

**Minutes of the Meeting of the
Board of University and School Lands
April 28, 2016**

The April 28, 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:

Lance D. Gaebe	Commissioner
Drew Combs	Director, Minerals Division
Levi Erdmann	Investment Analyst
Linda Fisher	Deputy Commissioner of Operations
Mike Haupt	Land Management Professional
Mike Humann	Director, Surface Division
Taylor Lee	Director, Revenue Compliance
Gerry Fisher	Director, Grants and Claims
Rick Owings	Assistant Energy Impact Director

Guests in Attendance:

Dave Garner	Office of the Attorney General
Matt Sagsveen	Office of the Attorney General
Savannah Schmidt	BCI
Bonnie Storbakken	Governor's Legal Counsel
Anthony Ford	Crowley Fleck PLLP
Jim Melchior	Coyote Creek Mine
Chris Friez	NA Coal
David Straley	NA Coal
James MacPherson	Associated Press
Nick Smith	Bismarck Tribune
Mike Nowatski	Forum News Service

APPROVAL OF MINUTES

A motion to approve the minutes of the March 31, 2016 meeting was made by Secretary of State Al Jaeger and seconded by Attorney General Wayne Stenehjem and the motion carried unanimously on a voice vote.

ENERGY INFRASTRUCTURE AND IMPACT OFFICE

Human Trafficking Victim Treatment and Support Services Impact Grant

Law enforcement agencies experiencing impacts from oil and gas development were allocated \$10 million by the 2015 Legislature in House Bill 1176 from the Oil and Gas Impact Grant Fund (OGIGF). Of the \$10 million appropriated for law enforcement, \$750,000 was designated by Senate Bill 2199 for grants to organizations involved in providing prevention and treatment services related

to human trafficking victims in hub cities located in oil-producing counties. In January 2016, the Board awarded \$655,424 of this \$750,000 to five entities. There is \$94,576 available for future awards.

Grant guidelines gave consideration to the development and implementation of direct care, emergency or long term crisis services, residential care, training of law enforcement and victim service providers, support of advocacy services, and programs promoting outcomes for victims.

The following Human Trafficking Victim Treatment and Support Services Grant application was recently received:

Human Trafficking Victim Treatment and Support Services Grant Application

Applicant	City	Application #	Project	Amount of Project	Amount Requested
CAWS ND	BISMARCK	A160342	Statewide Training, Consultant Training & Formation of a John's School	\$94,576	\$94,576

The Council on Abused Women's Services of North Dakota (CAWS ND) is a nonprofit membership organization representing the 20 domestic violence and sexual assault crisis intervention centers throughout the state including those located in the hub cities located within oil-producing counties. Its mission includes providing leadership and support in the identification, intervention and prevention of sexual and domestic violence.

A legal review indicates that the language within SB 2199 regarding the \$750,000 appropriation for Human Trafficking and SB 2284 regarding the \$250,000 appropriated for Sexual Assault Examiner Programs are required to be funded. These both are part of the \$10 million designated for law enforcement within HB 1176.

While the Board halted new grant activity in February 2016 based on revised State revenue projections, based on advice of counsel, the obligation to award the full \$750,000 for Human Trafficking is required.

The following recommended award is offered by the Attorney General and the EIO:

Human Trafficking Victim Treatment and Support Services Grant Recommendation

Applicant	City	Application #	Project	Amount Recommended
CAWS ND	BISMARCK	A160342	Statewide Training, Consultant Training & Formation of a John's School	\$94,576

Motion: The Board awarded \$94,576 from the Oil and Gas Impact Grant Fund to CAWS ND, a provider of human trafficking services to victims in hub cities located in oil-producing counties. With this action, the Board affirmed the full \$750,000 as designated for human trafficking programs by the 2015 Legislative Assembly within Senate Bill 2199, has been met.

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		

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

Requests for Off Lease Well Locations

The Department operates under Commissioner adopted guidelines to evaluate requests for off-lease easement locations for oil well sites and well bores on Trust surface. A copy of the Department's off lease well location guidelines was presented to the Board and is available at the Department.

Commonly, delays in the process of obtaining a well location on federal surface pushes companies to request well pads on private or state surface acres in order to drill minerals in a neighboring spacing unit. The Board reviewed several examples of off-lease oil well site requests and it discussed options that would not jeopardize the future production of Trust minerals. The Board directed the Commissioner and staff to continue to work to ensure that the Trusts, including sovereign minerals, are appropriately compensated and fairly treated.

Road Closure Issue – Coyote Creek Mine – Mercer County

The Coyote Creek Mining Company (CCMC) has successfully petitioned the Mercer County Commission to temporarily close area roads and section lines in accordance with N.D.C.C § 38-01-07.1 and 38-01-07.2 in order to conduct surface coal mining and reclamation operations at the Coyote Creek mine southwest of Beulah. The CCMC's request for temporary road and section line closure includes Common Schools Trust surface in the North 1/2 and SW 1/4 of Section 36, T143N, R89W and mineral interest under all of Section 36.

Included in this closure is an undocumented road across the SW 1/4 of Section 36. The action approved by Mercer County was subject to a plan developed by the CCMC that would provide viable substitute east-west access routes across the mine area during mining operations. Nonetheless, land owners near the area are appealing the Mercer County decision to close the undocumented road across the SW 1/4 of Section 36.

In a lawsuit, the plaintiffs are seeking to preclude the mining in the area of referenced road. The CCMC estimates the impact to the Trust in terms of lost coal production royalties would be between \$250,000 to \$500,000.

The Department has offered Mercer County the opportunity to obtain an easement for the existing road, so it can be replaced following mining operations, but it has not yet applied. With no easement acquired by the county the Department intends to ask the CCMC to not rebuild the road as this would re-create a liability.

Motion: The Board requested that the Attorney General continue to take an active role in protecting the State Trusts' interests to permit coal to be mined, and that the Board defers to the Attorney General regarding the appropriate legal means to close an undocumented road and allow coal mining to commence.

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		

OPERATIONS

Performance Audit Follow-up and Implementation

The testimony and related materials presented at the April 21, 2016 Legislative Audit and Fiscal Review Committee (LAFRC) were provided to the Board and are available at the Department.

The materials are in regard to the three sections issued within the State Auditor's Report No.3036:

Section (a): Energy Infrastructure and Impact Office (publicly released February 25, 2016)

Section (b): Unclaimed Property (publicly released February 25, 2016)

Section (c): Trust Assets and Department Resources (publicly released April 19, 2016)

It is the Department's intent to provide the Board with regular reports regarding the progress on addressing audit recommendations.

REPORTS

Investment Updates

Asset Allocation

The table below shows the status of the asset allocation of the permanent trusts as of March 31, 2016. It includes:

Account/Asset Class	Long-Term Asset Allocation	Interim Target Allocation	Interim % +/- Weight	3/31 Actual Allocation \$	3/31 Actual Allocation %
Large Cap US Equity	13.5%	14.0%	3.7%	\$ 487,601,341	13.7%
Small Cap US Equity	3.5%	3.7%	5.7%	\$ 131,918,505	3.7%
International Equity	12.0%	12.4%	3.3%	\$ 433,816,196	12.2%
Emerging Market Equity	3.0%	3.2%	6.7%	\$ 113,291,296	3.2%
Total Equities	32.0%	33.3%	4.1%	\$ 1,166,627,339	32.8%
Domestic Investment Grade	14.2%	15.8%	11.3%	\$ 577,956,264	16.3%
High Yield FI	3.0%	3.2%	6.7%	\$ 111,070,193	3.1%
International/Global FI	5.8%	6.3%	8.6%	\$ 217,699,911	6.1%
Total Fixed Income	23.0%	25.3%	10.0%	\$ 906,726,368	25.5%
Total Absolute Return	20.0%	21.0%	5.0%	\$ 724,127,854	20.4%
Commodities	3.0%	3.1%	3.3%	\$ 103,180,420	2.9%
MLPs	3.0%	3.1%	3.3%	\$ 111,958,541	3.1%
TIPS	2.0%	2.1%	5.0%	\$ 72,682,158	2.0%
Natural Resource Equities	2.0%	2.1%	5.0%	\$ 73,467,883	2.1%
Total Inflation Strategies	10.0%	10.4%	4.0%	\$ 361,289,002	10.2%
Core Real Estate	8.0%	8.0%	0.0%	\$ 319,539,770	9.0%
Core Plus Real Estate	7.0%	2.0%	-71.4%	\$ 76,722,719	2.2%
Total Real Estate	15.0%	10.0%	-33.3%	\$ 396,262,489	11.1%
Total Asset	100.0%	100.0%		\$ 3,555,033,051	100.0%

Twelve percent of the permanent trusts' 15% allocation to fixed income has been funded. The trusts' \$75 million (2%) allocation to Prologis was fully funded earlier this month.

The \$113 million (3%) allocation to the J.P Morgan Income and Growth Fund will most likely be fully funded by the end of 2016. Once this occurs, the trusts' initial allocation to real estate will be fully funded, and the long-term target allocation will be reached.

Update on Changes at RVK

The Board was informed by RVK that Josh Kevan, CFA, has been added to the primary team that service the Land Board account, to replace Kristen Steffens as one of the primary contacts. Josh is a senior consultant and principal at RVK with over 15 years of industry experience.

Josh was part of the team that worked with the State Investment Board and the Legacy and Budget Stabilization Fund Advisory Board to develop an asset allocation for the Legacy fund a several years ago.

Change in Leadership at GMO

GMO announced the Brad Hilsabeck was stepping down from his role as CEO in April. Peg McGeshick, who currently serves on GMO's Board of Directors, will serve as CEO on an interim basis. GMO is one of the permanent trusts' absolute return managers. As of April 21, 2016 the value of this portfolio was \$244.2 million, which represents 6.8% of permanent trusts' total portfolio.

RVK and the Department do not believe this development is cause for immediate action, as Mr. Hilsabeck was not directly involved in the investment process at GMO. RVK will continue to monitor CEO search process and will report to the Board as needed.

The Board reviewed a Summary of Total Assets for Period Ended February 29, 2016.

Ethics Policy Review

The Board reviewed the ethics policy that it adopted for the Department and its employees in 1996. The policy was most recently reviewed and updated by the Board in 2010.

It is presented for awareness and consideration of possible adjustments or changes.

The Board reviewed its May 2016 Oil and Gas Lease Offering List

Report of Easements Issued by Land Commissioner (03-15-16 to 04-13-16)

Granted to:	DAKOTA ACCESS LLC, HOUSTON-TX
For the Purpose of:	Easement: Oil Transmission Pipeline
Legal Description:	MCK-150-96-36-NE4
Granted to:	BRIDGER PIPELINE LLC, CASPER-WY
For the Purpose of:	Easement: Drop Line-Oil Gathering Pipeline
Legal Description:	MCK-153-96-36-SE4
Granted to:	BURLINGTON RESOURCES OIL & GAS CO LP, BARTLESVILLE-OK
For the Purpose of:	On-lease Act. Amend: Oil Gathering Pipeline
Legal Description:	MCK-149-96-16-NW4
Granted to:	MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND
For the Purpose of:	Easement: Drop Line-Electric Distribution Line
Legal Description:	MOU-152-88-16-NE4, SE4
Granted to:	MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND
For the Purpose of:	Easement: Electric Distribution Line - Above Ground
Legal Description:	MCK-147-104-36-N2

<p>Granted to: For the Purpose of: Legal Description:</p>	<p>BRIDGER PIPELINE LLC, CASPER-WY Easement: Tank Battery BIL-141-101-22-NE4, BIL-141-101-23-NW4, S2</p>
<p>Granted to: For the Purpose of: Legal Description:</p>	<p>MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND Easement: Drop Line-Electric Distribution Line MOU-153-90-36-NW4</p>
<p>Granted to: For the Purpose of: Legal Description:</p>	<p>1804 OPERATING LLC, DALLAS-TX Easement: Drop Line-Saltwater Pipeline MCK-150-95-36-LOTS 1, 2</p>
<p>Granted to: For the Purpose of: Legal Description:</p>	<p>BNSF RAILWAY COMPANY, FORT WORTH-TX Permit: Access Road WIL-154-100-16-ALL</p>
<p>Granted to: For the Purpose of: Legal Description:</p>	<p>MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND Easement: Drop Line-Buried Electric Distribution Line MCK-150-95-36-LOTS 1, 2</p>
<p>Granted to: For the Purpose of: Legal Description:</p>	<p>DAKOTA ACCESS LLC, HOUSTON-TX Easement: Oil Transmission Pipeline MOU-156-93-36-N2, MOU-156-94-36-N2</p>
<p>Granted to: For the Purpose of: Legal Description:</p>	<p>DAKOTA ACCESS LLC, HOUSTON-TX Easement: Oil Transmission Pipeline WIL-156-95-36-S2, WIL-156-97-36-S2</p>
<p>Granted to: For the Purpose of: Legal Description:</p>	<p>HILAND CRUDE LLC, HOUSTON-TX Easement: Drop Line-Oil Gathering Pipeline WIL-154-99-16-N2</p>
<p>Granted to: For the Purpose of: Legal Description:</p>	<p>HILAND CRUDE LLC, HOUSTON-TX Easement: Drop Line-Oil Gathering Pipeline MCK-153-96-16-SE4</p>
<p>Granted to: For the Purpose of: Legal Description:</p>	<p>MCKENZIE COUNTY, WATFORD CITY-ND Easement: Road Right-of-Way MCK-152-99-36-N2, SE4</p>
<p>Granted to: For the Purpose of: Legal Description:</p>	<p>LIBERTY RESOURCES BAKKEN OPERATING LLC, DENVER-CO On-lease Act. Amend: Multiple Pipelines WIL-158-95-16-SW4</p>
<p>Granted to: For the Purpose of: Legal Description:</p>	<p>MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND Easement: Drop Line-Electric Distribution Line MCK-149-95-16-NW4</p>
<p>Granted to: For the Purpose of: Legal Description:</p>	<p>BRIDGER PIPELINE LLC, CASPER-WY Easement: Drop Line-Oil Gathering Pipeline MCK-153-97-16-N2</p>
<p>Granted to:</p>	<p>MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND</p>

For the Purpose of: Easement: Drop Line-Electric Distribution Line
 Legal Description: MCK-153-98-36-SW4

Granted to: HENRY HILL OIL SERVICES LLC, WILLISTON-ND
 For the Purpose of: Assignment: Salt Water Disposal Well-Assignment
 Legal Description: WIL-154-100-16-SE4

Granted to: HILAND CRUDE LLC, HOUSTON-TX
 For the Purpose of: Easement: Drop Line-Oil Gathering Pipeline
 Legal Description: MCK-150-98-36-S2

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: WEST DAKOTA WATER LLC, WILLISTON-ND
 For the Purpose of: Letter of Permission: Access to School Land (frac project)
 Legal Description: MCK-152-98-16-N2

Granted to: ROCKWATER ENERGY SOLUTIONS, DICKINSON-ND
 For the Purpose of: Letter of Permission: Access to School Land (frac project)
 Legal Description: WIL-154-100-16-S2

A D J O U R N

There being no further business, the meeting was adjourned at 10:32 AM.

Jack Dalrymple, Chairman
 Board of University and School Lands

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