

**Minutes of the Meeting of the
Board of University and School Lands
March 31, 2016**

The March 31, 2016 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 present during open session:

Lance D. Gaebe	Commissioner
Jeff Engleson	Director, Investment Division
Drew Combs	Director, Minerals Division
Linda Fisher	Deputy Commissioner of Operations
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
Catelin Newell	Office Manager

Others in Attendance during open session:

Hope Hogan	Office of the Attorney General
Bonnie Storbakken	Governor's Legal Counsel
Levi Andrist	GA Group PC
Joel Gilbertson	GA Group PC
Lawrence Bender	Fredrikson & Byron, P.A.

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 February 25, 2016 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

Cancelation of Grants**Dickinson Theodore Roosevelt Regional Airport**

On October 29, 2015, the Land Board awarded \$2,225,460 to seven airports, including the Dickinson Theodore Roosevelt Regional Airport which was awarded \$535,100 for Benefit-Cost Analysis/Letter of Intent.

The North Dakota Aeronautics Commission received a letter dated January 22, 2016 from Dickinson Theodore Roosevelt Regional Airport indicating that Grant G160202, for a Benefit-Cost Analysis project can be closed. Due to the changing economic conditions all work pertaining to this grant is ceasing.

It is recommended by the ND Aeronautics Commission and the EIO that the remaining amount on Grant Number G160202 in the amount of \$517,980 be canceled.

Other Grants

In communications with other grantees during February 2016, additional awards were identified for possible cancellation. Most relate to balances remaining on completed projects where completed under the awarded amount. These grants were provided from Fiscal Year 2013 to Fiscal Year 2016.

The EIO recommended cancellation of the following list of grants and grant balances.

Political Subdivision	Year	Amount Awarded	Amount Paid	Balance	Project
Bowman County Airport Authority	2015	\$134,251.00	\$131,042.49	\$3,208.51	FAA 2014 - AIP #3 - Construction of Terminal/SRE Building/Wildlife Fence
Bowman County Airport Authority	2015	\$73,000.00	\$72,141.48	\$858.52	Construct Public Fueling Facility
Bowman County Rural Ambulance District	2016	\$52,830.00	\$46,188.12	\$6,641.88	Ambulance Equipment
Center-Stanton Psd #1	2016	\$19.00		\$19.00	Renovation and improvement projects
Dickinson Municipal Airport Authority	2016	\$535,100.00	\$17,120.00	\$517,980.00	BCA/LOI Application Documentation
Dunn County Airport Authority	2015	\$222,465.00	\$220,649.31	\$1,815.69	Design And Construct 100ll And Jet A Fuel Facility
Golden Valley Rural Fire Prot. District	2016	\$19,184.00	\$19,182.98	\$1.02	Scba's
Idaho Township	2014	\$200,000.00	\$198,098.34	\$1,901.66	83rd Ave North Improvements
Keene Township	2014	\$200,000.00	\$190,690.00	\$9,310.00	Rebuild 1 Mile And Build 1 New Mile Gravel Road
Kramer Fire District	2016	\$9,000.00		\$9,000.00	20 Fire Pagers And Programming
Marmarth Rural Fire District	2013	\$23,553.00	\$11,558.65	\$11,994.35	Purchasing Personal Protective Equipment
Mentor Township	2015	\$177,231.00	\$126,104.00	\$51,127.00	107th Avenue Repair
Mentor Township	2015	\$50,000.00	\$26,732.70	\$23,267.30	103rd Avenue Repair
Mentor Township	2015	\$25,000.00	\$20,355.00	\$4,645.00	108th Street Gravel
New Town Airport Authority	2016	\$42,535.00	\$42,469.74	\$65.26	Construct Ga Terminal Building
Parshall Rural Fire District	2014	\$124,000.00	\$123,593.05	\$406.95	Turnout/Scba
Powers Lake Psd #27	2014	\$15,000.00	\$1,995.79	\$13,004.21	Cost Of Contract Services - Financial And Construction Related Guidance
Spring Coulee Township	2015	\$150,000.00	\$149,650.00	\$350.00	Grade Raise On 43rd Street Nw
Tioga Psd #15	2014	\$15,000.00	\$2,165.81	\$12,834.19	Cost Of Contract Services - Financial And Construction Related Guidance
Trenton Fire District	2015	\$147,710.00	\$146,232.00	\$1,478.00	Replacement Of A 1976 Dodge
Trenton Township	2013	\$27,500.00	\$26,361.66	\$1,138.34	Bunker Gear
Trenton Township	2014	\$240,000.00	\$239,388.37	\$611.63	New Pumper Truck
Turtle Lake Municipal Airport	2015	\$31,252.00	\$30,459.85	\$792.15	Construct Airport Snow Removal Equipment Building

Total \$672,450.66

Motion: The Board canceled the 23 grants identified in the preceding list for a total of \$672,450.66. Subsequently, the Board declared the funds available within the oil and gas impact grant fund.

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		

Update on Program Funds

The following is the breakdown of program funds in the 2015-2017 biennium, of the \$139.3 million appropriated by the 2015 Legislature, \$41,873,272 in grant commitments have been provided by the Board. The following is a summary:

2015-2017 Biennium Breakdown (Combining like FY Rounds)					
Round or Award	#Applications	Amount of Projects	Amount Requested	#Awards	Amount Awarded
Airports FY 2016	28	\$9,717,451	\$3,531,497	28	\$3,000,775
EMS FY 2016	43	\$9,859,855	\$7,467,128	32	\$3,689,553
K-12 FY 2016	62	\$15,000,193	\$15,000,193	62	\$15,000,174
Law Enforcement FY 2016	59	\$22,102,479	\$19,853,329	54	\$7,788,580
Fire Districts	67	\$22,745,202	\$16,837,094	36	\$2,990,999
Local District Health Units	3	\$2,000,000	\$2,000,000	3	\$2,000,000
Emergency Request FY 2016	1	\$1,300,000	\$1,100,000	1	\$500,000
Critical Access Hospitals	7	\$9,699,199	\$5,405,945	7	\$5,000,000
Providers to Developmental Disabled	11	\$1,000,000	\$1,000,000	11	\$1,000,000
Domestic Violence	3	\$9,425,624	\$2,178,280	0	\$0
Sexual Assault Examiner	7	\$309,733	\$309,733	7	\$247,767
Human Trafficking	5	\$1,112,934	\$1,112,934	5	\$655,424
	296	\$104,272,670	\$75,796,133	246	\$41,873,272

The February 1, 2016 revised State revenue forecast projected the Oil and Gas Impact Grant Fund (OGIGF) will receive \$28.6 million of the \$140 million appropriated for the biennium. In response, the Board halted all new grant consideration and directed that active funded by grants that had not started to be suspended. The EIO has sent suspension notices on 64 grants to 53 grantees for a total of \$7.48 million.

Based on direction provided by the Assistant Attorney General, interpretation of HB 1176 Section 5, subsection 4 indicates funding must be provided as designated to critical access hospitals, providers serving individuals with developmental disabilities, human trafficking and sexual assault examiner programs. An additional \$6,096,809 needs to be awarded to these entities during the 2015-2017 biennium to satisfy this requirement.

A summary based on the projections is as follows:

2015-17 Biennium Projected Summary

Committed 2015-17 Biennium	\$41.87
Additional Required Grants	\$6.10
Projected Administrative Costs	\$0.62
Projected Total Commitments	\$48.59
Revised Revenue for the Oil and Gas Impact Grant Fund	\$28.60
Projected Revenue Shortfall	(\$19.99)

*In Millions

Cash flow considerations to address the shortfall include the \$7.48 million of grant suspensions and \$13 million of awards to Williston's Airport that is not expected to be drawn on until the 2017 construction season.

Status of all grants, both current and previous biennia as of March 21, 2016:

- 375 grants have an open balance, total commitments of \$63,815,408.98
- Of these, 12 grants are to 11 entities legally required to receive grants, total balances \$903,191

Since February 1, 2016, \$26.32 million in 201 reimbursements have been processed and paid. Three months prior (November 1, 2015 through January 31, 2016), 271 reimbursements totaling \$35.25 million were processed.

For the 2015-2017 Biennium, \$23,466,786.39 has been received from GPT distributions into the OGIGF. Distributions and reimbursements provided on current biennium grant commitments total \$23,711,110.70. The current biennium funding deficit of \$244,324.31 has been paid utilizing funds from past biennia.

As of March 21, 2016, unpaid grant commitments include \$45,119,540.33 for past biennia and \$18,695,868.65 for the current biennium, for a total of \$63,815,408.98 in commitments. Not including administrative costs, \$44,875,216.02 remains available in the OGIGF.

The EIO has requested legal counsel interpretation relating to carryover language in statute.

Emerging Counties Energy Impact Grants

A memo was presented to the Board regarding the determination of which counties are eligible for distribution of emerging counties grants. The memo is available at the Department.

S U R F A C E M A N A G E M E N T

Consideration of Easements for Dakota Access Pipeline

Dakota Access LLC plans to construct a crude oil transmission pipeline beginning near Stanley, ND and ending near Patoka, IL.

On December 16, 2015, the Board approved the general Dakota Access route involving 4 ½ miles of Trust land in Mountrail, Williams, and McKenzie Counties; and accepted the survey plats that the company provided. The site specific right-of-way environmental evaluations are completed.

On February 25, 2016, the Board instructed the Commissioner to work with Dakota Access on the terms and conditions of the easement and negotiate the easement consideration.

Dakota Access and the Commissioner have reached a proposed agreement of terms and conditions of the easement that will not jeopardize the Board's fiduciary responsibility to the Trust. The draft easement for each county, including the easement consideration for each county, was presented for the Board's review.

Motion: The Board approved the proposed Dakota Access LLC easement and offer of consideration for the route through Mountrail, Williams, and McKenzie Counties as depicted on the referenced easement documents.

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		

Complete copies of the referenced easement documents are available on file at the Department.

MINERALS MANAGEMENT

Proposed Assessment of Penalties and Interest on Late Payment of Royalties

The Commissioner requested that the Board table the Agenda Item related to the assessment of penalties and interest on late payment of royalties while the Department gathers additional information.

Without objection the matter was tabled until a later meeting.

OPERATIONS

Review of Performance Audit Report Draft (Report 3 of 3)

EXECUTIVE SESSION

N.D.C.C. § 44-04-19.2(1) provides authority for governing bodies to review confidential documents. According to N.D.C.C. § 54-10-26 the State Auditor's Office audit report and Department responses to it, are deemed confidential while in draft form.

As directed by the Legislative Audit and Fiscal Review Committee, since January 2015 the State Auditor's Office has been conducting a performance examination of the Department. The identified audit objectives include:

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

The first two reports pertaining to Unclaimed Property and Energy Infrastructure and Impact were finalized and released to the public by the State Auditor on February 25, 2016.

The final chapter of the third report, related to the effectiveness and efficiency of the Department in obtaining, accounting for, and use of resources was delivered to the Department for response on March 24, 2016.

All three reports are anticipated to be included for consideration by the Legislative Audit and Fiscal Review Committee at its next meeting which is scheduled for April 21, 2016. The Auditor's Office has requested Department responses on the findings in the third report by April 14, 2016.

The draft report and the Department proposed responses are considered a part of the draft report and a confidential record according to N.D.C.C. § 54-10-26. The Board may review and discuss the confidential record in executive session. NDCC 44-04-19.2(1) gives governing bodies the authority to enter into executive session to review these type of records.

Motion: The State Auditor's Office performance audit report regarding the Department is deemed confidential while in draft form according to N.D.C.C. § 54-10-26; in order to review and discuss the confidential draft audit report, the Board entered executive session, permitted under N.D.C.C. § 44-04-19.2(1).

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		

At 9:28 AM the Board entered executive session for review the State Auditor's Office audit report and Department responses to it, which are deemed confidential while in draft form.

EXECUTIVE SESSION

Members Present:

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

Department of Trust Lands Personnel Present:

Lance D. Gaebe	Commissioner
Jeff Engleson	Director, Investment Division
Drew Combs	Director, Minerals Division
Linda Fisher	Deputy Commissioner of Operations
Peggy Gudvangen	Director, Accounting
Mike Humann	Director, Surface Division
Taylor Lee	Director, Revenue Compliance
Catelin Newell	Office Manager

Others in Attendance:

Hope Hogan	Office of the Attorney General
Bonnie Storbakken	Governor's Legal Counsel

No action was taken during the Executive Session which was adjourned at 10:28 AM and the Board returned to open session and the public was invited to return to the meeting.

R E P O R T S

Investment Updates

The table below shows the status of the asset allocation of the permanent trusts as of February 29, 2016. It includes:

- The long-term asset allocation approved by the Board in September of 2013
- Interim allocations to asset classes in place for the quarter, while the trusts await to fully fund all real estate mandates

Account/Asset Class	Long-Term Asset Allocation	Interim Target Allocation	Interim % +/- Weight	2/29 Actual Allocation \$	2/29 Actual Allocation %
Large Cap US Equity	13.5%	14.0%	3.7%	\$ 464,134,405	13.7%
Small Cap US Equity	3.5%	3.7%	5.7%	\$ 120,779,182	3.6%
International Equity	12.0%	12.4%	3.3%	\$ 406,205,932	12.0%
Emerging Market Equity	3.0%	3.2%	6.7%	\$ 111,179,697	3.3%
Total Equities	32.0%	33.3%	4.1%	\$ 1,102,299,214	32.6%
Domestic Investment Grade	14.2%	15.8%	11.3%	\$ 526,797,431	15.6%
High Yield FI	3.0%	3.2%	6.7%	\$ 108,601,895	3.2%
International/Global FI	5.8%	6.3%	8.6%	\$ 211,250,462	6.2%
Total Fixed Income	23.0%	25.3%	10.0%	\$ 846,649,789	25.0%
Total Absolute Return	20.0%	21.0%	5.0%	\$ 700,974,489	20.7%
Commodities	3.0%	3.1%	3.3%	\$ 103,593,289	3.1%
MLPs	3.0%	3.1%	3.3%	\$ 103,563,535	3.1%
TIPS	2.0%	2.1%	5.0%	\$ 71,452,058	2.1%
Natural Resource Equities	2.0%	2.1%	5.0%	\$ 75,704,704	2.2%
Total Inflation Strategies	10.0%	10.4%	4.0%	\$ 354,313,587	10.5%
Core Real Estate	8.0%	8.0%	0.0%	\$ 313,728,951	9.3%
Core Plus Real Estate	7.0%	2.0%	-71.4%	\$ 76,722,725	2.3%
Total Real Estate	15.0%	10.0%	-33.3%	\$ 390,451,677	11.5%
Total Asset	100.0%	100.0%		\$ 3,394,688,756	100.4%

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 continue to be adjusted toward the long-term target allocations.

Ten percent of the permanent trusts' 15% allocation to fixed income has been funded. Based upon communications with managers, the assessment of when the remaining real estate commitments will be funded is:

- Prologis \$75.0 million April 14, 2016
- JP Morgan \$113.0 million by year-end 2016

Personnel Change at RVK

The Department recently learned that Kristen Steffens, one of the two primary RVK consultants who have worked on the Board's account since the beginning in 2013, recently left RVK. Kristen has taken a job with an investment management firm that will require less travel.

Although Marcia Beard has been the lead consultant on the account, Kristen was responsible for coordinating much of the work for the Board. The Board and Department have worked with many capable RVK professionals and the Commissioner is confident that RVK will continue to provide the expected services.

Personnel Change at Research Affiliates - Jason Hsu stepping down

On March 7, 2016, the Department learned that Jason Hsu, co-founder and Vice Chairman of Research Affiliates (RA) would cease employment with the firm and instead serve as Chairman and CEO of his own Hong Kong based firm. RA manages the All Assets All Authority product for PIMCO. The Board currently has approximately 7% of permanent trust assets (\$245 million) invested in PIMCO's AAAA product.

While this is a significant development, after visiting with Research Affiliates in their offices, RVK does not believe immediate action is warranted.

Some of the reasons RVK is not concerned include:

- Mr. Hsu will remain closely involved with RA as Vice Chairman.
- Mr. Hsu continues to hold a significant ownership interest in RA.
- Mr. Hsu will continue to collaborate with research efforts at RA.
- Mr. Hsu will remain in Newport Beach.
- Mr. Hsu had no direct reports at RA and no direct involvement in portfolio management.
- Mr. Hsu's recent focus has been on smart beta research, not portfolio management.

The Research Affiliates situation will continue to be closely monitored.

The Board reviewed an unaudited Quarterly Financial Report for Period Ended December, 2015.

Report of Easements Issued by Land Commissioner 02-16-16 through 03-14-16

Granted to:	WHITING OIL AND GAS CORPORATION, DENVER-CO
For the Purpose of:	Permit: Access Road
Legal Description:	WIL-154-98-16-NE4, SE4
Granted to:	BRIDGER PIPELINE LLC, CASPER-WY
For the Purpose of:	Easement-Amend: Drop Line-Pipeline
Legal Description:	DUN-147-96-36-NE4
Granted to:	HILAND CRUDE LLC, HOUSTON-TX
For the Purpose of:	Easement: Drop Line-Oil Gathering Pipeline
Legal Description:	MCK-153-96-16-SE4
Granted to:	PARADIGM MIDSTREAM SERVICES ND LLC., IRVING-TX
For the Purpose of:	Easement-Amend: Drop Line-Pipeline
Legal Description:	MCK-153-95-16-NW4
Granted to:	ATKINS NORTH AMERICA, INC., AUSTIN-TX
For the Purpose of:	Permit: General Land Surveys
Legal Description:	WAR-155-84-1- SW4NW4 LYING N & E OF RIVER CENTERLINE
Granted to:	DOCKTER, DENHOFF-ND
For the Purpose of:	Permit: Access Road
Legal Description:	SHE-145-75-16-NE4
Granted to:	EOG RESOURCES INC, DENVER-CO
For the Purpose of:	Easement: Multiple Pipelines
Legal Description:	MCK-152-95-36-LOTS 1, 2

Granted to: **BILLINGS COUNTY, MEDORA-ND**
For the Purpose of: Permit: Temporary Construction
Legal Description: BIL-144-100-16-SE4

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: **CALIBER MIDSTREAM ND LLC, DENVER-CO**
For the Purpose of: Letter of Permission: Access to School Land for the purpose of
frac water
Legal Description: MCK-151-100-16-NW4

Granted to: **SELECT ENERGY SERVICES LLC, WILLISTON-ND**
For the Purpose of: Letter of Permission: Access to School Land for the purpose of
frac water
Legal Description: WIL-155-96-36-N2SE4, SW4SE4, NE4

Granted to: **MBI ENERGY SERVICES, KILLDEER-ND**
For the Purpose of: Letter of Permission: Access to School Land for the purpose of
frac water
Legal Description: MOU-154-93-16-NE4, SE4

A D J O U R N

There being no further business, the meeting was adjourned at 10:39 AM.

Jack Dalrymple, Chairman
Board of University and School Lands

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