

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

The July 28, 2016 meeting of the Board of University and School Lands in the Governor's Conference Room was called to order 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
Jeff Engleson	Director, Investment Division
Allisen Bement	Mineral Title Specialist
Drew Combs	Director, Minerals Division
Taylor Lee	Director, Revenue Compliance
Gerry Fisher	Director, Grants and Claims
Rick Owings	Assistant Energy Impact Director
Catelin Newell	Office Manager

Guests in Attendance:

Hope Hogan	Office of the Attorney General
Jen Verleger	Office of the Attorney General
Bonnie Storbakken	Governor's Legal Counsel (via telephone)
Jason Nisbet	Governor's Office
John Paczkowski	Office of the State Engineer
Mike Schoepf	Fredrikson & Byron
Kyle Wanner	ND Aeronautics Commission
Nick Smith	Bismarck Tribune
Mike Nowatski	Forum News Service

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 June 30, 2016 meeting was made by State Treasurer Kelly Schmidt and seconded by Attorney General Wayne Stenehjem and the motion carried unanimously 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

Approval of Financial Sponsors for Human Trafficking Grants

As passed by the 2015 Legislature, Senate Bill 2199 allocated \$750,000 for grants toward prevention and treatment services related to human trafficking victims in hub cities located in oil-producing counties and Senate Bill 2284 separately allocated \$250,000 for community-based sexual assault examiner programs.

Two grants which had been previously awarded directly to the agencies have submitted applications to instead direct the funds to political subdivisions as legally required.

Transfer of Grants from Agencies to Sponsoring Political Subdivisions

Agency	City	County	Sponsoring Political Subdivision	Project	Grant Amount
Legal Services Of North Dakota	Bismarck	Burleigh	Mountrail County	Staffing, Travel, Training, Litigation Expenses	\$79,398
Minot Community Foundation – 4her	Minot	Ward	City Of Watford City	Staffing, Travel, Training, Supplies, Consulting	\$109,900

\$189,298

Motion: The Board approved the transfer of the two referenced grants for human trafficking from the agencies to the political subdivisions identified in the preceding list.

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		

Biennial Carryover of Grants:

The revised revenue forecast released in February 2016 projected the Oil and Gas Impact Grant Fund (OGIGF) to receive \$28.6 million of the \$140 million as appropriated by the 2015 legislature. The significant drop in the price of oil reduced collections of Gross Production Tax (GPT) and thus lowered distributions to the OGIGF.

The revenue shortfall prompted several steps:

1. Scheduled grant round processes were postponed in February 2016.
2. In February 2016, \$7.3 million of grants were suspended for projects not started or where no commitment had been made by the grantee.
3. A legal analysis determined that of the legislative allocations apportionments to Sexual Assault Nurse Examiners Programs, Human Trafficking Advocacy Programs, Critical Access Hospitals and Providers to the Developmentally Disabled were required to be provided, but that based on the legislation other grants were subject to availability of funds.

During its meeting the Board reviewed a legal memo regarding the carryover of grants to the next biennium for which money is not presently available. The assessment was sought because \$42 million had already been awarded with another \$6 million legislatively required to be distributed in January 2017. These \$48 million in obligations exceed the revised revenue projection of \$28.6 million to the OGIGF. The memo indicated that it is likely the legislature did not contemplate a funding shortfall and it recommended that the legislature be asked to address the outstanding grant commitments issue.

Revenue Update:

While the February state revenue forecast projected that the OGIGF would receive \$28.6 million, a revised revenue forecast released in July 2016 changed that projection to \$73.4 million. As of July 22, 2016, the oil and gas impact grant fund has received \$30,731,049.13 from distributions of gross production tax collections for the 2015-17 biennium.

The EIO was directed to develop a recommendation for prioritizing the unaddressed legislative allocations.

MINERALS MANAGEMENT

Sovereign Lands Litigation Update

The Board reviewed a summary of litigation in which it is involved regarding sovereign lands and minerals.

In December 2013, the North Dakota Supreme Court issued a decision in *Reep v State* and *Brigham v State* holding that the State of North Dakota owns the mineral interests up to the ordinary high water mark (OHWM) of navigable rivers and water bodies. Notwithstanding affirmation of the State's ownership of the land and minerals to the OHWM in *Reep* and *Brigham*, litigation on specific local circumstances and river features continue.

Whiting Oil and Gas Corp. v. Arlen A. Dean, et al.

Whiting Oil and Gas Corporation ("Whiting") operates the Kuykendall 34-31-1H well located in McKenzie County near the Montana border. The Yellowstone River flows through the Kuykendall well spacing unit. Over time, the river has shifted westward. There are also islands within the Kuykendall spacing unit. On January 25, 2016, Whiting filed this interpleader action to resolve alleged title questions that have arisen due to the Yellowstone River. Because of these title questions, Whiting is withholding royalty payments. In its lawsuit, Whiting essentially asks the court to require all those asserting title to the minerals in the spacing unit to set forth and prove their claims, and once the court rules on those claims, Whiting will know who to pay.

The Board claims a mineral interest under the Yellowstone River, including the islands, and the Board also claims a 5% mineral interest in some of the riparian tracts in this spacing unit.

The Board and the State Engineer filed a joint response to the Complaint and several cross claims that have been made against the State. A scheduling order has not been issued.

William S. Wilkinson v. Board of University and School Lands, et al.

Williams County District Court

The Wilkinson lawsuit was filed on January 10, 2012. The Plaintiffs assert that they own minerals in about 200 acres west of Williston. This suit was initially filed in state court as a quiet title action. The Attorney General's Office filed an Answer and Counterclaim on February 27, 2012.

On July 1, 2014, the Plaintiffs filed an amended complaint in the case and added claims of unconstitutional takings, conversion, constructive trust and unjust enrichment, civil conspiracy and deprivation of rights under 42 U.S.C. § 1983. The Plaintiffs assert in their amended complaint that the Board should be issuing leases on the west side of the Highway 85 Bridge pursuant to the Phase II Investigation – the historical Missouri River – rather than the Phase I Delineation – current location of the OHWM. The Plaintiffs argue that the subject property is located under Lake Sakakawea, which did not exist at statehood, and thus the state did not acquire title to it as sovereign lands. Therefore, the State's title to the Missouri River is limited to the channel as it existed prior to inundation of Lake Sakakawea.

In January, the State Engineer filed a motion to intervene in the case, which was granted. A joint motion for summary judgment was filed by the Board and the State Engineer on March 1, 2016. This motion was opposed by the Wilkinson family. On May 18, 2016, the district court granted the motion for summary judgment finding that: (1) the subject property is located along the Missouri River, which is no doubt navigable; (2) The Phase I Delineation should be used to determine the OHWM for the subject property rather than the Phase II Investigation, and therefore the property is determined to be sovereign land of the state of North Dakota; (3) to the extent the Plaintiffs are aggrieved by the Phase I Delineation, they must exhaust their administrative remedies through the State Engineer before making a claim in district court; and (4) there are no ground to support Counts II through VII. The Plaintiffs filed a notice of appeal on June 1, 2016. On the same day, EOG Resources, Inc. filed

a motion for reconsideration with the district court. EOG is requesting the Court amend its order to eliminate what EOG believes is unnecessarily broad language in the order regarding mineral acres located east of the Highway 85 Bridge. The Supreme Court has remanded this case back to the district court to address EOG's motion. A response from the Board and State Engineer is due August 1, 2016.

EEE Minerals, LLC et al. v. State of North Dakota et al.

U.S. District Court – District of ND (Western)

On July 31, 2014, the Attorney General's Office was served with a complaint in the above referenced matter. This case is requesting class action certification and alleges identical causes of action to the *Wilkinson* case. In January 2016, the State Engineer filed a motion to intervene, which was granted on March 3, 2016. Also in March, the Plaintiffs amended their complaint to: (1) add two additional named plaintiffs, (2) expand the scope of the proposed class action property from the Montana border to the border of the Fort Berthold reservation, and (3) add as defendants all of the Board's lessees. On May 13, 2016, several of the recently added defendants removed the case to federal court based on diversity and federal questions. On June 11, 2016, the Board and the State Engineer filed a motion to dismiss arguing that: (1) the counts of the amended complaint that address the US Constitution and US Code are not ripe; and (2) asserting the State's right to sovereign immunity. Several other motions to dismiss have been filed by the other defendants, as well as motions to join the United States as a defendant. The Plaintiffs have requested oral arguments on the motions to dismiss.

Statoil Oil & Gas, LP v. Abaco Energy, LLC, et al.

Williams County District Court

Statoil Oil & Gas, LP v. 1280 Royalties LLC, et al.

Williams County District Court

Similar to the *Whiting* case listed above, Statoil has filed these two cases as interpleaders for the lands underlying spacing units operated by Statoil which are located east of the Bridge. Statoil is requesting the Court determine the property interests for the spacing units so that Statoil can correctly distribute the proceeds from the wells. The federal government claims a mineral interest to portions of the subject lands in both cases. Statoil acknowledges in the complaint that the United States claims an interest but is not amenable to state court jurisdiction.

In both cases, a motion to dismiss for failure to name indispensable parties – the United States – was made and granted by the Court. In essence, the motions addressed whether title could be decided without the United States as a party to the case. Both cases were appeal and are now pending before the ND Supreme Court.

Whitetail Wave, LLC v. XTO Energy, Inc., et al.

McKenzie District Court

On August 1, 2015, the Attorney General's Office was served with a complaint in the above referenced case. This case is also challenging the State's determination of the OHWM east of the Highway 85 Bridge. The Board has currently leased minerals pursuant to the Phase II Investigation for this tract. The Plaintiff is requesting that title to the minerals be quieted and has alleged claims of Unconstitutional takings, trespass, slander of title, and constructive trust/unjust enrichment against the State. The complaint also makes a number of claims specific to only XTO, the operator of the wells on the tracts in dispute. Specifically, the Plaintiff is requesting that the State's claim to sovereign lands' mineral interest be restricted to those minerals located below the OHWM of the Missouri River prior to inundation of the Lake Sakakawea.

An answer was filed on behalf of the Board on July 21, 2015. In January 2016, the State Engineer intervened in the case. The parties are currently engaged in discovery. The Court has not scheduled a trial date or issued a scheduling order.

**Mary K. Starin v. Kelly Schmidt, et al.
Williams County District Court**

The Plaintiff initiated this quiet title action to determine title to property located under Lake Sakakawea. In 1939, the State acquired the disputed property through a foreclosure of a Bank of North Dakota loan. The State then sold the property through a contract for deed in 1945 to the Plaintiff's predecessors in interest. Pursuant to state law, the state reserved 50% of the minerals. The Special Warranty Deed issued after satisfaction of the contract for deed was not recorded, and no one has a copy of the fully executed deed. The surface estate was later condemned as part of the Garrison Dam reservoir project. The Plaintiffs have brought this action to clear title to the 50% of the minerals that they believe to be theirs. The Board has leased the 50% mineral interest it reserved in this conveyance.

In January 2016, the State Engineer intervened in this case. The parties are currently engaged in discovery. The Court has not scheduled a trial date or issued a scheduling order.

**ND Office of State Engineer, Board of University and School Lands v. BLM
US Dept. of Interior Office of Hearings and Appeals – Board of Land Appeals
IBLA 2016-170**

In 2014, the Bureau of Land Management (BLM) resurveyed land along the Missouri River to locate the boundary (OHWM) between the public domain land owned by the United States and the riverbed owned by the state of North Dakota. In identifying the OHWM, the BLM applied federal law rather than state law. Specifically the BLM adopted the survey conducted by the Corps of Engineers as part of the Garrison Dam project. In certain areas, the survey overlaps with the state's claim to sovereign lands.

After the survey work was complete, the BLM published a "Notice of Filing Plats of Survey; North Dakota" in which BLM intended to formally file the survey plats as Official Plats. After the Federal Register Notice appeared, the State Engineer and the Board jointly filed a protest challenging the filing of the survey plats. The BLM rejected the State's protest and the State appealed the BLM's decision to the IBLA. The State is waiting for the decision on the appeal.

EXECUTIVE SESSION

Motion: Under the authority of North Dakota Century Code Sections 44-04-19.1 and 44-04-19.2, that the Board closes this meeting to the public and enters executive session for the purpose of consultation with its attorneys on pending and active litigation that challenge the State's claim to sovereign lands, including:

- **Whiting Oil and Gas Corp. v. Arlen A. Dean et al.**
- **William S. Wilkinson v. Board of University & School Lands, et al.**
- **EEE Minerals, LLC, et al. v. State of North Dakota, et al.**
- **Statoil Oil & Gas LP v. 1280 Royalties LLC, et al.**
- **Statoil Oil & Gas LP v. Abaco Energy, LLC et al.**
- **Whitetail Wave, LLC v. XTO Energy, Inc., et al.**
- **Mary K. Starin v. Kelly Schmidt, et al.**

And to review the Assigned Fund Balance within the Strategic Investment and Improvements Fund.

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 the purposes outlined in its adopted motion.

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
Allisen Bement	Mineral Title Specialist
Drew Combs	Director, Minerals Division
Taylor Lee	Director, Revenue Compliance
Catelin Newell	Office Manager

Authorized Guests in Attendance:

Hope Hogan	Office of the Attorney General
Jen Verleger	Office of the Attorney General
Bonnie Storbakken	Governor's Legal Counsel (via telephone)
Jason Nisbet	Governor's Office
John Paczkowski	Office of the State Engineer

No action was taken during the Executive Session which was adjourned at 11:34 AM and the Board returned to open session and the public was invited to return to the meeting.

OPERATIONS

Strategic Investment and Improvements Fund - Assigned Fund Balance

All Reservation Bonus	\$41,825,894
All Bonus West of Hwy 85 Bridge	40,462,849
All Royalties West of Hwy 85 Bridge	25,848,540
15 % of Bonus Between Hwy 85 Bridge and Four Bears Bridge	17,395,088
15 % of Royalties Between Hwy 85 Bridge and Four Bears Bridge	16,792,678
Recommended Assigned Fund Balance	\$142,325,049

Motion: **The Board affirmed the "Assigned Fund Balance" of the Strategic Investment and Improvements fund is \$142,325,049. These funds should not be transferred from the SIIF until title claims related to sovereign lands are resolved.**

Secondly, any material amounts collected in bonus, rent or royalty from the oil and gas minerals leased beneath navigable rivers should be designated as part of the "Assigned Fund Balance" as depicted in the preceding chart for both distribution and financial statement purposes.

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		

R E P O R T S

Summary of Total Assets (Unaudited) for Period Ended May 31, 2016

The Summary of Total Assets was reviewed by the Board.

Report of Easements Issued by Land Commissioner (6-14-16 through 7-11-16)

Granted to: For the Purpose of: Legal Description:	MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND Easement: Drop Line-Electric Distribution Line WIL-158-95-16-SW4
Granted to: For the Purpose of: Legal Description:	BURKE-DIVIDE ELECTRIC COOPERATIVE, COLUMBUS-ND Easement: Drop Line-Electric Distribution Line DIV-161-98-16-N2NW4
Granted to: For the Purpose of: Legal Description:	MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND Easement: Electric Distribution Line - Above Ground MOU-152-88-16-SE4
Granted to: For the Purpose of: Legal Description:	WESTERN AREA WATER SUPPLY AUTHORITY, WILLISTON-ND Easement: Potable Water Pipeline DIV-162-99-16-SE4, DIV-163-100-36-NW4, SW4
Granted to: For the Purpose of: Legal Description:	BASIN ELECTRIC POWER COOP INC, BISMARCK-ND Easement-Amend: Electric Transmission Line MCK-151-100-36-NE4, MCK-151-99-36-NE4, SE4
Granted to: For the Purpose of: Legal Description:	MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND Easement: Drop Line-Electric Distribution Line WIL-157-95-16-NE4
Granted to: For the Purpose of: Legal Description:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT Easement: Gas Gathering Pipeline DUN-148-96-16-N2SE4, SW4SE4, LOT 2, N2SW4, SE4SW4, LOT 1
Granted to: For the Purpose of: Legal Description:	MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND Easement: Drop Line-Electric Distribution Line WIL-159-96-16-NW4
Granted to: For the Purpose of: Legal Description:	BASIN ELECTRIC POWER COOP INC, BISMARCK-ND Easement-Amend: Electric Transmission Line WIL-156-100-16-NE4
Granted to: For the Purpose of: Legal Description:	HENRY HILL OIL SERVICES LLC, WILLISTON-ND Easement: Salt Water Disposal Well WIL-154-100-16-SE4
Granted to: For the Purpose of: Legal Description:	NP RESOURCES LLC, DENVER-CO Easement: Directional Wellsite Location GOL-143-103-36-NE4

Granted to: ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT
 For the Purpose of: Easement: Drop Line-Gas Gathering Pipeline
 Legal Description: DUN-148-96-36-SW4

Granted to: ONEOK BAKKEN PIPELINE LLC, SIDNEY-MT
 For the Purpose of: Easement-Amend: Gas Gathering Pipeline
 Legal Description: MCK-148-98-16-NE4

Granted to: WESTERN AREA WATER SUPPLY AUTHORITY, WILLISTON-ND
 For the Purpose of: Easement: Potable Water Pipeline
 Legal Description: WIL-157-95-16-SE4, SW4

Granted to: ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT
 For the Purpose of: Easement: Drop Line-Gas Gathering Pipeline
 Legal Description: MCK-153-94-36-SW4

Granted to: RESERVATION TELEPHONE COOPERATIVE, PARSHALL-ND
 For the Purpose of: Easement: Communication Cable - Buried
 Legal Description: BRK-159-90-36-NW4, SW4

Granted to: WESTERN AREA WATER SUPPLY AUTHORITY, WILLISTON-ND
 For the Purpose of: Easement: Potable Water Pipeline
 Legal Description: MCK-153-97-16-NE4, NW4, SE4

Granted to: WISE TOWNSHIP, MERCER-ND
 For the Purpose of: Easement: Road Right-of-Way
 Legal Description: MCL-147-79-16-SE4

Granted to: WHITING OIL AND GAS CORPORATION, DENVER-CO
 For the Purpose of: Easement: Gas Gathering Pipeline
 Legal Description: MOU-155-91-22-N2SW4

Granted to: WHITING OIL AND GAS CORPORATION, DENVER-CO
 For the Purpose of: On-lease Act. Amend: Horizontal Oil Well
 Legal Description: WIL-156-101-36-SE4

Granted to: STREAMLINE WATER SERVICES LLC, WATFORD CITY-ND
 For the Purpose of: Letter of Permission: Access to School Land for the purpose of
 Temporary Surface Frac Water Pipeline
 Legal Description: MCK-150-98-36-NW4, SE4, SW4

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: NDSU (DEPT 7650), FARGO-ND
 For the Purpose of: Letter of Permission: Access to School Land to Conduct a
 Wetland Vegetation Study
 Legal Description: WAR-151-81-16-SE4, SW4, WAR-152-84-36-NW4, SW4

Investment Updates

The Board reviewed the status of the asset allocation of the permanent trusts as of July 20, 2016.

Account/Asset Class	Long-Term Asset Allocation	7/20 Actual Allocation \$	7/20 Actual Allocation %
Large Cap US Equity	13.5%	\$ 512,527,998	13.7%
Small Cap US Equity	3.5%	\$ 135,479,802	3.6%
International Equity	12.0%	\$ 440,393,131	11.7%
Emerging Market Equity	3.0%	\$ 121,473,672	3.2%
Total Equities	32.0%	\$ 1,209,874,602	32.3%
Domestic Investment Grade	14.2%	\$ 532,102,795	14.2%
High Yield FI	3.0%	\$ 112,027,282	3.0%
International/Global FI	5.8%	\$ 215,856,284	5.8%
Total Fixed Income	23.0%	\$ 859,986,361	22.9%
Total Absolute Return	20.0%	\$ 750,761,995	20.0%
Commodities	3.0%	\$ 106,984,286	2.9%
MLPs	3.0%	\$ 114,268,223	3.0%
TIPS	2.0%	\$ 74,009,778	2.0%
Natural Resource Equities	2.0%	\$ 72,167,546	1.9%
Total Inflation Strategies	10.0%	\$ 367,429,833	9.8%
Core Real Estate	8.0%	\$ 324,557,636	8.7%
Core Plus Real Estate	7.0%	\$ 235,806,840	6.3%
Total Real Estate	15.0%	\$ 560,364,476	14.9%
Total Asset	100.0%	\$ 3,748,417,268	100.0%

On July 1, 2016 \$84.75 million of the \$113.0 million (3%) allocation to J.P. Morgan Income and Growth Fund was funded. It is expected that the balance of the commitment (\$28.25 million) will be called in October, 2016.

Changes at GMO: (\$250 million, 6.7% of assets)

The Board learned that GMO's co-head of its asset allocation team, Sam Wilderman will be leaving GMO at the end of the year. RVK and Department staff recommended that the Board maintain exposure to the GMO Benchmark Free Allocation Fund. RVK's memo on GMO was reviewed by the Board.

JP Morgan Income and Growth - Reduced Fee

JP Morgan informed the Board that fees will be reduced for investments in the Income and Growth Fund effective October 1, 2016. The effective rate for the \$113.0 million investment in this fund will drop from 125 bps to 96 bps. This change will save the permanent trusts about \$327,000 annually in fees.

New CEO at PIMCO (\$251 million, 6.7% of assets)

PIMCO's Managing Directors appointed Emmanuel (Manny) Roman as its new Chief Executive Officer, effective November 1, 2016. Mr. Roman has nearly 3 decades of investment experience and is currently CEO of Man Group, PLC. He has previous leadership roles at Goldman Sachs and GLG Partners, Inc. Current CEO Doug Hodge will assume the new role of Managing Director and Senior Advisor.

Revenue Compliance Division Update

The Department's Revenue Compliance Division ensures that royalties and other collections are complete and accurate. Oil and gas royalty payments are reviewed to determine if accordance with lease terms, rules and regulations, and state statutes. The total oil and gas royalties and interest and penalties collected in FY 2016 was \$192,733,443, a decrease of 42.25% from the prior fiscal year. Included in this total is \$1,756,032, which is a result of enhanced efforts to examine royalty reports and submittals.

REVENUE COMPLIANCE SUMMARY			
	Biennium 2013-2015		Biennium to Date (07-01-15 thru 6-30-16)
Additional Royalties Collected	\$10,519,938		\$915,778
Additional Taxes or Other Deductions Collected	720,158		353,256
Penalties Collected	563,726		486,998
Total Collected	\$11,803,822		\$1,756,032
NDIC Report Corrections	221		12

The penalty provision in the Department's lease is calculated at the rate of 1% per 30 days. The penalty may be assessed in lieu of seeking interest on late royalty payments as provided by N.D.C.C. 47-16-39.1.

In 2015 a new electronic royalty reporting form was implemented which reduced manual data entry and eliminated third party vendor costs by approximately \$40,000 per year. This transition has allowed the division to shift from data entry to audit focused. An oil and gas royalty auditor position was added in December 2015. The Department has implemented a comprehensive oil and gas audit program. There are currently eight ongoing oil and gas audits.

Despite the decline in oil and gas revenues, there has been an increase in both the number of wells and transactions. Last biennium, royalties were received from 4,853 producing properties. During the current biennium through June 2016, royalties from 5,337 producing properties were received. Total lines of data reported have increased from about 357,000 lines in FY 2015 to 433,000 lines in FY 2016.

The Department continues efforts to collect royalties produced from sovereign minerals within the Missouri and Yellowstone Rivers. These efforts have resulted in more wells that had royalty held in suspense by the operating company to be placed instead into pay status and or escrowed.

Presently, 11 oil and gas operators have 179 wells escrowed totaling \$51,478,917.

BND ROYALTY ESCROW BALANCES	
June 30, 2014	\$11,280,421
June 30, 2015	18,736,053
June 30, 2016	51,478,917

August Oil & Gas Mineral Lease Auction

The Board reviewed the list of oil and gas tract leases that will be offered during the quarterly oil and gas lease auction on August 2, 2016.

ADJOURN

There being no further business, the meeting was adjourned at 9:38 AM.

Jack Dalrymple, Chairman
Board of University and School Lands

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