

**Minutes of the Meeting of the
Board of University and School Lands
December 16, 2015**

The December 16, 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
Wayne Stenehjem	Attorney General
Kelly Schmidt	State Treasurer
Kirsten Baesler	Superintendent of Public Instruction

Department of Trust Lands Personnel:

Lance D. Gaebe	Commissioner
Jeff Engleson	Director, Investment Division
Linda Fisher	Deputy Commissioner of Operations
Scott Griere	Auditor, Revenue Compliance
Peggy Gudvangen	Director, Accounting
Mike Humann	Director, Surface Division
Taylor Lee	Director, Revenue Compliance
Gerry Fisher	Director, Grants and Claims
Rick Owings	Assistant Energy Impact Director

Others in Attendance:

Bonnie Storbakken	Governor's Legal Counsel
Jerry Jurena	North Dakota Medical Association
Marcia Beard	RVK
Kristen Steffens	RVK
Jason Wahl	State Auditor's Office

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 October 29, 2015 meeting was made by Secretary of State Al Jaeger and seconded by Attorney General Wayne Stenehjem and the motion carried on a voice vote.

E N E R G Y I N F R A S T R U C T U R E A N D I M P A C T O F F I C E

2015-2017 Biennium Schedule

The drop in the price of oil since the start of the 2015-2017 biennium has resulted in a drop in oil tax collections and its distribution to the Oil and Gas Impact Grant Fund. In October 2015 the Board approved a revised schedule of energy impact awards to reduce the amount of awards in FY 2016 of the biennium and it increased the amount of awards to be made in FY 2017.

That revised schedule had not been modified to include an emergency \$500,000 award that was awarded to Missouri Ridge Township. An updated award schedule was considered:

ENERGY IMPACT GRANT SCHEDULE											
Updated: October 30, 2015											
2015-2017 Biennium											
2015-16 Fiscal Year (In Millions)				2016-17 Fiscal Year (In Millions)							
2015	May/July	Law Enforcement	\$7.8 Awarded	May/July	Law Enforcement	\$1.2 Allocated					
		Human Trafficking	\$.75 Allocated								
		Sexual Assault Examiner Programs	\$.25 Allocated								
	May/July	Emergency Medical Services	\$3.7 Awarded	May/July	Emergency Medical Services	\$2.3 Allocated					
	June/July	K-12 Schools	\$15 Awarded	June/July	K-12 Schools	\$15 Allocated					
	July	Airports	\$1.3 Awarded	June/Sept	Airports	\$39.3 Allocated					
	Oct	Airports	\$2.2 Awarded								
	Aug/Oct	Fire Protection Districts	\$3 Awarded								
	Oct	Local District Health	\$2 Awarded								
	Oct	Missouri Ridge Township	\$.50 Awarded								
	Oct/Dec	Critical Access Hospitals	\$5 Allocated	Oct/Dec	Critical Access Hospitals	\$5 Allocated					
	Dec/Jan	Domestic violence	\$2 Allocated								
	Dec	Developmentally Disabled	\$1 Allocated	Dec	Developmentally Disabled	\$1 Allocated					
2016				Feb/March	Bowman and Divide	\$8 Allocated					
				Feb/March	City of Stanley	\$1.7 Allocated					
				Feb/March	City of Kenmare	\$.50 Allocated					
				Feb/March	City of Berthold	\$.20 Allocated					
				Feb/March	City of Burlington	\$.10 Allocated					
	Jan/March	General (Eligible Political Subdivisions)	\$5 Allocated								
	March/April	Nursing Homes, Basic Care	\$1.6 Allocated	March/April	Nursing Homes, Basic Care	\$2.4 Allocated					
	March/April	Airports	\$5.2 Allocated								
					Contingency	\$6.3					
Total For Awards 2015/16 Fiscal Year			\$56.3	40.40%		Total For Awards 2016/17 Fiscal Year			\$83.0	59.60%	
2015-16 FISCAL YEAR TOTAL PROJECTED AWARDS at 40% = \$55.72											
2016-17 FISCAL YEAR PROJECTED AWARDS at 60% = \$83.58											
TOTAL BIENNIAL APPROPRIATION = \$140											
TOTAL BIENNIAL APPROPRIATION FOR AWARDS = \$139.3											
<i>Biennial Total Remaining To Be Awarded = \$103.7</i>											
*(In Millions)											

Motion: The Board approved the revised grant schedule for the 2015-2017 biennium.

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		

Critical Access Hospital Grants

The 2015 Legislature assigned \$10 million of the Oil and Gas Impact Grants for critical access hospitals (CAH), with 50% to be awarded during each January of the biennium.

In June 2015 the Board appointed a CAH Grants Advisory Committee to assist in formulating grant recommendations. The committee includes:

Becky Hansen, Southwest Healthcare Services, Bowman
 Daniel Kelly, McKenzie County Healthcare, Watford City
 Darrold Bertsch, Sakakawea Medical Center, Hazen
 Matt Grimshaw, Mercy Medical Center, Williston
 Randall Pederson, Tioga Medical Center, Tioga
 Tom Nehring, ND Department of Health, Bismarck
 Jerry Jurena, President of the ND Hospital Association, Bismarck

Grant applications were accepted October 1, 2015 through November 10, 2015, with a total of seven applications received requesting \$5.4 million. Total loss from operations by these applicants was \$9.7 million. The Board reviewed a summary of applications.

The CAH Impact Grants Advisory Committee met November 18, 2015. The committee evaluated all applications based upon:

- Eligibility criteria.
- Financial supporting documents
- Scoring criteria including: safety improvement; financial need; result of energy activity; project readiness; and contribution to long-term service/department viability.

The following list of awards was recommended by the CAH Impact Grants Advisory Committee and the Energy Infrastructure and Impact Office:

CRITICAL ACCESS HOSPITAL NAME	CITY	COUNTY	SHORT DESCRIPTION	LONG DESCRIPTION	Award Recommended
MCKENZIE COUNTY MEMORIAL HOSPITAL	WATFORD CITY	MCKENZIE	HB 1176 BAD DEBT RELIEF	UNCOMPENSATED CARE FINANCIAL ASSISTANCE	\$1,753,219.00
TIOGA MEDICAL CENTER	TIOGA	WILLIAMS	HB 1176 BAD DEBT RELIEF	UNCOMPENSATED CARE FINANCIAL ASSISTANCE	\$438,683.00
SOUTHWEST HEALTHCARE SERVICES	BOWMAN	BOWMAN	HB 1176 BAD DEBT RELIEF	UNCOMPENSATED CARE FINANCIAL ASSISTANCE	\$90,877.00
ST. LUKE'S HOSPITAL	CROSBY	DIVIDE	HB 1176 BAD DEBT RELIEF	UNCOMPENSATED CARE FINANCIAL ASSISTANCE	\$149,900.00
ST JOSEPHS HOSPITAL AND HEALTH CENTER	DICKINSON	STARK	HB 1176 BAD DEBT RELIEF	UNCOMPENSATED CARE FINANCIAL ASSISTANCE	\$2,137,491.00
MOUNTRAIL COUNTY HEALTH CENTER	STANLEY	MOUNTRAIL	HB 1176 BAD DEBT RELIEF	UNCOMPENSATED CARE FINANCIAL ASSISTANCE	\$241,236.00
ST. ANDREW'S HEALTH CARE	BOTTINEAU	BOTTINEAU	HB 1176 BAD DEBT RELIEF	UNCOMPENSATED CARE FINANCIAL ASSISTANCE	\$188,594.00
					\$5,000,000.00

These seven recommended awards total \$5 million for critical access hospitals as legislatively specified for the first fiscal year of the biennium. Distribution of these funds will be made in January 2016 as indicated in the legislation.

Motion: The Board awarded \$5,000,000 from the Oil and Gas Impact Grant Fund to the seven critical access hospitals as identified in the preceding recommendations. Distribution of these funds will occur in January 2016. With this action, the Board affirmed that \$5 million designated for critical access hospitals in FY 2016 by the Legislative Assembly is satisfied.

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

Providers Serving Individuals with Developmental Disabilities Grants

The 2015 Legislature apportioned \$2 million of oil and gas impact funds for grants to providers that serve individuals with developmental disabilities located in oil producing counties. The Board previously allocated \$1 million to be awarded during each fiscal year of the biennium.

The Legislature directed that distributions are to be made each January during the biennium, and for the EIIO to work with the North Dakota Department of Human Services regarding the procedures for these grants. In HB 1176, the 2015 Legislature directed that grants are to be based on the number of full-time equivalent (FTE) positions of each provider as determined by the DHS. When setting rates for the grants, the DHS excluded grant income received as an offset to costs as specified in HB 1176.

The following list is a recommendation for awards each based on the number of FTEs of service providers which assist developmentally disabled individuals located in the oil producing counties.

Developmental Disabilities Approved FTEs in Oil Producing Counties

Provider	Total FTEs	% of Total	Recommended Award
ABLE, Inc.	110.91	15.68%	\$156,795
CORES, Inc.	41.48	5.86%	\$58,638
Easter Seals Goodwill	47.49	6.71%	\$67,134
Knife River Group Home	7.86	1.11%	\$11,112
Minot Vocational Adjustment Workshop d.b.a. Kalix	219.07	30.97%	\$309,700
Opportunity Foundation	81.67	11.55%	\$115,453
Pride, Inc.	0.38	0.05%	\$530
Rehab Services, Inc.	15.20	2.15%	\$21,485
REM	131.79	18.63%	\$186,309
Support Systems, Inc.	17.20	2.43%	\$24,313
Tri-City Cares, Inc.	34.33	4.85%	\$48,531
Total FTEs	707.37	100.00%	\$1,000,000

Motion: The Board awarded \$1,000,000 from the Oil and Gas Impact Grant Fund to the 11 providers of services to individuals with developmental disabilities as identified in the preceding list. Distribution of these funds will be done in January 2016. With this action, the Board affirms that \$1 million designated for providers that serve individuals with developmental disabilities by the 2015 Legislative Assembly is satisfied.

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

Authorization to Approve Grant Scope Changes

The Director requested Board permission for the EIO to evaluate, consider and approve substitutions or changes of grant that result in no change to the overall project goal for which energy impact funds were granted.

The EIO will continue to seek Board approval of requests which seek to change the use of an award to a different project purpose than originally approved by the Board.

Motion: The Board authorized the EIO to be able to approve grant scope changes within projects that do not change overall project goal as originally awarded.

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

City of Minot Request to Extend Flood Impact Grant

In August 2015, the Board approved a deadline of December 31, 2015 for reimbursement processing of Flood-Impacted Political Subdivision Infrastructure Development Grants (FIPSIDG). Notices were provided to political subdivisions with remaining balances.

On November 18, 2015, a request for an extension of Grant F120805 was received from the City of Minot. This grant was for \$2,150,000 for a landfill expansion. The remaining grant balance is \$1,325,425.19. Minot has made attempts to purchase land adjoining its current landfill, but has been unsuccessful. The city is evaluating options to reclaim an existing cell that would provide for 40 to 60 years of additional landfill space.

Since several flood grant projects remained active into the 2015-2017 biennium, the EIO sought and obtained carryover authority from the State Carryover Committee until June 30, 2017.

Motion: The Board approved extending the Flood-Impacted Political Subdivision Infrastructure Development Grant Number F120805 for the City of Minot beyond the December 31, 2015 deadline set in August 2015.

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		

SURFACE MANAGEMENT

Dakota Access Pipeline Route

Dakota Access LLC, has proposed to construct a crude oil transmission pipeline beginning near Stanley, ND and ending near Patoka, IL. The proposed project was presented to the Board.

This pipeline would transport Bakken crude oil to major refining markets. The proposed route will involve approximately 4.5 miles of school trust land in Mountrail, Williams, and McKenzie Counties. The entire proposed route lies within an established pipeline right-of-way corridor, containing the Enbridge Sandpiper and other pipelines. An environmental review addressing wetlands and steep areas, cultural and fossil resources and endangered species has been completed.

The proposed general route was recommended for approval by the Commissioner. The easement consideration has not been negotiated and final approval of the easement will be brought for the Board's consideration at a future meeting.

Motion: The Board approved the inclusion of trust lands within the proposed Dakota Access LLC route through Mountrail, Williams, and McKenzie Counties as depicted on the referenced survey plats provided by Dakota Access and dated October 12, 2015. The Board authorizes the Commissioner to implement site specific route right-of-way evaluations, to minimize environmental and productivity impacts; and to initiate easement consideration for the Board's review.

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

The referenced survey plats provided to the Board are on file at the Department.

MINERALS MANAGEMENT

North American Request to Renegotiate Leases within the Falkirk Mine

The Falkirk Mining Company, a subsidiary of the North American Coal Corporation, has requested that the Board adjust ten existing coal leases within the permitted boundary of the Falkirk Mine, in McLean County. The removal of coal for those leases is projected in the mine plan to occur between 2015 and 2068.

Falkirk indicates that there is a disparity between state trust and the private sector royalty rates. Currently, there are 22 leases with Falkirk. Of these, no changes were proposed for 12 leases which are in various stages of the mining.

In 2014 the Board reviewed several such requests from mining companies due to legislative changes to the Century Code (N.D.C.C. §15-05-01) that removed the statutory minimum royalty. This permitted the Board to negotiate royalty rates and allows the Board to renegotiate existing leases, if in the best interest of the trust. The fiduciary responsibility of the Board in managing coal leases was reviewed in a June 4, 2014 Attorney General Stenehjem memo. The memo explained that the Board can adjust existing leases if it is done on a case-by-case examination, based upon whether the adjustment is likely to increase development of coal or enhance the amount of revenue to permanent trust funds.

Motion: **The Board authorized the Commissioner to evaluate Falkirk Mining Company's request to amend ten coal leases and to investigate whether individual lease changes would be in the best interest of the trusts. If adjustments are to be recommended, the Commissioner will also investigate the fair market rate and negotiate possible replacement lease terms for the Board's consideration.**

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

BNI Coal Lease Request and Associated Correction of Minutes (T142-R84-Sec. 29: S2)

BNI Coal wishes to complete the process to lease the Trust's coal minerals within Township 142N Range 84W Sec. 29: S½, in Oliver County. The Board manages 50% of the minerals within two tracts equaling 160 net mineral acres.

On July 30th, 2015, the Board directed the Commissioner to begin the due diligence on terms and to commence lease negotiations. In this process, an error was discovered in the July 30 minutes, with a typo in the legal description.

BNI has offered 20 cents per ton of coal mined. The Commissioner finds that this royalty is fair and equivalent to what is offered in the local area.

The Commissioner recommended offering the tracts at auction with a \$.20 per ton of mined coal royalty and \$5 per acre per year term in a 15-year renewable lease; with an opening bonus bid of \$100 per net mineral acre.

Motion: **The Board corrected its July 30, 2015 minutes which read:**

"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."

To instead reference "T142N-R84W"

The Board also authorized the Commissioner to offer these two tracts with a \$.20 per ton of mined coal royalty and \$5 per acre per year term in a 15-year renewable lease; and to auction the leases with an opening bid \$100 per net mineral acre bonus.

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		

I N V E S T M E N T S M A N A G E M E N T

RVK Investment Performance Report – 3rd Quarter 2015

RVK's Kristen Steffens and Marcia Beard reviewed the performance of the permanent trust funds' pool of investment assets for the period ending September 30, 2015.

The RVK performance report covers the permanent trust funds' investment portfolio.

The performance report provided by RVK is on file at the Department.

Asset Class Review: Absolute Return Strategies

At the Board's direction, a schedule has been established for a comprehensive review of each investment asset class in which the permanent trust funds participate.

Absolute Return Strategies' investments were reviewed with the assistance of RVK's Kristen Steffens and Marcia Beard. The presentation and discussion evaluated the asset class as a whole, the specific strategies, and managers to emphasize the strategy's role in the overall portfolio.

The Board uses liquid global tactical asset allocation (GTAA) funds to get absolute return exposure. The goal of the three GTAA funds used in the permanent trusts' absolute return portfolio is to earn consistent positive returns with low correlations to both stocks and bonds. This asset class was added to the permanent trusts' portfolio in June, 2014, during which time the investments have underperformed expectations.

The Absolute Return Strategies presentation by RVK is on file at the Department.

Investment Updates

Asset Allocation

The table below shows the status of the asset allocation of the permanent trusts as of October 31, 2015. It includes:

- The long-term asset allocation approved by the Board in September of 2013
- Interim allocations to asset classes while awaiting to fully fund all real estate mandates
- Actual value and percentage of each asset class as of October 31, 2015

Account/Asset Class	Long-Term Asset Allocation	Interim Target Allocation	Interim % +/- Weight	10/31 Actual Allocation \$	10/31 Actual Allocation %
Large Cap US Equity	13.5%	14.2%	5.2%	\$ 505,744,823	14.3%
Small Cap US Equity	3.5%	3.7%	5.7%	\$ 125,219,736	3.5%
International Equity	12.0%	12.7%	5.8%	\$ 458,043,952	12.9%
Emerging Market Equity	3.0%	3.2%	6.7%	\$ 113,271,830	3.2%
Total Equities	32.0%	33.8%	5.6%	\$ 1,202,280,341	34.0%
Domestic Investment Grade	14.2%	16.0%	12.7%	\$ 555,561,184	15.7%
High Yield FI	3.0%	3.2%	6.7%	\$ 111,725,056	3.2%
International/Global FI	5.8%	6.3%	8.6%	\$ 218,696,287	6.2%
Total Fixed Income	23.0%	25.5%	10.9%	\$ 885,982,527	25.0%
Total Absolute Return	20.0%	21.1%	5.5%	\$ 742,694,561	21.0%
Commodities	3.0%	3.2%	6.7%	\$ 109,602,832	3.1%
MLPs	3.0%	3.2%	6.7%	\$ 111,550,360	3.2%
TIPS	2.0%	2.1%	5.0%	\$ 77,099,199	2.2%
Natural Resource Equities	2.0%	2.1%	5.0%	\$ 74,567,715	2.1%
Total Inflation Strategies	10.0%	10.6%	6.0%	\$ 372,820,107	10.5%
Core Real Estate	8.0%	8.0%	0.0%	\$ 301,167,828	8.5%
Core Plus Real Estate	7.0%	1.0%		\$ 35,004,104	1.0%
Total Real Estate	15.0%	9.0%	-40.0%	\$ 336,171,932	9.5%
Total Asset	100.0%	100.0%		\$ 3,539,949,468	100.0%

An additional \$12.0 million was added to the Payden & Rygel Low Duration Fund during October in preparation to fund an expected \$40.0 million of real estate calls at the end of December.

As money is called to fund the real estate mandates, the permanent trusts' equity, fixed income, absolute return and diversified inflation strategies target allocations will be adjusted toward their long-term target allocations

Funding Status of Real Estate

Nine percent of the permanent trusts' 15% allocation to fixed income has been funded. Based upon communications with managers, the remaining real estate funding call timeframes are anticipated at:

- | | | |
|-------------|-----------------|--|
| • Jamestown | \$40.0 million | beginning 1 st qtr. 2016 |
| • Prologis | \$75.0 million | beginning 2 nd qtr. 2016 (100%) |
| • JP Morgan | \$113.0 million | 2nd qtr. 2017 |

Funding of New Ultra-Short Portfolio

In September, the assets of the Coal Development Trust Fund and the Capitol Building Fund were commingled with those of the Strategic Investment and Improvements Fund.

Changes at SSGA

(\$962.4 million – 27.3% of permanent trust assets, passive S&P and ACWI Ex US)

In late-August State Street Global Advisors announced that Chief Risk Officer, David Saulnier departed the firm.

On December 3, SSGA announced that president, Greg Ehret will be leaving the firm. CEO Ron O'Hanley will be reassuming the role of president. Mr. Ehret role was more involved with operations and marketing than investing.

RVK's manager research group believes this should have minimal impact on SSGA investment strategies which have their own leadership teams in place.

Personnel Changes at Wells Fargo (First International's parent company)

(\$128.95 million – 3.7% of permanent trust assets, active international fixed income)

On December 1st, Wells Fargo announced the CEO Mike Niedermeyer will retire effective March 18, 2016. Mr. Neidermeyer has led the business since 1994.

First International Advisors is essentially run as a separate entity from Wells Fargo, limiting any concerns. RVK will report its finding after it has had a chance to visit with Wells Fargo about the change.

New Minimum Balance for Payden & Rygel Cash Account

Starting in October, the minimum month-end balance in the P&R Cash account was been increased from \$3.0 million to \$10.0 million. Although Board policy does not contain a specific allocation to cash, a minimum is maintained to meet the trusts' monthly cash distribution needs.

Strategic Investment and Improvements Fund – Status Report

The Strategic Investment and Improvements Fund (SIIF) holds the assets and collects the revenues earned from sovereign mineral acres, including those formerly owned by the Bank of North Dakota and State Treasurer, as well as the minerals located under navigable rivers and lakes. The SIIF also receives a substantial portion of the oil and gas production and extraction taxes collected by the State. Because the entire balance of this Fund can be appropriated by the legislature each biennium, it is invested in conservative, short-term fixed income portfolio.

	9/30/15 Asset Balances	Current Yield
Strategic Investment and Improvements Fund		
Loan Guarantee – Fuel Production	\$ 18,125,000	0.61%
Investments/Cash	327,717,000	0.35%
Total	\$ 345,842,000	

- ◆ On July 1, 2015, \$150 million of school construction loans that were made from the SIIF during the 2013-15 biennium were transferred to the newly created school construction assistance loan fund (SCALF). The Board will manage this Fund until it is determined by voter approval of a constitutional measure in November 2016, if it will be transferred to BND.
- ◆ On July 1, 2015, the medical facilities infrastructure fund became a revolving fund to be managed by the BND. The approximately \$50 million of loans and assets in this Fund will no longer be paid back to the SIIF
- ◆ The funds set aside to guarantee a loan for the Dakota Spirit AgEnergy biomass fuel production facility earned an annualized return of approximately 0.61% during the quarter. This program is invested in short-term bonds.
- ◆ During the quarter the SIIF earned about \$8.0 million, with the majority (\$7.7 million) from mineral royalties. The SIIF is not projected to receive gross production or oil extraction tax allocations until later in the biennium.
- ◆ The Northern Trust Investments (NTI) Ultra-Short account was funded in mid-July 2015 with \$250 million of SIIF cash. This new account should add about 50 basis points or slightly more to expected returns, with minimal additional risk, when compared to the US Treasury strategy.
- ◆ The NTI Ultra Short account earned a return of 0.35% during the two month period ended September 30, 2015, as compared to 0.13% for the account's custom benchmark. Performance measurement for this account began effective August 1st.
- ◆ The assets of the Coal Development Trust Fund and the Capitol Building Fund were commingled with SIIF's assets in the Ultra-Short account in September 2015.

Appropriated Transfers 7/1/2015 – 9/30/2015

The following table shows the breakdown of the \$255,275,322 of transfers that came out of the SIIF during the first 3 months of fiscal year 2016:

Amount	Bill (Agency)	Purpose
\$237 million	SB 2103 - SURGE (DOT)	Balance of distributions to counties for road and bridge infrastructure needs.
\$13,125,322	HB 1014 - (NDIC)	Balance of funding for new core library
\$650,000	HB 1285 - (Commerce)	Grants to domestic violence organizations
\$1.5 million	HB 1018 - (Commerce)	Partial transfer of funding to enhanced use lease grant program at GFAB
\$3.0 million	HB 1020 - (Extension Ser.)	Partial transfer of funding for veterinary diagnostic laboratory project

An additional \$103.85 million of appropriated transfers are expected to come out of the SIIF over the remainder of the 2015-17 biennium:

Amount	Bill (Agency)	Purpose
\$7.0 million	HB 1012 - (DOT)	One-time funding for DOT's short line railroad program
\$6.0 million	HB 1018 - (Commerce)	Balance of funding for enhanced use lease grant program at GFAB
\$15.0 million	HB 1020 - (Extension Ser.)	Balance of funding for veterinary diagnostic laboratory project
\$50.0 million	HB 1443 - (BND)	Transfer to BND infrastructure revolving loan fund
\$25.85 million	SB 2015 - (DOT) CONTINGENT	Enhance state highway investment

Coal Development Trust Fund – Status Report

The Coal Development Trust Fund is a permanent fund from which the Board issues loans to energy impacted counties, cities and school districts as provided in NDCC Section 57-62-03, and lends to school districts pursuant to NDCC Chapter 15-60. The Board is responsible for investing all funds that have not been loaned to political subdivisions. As directed in the Constitution, the income earned by this fund is transferred to the General Fund each year. Historically this Fund invested in a conservative short-term fixed income portfolio.

	9/30/15 Asset Balances	Current Yield Total Return
Coal Development Trust Fund		
School Construction Loans	\$ 43,773,000	1.76%
Coal Warrants	13,795,000	3.37%
Investments/Cash	9,828,000	0.33%
Total	\$ 67,396,000	

- ◆ During the quarter, two school construction loans, totaling \$2.21 million were funded from the Coal Development Trust Fund: Max PSD #50 at \$1.3 million and Kulm PSD #7 at \$910,000.
- ◆ A coal impact loan for \$7.0 million to Mercer County was issued during the quarter.
- ◆ With the balance of school construction and coal impact loans at an all-time high, the amount of investable funds held by the Coal Development Trusts Fund has declined to less than \$10 million.
- ◆ The Board approved changes to the investment guidelines in August 2015 and the Coal Development Trust Fund will be managed in anticipation that the Fund could be fully loaned out.
- ◆ In September 2015, most of the assets in the Payden & Rygel Coal account were transferred to the new NTI Ultra-Short portfolio, where it is commingled with the assets of the SIIF and the Capitol Building Fund.
- ◆ The NTI Ultra-Short portfolio earned a return of 0.33% during September 2015 compared to 0.15% for the custom index that was adopted for this account.

Capitol Building Fund – Status Report

The Capitol Building Fund is a Constitutional fund that was created for the construction and maintenance of “public buildings at the capital.” It generates revenues from 10,000 surface and 27,700 mineral acres which it owns. The fund is invested in conservative, short-term fixed income portfolio.

The Capitol Grounds Planning Commission (CGPC) has official control over the Capitol Building Fund; while the Land Board is responsible for investing the assets on behalf of the CGPC.

	9/30/15 Asset Balances	09/15 Return
Capitol Building Fund		
Investments/Cash	\$ 6,171,000	0.33%

- ◆ The 64th Legislative Session, appropriated approximately \$5.7 million from the Capitol Building Fund:
 - \$4.0 million for a new Governor’s residence (SB 2304)
 - \$1.4 million for capitol building entrance and signage projects (SB 2015)
 - \$310,000 for legislative wing electrical and ceiling repairs (SB 2015)
- ◆ In addition to the specific appropriations, NDCC 48-10-02 provides the CGPC with continuing appropriation authority of \$175,000 out of this Fund, and SB 2015 contains a \$25,000 operating appropriation for the CGPC.
- ◆ During the quarter, the Capitol Building Fund collected just over \$250,000 of oil and gas royalty and mineral bonuses. No transfers to Facilities Management were made during the quarter.

In May of 2015, the CGPC adopted investment guidelines for the Capitol Building Fund that matched those adopted for the SIIF; the Board accepted those guidelines on May 28, 2015. In September 2015, most of the assets of this Fund were transferred to the new NTI Ultra-Short portfolio, where they were commingled with the assets of the SIIF and the Coal Development Trust Fund.

The NTI Ultra-Short portfolio earned a return of 0.33% during September 2015 compared to 0.15% for the custom index that was adopted for this account.

STATE PERFORMANCE AUDIT

Performance Audit Update

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

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

- the effectiveness of Unclaimed Property administration,
- the effectiveness of Energy Infrastructure and Impact Office grants administration, and
- the effectiveness and efficiency of the Department of Trust Lands in obtaining, accounting for, and use of resources.

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

The initial timeline suggested the fieldwork would conclude in August; however that work is now anticipated to be completed by the end of December.

Jason Wahl from the State Auditor's Office Performance Audit Division met with the Board to discuss draft finding and review process and timeline.

The Board requested that it be provided with the opportunity to review of draft audit recommendations and the Department responses to findings before they are submitted. The draft audit report prepared by the State Auditor's Office is confidential according to N.D.C.C. § 54-10-26. To review and consider the confidential draft report, the Board may need enter executive session as permitted under N.D.C.C. § 44-04-19.2.

R E P O R T S

The 2015 Audited Financial Statements for the year ended June 30, 2015 was presented to the Board and is available at the Department.

The Quarterly Financial Report for period ended September 30, 2015 was presented to the Board and is available at the Department.

The 2013-2015 Board and Department Biennial Report was presented to the Board and is available at the Department.

Report of Easements Issued by Land Commissioner

Granted to:	ND STATE WATER COMMISSION, BISMARCK-ND
For the Purpose of:	Easement: Potable Water Pipeline
Legal Description:	OLI-141-81-16-NE4, NW4, SE4 LESS SCHOOL SITE, OLI-141-82-16-NE4 WEST OF HWY, SE4 WEST OF HWY AND NORTH OF CNTY ROAD, SE4 WEST OF HWY AND SOUTH OF CNTY ROAD, OLI-142-87-16-SE4
Granted to:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT
For the Purpose of:	Easement: Drop Line-Gas Gathering Pipeline
Legal Description:	MCK-153-94-16-NW4, SW4
Granted to:	WILTON WIND IV LLC, JUNO BEACH-FL
For the Purpose of:	Easement: Electric Transmission Line
Legal Description:	BRL-142-78-16-NE4, NW4, SW4
Granted to:	1804 OPERATING LLC, DALLAS-TX
For the Purpose of:	Easement: Salt Water Pipeline
Legal Description:	MCK-153-97-36-SE4
Granted to:	1804 OPERATING LLC, DALLAS-TX
For the Purpose of:	Easement: Drop Line-Saltwater Pipeline
Legal Description:	MCK-153-97-16-NE4, NW4
Granted to:	MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND
For the Purpose of:	Easement: Drop Line-Buried Electric Distribution Line
Legal Description:	DUN-146-92-16-S2SW4
Granted to:	XTO ENERGY INC, FORT WORTH-TX
For the Purpose of:	On-lease Act. Amend: Horizontal Oil Well
Legal Description:	WIL-154-96-16-NE4

Granted to:	STATOIL OIL AND GAS LP, AUSTIN-TX
For the Purpose of:	Easement: Directional Wellsite Location
Legal Description:	MCK-153-98-36-SW4
Granted to:	EOG RESOURCES INC, DENVER-CO
For the Purpose of:	Easement-Amend: Salt Water Pipeline
Legal Description:	MOU-155-90-16-SE4
Granted to:	FREDERICK TOWNSHIP, ALAMO-ND
For the Purpose of:	Easement: Road Right-of-Way
Legal Description:	DIV-160-98-16-SE4, SW4
Granted to:	MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND
For the Purpose of:	Easement: Electric Transmission Line
Legal Description:	MCK-151-100-16-NW4, SW4
Granted to:	CENTRAL POWER ELECTRIC COOP INC, MINOT-ND
For the Purpose of:	Easement: Electric Transmission Line
Legal Description:	PIE-158-69-23-NW4
Granted to:	MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND
For the Purpose of:	Easement: Drop Line-Electric Distribution Line
Legal Description:	MCK-151-95-36-LOTS 1, 2
Granted to:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT
For the Purpose of:	Easement: Drop Line-Gas Gathering Pipeline
Legal Description:	WIL-154-100-16-NW4, SE4, SW4
Granted to:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT
For the Purpose of:	Easement: Drop Line-Gas Gathering Pipeline
Legal Description:	WIL-154-99-36-NE4, SE4
Granted to:	ENABLE BAKKEN CRUDE SERVICES LLC, TULSA-OK
For the Purpose of:	Easement: Drop Line-Multiple Pipelines
Legal Description:	WIL-154-96-16-NE4
Granted to:	MIDSTATE TELEPHONE COMPANY, STANLEY-ND
For the Purpose of:	Easement: Communication Cable - Buried
Legal Description:	GOL-139-103-36-SE4 SE OF RD
Granted to:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT
For the Purpose of:	Easement: Drop Line-Gas Gathering Pipeline
Legal Description:	MCK-153-97-16-NW4
Granted to:	BEK COMMUNICATIONS COOPERATIVE, STEELE-ND
For the Purpose of:	Easement: Communication Cable - Buried
Legal Description:	KID-144-71-35-NE4, NW4
Granted to:	EMERALD OIL INC, DENVER-CO
For the Purpose of:	Permit: Access Road
Legal Description:	MCK-148-102-16-NE4, NW4, SE4
Granted to:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT
For the Purpose of:	Easement-Amend: Gas Gathering Pipeline
Legal Description:	MCK-153-96-36- NE4, NW4, SE4

Granted to: **ATKINS NORTH AMERICA, INC., TYLER-TX**
 For the Purpose of: Permit: General Land Surveys
 Legal Description: WAR-155-84-1-SW4NW4 LYING N & E OF RIVER CENTERLINE

Granted to: **NEON INC, BOULDER-CO**
 For the Purpose of: Easement-Amend: Tower Site
 Legal Description: STU-143-67-36-NE4, NW4, SE4, SW4

Granted to: **EMERALD OIL INC, DENVER-CO**
 For the Purpose of: Permit: Access Road
 Legal Description: MCK-145-102-8-NE4, NW4, SE4

Granted to: **EMERALD OIL INC, DENVER-CO**
 For the Purpose of: Permit: Access Road
 Legal Description: MCK-145-102-16-NE4, NW4

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.

Granted to: **SELECT ENERGY SERVICES, WILLISTON-ND**
 For the Purpose of: Letter of Permission: Access to School Land for the purpose of temporary surface frac water pipeline
 Legal Description: MCK-152-95-16-NE4

Granted to: **EOG RESOURCES INC, DENVER-CO**
 For the Purpose of: Letter of Permission: Access to School Land for the purpose of laying temporary surface frac water pipeline and access to the lake for frac water
 Legal Description: MOU-157-92-16-SE4SE4, LOTS 3, 6

Granted to: **EARTHWORM EXCAVATING, TOLNA-ND**
 For the Purpose of: Letter of Permission: Access to School Land in order to reclaim abandoned underground coal mine sink holes that recently developed
 Legal Description: ADA-129-94-16-NE4, NW4

November Oil and Gas Mineral Lease Auctions Results

	<i>Mineral Acres</i>	<i>Total Bonus</i>	<i>Bonus/Acre</i>
BOTTINEAU	240.00	\$480.00	\$2.00
BOWMAN	1085.48	\$3,442.96	\$3.17
BURKE	1279.02	\$109,951.00	\$85.97
DIVIDE	960.00	\$224,800.00	\$234.17
DIVIDE (EnergyNet)	80.00	\$24,160.00	\$302.00
DUNN	243.30	\$2,287,020.00	\$9,400.00
G.VALLEY	2160.00	\$27,920.00	\$12.93
MCKENZIE	1516.80	\$2,143,981.00	\$1,413.49
MOUNTRAIL	340.00	\$3,654,000.00	\$10,747.06
SIOUX	2717.04	\$3,114.84	\$1.15
GRAND TOTALS	10541.64	\$8,454,709.80	\$802.03

Fall 2015 Surface Leasing Auction Results

The 2015 fall lease auctions were completed in October. Following are “the numbers” for this fall as compared to fall 2014.

	2014	2015
Number of counties	34	34
Total leases offered	1136	1044
Number of leases bid	1044 (92%)	1002 (96%)
Number of leases bid-up	160 (15%)	122 (12%)
Total amount of minimum advertised bids (leased tracts)	\$1,819,600	\$1,603,223
Total amount received	\$2,193,064	\$1,869,952
Competition factor (% of total income)	\$373,464 (17%)	\$266,729 (14%)

On behalf of the Board, the Commissioner has approved all fall surface leases.

Letters Regarding Three Affiliated Tribes’ Claims to State Minerals

The Department sent royalty demand letters to companies which operate wells access State sovereign minerals within the boundaries of the Fort Berthold Reservation, which include Missouri River minerals.

In response, the Department has received letters of concern from the United States Department of the Interior (US DOI) and an attorney with Fredericks Peebles and Morgan LLP, who represents the Three Affiliated Tribe.

The Department and its attorneys are in discussions with operators, the US DOI and tribal representatives in an effort identify a resolution.

A 2016 meeting schedule was provided and is published on the Secretary of State’s public meeting notices website.

ADJOURN

There being no further business, the meeting was adjourned at 11:30 AM.

Jack Dalrymple, Chairman
Board of University and School Lands

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