
Kelly Schmidt	State Treasurer
Kirsten Baesler	Superintendent of Public Instruction

Member Absent:

Wayne Stenehjem	Attorney General
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Department of Trust Lands Personnel Present:

Lance D. Gaebe	Land Commissioner
Jeff Engleson	Director, Investment Division
Drew Combs	Director, Minerals Management Division
Levi Erdmann	Investment Analyst
Gerry Fisher	Director, Grants and Claims
Linda Fisher	Director Commissioner of Operations
Taylor Lee	Director, Revenue Compliance
Catelin Newell	Office Manager
Rick Owings	Assistant Energy Impact Director

Others in Attendance:

Bonnie Storbakken	Governor's Legal Counsel
Nick Smith	Bismarck Tribune

ENERGY IMPACT AND INFRASTRUCTURE OFFICE

Consideration of Grants to Airports

In May 2015, the Board committed future grants to airports during the 2015-2017 biennium. The Director asked the Board to formally award the grants now during the 2016 fiscal year.

Airport Energy Impact Award Recommendations - Spring 2015							
All Grant Allocations will be approved on a <u>project percentage basis not to exceed the dollar amount approved</u> . When project bids are officially accepted by the airport sponsor, notification will be required to the Aeronautics Commission Office and the Energy Infrastructure and Impact Office to determine the official grant allocation dollar amount. The remaining grant allocation balance for each project will then return to the Energy Infrastructure and Impact Office to be used for future airport project allocations.							
COMMERCIAL AIRPORTS	PROJECT DESCRIPTION	TOTAL PROJECT	LOCAL COST SHARE	STATE \$ REQUESTED	GRANT \$ RECOMMEND	% RECOMMEND	
MINOT	1. 2015 FAA AIP #49 Master Plan / Airport Layout Plan Update with AGIS	\$923,000.00	\$46,150.00	\$46,150.00	\$46,800.00	5%	
	2. Construct Terminal Access Road - Phase 2 (\$850,000 was previously awarded at 50%)	\$1,938,157.00	\$969,079.00	\$119,078.00	\$119,078.00	50%	
	Sub Total	\$2,861,157.00	\$1,015,229.00	\$165,228.00	\$165,878.00		
DICKINSON	1. General Aviation Apron Light and Security Upgrades	\$307,000.00	\$0.00	\$307,000.00	\$307,000.00	100%	
	2. Wildlife Hazard Assessment and Wildlife Hazard Management Plan Update	\$69,712.00	\$0.00	\$69,712.00	\$69,712.00	100%	
	3. Master Plan 2 Amendment	\$265,774.00	\$0.00	\$265,774.00	\$265,774.00	100%	
	Sub Total	\$642,486.00	\$0.00	\$642,486.00	\$642,486.00		
The three projects above are recommended at a 100% state cost-share recognizing Federal cost share dollars dedicated to Dickinson's airport are being sought for other projects. Federal funding is expected this fall on these other projects at a 90% Federal participation rate exhausting the Federal allocation to Dickinson. For the 2013-2015 biennium, Federal funding totals \$3.6 million, local share \$551,000, state share \$1.39 million.							
GARRISON	1. FAA 2015 AIP #12 - Runway 13-31 Rehabilitation	\$2,400,000.00	\$120,000.00	\$120,000.00	\$120,000.00	5%	
	2. Reconstruct Fueling Apron with PCC Hardstand	\$83,826.00	\$25,148.00	\$58,678.00	\$58,678.00	70%	
	Sub Total	\$2,483,826.00	\$145,148.00	\$178,678.00	\$178,678.00		
KENMARE	1. FAA 2015 AIP #12 - Runway Lighting System Rehabilitation	\$540,345.00	\$27,017.00	\$157,331.00	\$157,331.00	30%	
Sub Total	\$540,345.00	\$27,017.00	\$157,331.00	\$157,331.00			
WASHBURN	1. FAA 2015 AIP #14 - Apron Expansion and Taxiway Widening	\$772,491.00	\$38,625.00	\$64,871.00	\$64,871.00	10%	
Sub Total	\$772,491.00	\$38,625.00	\$64,871.00	\$64,871.00			
WESTHOPE	1. Airport Layout Plan	\$ 97,440.00	\$ 9,744.00	\$ 87,696.00	\$ 87,696.00	90%	
	2. Apron Expansion	\$ 50,646.00	\$ 5,065.00	\$ 45,581.00	\$ 9,097.35	90%	
	Sub Total	\$ 148,086.00	\$ 14,809.00	\$ 133,277.00	\$ 96,793.35		
TOTALS		\$7,448,391.00	\$1,240,828.00	\$1,341,871.00	\$1,306,037.35		

Motion: **The Board authorized awards totaling \$1,306,037.35 as identified in the preceding list in accordance with commitments made on May 28, 2015. Grant distribution will be contingent upon confirmation that local and federal cost-share is available for the identified projects.**

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

K-12 School Award Recommendations

For the 2015-2017 Biennium, \$30 million was specified by the 2015 Legislature in HB 1176 for awards to school districts impacted by oil and gas development. According to the legislation, grant funds may only be used for purposes related to renovation and improvement projects and must be awarded based on the ratio of oil and gas gross production tax distributions from September 1, 2013 through August 31, 2014.

Grant payments will be made on a reimbursement basis to school districts which submit invoices and supporting documentation to confirm the funds were used for renovation and improvement projects.

The following list contains the recommendations for awards for Fiscal Year 2016. These recommendations are approximately 50% of the full biennial allocation and a similar award recommendation will be made in 2016 for the granting of the remaining 50% of the \$30 million to K-12 schools:

School District	Total Biennial Amount	Recommended FY 2016 Award	To be Awarded in FY 2017
ALEXANDER PSD #2	\$366,029	\$183,015	\$183,014
ANAMOOSE PSD #14	\$2,064	\$1,032	\$1,032
BEACH PSD #3	\$1,163,958	\$581,979	\$581,979
BELFIELD PSD #013	\$118,330	\$59,165	\$59,165
BEULAH PUBLIC SCHOOL DISTRICT #27	\$31,172	\$15,586	\$15,586
BILLINGS COUNTY PSD #1	\$398,271	\$199,136	\$199,135
BOTTINEAU PSD #1	\$1,311,310	\$655,655	\$655,655
BOWBELLS PSD #14	\$78,995	\$39,498	\$39,497
BOWMAN PSD	\$553,468	\$276,734	\$276,734
BURKE CENTRAL PSD #36	\$151,061	\$75,531	\$75,530
CENTER-STANTON PSD #1	\$19	\$19	\$0
CENTRAL ELEMENTARY SCHOOL DISTRICT #32	\$177,166	\$88,583	\$88,583
DICKINSON PSD #1	\$2,589,469	\$1,294,735	\$1,294,734
DIVIDE COUNTY PSD #1	\$794,022	\$397,011	\$397,011
DRAKE PSD #57	\$2,630	\$1,315	\$1,315
EARL PSD #18	\$23,946	\$11,973	\$11,973
EIGHT MILE PSD #6	\$419,027	\$209,514	\$209,513
GARRISON PUBLIC SCHOOL DISTRICT #51	\$194,014	\$97,007	\$97,007
GLENBURN PSD #26	\$385,222	\$192,611	\$192,611
GRENORA PSD #99	\$311,067	\$155,534	\$155,533
HALLIDAY SCHOOL DISTRICT	\$180,269	\$90,135	\$90,134
HAZEN PUBLIC SCHOOL DISTRICT #3	\$339	\$339	\$0
HEBRON PSD #13	\$51,154	\$25,577	\$25,577
HORSE CREEK PSD #32	\$30,787	\$15,394	\$15,393

School District	Total Biennial Amount	Recommended FY 2016 Award	To be Awarded in FY 2017
KENMARE PSD #28	\$71,591	\$35,796	\$35,795
KILLDEER PSD	\$1,661,997	\$830,999	\$830,998
LEWIS & CLARK PSD 161	\$135,237	\$67,619	\$67,618
LONE TREE PSD #6	\$112,501	\$56,251	\$56,250
MANDAREE PSD#36	\$641,628	\$320,814	\$320,814
MARMARTH SCHOOL DISTRICT	\$125,731	\$62,866	\$62,865
MAX PUBLIC SCHOOL DISTRICT #50	\$69,395	\$34,698	\$34,697
MCKENZIE PSD #1	\$2,787,978	\$1,393,989	\$1,393,989
MINOT PSD #1	\$739,848	\$369,924	\$369,924
MOHALL LANSFORD SHERWOOD PSD	\$807,508	\$403,754	\$403,754
MONTEFIORE PUBLIC SCHOOL DISTRICT #1	\$53,263	\$26,632	\$26,631
NEDROSE ELEMENTARY SCHOOL	\$4,500	\$2,250	\$2,250
NEW ENGLAND PSD #9	\$217,691	\$108,846	\$108,845
NEW PSD #8	\$517,751	\$258,876	\$258,875
NEW TOWN PSD	\$1,901,244	\$950,622	\$950,622
NEWBURG PSD #54	\$111,196	\$55,598	\$55,598
PARSHALL SCHOOL DISTRICT #3	\$537,864	\$268,932	\$268,932
POWERS LAKE PSD #27	\$249,190	\$124,595	\$124,595
NESSON PSD #2	\$544,757	\$272,379	\$272,378
RICHARDTON-TAYLOR PSD	\$160,452	\$80,226	\$80,226
SAWYER PSD #16	\$2,326	\$1,163	\$1,163
SCRANTON PSD	\$145,789	\$72,895	\$72,894
SOUTH HEART PSD	\$181,947	\$90,974	\$90,973
SOUTH PRAIRIE ELEMENTARY SCHOOL PSD #70	\$3,782	\$1,891	\$1,891
STANLEY PSD #2	\$1,482,330	\$741,165	\$741,165
SURREY PSD #41	\$8,761	\$4,381	\$4,380
TGU SCHOOL DISTRICT #60	\$24,339	\$12,170	\$12,169
TIOGA PSD #15	\$830,858	\$415,429	\$415,429
TURTLE-LAKE MERCER PUB. SCHOOL DIST. #72	\$96,327	\$48,164	\$48,163
TWIN BUTTES PUBLIC SCHOOL DISTRICT #37	\$175,873	\$87,937	\$87,936
UNDERWOOD PUBLIC SCHOOL DISTRICT #8	\$111,061	\$55,531	\$55,530
UNITED PSD #7	\$16,057	\$8,029	\$8,028
VELVA PSD #1	\$13,249	\$6,625	\$6,624
WASHBURN PUBLIC SCHOOL DISTRICT #4	\$147,324	\$73,662	\$73,662
WESTHOPE PSD #17	\$287,598	\$143,799	\$143,799
WHITE SHIELD PSD #85	\$63,462	\$31,731	\$31,731
WILLISTON PSD #1	\$5,302,248	\$2,651,124	\$2,651,124
YELLOWSTONE PSD #14	\$321,558	\$160,779	\$160,779
	\$30,000,000	\$15,000,193	\$14,999,807

Motion: The Board awards a total of \$15,000,193 from the Oil and Gas Impact Grant Fund for grants to K-12 school districts as identified in the preceding list, for the school districts to use for renovation and improvement projects as designated by the 2015 Legislative Assembly.

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

With the Board's approval of the award recommendations submitted for law enforcement, Emergency Medical Services, airports and K-12 schools, the following is a summary of the awards, the remaining fund allocations and the grant schedule for the remainder of the biennium.

2015-2017 Biennium Breakdown (Combining like FY Rounds)					
Round or Award	#Applications	Amt of Projects	Amt Requested	#Awards	Amt Awarded
Airports FY 2016	11	\$7,491,991	\$1,306,037	11	\$1,306,037
EMS FY 2016	43	\$9,859,855	\$7,467,128	28	\$3,696,195
K-12 FY 2016	62	\$15,000,193	\$15,000,193	62	\$15,000,193
Law Enforcement FY 2016	59	\$22,102,479	\$19,853,329	54	\$7,842,580
	175	\$54,454,518	\$43,626,687	155	\$27,845,005
				Admin	\$700,000
				Remaining Allocation	
				Airports	\$46,693,962
				K-12 Schools	\$14,999,807
				Law Enforcement Agencies	\$1,157,420
				Human Trafficking	\$750,000
				Sexual Assault Examiner	\$250,000
				Critical Access Hospitals	\$10,000,000
				Bowman & Divide Counties	\$8,000,000
				EMS	\$2,303,805
				Eligible General	\$5,000,000
				Nursing Homes, Basic Care	\$4,000,000
				Fire Districts	\$3,000,000
				Developmentally Disabled	\$2,000,000
				Domestic Violence	\$2,000,000
				District Health Units	\$2,000,000
				City of Stanley	\$1,700,000
				City of Kenmare	\$500,000
				City of Berthold	\$200,000
				City of Burlington	\$100,000
				Contingency	\$6,800,000
				Total	\$140,000,000
				Appropriated for Grants	\$139,300,000
				FY 60% Max for Awards	\$83,580,000
				As of:	July 30, 2015
				Awarded FY 2016	\$27,845,005
				Awarded FY 2017	\$0

City of Crosby - Request to Change Grant Purpose

The City of Crosby was awarded two EIO grants for wastewater and water system improvements during the 2013-2015 biennium:

- G140007 WATER AND WASTEWATER INFRASTRUCTURE EXPANSION \$3,000,000
- G150020 WATER AND WASTEWATER INFRASTRUCTURE EXPANSION \$2,000,000

Crosby was able to realize cost savings in these projects and grant G150020 has a current unexpended balance of \$1,409,035.23 and due to the lower bids, approximately \$500,000 is expected to remain upon completion of the original awarded project.

On June 16, 2015 the city requested approval to use the remaining funds within grant G150020 to be used toward the retrofit of a 500,000 gallon clearwell project to provide additional emergency water storage; including a pump house, two new pumps, a control system and work to tie into the city's infrastructure. The approximate cost of the project is estimated to be \$900,000.

Motion: The Board approved the City of Crosby's request to utilize grant #G150020 to be used for its originally awarded waste water project or for a water storage expansion project.

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

MINERALS MANAGEMENT

BNI Nomination for Coal Lease in Oliver County

The Board received a nomination from BNI Coal for the right to lease 160 net coal acres within: T146N – R84W – Sec. 29: S½; Oliver County.

These lands are within mining permit BNCR-9702 and the private surface leases have already been obtained. The Board manages 50% of the mineral interest in these tracts.

The nomination is the first step in making the tract available for leasing. The Board's coal leasing rules outline a process whereby the records of the mining company's lease with other owners are reviewed to arrive at a fair market rate of terms. This market rate serves as the basis for the lease auction opening bid. The Board's rules set forth that it must approve the initiation of the process to lease lands for coal development; with its approval of offering these mineral acres for lease for coal production, examination of the terms for adjacent mineral leases will commence.

Motion: The Board approved the application received from BNI Coal for coal leases of the south ½ of Section 29 T146N R84W and directed the Commissioner to begin term discovery and lease negotiations on its behalf.

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

INVESTMENT MANAGEMENT

Investment Operations and Consulting Services

The Commissioner presented an evaluation with the staff of the State Investment Board (SIB) on it managing all or part of the permanent trusts' investments. The discussion focused on costs, efficiencies, services and potential savings: as well as challenges and expenses. A summary and a recommendation were offered as follows:

SIB Client Fee

The standard SIB client fund management fee is slightly over 1 basis point per year. The SIB would charge a client fee of approximately \$400,000 annually if the Land Board were to hire it to invest 100% of permanent trust assets with a current balance of approximately \$3.6 billion. This fee would cover SIB's day-to-day management of the investment program, including due diligence efforts, but would not cover manager fees. It is possible that the fee could be negotiated to slightly less than the standard 1BP as assets under management increase.

Cost Savings

Investing through the SIB could result in some operational savings for the Department of Trusts Lands as the DTL could revert to one person overseeing the investment area, instead of the current two. Annual savings were estimated at \$125,000.

The Department would still have at least one individual to manage the Board's various loan programs, coordinate the relationship with the SIB, oversee beneficiary distributions, to develop, maintain and monitor investment policies, and to manage the assets of the Coal Development Trust Fund, Capitol Building Fund and Strategic Investment and Improvements Fund.

Manager and Custody Fees

The Commissioner has historically worked closely with the SIB when negotiating money manager and service provider fees to ensure that both entities are getting the best possible fees, based on the cumulative assets involved. This has resulted in significant fee savings for both entities in the past 20 years. Transferring investment responsibility to the SIB would create little, if any, additional fee savings.

Governance

Hiring the SIB to manage the permanent trusts' investments would not relieve the Land Board of its responsibility to adopt a strategic asset allocation, develop and maintain an investment policy statement, and monitor investment and program performance.

If the SIB were hired, the Land Board and staff would no longer be involved in determining specific managers or investment strategies to be used to invest the permanent trusts.

Investment Consulting Services

If the Land Board were to hire the SIB to manage permanent trust investments there could be potential savings in consulting fees. Basic quarterly performance monitoring services could be obtained for an estimated \$50,000 per year. Comprehensive consultant services similar to what the Land Board has received from RVK would cost an anticipated \$150,000 annually.

Operational Considerations

If the SIB were hired to manage the permanent trusts' investments, significant coordination would be required to ensure timely cash transfers and implementation of investment decisions.

Financial reporting would be delayed one month, as the DTL would need to receive financial reports from the SIB prior to booking those investment results into the Board's financial statements.

Recommendation

Although there is some potential value to contract with the SIB for the management of permanent trust financial assets, most of the benefits and savings are already realized as a result of the coordination and information sharing between the two offices. Any additional savings that could be realized through personnel cuts or reduced operational costs at the DTL or in consulting fee reductions would be more than offset by the management fee that the SIB would need to charge for these services.

The Commissioner's recommendation was that the Land Board continue to directly manage the permanent trusts' investment program with the assistance of a retained investment consultant; while continuing to work with the SIB to minimize costs and fees, and to improve efficiencies.

RVK Investment Consulting Services

The current six-month investment consulting contract with RVK will expire after its second quarter investment performance report to the Board in August of 2015.

The Commissioner recommended that the Board continue to utilize RVK's services to assist in monitoring and maintaining the investment program and to support ongoing due diligence of managers, mandates and strategies.

At the Commissioner's request, RVK had provided a proposal for ongoing investment consulting and performance monitoring services. The proposed fee is \$145,000 per year for the next two years, with an escalator of 3% or the previous year's CPI. The service level offered is comprehensive in nature and includes, quarterly performance reports, four meetings a year with the Board, ongoing due diligence and investment manager searches (excluding illiquid assets).

Motion: The Board approved a contract with RVK for comprehensive investment advisory services, including investment performance monitoring, assistance with investment manager searches, ongoing due diligence, investment advice and educational efforts. The contract will be for a two year period, with an option for a one year extension, and is subject to final approval by the Attorney General.

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

Investment Updates

The Board was updated on the status of several investment items including the asset re-allocation of the permanent trusts as of June 30, 2015.

Account/Asset Class	Long-Term Asset Allocation	Interim Target Allocation	6/30/15 Rebalanced	6/30/15 Asset Allocation %
Large Cap US Equity	13.5%	15.6%	\$ 563,364,873	15.6%
Small Cap US Equity	3.5%	3.9%	\$ 143,861,525	4.0%
International Equity	12.0%	13.9%	\$ 488,501,531	13.6%
Emerging Market Equity	3.0%	3.5%	\$ 126,744,148	3.5%
Total Equities	32.0%	36.9%	\$ 1,322,472,077	36.7%
Investment Grade US FI	13.6%	15.3%	\$ 567,904,893	15.8%
Loans	0.6%	0.4%	\$ 14,788,310	0.4%
High Yield FI	3.0%	3.5%	\$ 126,683,210	3.5%
International FI	5.8%	7.0%	\$ 247,884,580	6.9%
Total Fixed Income	23.0%	26.2%	\$ 957,260,993	26.6%
Core Real Estate	8.0%	3.5%	\$ 137,500,000	3.8%
Core Plus Real Estate	7.0%	0.3%	\$ 10,353,328	0.3%
Total Real Estate	15.0%	4.1%	\$ 147,853,328	4.1%
Total Absolute Return	20.0%	22.0%	\$ 783,528,881	21.8%
Commodities	3.0%	3.2%	\$ 116,960,293	3.3%
MLPs	3.0%	3.2%	\$ 115,889,635	3.2%
TIPS	2.0%	2.2%	\$ 77,800,204	2.2%
Natural Resource Equities	2.0%	2.2%	\$ 76,473,750	2.1%
Total Inflation Strategies	10.0%	10.8%	\$ 387,123,882	10.8%
Total Asset	100.0%	100.0%	\$ 3,598,239,161	100.0%

During June 2015, progress was made toward implementing the long-term asset allocation that the Board adopted in September 2013, including the following:

- A total restructuring of the diversified inflation strategies portion of the portfolio. This included the funding of new commodities (Gresham), MLP (Harvest) and natural resources equities (Van Eck) portfolios. The new mandates were funded through a total liquidation of the trusts' REIT portfolio and a reduction in the size of the trusts' TIPS portfolio.
- The partial funding of three real estate mandates. In June, Morgan Stanley (\$112.5 million), UBS (\$25.0 million) and Jamestown (\$10.4 million) all made initial capital calls. These capital calls were funded on June 30th and July 1st.
- The trusts' equity and fixed income portfolios were reduced to fund the real estate mandates.
- The interim target allocations for equities, fixed income and diversified inflation strategies were all reduced to bring them closer to the long-term allocations for each asset class.

As money is called to fund the remaining unfunded real estate mandates, the permanent trusts' equity, fixed income, absolute return and diversified inflation strategies portfolios will all be reduced to long-term target allocations. Listed below is the Commissioner's best information as to when the remaining real estate commitments will be funded:

- Morgan Stanley \$37.5 million 3rd qtr. 2015
- UBS \$125.0 million 3rd qtr. 2015
- Jamestown \$64.6 million 3rd qtr. 2015
- Prologis \$75.0 million 4th qtr. 2015
- JP Morgan \$113.0 million 2nd qtr. 2016

RVK Investment Study Report

In August RVK will present a final report on the investment study for which it was initially hired. The bulk of the report was done in 2013, but it can now be completed with the final governance structure adopted.

PIMCO

Fee negotiations between PIMCO, the SIB, and Department resulted in a fee discount of approximately \$135,000 to the SIB. The permanent trusts did not benefit from this negotiation since its investment is in a PIMCO's mutual fund products, which by law cannot be discounted. However, if the trusts' use other PIMCO products in the future, they could very well benefit from the relationship discount now in place.

SSGA

Fee negotiations with State Street Global Advisors, the State Investment Board (SIB) and Department resulted in a fee reduction benefiting both the SIB and the Board's trust investments. The trusts benefit by about \$16,000 per year, while SIB will benefit approximately \$6,000 per year.

J.P. Morgan – Fixed Income

In early July, J.P. Morgan announced the departure of three investment analysts. A senior municipal bond analyst will be retiring in August, while two more junior analysts left the firm for other opportunities. Due to the depth and quality of other analysts at J.P. Morgan, RVK does not have concerns that these departures will have a negative impact on the investment team. RVK will continue to monitor this situation closely and will inform the Commissioner if turnover at J.P. Morgan becomes an issue.

Second Review of Draft Investment Policy Statement

In May, the Board reviewed a first draft of its Investment Policy Statement (IPS) which documents a framework for the management of trust assets and the four 'other' funds' investments. An updated copy of the IPS was provided. The second version included proposed material changes related to the investment guidelines of the Coal Development Trust Fund.

Within the IPS, the investment guidelines for the Coal Fund have been revised to allow for greater liquidity and a shorter time horizon to better match the constitutional and statutory constraints of the fund. The revised guidelines would be the same as that of the SIIF, thus the Coal Development Trust Funds could be pooled with the SIIF and Capitol Building Fund investments in the ultra-short fixed income strategy at Northern Trust that the Board approved in October, 2014.

The draft IPS was presented for a second review and Board will be asked to consider its formal adoption in August. A copy of the draft IPS is available at the Department.

OTHER FUNDS**Strategic Investment and Improvements Fund - Assigned Fund Balance**

Revenues from sovereign lands are deposited into the Strategic Investment and Improvements Fund (SIIF). In July, 2014 the Board classified \$141,197,060 of this fund (balance as of June 30, 2014) as an "Assigned Fund Balance" that was not be transferred out of the fund until title claims to certain riverbed leases were resolved. The Board authorized similar revenues received during FY 2015 to be included within the Assigned Fund Balance.

The Board established this balance within the SIIF to reserve funds related to the State's minerals beneath navigable bodies of water. Although the courts have ruled that the state owns sovereign minerals up to the ordinary high water mark, there is continuing litigation relating to this acreage and meetings with operators to distribute previously suspended royalties are ongoing.

The Assigned Fund Balance calculation includes all bonus and rentals received for river tracts within the Fort Berthold Reservation, as well as an estimate of the bonus and rentals collected

from the approximate “shore zones” of the Missouri and Yellowstone Rivers. There are approximately 665 tracts that contain river acreage, with bonuses and rents associated with these acres totaling an estimated \$146,007,505.

Since the Supreme Court affirmed state ownership of minerals within the high water marks, the Department has diligently worked with operators to collect royalties. Some operators have agreed to distribute royalties based upon the State’s delineation, while negotiations for the payment of royalties continue with others. For tracts in which royalties have been distributed in accord with the State survey, the Commissioner will evaluate a methodology to reduce the Assigned Fund Balance.

Motion: The Board declared \$146,007,505 as the cumulative “Assigned Fund Balance” of the Strategic Investment and Improvements Fund, as of June 30, 2015. These funds should not be transferred from the SIIF until current title claims related sovereign lands have been resolved.

Secondly, any amounts collected in bonus and rent for river tracts within the Fort Berthold Reservation, and the bonus and rent collected from the approximate “shore zones” of navigable rivers during FY 2016 should be designated as part of the “Assigned Fund Balance” for both distribution and financial statement purposes.

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

Other Funds Status

A quarterly review of “Other Funds Managed by the Land Board” was presented. These funds are not included in the pool of permanent trust funds and include the Strategic Investment and Improvements Fund; the Coal Development Trust Fund and the Capitol Building Fund. All three of these funds have distinct purposes that are different than the permanent trusts and are not necessarily investment oriented.

The report is a status updated to include the various activities and transfers of these funds as in the financing of various aspects of state government, as well as investment performance.

A review of the “Other Funds” managed by the Land Board in the 2nd quarter of 2015 was provided at the meeting and is on file with the Department.

O P E R A T I O N S

Consideration of Commissioner’s Salary

As authorized by the 65th Legislative Assembly, state employees were eligible for a base salary increase ranging from 2% to 4% on July 1 of 2015. Most Department of Trust Lands staff received at least a 3% increase on those dates; and when warranted by expansion of duties or equity, some received additional increases within budget limitations.

The increases are all supported with documented evaluations of employee performance and work load.

The Commissioner requested that the Board approve a 2% increase to his base salary.

The Board discussed an additional increase to the Commissioner's salary. He was directed to prepare an updated job description that the Board will evaluate in comparison to market information for similar positions in consideration for additional compensation.

Motion: The Board approved an increase of 3% to the Commissioner's current salary of \$10,712 per month to \$10,926 effective July 30, 2015.

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

Electronic Royalty Reporting Procedures

The Revenue Compliance Division has finalized the details of the electronic oil and gas royalty reporting format and has informed the industry of the future submittal requirements effective October 1, 2015. This unified reporting tool will significantly reduce the staff time dedicated to manual entry and save costs paid to third party vendors who collect and aggregate royalty data. These resources will be further utilized to enhance the royalty audit function of the Department with the expectations of greater recovery and collection of royalties.

The information and instructions were mailed and e-mailed to all operators as well as posted on the Department's website. A sample of the reporting instructions were reviewed by the Board and are available on the Department's website.

Performance Audit Update

In January 2015 the State Auditor initiated a performance audit of the Department of Trust Lands as directed by the Legislative Audit and Fiscal Review Committee.

The audit commenced with a meeting of the Department's managers and supervisors and the staff of the State Auditor's Performance Division to facilitate introductions and to discuss information related to statutory authority for the audit, general audit guidelines, confidentiality, processes, access to records and personnel etc. The auditors conducted a survey of all employees have reviewed all of Board minutes and rules, and all agency policies and procedures to determine the scope and objective of the audit.

In early May, the Department was informed that the audit time period would be July 1, 2011 through June 30, 2015 and that the objectives include:

- Is Unclaimed Property effectively administered?
- Are Energy Infrastructure and Impact Office grants effectively administered?
- Is the Department of Trust Lands obtaining, accounting for, and using resources efficiently and effectively?

Field work for the audit is expected to continue through September and a draft report will presented two to three weeks later.

Nearly all processes and personnel have been involved, and hundreds of documents have been provided, as has access to the central agency databases and all network files has been granted upon request.

The Auditors have offered to meet with the Board during the review or at its conclusion.

R E P O R T S

- 1) **The quarterly financial statement as of May 31, 2015** was provided to the Board and is available at the Department.
- 2) **The July and August 2015 oil and gas lease auction** offering lists were provided to the Board and are available at the Department.

3) **Report of Easements Issued by Land Commissioner:**

Granted to: For the Purpose of:	BULL MOOSE LLC, SOUTHLAKE-TX Easement: Raw Water Pipeline
Granted to: For the Purpose of:	USG MIDSTREAM BAKKEN I LLC, HOUSTON-TX Easement: Drop Line-Gas Gathering Pipeline
Granted to: For the Purpose of:	XTO ENERGY INC, FORT WORTH-TX Permit: Section Line Access Road
Granted to: For the Purpose of:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT Easement: Drop Line-Gas Gathering Pipeline
Granted to: For the Purpose of:	ENABLE BAKKEN CRUDE SERVICES LLC, TULSA-OK Easement-Amend: Drop Line-Multiple Pipelines
Granted to: For the Purpose of:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT Easement: Gas Gathering Pipeline
Granted to: For the Purpose of:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT Easement: Gas Gathering Pipeline
Granted to: For the Purpose of:	1804 OPERATING LLC, DALLAS-TX Easement: Salt Water Pipeline
Granted to: For the Purpose of:	VANTAGE PIPELINE US LP, CALGARY AB-CANADA Easement: Gas Gathering Pipeline
Granted to: For the Purpose of:	PETRO-HUNT LLC, BISMARCK-ND Easement-Amend: Drop Line-Multiple Pipelines
Granted to: For the Purpose of:	MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND Easement: Drop Line-Electric Distribution Line
Granted to: For the Purpose of:	RANCH OIL COMPANY, GREENWOOD VILLAGE-CO Easement: Salt Water Disposal Well - Extension

Granted to: WHITING OIL AND GAS CORPORATION, DENVER-CO
 For the Purpose of: Easement: Salt Water Disposal Well - Extension

Granted to: ENDURO OPERATING LLC, FORT WORTH-TX
 For the Purpose of: Easement: Salt Water Disposal Well - Extension

Granted to: 1804 OPERATING LLC, DALLAS-TX
 For the Purpose of: Easement: Drop Line-Saltwater Pipeline

Granted to: TRIANGLE USA PETROLEUM CORPORATION, DENVER-CO
 For the Purpose of: Easement-Amend: Salt Water Disposal Well

The following letters of permission were issued to groups wishing to use school trust lands under the Board's policy for access to trust lands by organizations. Fees may be charged for this use.

Granted to: AMES WATER SOLUTIONS LLC, WILLISTON-ND
 For the Purpose of: Letter of Permission: Access to School Land for laying a temporary frac water hose

Granted to: DICKINSON STATE UNIVERSITY, DICKINSON-ND
 For the Purpose of: Letter of Permission: Access to School Land to conduct vegetation studies in relation to rodent use of native grasslands in Western North Dakota

Granted to: WEST DAKOTA WATER LLC, WILLISTON-ND
 For the Purpose of: Letter of Permission: Access to School Land for laying a temporary frac water hose

A D J O U R N

There being no further business, the meeting was adjourned at 10:34 AM.

Jack Dalrymple, Chairman
 Board of University and School Lands

Lance D. Gaebe, Secretary
 Board of University and School Lands