

**Minutes of the Meeting of the
Board of University and School Lands
January 30, 2017**

The January 30, 2017 meeting of the Board of University and School Lands was called to order at 1:00 PM in the Governor's Conference Room by Chairman Doug Burgum.

Members Present:

Doug Burgum	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
Linda Fisher	Deputy Commissioner
Jeff Engleson	Director, Investment Division
Drew Combs	Director, Minerals Division
Susan Dollinger	Unclaimed Property Administrator
Levi Erdmann	Investment Analyst
Peggy Gudvangen	Director, Accounting
Taylor Lee	Director, Revenue Compliance
Kristie McCusker	Legal Assistant
Catelin Newell	Office Manager
Gerard Schwan	Director, Grants and Claims Section

Guests in Attendance:

Chris Friez	North American Coal
David Straley	North American Coal
Craig Smith	ND Petroleum Council
Ron Ness	ND Petroleum Council
Amy Dalrymple	Forum News Service
Jon Patch	Self
Bill Kalanek	APT Inc.
Garland Erbele	State Water Commission
John Paczkowski	Office of State Engineer/State Water Commission
David Garner	Office of the Attorney General
Hope Hogan	Office of the Attorney General
Jen Verleger	Office of the Attorney General
J Roger Kelley	Continental Resources, Inc.
Cassandra Torstenson	Governor's Office
Jason Nisbet	Governor's Office

APPROVAL OF MINUTES

A motion to approve the minutes of the November 29, 2016 meeting was made by Attorney General Wayne Stenehjem and seconded by Secretary Al Jaeger and the motion carried unanimously on a voice vote, from which Governor Burgum abstained since he was not sworn in until after the November 29 meeting.

ENERGY INFRASTRUCTURE AND IMPACT OFFICE

Sexual Assault Nurse Examiners Grant Recommendations

As part of the \$10 million that it allocated for law enforcement grants, the 2015 Legislature assigned \$250,000 of oil and gas impact funds to Sexual Assault Nurse Examiner program activities. The Legislature directed the EIO to work with the Bureau of Criminal Investigations (BCI) regarding the procedures and awards. In January of 2016 the Board awarded \$247,767 to seven recipients.

For the remaining \$2,233, the EIO, in coordination with the BCI, recommended three awards to be distributed from the oil and gas impact funds as follows:

Applicant	City	Awarded Jan 2016	Rounded for Whole Dollars
CENTRAL DAKOTA FORENSIC NURSE EXAMINERS	BISMARCK	\$171,060	\$745
DAKOTA CHILDREN'S ADVOCACY CENTER	BISMARCK	\$27,419	\$744
JAMESTOWN REGIONAL MEDICAL CENTER	JAMESTOWN	\$12,785	\$744
Total Remaining to be Awarded			\$2,233

Motion: The Board awards \$2,233 from the Oil and Gas Impact Grant Fund to the three providers of sexual assault nurse examiner services to victims as identified in the three award recommendations in the preceding list. With this action, the Board affirms that the entire \$250,000 designated for sexual assault nurse examiner programs by the 2015 Legislative Assembly has been approved.

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

Removal of Suspensions on Previously Approved Grants

Due to lower than anticipated Oil and Gas Impact Grant Funds, in February 2016 the Board suspended 59 grant projects totaling \$7,396,006.77.

Presently, the grant fund's balance contains enough resources to support the suspended grants. It was recommended that the Board lift the suspension on previously awarded grants. The complete list of February 2016 EIO Grant suspension list was provided to the Board and is available at the Department upon request.

The Board directed the EIO to notify grantees to determine if projects are still needed or planned, and if not, cancelations could be authorized. If the political subdivision still has a need for the project as fund, it can restart the effort and submit for reimbursement.

Motion: The Board lifts the suspension of 59 grant projects that it implemented in February 2016, but authorizes the Director to work with these grantees to determine project need and viability. For projects that will be completed, the Board consents to payment of grants based upon satisfactory documentation of project completion.

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

Cancelation of Unused Grant Balances

Several grants awarded during Fiscal Years 2013, 2014, 2015, and 2016 were fully completed during the 2016 construction season.

A number of projects, for which the Board approved grants, finished under budget and the remaining funds are no longer necessary. The remaining balances are included in the list of recommended cancelations and closure of grants for the Board's consideration:

Political Subdivision	Year	Grant Number	Amount Awarded	Amount Paid	Balance to Cancel	Project Description
Williams County	2014	G140265	\$200,000.00	\$160,569.59	\$39,430.41	Four miles of Cty Rd #15
Williams County	2015	G150259	\$300,000.00	\$297,072.16	\$2,927.84	Road safety, gravel and road stabilization
Williams County	2015	G150260	\$30,400.00	\$26,499.66	\$3,900.34	Two miles of Cty Rd #10
Williams County	2015	G150294	\$205,378.00	\$184,794.53	\$20,583.47	Grading & Gravel of Cty Rd #10
Langberg Township	2015	G150163	\$48,000.00	\$46,746.50	\$1,253.50	Culvert replacement and graveling
Lindahl Township	2015	G150195	\$100,000.00	\$0.00	\$100,000.00	Local oil & wind companies paid for repairs
Pearl Township	2015	G150192	\$52,922.00	\$51,520.00	\$1,402.00	Resurfacing township roads
Daneville Township	2015	G150150	\$24,000.00	\$4,345.50	\$19,654.50	Widen road & install culvert
Fay Township	2015	G150194	\$30,000.00	\$25,895.00	\$4,105.00	Road maintenance from pipeline install
City of Stanley	2013	G130005	\$2,278,400.00	\$2,237,752.74	\$40,647.26	Water storage reservoir
City of Stanley	2014	G140008	\$2,682,160.00	\$1,971,209.01	\$710,950.99	Water, sewer, and street improvements
City of Stanley	2015	G150003	\$1,000,000.00	\$684,391.95	\$315,608.41	Trunk water line piping
City of Mandan	2013	G120027	\$6,000.00	\$5,450.00	\$550.00	Hazmat training
Alamo Rural Fire Dept.	2013	G130051	\$60,000.00	\$59,883.40	\$116.60	Trucks and foaming equipment
New PSD #8	2016	G160081	\$258,876.00	\$212,558.68	\$46,317.32	Renovations & improvements
Garrison Municipal AP	2016	G160007	\$46,001.00	\$45,589.97	\$411.03	Reconstruct Fueling Apron
Dickinson Regional AP	2016	G160200	\$35,940.00	\$35,341.00	\$599.00	Runway pavement maintenance
Dickinson Regional AP	2016	G160197	\$51,800.00	\$47,463.61	\$4,336.39	Runway 32 safety improvement
Dickinson Regional AP	2016	G160003	\$307,000.00	\$282,069.23	\$24,930.77	Apron lighting and security upgrade
Dickinson Regional AP	2015	G150130	\$103,250.00	\$96,484.86	\$6,765.14	General aviation apron expansion
Mohall Municipal Airport	2014	G140082	\$265,900.00	\$260,897.59	\$5,002.41	Design new airport fueling system
Mohall Municipal Airport	2015	G150138	\$88,506.00	\$83,363.44	\$5,142.56	Apron and access road improvements
Mohall Municipal Airport	2016	G160208	\$189,200.00	\$141,657.07	\$47,542.93	Access road construction
Parshall Municipal AP	2015	G150140	\$141,668.00	\$122,181.62	\$19,486.38	South apron pavement rehabilitation
Tioga Municipal Airport	2015	G150141	\$124,549.00	\$116,449.58	\$8,099.42	Apron, taxi, and hangar improvements
Tioga Municipal Airport	2015	G150142	\$42,066.00	\$34,333.94	\$7,732.06	Corporate Taxi and Hangar reconstruction
Watford City Municipal AP	2015	G150145	\$69,300.00	\$69,293.71	\$6.29	Airport site study
Watford City Municipal AP	2016	G160213	\$72,000.00	\$71,315.27	\$684.73	Master plan phase five
Total Cancelations					\$1,438,186.75	

Motion: The Board cancels the remaining balances of the 28 grants identified in the preceding list for a total of \$1,438,186.75, and makes these funds available within the oil and gas impact grant fund for expenses or other grants.

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

Consideration of Grants Plan for Remainder of Fiscal Year

Due to reduced revenues, of the \$140 million appropriated by the 2015 Legislature for grants, the Board has awarded \$47,941,508.

If revenues continue to be deposited into the Oil and Gas Impact Grant Fund at a rate similar to recent months, the Board may be able to consider additional grants. Presented in the chart below, the shaded green area labeled "Total Remaining Allocations", are legislative allocations of grants distributions that could be authorized as funds become available.

2015-2017 Biennium Breakdown (Combining like FY Rounds)					
Round or Award	#Applications	Amt of Projects	Amt 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	\$3,684,898
K-12 FY 2016	62	\$15,000,193	\$15,000,193	62	\$14,988,201
Law Enforcement FY 2016	59	\$22,102,479	\$19,853,329	54	\$7,778,869
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	15	\$23,333,247	\$12,408,584	15	\$10,000,000
Providers to Developmental Disabled	22	\$2,000,000	\$2,000,000	22	\$2,000,000
Domestic Violence	3	\$9,425,624	\$2,178,280	0	\$0
Sexual Assault Examiner	7	\$309,733	\$309,733	7	\$247,767
Human Trafficking	6	\$1,207,510	\$1,207,510	6	\$750,000
	316	\$119,001,294	\$83,893,348	266	\$47,941,508
Admin					\$700,000
As of: 1/24/2017					
Current Balance 4,493,579					
Projected Revenue 18,000,000 (at \$3m/mo)					
Focused Spending \$16,038,466					
Pro-rated amount if funds are available \$6,455,112.60					
Unmet obligations by July 2017 \$69,320,025					
<div> <div> Total Remaining Allocations </div> <div> Sexual Assault Examiner¹ \$2,233 Domestic Violence (Feb)² \$2,000,000 Law Enforcement (Apr)² \$1,221,131 EMS² \$2,315,102 Bowman/Divide Counties (May)³ \$8,000,000 City of Stanley (May)³ \$1,700,000 City of Kenmare (May)³ \$500,000 City of Berthold (May)³ \$200,000 City of Burlington (May)³ \$100,000 </div> </div>					
<div> <div> K-12 Schools \$6,000,000 </div> <div> Unmet from above <div> K-12 Schools \$9,011,799 Fire Districts \$9,001 Nursing Homes \$4,000,000 Eligible General \$5,000,000 Other Airports \$1,369,225 Dickinson Airport \$4,630,000 Williston Airport \$39,000,000 Contingency \$6,300,000 </div> </div> </div>					
<div> <div> Total Remaining Allocations \$91,358,491 </div> <div> Appropriation Total = \$140,000,000 </div> </div>					

¹ = Required by statute

² = Land Board focus is Safety & Security

³ = Derived as a packaged distribution

Motion: The Board authorized the Director to initiate grant rounds for Domestic Violence Shelters, Law Enforcement and Emergency Medical Services using the criteria outlined in law and used in prior consideration, and to submit award recommendations at a future Board meeting.

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

MINERALS MANAGEMENT

Modification of Existing Coal Leases with the Falkirk Mining Company (North American Coal)

The Falkirk Mining Company (a subsidiary of North American Coal Corporation) requested the Board's consideration of an adjustment to ten existing coal leases within the Falkirk Mine in McLean County.

The royalty rates in the Board issued leases are often higher than the prevailing rates that the mining firm has with private mineral owners. This was due to N.D.C.C. § 15-05-01 which previously required the Board to issue coal leases with a royalty rate of the greater of \$0.25 per ton or 6% of the cost of coal. The statute was modified by the 2013 Legislature to remove the royalty minimums and to allow the Board to negotiate and renegotiate terms of leases.

In March 2014 the Board discussed similar requests from other mines and the Board:

- 1) Directed the Commissioner to examine individual coal leases to determine which tracts may not be mined because the existing royalty rate makes the coal uneconomical to access and extract.
- 2) Asked the Commissioner to evaluate the value of lignite compared with other energy sources to ensure the competitiveness of the trusts' lignite compared with the potential displacement by Powder River Basin Coal, natural gas, or energy produced in other parts of the region.
- 3) Requested Attorney General Stenehjem review of the Board's authority to renegotiate active coal leases.

The Board reviewed a June 4, 2014 memo from the Attorney General to the Board indicates that it cannot divert or forego revenue to which the trusts are due, for any reasons other than the benefit of those trusts.

In 2014 the Board granted royalty reductions in 19 of 24 coal leases at the requests of BNI Coal and North American Coal subsidiaries. The Board has able to adjust the specific leases because in each case, the coal tract was located such that it would not be mined by the leasing firms because it was considered uneconomical at the initial royalty rate. With the renegotiated royalty rate, the State trust tracts were considered minable by the firms. In all instances, the "fair market" royalty rate was established by an examination the rate at which the companies had leased the neighboring tracts.

Of the ten leases on which Falkirk requested adjustments, the Department has reviewed six tracts that will be mined within a 15 year window of the initial primary lease term. The majority of the Board's leases carry a primary term of 15 years with an option to extend for an additional 15 years.

The Falkirk Mining company has indicated that it will not mine these tracts if a royalty reduction is not obtained.

The following chart shows the leases that the Department recommended amending to Falkirk's offer of \$0.16 per ton with an annual 3% escalator, starting one year from the effective date of the amended coal leases.

Lease No.	Lease Date	Legal Description	Gross Acres	Surface Acres	Coal Acres	Projected Dates of Mining
3RO-03652	10/30/2003	T145N-R83W SEC 34 – SE4	160.00	0.00	80.00	2017-2019
3UN-03800	04/26/2007	T146N-R82W SEC 01 – SE4	160.00	0.00	80.00	2017-2019
3UN-03801	04/26/2007	T146N-R82W SEC 16 – SE4 and NE4SW4 lying East of Hwy 83	108.19	0.00	54.095	2017-2024
3RO-03682	07/29/2010	T144N-R84W SEC 01 – SE4	160.00	0.00	8.00	2018-2026
3RO-03686	07/29/2010	T146N-R84W SEC 36 – SE4	160.00	0.00	80.00	2018-2025
3RO-03687	07/29/2010	T146N-R84W SEC 36 – SW4	160.00	0.00	80.00	2018-2025

This second chart shows the remaining leases Falkirk would also like a reduced royalty. These are projected to be mined in more than 15 years.

Lease No.	Lease Date	Legal Description	Gross Acres	Surface Acres	Coal Acres	Projected Dates of Mining*
3RO-03649	10/30/2003	T145N-R83W SEC 15 – NW4	160.00	0.00	8.00	2045-2049
3RO-03683	07/29/2010	T145N-R83W SEC 16 – NE4	160.00	0.00	80.00	2046-2049
3RO-03684	07/29/2010	T145N-R83W SEC 16 – SE4	160.00	0.00	80.00	2045-2049
3RO-03685	07/29/2010	T146N-R84W SEC 36 – NE4	160.00	0.00	80.00	2045-2046

*projected timeframe may change.

A large-scale map of the mine and tracts considered was shown to the Board and is available at the Department.

North American Coal Company suggested that due to the 3% per year escalation factor, the remaining four leases which presently have a fixed rate, could potentially collect more royalty at the time of mining due to compounding.

The Department recommended that the Board approve the revised lease for the six tracts that will be mined within 15 years and that the staff evaluate the remaining four tracts slated for mining in 25 to 30 years and provide a recommendation. The Board discussed the recommendation and decided that the value of the 3% escalator over the long-term would generate additional value for the trusts.

Motion: Under its current rules, the Board approved the issuance of amended coal leases for a revised royalty \$0.16 per ton with an annual 3% escalator to the Falkirk Mining Company, for the ten leases requested and presented herein.

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

REVIEW OF PERTINENT LEGISLATION

2017-2019 Executive Budgets

To accommodate the executive request for a 90 percent budget, in late 2016, the Department:

1. recommended two currently authorized FTEs be phased out: a natural resources manager and the assistant director of the Energy Infrastructure and Impact Office,
2. submitted a reduced operating budget for travel, information technology software and licenses, data processing and technology fees, and
3. reduced the budget request for operations appropriation authority for the EIIO from \$700,000 to \$207,000.

In its options package, the Department requested authorization for two additional FTEs: a Geographic Information Systems (GIS) Specialist and a Mineral Title Specialist. The December executive budget contained one of these FTEs, the January executive budget has neither.

The Department request and the executive budgets include \$5 million for a capital asset of a comprehensive information management system upgrade relative to a 2016 business process modeling effort that identified several opportunities for process and system improvements in lands management, accounting, grants administration and unclaimed property.

The Department's budget bills are Senate Bill Nos. 2013 and 2073.

Budget Requests and Executive Budgets

	2015-17 Appropriation	Proposed for 2017-19 Biennium	2017-19 Optional Request	Proposed Optional for 2017-19	Executive Recommendation (Dalrymple)	Executive Recommendation (Burgum)
SALARIES AND WAGES	\$6,123,516	\$5,864,209	\$368,031	\$6,232,240	\$6,245,692	\$5,881,283
CONTINGENCIES	100,000	100,000		100,000	100,000	100,000
OPERATING EXPENSES	2,019,637	1,727,698	46,050	1,773,748	1,775,723	1,775,723
CAPITAL ASSETS (comprehensive IT upgrade)		5,520,000			5,520,000	5,305,000
GRANTS	\$140,000,000	0	0	0	\$24,100,00	24,100,000
FTE	33	31	2	33	32	31

Legislative Bill Status (as of January 24, 2017)

The Department's testimony regarding the following list of bills was provided to the Board and is on record at the Department.

The Department Budget Bills:

SB 2013 Legislative appropriation and budget for the commissioner of university and school lands.

SB 2073 Executive budget for the commissioner of university and school lands.

Both bills were heard by the Senate Appropriations Committee on January 20, 2017. The Department presented supporting testimony.

The Department submitted Senate Bills 2101 and 2102:

SB 2101 Relating to management of the Coal Development Trust Fund.

The bill updates two sections of law related to distributions from, and the calculation of, income earned by the Coal Development Trust Fund. The hearing with the Senate Finance and Taxation Committee was held on January 4, 2017. The Department supported SB 2101. No action has yet been taken.

SB 2102 Relating to duties of the Commissioner and assessing state owned lands for highest and best use.

Clarifies the term of office and duties of the commissioner and regarding evaluating state lands for its highest and best use.

The hearing on SB 2102 was held on January 13, 2017 with the Senate Government and Veterans Affairs Committee. The Department supported SB 2102. The bill passed the Senate 45-0 on January 17, 2016.

Other bill have been introduced that have a direct impact on the Land Board, Department or the trusts and funds that they manage:

HB 1199 Relating to the definition of sovereign lands.

Sets the determination of sovereign minerals to the historic ordinary high water mark of the Missouri River under the Lake Sakakawea prior to inundation, extending to the Corps "take line".

Has been assigned to the House Energy and Natural Resources Committee. No hearing has yet been scheduled.

The Department provided a fiscal note for HB 1199 showing a total negative impact on the Strategic Investment and Improvements Fund of approximately \$30 million through fiscal year 2021. The Department will offer background testimony.

HB 1300 Relating to agencies exempt from the definition of an administrative agency.

This Bill would remove the Board's exemption from the Administrative Agencies Practice Act.

The hearing on HB 1300 was on January 27, 2017 with the House Political Subdivisions Committee.

The Department provided a fiscal note for HB 1300 which indicated a cost could not be determined. Based upon opposition to previous similar efforts, the Department presented testimony in opposition to HB 1300.

HB 1366 Relating to oil and gas gross production tax definitions and allocations and to provide an appropriation to the board of university and school lands.

The Bill would restore \$60 million in EIO grant funds to support legislative targets that were not met during the 2015-2017 biennium.

The bill has been assigned to the House Finance and Taxation Committee. The Department will provide testimony on the background of EIO grants.

HB 1384 Relating to the duties of the state treasurer and the administration of abandoned property.

This bill would transfer the administration of the Uniform Unclaimed Property Act from the Department of Trust Lands to the office of the State Treasurer.

The hearing on HB 1384 was on January 27, 2017 with the House Political Subdivisions Committee. The Department presented neutral background on the purposes and operations of the Unclaimed Property Office.

SB 2134 Relating to the ownership of sovereign minerals beneath the Missouri River in areas that are inundated by Lakes Sakakawea and Oahe.

The Bill would change the method that the Board has used to determine and lease State minerals, by defining the riverbed channel under Lake Sakakawea and Lake Oahe as the last known survey by the Army Corp of Engineers.

N.D.C.C. 61-33-01 defines sovereign land as "...those areas, including beds and islands, lying within the ordinary high watermark of navigable lakes and streams...". In January, 2010, the Board authorized the examination of the historical ordinary high water mark of the Missouri River as it existed prior to inundation. In 2011, Bartlett and West completed "Task Order 2" for the river channel from near Williston to the Four Bears Bridge near New Town.

This sovereign acreage determination has been used as the basis for what has been leased for oil and gas production. Bonus and royalties collected are deposited into the Strategic Investment and Improvements Fund (SIIF).

The Department provided a fiscal note for SB 2134 showing a negative revenue impact on the Strategic Investment and Improvements Fund of an estimated \$243 million through fiscal year 2021.

The hearing on SB 2134 was held on January 12, 2016 with the Senate Energy and Natural Resources Committee. The Department provided background testimony. No action has yet been taken.

SB 2245 Relating to listing state parcels for use as wetlands mitigation.

This act would require the Commissioner, by July 2018, to provide a list of trust land parcels that may qualify for use as wetlands mitigation.

The Department provided a Fiscal Note, which indicated that a cost cannot be determined.

The hearing on SB 2245 was on January 26, 2017 with the Senate Agriculture Committee. The Department presented neutral testimony on the background and purpose of trust lands.

SB 2272 Relating to school construction loans from the coal development trust fund and the school construction assistance revolving loan fund (and other issues).

This Bill raises from \$50 million to \$60 million, the amount of the Coal Development Trust Fund for school loans; and changes the program from a broad school construction loan program to one for unanticipated construction, replacement and emergency repair projects.

The bill also consolidates the various school construction loan programs under BND. (The transfer of \$150 million transfer referred to in Section 12 of the Bill has already been completed.)

The hearing on SB 2272 was on January 25, 2017 with the Senate Education Committee.

R E P O R T S

The Summary of Total Assets (Unaudited) for periods ended October 31, 2016 and November 30, 2016 was provided to the Board for its review.

Revenue Compliance Division Update

Through its Revenue Compliance Division, the Department ensures that royalties and other collections are complete and accurate. The division reviews oil and gas royalty payments to determine if payments are in accordance with the Board's lease terms, rules and regulations, and North Dakota statutes. The total oil and gas royalties, interest and penalties collected in biennium to date is \$282,991,899. Included in this total is \$2,206,445, which is a result of enhanced efforts to examine royalty reports and submittals. The oil and gas royalties received and the additional collections and corrections are detailed in the following tables:

OIL AND GAS ROYALTIES	
FY-14	\$351,286,564
FY-15	333,750,365
FY-16	192,733,443

	Biennium 2013-2015	Biennium to Date (07-01-15 thru 12-31-16)
Additional Royalties Collected	\$10,519,938	\$1,181,545
Additional Taxes or Other Deductions Collected	720,158	395,836
Penalties Collected	563,726	629,064
Total Collected	\$11,803,822	\$2,206,445
NDIC Report Corrections	221	14

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 in N.D.C.C. 47-16-39.1.

Additional royalty collections are reduced due to lower commodity prices and improvements in the operators' payment process. Last biennium, the Department received royalties from 4,853 producing properties. During the current biennium through December 2016, the Department received royalties from 5,520 producing properties.

The division has developed and implemented a comprehensive oil and gas audit program during the current biennium that will further enhance compliance with lease terms. To date, the Department has engaged in the following audits:

(01/30/17)

Operator	Audit Initiated	Audit Status
ConocoPhillips	August 2015	Preliminary findings sent to operator
Continental Resources	August 2015	Preliminary findings sent to operator
Hess	August 2015	Need additional information from operator
Fidelity Exploration	February 2016	Preliminary findings sent to operator
Statoil	February 2016	Need additional information from operator
Marathon	March 2016	Need additional information from operator
Newfield Exploration	June 2016	Preliminary findings sent to operator
Zavanna	June 2016	Need additional information from operator
Oasis Petroleum	August 2016	Need additional information from operator
Slawson Exploration	August 2016	Need additional information from operator
XTO Energy	October 2016	Received documentation, audit in progress
Whiting Petroleum	November 2016	Awaiting receipt of documentation

The Department continues efforts to encourage operators to pay or escrow royalties based on the OHWM survey of the Missouri and Yellowstone Rivers. These efforts have resulted in more wells that were held in suspense to be placed in pay status and increased escrowing of royalties from disputed wells. Currently 11 oil and gas operators have escrowed revenue from 214 wells totaling \$60,478,594 as of December 31, 2016. Escrow balances at the Bank of North Dakota:

BND ROYALTY ESCROW BALANCES	
June 30, 2014	\$11,280,421
June 30, 2015	18,736,053
June 30, 2016	51,478,917
December 31, 2016	60,478,594

Investment Updates

The table below shows the status of the asset allocation of the permanent trusts as of December 31, 2016. Final valuations in some of the real estate funds were not available thus the figures for the three non-core real estate portfolios are September 30, 2016 values.

Account/Asset Class	Long-Term Asset Allocation	12/31 Actual Allocation \$	12/31 Actual Allocation %
Large Cap US Equity	13.5%	\$ 523,118,170	13.5%
Small Cap US Equity	3.5%	\$ 134,291,172	3.5%
International Equity	12.0%	\$ 461,592,699	11.9%
Emerging Market Equity	3.0%	\$ 113,981,109	2.9%
Total Equities	32.0%	\$ 1,232,983,150	31.8%
Domestic Investment Grade	14.2%	\$ 548,332,933	14.1%
High Yield FI	3.0%	\$ 114,718,326	3.0%
International/Global FI	5.8%	\$ 219,788,792	5.7%
Total Fixed Income	23.0%	\$ 882,840,052	22.8%
Total Absolute Return	20.0%	\$ 767,229,519	19.8%
Commodities	3.0%	\$ 118,304,755	3.1%
MLPs	3.0%	\$ 117,971,878	3.0%
TIPS	2.0%	\$ 72,898,821	1.9%
Natural Resource Equities	2.0%	\$ 76,513,846	2.0%
Total Inflation Strategies	10.0%	\$ 385,689,300	10.0%
Core Real Estate	8.0%	\$ 337,890,667	8.7%
Core Plus Real Estate	7.0%	\$ 269,200,729	6.9%
Total Real Estate	15.0%	\$ 607,091,396	15.7%
Total Asset	100.0%	\$ 3,875,833,416	100.0%

Change at Brandywine (Global Fixed Income: \$86.9 million, 2.2% of assets)

Brandywine recently announced the departure of Chen Zhao, the Co-Director of Global Macro Research. RVK has no concerns due primarily to the fact that as the firm's Economist, Mr. Zhao was not a key decision maker for the organization.

Fee Reduction at Dimensional Fund Advisors (\$56.8 million, 1.5% of assets)

On January 20, 2017, it was learned that the fee charged for investing in DFA's Emerging Markets All Cap Core Fund would be reduced by 8 basis points effective January 1, 2017. The previous fee schedule included a management fee of 55 basis points with a cap of total fees of 62 basis points. Under the new fee schedule the management fee is 47 basis points and the cap of total fees is 55 basis points.

New CEO at Grantham Mayo and Van Otterloo (GMO) (\$257.8 million, 6.6% of assets)

In January after an extensive search, GMO hired Scott Hayward as its new CEO. Mr. Hayward was previously the CEO of Quantitative Management Associates for 11 years.

Concurrent with the search for a new CEO, GMO's Board of Directors concluded that the previous CEO had too many direct reports. As a result, GMO's Board decided to create a new position responsible for direct oversight over most investment teams at GMO. Andy Martin was recently hired to fill this new role at the firm. Mr. Martin was previously a managing director at consulting firm Cambridge Associates.

Long-time portfolio manager Ben Inker and the Asset Allocation Team that manages the Land Board funds will not report to Mr. Martin, but instead will continue to report directly to the CEO. This direct line of authority reflects the importance the Asset Allocation team plays at GMO, it is currently responsible for almost a third of the \$77.3 million of asset under management at GMO.

RVK will continue to monitor the firm for organizational stability, the stability of the specific investment team that manages Board assets, and how the two new major hires impact the organization going forward.

Sovereign Lands Litigation Update

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.

EOG Resources, Inc. v. Soo Line Railroad Co., et. al.

Mountrail County District Court

Case No. 31-10-C-00010

EOG brought a Quiet title action to determine ownership of minerals under the railroad right of ways in eight tracts located in Mountrail County, only two of which the Board claims interest. At issue are lands that the railroad acquired by condemnation and through right-of-way deeds. The District Court ruled in favor of the Board on one of the tracts in which the Board claims an interest. The decision was appealed to the Supreme Court. The Supreme Court recently remanded the case back to the District Court for further proceedings on one of the tracts. The parties are currently negotiating a settlement.

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

Williams County District Court

Case No. 53-2012-CV-00038

Honorable Paul Jacobson

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 estimated location of the OHWM prior to inundation of Lake Sakakawea – 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 of 2016, 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. Both EOG Resources, Inc. and Statoil Oil and Gas LP filed cross-appeals. Due to proposed legislation, on January 18, 2017 the State Defendants filed with the Supreme Court a Motion to stay until the end of the 65th Legislative Assembly concludes.

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

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

Case No. 1:16-cv-00115

Honorable Daniel L. Hovland

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 requested oral arguments on the motions to dismiss. On October 3, 2016, Judge Hovland issued an order denying the request for oral arguments and granting the motions to dismiss.

In his order, Judge Hovland found that because the United States claims an interest in the lands subject to this litigation, "no court, whether a state court or a federal court, could craft an effective judgment and address the litany of claims and disputes that exist in this complex litigation, if the federal government is not bound by the judgment. There is no court that could ever craft a judgment and carve out the ownership interests of the federal government from the judgment and achieve a fair and just result. The United States is a required, necessary, and indispensable party to the litigation." The appeal time has expired. The file will be closed.

Whitetail Wave, LLC v. XTO Energy, Inc., et al.**McKenzie District Court****Case No. 27-2015-CV-00164****Honorable Robin Schmidt**

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, near the northern border of the Fort Berthold Indian Reservation. 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 Energy Inc., 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. A six person jury trial has been scheduled for March 12-16, 2018.

Statoil Oil & Gas, LP v. Abaco Energy, LLC, et al.**Williams County District Court****Case No. 53-2015-CV-00744****Honorable Judge David Nelson*****Statoil Oil & Gas, LP v. 1280 Royalties LLC, et al.*****Williams County District Court****Case No. 53-2015-CV-01437****Honorable Judge Paul Jacobson**

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.

Mary K. Starin v. Kelly Schmidt, et al.**Williams County District Court****Case No. 53-2015-CV-00986****Honorable David Nelson**

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. In 1945, the State re-sold the property through a contract for deed 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 and a trial has been set for December 11-13, 2017.

Willard Burk v. State of North Dakota by and through the Board of University and School Lands and Ryan Rauschenberger, Tax Commissioner

Burleigh County District Court

Case No. 08-2015-CV-01849

Honorable Thomas Schneider

Mr. Burk has brought this suit against the State through both the Board of University and School Lands and Tax Commissioner Ryan Rauschenberger. Mr. Burk is requesting a declaratory judgment that the State has wrongfully withheld gross production taxes on Mr. Burk's share of royalties being paid to him pursuant to a Settlement Agreement with the State. In 1991, the Bank of North Dakota conveyed to Mr. Burk and his wife some property in Williams County reserving 50% of the minerals. At the time, the statutory mineral reservation was 100%. Mr. Burk brought this issue to the Board in 2011 and threatened litigation. The Board entered into an agreement with Mr. Burk to convey to him 50% of the minerals he thought were previously conveyed to him. Mr. Burk now claims that he should not have to pay production taxes on the royalties he is receiving pursuant to this agreement.

The district court granted a summary judgment motion brought by the state and dismissed the case. The district court specifically found that Burk's claim was frivolous and awarded the State costs and attorney fees. Burk has appealed the decision to the North Dakota Supreme Court and oral argument was held October 26, 2016. The Board is waiting for a decision on the appeal.

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

McKenzie County District Court

Case No. 27-2016-CV-00040

Honorable Robin Schmidt

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 movement of 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.

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 Interior Board of Land Appeals. The State is waiting for a decision on the appeal.

Continental Resources, Inc. v. North Dakota Board of University and School Lands, et al., 8th Circuit District Court
Case No. 1:17-cv-00014
Honorable David Hovland

On December 23, 2016, the Attorney General's Office was served with an interpleader action filed by Continental Resources for certain lands underlying Continental operated wells located in McKenzie, Mountrail and Williams Counties where there are overlapping mineral interests claimed by the State and the United States. Continental is requesting the Court determine the property interests for the lands so that Continental can correctly distribute the proceeds from the wells. The United States removed this action to federal district court on January 11, 2017. The Board has until February 13, 2017 to respond to the complaint.

Other Litigation

State of Arkansas, et al. v. State of Delaware
United States Supreme Court

This case is an attempt to have the Supreme Court of the United States assume jurisdiction over a lawsuit involving unclaimed property brought by 21 states, including the state of North Dakota, against the state of Delaware. The substantive issue involved is whether sums payable on unclaimed and abandoned checks sold by MoneyGram Payments Systems, Inc. should be remitted to the Plaintiff States, as the states of purchase, or to Defendant Delaware, as MoneyGram's state of incorporation. Plaintiff State of Arkansas, on behalf of other plaintiff states, has filed a Motion for Leave to File Bill of Complaint, Bill of Complaint and Brief in Support with the Supreme Court of the United States. Since this filing, six other states have joined as plaintiffs.

Report of Easements Issued by Land Commissioner 11-28-2016 through 01-10-17

Granted to: MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND
For the Purpose of: Easement: Drop Line-Electric Distribution Line
Legal Description: MOU-153-91-16-N2

Granted to: PIERCE COUNTY WATER DISTRICT, WOLFORD-ND
For the Purpose of: Easement: Flowage
Legal Description: PIE-157-69-20-SE4

Granted to: LIME ROCK RESOURCES III-A LP, HOUSTON-TX
For the Purpose of: Easement: Drop Line-Gas Gathering Pipeline
Legal Description: BRK-160-90-16-NW4

Granted to: HENRY HILL OIL SERVICES LLC, WILLISTON-ND
For the Purpose of: Easement-Amend: Salt Water Disposal Well
Legal Description: WIL-154-100-16-S2

Granted to: ND DEPT OF TRANSPORTATION, BISMARCK-ND
For the Purpose of: Easement: Road Right-of-Way
Legal Description: MOU-153-92-32-N2N2SW4, S2NW4
Legal Description: MOU-153-93-36-NE4 NORTH OF HWY, NW4 NORTH OF HWY, SE4 NORTH OF HWY, SE4 SOUTH OF HWY

Granted to: For the Purpose of: Legal Description:	HESS NORTH DAKOTA PIPELINES LLC, MINOT-ND Easement: Salt Water Pipeline WIL-156-95-16-S2
Granted to: For the Purpose of: Legal Description:	WEST DAKOTA WATER LLC, WILLISTON-ND Letter of Permission: Access to School Land WIL-156-101-36-SE4
Granted to: For the Purpose of: Legal Description:	QEP ENERGY COMPANY, DENVER-CO On-lease Act. Amend: Tank Battery Site MCK-150-95-16-N2
Granted to: For the Purpose of: Legal Description:	NEON INC, BOULDER-CO Easement-Amend: Tower Site STU-143-67-36-ALL
Granted to: For the Purpose of: Legal Description:	ROCKWATER ENERGY SOLUTIONS, DICKINSON-ND Letter of Permission: Access to School Land DUN-147-95-16-NE4 SOUTH OF HWY, NW4 NORTH OF HWY, NW4 SOUTH OF HWY, SE4
Granted to: For the Purpose of: Legal Description:	UINTAH ENG & LAND SURVEYING, SIDNEY-MT Permit: General Land Surveys All - State of ND
Granted to: For the Purpose of: Legal Description:	BROSZ ENGINEERING INC, BOWMAN-ND Permit: General Land Surveys All - State of ND
Granted to: For the Purpose of: Legal Description:	HIGHLANDS ENGINEERING & SURVEYING PLLC, DICKINSON-ND Permit: General Land Surveys All - State of ND
Granted to: For the Purpose of: Legal Description:	WILLIAM H SMITH & ASSOCIATES PC, GREEN RIVER-WY Permit: General Land Surveys All - State of ND
Granted to: For the Purpose of: Legal Description:	KADRMAS LEE & JACKSON INC, DICKINSON-ND Permit: General Land Surveys All - State of ND
Granted to: For the Purpose of: Legal Description:	STREAMLINE WATER SERVICES LLC, WATFORD CITY-ND Letter of Permission: Access to School Land DUN-148-96-36-SW4
Granted to: For the Purpose of: Legal Description:	MICROSEISMIC INC, HOUSTON-TX Permit: Water Test Well WIL-153-100-36-ALL
Granted to: For the Purpose of: Legal Description:	SELECT ENERGY SERVICES LLC, WILLISTON-ND Letter of Permission: Access to School Land MCK-153-94-36-S2

Granted to:
For the Purpose of:
Legal Description:

SAVAGE WATER SOLUTIONS LLC, WILLISTON-ND
Letter of Permission: Access to School Land
WIL-154-100-36-S2

Granted to:
For the Purpose of:
Legal Description:

CARLSON MCCAIN, BISMARCK-ND
Permit: General Land Surveys
All - State of ND

Granted to:
For the Purpose of:
Legal Description:

MBI ENERGY SERVICES, KILLDEER-ND
Letter of Permission: Access to School Land
DUN-146-94-16-N2

Granted to:
For the Purpose of:
Legal Description:

BARTLETT & WEST INC, BISMARCK-ND
Permit: General Land Surveys
All - State of ND

A D J O U R N

There being no further business, the meeting was adjourned at 2:17 PM.

Doug Burgum, Chairman
Board of University and School Lands

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

**Minutes of the Meeting of the
Board of University and School Lands
February 23, 2017**

The February 23, 2017 meeting of the Board of University and School Lands was called to order at 9:40 AM in the Governor's Conference Room by Vice-Chairman Al Jaeger, Chairman Doug Burgum joined the meeting a few moments later.

Members Present:

Doug Burgum	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
Linda Fisher	Deputy Commissioner
Allisen Bement	Mineral Title Specialist
Susan Dollinger	Unclaimed Property Administrator
Levi Erdmann	Investment Analyst
Taylor Lee	Director, Revenue Compliance
Catelin Newell	Office Manager
Gerard Schwan	Director, Grants and Claims Section

Guests in Attendance:

Charles Tuttle	Himself
Josh Kevan	RVK
Roger Kelley	Continental Resources, Inc.
Blair Thoreson	Lobbyist/Continental Resources, Inc.
Leslie Bakken Oliver	Governor's Legal Counsel
Cassandra Torstenson	Governor's Office
David Garner	Office of the Attorney General
Jen Verleger	Office of the Attorney General

APPROVAL OF MINUTES

A motion to approve the minutes of the January 30, 2017 meeting was made by Attorney General Wayne Stenehjem and seconded by Superintendent Kirsten Baesler and the motion carried unanimously on a voice vote.

ENERGY INFRASTRUCTURE AND IMPACT OFFICE

Consideration of Grants to Domestic Violence / Sexual Assault Organizations

The 2015 Legislature assigned \$2 million of oil and gas impact funds for grants to domestic violence sexual assault organizations located in oil-producing counties. The requirements include local matching funds of at least two dollars of non-state funds for each dollar of grant funds.

In June 2015 the Board made appointments to the Domestic Violence Grants Advisory Committee. The purpose of the advisory committee is to assist in formulating recommendations of grants for Board consideration. The committee included:

Adele Sigl, ND Department of Commerce
 Bonnie Malo, ND Department of Commerce
 Sherry Leno, ND Department of Commerce (Replaced by Ali Hochhalter)
 Janelle Moos, CAWS of ND
 Mary Dasovick, ND Department of Health (Replaced by Deanna Askew)
 Mallory Sattler, ND Department of Health
 Lori Mickelson, ND Attorney General's Office

For the purposes of the 2017 reviews, two representative were replaced by others because of departures or responsibility changes within state agencies.

Grant guidelines utilized include:

- Two dollars of non-state funds for each dollar of state grant funds
- Projects to construct, renovate or purchase facilities to provide shelter to victims of domestic violence
- Priority given to communities with the greatest need

Grant applications were accepted through February 9, 2017. Two were received:

Name	City	Application	Project	Project Total	Amount Requested	Long Description
Family Crisis Shelter	Williston	A170024	New Building	\$2,629,096 (building) and \$333,950 (furnishings / equip) = \$2,963,046	\$1,000,000	Current Shelter is Old 2 br/1 ba House and Unable to Meet the Needs of Staff/Clients. Added Population Due to Oil Activity Forcing Into a New Facility
Domestic Violence & Rape Crisis Center	Dickinson	A170023	New Building	\$3,194,557	\$1,000,000	Influx of People Coming to the Area Caused by Oil Activity has Created an Increase in Needs for Services. Ground Breaking Delayed Until April 2017
					\$2,000,000	

The Domestic Violence Grants Advisory Committee met February 13, 2017. Applications were evaluated and scored by the EIIO and the Advisory Committee using the following criteria:

- The need being a direct impact resulting from energy development.
- The project meeting the objective identified for the grant round.
- Address public health, welfare, and safety.
- Community need.
- Budget and financial statements.
- Financial need with consideration to cash on hand, other revenue, previous grants, and debt.
- A clear program description and business plan.
- Sustainable staffing plan.

The following list of recommended awards was developed and were offered by the Domestic Violence Impact Grants Advisory Committee and the Energy Infrastructure and Impact Office:

Name	City	Application	Project	Long Description	Recommended Amount
Family Crisis Shelter	Williston	A170024	New Building	Current Shelter is Old 2bd/1ba House and Unable to Meet the Needs of Staff/Clients. Added Population Due to Oil Activity Forcing Into a New Facility	\$987,682
Domestic Violence & Rape Crisis Center	Dickinson	A170023	New Building	Influx Of People Coming To The Area Caused By Oil Activity Has Created An Increase In Needs For Services. Ground Breaking Delayed Until April 2017	\$1,000,000
					\$1,987,682

Motion: The Board awards \$1,987,682 from the Oil and Gas Impact Grant Fund to the two Domestic Violence providers as identified in the two award recommendations in the preceding list.

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

Authorization of Distributions to Eligible Cities (2015 Legislature HB 1176)

In HB 1176, Section Five, Subsections 13-16, the 2015 Legislature designated \$2.5 million of oil and gas impact funds for grants to specific political subdivisions located in oil-producing counties. The earmarks were designated to the communities of Stanley (\$1.7 million), Kenmare (\$500,000), Berthold (\$200,000), and Burlington (\$100,000) based on specific populations in the last official decennial federal census.

The available balance of the oil and gas impact grant fund is \$5.7 million which could allow the Board to consider approving grant fund distribution of \$2.5 million to the eligible cities of Stanley, Kenmare, Berthold, and Burlington. Of the \$5.7 million balance, \$3.5 million is planned to be awarded over the next three months to Law Enforcement and Emergency Medical Services' applications.

The infrastructure projects that the communities either completed, completed with loans, or are awaiting funds to support the enhancements:

- 1) Stanley – Several items on a priority list dependent upon funds delayed from 2016
- 2) Kenmare – New landfill and new lagoon (borrowed funds)
- 3) Berthold – Purchased building to expand City Hall (borrowed funds) and lagoon expansion to support the community's growth
- 4) Burlington – Water transmission line (in progress) and sanitary lift station (no available funding)

The EIO recommended that the Board authorize distribution of Oil and Gas Impact Funds of \$2.5 million for these communities as specified by the 2015 Legislature.

Motion: The Board awarded \$2,500,000 from the Oil and Gas Impact Grant Fund to: Stanley; Kenmare; Berthold; and Burlington, as identified in HB 1176, Section Five, at Subsections 13-16. With this action, the Board affirms that \$2,500,000 designated for these communities by the 2015 Legislative Assembly is satisfied.

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

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

Review of Investments and Asset Class Structures

RVK's Josh Kevan reviewed and summarized the Board's investment portfolio and described how asset allocation and its risk tolerance decisions were made to establish the present investment mix.

There are two investment pools that the Board oversees, one for the permanent trusts which has a perpetual time horizon, and another pool that is invested in shorter term bonds in which three non-permanent funds participate—the Strategic Investment and Improvements Fund, the Coal Development Trust Fund, and the Capitol Building Fund.

The Portfolio Overview was presented to the Board and a copy is available at the Department.

RVK Investment Performance Report

RVK's Josh Kevan reviewed the performance of the permanent trust funds' pool of investment assets for the period ending December 31, 2016. Mr. Kevan also reviewed a summary of the performance of many of the Trusts' assets as of January 31, 2017.

The Permanent Funds Performance Reports and Short-term Pooled Funds Performance Report were presented to the Board and copies are available at the Department.

Investment Updates

On February 5, 2017 RVK announced the departure of its real estate consulting group based in Chicago. This team joined RVK in 2007 and focused on real estate-only consulting mandates.

The departure was a result of this team desiring to engage in discretionary mandates in which they would act as a money manager. The leadership at RVK felt that this would go against the firm's consulting philosophy and be a conflict of interest with its non-discretionary mandates. RVK has a staff of 18 professionals based in Portland who will continue to work in real estate research, and RVK plans to continue to add to this team as appropriate.

The Department staff are not concerned this development and appreciate that RVK has chosen to avoid potential conflicts by maintaining its focus on investment consulting services.

M I N E R A L S M A N A G E M E N T

Royalty Calculation and Payment Issues

Under the authority of the North Dakota Constitution and State statutes, the Board of University and School Lands acts as a trustee in managing land, minerals and proceeds of the permanent trust funds for the exclusive benefit of specific beneficiaries.

Operators submit royalties to the North Dakota Department of Trust Lands under the provisions of the Board's oil and gas lease (lease). The operators who produce oil and gas, calculate royalties due on behalf of the Board's lessees. This lease is a contract that has been willingly entered by both parties. In managing trust assets, the Board's fiduciary role operates in the context of contractual relationships.

Since at least 1979, the lease which includes the Board's Rules requires oil and gas royalties to be calculated based on the greater of:

- 1) Highest posted price
- 2) Highest market price
- 3) Gross proceeds of sale

The lease contains a penalty provision for failure to pay royalties timely and state law also obligates the operator to calculate interest on a late payment.

The Board was informed that during its recent oil and gas audits, the Department identified issues with some operators improperly calculating royalties due under the lease. Specifically, the gross proceeds clause of the lease has not consistently been applied as some operators deduct transportation and other expenses from royalty payments. NDCC 38-08-6.3 requires the amount and purpose of each deduction accompany each payment. Some operators have not included royalty deductions on statements which portrays that the royalty is based on gross proceeds, but Department audits have identified inconsistencies. While some operators are in compliance, the Department has been working to collect royalties due from those who are underpaying.

The Department has increased assessment of penalties and interest for delinquent royalties. Penalties and interest on delinquent royalties per Board Rule 85-06-06-10 and NDCC 47-16-39.1 are used as a means to encourage the timely payment of royalties. The authority to assess a penalty of 1% per month has been in the Board rules since at least 1979. Since 1981, NDCC 47-16-39.1 has obligated an operator to pay 18% interest on any late payment. The Department's consistency of assessing penalties and interest was critiqued during its recent performance audit.

The Board's Oil and Gas Rules are an extension of the lease and have essentially remained unchanged since 2010.

- In April 2010, 85-06-06-08.1 *Disputed Title Royalty Escrow Account* was added, and public comment was requested and considered.
- In January 2012, 85-06-06-05 *Forms and Term of Lease* and 85-06-06-8 *Royalties* were amended to update the royalty rates. During this amendment process, industry input was received and considered.
- In June 2016, Board Rule 85-06-06-10 *Reports of Lessee- Delinquent Penalty* was amended to extend the reporting period for gas from 30 days to 60 days of the last day of the month of production.

The preceding royalty calculation issues and summary of actions were supplied for the Board's information and no action was requested.

LEGISLATIVE BILL STATUS (as of February 17, 2017)

The Board reviewed a summary of bills under consideration by the 2017 Legislature, that have a direct impact on the Board, Department of Trust Lands, or the funds managed. Unless the Board wishes to direct a different position, the Department's planned support or opposition to be offered in testimony on each bill is referenced and no additional Board action was requested.

Department Bills:

SB 2013 Legislative appropriation and budget for the commissioner of university and school lands.

This Bill that includes the Department's budget was heard by the Senate Appropriations Committee on January 20, 2017, and in several subsequent subcommittee meetings.

The subcommittee has adopted amendments with reductions in operating expenses, one FTE less than the Department's current authorization, and a slight reduction of funding authority for the information technology project.

The Department will continue to present supporting testimony.

SB 2101 Relating to management of the Coal Development Trust Fund.

This Bill, submitted by the Department, updates two sections of law related to distributions from, and the calculation of, income earned by the Coal Development Trust Fund.

The hearing with the Senate Finance and Taxation Committee was held on January 4, 2017. The Department supported SB 2101. The Bill passed the Senate 45 - 0 on February 3, 2017.

The Department will present supporting testimony to the House committee.

SB 2102 Relating to duties of the Commissioner and assessing state owned lands for highest and best use.

This Bill, submitted by the Department, clarifies the term of office and duties of the commissioner and regarding evaluating state lands for its highest and best use.

The hearing on SB 2102 was held on January 13, 2017 with the Senate Government and Veterans Affairs Committee, where the Department supported SB 2102. The Bill passed the Senate 45-0 on January 17, 2017.

The Department will support the Bill in testimony to committee.

Other Bills:**HB 1199** Relating to the definition of sovereign lands.

This Bill sets the determination of sovereign minerals to the historic ordinary high water mark of the Missouri River under the Lake Sakakawea prior to inundation, extending to the Corps "take line" west of Williston.

The Department provided a fiscal note for HB 1199 showing a negative revenue impact on the Strategic Investment and Improvements Fund of an estimated \$30.2 million through fiscal year 2021.

A hearing with the House Energy and Natural Resources Committee was held on February 2, 2017 where the Department offered background testimony and opposition to the provision which extends the use of historical records further west than current practice.

The Committee amended the Bill and recommended a Do Pass, as has the House Appropriations Committee.

The Department intends to offer background testimony and oppose the provisions of the Bill that change the Board's leasing practice and will affect active litigation.

HB 1300 Relating to agencies exempt from the definition of an administrative agency.

This Bill would remove the Land Board's exemption from the Administrative Agencies Practice Act.

The Department provided a fiscal note for HB 1300 which indicated a cost could not be determined.

The hearing with the House Political Subdivisions Committee was held on January 27, 2017, where the Department presented testimony in opposition.

The Committee recommended a Do Pass and on February 6, 2017 the House passed HB 1300 by a vote of 88 – 2.

In its opposing testimony, the Department will present examples to the Senate committee of the limitations that would be placed on the Board's fiduciary authority and ability to manage trust assets.

HB 1366 Relating to oil and gas gross production tax definitions and allocations and to provide an appropriation to the board of university and school lands.

This Bill would restore \$60 million in EIO grant funds to support legislative targets that were not met during the 2015-2017 biennium.

The Bill was heard in the House Finance and Taxation Committee. The Department was prepared with background testimony on EIO grants, but did not present.

On February 14, 2017 the House defeated HB 1366 by a vote of 37 – 54.

HB 1384 Relating to the duties of the state treasurer and the administration of abandoned property.

This Bill would transfer the administration of the Uniform Unclaimed Property Act from the Department of Trust Lands to the office of the State Treasurer.

The House Political Subdivisions Committee heard the Bill on January 27, 2017 where the Department presented neutral background on the purposes and operations of the Unclaimed Property Office.

The Committee recommended a Do Pass and on February 7, 2017 the House passed HB 1384 by a vote of 84 – 5.

Because of mischaracterizations regarding the Department's operation of the Unclaimed Property Division and missing consideration of the cost of transferring the functions to another agency, in the Senate Committee the Commissioner intends to present testimony in opposition of HB 1384.

Since the Bill does not amend NDCC 47-30.1-32, the Board would remain the appellate for unclaimed property issues.

SB 2134 Relating to the ownership of sovereign minerals beneath the Missouri River in areas that are inundated by Lakes Sakakawea and Oahe.

This Bill would change the method that the Board has used to determine and lease State minerals, by defining the riverbed channel under Lake Sakakawea and Lake Oahe as the last known survey by the Army Corp of Engineers.

N.D.C.C. 61-33-01 defines sovereign land as "...those areas, including beds and islands, lying within the ordinary high watermark of navigable lakes and streams...". In January, 2010, the Board authorized the determination of the ordinary high water mark of the Missouri River as it existed prior to inundation. In 2011, Bartlett and West completed "Task Order 2" for the river channel from near Williston to the Four Bears Bridge near New Town.

This acreage determination has been used as the basis for what depicts sovereign lands and what has been leased for oil and gas production. Bonus and royalties collected are deposited into the SIIF.

The Senate Energy and Natural Resources Committee heard SB 2134 on January 12, 2017 with the Department providing background testimony.

The Department provided a fiscal note for amended SB 2134 indicating a negative revenue impact on the SIIF of an estimated \$322 million through fiscal year 2021, and an estimate of \$350,000 to detail survey acreage.

The Committee amended the Bill and recommended a Do Pass and the Senate passed SB 2134 by a vote of 37 – 9 on February 9, 2017. Amended SB 2134 extends use of the pre-inundation federal survey further west, and defers to federal law regarding ownership of the river within the Fort Berthold Reservation.

In the House Committee, the Department intends to provide background and opposing testimony, and additional explanation of the Board's 2010 technical investigation of the historical riverbed and its use of this information in the determination of mineral acres.

SB 2245 Relating to listing state parcels for use as wetlands mitigation.

This Bill would require the Commissioner, by July 2018, to provide a list of trust land parcels that may qualify for use as wetlands mitigation.

The Department provided a Fiscal Note, which indicated that a cost cannot be determined.

The Senate Agriculture Committee heard SB 2245 on January 26, 2017 where the Department presented testimony on the background and purpose of trust lands.

The Committee gave the Bill a Do Pass recommendation and on February 13, 2017 the Senate passed SB 2245 by a vote of 43 – 3.

SB 2272 Relating to school construction loans from the coal development trust fund and the school construction assistance revolving loan fund (and other issues).

This Bill raises from \$50 million to \$60 million, the amount of Coal Development Trust Funds available for school loans. It also changes the program from a broad school construction program to a loan program for unanticipated construction, replacement and emergency repair projects.

The Senate Education Committee heard SB 2272 on January 25, 2017 and gave the Bill a Do Pass recommendation and on February 16, 2017 the Senate unanimously passed the Bill.

R E P O R T S

The results of the February oil and gas lease auction conducted online was presented to the Board.

Report of Easements Issued by the Commissioner (01-13-17 through 2-15-17)

Granted to:	ROUGH RIDER ELECTRIC COOPERATIVE, INC., DICKINSON ND
For the Purpose of:	Easement: Drop Line-Buried Electric Distribution Line
Legal Description:	BIL-142-100-28-N2SW4, S2NW4
Granted to:	WESTERN AREA POWER ADMINISTRATION, BISMARCK ND
For the Purpose of:	Easement: Electric Transmission Line
Legal Description:	STU-139-69-5-SE4NE4, LOTS 1,2,9
Granted to:	LIME ROCK RESOURCES III-A LP, HOUSTON TX
For the Purpose of:	Easement: Drop Line-Gas Gathering Pipeline
Legal Description:	BRK-160-90-16-NW4
Granted to:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY MT
For the Purpose of:	Easement: Drop Line-Gas Gathering Pipeline
Legal Description:	MCK-149-96-16-NE4, NW4
Granted to:	BRIDGER PIPELINE LLC, CASPER WY
For the Purpose of:	Easement: Drop Line-Oil Gathering Pipeline
Legal Description:	MCK-149-96-16-NE4, NW4
Granted to:	MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY ND
For the Purpose of:	Easement: Drop Line-Electric Distribution Line
Legal Description:	MCK-153-94-36-SE4, SW4

Granted to: For the Purpose of: Legal Description:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY MT Easement-Amend: Drop Line-Pipeline MCK-153-94-36-SE4, SW4
Granted to: For the Purpose of: Legal Description:	QEP FIELD SERVICES LLC, SAN ANTONIO TX Assignment: Salt Water Disposal Well-Assignment BIL-140-100-16-NW4
Granted to: For the Purpose of: Legal Description:	WHITE ROCK OIL&GAS LLC, DALLAS TX Permit: Access Road MCK-146-102-36-NE4, SE4
Granted to: For the Purpose of: Legal Description:	WEST DAKOTA WATER LLC, WILLISTON ND Letter of Permission: Access to School Land WIL-156-101-36-SE4
Granted to: For the Purpose of: Legal Description:	MCKENZIE ENERGY PARTNERS, LLC, WATFORD CITY ND Easement-Amend: Multiple Pipelines WIL-156-100-9-S2SE4

A D J O U R N

There being no further business, the meeting was adjourned at 11:21 AM.

Doug Burgum, Chairman
Board of University and School Lands

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

**Minutes of the Meeting of the
Board of University and School Lands
March 30, 2017**

The March 30, 2017 meeting of the Board of University and School Lands was called to order at 9:00 AM in the Governor's Conference Room by Chairman Doug Burgum.

Members Present:

Doug Burgum	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
Linda Fisher	Deputy Commissioner
Jeff Engleson	Director, Investment Division
Drew Combs	Director, Minerals Division
Susan Dollinger	Unclaimed Property Administrator
Levi Erdmann	Investment Analyst
Michael Humann	Director, Surface Division
Taylor Lee	Director, Revenue Compliance
Catelin Newell	Office Manager

Guests in Attendance:

Savannah Schmidt	Office of the Attorney General/BCI
Amy Dalrymple	Forum News Service
Lawrence Bender	Fredrikson & Byron P.A.
David Garner	Office of the Attorney General
Troy Coons	North West Land Owners Association
Jon Patch	Self
Ron Ness	North Dakota Petroleum Council
Craig Smith	Crowley Fleck
Leslie Bakken Oliver	Governor's Legal Counsel
Cassandra Torstenson	Governor's Office

APPROVAL OF MINUTES

A motion to approve the minutes of the February 23, 2017 meeting was made by Treasurer Kelly Schmidt and seconded by Attorney General Wayne Stenehjem and the motion carried unanimously on a voice vote.

ENERGY INFRASTRUCTURE AND IMPACT OFFICE

Funding Update & Initiation of Next Grant Round

As of March 23, 2017, \$60,141,026 has been deposited into the Oil and Gas Impact Grant Fund. Of that amount \$487,919 has been used for operations and administration (of \$700,000 appropriated).

\$60,141,026	Gross Deposits	\$52,431,423	Awarded
- <u>487,919</u>	Operations	- <u>684,869</u>	Cancelled Grants
\$59,653,107	Net	\$51,746,554	Net Awarded

Calculating the available balance the Board may utilize: \$7,906,553

Emergency Medical Services and Law Enforcement grants decisions are anticipated. If funding for these two areas is fully utilized, \$3,536,233 would be committed, leaving a current undesignated balance of \$4,370,320.

The Director recommended that the Board authorize an announcement of \$2 million available for a grant round to Nursing Home / Basic Care facilities in the oil producing counties.

The advisory committee that the Board previously appointed will be convened to establish the grant guidelines and application timeframes.

Nursing Home / Basic Care advisory committee:

- Shelly Peterson – President of the ND Long Term Care Association
- Sue Heitkamp – Executive Director of CHI Health at Home-Home Health & Hospice
- Dan Kelly – CEO, McKenzie County Health Care System in Watford City
- Jon Frantsvog – CEO, St. Benedict's Health Center in Dickinson
- Kurt Stoner- Administrator, Bethel Lutheran Nursing & Rehab Center in Williston
- Randy Pederson- President, Tioga Medical Center
- Amy Kreidt – Administrator in training, St. Luke's Home in Dickinson

Motion: The Board directs the Energy Infrastructure and Impact Office to initiate an announcement and preparation of grant recommendations for Nursing Homes/Basic Care, totaling \$2,000,000 and to recommend that the remaining \$2,000,000 allocated by the 2015 Legislature be considered in the next biennium, if 2017 legislation so authorizes.

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

Human Trafficking Grants

In January 2016, human trafficking prevention organizations were awarded grants, however some waited to spend in the event that funding would not be available for reimbursement if added authorized staffing. The award letters specifically documented that the grant availability was January 2016 through June 2017. Some of the grants have been reimbursed, while others have not.

The Attorney General's North Dakota Human Trafficking Commission, which is the advisory committee for these grants, recently held a conference call with each sub grantee (G160242 – G160247) seeking information on their progress and a projection of funding reimbursements. Based upon these meetings, the Commission and the Director recommended a two-year extension to grants for:

- 1) Youthworks, Bismarck - \$314,786
- 2) CAWS, Bismarck - \$94,576
- 3) Family Crisis Shelter, Williston - \$79,448
- 4) Domestic Violence Crisis Shelter, Minot - \$71,892
- 5) Legal Services of North Dakota, Bismarck - \$79,398

Motion: The Board authorized extensions to the five Human Trafficking grants listed above in order to continue preventative and treatment services. This approval will assist those organizations committed to services supporting Human Trafficking victims.

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

MINERALS MANAGEMENT

Gas Deduction Clarification Letter

Under the authority of the North Dakota Constitution and Century Code, the Board acts as a trustee in managing land, minerals and proceeds of the permanent trust funds for the exclusive benefit of specific beneficiaries.

Oil and gas operators submit royalties to the Department under the provisions of the Board's oil and gas lease and Board rules. The operators who produce oil and gas calculate royalties due on behalf of the Board's lessees.

During recent oil and gas audits the Department found that some operators improperly calculate gas royalties due under the State lease. The lease requires gas royalties to be calculated based on gross production or the market value thereof, at the option of the lessor. Such value to be based on the gross proceeds of sale where such sale constitutes an arm's length transaction. The gross proceeds clause of the lease has not been consistently applied and some operators have been deducting transportation costs and other expenses from the royalty payments, which is not allowed under a gross proceeds lease.

Additionally, North Dakota Century Code 38-08-06.3 requires each royalty payment to include an information statement identifying the amount and purpose of each deduction. Despite this, some operators have not included information regarding royalty deductions on payment statements. The Department audits have revealed that deductions are being subtracted from royalty calculations and as such the State and trusts are being underpaid by some operators. While many operators are in compliance, the Department has been working to collect royalties due from those who are underpaying.

The Department requested a legal interpretation of gas gross proceeds clause from the Attorney General's Office. The review found that under the State lease, lessees may not deduct any expenses from the calculation of gas royalties. The royalty must be paid on the gross proceeds of sale, which is the total of the gross production multiplied by the sale price. Any expenses the lessee incurs in connection with the production and sale of the gas must be borne solely by the lessee, including any percentage of proceeds' deductions.

The Department presented a letter and the legal analysis that it planned to send to oil and gas operators.

While no action was requested, Attorney General Stenehjem made a motion to direct the Commissioner to contact representatives of groups who are the intended recipients of the Department's proposed gas royalty letter, to solicit any legal analysis that they have regarding the issues addressed in the letter. The comments should be gathered in advance of the Board's next meeting, in order for the Board to determine how it will proceed.

In summarizing the discussion, Governor Burgum stated that it appears that to be an issue of contract law and the goal is to obtain the various legal arguments of all parties involved. The Board recognizes that there is a desire for stronger constituent engagement, even when trying to apply a principle that is a matter of contract law. The Board is not holding hearings on its contracts, but rather is getting legal input about its existing contracts.

Motion: The Board directs the Commissioner to contact representatives of groups who are the intended recipients of the Department's proposed gas royalty letter, to solicit any legal analysis that they have regarding the issues addressed in the letter.

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

O P E R A T I O N S

Legislative Bill Status (as of March 24, 2017)

The Commissioner presented a summary of bills under consideration by the 2017 Legislature, that have a direct impact on the Board, Department of Trust Lands or the funds managed.

Department Bills:

SB 2013 Legislative appropriation and budget for the commissioner of university and school lands.

This Bill that includes the Department's budget.

The Senate adopted amendments with reductions in operating expenses, one FTE less than the Department's current authorization, and a slight reduction of funding authority for the information technology project.

The House Appropriations Subcommittee has met a number of times on the Bill, but has not taken final action.

The Department will continue to present supporting testimony.

SB 2101 Relating to management of the Coal Development Trust Fund.

This Bill, submitted by the Department, updates two sections of law related to distributions from, and the calculation of, income earned by the Coal Development Trust Fund.

The Bill passed the Senate 45 -- 0 on February 3, 2017

It passed the House yeas 90 -- 0 on March 8, 2017

Signed by the Governor on March 14, 2017

SB 2102 Relating to duties of the Commissioner and assessing state owned lands for highest and best use.

This Bill, submitted by the Department, clarifies the term of office and duties of the commissioner and regarding evaluating state lands for its highest and best use.

The Bill passed the Senate 45--0 on January 17, 2017

The Bill passed the House 79--12 on March 7, 2017

The Governor signed the bill on March 14, 2017

Other Bills under consideration:

[HB 1199](#) Relating to the definition of sovereign lands.

This Bill sets determination of sovereign minerals to the historic ordinary high water mark of the Missouri River under the Lake Sakakawea prior to inundation, extending to the Corps “take line”.

The Department provided a fiscal note for HB 1199 showing a negative revenue impact on the Strategic Investment and Improvements Fund of an estimated \$30.2 million through FY 2021.

The House passed the Bill 90--2 on February 21, 2017.

In a March 17 hearing before the Senate Energy and Natural Resources Committee, the Commissioner offered background testimony and opposed the provisions of the Bill that changes the Board’s leasing practice and will affect active litigation.

The Senate has not acted on the Bill.

[HB 1300](#) Relating to agencies exempt from the definition of an administrative agency.

This Bill would remove the Board’s exemption from the Administrative Agencies Practice Act.

The Department provided a fiscal note for HB 1300 which indicated a cost could not be determined.

On February 6, 2017 the House passed HB 1300 by a vote of 88 – 2.

In a March 10 hearing before the Senate Natural Resources Committee the Department presented opposing testimony, including examples of the limitations that would be placed on the Board’s fiduciary authority and ability to manage trust assets.

The Senate has not acted on the Bill.

[HB 1384](#) Relating to the duties of the state treasurer and the administration of abandoned property.

This Bill would transfer the administration of the Uniform Unclaimed Property Act from the Department of Trust Lands to the office of the State Treasurer.

On February 7, 2017 the House passed HB 1384 by a vote of 84 – 5.

On March 14, 2017 the Senate defeated the Bill by a vote of 2 - 45.

[SB 2134](#) Relating to the ownership of sovereign minerals beneath the Missouri River in areas that are inundated by Lakes Sakakawea and Oahe.

This Bill would change the method that the Board has used to determine the ordinary high water mark and lease State minerals, by defining the historical riverbed channel under Lake Sakakawea and Lake Oahe.

N.D.C.C. 61-33-01 defines sovereign land as “...those areas, including beds and islands, lying within the ordinary high watermark of navigable lakes and streams...”. In January, 2010, the Board authorized the determination of the ordinary high water mark of the Missouri River as it existed prior

to inundation. In 2011, Bartlett and West completed “Task Order 2” for the river channel from near Williston to the Four Bears Bridge near New Town.

This acreage determination has been used as the basis for what depicts sovereign lands and what has been leased for oil and gas production. Bonus and royalties collected are deposited into the SIIF.

The Senate passed the Bill by a vote of 37 – 9 on February 9, 2017.

The House Energy and Natural Resources Committee heard the Bill on March 10 where the Department provided background and opposing testimony; and provided additional explanation of the Board’s 2010 technical investigation of the historical riverbed and its use of this information in the determination of sovereign mineral acres.

A subcommittee was formed and has met a number of times to review proposed amendments. Current consideration would define the sovereign mineral as the historical channel using the last known survey by the Army Corp of Engineers, coupled with an \$800,000 appropriation for an Industrial Commission study of the Corps’ survey. The bill moves the utilization of historical channel method of determining sovereign minerals acres to an area between Williston and the confluence. It defers to federal interpretation the ownership of public domain tracts, which the Board presently claims on behalf of the State. Current amendments remove application of the historic channel method and study from the area within the Fort Berthold Reservation.

Present cost estimates indicate that the Bill would initiate a return from the SIIF of \$87.7 million of bonus to lessees; a return of \$69.3 million of collected royalties to operators; and the release of \$18.7 million of escrowed royalties.

SB 2245 Relating to listing state parcels for use as wetlands mitigation.

This Bill would require the Commissioner, by July 2018, to provide a list of trust land parcels that may qualify for use as wetlands mitigation.

The Department provided a Fiscal Note, which indicated that a cost cannot be determined.

On February 13, 2017 the Senate passed SB 2245 by a vote of 43 – 3.

The Department provided background and opposing testimony to a House Agriculture Committee hearing on March 17. The Committee has not acted on the Bill.

SB 2272 Relating to school construction loans from the coal development trust fund and the school construction assistance revolving loan fund (and other issues).

This Bill raises from \$50 million to \$60 million, the amount of Coal Development Trust Funds available for school loans. It also changes the program from a broad school construction program to a loan program for unanticipated construction, replacement and emergency repair projects.

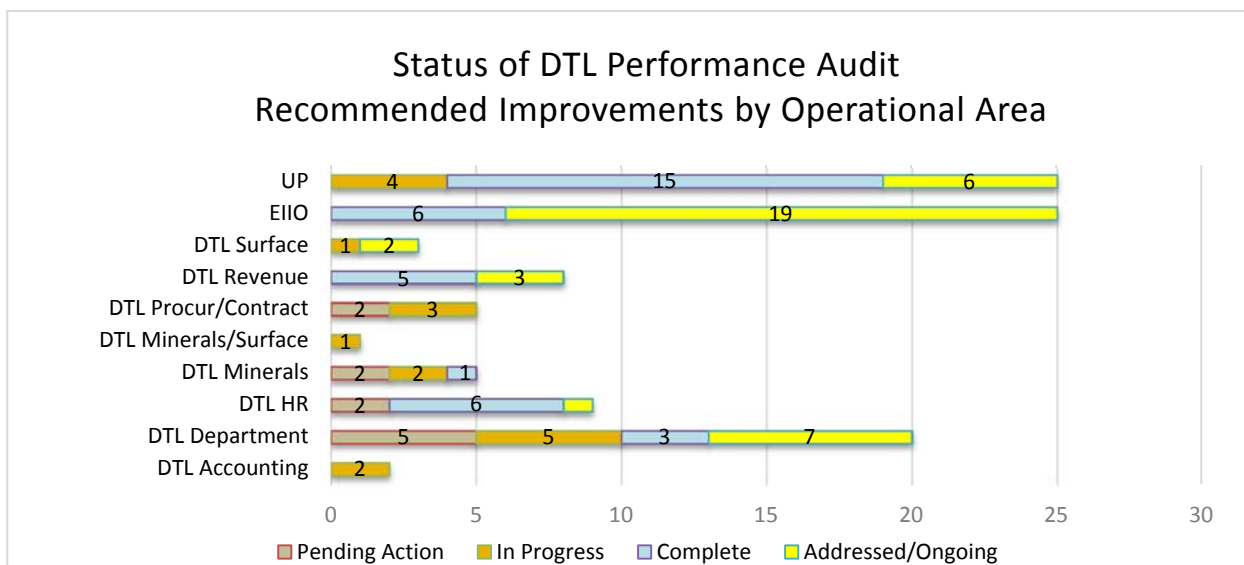
On February 16, 2017 the Senate unanimously passed the Bill 45--0.

At a March 14, 2017 the Department provided background testimony on the Board’s role in loans to political subdivisions and schools.

The House has not acted on the Bill.

Performance Audit Status Update

The State Auditor’s performance audit report No. 3036 relating to the Energy Infrastructure and Impact Office, Unclaimed Property, and Trust Assets and Department Resources was published in April 2016. The following graphs depict progress on the various accumulated recommendations. Assessments and process modifications are completed or underway in all areas.

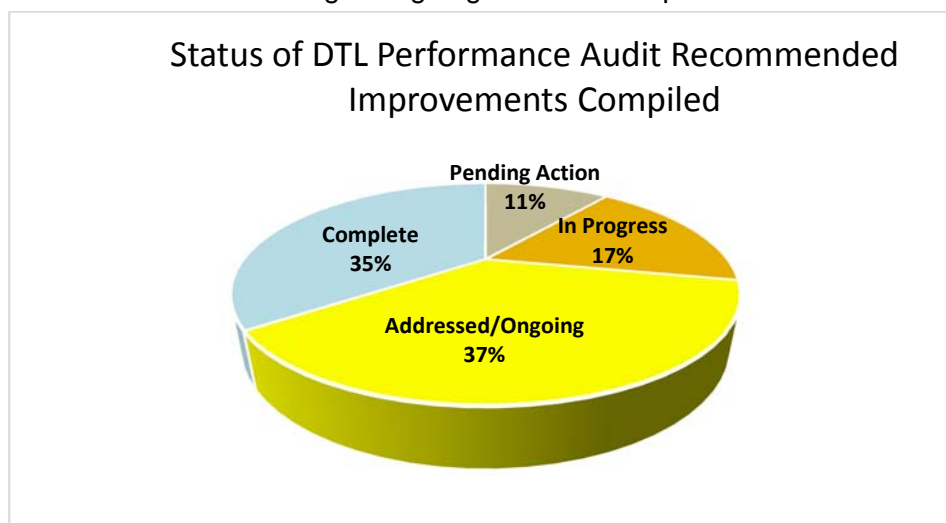


Pending Action: Efforts to address the recommendation have not yet started.

In Progress: Efforts are underway to address or implement the recommendation but have not yet been completed.

Complete: Efforts to accomplish the recommendation have been finalized.

Addressed/Ongoing: Efforts have been initiated to address the recommendation, and monitoring is ongoing without an expected end or conclusion.



R E P O R T S

The Quarterly Financial Report (Unaudited) for period ended December 31, 2016 was provided to the Board for its review.

Investment Updates

Asset Allocation

The following table shows the status of the asset allocation of the permanent trusts as of February 28, 2017. Asset values for real estate funds are updated quarterly; the real estate numbers shown here are December 31, 2016 values.

Account/Asset Class	Long-Term Asset Allocation	2/28 Actual Allocation \$	2/28 Actual Allocation %
Large Cap US Equity	13.5%	\$ 539,205,593	13.5%
Small Cap US Equity	3.5%	\$ 138,363,954	3.5%
International Equity	12.0%	\$ 480,807,273	12.0%
Emerging Market Equity	3.0%	\$ 124,295,549	3.1%
Total Equities	32.0%	\$ 1,282,672,369	32.1%
Domestic Investment Grade	14.2%	\$ 560,383,367	14.0%
High Yield FI	3.0%	\$ 116,415,206	2.9%
International/Global FI	5.8%	\$ 227,214,788	5.7%
Total Fixed Income	23.0%	\$ 904,013,360	22.6%
Total Absolute Return	20.0%	\$ 797,755,227	20.0%
Commodities	3.0%	\$ 120,741,865	3.0%
MLPs	3.0%	\$ 123,148,473	3.1%
TIPS	2.0%	\$ 73,906,147	1.9%
Natural Resource Equities	2.0%	\$ 74,943,659	1.9%
Total Inflation Strategies	10.0%	\$ 392,740,144	9.8%
Core Real Estate	8.0%	\$ 337,890,667	8.5%
Core Plus Real Estate	7.0%	\$ 277,134,109	6.9%
Total Real Estate	15.0%	\$ 615,024,776	15.4%
Total Asset	100.0%	\$ 3,992,205,876	100.0%

DFA (Dimensional Fund Advisors) Changes

(Emerging Markets Equity: \$62.62 Million, 1.6% of trust assets)

The Department was recently informed that on February 28, 2017, Mary Phillips replaced Henry Gray on Dimensional's Investment Committee. Mr. Gray is leaving the firm at the end of April to pursue interests in education and teaching.

RVK and the Department staff indicated no concerns about this recent change at DFA.

Due Diligence Visits in March to Prologis and RVK

During March, Jeff Engleson and Levi Erdmann participated in due diligence visits to both Prologis (real estate) and RVK. Levi met with representatives of Prologis on March 14th in San Francisco, before joining Jeff Engleson to meet with RVK in Portland, OR on March 15th and 16th.

Other Funds Managed by the Board – 4th Quarter 2016

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 portion of the oil and gas production and extraction taxes. This fund is invested in a conservative, short-term fixed income portfolio.

	12/31/16 Asset Balances	Yield/Total Return for Qtr. Ended 12/31/16
Strategic Investment and Improvements Fund		
Loan Guarantee – Fuel Production	\$ 17,189,000	0.38% Yield
Investments/Cash	348,355,000	0.01% Total Return
Total	\$ 347,885,000	

- During the quarter ended December 31, 2016, the primary source of trust growth for the SIIF was oil and gas royalties, at \$17.5 million. Only \$12,000 of oil and gas bonuses were collected during the quarter. Approximately \$1.5 million of interest income was earned during the quarter. Interest income was offset by about \$1.2 million of unrealized losses that resulted from climbing Treasury rates during the quarter.

- ◆ The funds set aside to guarantee a loan for the Dakota Spirit AgEnergy biomass fuel production facility earned an annualized yield of approximately 0.38% during the quarter. The SIIF also receives an annual guarantee fee of 0.25% of the outstanding loan balance in June of each year. This program will earn a very modest amount of income going forward, as it is invested in short-term bonds.
- ◆ No transfers were made to other agencies during the quarter; the final \$200,000 transfer out of this fund for the 2015-2017 biennium is scheduled for March 2017.
- ◆ Projections provided to OMB in November 2016, based on oil price and barrel projections indicated that this fund will end the current biennium with a balance of approximately \$504 million.
- ◆ The assigned fund balance of the SIIF was \$142.33 million as of 12/31/16. The assigned fund balance represents money that has been set aside to cover potential refunds related to lawsuits involving the Missouri and Yellowstone Rivers. The balance is related to the potential of loss due to litigation of royalties and bonus related to sovereign minerals under the Missouri and Yellowstone Rivers.

The **School Construction Assistance Loan Fund** (SCALF) was created in 2015, with a transfer of \$150 million of outstanding school construction loans from the SIIF. SB 2039 gave control of the SCALF to the BND, contingent on voter approval of a constitutional measure in November 2016.

- ◆ With the Constitutional Measure #2 adopted by voters in November 2016, control of the SCALF was turned over to BND in January 2017.
- ◆ As of December 31 2016, the SCALF had a balance of approximately \$152.78 million made up of \$143 million of school construction loans, \$9.1 million of invested cash, and \$682,000 of accrued income.
- ◆ The average yield of the outstanding total loan balance was 1.43% as of December 31, 2016. The invested cash was earning a yield of approximately 0.33% at Northern Trust at quarter's end.

The **Coal Development Trust Fund** (CDTF) 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. As directed in the Constitution, the income earned by the CDTF is transferred to the General Fund each year. The CDTF has historically been invested in a conservative short-term fixed income portfolio.

	12/31/2016 Asset Balances	Yield/Total Return for Qtr. Ended 12/31/16
<u>Coal Development Trust Fund</u>		
School Construction Loans	\$ 43,901,000	1.67% Yield
Coal Impact Loans	12,988,000	3.36% Yield
Investments/Cash	<u>12,059,000</u>	0.01% Total Return
Total	\$ 68,948,000	

- ◆ No new loans of any type were funded out of the CDTF during the quarter ended December 31, 2016.
- ◆ In August, the Department of Public Instruction approved a new school loan commitment of \$6.4 million to Richardton-Taylor. With that commitment, there is approximately \$203,000 of school loan capacity remaining from the CDTF.
- ◆ The investable balance of the CDTF was at approximately \$11.6 million at quarters' end, up approximately \$500,000 during the quarter.

The **Capitol Building Fund** is a Constitutional fund for the construction and maintenance of "public buildings at the capital." It generates revenues from almost 10,000 surface and 27,700 mineral acres it owns. The Capitol Grounds Planning Commission (CGPC) has official control over the Capitol Building Fund; the Land Board is responsible for investing the assets on behalf of the CGPC. The fund is invested in a conservative, short-term fixed income portfolio.

	12/31/16 Asset Balance	Total Return Qtr. Ended 12/31/16
Capitol Building Fund		
Investments/Cash	\$ 6,076,000	0.01% Total Return

- ◆ The 64th Legislative Session, appropriated approximately \$5.7 million from the Capitol Building Fund as follows:
 - \$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 these 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 approximately \$203,000 of oil and gas royalties and approximately \$100,000 of surface rentals.
- ◆ During the quarter, \$1.1 million was transferred to Facilities Management to be used for constructing the new governor's residence. The Department has received a revised draw schedule from Facilities Management during detailing cash needs for this project through mid-2018.

INVESTMENT RETURNS

The investment assets of the SIIF, Coal Development Trust Fund, and Capitol Building Fund are commingled in the Ultra-Short bond portfolio managed by Northern Trust.

RVK's review of the performance of the Ultra-short account for the quarter ended December 31, 2016 and various other time periods since inception of the account in August 2015 was reviewed.

Report of Easements Issued by Land Commissioner (2/14/17 to 3/14/17)

Granted to: MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND
For the Purpose of: Easement: Drop Line-Buried Electric Distribution Line
Right-of-Way Number: RW0007690
Trust: A - Common Schools
Legal Description: MOU-158-91-16-SE4

Granted to: MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND
For the Purpose of: Easement: Electric Transmission Line
Right-of-Way Number: RW0007815
Trust: A - Common Schools
Legal Description: WIL-156-101-36-NE4, SE4

Granted to: WHITING OIL AND GAS CORPORATION, DENVER-CO
For the Purpose of: On-lease Act. Amend: Horizontal Oil Well
Right-of-Way Number: RW0007927
Trust: A - Common Schools
Legal Description: WIL-156-100-9-S2SE4

Granted to: MCKENZIE ENERGY PARTNERS LLC, WATFORD CITY-ND
For the Purpose of: Easement-Amend: Multiple Pipelines
Right-of-Way Number: RW0008010
Trust: A - Common Schools
Legal Description: WIL-156-100-9-S2SE4

(03/30/17)

Granted to:

For the Purpose of:

Right-of-Way Number:

Trust:

Legal Description:

MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND

Easement: Drop Line-Buried Electric Distribution Line

RW0008017

A - Common Schools

MCK-153-94-36-SE4

Granted to:

For the Purpose of:

Right-of-Way Number:

Trust:

Legal Description:

ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT

Easement: Drop Line-Gas Gathering Pipeline

RW0008020

A - Common Schools

WIL-154-100-16-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:

For the Purpose of:

Right-of-Way Number:

Trust:

Legal Description:

Legal Description:

Legal Description:

US FISH & WILDLIFE SERVICE, KENMARE-ND

Letter of Permission: Access to School Land

RW0008016

A - Common Schools

DIV-160-103-16-NE4, NW4, SE4, SW4

DIV-161-100-16-NE4, NW4, SE4, SW4 N OF LAKE, SW4 S OF LAKE

MOU-157-89-16-LOT 2, LOT 3, LOT 4, LOT 6, LOTS 9,10, NE4, S2SW4, LOTS 7,8

Legal Description:

MOU-157-92-16-NE4NE4, LOTS 1,2, SE4SE4, LOTS 3,6, SW4SW4, LOT 4,5

Legal Description:

WIL-159-103-16-LOTS 1,2,3, NE4, NE4SW4, S2SW4, LOT 4, SE4

Granted to:

For the Purpose of:

Right-of-Way Number:

Trust:

Legal Description:

BOB ENTERPRISES, KILLDEER-ND

Letter of Permission: Access to School Land

RW0008024

A - Common Schools

DUN-148-96-36-LOTS 1,2,6,7, NW4SE4, S2SE4, LOT 8, S2NW4, LOTS 3,4,5

A D J O U R N

There being no further business, the meeting was adjourned at 10:17 AM.

Doug Burgum, Chairman
Board of University and School Lands

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

**Minutes of the Meeting of the
Board of University and School Lands
April 27, 2017**

The April 27, 2017 meeting of the Board of University and School Lands was called to order at 9:02 AM in the Governor's Conference Room by Chairman Doug Burgum.

Members Present:

Doug Burgum	Governor
Alvin A. Jaeger	Secretary of State
Wayne Stenehjem	Attorney General – Via Telephone
Kelly Schmidt	State Treasurer
Kirsten Baesler	Superintendent of Public Instruction

Department of Trust Lands Personnel present:

Lance D. Gaebe	Commissioner
Linda Fisher	Deputy Commissioner
Susan Dollinger	Unclaimed Property Administrator
Levi Erdmann	Investment Analyst
Michael Humann	Director, Surface Division
Taylor Lee	Director, Revenue Compliance
Catelin Newell	Office Manager
Gerard Schwan	Director, Grants and Claims Division

Guests in Attendance:

Amy Dalrymple	Forum News Service
David Garner	Office of the Attorney General
Jon Patch	Self
Roger Kelley	Continental Resources
Christian Holcomb	XTO
Kal Beckman	XTO
John Morrison	North Dakota Petroleum Council
Alexis Brinkman-Baxley	North Dakota Petroleum Council
Leslie Bakken Oliver	Governor's Legal Counsel
Cassandra Torstenson	Governor's Office
Jessica Unruh	North Dakota State Senator

APPROVAL OF MINUTES

A motion to approve the minutes of the March 30, 2017 meeting was made by Secretary of State Al Jaeger and seconded by Treasurer Kelly Schmidt and the motion carried unanimously on a voice vote.

ENERGY INFRASTRUCTURE AND IMPACT OFFICE

Emergency Medical System Grant Recommendations

In January, the Board approved proceeding with a grant round for energy development impacted Emergency Medical System (EMS) organizations for up to \$2.3 million based on House Bill 1176 adopted by the 64th Legislative Assembly. The Board awarded \$3.7 million in 2015, thus this action will complete the legislative appropriation of \$6 million identified in HB 1776.

The advisory committee made up of emergency medical services leaders that the Board had previously appointed was again asked to assist in the review of applications. The committee is:

- Kari Enget - Powers Lake Ambulance
- Lynn Hartman - Dickinson Area Ambulance
- Emily Haleen - Bowman Ambulance
- Tom Nehring - ND Department of Health
- Jerry Jurena - ND Hospital Association
- Jason Cantrombone - City of Williston Fire Dept.
- Duane Estvold - New Town Ambulance
- Ann Hafner - Killdeer Ambulance
- Diane Witterman - Mohall Ambulance

Thirty applications were received. All requests were reviewed in interviews during regional meetings conducted by Department of Health and EIO staff. The advisory committee evaluated and scored applications, and along with the Energy Infrastructure and Impact Office (EIO) made the following recommendations for grant awards:

Applicant	City	Application #	Project	Amount Requested	Recommended Award	Note
Golva Rural Fire District	Golva	A170029	Construction Of Training Room / Kitchen	80,000	\$0	1, 4
Grenora Ambulance District	Grenora	A170030	Personnel & Payroll	100,000	\$60,000	3
Portal Rural Ambulance District	Lignite	A170031	EMT Training	10,000	\$10,000	
Dickinson Area Ambulance	Dickinson	A170032	Vehicle & Staffing	129,500	\$127,500	4
Rural Ems Assistance, Inc.	Dickinson	A170033	Staffing	39,500	\$39,500	
City Of Williston	Williston	A170034	Staffing & Vehicle	294,550	\$164,250	2, 6
Riverdale Ambulance Service	Riverdale	A170035	Staffing, Equipment & Training	103,000	\$40,000	3,4,7
Killdeer Area Ambulance District	Manning	A170036	Staffing	200,000	\$120,000	3
Beach Community Ambulance Service	Beach	A170037	Staffing	100,000	\$60,000	3
Beach Community Ambulance Service	Beach	A170038	Building Restoration	42,600	\$42,600	
Beach Community Ambulance Service	Beach	A170039	Radio & Computers	20,000	\$15,000	8
Grassy Butte Fire District	Grassy Butte	A170040	Dispatch Equipment	12,975	\$12,975	
Divide County Ambulance Service	Crosby	A170041	Staffing	100,000	\$100,000	
Stanley Rural Ambulance Service District	Stanley	A170042	Bldg Expansion	100,000	\$60,000	
Mercer County Rural Ambulance District	Hazen	A170043	Equipment & Training	64,823	\$36,000	4
Garrison-Max Ambulance District	Garrison	A170044	New Facility	1,000,000	\$0	1
New Town Rural Fire District	New Town	A170045	Staffing & Equipment	225,000	\$196,095	3
Mandaree Ems Ambulance Service	Mandaree	A170046	Staffing, Vehicle, & Equip	350,000	\$150,000	6
Powers Lake Rural Ambulance District	Powers Lake	A170047	Staffing, Training, & Equip	43,400	\$43,400	
Bowman County Rural Ambulance District	Bowman	A170048	Lifepak	33,138	\$27,000	4
Bowman County Rural Ambulance District	Bowman	A170049	Staffing	30,000	\$30,000	
Bowman County Rural Ambulance District	Bowman	A170050	Software	8,828	\$8,828	
Renville County Rural Ambulance District	Mohall	A170051	Staffing	206,244	\$200,000	3
Renville County Rural Ambulance District	Mohall	A170052	Lifepak & Aed's	50,566	\$27,000	4
Renville County Rural Ambulance District	Mohall	A170053	Staffing	75,000	\$32,000	3
Billings County Ambulance Service	Medora	A170054	Staffing	110,000	\$92,000	3
City Of Watford City	Watford City	A170055	Personnel	496,400	\$473,954	3
City Of Belfield	Belfield	A170056	Personnel	65,000	\$60,000	
Richardton-Taylor Ambulance District	Richardton	A170057	Personnel	100,001	\$72,000	3
City Of Kenmare	Kenmare	A170058	Training	16,000	\$15,000	5
Total Amount Awarded:					\$2,315,102	

Note 1: Applications Were Incomplete, Did Not Consider Other Sources Of Funding, Or No Additional Funding Arranged.

Note 2: New County Sales Tax Revenue For First Responders Not Provided In The Application.

Note 3: Salary For EMT (\$40k/Yr)/Paramedics(\$60k/Yr) Were Established As Set Amounts.

Note 4: Equipment Quotes For Lifepaks Were Set At One Price Where The Company Listed Five Different Prices To Applicants.

Note 5: Identical Emt Training Requests Were Funded At A Set Inclusive Cost.

Note 6: Request For Ambulances Were Premium Versions Compared To Past Funding Models.

Note 7: Riverdale Can Receive This Aed & Training Funds From New Dept. Of Health Grant

Note 8: Computer Costs Were Over Estimated And Did Not Have A Published Quote From A Vendor.

All applicants were informed that funds are not expected to be dedicated to EMS and ambulance within the Oil and Gas Impact Grant fund in the future. The service providers were advised to find sources of funding through private donations, mill levy adjustments, or merger of operations.

Motion: The Board authorized grants to the 28 Emergency Medical Services for the purpose and the amounts indicated in the preceding table. These grants are directed to areas where oil and gas development activities have impacted ambulance services. These projects are identified to support public safety.

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

Funding Status and Future Grant Authorization

During the current biennium, \$64,978,612 has been deposited into the Oil and Gas Impact Grant Fund. As of March 31, 2017, \$534,116 has been utilized for operations and salary. Cancellations of \$684,869.24 during the biennium result in a net preset balance of \$10,373,839 the Board may utilize for grants.

In February 2017 the Board authorized Law Enforcement grant plans and in March 2017 the Land Board authorized the acceptance of applications for Nursing Home / Basic Care grants. If funding is fully utilized the amounts these two grant areas would commit is \$3,221,131 of the net balance.

That leaves a remaining undesignated balance of: \$7,152,708.

The grant area 2015 Legislative grant area designation that remain following are:

Remaining Allocations	
Law Enforcement	\$1,221,131
Nursing Homes/Basic Care/Hospice	\$2,000,000
Bowman/Divide Counties	\$8,000,000
Williston Airport	\$39,000,000
Dickinson Airport	\$4,600,000
Other Airports	\$1,399,225
K-12 Schools	\$15,011,799
Nursing Homes/Basic Care/Hospice	\$2,000,000
Eligible General	\$5,000,000
Contingency	\$6,300,000
Total =	\$84,532,155

Information was presented to the Board which indicated the trend of monthly deposits made into the Oil and Gas Impact Grant Fund since the beginning of the current biennium. Average of deposits over the seven months have been between \$3 million and \$4 million each.

The EIO estimated that the Oil and Gas Impact Grant Fund will receive between \$12 million and \$16 million during the remainder of the biennium. In December 2016, the seven month average was \$3.3 million per month. Which would permit the Board to consider more grant funding than previously contemplated. With carryover granting authority likely included in the appropriation bill for the Department (SB 2013) the Board possibly could reserve some funds for unknown needs in the next biennium.

Based on deposit volatility and that the Legislature remains in session and is continuing to review proposals, the Board decided by consensus to not prioritize or decide on remaining grant areas until the additional biennium collections are known and the Legislature concludes.

MINERAL ROYALTIES

Gas Deduction Clarification

Under the authority of the North Dakota Constitution and Century Code, the Board of acts as a trustee in managing land, minerals and proceeds of the permanent trust funds for the exclusive benefit of specific beneficiaries and also manages state owned oil and gas minerals. The Board enters into oil and gas leases under the terms and conditions contained in its standard lease ("Board's Lease"), the current form of which has been in effect since the late 1970s. By its terms, the Board's Lease includes formally adopted Oil and Gas Rules.

During its March 30th meeting, the Board reviewed a proposed Gas Deduction Clarification Letter (Letter) that detailed a legal analysis of calculating gas royalties in an arm's length transaction under the Board's Lease. This letter has been referenced by some in industry as a change of policy -this is false. The Letter is neither a change in the Department's interpretation of the Board's Lease nor a proposal of a new policy. It was prepared as a clarification of the gas royalty provisions in the Board's Lease that was necessitated by recent Department oil and gas audits that found some operators improperly calculate gas royalties due under the Board's Lease.

The longstanding Board Lease requires gas royalties to be calculated based on gross production or the market value thereof, at the option of the lessor, such value to be based on the gross proceeds of sale where such sale constitutes an arm's length transaction. Correspondingly, oil royalties are based on the greater of: 1) the highest posted price, plus premium, if any, paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity for the field where produced and when run, or 2) the highest market price thereof paid for the area where produced and when run, or 3) the gross proceeds of sale.

The Department has not interpreted the Board's Lease to allow for deductions on gross proceeds. On behalf of the Board, the Department has consistently directed operators that deductions from royalty payments are not allowed. From 2012 to 2015, the Department sent over 40 notices to operators for taking deductions from the gross proceeds reported on their royalty reports.

The disputed provisions of the Board's Lease have been in effect since 1979, require gas royalties to be paid based on gross proceeds of sale. Under this royalty provision, the lessee may not reduce royalty payments for expenses it has incurred prior to the sale.

Earlier versions of the Board's Lease allowed for deductions for expenses. The Board revised its lease in the late 1970s, adding a provision that gas royalties be paid on the gross proceeds of sale and oil royalties be paid based on the greatest of three methods including gross proceeds of sale.

It has been suggested that the Department's website "seemingly recognize[s] 'deductions' may be appropriate in some situations". This website covers a history of leases, some of which are earlier versions of the Board's Lease that allow for deductions. Since 2015, the Department's website includes instructions on how to complete the royalty reporting form; it contains examples; and a Frequently Asked Questions page. Two of the FAQs address deductions and state that "*gross proceeds of sale means income before deduction of expenses.*" It goes on to state that "*if you transport the oil to an off-lease location for sale and delivery, the royalty is calculated based on the gross price you receive at the ultimate point of sale and delivery. In this example you may NOT deduct or 'net out' the expenses incurred in transporting the oil to the ultimate point of sale and delivery.*" The Department's website is consistent with the clarification in the Letter.

In March, the Board directed the Commissioner to seek legal comments on the Letter. Requests were sent to a number of entities representing oil and gas interests:

The Department received comments only from the North Dakota Petroleum Council. Given the extent of the comments, the Commissioner requested additional time to work with the Attorney General to review and analyze its contents and provide a recommendation at a subsequent meeting. In the meantime, the Letter will not be sent.

The following items were presented to the Board for review and are available at the Department: Sample of Department royalty notices and collection of deductions, frequently asked questions from the Department's website, two letters from the North Dakota Petroleum Council.

I N V E S T M E N T S

Asset Allocation Study Timeline and Consultant Schedule

The Department has begun discussions with representatives of RVK, the Board's investment consultant, regarding the asset allocation study and the possible extension the agreement between RVK and the Board.

In accordance with the Board's Investment Policy Statement (IPS), the Board is to do a formal review of its asset allocation policy at least every four years. Much of the work on the permanent trust's last asset allocation study was performed in 2013.

Since the current asset allocation was adopted, equity markets have climbed to record levels, interest rates have climbed from all-time lows, and the oil cash flows into the permanent trusts have declined dramatically. The spending obligation of distributions to beneficiaries continues to grow with the increase in the fund balances.

A projected timeline and a breakdown of the work related to an asset allocation study was presented to the Board for its review:

- April:** Staff and consultant discussions:
- review of possible additional asset classes to add to the trusts' allocation
 - review updated RVK return, risk and correlation projections of various asset classes
 - update outside cash flow assumptions (mostly oil related) using three different scenarios, including
 - current (\$200 million/year),
 - reduced (\$100 million/year)
 - improved (\$300 million/year).
- May:** Staff review of RVK's preliminary asset allocation work to understand how it might impact the trusts' allocation. Preparation for presentation of issues and factors for May Land Board meeting.
- June/July:** Department staff and RVK will utilize Board input to complete work on the study. Additional guidance and input may be formally sought from the Board, but is welcome anytime.
- August:** Present a completed recommended asset allocation study for Board consideration and possible adoption.
- FY 2018:** Work with RVK to implement any asset allocation changes and manager structure changes that result from the study.

RVK it will not charge for the asset allocation review work because the project falls within the Board's existing investment consulting retainer relationship.

RVK Consulting Agreement

In addition to the asset allocation project, the Board's consulting agreement with RVK includes the investment consulting services:

- Advice in setting investment objectives, assistance with the preparation or revision of investment policy guidelines, and support with the transition to new investment options.
- Quarterly investment performance monitoring and reporting, including analyzing portfolio-wide and manager performance compared to appropriate indices and peer groups.
- Assist in investment manager searches based on Board philosophy and performance objectives, and evaluate manager proposals and presentations. Manager searches for illiquid asset classes will be quoted on a case-by-case basis.
- Due diligence monitoring and review of investment managers, conducting on site manager visits, periodic review on manager fee structures and assistance in manager transitions.
- Providing client education as requested and needed.

The Board's current agreement with RVK expires in August 2017. The current contract includes a provision to extend the agreement one additional year, with an escalator of 3%. If the contract was extended for one year, it would be at a rate of approximately \$149,000 inclusive of travel and RVK personal participation in quarterly meetings with the Board.

RVK will be presenting two quarterly performance reports and a proposed asset allocation prior to expiration of the current contract. No action was taken by the Board regarding an extension.

Investment Updates

The Board reviewed the status of the asset allocation of the permanent trusts as of March 31, 2017. The real estate portfolio is estimated because valuations had not yet been received.

Account/Asset Class	Long-Term Asset Allocation	3/31 Actual Allocation \$	3/31 Actual Allocation %
Large Cap US Equity	13.5%	\$ 539,804,820	13.4%
Small Cap US Equity	3.5%	\$ 140,637,486	3.5%
International Equity	12.0%	\$ 492,964,909	12.2%
Emerging Market Equity	3.0%	\$ 122,558,369	3.0%
Total Equities	32.0%	\$ 1,295,965,584	32.1%
Domestic Investment Grade	14.2%	\$ 561,259,751	13.9%
High Yield FI	3.0%	\$ 116,638,488	2.9%
International/Global FI	5.8%	\$ 228,978,688	5.7%
Total Fixed Income	23.0%	\$ 906,876,927	22.5%
Total Absolute Return	20.0%	\$ 800,769,201	19.8%
Commodities	3.0%	\$ 121,531,197	3.0%
MLPs	3.0%	\$ 123,117,550	3.1%
TIPS	2.0%	\$ 79,849,279	2.0%
Natural Resource Equities	2.0%	\$ 82,079,411	2.0%
Total Inflation Strategies	10.0%	\$ 406,577,437	10.1%
Core Real Estate	8.0%	\$ 342,747,736	8.5%
Core Plus Real Estate	7.0%	\$ 281,928,631	7.0%
Total Real Estate	15.0%	\$ 624,676,368	15.5%
Total Asset	100.0%	\$ 4,034,865,516	100.0%

Harding Loevner (Emerging Market Equities: \$60.92 million, 1.5% of assets)

The Department recently learned that Harding Loevner has taken additional steps to limit access to its institutional emerging markets strategy in which the permanent trusts invest. The Board was informed that Harding Loevner began limiting access to this product in early 2015 and has now quit accepting new separately managed accounts and also declined new pooled fund opportunities. This action is taken to protect existing investors' interests and is deemed positive for the Board's investment in Harding Loevner's emerging markets product.

OPERATIONS

Legislative Bill Status (as of April 26, 2017)

A complete summary of action on bills that have been considered by 2017 Legislature that have a direct impact on the Board, Department of Trust Lands or the funds managed will be provided after the Department is able to assemble final legislative action.

Department Bills:

SB 2013 Legislative appropriation and budget for the commissioner of university and school lands.

This Bill includes the Department's budget.

The final version of the bill:

1. Reduced the current authorized FTEs from 33 to a net 31. It eliminated authority for three presently vacant FTE, but added on GIS technician position.
2. Authorized \$3.6 million (\$5.5 requested) for a comprehensive Department IT project- \$1.8 million available at the start of the biennum, the remaining \$1.8 million only upon approval of the Budget Section.
3. Provided a carryover exemption the remaining balance of \$1.325 million for a Flood Impact Grant awarded Minot in 2012.
4. Carryover of current biennium energy impact funds is authorized for administration and remaining 2015-2017 grants
5. One-time \$25 million funding for the Energy Impact Office for grants of \$20 million to the Williston airport and \$5 million to the Dickinson airport.
6. Creates a new \$15 million Energy Impact Fund that may be granted to the Williston airport contingent upon its receipt of federal funds.
7. Removed a provision that had provided the Board with authority to transfer between appropriation line items.
8. Removed a provision that the House had included which added two advisory Land Board members.
9. Added intent language encouraging the Board / Commissioner to interpret "gross production," "market value" and "gross proceeds of sale" portion of the oil and gas lease to the advantage of the producer- "to encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state . . ." The amendment was added at the request of Continental Resources.
10. Dictates a study by the Tax Department, the Land Board, the Industrial Commission and other appropriate agencies to review the methods of determining valuation of oil and gas to determine mineral royalty payments and tax liability. The study and recommendations are to be reported to the interim Energy Committee before October 2018.

11. Delays the effective date of HB 1300 (Board as an administrative agency) until January 1, 2018.
12. The Bill includes substantial revisions to the distribution formula of the Gross Production Tax to hub cities, western school districts and counties, and to townships both within and outside of oil counties.

On April 26, the Senate passed the bill 42 –5 and the House adopted the bill 58 – 32.

SB 2101 Relating to management of the Coal Development Trust Fund.

This Bill, submitted by the Department, updates two sections of law related to distributions from, and the calculation of, income earned by the Coal Development Trust Fund.

The Bill passed the Senate 45 -- 0 on February 3, 2017

It passed the House yeas 90 -- 0 on March 8, 2017

Signed by the Governor on March 14, 2017

SB 2102 Relating to duties of the Commissioner and assessing state owned lands for highest and best use.

This Bill, submitted by the Department, clarifies the term of office and duties of the commissioner and regarding evaluating state lands for its highest and best use.

The Bill passed the Senate 45--0 on January 17, 2017

The Bill passed the House 79--12 on March 7, 2017

The Governor signed the bill on March 14, 2017

Other Bills:

HB 1003 Relating to the appropriation for the Attorney General.

Section 8. Contingent upon a possible rent savings, the provision directs the Board to provide up to \$500,000 from Energy Impact Grant funds allocated in 2015 for law enforcement grants for costs and expenses the statewide automated victim information and notification program.

The bill passed both the House and the Senate on April 25, 2017

HB 1012 Relating to the appropriation for the Department of Human Services

Section 39 changes the deposit of 45% of the proceeds of the tobacco settlement trust fund to the Common Schools Trust Fund instead to the Community Health Trust Fund. This one-biennium adjustment will divert an estimated \$18 million from the CSTF instead to be used for defraying the expenses of the DHS Medical Services Division for the 2017-2019 biennium.

The House adopted the HB 1012 on April 26, 2017

HB 1199 Relating to the definition of sovereign lands.

This Bill sets determination of sovereign minerals to the historic ordinary high water mark of the Missouri River under the Lake Sakakawea prior to inundation, extending to the Corps "take line".

The Department provided a fiscal note for HB 1199 showing a negative revenue impact on the Strategic Investment and Improvements Fund of an estimated \$30.2 million through FY 2021.

The House passed the Bill 90--2 on February 21, 2017.

The Senate defeated the Bill on April 18, 2017 by a vote of 0 -- 42.

HB 1300 Relating to agencies exempt from the definition of an administrative agency.

This Bill would remove the Board's exemption from the Administrative Agencies Practice Act.

On February 6, 2017 the House passed HB 1300 by a vote of 88 – 2.

The Department provided a fiscal note for HB 1300 which indicated an estimate of legal, administration, and FTE costs in excess of \$600,000 per biennium.

The Department presented opposing testimony, including examples of the limitations that would be placed on the Board's fiduciary authority and ability to manage trust assets.

The Senate passed the Bill 43—3 on April 17, 2017 and the Governor has signed HB 1300.

HB 1384 Relating to the duties of the state treasurer and the administration of abandoned property.

This Bill would transfer the administration of the Uniform Unclaimed Property Act from the Department of Trust Lands to the office of the State Treasurer.

On February 7, 2017 the House passed HB 1384 by a vote of 84 – 5.

On March 14, 2017 the Senate defeated the Bill by a vote of 24 -- 5.

SB 2134 Relating to the ownership of sovereign minerals beneath the Missouri River in areas that are inundated by Lakes Sakakawea and Oahe.

This Bill changes the method that the Board has used to determine the ordinary high watermark and lease State minerals. It defines the historical riverbed channel under Lake Sakakawea and Lake Oahe as the channel depicted in the last known survey by the Army Corps of Engineers prior to closure of the Dams. The bill moves the utilization of historical channel method of determining sovereign minerals acres to an area between Williston and the confluence. It defers to federal interpretation of ownership of public domain tracts of the River. The Bill's definition of the historic channel excludes the area of the river within the Fort Berthold Reservation.

The Bill includes an \$800,000 appropriation for an Industrial Commission study of the Corps' survey.

The Department provided estimates of a possible reduction of 25,000 state sovereign mineral acres, and estimated \$87,663,214 of received bonus and rent, and \$69,316,160 of royalties collected and anticipated through FY 2017 may be returned to lessees and operators.

The Bill appropriates \$100,000,000 from the SIIF for the purpose of repayments of mineral revenues, and authorizes the Commissioner to borrow up to \$87,000,000 from the Bank of North Dakota and appropriates the amount needed for mineral revenue repayments.

The Bill passed the Senate on April 18, by a vote of 34 -- 8, the emergency clause carried.

The Bill passed the House on April 19, 75 --15 and the emergency clause carried.

Governor Burgum signed the bill on April 21, 2017.

SB 2203 Appropriation to the attorney general for human trafficking victim treatment and support

Section 2. Based upon the Attorney General's recommendations, directs the Board to award up to \$700,000 for grants to organizations which provide prevention and treatment services related to human trafficking. The funds were reserved in 2015 for law enforcement grants, but were not yet awarded.

The Bill was adopted by the Senate 45 – 0 and passed the House 85 –6, both on April 19, 2017.

Governor Burgum signed the bill on April 24. Section 2 is in effect as a result of the adoption of the emergency clause.

SB 2245 Relating to listing state parcels for use as wetlands mitigation.

As introduced, this Bill would have required the Commissioner, to provide a list of trust land parcels that may qualify for use as wetlands mitigation by July 2018.

The Department provided a Fiscal Note, which indicated that a cost cannot be determined.

The bill was converted into a study of the desirability and feasibility of creating a state wetlands bank.

The bill was adopted by the Legislature and has been signed by the Governor.

SB 2272 Relating to school construction loans from the coal development trust fund and the school construction assistance revolving loan fund (and other issues).

This Bill raises from \$50 million to \$60 million, the amount of Coal Development Trust Funds available for school loans. It also changes the loan program from a broad school construction program to one for unanticipated construction, replacement and emergency repair projects. Loans are limited to a maximum of \$2 million per district.

On April 4, 2017 the House passed the bill 88 -- 3
The Senate passed the bill 47 – 0 on April 5, 2017
The Governor signed the bill April 10.

HCR 3019 Requests the Army Corps of Engineers to sell land not needed for the Garrison project

The resolution requests that the Army Corps of Engineers sell land not needed for Missouri River reservoir project purposes, to prior owners, their heirs, and their successors.

The Board is referenced to develop an agreement with the Corps to implement a purchase right for prior owners, or their successors, who own the land the parcels were detached from.

Both the House and the Senate adopted the Resolution.

The Board manages the Strategic Investment and Improvements Fund (SIIF). A number of bills initiate transfers and expenditures from this fund during both the present and forthcoming biennium. While likely to change in the final days of the legislative session, current legislation authorized \$289.4 million of transfers from the SIIF in the present biennium and \$123 million of appropriations from the SIIF during the 2017-2019 biennium.

R E P O R T S

The Summary of Assets (Unaudited) for Period Ended January 31, 2017 was presented to the Board for review.

The Spring Surface Lease Auction Results Summary was presented to the Board for review.

The Oil and Gas Lease Auction Tract Offering was presented to the Board for review.

Report of Easements Issued by Land Commissioner (3/15/17 to 4/13/17)

Granted to:	ND PARKS & RECREATION DEPT, BISMARCK-ND
For the Purpose of:	Easement-Amend: Recreational Trail
Right-of-Way Number:	RW0007374
Trust:	A – Common Schools
Legal Description:	MCK-146-100-36-NE4, NW4, SE4, SW4
Granted to:	ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT
For the Purpose of:	Easement: Gas Gathering Pipeline
Right-of-Way Number:	RW0007416
Trust:	A – Common Schools
Legal Description:	MCK-149-96-16-NW4, SW4
Granted to:	MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND
For the Purpose of:	Easement-Amend: Electric Transmission Line
Right-of-Way Number:	RW0007771
Trust:	A – Common Schools
Legal Description:	WIL-155-95-16-NE4
Granted to:	ARROW WATER LLC, HOUSTON-TX
For the Purpose of:	Assignment: Salt Water Disposal Well-Assignment
Right-of-Way Number:	RW0007991
Trust:	A – Common Schools
Legal Description:	MCK-150-95-16-NW4, SW4
Granted to:	OASIS MIDSTREAM SERVICES LLC, HOUSTON-TX
For the Purpose of:	Easement: Multiple Pipelines
Right-of-Way Number:	RW0008005
Trust:	A – Common Schools
Legal Description:	WIL-153-100-36-NE4, SE4, SW4
Granted to:	QEP ENERGY COMPANY, DENVER-CO
For the Purpose of:	Permit-Amend: Access Road
Right-of-Way Number:	RW0008007
Trust:	A – Common Schools
Legal Description:	MOU-150-92-15-W2SW4
Granted to:	MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND
For the Purpose of:	Easement: Drop Line-Buried Electric Distribution Line
Right-of-Way Number:	RW0008014
Trust:	A – Common Schools
Legal Description:	MCK-149-96-16-NW4
Granted to:	WHITE ROCK OIL&GAS LLC, DALLAS-TX
For the Purpose of:	Assignment: Salt Water Disposal Well-Assignment
Right-of-Way Number:	RW0008025
Trust:	A – Common Schools
Legal Description:	BIL-143-101-16-NE4, NW4, SE4
Granted to:	BOE MIDSTREAM, DENVER-CO
For the Purpose of:	Easement: Oil Gathering Pipeline
Right-of-Way Number:	RW0008028
Trust:	A – Common Schools
Legal Description:	DUN-148-96-16-N2SE4, SW4SE4, LOT 2
Granted to:	WHITE ROCK OIL&GAS LLC, DALLAS-TX
For the Purpose of:	Permit Reissue: Access Road
Right-of-Way Number:	RW0008030
Trust:	A – Common Schools
Legal Description:	MCK-145-100-16-NW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

WHITE ROCK OIL&GAS LLC, DALLAS-TX

Permit Reissue: Access Road
 RW0008031
 A – Common Schools
 BIL-142-102-36-W2SE4, LOTS 5,6,7

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

OASIS MIDSTREAM SERVICES LLC, HOUSTON-TX

Permit Reissue: Section Line Access Road
 RW0008032
 A – Common Schools
 MCK-151-99-36-SE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

OASIS MIDSTREAM SERVICES LLC, HOUSTON-TX

Permit Reissue: Section Line Access Road
 RW0008033
 A – Common Schools
 MCK-151-100-16-NW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

OASIS MIDSTREAM SERVICES LLC, HOUSTON-TX

Permit Reissue: Access Road
 RW0008034
 A – Common Schools
 MCK-153-102-36-SE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

OASIS MIDSTREAM SERVICES LLC, HOUSTON-TX

Permit Reissue: Access Road
 RW0008035
 A – Common Schools
 WIL-153-104-36-NE4 W OF HWY, SE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

NP RESOURCES LLC, DENVER-CO

Permit Reissue: Access Road
 RW0008036
 A – Common Schools
 BIL-142-102-36-W2SE4, LOTS 5,6,7

Granted to:

For the Purpose of:

 Right-of-Way Number:
 Trust:
 Legal Description:

PEARSON, BETHEL-MN

Letter of Permission: Access to School Land for vehicular non-commercial recreational access
 RW0008037
 A – Common Schools
 SHE-145-74-36-NE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

TESORO HIGH PLAINS PIPELINE CO LLC, SAN ANTONIO-TX

Permit: Temporary Construction
 RW0008038
 C – Capitol Building
 MER-143-88-8-NW4, SE4 LESS HAUL ROAD, SW4 LESS HAUL ROAD

Granted to:

For the Purpose of:

 Right-of-Way Number:
 Trust:
 Legal Description:

WEST DAKOTA WATER LLC, WILLISTON-ND

Letter of Permission: Access to School Land for the purpose of Temporary Surface Frac Water Pipeline
 RW0008042
 A – Common Schools
 WIL-153-100-36-NE4, SE4, SW4

Granted to: MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND
 For the Purpose of: Easement: Drop Line-Buried Electric Distribution Line
 Right-of-Way Number: RW0008043
 Trust: A – Common Schools
 Legal Description: WIL-158-95-16-SE4

Granted to: MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND
 For the Purpose of: Easement Assignment: Maintenance Yards
 Trust: A – Common Schools
 Legal Description: WIL-158-95-16-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: NDSU SCHOOL OF NAT RES SCIENCE, FARGO-ND
 For the Purpose of: Letter of Permission: Access to School Land to conduct a
 pollinator research study
 Right-of-Way Number: RW0008018
 Trust: A – Common Schools
 Legal Description: ADA-131-96-36-NE4, NW4, SW4

Granted to: UNIVERSITY OF NORTH DAKOTA, GRAND FORKS-ND
 For the Purpose of: Letter of Permission: Access to School Land to conduct wildlife
 studies
 Right-of-Way Number: RW0008050
 Trust: A – Common Schools
 Legal Description: GFO-151-52-36-NE4, NW4, SW4
 Legal Description: GFO-152-51-16-NE4, NW4

Granted to: NORTH DAKOTA GEOLOGICAL SURVEY, BISMARCK-ND
 For the Purpose of: Letter of Permission: Access to School Land to conduct Rare
 Earth Element sampling
 Right-of-Way Number: RW0008041
 Trust: E - Ellendale
 Legal Description: BIL-137-100-8-E2NW4

Granted to: NORTH DAKOTA GEOLOGICAL SURVEY, BISMARCK-ND
 For the Purpose of: Letter of Permission: Access to School Land to conduct Rare
 Earth Element sampling
 Right-of-Way Number: RW0008041
 Trust: A – Common Schools
 Legal Description: BIL-138-102-26-SE4, SW4
 Legal Description: BIL-138-102-34-NE4, NW4
 Legal Description: BIL-139-101-16-SE4
 Legal Description: BIL-141-100-16-NE4
 Legal Description: BIL-142-100-28-S2NW4
 Legal Description: BIL-142-101-36-NE4, NW4, SW4
 Legal Description: BIL-142-102-16-NE4, SE4
 Legal Description: BIL-142-102-34-NE4, NW4
 Legal Description: BIL-144-102-36-NE4, NW4

Granted to: NORTH DAKOTA GEOLOGICAL SURVEY, BISMARCK-ND
 For the Purpose of: Letter of Permission: Access to School Land to conduct Rare
 Earth Element sampling
 Right-of-Way Number: RW0008041
 Trust: N – ND State University, U – University of ND
 Legal Description: GOL-137-103-22-SE4, SW4

Granted to:	NORTH DAKOTA GEOLOGICAL SURVEY, BISMARCK-ND
For the Purpose of:	Letter of Permission: Access to School Land to conduct Rare Earth Element sampling
Right-of-Way Number:	RW0008041
Trust:	A – Common Schools
Legal Description:	GOL-137-103-24-NE4
Legal Description:	GOL-139-103-16-SE4, SW4
Legal Description:	GOL-144-103-16-SE4, SW4
Legal Description:	SLO-136-102-16-NE4
Granted to:	ND DEPT OF HEALTH, DIV OF WATER QUALITY, BISMARCK-ND
For the Purpose of:	Letter of Permission: Access to School Land to conduct a water quality sampling survey
Right-of-Way Number:	RW0008051
Trust:	A – Common Schools
Legal Description:	BIL-140-100-16-SE4
Legal Description:	DIV-164-103-36-SE4
Legal Description:	GFO-154-52-16-SE4
Legal Description:	KID-142-71-36-NW4, SW4
Legal Description:	MCI-130-69-36-SE4
Legal Description:	PIE-154-74-16-SE4
Legal Description:	RIC-130-50-36-N2SE4
Legal Description:	SLO-133-103-36-NW4

S U R F A C E

Surface Damage Within Section 36, T149N, R96W, in McKenzie County

The Department implements a professional approach to land management. The natural resource staff undertake a formal review process of applications for easements or permits to minimize destructive impact to trust lands. Prior to mineral production involving the surface estate, the Department works closely with the developers to site roads, position drilling pads and other infrastructure to minimize environmental impact, surface disturbance and allow for the continued use as an agriculture leasing property.

The Board has authorized the Commissioner to issue surface easements or permits on trust lands on its behalf, when:

1. The applicant has completed an application and agreed to payment of a use fee
2. Routing and an environmental review has been completed by the Department staff
3. The permission will not have a negative impact on the trust lands based upon:
 - a. minimal or mitigatable environmental impacts;
 - b. minimal or mitigatable impact on archeological or historical sites;
 - c. positive financial return to the trusts;
 - d. no known controversy regarding the project, and,
 - e. the surface lessee is notified

If the above conditions are not met, the application are brought to the Board for its review.

Commonly, the Commissioner approves most easements and permits on the Board's behalf, which are then summarized and presented at its meetings.

The Board was asked to review an application from XTO Energy, an oil and gas mineral lessee within a Common Schools Trust tract (Section 36 of Township 149 North, Range 96 West, in McKenzie County) to amend an existing surface damage agreement for the placement of a well pad.

The Board leased the minerals within this tract in 1993 and the lease is held by current production. XTO Energy plans to drill several additional wells on the tract. The section is within an area surrounded by federal land, in a particularly rough and broken Badlands type area of southern McKenzie County called the "Bear Den" area.

XTO has built a drilling and production pad on the eastern boundary of the tract, but due to unstable soils, the area has been beleaguered with hillside slumps and earth shifting. Representatives of XTO Energy and the Department have inspected the XTO Dakota Federal 42X-36 oil well site, following a slump that occurred during construction of the well pad which caused a portion of the pad to become unsafe for drilling the proposed eight additional well bores.

Prior to construction, XTO hired a geotechnical firm to conduct tests and recommend construction plans, which were incorporated, but it still lost part of the well pad to the slump.

XTO Energy and its geotechnical firm are now proposing to construct the well site approximately 100 feet west of the existing location in order to create a more stable drilling pad. In doing so more than 350,000 cubic yards of soil will need to be excavated from a clay butte directly adjacent to the well pad. The excavated soil will be backfilled into a drainage adjacent to the butte. The fill area and back slope of the excavated butte will be stabilized with topsoil, erosion blankets, and reseeded.

This proposed project does not guarantee that more slumps will not occur, but removing the weight of the adjacent butte and reducing the slope are considered the best options to reduce the occurrence of a slump under, or onto the well pad. The entire section has been inspected and there do not appear to be other suitable locations available for an oil well site, including off lease locations on adjacent U.S. Forest Service land.

XTO Energy has already remitted \$20,000 per well bore for the additional eight wells that it plans to drill. The request to amend the plan will shift the line of wells westward toward the area of the butte that will be reduced and re-sloped. Additional financial consideration is being negotiated.

As a lessee of the oil and gas minerals, the operator has the statutory and lease authority to proceed on its own accord with the utilization of the surface to access the minerals, but is has involved the Department in its evaluation of options.

The Department works diligently with users of trust lands to mitigate potential impacts to the surface-through prudent siting and reclamation plans and oversight; and by promoting unitization to reduce the need for multiple installations. This well location will be able to develop a two square mile unit. The Commissioner informed the Board of his intent to authorize the amended surface damage request from XTO Energy.

A graphic of a soil slump, two aerial photos of the area, and an engineer's preliminary design of the excavation were presented for the Board's review and are available at the Department.

A D J O U R N

There being no further business, the meeting was adjourned at 10:35 AM.

Doug Burgum, Chairman
Board of University and School Lands

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

(04/27/17)

**Minutes of the Meeting of the
Board of University and School Lands
May 25, 2017**

The May 25, 2017 meeting of the Board of University and School Lands was called to order at 9:01 AM in the Harvest Room of the State Capitol by Chairman Doug Burgum.

Members Present:

Doug Burgum	Governor
Alvin A. Jaeger	Secretary of State
Wayne Stenehjem	Attorney General – Via Telephone
Kelly Schmidt	State Treasurer

Member Absent:

Kirsten Baesler	Superintendent of Public Instruction
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Department of Trust Lands Personnel present:

Lance D. Gaebe	Commissioner
Linda Fisher	Deputy Commissioner
Jeff Engleson	Director, Investments Division
Allisen Bement	Mineral Title Specialist
Drew Combs	Director, Minerals Division
Susan Dollinger	Unclaimed Property Administrator
Levi Erdmann	Investment Analyst
Taylor Lee	Director, Revenue Compliance
Kristie McCusker	Legal Assistant
Catelin Newell	Office Manager

Guests in Attendance:

Hope Hogan	Office of the Attorney General
Jen Verleger	Office of the Attorney General
Brent Lohnes	Hess Corporation
Duane Kram	Self
Wes Thomas Jr	Self
Bill Thomas	Self
Terry Thomas	Self
Josh Swanson	Wilkinson and Vohs Families
Cheryl Patch	Self
Jon Patch	Self
Jerry Heiser	Office of State Engineer
Kate Black	Inland Oil & Gas
Alexis Baxley	North Dakota Petroleum Council
Savannah Schmidt	North Dakota Bureau of Criminal Investigation
Jeff Herman	Petro-Hunt, LLC
Garland Erbele	State Water Commission
Aaron Friess	Self
Ron Ness	North Dakota Petroleum Council
Roger Kelley	Continental Resources
Rob Lindberg	Bakken Backers
Lacee Anderson	XTO
Janice Arnson	Self
David W. Arnson	Self
Michael Patch	Self

Ron Rauschenberger	Self
Peter Masset Jr.	Self
Danielle Yourk	Self
Finton L. Dooley	Self
Josh Kevan	RVK
Brent Bogar	Self
Beau Backman	Self
Robert Lauf	Governor's Office
Troy Seibel	Office of the Attorney General
Leslie Bakken Oliver	Governor's Legal Counsel
Cassandra Torstenson	Governor's Office
Brent Sanford	Lieutenant Governor

APPROVAL OF MINUTES

A motion to approve the minutes of the April 27, 2017 meeting was made by Treasurer Kelly Schmidt and seconded by Secretary of State Al Jaeger and the motion carried unanimously on a voice vote.

ENERGY INFRASTRUCTURE AND IMPACT OFFICE

Legislative Summary and Authorization to Initiate Grant Programs for

- 1. Organizations Which Address Human Trafficking Impacts, and**
- 2. An Organization Which Supports the Developmentally Disabled**

A summary of the 2017 Legislation impact on the funding and operation of the Energy Infrastructure and Impact Office (EIIO) was presented. The appropriation from grants and operations will drop from \$140 million in the present biennium, to \$40 million of grants in the 2017-2019 biennium

Section 10 of Senate Bill 2013 authorizes the carryover of Oil and Impact Grant Funds from the present biennium and authorizes appropriation for grants and administrative costs associated with the fund during the 2017-2019 biennium.

Sections 3 and 13 of Senate Bill 2013 contain one-time \$25 million funding from the Oil and Gas Impact Grant Fund for grants of \$20 million to the Williston airport and \$5 million to the Dickinson airport.

Sections 1, 5, 7, 14, 16, and 17 create and fund the \$15 million Energy Impact Fund that may be granted to the Williston airport. The fund is created by: \$3 million from the Strategic Investment and Improvement Fund (SIIF); \$4 million taken from the gross production tax distribution to the larger oil producing counties; and \$8 million from the Political Subdivision Allocation Fund.

Grants to the Williston Airport are contingent upon related federal funding being committed and available to be spent on the new airport construction.

Senate Bill 2013, Section 11 relates to a flood infrastructure impact grant the Board awarded to the City of Minot in 2012. The legislation authorized that up to \$1,325,500 of the general fund grant is extended through June 30, 2019 for a landfill expansion project.

Section 14 of House Bill 1015, which passed with an emergency clause, directs the Board to provide a grant up to \$261,000 from the Oil and Gas Impact Grant Fund to a community based organization serving the developmentally disabled population. The organization is operating intermediate care facilities within the northwest and north central human service region, and money is for settlement of amounts owed to the Department of Human Services (DHS) or a bank. The grant is to be provided from Oil and Gas Impact funds generated during the current biennium, but the legislation allows until June 30, 2019 for its distribution. The potential grant is legislatively prioritized higher than remaining grant designations made by the 2015 Legislature.

The DHS may use a portion of the settlement payment received from the provider for repayments to the federal government. Before any grant funding are paid to the provider, the Board must receive certification:

- 1) That DHS has reviewed actual cost reports and estimated audit settlement amounts;
- 2) The provider has exhausted insurance recovery options and has restructured any outstanding debt; and,
- 3) Of the amounts owed to DHS and a bank

The Board had planned to proceed with the grants allocated by the 2015 Legislature for Law Enforcement. However, the 2017 Legislature changed the appropriation of the remaining \$1,221,331 into two separate categories:

- a) \$500,000 is reserved, under HB 1003, until the Attorney General can determine whether or not \$500,000 rental savings can be realized by moving part of its operations. If savings are not realized then \$500,000 of oil impact grant funds can be utilized for operations of the Statewide Automated Victim Information Notification (SAVIN) program.
- b) \$700,000 is appropriated, under SB 2203, for the use to address impacts of human trafficking. The bill also carried an emergency clause and is in effect.

Motion: The Board redirects the previous allocation of \$1.2 million of Oil and Gas Impact Grant Funds from law enforcement grants to instead be designated as \$700,000 for grants to combat the effects of Human Trafficking and to reserve \$500,000 for the Statewide Automated Victim Information Notification, as stipulated by 2017 Legislation. The Board authorizes the EIO to work with the Attorney General regarding recommendations for these allocations.

The EIO is directed to coordinate with the Department of Human Services in announcing the availability of up to \$261,000 to a community-based provider serving individuals with developmental disabilities meeting the criteria detailed in Section 14 of SB 1015 as adopted by the 2017 Legislature.

City of Ross Grant Extension Request

In August 2014, the Board awarded a \$1 million grant to the City of Ross to repair its sewage lagoon and to begin expanding the capacity once mitigation efforts were successful on the interior and exterior walls of the current lagoon. This grant's deadline for the grant is August 2017.

The City of Ross requested an extension to Grant G150012 until December 31, 2018 in order to overcome obstacles to purchase easements, design the repair, seek bids, and execute the lagoon repairs in 2018.

The system was overused during peak population and risks failure. Removal of sludge and repair of the lagoon embankments should help alleviate the potential for a release of untreated waste. The Director recommended a grant extension be approved.

No action was taken on the recommendation, the Board instead requested additional information regarding the delay before an extension is given.

Remaining Grant Designations

Funds available within the Oil and Gas Impact Grand Fund that the Board is able to award total \$12,165,823. This is derived from the total of \$14,165,823 less the \$2 million reserved for the Nursing Homes / Basic Care grants which the Board will consider in June.

Remaining allocations for the Board's possible consideration are:

- 1) K-12 school districts - \$15 million – based on a ratio of previous oil tax distributions
- 2) Bowman and Divide Counties - \$8 million - equal amounts must be awarded to the two counties.
- 3) Seven counties (Eligible General) - \$5 million
- 4) Nursing Home / Basic Care - \$2 million
- 5) Other airports - \$1.4 million
- 6) Williston airport - \$39 million (though the 2017 Legislature addressed this need with \$35 million)
- 7) Dickinson airport - \$4.6 million (the 2017 Legislature directed \$5 million during 2017-2019)

The Board asked the Energy Impact Office Director to develop and present grants plan for the remaining allocations.

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

Quarterly Investment Reports – 1st Quarter 2017

Josh Kevan from RVK reviewed the performance of the permanent trust funds' pool of investment assets for the period ending March 31, 2017.

Documents provided to the Board during the meeting included the RVK Permanent Trust Funds Performance Report; a report detailing the activities of the Strategic Investment and Improvements Fund, the Coal Development Trust Fund and the Capitol Building Fund as well as the performance of the investment pool that holds the assets of these three funds.

Permanent Trusts Asset Allocation Study

The Board's Investment Policy Statement (IPS) calls for a formal review of its asset allocation policy at least every four years. Much of the Board's previous work on the permanent trust's allocation study was performed in 2013.

RVK presented an update on the asset allocation study and the Board discussed its expectations for the project.

The Department staff and RVK have:

- Reviewed possible additional asset classes to add to the trusts' allocation
- Evaluated RVK models of return, risk and correlation projections of various asset classes
- Updated cash flow assumption scenarios including:
 - current (\$200 million/year),
 - reduced (\$100 million/year)
 - improved (\$300 million/year).

A summary of issues and factors and several asset allocation options were presented for the Board's review.

Preliminary work done by RVK indicates that adding illiquid private equity investments to the permanent trusts' investment portfolio probably is not presently advisable. The Department staff and RVK both believe that the potential addition to long term returns does not sufficiently compensate for the increased risk, lower liquidity, higher manager fees and extra transaction costs associated with implementing and maintaining a private equity investment.

RVK requested Board comment related to basic investment philosophy, specific asset classes of interest to guide the development of recommended asset allocation options that meet the long-term risk and return expectations to serve the beneficiaries of the permanent trust funds. No formal action was taken.

SOVEREIGN MINERALS

Summary of Senate Bill 2134 (2017 Legislature)

The Board reviewed a summary of Senate Bill 2134, as passed by the 2017 Legislature, which adopts a definition of sovereign minerals within the Lake Sakakawea and Lake Oahe reservoirs as limited to the ordinary high watermark (OHWM) of the historical riverbed channel and the bill implements a study to determine this location. The bill directs the adjustment of State mineral leasehold and authorizes the Board to refund revenue that have been collected on lands outside of that provided for in the bill.

Under the Equal Footing Doctrine, North Dakota owns the beds of navigable lakes and streams. The Board leases the rights to produce oil and gas from the minerals associated with sovereign lands, which N.D.C.C. Ch. 61-33 defines as “those areas, including beds and islands, lying within the ordinary high watermark [OHWM] of navigable lakes and streams.” The Office of the State Engineer has responsibility for defining the OHWM and management responsibility for the bed of navigable waters and any other minerals therein. Revenue from the leasing of minerals underlying sovereign lands is deposited into the Strategic Investment and Improvements Fund (SIIF) which the Board also oversees. The Board has had this management responsibility since at least 1977.

Under the Missouri River within Lake Sakakawea, the Board has historically leased mineral acres based upon the location of the OHWM of the river channel as it existed prior to inundation by the reservoir. West of the lake, sovereign minerals beneath the Missouri and Yellowstone Rivers are leased based upon the current OHWM of the river channel. The Highway 85 Bridge near Williston has served as the division between these practices.

Starting in 2009, the Board hired Bartlett and West to complete four studies of the Yellowstone and Missouri River OHWM for areas with potential oil and gas development. Phase I of the study focused on the area west of the Williston. Bartlett and West used the State Engineer’s OHWM delineation guidelines and conducted an on-the-ground analysis of the vegetation, soils and hydraulic characteristics for a determination of the OHWM of the rivers. The State Engineer’s Office participated in this study and concurred in the resulting survey. The Phase II and IV studies focused on the areas east of Williston. Bartlett and West used a combination of pre-reservoir maps and photos from 1943, 1951, and 1958 to determine the OHWM of the Missouri River prior to the formation of Lake Sakakawea.

Senate Bill 2134 makes the U.S. Army Corps of Engineers’ river surveys, conducted prior to inundation by Lakes Sakakawea and Oahe and for the purpose of determining the amount of land needed for the impoundment of Lake Sakakawea and Lake Oahe, the presumptive determinant of the State’s sovereign mineral boundary. Because the method that the Board has used to determine the historic OHWM differs from the method used by the Corps in creating the federal surveys, mineral acres that the Board has leased as sovereign lands belonging to the State may be surrendered under the provisions of the bill. Additionally, the bill applies the use of the historic OHWM further west than the Highway 85 Bridge to an area where the Board has leased minerals based on the current OHWM.

The definition of the “Historical Missouri riverbed channel” in SB 2134 states the closure of the project as the reference. The Garrison Dam was closed on June 11, 1953.

The bill initiates a study of U.S. Army Corps of Engineers’ pre-inundation surveys and historic records to determine the extent of the State sovereign acreage. It appropriates \$800,000 to the Department of Mineral Resources (DMR) to hire a contractor to review the acreage and tracts within the “historical Missouri riverbed channel” as determined by the Army Corps of Engineers’ surveys.

The contractor's review must determine whether a portion of the Corps' survey does not reasonably reflect the OHWM of the historical Missouri riverbed channel under state law. The following parameters, historical data, materials, and applicable state laws must be considered in its review:

- a. Aerial photography of the historical Missouri riverbed channel existing before the dam's closure date;
- b. Corps' historical records pertaining to its survey;
- c. Army corps of engineers and US Geological Survey elevation and Missouri River flow data;
- d. State case law regarding the identification of the point at which the presence of action of the water is so continuous as to destroy the value of the land for agricultural purposes, including hay lands. Land where the high and continuous presence of water has destroyed its value for agricultural purposes, including hay land, generally must be considered within the ordinary high water mark. The value for agricultural purposes is destroyed at the level where significant, major, and substantial terrestrial vegetation ends or ceases to grow. Lands having agricultural value capable of growing crops or hay, but not merely intermittent grazing or location of cattle, generally must be considered above the ordinary high water mark; and
- e. Subsection 3 of section 61 - 33 - 01 and section 47 - 06 - 05, which provide all accretions are presumed to be above the ordinary high water mark and are not sovereign lands. Accreted lands may be determined to be within the ordinary high water mark of the historical Missouri riverbed channel based on clear and convincing evidence. Areas of low - lying and flat lands where the ordinary high water mark may be impracticable to determine due to inconclusive aerial photography or inconclusive vegetation analysis must be presumed to be above the ordinary high water mark and owned by the riparian landowner.

The contractor must complete the review within six-months of entering the contract, though DMR can extend that deadline if needed. After the contractor submits its findings, the DMR must publish and hold hearings on the contractor's findings.

After the review of public input, the DMR presents a final recommendation to the Industrial Commission, which may adopt or modify the recommended determination of the OHWM.

Within six months of the adoption by the Industrial Commission, the Land Board must release any royalty proceeds it holds for mineral tracts located above both the Corps' survey and the Phase II survey. Absent additional title disputes, the operators are to distribute the proceeds to owners.

The Land Board has two years after the Industrial Commission adoption of the review findings, to implement any acreage adjustments, lease bonus and royalty refunds, and payment demands related to state-issued oil and gas leases. The Bill appropriates \$100,000,000 from the SIIF for the purpose of repayments of mineral revenues, and authorizes the Commissioner to borrow up to \$87,000,000 from the Bank of North Dakota and appropriates the amount needed for mineral revenue repayments.

The bill also defers to the U.S. Bureau of Land Management's determination of the OHWM on public domain tracts owned by the federal government. Where these nonpatented lands are within the historic OHWM of the Missouri River as determined by the Phase II investigation, the State has claimed ownership and leased these acres. Of the estimated 25,000 acres that could be surrendered under the bill, the Department estimates that 7,300 acres (30%) are public domain acres, even if they are located within the historic OHWM.

Senate Bill 2134 exempts application of the historic OHWM determination within the boundaries of the Fort Berthold and Standing Rock Indian Reservations.

The Board has leased acreage underlying the historic Missouri River channel within the area of the Fort Berthold Reservation and has set-aside, in an assigned fund balance, \$41.8 million of bonus that has been collected from leasing these acres. Minimal royalties have been collected because the Bureau of Indian Affairs has also leased these areas. Due to the ongoing dispute, operators are holding proceeds in their suspense accounts.

Litigation of the 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

Starting in 2014, the United States Bureau of Land Management (BLM) began resurveying land along the Missouri River to locate the boundary, ordinary high watermark (OHWM), between the public domain land owned by the United States and the sovereign riverbed owned by the state of North Dakota. Generally, the term “public domain”, references land that the United States has never patented, or ceded title. The BLM resurvey plats were done “for the purpose of delineating the boundaries of public domain oil and gas interests and determining the acreage of the areas that were affected by the movement of the Missouri River prior to the artificial flooding of Lake Sakakawea”.

In identifying the OHWM, the BLM applied federal delineation standards rather than state standards. Specifically, the BLM reviewed and adopted the survey conducted by the Corps of Engineers as part of the Garrison Dam project. The Corps surveys were completed for the purpose of acquiring tracts subject to inundation by the creation of the Garrison Dam. The Corps survey applied the federal definition of the OHWM and federal delineation standards.

After the resurvey work was complete, the BLM published a “Notice of Filing Plats of Survey; North Dakota” in which BLM intended to formally adopt the resurvey plats as Official Plats. The BLM can only lease federal minerals pursuant to its Official Plats. In certain areas, the survey overlaps with the state’s claim to sovereign lands. After the Federal Register Notice appeared, the State Engineer and the Board both filed protests challenging the designation of these plats as Official Plats.

The BLM rejected the State’s protest and in 2016 the State appealed that decision to the Department of Interior Board of Land Appeals.

Senate Bill 2134 passed by the 2017 Legislature asserts that public domain tracts within the OHWM are decided by federal law. This suggests that the ownership of public domain tracts should defer to BLM surveys as the determination of ownership of public domain tracts. The bill does not include a mechanism for the State to review or otherwise challenge the federal survey results on the public domain tracts.

The State’s pleadings filed in the appeal were reviewed by the Board. The briefs describe differences between the federal and state OHWM delineation standards and why State standards should apply in determining the OHWM regardless of whether land is public domain or fee title.

No decision has been received from the Board of Land Appeals. However, the deference in SB 2134 to the BLM cadastral study in the determining the OHWM of public domain tracts conflicts with the position that the Board and State Engineer have asserted on behalf of North Dakota.

The following items were presented to the Board: August 4, 2014 Protest of Filings of North Dakota Plats, June 22, 2016 State of North Dakota Statement of Reasons, September 8, 2016 North Dakota Reply Brief.

Summary of Sovereign Lands Litigation with Responses or Briefs Due

Several cases have briefs or status conferences scheduled which seek to ascertain the Board’s position in light of recent changes in the law. A summary of four lawsuits with responses due soon was offered:

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 a 200 acre tract 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 estimated location of the OHWM prior to inundation of Lake Sakakawea – 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 as determined by the Phase II investigation.

In January of 2016, the State Engineer sought and was granted intervention. A joint motion for summary judgment was filed by the Board and the State Engineer on March 1, 2016. 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. Both EOG Resources, Inc. and Statoil Oil and Gas LP filed cross-appeals. The parties filed briefs in the appeal. On May 1, 2017, Plaintiff/Appellees filed a letter with the Supreme Court requesting supplemental briefing, alleging newly enacted legislation (SB 2134), creating and enacting N.D.C.C. Ch. 61-33.1, impacts the pending appeal.

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 challenging the State's determination of the OHWM east of the Highway 85 Bridge, near the northern border of the Fort Berthold Indian Reservation. 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 Energy Inc., 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 plaintiff moved for Partial Summary Judgment in September, response briefs were filed and the Court denied that motion. The parties are currently engaged in discovery. A six-person jury trial has been scheduled for March 12-16, 2018.

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. In 1945, the State re-sold the property through a contract for deed 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 and a trial has been set for December 11-13, 2017.

Continental Resources, Inc. v. North Dakota Board of University and School Lands, et al., 8th Circuit District Court

On December 23, 2016, the Attorney General's Office was served with an interpleader action filed by Continental Resources for certain lands underlying Continental operated wells located in McKenzie, Mountrail, and Williams Counties where there are overlapping mineral interests claimed by the State and the United States. Continental is requesting the Court determine the property interests for the lands so that Continental can distribute the proceeds from the wells. The United States removed this action to federal district court on January 11, 2017. The Board filed its answer to the complaint on February 13, 2017. The United States filed a Motion to Cancel Deadline [for answering complaint] and Set a Status Conference on May 10, 2017. The motion stated that the "Governor of North Dakota signed into law [SB 2134] on April 21, 2017" and that SB 2134 "addresses the ownership interest in minerals in the lands submerged by Lake Sakakawea and will likely materially affect this action." The United States filed its answer to the complaint on May 12, 2017, mooted its request to cancel its deadline. The Court entered an Order on May 15, 2017, granting the request for status conference and scheduling the status conference for June 7, 2017.

EXECUTIVE SESSION

Motion: **Under the authority of North Dakota Century Code Sections 44-04-19.1 and 44-04-19.2, the Board close the meeting to the public and go into executive session for purposes of attorney consultation to consult with the Board's attorneys on litigation related to sovereign lands' minerals, including:**

- **Continental Resources, Inc. v. Board of University and School Lands, and the United States of America.**
- **Wilkinson v. Board of University and School Lands**
- **Whitetail Wave, LLC v. XTO Energy, Inc., et al.**
- **Mary K. Starin (Estate of Bruno Herman Weyrauch) v. Kelly Schmidt, et al.**
- **Office of State Engineer, Board of University and School Lands v. Bureau of Land Management**

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

At 10:40 AM the Board entered executive session for the purposes outlined in its adopted motion.

EXECUTIVE SESSION

Members Present:

Doug Burgum	Governor
Alvin A. Jaeger	Secretary of State
Wayne Stenehjem	Attorney General (via telephone)
Kelly Schmidt	State Treasurer

Member Absent:

Kirsten Baesler	Superintendent of Public Instruction
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Department of Trust Lands Personnel present:

Lance D. Gaebe	Commissioner
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Linda Fisher	Deputy Commissioner
Allisen Bement	Mineral Title Specialist
Drew Combs	Director, Minerals Division
Susan Dollinger	Unclaimed Property Administrator
Taylor Lee	Director, Revenue Compliance
Kristie McCusker	Legal Assistant
Catelin Newell	Office Manager

Authorized Guests in Attendance:

Hope Hogan	Office of the Attorney General
Jen Verleger	Office of the Attorney General
Troy Seibel	Office of the Attorney General
Jerry Heiser	Office of the State Engineer
Garland Erbele	Office of the State Engineer
Brent Sanford	Lieutenant Governor
Leslie Bakken Oliver	Governor's Legal Counsel
Cassandra Torstenson	Governor's Staff
Robert Lauf	Governor's Staff

During the executive session, the Board consulted with its attorney on legal strategy on the referenced litigation and no formal action was taken. The executive session adjourned at 11:58 AM and the Board returned to open session and the public was invited to return to the meeting.

OPERATIONS

Term of the Commissioner of University and School Lands

Regarding the Commissioner of University and School Lands, NDCC 15-02-02 states:

The term of office of the commissioner is four years beginning July first of the year following the general election of the board members and ending June thirtieth of the fourth calendar year after appointment or until a successor is appointed and qualified. The commissioner may be removed for cause at any time during the commissioner's term of office, by a vote of four or more board members. Upon vacancy by death, resignation, or removal, the board shall appoint a commissioner for the remainder of the four-year term.

The current Commissioner was appointed on April 8, 2010 in a mid-term appointment. On May 30, 2013, the Board appointed Commissioner Gaebe to full term, which will expire on June 30, 2017.

Commissioner Lance Gaebe respectfully requested the Board's consideration of his appointment to a second full term, effective July 1, 2017.

Motion: The Board extends the appointment of Commissioner Lance Gaebe until December 31, 2017, or until a new commissioner, if it were not to be Commissioner Gaebe, would be appointed. Each Board member will appoint a representative to a five person screening committee. State Government Human Resource Management Services (HRMS) will be the repository for applications. HRMS will forward applicants to the five person screening committee, which will review applicants, choose finalists, and present a list of those finalists to the Board.

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

Information Technology Project Update

The Department's 2017-2019 biennial budget appropriation includes \$3.6 million to replace legacy information technology systems.

Due to limitations in the current system, many of which were highlighted in the 2016 performance audit, the Department has been planning an IT replacement project. A significant step toward the IT system replacement included the services of a business process modeling (BPM) contractor in 2016 to identify and document processes and to recommend efficiencies for most operations.

The contractor, Major Oak, assembled documentation to be used in procurement of project design and installation of a presumed customized-off-the-shelf (COTS) software product. Major Oak helped establish the \$5.2 million cost estimate for a 3-year project in the Department's budget request to include 1) Land Management, 2) Accounting, 3) Unclaimed Property and 4) Energy Infrastructure and Impact Office programs.

Subsequent to the Major Oak estimate, the State Information Technology Division (ITD) also provided preliminary project estimates for building a Land Management and Accounting component and an Unclaimed Property package – as an alternative to procuring a COTS product. The Land Management and Accounting component was estimated at \$1.8 million, but it did not include Geographic Information Systems. The ITD estimate was \$400,000 for an Unclaimed Property system build. Both estimates provided baseline cost and time estimates that would be revised upon completion of a more formal project analysis.

With recent legislative reductions to the scope of the Energy Infrastructure and Impact Office, the Commissioner indicated that plans to replace its software application will not be pursued.

NDCC § 54-59-32 requires an executive steering committee (ESC) be appointed to oversee each major state information technology project. The ESC includes a project sponsor, the director of OMB (or designee), the state Chief Information Office (or designee), the agency head, and a large project oversight analyst designated by the state CIO. This committee has been formed to oversee the Department's project. State procurement professionals and Attorney General staff assist with contract negotiation and administration.

The ITD has assigned large project oversight analyst, Aaron Kielhack, to this project. Mr. Kielhack, was also the ITD project manager for the BPM project.

Legislative Bill Report

A summary of bills adopted by the 2017 Legislature that have a direct impact on the Board, Department of Trust Lands or the funds managed was presented:

Department Bills:

SB 2013 Legislative appropriation and budget for the commissioner of university and school lands.

This Bill includes the Department's budget.

Department operations

1. Reduced the current authorized FTEs from 33 to a net 31. It eliminated authority for three presently vacant FTEs, but added one geographic information systems (GIS) technician.
2. Reduced Department operating authority by \$243,914 to \$1,775,723.
3. Authorized \$3.6 million for a comprehensive Department IT project- Governor Burgum vetoed the provision that would have necessitated Budget Section approval for \$1.8 million of this appropriation.

Energy Infrastructure and Impact Office

4. Provided a carryover exemption for the remaining balance of \$1.325 million for a Flood Impact Grant awarded Minot in 2012.
5. Authorized carryover of current biennium energy impact funds is authorized for administration and remaining 2015-2017 grants.
6. Provided one-time \$25 million funding for the Oil and Gas Impact Grant Funds awards of \$20 million to the Williston airport and \$5 million to the Dickinson airport.
7. Created a new \$15 million Energy Impact Fund that may be granted to the Williston airport contingent upon its receipt of federal funds. Source:
 - \$3 million from the Strategic Investment and Improvements Fund (SIIF)
 - \$4 million from the gross production tax distribution to the larger oil producing counties
 - \$8 million from the political subdivision allocation fund

Operational and governance

8. Removed a provision that had historically provided the Board with authority to transfer between appropriation line items.
9. Included in Section 20 a statement of legislative intent regarding the Board/Commissioner's interpretation of "gross production," "market value" and "gross proceeds of sale" portion of the Board's oil and gas lease to the advantage of the producer. Section 20 was vetoed by Governor Burgum. The veto was based upon the fact that the Attorney General provides legal advice to the Commissioner, and this section of the bill encroached on that authority.
10. Stipulated a study by the Tax Department, the Land Board, the Industrial Commission and other appropriate agencies to review the methods of determining valuation of oil and gas to determine mineral royalty payments and tax liability. The study and recommendations are to be reported to the interim Energy Committee before October 2018. NOTE: By subsequent passage of Section 28 of HB 1015, this provision was changed to make the Tax Commissioner's study optional.
11. Delayed the effective date of HB 1300 until January 1, 2018. NOTE: This section was modified by the later passage of section 29 in HB 1015 which set the effective date back to August 1, 2017. Section 29 of HB 1015 was then subsequently vetoed by Governor Burgum, making the effective date January 1, 2018.

SB 2101 Relating to management of the Coal Development Trust Fund.

This Bill, submitted at the Department's request, updates two sections of law related to distributions from, and the calculation of, income earned by the Coal Development Trust Fund.

SB 2102 Relating to term of office and to duties of the Commissioner in assessing state owned lands for highest and best use.

This Bill, submitted by the Department, clarifies the term of office and duties of the Commissioner and makes optional a provision regarding a highest and best use evaluation of any state lands considered for sale.

Other Bills:

HB 1003 Relating to the appropriation for the Attorney General

Section 8: Contingent on rent savings as a result of relocating part of the AG's operations, directs the Board to provide up to \$500,000 from oil and gas impact grant fund allocated in 2015 for law enforcement grants, to be used instead for the operations of the Statewide Automated Victim Information notification (SAVIN) program.

HB 1012 Relating to the appropriation for the Department of Human Services

Section 39: Changes the deposit of 45% of the proceeds of the tobacco settlement trust fund to the Common Schools Trust Fund (CSTF) instead to the Community Health Trust Fund. This one-biennium adjustment will divert an estimated \$18 million from the CSTF.

HB 1015 Relating to the appropriation for the Office of Management and Budget

Section 14: Directs the Board to award a \$261,000 oil and gas impact grant to a community based group that serves the developmentally disabled population in several northwestern communities. The section, which was adopted with an emergency clause, states that the recipient may use the grant to repay debts owed to the Department of Human Services or a bank.

HB 1300 Relating to agencies exempt from the definition of an administrative agency.

The Bill removes the Board's exemption from the Administrative Agencies Practice Act.

SB 2134 Relating to the ownership of sovereign minerals beneath the Missouri River in areas that are inundated by Lakes Sakakawea and Oahe.

This Bill changes the method that the Board has used to determine the ordinary high water mark and lease State sovereign minerals. It defines the historical riverbed channel under Lake Sakakawea and Lake Oahe as the channel depicted in the last known survey by the Army Corp of Engineers (Corps) prior to closure of the dams. The bill moves the utilization of historical channel method of determining sovereign minerals acres to an area between Williston and the confluence. It also defers to federal law, the ownership of public domain tracts of the River. The Bill's definition of the historic channel excludes the area of the river within the Fort Berthold Reservation.

The Bill includes an \$800,000 appropriation for an Industrial Commission study of the Corps' survey and factors related to historical records, applicable state law, accretions, and agriculture use.

The Bill appropriates \$100,000,000 from the SIIF for the purpose of repayments of mineral revenues, and authorizes the Commissioner to borrow up to \$87,000,000 from the Bank of North Dakota and appropriates the amount needed for mineral revenue repayments.

SB 2203 Appropriation to the attorney general for human trafficking victim treatment and support

Section 2: Directs the Board to award up to \$700,000 of funds reserved in 2015 for law enforcement grants instead for grants to organizations which provide prevention and treatment services related to human trafficking. Adopted with an emergency clause.

SB 2245 Relating to listing state parcels for use as wetlands mitigation.

This Bill as introduced would have required the Commissioner, by July 2018, to provide a list of trust land parcels that may qualify for use as wetlands mitigation. The bill was converted into a study of the desirability and feasibility of creating a state wetlands bank.

SB 2272 Relating to school construction loans from the coal development trust fund and the school construction assistance revolving loan fund (and other issues).

This Bill raises the amount of the Coal Development Trust Fund available for school loans from \$50 million to \$60 million, and changes the loan program to focus on unanticipated construction, replacement and emergency repair projects limited to \$2 million per district.

HCR 3019 Requests the U.S. Army Corps of Engineers to sell Garrison and Oahe project land.

The resolution requests the Corps sell land not needed for Missouri River reservoir project purposes, to prior owners, their heirs, and their successors. Includes a reference to the Board to develop an agreement with the Corps to implement a purchase right for prior owners, or their successors, who own the land from which the parcels were detached.

The Board manages the Strategic Investment and Improvements Fund (SIIF). A number of bills stipulate transfers and expenditures from the SIIF:

Emergency clause with appropriations due by June 30, 2017:

HB 1015	NDSU – Minard Hall	costs of collapse	\$ 1,634,854
HB 1024	Legal Counsel of Indigents	defray expenses	\$ 189,000
HB 1024	Department of Health	operating expenses	\$ 250,000
HB 1024	Department of Human Services	Grants – medical assistance	\$ 9,000,000
HB 1024	Office of Adjutant General	disaster cost	\$ 79,500
HB 1024	State Historical Society	litigation expenses	\$ 50,000
HB 1024	Office of State Treasurer	property tax relief	\$ 8,100,000
HB 1024	Office of Management & Budget	General fund	\$ 155,000,000
Total			\$ 174,303,354

Emergency clause with appropriations due by June 30, 2019:

HB 1024	Office of the Attorney General	court ordered – PW Enterprises	\$ 15,872,000
SB 2134	Department of Mineral Resources	contract with survey firm	\$ 800,000
Total			\$ 16,672,000

2017-19 Appropriations/Transfers

HB 1008	Public Service Commission	legal costs	\$ 100,000
HB 1009	Department of Agriculture	federal environmental law impact review fund	\$ 1,000,000
HB 1015	Office of Management & Budget	general fund	\$ 248,000,000
HB 1016	Office of Adjutant General	Mobile repeaters and programming radios	\$ 300,000
SB 2004	Department of Health	EPA legal fees	\$ 500,000
SB 2011	Highway Patrol	equipment replacement	\$ 358,000
SB 2013	Office of State Treasurer	energy impact fund	\$ 3,000,000
SB 2014	Industrial Commission	lignite research	\$ 3,000,000
SB 2015	Department of Corrections & Rehabilitation	electronic medical records	\$ 935,907
SB 2018	Department of Commerce	base retention grants	\$ 600,000
SB 2018	Department of Commerce	drone test site	\$ 2,000,000
SB 2018	Department of Commerce	enhanced land use	\$ 2,000,000
SB 2134	Department of Trust Lands	mineral revenue refunds	\$100,000,000
SB 2191	Office of the Attorney General	domestic violence grants	\$ 150,000
Total			\$ 362,943,907
GRAND TOTAL			\$ 553,919,261

(05/25/17)

The Summary of Total Assets (Unaudited) for period ended February 28, 2017 was reviewed by Board.

Report of Easements Issued by Land Commissioner (4/19/17 to 5/10/17)

Granted to: **NORTHWEST COMMUNICATIONS COOP, RAY-ND**
 For the Purpose of: Easement: Communication Cable - Buried
 Right-of-Way Number: RW0007971
 Trust: N – ND State University
 Legal Description: WIL-154-99-20-NE4

Granted to: **NEON INC, BOULDER-CO**
 For the Purpose of: Easement: Tower Site
 Right-of-Way Number: RW0008004
 Trust: A – Common Schools, N – ND State University
 Legal Description: STU-142-66-16-NE4, NW4, SE4, SW4
 Legal Description: STU-143-67-16-NE4, NW4, SE4
 Legal Description: STU-143-67-36-NE4, NW4, SE4, SW4
 Legal Description: STU-143-66-28-SW4

Granted to: **NORTHWEST COMMUNICATIONS COOP, RAY-ND**
 For the Purpose of: Easement: Communication Cable - Buried
 Right-of-Way Number: RW0008011
 Trust: A – Common Schools
 Legal Description: WIL-157-101-16-SW4
 Legal Description: WIL-158-102-16-NE4, SE4, SW4

Granted to: **WESTERN AREA WATER SUPPLY AUTHORITY, WILLISTON-ND**
 For the Purpose of: Easement: Potable Water Pipeline
 Right-of-Way Number: RW0008015
 Trust: A – Common Schools
 Legal Description: WIL-154-99-16-SE4, SW4

Granted to: **SACAGAWEA PIPELINE CO LLC, IRVING-TX**
 For the Purpose of: Easement: Gas Gathering Pipeline
 Right-of-Way Number: RW0008021
 Trust: A – Common Schools
 Legal Description: MCK-151-95-36-LOTS 3,4

Granted to: **BOE MIDSTREAM, DENVER-CO**
 For the Purpose of: Easement: Easement Release
 Right-of-Way Number: RW0008047
 Trust: A – Common Schools
 Legal Description: DUN-148-96-16-N2SE4, SW4SE4, LOT 2

Granted to: **MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND**
 For the Purpose of: Easement: Electric Distribution Line - Above Ground
 Right-of-Way Number: RW0008055
 Trust: A – Common Schools
 Legal Description: WIL-155-95-16-NE4, SE4

Granted to:	ROCKWATER ENERGY SOLUTIONS, DICKINSON-ND
For the Purpose of:	Letter of Permission: Access to School Land
Right-of-Way Number:	RW0008056
Trust:	A – Common Schools
Legal Description:	MCK-149-96-16-NE4, NW4
Granted to:	PETRO-HUNT DAKOTA LLC, KILLDEER-ND
For the Purpose of:	Permit: Access Road
Right-of-Way Number:	RW0008063
Trust:	A – Common Schools
Legal Description:	MCK-148-102-16-NE4, NW4, SE4
Granted to:	PETRO-HUNT DAKOTA LLC, KILLDEER-ND
For the Purpose of:	Permit: Access Road
Right-of-Way Number:	RW0008064
Trust:	A – Common Schools
Legal Description:	MCK-145-102-8-NE4, NW4, SE4
Granted to:	PETRO-HUNT DAKOTA LLC, KILLDEER-ND
For the Purpose of:	Permit: Access Road
Right-of-Way Number:	RW0008065
Trust:	A – Common Schools
Legal Description:	MCK-145-102-16-NE4, NW4
Legal Description:	MCK-145-102-8-NE4, NW4, SE4
Granted to:	TERRITORIAL LANDWORKS INC, MISSOULA-MT
For the Purpose of:	Permit: Planning & Preconstruction Survey
Right-of-Way Number:	RW0008066
Trust:	A – Common Schools
Legal Description:	WAR-155-84-1-SW4NW4 LYING N & E OF RIVER CENTERLINE
Granted to:	WEST DAKOTA WATER LLC, WILLISTON-ND
For the Purpose of:	Letter of Permission: Access to School Land
Right-of-Way Number:	RW0008068
Trust:	A – Common Schools
Legal Description:	MOU-154-93-16-NE4, SE4, SW4
Granted to:	WEST DAKOTA WATER LLC, WILLISTON-ND
For the Purpose of:	Letter of Permission: Access to School Land
Right-of-Way Number:	RW0008071
Trust:	A – Common Schools
Legal Description:	MOU-153-93-36-NE4 SOUTH OF HWY, NW4 SOUTH OF HWY, SE4 SOUTH OF HWY

Results of Online May Oil and Gas Mineral Lease Auction

On behalf of the Board, the Department conducted an oil and gas mineral lease auction on www.energynet.com which concluded on May 2, 2017.

There were 240 tracts offered and all but six received competitive bids. The highest bid per acre was \$7,002 for 80 net mineral acres in Mountrail County.

There were 48 bidders registered, 37 of which submitted bids in the seven-day auction. Bidders were from 12 states (AZ, CA, CO, IN, MN, MO, MT, ND, NE, TX, WA and WY).

A total \$2,415,178.55 of bonus was collected from the auction.

(05/25/17)

May 2017					
	Mineral Acres		Total Bonus		Bonus/Acres
BILLINGS		2675.77		\$ 40,003.70	\$ 14.95
BOWMAN		1080.43		\$ 8,640.68	\$ 8.00
BURKE		120.00		\$ 42,560.00	\$ 354.67
DIVIDE		3049.27		\$ 569,075.51	\$ 186.63
DUNN		4519.13		\$ 120,351.65	\$ 26.63
GOLDEN VALLEY		1280.00		\$ 5,120.00	\$ 4.00
MCKENZIE		1251.16		\$ 614,583.64	\$ 491.21
MOUNTRAIL		408.00		\$ 592,728.00	\$ 1,452.76
ROLETTE		80.00		\$ 2,560.00	\$ 32.00
SLOPE		2537.78		\$ 7,095.56	\$ 2.80
STARK		1688.25		\$ 66,122.45	\$ 39.17
WILLIAMS		2967.08		\$ 346,337.36	\$ 116.73
GRAND TOTAL		21656.87		\$ 2,415,178.55	\$ 111.52

A D J O U R N

There being no further business, the meeting was adjourned at 12:38 PM.

Doug Burgum, Chairman
Board of University and School Lands

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

**Minutes of the Meeting of the
Board of University and School Lands
June 29, 2017**

The June 29, 2017 meeting of the Board of University and School Lands was called to order at 9:01 AM in the Governor's Conference of the State Capitol by Chairman Doug Burgum.

Members Present:

Doug Burgum	Governor
Alvin A. Jaeger	Secretary of State
Wayne Stenehjem	Attorney General
Kelly Schmidt	State Treasurer
Kirsten Baesler	Superintendent of Public Instruction – Via Telephone

Department of Trust Lands Personnel present:

Lance D. Gaebe	Commissioner
Linda Fisher	Deputy Commissioner
Mike Humann	Director, Surface Division
Taylor Lee	Director, Revenue Compliance
Kristie McCusker	Legal Assistant
Catelin Newell	Office Manager

Guests in Attendance:

Cassandra Torstenson	Governor's Staff
David Garner	Office of the Attorney General
Paul Forster	Crowley Fleck PLLP
Ron Ness	North Dakota Petroleum Council
Brent Bogar	Jadestone Consulting
Daniel Kelly	McKenzie County Healthcare Systems
Wade Burns	Beaver Creek Archaeology for Continental Resources
Leslie Bakken Oliver	Governor's Legal Counsel
Geoff Simon	Western Dakota Energy Association
Amy Dalrymple	Bismarck Tribune
John Hageman	Fargo Forum

APPROVAL OF MINUTES

A motion to approve the minutes of the May 25, 2017 meeting was made by Treasurer Kelly Schmidt and seconded by Attorney General Wayne Stenehjem and the motion carried unanimously on a voice vote.

ENERGY INFRASTRUCTURE AND IMPACT OFFICE

Nursing Home and Home Health Grant Recommendations

House Bill 1176 approved in 2015, allocated up to \$4 million for nursing home and basic care facilities and home health care firms. In April 2017 the Board approved grant consideration of \$2 million for nursing homes, basic care facilities, home health care and hospice care firms. The 2015 legislation specifies up to \$500,000 be distributed to home health/hospice programs in Williston and Dickinson. While statute specifies oil and gas impact grant funds are only for political subdivisions, HB 1176 provided exemptions for this grant area. There is \$1,750,000 available for nursing homes and basic care facilities in oil producing counties and \$250,000 for home health care and hospice programs in Williston and Dickinson.

The Board had previously appointed the following advisory committee members:

Amy Kreidt	St. Lukes Home, Dickinson
Jon Frantsfog	St. Benedict's, Dickinson
Dan Kelly	McKenzie County Healthcare, Watford City
Shelly Peterson	North Dakota Long Term Care Association
Randy Pederson	Tioga Medical Center, Tioga
Sue Heitkamp	CHI Health at Home
Kurt Stoner	Bethel Lutheran Home, Williston

The advisory committee met in January 2016 to establish guidelines for a two-fold grant program:

- 1) 30% of the unreimbursed costs based on the 2014 audited financial reports published in 2015, with a maximum of \$150,000 to any one facility; and
- 2) Up to \$40,000 per facility, (if the facilities do not reach \$150,000 in the first factor) through a competitive round evaluating impact based on eight established factors:
 - a. Operated at a loss in either portion of facilities considered during the last two fiscal year ends;
 - b. Has stopped or limited admissions due to staffing shortages;
 - c. Has high reliance on contracted staffing;
 - d. Exceeds the direct care, other direct or indirect care limits, for nursing facilities or is a basic care facility and exceeds the direct and indirect limits;
 - e. Has limited access to affordable housing;
 - f. Has limited access to affordable childcare services;
 - g. Has served, as part of its operations, the low-income Medicaid population; or
 - h. Has seen a reduction in days of services due to changes in population.
- 3) No facility exceeds \$150,000 when combining both portions of the grant funding,
- 4) Adopted a goal that any remaining funds not already committed in items 1 and 2 would be added to the nursing facilities formula grant distribution.

In 2016, due to a shortfall in the Oil and Gas Impact Grant fund, the Board was forced to suspend consideration of nursing home and home health care grants. However, in March 2017, the Board was able to announce the availability of up to \$2 million for grants.

In April 2017 the advisory committee increased eligibility of unreimbursed costs from 30% to 40% and increased the competitive round funding cap from \$40,000 to \$50,000. Each facility's total eligibility was capped at \$150,000. The scoring criteria remained unchanged. The advisory committee also chose to utilize 2014 audited financials for the applications.

Of the 27 facilities eligible for consideration, 17 organizations submitted applications for grant funding. Applications were scored by advisory committee.

Based upon the criteria, scoring in the published grant announcement, the Director made the following recommendations:

CHART A Energy Infrastructure and Impact Office (EIO) Director Recommendation							
Applicant	City	Project	App#	Requested	40% of Unreimbursed Costs	Competitive Round	Recommend
Northwest Hospital Tax District	Crosby	Unreimbursed Costs	A170060	\$150,000.00	\$150,000.00	\$0.00	\$150,000.00
Trinity Homes	Minot	Unreimbursed Costs	A170061	\$150,000.00	\$150,000.00	\$0.00	\$150,000.00
Mountrail Bethel Home	Stanley	Unreimbursed Costs	A170062	\$150,000.00	\$150,000.00	\$0.00	\$150,000.00
Souris Valley Care Center	Velva	Unreimbursed Costs	A170063	\$66,075.00	\$8,425.00	\$29,000.00	\$37,425.00
Lakeside Community Living Center	New Town	Unreimbursed Costs	A170064	\$30,000.00	\$0.00	\$25,000.00	\$25,000.00
St. Luke's Home	Dickinson	Unreimbursed Costs	A170065	\$109,726.00	\$59,726.00	\$39,000.00	\$98,726.00
Richardton Health Center	Richardton	Unreimbursed Costs	A170066	\$150,000.00	\$0.00	\$23,000.00	\$23,000.00
Hill Top Home Of Comfort	Killdeer	Unreimbursed Costs	A170067	\$50,000.00	\$23,786.00	\$33,000.00	\$56,786.00
Tioga Medical Center Long Term Care	Tioga	Unreimbursed Costs	A170068	\$50,000.00	\$0.00	\$31,000.00	\$31,000.00
McKenzie County Health Care Systems	Watford City	Unreimbursed Costs	A170069	\$150,000.00	\$150,000.00	\$0.00	\$150,000.00
Bethel Lutheran Nursing & Rehab Center	Williston	Unreimbursed Costs	A170070	\$61,169.00	\$61,169.00	\$41,000.00	\$102,169.00
St. Benedict's Health Center	Dickinson	Unreimbursed Costs	A170071	\$73,820.00	\$28,528.00	\$40,000.00	\$68,528.00
Bethel Lutheran Nursing & Rehab Center	Williston	Unreimbursed Costs	A170072	\$50,000.00	\$0.00	\$39,000.00	\$39,000.00
Southwest Healthcare Services-	Bowman	Unreimbursed Costs	A170073	\$150,000.00	\$150,000.00	\$0.00	\$150,000.00
Benedictine Living Center Of Garrison	Garrison	Unrecovered Costs	A170076	\$50,000.00	\$0.00	\$31,000.00	\$31,000.00
CHI Health At Home Williston	Williston	Unreimbursed Costs	A170074	\$125,000.00	\$0.00	\$0.00	\$125,000.00
CHI Health At Home-Dickinson	Dickinson	Unreimbursed Costs	A170075	\$125,000.00	\$0.00	\$0.00	\$125,000.00
				\$1,690,790.00	\$931,634.00	\$331,000.00	\$1,512,634.00

On June 13, 2017, the advisory committee met to evaluate and review applications. The committee sought to adjust the criteria for unreimbursed costs from 40% to 70% and increase the facility cap from \$150,000 to \$200,000. The committee also sought to increase each facility's eligibility by an additional \$10,000 to reach the \$2 million previously authorized by the Board.

The Board reviewed the alternate recommendation offered by the advisory committee.

The EIO Director recommended that the Board award grants in accord with announced criteria and caps, including the 40% of unreimbursed costs factor based on facilities' 2014 audited financial reports, and \$150,000 per facility award cap.

Motion: The Board authorized grants totaling \$1,512,634 to the 17 nursing home and home health care grant applicants, as depicted on Chart A. The grants are provided to support financial losses due to oil and gas development activities. In addition, a second grant round should be held for the remainder of the \$2 million allocated to nursing homes and basic care facilities.

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

City of Ross Grant Extension Request

In 2013 the City of Ross applied for a \$2.5 million Energy Impact grant for lagoon repair and expansion. The Board's advisory committee recommended a \$1 million toward repairs to the structure, which the Board awarded in 2014. This grant's deadline was August 31, 2017. The city requested an extension to Grant G150012 until December 31, 2019.

In May 2017, the Board did not act on a grant extension request and requested more background information on the project status, which the city provided and the Board reviewed.

The lagoon is in poor condition and its function was challenged by the dramatic population increase in 2013. The State Health Department and the city's engineer indicate that embankment failure is plausible. If the city does not repair the lagoon it may need to be condemned, which could force the local citizens to build a new system or to install individual septic systems.

Motion: The Board extended the deadline of Grant G150012 – City of Ross Wastewater Treatment Facility to December 31, 2019 in order for it to make necessary repairs to its waste water lagoon.

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

Proposed Remaining Grant Priority Plan

The Oil and Gas Impact Grant Fund has \$16,177,559 in available grant monies, which consists of the unawarded balance of \$17,638,559 minus the allocations made by the 2017 Legislature: \$261,000 for a Developmentally Disabled Service Provider, \$700,000 for combating the effects of Human Trafficking, and \$500,000 reserved for SAVIN (Statewide Automated Victim Information & Notification) programming.

June's deposit of \$4,985,370 is above the six-month average deposit of \$3.8 million and is included in the amounts above. Two anticipated deposits to the Oil and Gas Impact Grant Fund remain for the 2015-2017 biennium.

Remaining Legislative earmarks for future consideration by the Board include:

- 1) Developmentally Disabled Service Provider - \$261,000 (HB 1015 - 2017 Legislative Session);
- 2) Human Trafficking - \$700,000 (SB 2203 - 2017 Legislative Session);
- 3) SAVIN funding –\$500,000 “reserved” (HB 1003 - 2017 Legislative Session);
- 4) K-12 school districts – up to \$15 million (HB 1176 - 2015 Legislative Session);
- 5) Bowman and Divide Counties – up to \$8 million - Legislation states that an equal amount of funds must be awarded to the two counties (HB 1176 - 2015 Legislative Session);
- 6) Up to \$48 million to airports (HB 1176 - 2015 Legislative Session);
 - a. \$39 million remains for the Williston Airport (SB 2015 - 2015 Legislative Session)
 - b. \$4.6 million remains for the Dickinson Airport (SB 2015 - 2015 Legislative Session)
 - c. up to \$1.4 million remains unspecified for other airports; and
- 7) Eligible General (seven counties with lower oil production than primary Bakken area) - up to \$5 million (HB 1176 - 2015 Legislative Session).

The 2017 Legislature allocated \$35 million to the Williston airport and \$5 million to the Dickinson airport presumably to address the amounts it reserved for those entities in 2015 because it anticipated would not be funded because of the revenue shortfall.

The Director reviewed whether the Board has discretion to elect to not award grants if sufficient Oil and Gas Impact Grant funds are available.

The specific statute on grant distribution was presented:

The moneys accumulated in the oil and gas impact grant fund **must be allocated as provided by law and as appropriated by the legislative assembly for distribution through grants by the energy infrastructure and impact office** to oil and gas development-impacted cities, counties, school districts, and other taxing districts or for industrial commission enforcement of laws and rules relating to geophysical exploration in this state. N.D.C.C. § 57-62-03.1. (Emphasis added).

Section 10 of the 2017 Legislature's Senate Bill 2013 indicates that funds not distributed during the 2015-2017 biennium are carried forward to the next biennium. The section references Chapter 463 of the 2015 Session Law (HB 1176) which contained most targeted grant areas. Thus the Legislature presumably intended these allocations to be made:

SECTION 10. EXEMPTION - OIL AND GAS IMPACT GRANT FUND. The amount appropriated from the oil and gas impact grant fund for the energy infrastructure and impact office line item in section 1 of chapter 13 of the 2015 Session Laws and for oil and gas impact grants in section 5 of chapter 463 of the 2015 Session Laws is not subject to section 54-44.1-11. Any money deposited in the fund for taxable events occurring through June 30, 2017, and any unexpended funds from the appropriation are available for grants and administrative costs associated with the fund during the biennium beginning July 1, 2017, and ending June 30, 2019.

The Director concluded that the Board does not have the discretion to withhold funds from grant areas that were previously identified by the legislature. Based on previous legal guidance received on the short-fall of funds, the Board may grant less than the appropriated amounts in discretionary areas, but it is unlikely the Board can choose to not award grants if sufficient resources are available.

Proposed Plan for Remaining 2015-2017 Grants:

The Western Dakota Energy Association advocated a partially prorated distribution of the remaining expected grant funds instead of fully funding only certain 2015 legislative allocations. A letter from the association was reviewed.

The Energy Impact Office Director recommended the Board target 95% funding the remaining grant areas and inform the applicants of the goal so they could proceed with construction or building projects pending the Board's formal awarding of grants.

- 1) K-12 School Districts – The grants are determined based on the ratio of oil and gas gross production tax distribution payments made to school districts in fiscal year 2014. The funds are to be used for renovation and improvement projects.

Inform eligible schools to anticipate 95% funding for the remaining \$15 million allocation. The districts can initiate needed repairs or upgrades in anticipation of final grants in the fall.

- 2) Bowman and Divide Counties –
Communicate with both counties to plan for a split of \$7.6 million (95%) so each can implement construction season repairs or upgrades.
- 3) Other Airports –
Inform the Aeronautics Commission, which has served as the advisory committee for airport grants, to anticipate up to \$1.33 million (95%) available for energy development impacted municipal airports, request it adopt guidelines for a grant announcement.
- 4) Seven Counties (General) – refers to the counties, cities, organized townships, or other taxing districts within seven counties that individually received less than \$5 million of gross production tax distributions in fiscal year 2014, include: Golden Valley, McHenry, Renville, McLean, Mercer, Slope, and Ward.

Reactivate the advisory committee of local officials to adopt guidelines for a grant announcement of up to \$1 million for projects and needs related to current impacts from oil and gas development. Grants could be considered based upon available funds after the final biennial deposit in August.

- 5) No 2015-2017 biennium funds will be allocated to the Williston airport, no additional 2015-2017 biennium funds will be targeted to the Dickinson airport, nursing homes/home health care, or contingency requests.

2015-2017 Biennium Breakdown (Combining like FY Rounds)					
Round or Award	#Applications	Amt of Projects	Amt 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	\$3,684,898
K-12 FY 2016	62	\$15,000,193	\$15,000,193	62	\$14,988,201
Law Enforcement FY 2016	59	\$22,102,479	\$19,853,329	54	\$7,778,869
Fire Districts	67	\$22,745,202	\$16,837,094	36	\$3,000,000
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
Human Trafficking - FY 2016	6	\$1,207,510	\$1,207,510	6	\$750,000
Critical Access Hospitals	15	\$23,333,247	\$12,408,584	15	\$10,000,000
Providers to Developmental Disabled	22	\$2,000,000	\$2,000,000	22	\$2,000,000
Domestic Violence Shelters	2	\$5,823,654	\$2,000,000	2	\$1,987,682
Sexual Assault Examiner	10	\$309,733	\$309,733	7	\$250,000
City of Stanley	1	\$9,000,000	\$1,700,000	1	\$1,700,000
City of Kenmare	1	\$516,345	\$500,000	1	\$500,000
City of Berthold	1	\$400,000	\$200,000	1	\$200,000
City of Burlington	1	\$840,000	\$100,000	1	\$100,000
EMS FY 2017	30	\$6,598,101	\$4,211,575	28	\$2,315,102
Nursing Homes/Basic Care/Hospice	17	\$12,398,701	\$1,690,790	17	\$1,512,634
DD Provider - FY 2017					
Human Trafficking - FY 2017					
	369	\$145,152,471	\$92,117,433	317	\$56,268,160
2015-2017 Grant Adjustments					-\$684,869
Net Awards					\$55,583,291
As of: June 22, 2017					Admin \$700,000
2015-2017 Collected To Date	\$73,755,966				
Projected Revenue (at \$3.8m/mo)	\$7,600,000				
Administrative Costs (Thru Mar31)	534,116				
Expected Allocations	\$80,821,850				
Gross To Award Today:	\$17,638,559				
Net To Award Today:	\$16,177,559				
Unmet Allocations	\$59,178,150				
Remaining Allocations					
AG-SAVIN (Reserved)					\$500,000
Human Trafficking					\$700,000
DD Provider					\$261,000
K-12 Schools					\$15,011,799
Bowman/Divide Counties					\$8,000,000
Other Airports					\$1,399,225
Eligible General					\$5,000,000
Williston Airport					\$39,000,000
Dickinson Airport					\$4,600,000
Nursing Homes/Basic Care/Hospice					\$2,000,000
Contingency					\$6,321,131
Total =					\$82,793,155
Final Award Scenario	K-12 Schools @	95%	\$14,261,209		
	Bowman/Divide @	95%	\$7,600,000		
	Other Airports @	95%	\$1,329,263.75		
	Sub-total		\$23,190,473		
	Eligible General @	Remaining Amt	\$587,087		

Contingency Fund

Outside of the \$40 million of grants for the Dickinson and Williston airports, there is no general grant authorization in the 2017-2019 biennium. However, there is approximately \$2,115,537 from 2013-2015 biennium grants that were canceled or the balances which were retired during the current biennium. These funds have not been reallocated.

In accordance with Section 10 of Senate Bill 2013 (2017) which permits the use of unexpended funds to be available for grants and administrative costs, the Director proposes reserving this \$2.1 million for operations, salary and a small contingency for unknown and unanticipated needs over the next biennium.

Motion: The Board adopted the Energy Infrastructure and Impact Office grant funding plan highlighted in the preceding chart and it authorized the Director to inform recipients of the targeted grant amounts for the remaining 2015-2017 biennium legislative allocations; and to establish a contingency fund from prior biennia's unexpended funds for the EIO administrative costs and possible grants during the 2017-2019 biennium. The availability of funds should be communicated to oil producing counties.

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

SURFACE DIVISION

Proposed Foxtail Wind LLC Wind Farm (Dickey County: N2-36-131-66)

NextEra Energy Resources LLC (NextEra), headquartered in Juno Beach, Florida, applied for a wind energy easement agreement (easement) for its Foxtail Wind LLC, to place three wind towers within the tract described as N2-36-131-66 Dickey County, containing 320 acres more or less. The proposed Foxtail Wind Farm located southeast of Kulm, will contain approximately 65 wind towers and produce 150 megawatts of power.

Dickey County advised the Department that it defers to the North Dakota Public Service Commission (PSC) for zoning requirements. NextEra, on behalf of Foxtail Wind Farm, is in the process of submitting an application to the PSC for project approval.

The Department conducted an onsite inspection of the trust property, including the three proposed wind tower locations, associated access road, collection lines and construction crane access paths. Wind tower locations have been sited in coordination with the Department to maximize the number of wind towers and minimize environmental interference on trust land. The Board reviewed a map of the proposed Foxtail Wind Farm area.

NextEra was informed an easement will not be approved until the project receives PSC approval and the Board has considered the easement terms.

NextEra has asked for confirmation that the Board will consider an easement for the Foxtail Wind Farm should the wind farm be approved by the PSC. NextEra requested a letter to provide to the PSC to document Board interest. If the PSC approves the project, the Department would negotiate proposed easement terms with NextEra and present a draft easement agreement to the Board for its consideration.

Motion: The Commissioner is authorized to confirm by letter that the Board will consider a Wind Energy Easement Agreement with Foxtail Wind LLC regarding the location and potential use of trust land within the Foxtail Wind Farm; and upon the Public Service Commission's approval of the project, the Commissioner is authorized to negotiate and submit a recommended easement and terms for Board consideration.

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

MINERALS MANAGEMENT

Calculation of Royalty Based on Gross Proceeds

The Board is a trustee in managing land, minerals and proceeds derived on behalf of permanent trust funds for the exclusive benefit of specific beneficiaries. It also manages sovereign minerals for the State. Over the course of its history, the Board has entered into oil and gas leases under the terms and conditions contained in its standard lease ("Board's Lease"), which is used for both trust and sovereign minerals. The current version of the Board's Lease has been in effect since the late 1970s following the adoption of rules modifying its terms. By its current terms, the Board's Lease includes formally adopted Oil and Gas Rules in Chapter 85-06-06.

At its March 30, 2017 meeting, the Board reviewed a letter ("Deduction Letter") regarding deduction of costs from gas royalty payments, that the Department intended to send to the Board's oil and gas operators. The purpose of the Deduction Letter was to reiterate the Board's procedure of calculating gas royalties in an arm's length transaction. The Deduction Letter included a detailed legal analysis of the relevant terms of the Board's Lease. It did not change the Board's policy, but rather was a reminder of the responsibility in calculating and submitting gas royalties according to the Board's Lease.

The Board's Lease requires gas royalties to be calculated based on gross production or the market value thereof, at the option of the lessor, such value to be based on the gross proceeds of sale where such sale constitutes an arm's length transaction. Correspondingly, oil royalties are based on the greater of: 1) the highest posted price, plus premium, if any, paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity for the field where produced and when run, or 2) the highest market price thereof paid for the area where produced and when run, or 3) the gross proceeds of sale.

Under these royalty provisions, the lessee may not reduce royalty payments for expenses it has incurred prior to the sale.

In advance of the Commissioner sending the Deduction Letter, the Board asked for legal comments from industry representatives regarding the issues the Deduction Letter addressed. Two responses were received from the North Dakota Petroleum Council (NDPC).

History

Earlier versions of the Board's Lease allowed for deductions for expenses. Specifically, it required oil royalties be paid free of cost to the pipeline, and gas royalties be based on the gas produced at the mouth of the well based on the prevailing market rate.

The minutes from a special Board meeting on April 12, 1979 indicate that the Board rejected one operator's interpretation that the State was entitled to royalties on the market price of gas only "at the well" and that all costs of readying the gas for sale, from the well to the point of sale after processing, are deductible. In response to this interpretation, the Board removed the words "at the well" from the gas royalty provision of its lease.

In 1979, the Board apparently requested comments on its proposal to revise the royalty provisions of the lease to include payment based on gross proceeds of sale for both oil and gas.¹ Of the comments the Board received, several letters did not mention concerns with oil and gas royalties based on the gross proceeds of sale. However, a number of responses directly noted the ramifications of requiring royalties be calculated based on the gross proceeds of sale. A common concern was that under this type of royalty provision, the Board was prohibiting lessees from

¹Gross proceeds of sale is the basis for calculating oil royalty payments if it is the highest of three values.

deducting certain costs from royalty payments. The Board reviewed a May 29, 1979 letter from Shell Oil Company (Shell) to the State Land Department which states: "that payment to the lessor is to be made at the greater of gross proceeds or the highest market price in the area. This is unfair to the lessee, as it ignores the business reality that gas, oil and hydrocarbon products are normally sold by contract, and that the income available for payment derives from the income received."

Notwithstanding Shell's and other opposition to the then proposed gross proceeds provision of its oil and gas lease and rules, the Board clearly intended to include this as the basis for calculating royalties. Some of Shell's and other recommendations were incorporated, but the basis for calculating royalty payments on the highest of three values, including gross proceeds, was adopted and remains part of the Board's Lease.

With regard to the adoption of rules and regulations concerning oil and gas leasing, the August 30, 1979 Board minutes state "[t]he royalty provisions now specify that gas royalties must be payable on the gross proceeds of sale made at arm's length where neither party has a great advantage over the other. This assures a fair return to the State without total reliance on a nebulous fair market value test. Given the stage of oil development in North Dakota at the present time, North Dakota now has a good lease and rules."

The terms of this gas royalty provision as they now exist were revised following these 1979 meetings and have remained in effect. The Board has maintained its position that the royalty provision in its lease prohibits deductions. In a September 9, 1980 Brief of Amicus Curiae filed by the Board in *West v. Alpar Resources, Inc.*, the Board acknowledged that if the lease at issue was construed as a "gross proceeds" lease, the lessee would have no right to deduct processing costs. In that case, the lease included a provision requiring royalties to be paid on the "proceeds" of the sale of the gas.

More recently, Assistant Attorney General Christopher Harvey noted in an October 27, 2014 letter to Denbury Resources, Inc. that based on the gross proceeds clause of the Board's Lease, the Department is entitled to a royalty based on the gross contract price at that point of sale. To deduct transportation expenses before calculating the royalty would transform the lease into a "net proceeds" lease rather than a "gross proceeds" lease.

From 2012 to 2015, the Department sent over 40 notices to operators for taking deductions from the royalty payments reported on royalty reports. On behalf of the Board, the Department has consistently directed operators that deductions from royalty payments are not allowed.

Current status

The Deduction Letter is neither a change in the Department's interpretation of the Board's Lease nor a proposal of a new policy. The Deduction Letter was prepared to clarify the gas royalty provisions in the Board's Lease and provide analysis of applicable case law. Its drafting was necessitated by recent Department oil and gas audits which found some operators improperly calculating gas royalties due under the Board's Lease.

The legal comments that the Board received from the NDPC have been considered by the Commissioner and reviewed by the Board's attorneys. While the comments suggest otherwise, the Board's interpretation of the gross proceeds provision relating to the payment of gas royalties under its lease is not a change in policy.

Furthermore, the letters from the NDPC state that the legal analysis in the Deduction Letter does not support the Board's interpretation of its lease. The Department disagrees.

The NDPC makes two main arguments in support of its position. First, it argues the Eighth Circuit's decision in *Sondrol v. Placid Oil Co.*, 23 F.3d 1341 (8th Cir. 1994), does not support the Board's

interpretation of its royalty provision. *Sondrol*, however, involved a situation where the lessor was to receive a royalty based on the proceeds the lessee received at the wellhead. As the Board's Lease requires royalties to be based on gross proceeds of sale regardless of the point of sale, *Sondrol* is not controlling. Second, the NDPC states that the North Dakota Supreme Court's decision in *West v. Alpar*, 298 N.W.2d 484 (N.D. 1980), is not controlling over the Board's Lease because it does not involve deductions in the context of an arm's length transaction. This argument is equally ineffective. The Board relies on *West* for its clear definition of the term "gross proceeds" which is the primary issue in interpreting the Board's royalty provision. The NDPC's argument concerning deductions of the midstream company that purchased the gas does not affect *West*'s impact on interpretation of the Board's Lease.

Therefore, the Commissioner intends to distribute the Deduction Letter to 69 oil and gas operators which submit royalties and the approximate 900 associated lessees on whose behalf royalties are calculated and paid.

The March 8, 2017 Letter from the Office of the Attorney General to the Department relating to deduction of costs from gas royalty payments (Deduction Letter) was presented to the Board for its review.

EXECUTIVE SESSION

Motion: Under the authority of North Dakota Century Code Sections 44-04-19.1 and 44-04-19.2, the Board close the meeting to the public and go into executive session for purposes of attorney consultation to consult with the Board's attorneys on litigation related to royalty gas deduction.

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

At 10:17 AM the Board entered executive session for the purposes outlined in its adopted motion.

EXECUTIVE SESSION

Members Present:

Doug Burgum	Governor
Alvin A. Jaeger	Secretary of State
Wayne Stenehjem	Attorney General
Kelly Schmidt	State Treasurer
Kirsten Baesler	Superintendent of Public Instruction (via telephone until 10:25 AM)

Department of Trust Lands Personnel present:

Lance D. Gaebe	Commissioner
Linda Fisher	Deputy Commissioner
Mike Humann	Director, Surface Division
Taylor Lee	Director, Revenue Compliance
Kristie McCusker	Legal Assistant
Catelin Newell	Office Manager

Authorized Guests in Attendance:

David Garner	Office of the Attorney General
Leslie Bakken Oliver	Governor's Legal Counsel
Cassandra Torstenson	Governor's Staff

The executive session adjourned at 10:52 AM and the Board returned to open session and the public was invited to return to the meeting. During the executive session, the Board consulted with its attorney on legal strategy on royalty gas deductions and no formal action was taken.

OPERATIONS

Office Staffing Update

The Department is recruiting for a Director of Revenue Compliance, with the anticipated departure of Taylor Lee, who has led the Division for 3 and 1/2 years. Mr. Lee is moving to join his wife who has taken a new job in Arizona.

The Revenue Compliance Division is responsible for all revenue accounting including royalty and lease receipts, surface lease receipts, unclaimed property receipts and other cash receipts pursuant to lease terms, state statutes, rules, and regulations. The Division implements and monitors internal controls, oversees compliance reviews of entities submitting payments to the Department, and is responsible for identifying payment discrepancies. The Director of Revenue Compliance supervises a four-person staff.

The Department is also preparing a job description and classification to recruit a Land Management Specialist to replace Michael Haupt who has announced his intended retirement after 30 years with the Department. Mr. Haupt, who has a background in range ecology and reclamation, has served as the primary point of contact for Board easements, right-of-way applications, and surface use requests.

The 2017 Legislature approved one full time equivalent position for a Geographic Information Systems (GIS) Specialist. This position description will be drafted and classified in hopes of hiring a qualified candidate to supplement the easement and reclamation tracking, minerals management and IT systems integration.

Administrative Rules Update

House Bill 1300, as adopted by the 2017 Legislature, removes the Board's established exemption from the Administrative Agencies Practice Act (N.D.C.C. Ch. 28-32). The bill's effective date is January 1, 2018.

North Dakota Century Code § 28-32-07 states: "Any rule change, including a creation, amendment, or repeal, made to implement a statutory change must be adopted and filed with the legislative council within nine months of the effective date of the statutory change."

The Department has initiated converting existing Board rules into the form and style of the North Dakota Administrative Code. The focus has been on the review, for possible adoption, of rules that affect the general public.

The goal is to secure some of the chapters for Administrative Rules Committee consideration in the last quarter of 2017. The plan is to submit proposed rules to Legislative Council for possible hearings in both November 2017 and February 2018.

Department is using the following as its guide:

- 1) North Dakota Century Code Ch. 28-32;
- 2) North Dakota Legislative Drafting Manual – 2017;
- 3) North Dakota Legislative Council Administrative Rules Drafting Manual – 2008;
- 4) Administrative Rules 2017 presentation – Vonette Richter, Legislative Council Code Reviser;
- 5) Office of Attorney General Administrative Rules Manual – 2016; and
- 6) Advice from the Board's Assistant Attorneys General.

North Dakota Century Code § 28-32-01(11) states:

"Rule" means the whole or a part of an agency statement of general applicability which implements or prescribes law or policy or the organization, procedure, or practice requirements of the agency. The term includes the adoption of new rules and the amendment, repeal, or suspension of an existing rule. The term does not include:

. . .

k. Any material, including a guideline, interpretive statement, statement of general policy, manual, brochure, or pamphlet, which is explanatory and not intended to have the force and effect of law.

The Department plans to submit rules seeking the effect of law for Board consideration from July through September 2017. Once approved by the Board, each chapter of proposed North Dakota Administrative Code Article 85 will be forwarded to the Office of Attorney General for review, published, considered in public hearings, and submitted to the Legislature's Administrative Rules Committee.

A flowchart of the Administrative Rules implementation process was presented to the Board.

Commissioner Search.

Secretary Al Jaeger shared an August 2015 Land Board memo related to the Commissioner Job Description. The memo depicted the changes in the scope of the commissioner's role between 2010 and 2015 and it indicated that the Board reviewed of the job responsibilities and to consider a salary adjustment in consideration of similar management positions within the state.

Governor Burgum indicated that the position will be posted within the next several weeks and he asked each member to appoint a representative to the commissioner search committee.

R E P O R T S

The Quarterly Financial Report (Unaudited) for Period Ended March 31, 2017 was presented to the Board.

Report of Easements Issued by Land Commissioner 5/15/17 to 6/15/17

Granted to:	WILLIAMS COUNTY HWY DEPT, WILLISTON-ND
For the Purpose of:	Easement: Road Right-of-Way
Right-of-Way Number:	RW0007573
Trust :	A – Common Schools
Legal Description:	WIL-159-102-36-NE4

Granted to:	WESTERN AREA WATER SUPPLY AUTHORITY, WILLISTON-ND
For the Purpose of:	Easement-Amend: Potable Water Pipeline
Right-of-Way Number:	RW0007898
Trust :	A – Common Schools
Legal Description:	WIL-156-100-16-NE4
Legal Description:	WIL-156-101-36-SW4
Legal Description:	WIL-156-99-16-NE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:

NORTHWEST COMMUNICATIONS COOP, RAY-ND

Easement: Communication Cable - Buried
 RW0007921
 A – Common Schools
 WIL-155-95-16-NW4, SW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:

NP RESOURCES LLC, DENVER-CO

Easement-Amend: Directional Wellsite Location
 RW0007972
 A – Common Schools
 GOL-143-103-36-NE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:
 Legal Description:

ARROW PIPELINE LLC, HOUSTON-TX

Easement: Gas Transmission Pipeline
 RW0007973
 A – Common Schools
 MCK-149-98-16-NE4, NW4, SE4
 MCK-150-97-36-SE4, SW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:
 Legal Description:

ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT

Easement: Gas Gathering Pipeline
 RW0008001
 A – Common Schools
 MCK-150-97-36-SE4, SW4
 MCK-150-98-36-NE4, SE4, SW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:

WESTERN AREA WATER SUPPLY AUTHORITY, WILLISTON-ND

Easement: Potable Water Pipeline
 RW0008015
 A – Common Schools
 WIL-154-99-16-SE4, SW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:

TARGA BADLANDS LLC, HOUSTON-TX

Easement: Gas Gathering Pipeline
 RW0008022
 A – Common Schools
 MCK-151-96-36-NE4, SE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:

HESS NORTH DAKOTA PIPELINES LLC, MINOT-ND

Easement: Drop Line-Multiple Pipelines & Communication Cable
 RW0008040
 A – Common Schools
 MCK-151-96-36-SE4, SW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:

ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT

Easement: Drop Line-Gas Gathering Pipeline
 RW0008044
 A – Common Schools
 MCK-150-97-36-SE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:

NORTHWEST COMMUNICATIONS COOP, RAY-ND

Easement: Communication Cable - Buried
 RW0008046
 A – Common Schools
 WIL-154-95-16-NE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:

BNI COAL LTD, CENTER-ND

Easement: Equipment Site
 RW0008052
 A – Common Schools
 OLI-141-83-16-NE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:

BNI COAL LTD, CENTER-ND

Permit: Coal Exploration
 RW0008053
 A – Common Schools
 OLI-141-84-16-NE4, SE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:
 Legal Description:

BEK COMMUNICATIONS COOPERATIVE, STEELE-ND

Easement: Communication Cable - Buried
 RW0008058
 A – Common Schools
 OLI-141-81-16-NE4, SE4 LESS SCHOOL SITE
 OLI-141-82-16-NW4, SE4 WEST OF HWY AND SOUTH OF
 CNTY ROAD

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:

NORTH DAKOTA PIPELINE COMPANY LLC, MINOT-ND

Easement-Amend: Oil Transmission Pipeline
 RW0008060
 A – Common Schools
 WIL-156-99-36-SE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:

NORTH DAKOTA PIPELINE COMPANY LLC, MINOT-ND

Easement-Amend: Oil Transmission Pipeline
 RW0008061
 A – Common Schools
 WIL-156-99-36-SE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust :
 Legal Description:

MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND

Easement: Drop Line-Buried Electric Distribution Line
 RW0008074
 A – Common Schools
 DUN-148-96-36-SW4

Granted to:

For the Purpose of:

 Right-of-Way Number:
 Trust :
 Legal Description:

PETRO-HUNT LLC, BISMARCK-ND

Letter of Permission: Access to School Land – Temporary
 Surface Frac Water Pipeline
 RW0008075
 A – Common Schools
 MCK-153-95-16-NW4, SW4 LESS PATENTED ACRES

Granted to:

For the Purpose of:

 Right-of-Way Number:
 Trust :
 Legal Description:

STREAMLINE WATER SERVICES LLC, WATFORD CITY-ND

Letter of Permission: Access to School Land – Temporary
 Surface Frac Water Pipeline
 RW0008078
 A – Common Schools
 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:	US FISH & WILDLIFE SERVICE, BISMARCK-ND
For the Purpose of:	Letter of Permission: Access to School Land – Pollinator Research Study
Right-of-Way Number:	RW0008076
Legal Description:	BRL-138-75-4-SE4NE4, LOT 1 (Trust A - Common Schools)
Legal Description:	BRL-141-76-36-SW4 (Trust A - Common Schools)
Legal Description:	BRL-141-80-14-NW4 (Trust E - Ellendale)
Legal Description:	BRL-142-78-36-SW4 (Trust A - Common Schools)
Legal Description:	EMM-27-135-75-NE4 (Trust A - Common Schools)
Legal Description:	EMM-36-136-78-NW4 (Trust A - Common Schools)
Legal Description:	KID-137-71-16-SW4 (Trust A - Common Schools)
Legal Description:	KID-140-73-6-SE4 LESS DEEDED ACRES (Trust A - Common Schools)
Legal Description:	SHE-147-78-19-SE4SE4 (Trust U - University of ND)
Legal Description:	SHE-148-78-14-S2S2 (Trust I - ND Industrial School)

A D J O U R N

There being no further business, the meeting was adjourned at 11:09 AM.

Doug Burgum, Chairman
Board of University and School Lands

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

**Minutes of the Meeting of the
Board of University and School Lands
July 20, 2017**

The July 20, 2017 meeting of the Board of University and School Lands was called to order at 9:00 AM in the Governor's Conference of the State Capitol by Chairman Doug Burgum.

Members Present:

Doug Burgum	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 Gaebe	Commissioner
Linda Fisher	Deputy Commissioner
Jeff Engleson	Director, Investments Division
Susan Dollinger	Unclaimed Property Administrator
Levi Erdman	Investment Analyst
Taylor Lee	Director, Revenue Compliance
Kristie McCusker	Legal Assistant
Catelin Newell	Office Manager
Gerard Schwan	Director, Grants and Claims Division

Guests in Attendance:

Cassandra Torstenson	Governor's Staff
Leslie Bakken Oliver	Governor's Legal Counsel
David Garner	Office of the Attorney General
Amy Dalrymple	Bismarck Tribune
James McPherson	Associated Press
Marcia Beard	RVK
Ryan Sullivan	RVK
Savannah Schmidt	Bureau of Criminal Investigation

APPROVAL OF MINUTES

A motion to approve the minutes of the June 20, 2017 meeting was made by Attorney General Wayne Stenehjem and seconded by Secretary of State Al Jaeger and the motion carried unanimously on a voice vote.

ENERGY INFRASTRUCTURE AND IMPACT OFFICE

Reauthorization of Human Trafficking Grant Funds

In December 2015, the Board awarded six grants totaling \$750,000 to agencies working to combat the effects of human trafficking in western North Dakota. The grants were awarded for a project window through June 30, 2017.

In March 2017 the Board authorized extensions for grant recipients which had continued project plans. Grants to the following entities were extended through June 2019:

- 1) Youthworks, Bismarck
- 2) CAWS, Bismarck
- 3) Family Crisis Shelter, Williston
- 4) Domestic Violence Crisis Shelter, Minot
- 5) Legal Services of North Dakota, Bismarck

The sixth grant (G160244) awarded in 2015 to 4Her via Watford City expired with none of the \$109,000 funds drawn. Continued attempts to reach this entity were unsuccessful.

Within Senate Bill 2203, as adopted by the 2017 Legislature, \$700,000 of Oil and Gas Impact Grant funds plus \$125,000 of the general fund, was appropriated to combat the effects of human trafficking. The portion from the Oil and Gas Impact Grant Fund is a repurposed allocation from the 2015-2017 biennium appropriation.

The Attorney General's North Dakota Human Trafficking Commission, which is the advisory committee for these grants recommended that the expired grant of \$109,000 be added to the funds that the 2017 Legislature allocated to combat human trafficking. This action will make \$809,000 available from the Oil and Gas Impact Grant fund.

Grant recommendations from the advisory committee and the Attorney General will be offered for Board consideration on its August 2017 agenda.

Motion: The Board cancels the remaining balance of grant G160244 and authorizes the \$109,000 balance to be considered in addition to the \$700,000 previously authorized, for inclusion in recommendations of future grants to combat the effects of human trafficking grants, which the Board will consider.

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

Grant Recommendation for Provider Serving Individuals with Developmental Disabilities

The 2017 Legislature adopted House Bill HB 1015 which included within Section 14 the directive for the Board to award a grant of up to \$261,000 to resolve the debt of a community based provider of services to developmentally disabled citizens. The only qualifying facility, Tri-City Cares, which operates in New Town, Tioga, and Stanley submitted an application for the funds. The language of HB 1015 places priority of this grant above other remaining 2015-2017 grant allocations.

The Department of Human Services verified that the applicant's debt is higher than the amount of the grant authorized in HB 1015, but it agreed with the recommendation of granting \$261,000 appropriated in the legislation.

Motion: As directed in HB 1015 of the 65th Legislative Session, the Board approves a grant award of \$261,000 to Tri-City Cares, a community based provider of services to individuals with developmental disabilities, upon confirmation that the provider is being acquired and that continuation of care will be provided in the areas served.

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

Cancelation of Grant Balances

Several grants awarded during Fiscal Years 2013, 2014, 2015, and 2016 were fully completed and have balances remaining. These grants have finished their project under budget or are no longer necessary. The total of \$107,069.48 will be moved to the contingencies allocation for future use where there are unmet needs or used as administrative or operational costs.

The list of recommended cancelations and closure of grants for the Board's consideration:

Political Sub	Year	Grant	Awarded	Balance to Cancel	Project
CITY OF MARMARTH	2013	G130061	\$2,845.00	\$2,845.00	LAPTOPS FOR STUDENTS
MINOT INTERNATIONAL AIRPORT	2014	G140065	\$805,000.00	\$3,834.97	FAA 2013 AIP #47 - Construct New Passenger Terminal Apron
RICHARDTON-TAYLOR PSD	2014	G140213	\$25,000.00	\$5,453.07	TRANSPORTATION AND FACILITY SECURITY
MINOT INTERNATIONAL AIRPORT	2015	G150126	\$21,065.00	\$21,065.00	FAA 2014 AIP #47 & 48 - Construct New Passenger Terminal Apron
BRANDON TOWNSHIP	2015	G150251	\$15,000.00	\$7,882.00	ROAD REPAIR AND MAINTENANCE
SLOULIN INTERNATIONAL AIRPORT	2015	G150283	\$56,700.00	\$21,692.70	FAA 2015 AIP #39-TAXIWAY REHABILITATION
RAY AMBULANCE DISTRICT	2016	G160020	\$50,000.00	\$737.12	LUCAS II CPR DEVICE, ZOLL 12 LEAD MONITOR UPDATES, SUPPLIES
HETTINGER COUNTY	2016	G160114	\$15,885.00	\$7,296.30	EQUIPMENT & SUPPLIES
DICKINSON MUNICIPAL AIRPORT AUTHORITY	2016	G160199	\$70,000.00	\$29,809.66	FAA 2015 AIP #35: Taxiway Pavement Maintenance
MINOT INTERNATIONAL AIRPORT	2016	G160205	\$234,875.00	\$6,453.66	New Commercial Terminal Building Furniture
				\$107,069.48	

The director projects recurring actions of cancelling grants with small balances on a semi-annual basis through calendar year 2020. Any of the funds would be accounted for in the contingency balance for future consideration by the board, or as administrative/operational costs associated with running the grant program as approved by the board in the June 2017.

Motion: The Board cancels the 10 grants identified in the preceding list for a total of \$107,069.48. Subsequently, the Board declares these funds within the oil and gas impact grant fund as contingent for future unmet needs.

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

INVESTMENTS

Permanent Trust Asset Allocation Study - Update

In anticipation of the Board's possible adoption of a revised asset allocation for the permanent trust funds in August 2017, a proposed draft asset allocation study document was presented. RVK's Marcia Beard and Ryan Sullivan discussed an updated asset allocation study.

The Board's discussion in May led to a reevaluation of the data and the outputs generated by the model. The information reflects the variability of the oil royalty and tax revenues and the model was refined to incorporate the impact of the trusts' biennial spending formula on trust growth. RVK's presentation also addressed the sustainability of the current spending policy.

The results of the study show:

- Significant changes to target asset allocation are not warranted, although a slight adjustment will be recommended in August to decrease exposure to fixed income by approximately 3% and increase exposure to international equities similarly.
- Due to the amount of contributions (royalties, rents, taxes, etc.) into the funds, the 50th percentile result of the modeling shows the real value of trust assets growing by more than 50% over the next 20 years.
- Due to the “lag effect” of the distribution, in which the formula is calculated one year before a biennium begins and the large amount of contributions going into the fund, the distribution formula protects the interests of both current and future generations.
- If contributions to the fund decline (or cease) and projected asset class investment returns remain at present levels, the current distribution formula will need to be reevaluated as it is likely not sustainable over time.

The studies and the Updated Asset Allocation Scenario Analysis report were presented in anticipation of the Board’s August consideration of a modified target allocation.

Recommendation to Extend the RVK Investment Consulting Contract

On September 22, 2015, the Board entered into a contract for consulting services with RVK to provide strategic investment consulting services through August 31, 2017 in the following primary areas:

- Advice in setting investment objectives; assist with the preparation and revision of investment policy guidelines, including the selection of target rates of return and allocation of assets among various asset classes and investment vehicles; monitoring trust asset allocations and recommend changes as necessary; and assistance with the transition to new investment options.
- Quarterly investment performance monitoring; review of investment funds according to the Board’s investment policy and other appropriate standards; analyzing both portfolio wide and investment manager performance; providing quarterly performance reports to the Board which summarize the performance of the portfolio(s) compared to indices, peer groups, and standards.
- Assist with investment manager searches based on the Board’s philosophy and performance objectives and evaluating investment manager proposals and presentations, with the exception of illiquid asset classes which would be quoted on a case-by-case basis.
- Due diligence monitoring of investment managers; conducting on-site visits of managers as needed; providing periodic review of investment manager fees with recommendations for action to ensure appropriate fee structure; providing advice in the planning, oversight, and review of asset transitions among investment managers and investment vehicles.
- Providing client education on investment principles, topics, and vehicles.

RVK has supplied these services to the Board for two years for a fee of \$145,000 annually. This fee includes four personal visits per year during which representatives of RVK have reviewed investment performance with the Board, advised on asset allocation and asset class structure issues, reviewed investment policy, and provided educational presentations and summaries. RVK and the Department staff also meet regularly during biweekly conference calls and continuously share information by emails.

The Board’s relationship with RVK (then known as R.V. Kuhns) began in 2013 when the firm was hired to perform an investment allocation study for the Board. The hiring involved a process that included sending requests for proposals to twelve investment consulting firms. After the initial investment study and preparation of an investment policy statement, the Board contracted with RVK to help implement the asset allocation in the search and hiring of new managers.

The Commissioner recommended the Board extend its present contract with RVK, which provides for a one-year extension with an annual fee increase of 3% to \$149,350.

The Commissioner also recommended that the investment consultant relationship should be reviewed to entail a procurement effort to determine if other firms can provide better or less expensive service; or alternatively to implement a formal evaluation process of the current relationship to ensure that the Board's objectives are accomplished at a fair price. The Board will be provided with information to help it appraise the value of the service it receives from RVK or that it might receive from another investment consultant.

The Board reviewed a memo from 2013 outlining the general process it used in the consultant search and a Board memo from 2015 which evaluated investment operations and investment consultative services.

Motion: The Board approves extending the current investment consulting contract with RVK through August 2018 and directed the Commissioner to provide investment consulting evaluation information with the intent for the Board to consider future investment consulting services in early 2018.

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

O P E R A T I O N S

Initial Draft of the Proposed Administrative Rules for Unclaimed Property

House Bill 1300, as adopted by the 2017 Legislature, removed the Board's established exemption from the Administrative Agencies Practice Act (N.D.C.C. Ch. 28-32). The bill's effective date is January 1, 2018.

The Department has initiated drafting existing rules and policies into the form and style of the North Dakota Administrative Code. The focus has been on the review of rules, for possible adoption, that affect the general public. North Dakota Century Code § 28-32-07 states: "Any rule change, including a creation, amendment, or repeal, made to implement a statutory change must be adopted and filed with the legislative council within nine months of the effective date of the statutory change."

The Department administers the Uniform Unclaimed Property Act (N.D.C.C. Ch. 47-30.1). Under this authority, the Unclaimed Property Division collects "unclaimed" or "abandoned" property (e.g. uncashed checks, dormant bank accounts, safe deposit box contents, unclaimed insurance proceeds, etc.), and attempts to reunite owners with the property. Property acquired under the Act is held in trust in perpetuity on behalf of the owner, allowing owners a place to search for their rightful property. The investment earnings from unclaimed property becomes part of the Common Schools Trust Fund.

An initial draft of the proposed Administrative Rules for Unclaimed Property was presented for the Board's consideration, however the Commissioner requested that it not take formal action on the rules, as additional changes and edits needed to be implemented.

No action was taken.

OTHER BUSINESS

Commissioner Position Posting and Selection Process

The proposed description of the Commissioner position was provided to the Board for its review before its public posting requesting applications. The members requested time to review the description.

Motion: The Board accepts the Commissioner position posting as written on July 20, 2017 unless prior to the end of business day on Monday, July 24, 2017, changes to the position are suggested to Human Resources Management Services by a member of the Board. If changes are suggested a special board meeting will be scheduled to take action on those changes. A budget of \$5,000 has been allocated for the hiring process.

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

REPORTS

The Summary of Total Assets (Unaudited) for Period Ended April 30, 2017 was presented.

Report of Easements Issued by Land Commissioner 6/16/17 to 7/7/17

Granted to: BASIN ELECTRIC POWER COOP INC, BISMARCK-ND
For the Purpose of: Easement-Amend: Electric Transmission Line
Right-of-Way Number: RW0005601
Trust: A – Common Schools
Legal Description: MCK-145-100-16-SE4, SW4

Granted to: WILLIAMS COUNTY HWY DEPT, WILLISTON-ND
For the Purpose of: Road Right-of-Way
Right-of-Way Number: RW0007573
Trust: A – Common Schools
Legal Description: WIL-159-102-36-SW4 LESS PATENTED ACRES

Granted to: BASIN ELECTRIC POWER COOP INC, BISMARCK-ND
For the Purpose of: Easement-Amend: Electric Transmission Line
Right-of-Way Number: RW0007764
Trust: A – Common Schools
Legal Description: MCK-145-103-16-NE4, NW4

Granted to: BASIN ELECTRIC POWER COOP INC, BISMARCK-ND
For the Purpose of: Easement-Amend: Electric Transmission Line
Right-of-Way Number: RW0007765
Trust: A – Common Schools
Legal Description: MCK-146-103-16-NE4, SE4

Granted to: GOODNIGHT MIDSTREAM BAKKEN LLC, DALLAS-TX
For the Purpose of: Easement: Salt Water Pipeline
Right-of-Way Number: RW0008027
Trust: A – Common Schools
Legal Description: MCK-153-94-36-NE4, NW4, SE4, SW4

Granted to: **NESSON GATHERING SYSTEM LLC, FORT WORTH-TX**
 For the Purpose of: Easement: Drop Line-Gas Gathering Pipeline
 Right-of-Way Number: RW0008029
 Trust: A – Common Schools
 Legal Description: WIL-154-95-16-NW4

Granted to: **XTO ENERGY INC, FORT WORTH-TX**
 For the Purpose of: On-lease Act. Amend: Horizontal Oil Well
 Right-of-Way Number: RW0008069
 Trust: A – Common Schools
 Legal Description: MCK-149-96-36-NE4

Granted to: **NORTHWEST COMMUNICATIONS COOP, RAY-ND**
 For the Purpose of: Easement: Communication Cable - Buried
 Right-of-Way Number: RW0008070
 Trust: A – Common Schools
 Legal Description: WIL-158-101-36-SE4, SW4

Granted to: **ABRAXAS PETROLEUM CORP, SAN ANTONIO-TX**
 For the Purpose of: Letter of Permission: Access to School Land
 Right-of-Way Number: RW0008087
 Trust: A – Common Schools
 Legal Description: MCK-150-97-36-SE4, SW4

Granted to: **SELECT ENERGY SERVICES LLC, WILLISTON-ND**
 For the Purpose of: Letter of Permission: Access to School Land
 Right-of-Way Number: RW0008090
 Trust: A – Common Schools
 Legal Description: MOU-154-94-16-SW4

Granted to: **MBI ENERGY SERVICES, KILLDEER-ND**
 For the Purpose of: Letter of Permission: Access to School Land
 Right-of-Way Number: RW0008091
 Trust: A – Common Schools
 Legal Description: DUN-146-93-16-NE4

Revenue Compliance Division Update

Through its Revenue Compliance Division, the Department ensures that oil and gas royalty payments to determine if payments are in accordance with the Board's lease terms, rules and regulations, and North Dakota statutes. The total oil and gas royalties and interest and penalties collected in the 2015-2017 biennium was \$385,598,255. Included in this total is \$2,400,763 as a result of enhanced efforts to examine royalty reports and submittals.

During the 2015-2017 biennium, the Department processed royalties from 5,626 producing properties compared to 4,853 properties during the prior biennium.

REVENUE COMPLIANCE SUMMARY			
	Biennium 2013-2015		Biennium 2015-2017
Additional Royalties Collected	\$10,519,938		\$1,211,456
Additional Taxes or Other Deductions Collected	720,158		395,836
Penalties Collected	563,726		793,471
Total Collected	\$11,803,822		\$2,400,763
NDIC Report Corrections	221		23

Currently ten oil and gas operators have royalties from 217 wells escrowed totaling \$61,137,881 for the production of disputed minerals within the Missouri and Yellowstone Rivers.

The status of the oil and gas audits in which the Department is engaged:

Company	Audit Initiated	Audit Status
ConocoPhillips	August 2015	Preliminary Findings sent to operator.
Continental Resources	August 2015	Preliminary Findings sent to operator.
Hess	August 2015	Need additional information from operator.
Fidelity Exploration	February 2016	Preliminary Findings sent to operator.
Statoil	February 2016	Need additional information from operator.
Marathon	March 2016	Need additional information from operator.
Newfield Exploration	June 2016	Preliminary Findings sent to operator.
Zavanna	June 2016	Need additional information from operator.
Oasis Petroleum	August 2016	Need additional information from operator.
Slawson Exploration	August 2016	Need additional information from operator.
XTO Energy	October 2016	Need additional information from operator.
Whiting Petroleum	November 2016	Need additional information from operator.
Petro-Hunt	December 2016	Received information, audit in progress.
Crescent Point	March 2017	Received information, audit in progress.
SM Energy	March 2017	Received information, audit in progress.
Murex	March 2017	Awaiting receipt of documentation.
WPX Energy	March 2017	Received information, audit in progress.
Hunt Oil Company	April 2017	Received information, audit in progress.
Denbury	April 2017	Awaiting receipt of documentation.

The Revenue Compliance Division also ensures payments for coal production, surface easements, and saltwater disposal are correctly accounted. It has engaged in the following coal and saltwater disposal audits:

Company	Product	Audit Initiated	Audit Status
Missouri Basin Well Service	SWD	February 2016	Audit complete.
Crestwood Midstream Partners	SWD	March 2016	Audit complete.
Legacy Reserves Operating	SWD	March 2016	Audit complete.
Citation Oil and Gas	SWD	July 2016	Audit complete.
Enduro Operating	SWD	July 2016	Audit complete.
Pride Energy Company	SWD	July 2016	Preliminary Findings sent to operator.
BNI Coal	Coal	March 2017	Audit complete.
North American Coal	Coal	March 2017	Received information, audit in progress.

The tract offerings for the upcoming Oil and Gas Lease Auction which will conclude on August 2nd on the internet with www.energynet.com was provided to the Board for review.

A D J O U R N

There being no further business, the meeting was adjourned at 11:13 AM.

Doug Burgum, Chairman
Board of University and School Lands

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

(07/20/17)

**Minutes of the Meeting of the
Board of University and School Lands
July 20, 2017**

The July 20, 2017 meeting of the Board of University and School Lands was called to order at 9:00 AM in the Governor's Conference of the State Capitol by Chairman Doug Burgum.

Members Present:

Doug Burgum	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 Gaebe	Commissioner
Linda Fisher	Deputy Commissioner
Jeff Engleson	Director, Investments Division
Susan Dollinger	Unclaimed Property Administrator
Levi Erdman	Investment Analyst
Taylor Lee	Director, Revenue Compliance
Kristie McCusker	Legal Assistant
Catelin Newell	Office Manager
Gerard Schwan	Director, Grants and Claims Division

Guests in Attendance:

Cassandra Torstenson	Governor's Staff
Leslie Bakken Oliver	Governor's Legal Counsel
David Garner	Office of the Attorney General
Amy Dalrymple	Bismarck Tribune
James McPherson	Associated Press
Marcia Beard	RVK
Ryan Sullivan	RVK
Savannah Schmidt	Bureau of Criminal Investigation

APPROVAL OF MINUTES

A motion to approve the minutes of the June 20, 2017 meeting was made by Attorney General Wayne Stenehjem and seconded by Secretary of State Al Jaeger and the motion carried unanimously on a voice vote.

ENERGY INFRASTRUCTURE AND IMPACT OFFICE

Reauthorization of Human Trafficking Grant Funds

In December 2015, the Board awarded six grants totaling \$750,000 to agencies working to combat the effects of human trafficking in western North Dakota. The grants were awarded for a project window through June 30, 2017.

In March 2017 the Board authorized extensions for grant recipients which had continued project plans. Grants to the following entities were extended through June 2019:

- 1) Youthworks, Bismarck
- 2) CAWS, Bismarck
- 3) Family Crisis Shelter, Williston
- 4) Domestic Violence Crisis Shelter, Minot
- 5) Legal Services of North Dakota, Bismarck

The sixth grant (G160244) awarded in 2015 to 4Her via Watford City expired with none of the \$109,000 funds drawn. Continued attempts to reach this entity were unsuccessful.

Within Senate Bill 2203, as adopted by the 2017 Legislature, \$700,000 of Oil and Gas Impact Grant funds plus \$125,000 of the general fund, was appropriated to combat the effects of human trafficking. The portion from the Oil and Gas Impact Grant Fund is a repurposed allocation from the 2015-2017 biennium appropriation.

The Attorney General's North Dakota Human Trafficking Commission, which is the advisory committee for these grants recommended that the expired grant of \$109,000 be added to the funds that the 2017 Legislature allocated to combat human trafficking. This action will make \$809,000 available from the Oil and Gas Impact Grant fund.

Grant recommendations from the advisory committee and the Attorney General will be offered for Board consideration on its August 2017 agenda.

Motion: The Board cancels the remaining balance of grant G160244 and authorizes the \$109,000 balance to be considered in addition to the \$700,000 previously authorized, for inclusion in recommendations of future grants to combat the effects of human trafficking grants, which the Board will consider.

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

Grant Recommendation for Provider Serving Individuals with Developmental Disabilities

The 2017 Legislature adopted House Bill HB 1015 which included within Section 14 the directive for the Board to award a grant of up to \$261,000 to resolve the debt of a community based provider of services to developmentally disabled citizens. The only qualifying facility, Tri-City Cares, which operates in New Town, Tioga, and Stanley submitted an application for the funds. The language of HB 1015 places priority of this grant above other remaining 2015-2017 grant allocations.

The Department of Human Services verified that the applicant's debt is higher than the amount of the grant authorized in HB 1015, but it agreed with the recommendation of granting \$261,000 appropriated in the legislation.

Motion: As directed in HB 1015 of the 65th Legislative Session, the Board approves a grant award of \$261,000 to Tri-City Cares, a community based provider of services to individuals with developmental disabilities, upon confirmation that the provider is being acquired and that continuation of care will be provided in the areas served.

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

I N V E S T M E N T S

Permanent Trust Asset Allocation Study - Update

In anticipation of the Board's possible adoption of a revised asset allocation for the permanent trust funds in August 2017, a proposed draft asset allocation study document was presented. RVK's Marcia Beard and Ryan Sullivan discussed an updated asset allocation study.

The Board's discussion in May led to a reevaluation of the data and the outputs generated by the model. The information reflects the variability of the oil royalty and tax revenues and the model was refined to incorporate the impact of the trusts' biennial spending formula on trust growth. RVK's presentation also addressed the sustainability of the current spending policy.

The results of the study show:

- Significant changes to target asset allocation are not warranted, although a slight adjustment will be recommended in August to decrease exposure to fixed income by approximately 3% and increase exposure to international equities similarly.
- Due to the amount of contributions (royalties, rents, taxes, etc.) into the funds, the 50th percentile result of the modeling shows the real value of trust assets growing by more than 50% over the next 20 years.
- Due to the "lag effect" of the distribution, in which the formula is calculated one year before a biennium begins and the large amount of contributions going into the fund, the distribution formula protects the interests of both current and future generations.
- If contributions to the fund decline (or cease) and projected asset class investment returns remain at present levels, the current distribution formula will need to be revaluated as it is likely not sustainable over time.

The studies and the Updated Asset Allocation Scenario Analysis report were presented in anticipation of the Board's August consideration of a modified target allocation.

Recommendation to Extend the RVK Investment Consulting Contract

On September 22, 2015, the Board entered into a contract for consulting services with RVK to provide strategic investment consulting services through August 31, 2017 in the following primary areas:

- Advice in setting investment objectives; assist with the preparation and revision of investment policy guidelines, including the selection of target rates of return and allocation of assets among various asset classes and investment vehicles; monitoring trust asset allocations and recommend changes as necessary; and assistance with the transition to new investment options.
- Quarterly investment performance monitoring; review of investment funds according to the Board's investment policy and other appropriate standards; analyzing both portfolio wide and investment manager performance; providing quarterly performance reports to the Board which summarize the performance of the portfolio(s) compared to indices, peer groups, and standards.
- Assist with investment manager searches based on the Board's philosophy and performance objectives and evaluating investment manager proposals and presentations, with the exception of illiquid asset classes which would be quoted on a case-by-case basis.
- Due diligence monitoring of investment managers; conducting on-site visits of managers as needed; providing periodic review of investment manager fees with recommendations for action to ensure appropriate fee structure; providing advice in the planning, oversight, and review of asset transitions among investment managers and investment vehicles.

- Providing client education on investment principles, topics, and vehicles.

RVK has supplied these services to the Board for two years for a fee of \$145,000 annually. This fee includes four personal visits per year during which representatives of RVK have reviewed investment performance with the Board, advised on asset allocation and asset class structure issues, reviewed investment policy, and provided educational presentations and summaries. RVK and the Department staff also meet regularly during biweekly conference calls and continuously share information by emails.

The Board's relationship with RVK (then known as R.V. Kuhns) began in 2013 when the firm was hired to perform an investment allocation study for the Board. The hiring involved a process that included sending requests for proposals to twelve investment consulting firms. After the initial investment study and preparation of an investment policy statement, the Board contracted with RVK to help implement the asset allocation in the search and hiring of new managers.

The Commissioner recommended the Board extend its present contract with RVK, which provides for a one-year extension with an annual fee increase of 3% to \$149,350.

The Commissioner also recommended that the investment consultant relationship should be reviewed to entail a procurement effort to determine if other firms can provide better or less expensive service; or alternatively to implement a formal evaluation process of the current relationship to ensure that the Board's objectives are accomplished at a fair price. The Board will be provided with information to help it appraise the value of the service it receives from RVK or that it might receive from another investment consultant.

The Board reviewed a memo from 2013 outlining the general process it used in the consultant search and a Board memo from 2015 which evaluated investment operations and investment consultative services.

Motion: The Board approves extending the current investment consulting contract with RVK through August 2018 and directed the Commissioner to provide investment consulting evaluation information with the intent for the Board to consider future investment consulting services in early 2018.

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

O P E R A T I O N S

Initial Draft of the Proposed Administrative Rules for Unclaimed Property

House Bill 1300, as adopted by the 2017 Legislature, removed the Board's established exemption from the Administrative Agencies Practice Act (N.D.C.C. Ch. 28-32). The bill's effective date is January 1, 2018.

The Department has initiated drafting existing rules and policies into the form and style of the North Dakota Administrative Code. The focus has been on the review of rules, for possible adoption, that affect the general public. North Dakota Century Code § 28-32-07 states: "Any rule change, including

a creation, amendment, or repeal, made to implement a statutory change must be adopted and filed with the legislative council within nine months of the effective date of the statutory change.”

The Department administers the Uniform Unclaimed Property Act (N.D.C.C. Ch. 47-30.1). Under this authority, the Unclaimed Property Division collects “unclaimed” or “abandoned” property (e.g. uncashed checks, dormant bank accounts, safe deposit box contents, unclaimed insurance proceeds, etc.), and attempts to reunite owners with the property. Property acquired under the Act is held in trust in perpetuity on behalf of the owner, allowing owners a place to search for their rightful property. The investment earnings from unclaimed property becomes part of the Common Schools Trust Fund.

An initial draft of the proposed Administrative Rules for Unclaimed Property was presented for the Board’s consideration, however the Commissioner requested that it not take formal action on the rules, as additional changes and edits needed to be implemented.

No action was taken.

O T H E R B U S I N E S S

Commissioner Position Posting and Selection Process

The proposed description of the Commissioner position was provided to the Board for its review before its public posting requesting applications. The members requested time to review the description.

Motion: The Board accepts the Commissioner position posting as written on July 20, 2017 unless prior to the end of business day on Monday, July 24, 2017, changes to the position are suggested to Human Resources Management Services by a member of the Board. If changes are suggested a special board meeting will be scheduled to take action on those changes. A budget of \$5,000 has been allocated for the hiring process.

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

R E P O R T S

The Summary of Total Assets (Unaudited) for Period Ended April 30, 2017 was presented to the Board.

Report of Easements Issued by Land Commissioner 6/16/17 to 7/7/17

Granted to: BASIN ELECTRIC POWER COOP INC, BISMARCK-ND
For the Purpose of: Easement-Amend: Electric Transmission Line
Right-of-Way Number: RW0005601
Trust: A – Common Schools
Legal Description: MCK-145-100-16-SE4, SW4

Granted to: WILLIAMS COUNTY HWY DEPT, WILLISTON-ND
For the Purpose of: Road Right-of-Way
Right-of-Way Number: RW0007573
Trust: A – Common Schools
Legal Description: WIL-159-102-36-SW4 LESS PATENTED ACRES

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

BASIN ELECTRIC POWER COOP INC, BISMARCK-ND

Easement-Amend: Electric Transmission Line
 RW0007764
 A – Common Schools
 MCK-145-103-16-NE4, NW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

BASIN ELECTRIC POWER COOP INC, BISMARCK-ND

Easement-Amend: Electric Transmission Line
 RW0007765
 A – Common Schools
 MCK-146-103-16-NE4, SE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

GOODNIGHT MIDSTREAM BAKKEN LLC, DALLAS-TX

Easement: Salt Water Pipeline
 RW0008027
 A – Common Schools
 MCK-153-94-36-NE4, NW4, SE4, SW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

NESSON GATHERING SYSTEM LLC, FORT WORTH-TX

Easement: Drop Line-Gas Gathering Pipeline
 RW0008029
 A – Common Schools
 WIL-154-95-16-NW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

XTO ENERGY INC, FORT WORTH-TX

On-lease Act. Amend: Horizontal Oil Well
 RW0008069
 A – Common Schools
 MCK-149-96-36-NE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

NORTHWEST COMMUNICATIONS COOP, RAY-ND

Easement: Communication Cable - Buried
 RW0008070
 A – Common Schools
 WIL-158-101-36-SE4, SW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

ABRAXAS PETROLEUM CORP, SAN ANTONIO-TX

Letter of Permission: Access to School Land
 RW0008087
 A – Common Schools
 MCK-150-97-36-SE4, SW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

SELECT ENERGY SERVICES LLC, WILLISTON-ND

Letter of Permission: Access to School Land
 RW0008090
 A – Common Schools
 MOU-154-94-16-SW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

MBI ENERGY SERVICES, KILLDEER-ND

Letter of Permission: Access to School Land
 RW0008091
 A – Common Schools
 DUN-146-93-16-NE4

Revenue Compliance Division Update

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Currently ten oil and gas operators have royalties from 217 wells escrowed totaling \$61,137,881 for the production of disputed minerals within the Missouri and Yellowstone Rivers.

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The Revenue Compliance Division also ensures payments for coal production, surface easements, and saltwater disposal are correctly accounted. It has engaged in the following coal and saltwater disposal audits:

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Missouri Basin Well Service	SWD	February 2016	Audit complete.
Crestwood Midstream Partners	SWD	March 2016	Audit complete.
Legacy Reserves Operating	SWD	March 2016	Audit complete.
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The tract offerings for the upcoming Oil and Gas Lease Auction which will conclude on August 2nd on the internet with www.energynet.com was provided to the Board for review.

A D J O U R N

There being no further business, the meeting was adjourned at 11:13 AM.

Doug Burgum, Chairman
Board of University and School Lands

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

**Minutes of the Meeting of the
Board of University and School Lands
August 21, 2017**

The August 21, 2017 meeting of the Board of University and School Lands was called to order at 1:05 PM in the Governor's Conference of the State Capitol by Chairman Doug Burgum.

Members Present:

Doug Burgum	Governor
Alvin A. Jaeger	Secretary of State
Wayne Stenehjem	Attorney General
Kelly Schmidt	State Treasurer – Via Telephone
Kirsten Baesler	Superintendent of Public Instruction

Department of Trust Lands Personnel present:

Lance D. Gaebe	Commissioner
Linda Fisher	Deputy Commissioner
Jeff Engleson	Chief Investment Officer
Allie Bement	Mineral Title Specialist
Susan Dollinger	Unclaimed Property Administrator
Levi Erdmann	Investment Analyst
Mike Humann	Surface Division Manager
Taylor Lee	Director, Revenue Compliance
Kristie McCusker	Legal Assistant
Catelin Newell	Office Manager
Gerard Schwan	Grants and Claims Director

Guests in Attendance:

Cassandra Torstenson	Governor's Staff
Leslie Bakken Oliver	Governor's Legal Counsel
David Garner	Office of the Attorney General
Jen Verleger	Office of the Attorney General
Hope Hogan	Office of the Attorney General
Charles Tuttle	Self
Savannah Schmidt	Bureau of Criminal Investigation
Jesse Beckers	ND Natural Resources Trust

APPROVAL OF MINUTES

The July 20th meeting minutes were amended to correct an error in the written materials related to an Energy Infrastructure and Impact Office motion for grant G160244 originally approved as \$109,000 when the correct amount was \$109,900.

Motion: The Board approves the amended motion and subsequent amendment of page 86 of the July 20, 2017 Land Board Meeting Minutes, and approves the Minutes as amended.

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

ENERGY INFRASTRUCTURE AND IMPACT OFFICE

Remaining 2015-2017 Grant Funding

Section 10 of the 2017 Legislature's Senate Bill 2013 authorizes that funds not distributed during the 2015-2017 biennium are available for grants and administrative costs associated with the fund in the 2017-2019 biennium.

In June 2017, the Board considered a plan to target 95% of remaining grant appropriations to three of the five remaining grant sectors held over from 2015-2017 biennium. However, the State Treasurer estimated final 2015-2017 biennium deposit into the oil and gas impact grant fund to be \$3,353,000, which was less than the expected \$3.8 million. Coupled with the decision to offer a supplemental grant round for the nursing homes, the plan to provide 95% of the remaining allocations to K-12 schools, Bowman and Divide Counties, and western airports cannot be reached.

The EIOO recommended a 93% calculation be applied to some of the remaining allocations. There will be insufficient funds to initiate a grant round for 'Eligible General' for the seven counties peripheral to the primary oil production area.

Consideration of Recommendations for Grants to Address Human Trafficking

The 2017 Legislature adjusted authorization for law enforcement grants previously appropriated in 2015. Within House Bill 1003 and Senate Bill 2203, the remaining balance of \$1.2 million of oil and gas grant funds for law enforcement was rededicated to two separate areas, \$500,000 to support the SAVIN (Statewide Automated Victim Information and Notification) operations and the other \$700,000 for grants to address human trafficking impacts. Together with \$109,900 from a previously unused human trafficking impact grant, \$809,900 of oil and gas impact grant funds was available to award to entities to address human trafficking. The Attorney General's North Dakota Human Trafficking Commission Grants Committee, which serves as the Board's advisory committee, reviewed applications and prepared the following grant recommendations:

Applicant	City	Project	App#	Requested	Recommend
CAWS	Bismarck	Training, Consulting, Data Collection	A180002	\$93,272	\$93,272
Youthworks	Bismarck	Staffing, Travel, Training, Equipment Lease, Supplies, Consulting	A180003	\$429,264	\$322,987
Youthworks	Fargo	Staffing, Travel, Training, Equipment Lease, Supplies, Consulting	A180004	\$725,110	\$393,641
				\$1,247,646	\$809,900

To help reduce administrative costs, the prospective grantees have cooperative agreements with other non-profit entities that help deliver services, including: Abused Adult Resource Center (Bismarck), Domestic Violence and Rape Crisis Center (Dickinson), YWCA of Cass County (Fargo), Rape and Abuse Crisis Center (Fargo), Community Violence Intervention Center (Grand Forks, with outreach to Devils Lake), and FUSE Statewide Anti-Human Trafficking Coalition (Bismarck), and the Director of the North Dakota Human Trafficking Task Force.

The recommended grants will help address human trafficking related to increased population due to expanded energy activity.

Motion: The Board approves the Attorney General's Human Trafficking Commission Grants Committee's recommendations and grants a total award of \$809,900 from the oil and gas impact grant fund, to the three grant recipients indicated in the preceding chart.

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

Authorization of Grants to School Districts

Within House Bill 1176 as adopted by the 2015 Legislature, \$30 million was allocated for oil and gas impacted school districts. The grants are to be based on oil and gas gross production tax distribution payments made to school districts in fiscal year 2014. The legislation requires grants be used for renovation and improvement projects.

In 2015 the Board approved grants totaling \$15,000,193 to 62 school districts. Based on funding shortfalls within the oil and gas impact grant fund in 2016, the Board delayed grant awards, including the approval of the remaining \$15 million allocated for school districts.

Section 10 of the 2017 Legislature's Senate Bill 2013 authorizes that funds not distributed during the 2015-2017 biennium are available for grants and administrative costs in the 2017-2019 biennium.

Due to a lower than anticipated deposit into the oil and gas impact grant fund, the EIIO recommends reducing the target from 95% to 93% of the remaining \$14,999,807 allocation to oil and gas development impacted school districts.

The following table provides a breakdown of proposed grant awards:

School District	Allocation of \$30 million	Year 2016	93% of remaining allocation
Alexander PSD	\$366,029	\$183,015	\$170,203
Anamoose PSD	\$2,064	\$1,032	\$960
Beach PSD #3	\$1,163,958	\$581,979	\$541,240
Belfield PSD #13	\$118,330	\$59,165	\$55,023
Beulah School District #27	\$31,172	\$15,586	\$14,495
Billings County PSD #1	\$398,271	\$199,136	\$185,196
Bottineau PSD #1	\$1,311,310	\$655,655	\$609,759
Bowbells PSD	\$78,995	\$39,498	\$36,732
Bowman/Rhame PSD #1	\$553,468	\$276,734	\$257,363
Burke Central #36	\$151,061	\$75,531	\$70,243
Center/Stanton PSD #1	\$19	\$19	\$0
Central Elementary PSD #32	\$177,166	\$88,583	\$82,382
Dickinson PSD #1	\$2,589,469	\$1,294,735	\$1,204,103
Divide County PSD	\$794,022	\$397,011	\$369,220
Drake PSD #57	\$2,630	\$1,315	\$1,223
Earl PSD #18	\$23,946	\$11,973	\$11,135
Eight Mile PSD (Williston area)	\$419,027	\$209,514	\$194,847
Garrison PSD #51	\$194,014	\$97,007	\$90,217
Glenburn PSD #26	\$385,222	\$192,611	\$179,128
Grenora PSD #99	\$311,067	\$155,534	\$144,646
Halliday Public School	\$180,269	\$90,135	\$83,825
Hazen PSD #3	\$339	\$339	\$0
Hebron PSD #13	\$51,154	\$25,577	\$23,787
Horse Creek	\$30,787	\$15,394	\$14,315
Kenmare PSD	\$71,591	\$35,796	\$33,289
Killdeer PSD #16	\$1,661,997	\$830,999	\$772,828
Lewis & Clark PSD # 16	\$135,237	\$67,619	\$62,885
Lone Tree School District #6	\$112,501	\$56,251	\$52,313
Mandaree PSD #36	\$641,628	\$320,814	\$298,357
Marmarth PSD	\$125,731	\$62,866	\$58,464
Max PSD #50	\$69,395	\$34,698	\$32,268
McKenzie PSD #1	\$2,787,978	\$1,393,989	\$1,296,410
Minot PSD #1	\$739,848	\$369,924	\$344,029
Mohall Lansford Sherwood PSD	\$807,508	\$403,754	\$375,491
Montefiore PSD #1	\$53,263	\$26,632	\$24,767
Nedrose PSD #4	\$4,500	\$2,250	\$2,093
New England PSD #9	\$217,691	\$108,846	\$101,226
New PSD #8	\$517,751	\$258,876	\$240,754
New Town PSD	\$1,901,244	\$950,622	\$884,078

Newburg-United #54	\$111,196	\$55,598	\$51,706
Parshall PSD #3	\$537,864	\$268,932	\$250,107
Powers Lake PSD #27	\$249,190	\$124,595	\$115,873
Ray PSD	\$544,757	\$272,379	\$253,312
Richardton PSD #34	\$160,452	\$80,226	\$74,610
Sawyer PSD #16	\$2,326	\$1,163	\$1,082
Scranton PSD #33	\$145,789	\$72,895	\$67,791
South Heart PSD #9	\$181,947	\$90,974	\$84,605
South Prairie PSD #70	\$3,782	\$1,891	\$1,759
Stanley Community PSD #2	\$1,482,330	\$741,165	\$689,283
Surrey PSD	\$8,761	\$4,381	\$4,073
TGU PSD #60	\$24,339	\$12,170	\$11,317
Tioga PSD	\$830,858	\$415,429	\$386,349
Turtle Lake-Mercer PSD	\$96,327	\$48,164	\$44,792
Twin Buttes PSD #37	\$175,873	\$87,937	\$81,780
Underwood PSD #8	\$111,061	\$55,531	\$51,643
United PSD #7	\$16,057	\$8,029	\$7,466
Velva PSD #1	\$13,249	\$6,625	\$6,160
Washburn PSD #4	\$147,324	\$73,662	\$68,506
Westhope PSD #17	\$287,598	\$143,799	\$133,733
White Shield PSD #85	\$63,462	\$31,731	\$29,510
Williston PSD #1	\$5,302,248	\$2,651,124	\$2,465,545
Yellowstone PSD #14	\$321,558	\$160,779	\$149,524
	\$30,000,000	\$15,000,193	\$13,949,821

Motion: **The Board approves grants from the oil and gas impact grant fund to the 60 school districts for the amounts indicated in the right-hand column of the preceding chart above for a total award of \$13,949,821 as appropriated in House Bill 1176 of the 64th Legislative Assembly.**

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

Authorization to Accept Applications for Airports

Of the funds allocated by the 2015 Legislative Assembly in House Bill 1176, \$48 million was directed to airports. The 2017 Legislature appropriated \$35 million to the Williston airport and \$5 million to the Dickinson airport. These appropriations address much of what was reserved for those entities in 2015, however \$1.4 million remains for smaller city airports.

House Bill 1176 requires that grants include cost-share requirements, with local or federal funds. The bill also directs the EIO to work in consultation with the Aeronautics Commission. With the smaller than anticipated 2015-2017 deposit, the EIO recommended that accept applications from energy development impacted airports and cooperate with the North Dakota Aeronautics Commission to formulate grant recommendations, not to exceed \$1.3 million or 93% of the remaining allocation.

Motion: **The Board approves the announcement of the availability of energy impact grants for airports, and authorizes the Energy Impact and Infrastructure Office to coordinate with the Aeronautics Commission in implementing grant guidelines and to provide grant recommendations, not to exceed \$1.3 million, of funds appropriated in HB 1176 of the 64th Legislative Assembly.**

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

Approval to Accept Applications from Bowman and Divide Counties

In its adoption of House Bill 1176, the 2015 Legislature authorized grants of a combined \$8 million to Bowman and Divide Counties and directed that equal amounts be distributed to each county. Section 10 of Senate Bill 2013, adopted by the 2017 Legislative Assembly, authorizes that oil and gas impact grant funds credited to the 2015-2017 biennium, may be carried to the current biennium for grants or administration costs.

With less than anticipated 2015-2017 total in the oil and gas impact grant fund, the EIO recommended 94% of the 2015 appropriation and that this amount be made available for grant consideration to Bowman County and Divide County, based upon documented needs as a result of oil and gas development impacts.

Motion: The Board approves opening a grant round with the acceptance of grant applications from Bowman and Divide Counties in accordance with HB 1176 of the 64th Legislative Assembly, for projects to address direct oil and gas development impacts, the grants for which will not exceed \$3,755,683 per county.

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

MINERALS MANAGEMENT

EXECUTIVE SESSION

Motion: Under the authority of North Dakota Century Code Sections 44-04-19.1 and 44-04-19.2, the Board close the meeting to the public and go into executive session for purposes of attorney consultation to consult with the Board's attorneys relating to: A proposed Stipulation of Interest related to litigation of Continental Resources, Inc. v. North Dakota Board of University and School Lands, et al., United States District Court Case No. 1:17-cv-00014.

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

At 1:41 PM the Board entered executive session for the purposes outlined in its adopted motion.

EXECUTIVE SESSION

Members Present:

Doug Burgum	Governor
Alvin A. Jaeger	Secretary of State
Wayne Stenehjem	Attorney General
Kelly Schmidt	State Treasurer – Via Telephone
Kirsten Baesler	Superintendent of Public Instruction

Department of Trust Lands Personnel present:

Lance D. Gaebe	Commissioner
Linda Fisher	Deputy Commissioner
Jeff Engleson	Chief Investments Officer
Allie Bement	Mineral Title Specialist
Susan Dollinger	Unclaimed Property Administrator
Levi Erdmann	Investment Analyst
Mike Humann	Director, Surface Division
Taylor Lee	Director, Revenue Compliance
Kristie McCusker	Legal Assistant
Catelin Newell	Office Manager
Gerard Schwan	Director, Grants and Claims

Authorized Guests in Attendance:

Cassandra Torstenson	Governor's Staff
Leslie Bakken Oliver	Governor's Legal Counsel
David Garner	Office of the Attorney General
Jen Verleger	Office of the Attorney General
Hope Hogan	Office of the Attorney General

The executive session adjourned at 2:31 PM and the Board returned to open session and the public was invited to return to the meeting. During the executive session, the Board consulted with its attorney on legal strategy on a proposed stipulation of interest relating to litigation of Continental Resources, Inc. No formal action was taken.

Strategic Investment and Improvements Fund - Assigned Fund Balance

Since the North Dakota Supreme Court affirmed in 2013 State ownership of land and minerals within the high water marks of navigable waters in *Reep v. State*, the Department has worked to collect royalties on Board issued sovereign land leases. Mineral revenues from sovereign lands are deposited into the Strategic Investment and Improvements Fund (SIIF).

The Board's oil and gas lease states that bonus and rent, or any portion thereof, will be refunded if it is later determined the Board does not have a lawful right to lease the mineral interests. In 2015, the Board adopted a formal resolution affirming that it would repay royalties received on production if it were determined to have been collected on an interest the Board did not have a lawful right to lease.

In July, 2016 the Board classified \$142,325,049 of the SIIF as an "Assigned Fund Balance" as a potential liability that should not be transferred out of the fund until title claims to riverbed leases are resolved. The amount was derived based upon the bonus and royalties collected from the leasing and production of sovereign lands' oil and gas interests and in consideration of associated litigation in these areas.

Within the boundaries of the Fort Berthold Reservation, both the State and the Three Affiliated Tribes have separately leased the mineral interests located beneath the historic Missouri River channel. Neither entity is receiving full payment of royalties as operators continue to suspend payment pending a determination of ownership. Because the Department has collected \$41.8 million of rent and bonus from leasing acres within the reservation, this is included in the Assigned Fund Balance.

In the area of the Highway 85 Bridge west to the Montana border, the Board leased the riverbed of both the Missouri and Yellowstone based upon the present river ordinary high water mark. The Assigned Fund Balance includes \$66.3 million of bonus and royalty collected in this area.

In the area of the historic Missouri River between the Highway 85 Bridge and the Four Bears Bridge, 15% of the bonus and royalties received for mineral leases, totaling \$34.2 million was reserved in the SIIF's Assigned Fund Balance.

The adoption by the 2017 Legislature of Senate Bill 2134, established a definition of sovereign minerals for certain stretches of the reservoirs located on the Missouri River. The bill directs the State Industrial Commission to review these stretches of the river to determine the location of the ordinary high watermark pursuant to certain criteria established by the Legislature. The bill further directs the adjustment of State leased mineral interests and authorizes refunds of mineral proceeds accordingly.

The method the Board had used to lease mineral acres on behalf of the State may differ from the Industrial Commission findings. During the legislative session, the Department estimated that the correction may involve an estimated 25,000 mineral acres for which the Board may be required to return bonus, rent, and royalty collected.

In SB 2134, the Legislature appropriated \$100,000,000 from "any moneys held in reserve in the [SIIF] fund for mineral title disputes" for the purpose of repayments of mineral revenues. This reserve is interpreted to be money from the Assigned Fund Balance. The bill also authorized the Commissioner to borrow up to \$87,000,000 from the Bank of North Dakota for mineral revenue repayments.

Revenue projections indicate sufficient funds within the SIIF to meet obligations and transfers implemented by the 2017 Legislature, including the total amount estimated for refunds under SB 2134. Because the legislation creates a potential \$87 million additional obligation on the SIIF, for financial statement purposes to accurately reflect known potential obligations; it was recommended that the Board add this amount to the Assigned Fund Balance. The amount should be reserved until adjustments related to sovereign lands are resolved. SIIF Projected Revenues, Expenditures and Transfers were presented to the Board for its review.

After the Industrial Commission adopts the final review findings under N.D.C.C. § 61-33.1-03, the Department will be able to calculate with more certainty the amounts necessary for mineral revenue repayments. An additional adjustment of the Assigned Fund Balance should then be considered.

Motion: For purposes of its financial reporting and to reflect the potential results from Senate Bill 2134 as adopted by the 2017 Legislature, the Board affirms that the "Assigned Fund Balance" of the Strategic Investment and Improvements fund is the previously established \$142,325,049 plus an additional \$87,000,000 to total \$229,325,049. These funds are reserved to make adjustments related to sovereign lands mineral ownership.

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

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

“Grasslands Enhancement Pilot Project” Outdoor Heritage Fund Grant

On January 17, 2017, the North Dakota Industrial Commission approved a \$230,000 grant from the Outdoor Heritage Fund to a partnership of Ducks Unlimited Inc., the North Dakota Natural Resources Trust, North Dakota Grazing Lands Coalition and Dakota Missouri Valley Western Railroad to establish land and water development practices and managed grazing systems on private and public lands.

Implementation of land improvements and water development on trust lands can help lessees maintain the land in good condition. The lessees who choose to participate in this grasslands enhancement project would continue to rent these tracts and operate under the terms of the Board's lease.

Through its lease, the Board offers rent credits and/or depreciation for the lessees' out-of-pocket cost, for permanent water improvements such as wells, dugouts, and rural water connections. The Department tracks the credit and/or depreciation for these improvements to protect the lessee's out of pocket investment in the event the land is leased to another person, sold or exchanged. These credits and/or depreciation may be used in conjunction with heritage fund grant dollars to support water development projects.

Ducks Unlimited has proposed the following three projects on Common Schools Trust land tracts:

Divide County

Township 164 North, Range 101 West

Section 36: ALL

Proposed improvements: Livestock water well and permanent cross fencing to implement grazing rotation plan.

McLean County

Township 144 North, Range 81 West

Section 36: ALL (project contingent on current lessee obtaining land lease at fall 2017 surface lease auction).

Proposed improvements: Livestock water well, livestock water pipeline and portable (non-permanent) electric cross fence (lessee owned) to implement a high intensity grazing rotation plan.

Sheridan County

Township 147 North, Range 78 West

Section 16: SE4

Proposed improvements: Livestock water well and permanent cross fencing to implement grazing rotation plan.

While the trusts are not recipients of Heritage Fund dollars, a requirement of the Heritage Fund grant is for the school trusts to own cross fencing constructed with grant dollars. The requirement for the trusts to own fences is a departure from the Board's standard land lease, which stipulates that fences are a non-permanent improvement and are the property of the surface lessee.

In an effort to support the Grasslands Enhancement Pilot Project, it was proposed that the Board consider authorizing the trusts to own permanent cross fences associated specifically with this pilot project.

An additional lease provision regarding fencing was proposed for inclusion in the standard land leases in which permanent cross fencing is constructed as part of the Grasslands Enhancement Pilot Project funded by the North Dakota Outdoor Heritage Fund:

OWNERSHIP OF FENCES. Notwithstanding paragraph 3 of this land lease as it relates to fences, LESSOR shall retain ownership of barbed wire fences placed on the land through the Grasslands Enhancement Pilot Project, as funded by the North Dakota Industrial Commission Outdoor Heritage Fund, as cross fences ("Cross Fences"). LESSOR does not by this statement claim any fence material placed on the land by the current or previous lessee prior to or subsequent to the land's inclusion in the Grassland Enhancement Pilot Project. LESSEE shall maintain Cross Fences, at no expense to LESSOR, in as good condition as of the date of construction, normal wear and tear acknowledged (see attached map for approximate location of fence materials owned by the LESSOR.)

The lessee would obtain a permit from the Commissioner for the construction and depreciation of water development and permanent cross fencing constructed as part of the Outdoor Heritage Funded Grasslands Enhancement Project. Rent credits for water development will be available according to the Department's Permanent Improvement Policy.

While rent credits are offered for permanent water developments, the depreciation of the lessee's actual costs of cross fences for this pilot project will be tracked only in the event the lease would change hands so that any undepreciated amount would be due from the subsequent lessee to the former lessee. It is not proposed that rent credit be authorized for cross fences.

The Board reviewed Ducks Unlimited Maps of the Project Areas, and the Department's Permanent Improvement Authorization Rent Credits and Depreciation Policy.

Motion: Within the scope of the Grasslands Enhancement Pilot Project, funded by the North Dakota Outdoor Heritage Fund, the Board:

- 1. Approves inclusion of trust land tracts;**
- 2. Agrees to trust ownership of permanent cross fences constructed and used in the grazing management project;**
- 3. Authorizes the requirement for the lessee to obtain a permit for permanent cross fences and allows for the depreciation of a lessee's out of pocket investment in permanent cross fences; and**
- 4. Authorizes the inclusion of the above-referenced lease addendum to surface leases for tracts enhanced with permanent cross fencing.**

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

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

Permanent Trusts' Investment Performance Report – 2nd Quarter 2017

The performance of the permanent trust funds' pool of investment assets for the period ending June 30, 2017 was reviewed by the Board.

The RVK Quarterly Investment Performance Analysis report is prepared and presented to enable the Board to monitor and evaluate the collective performance of the permanent trusts' investments and the performance of individual managers within the program.

Proposed Revisions to Permanent Trusts' Asset Allocation

The Board's Investment Policy Statements indicates that a formal review of the trusts' asset allocation policy should be undertaken at least every four years. The Board adopted the last comprehensive asset allocation in 2013.

Based upon the Board's early discussions, it was determined to not add Private Equity to the trusts' current portfolio. Suggestions during the May 2017 Board meeting also resulted in improvements of the model to reflect variability of the permanent trusts' non-investment revenues and the formulaic distributions to beneficiaries.

RVK and the Commissioner recommended the Board adopt the following asset allocation for the permanent trusts, which is only slightly different than the current target allocation.

	Current Target Allocation	Recommended Target Allocation
US Equities	17%	17%
International Equities	15%	17%
Fixed Income	23%	21%
Absolute Return Strategies	20%	20%
Diversified Inflation Strategies	10%	10%
Real Estate	15%	15%
	100%	100%

The recommended change reduces exposure to fixed income securities by 2% while increasing exposure to international equities by the same amount.

The Board reviewed RVK's recommendation memo which showed the resultant portfolio has slightly higher return expectations and more risk (standard deviation) than the current portfolio. The risk/return ratio and RVK liquidity metrics for the recommended target allocation essentially match the current target portfolio.

During the next several months, the structure of both the permanent trusts' international equity and fixed income portfolios will be reviewed to provide the Board with structure recommendations to enhance expected returns over asset class benchmarks, and also increase overall portfolio diversification and reduce overall portfolio risk.

The new target allocation will not be implemented until changes to portfolio structures are considered and any needed manager searches are completed.

Motion: The Board approves the revised target allocation for the permanent trust funds as recommended herein, and directs the Commissioner to undertake asset class reviews of both the international equity, with a recommended target allocation increase of 2%, and fixed income portfolios, with a recommended target allocation decrease of 2%; in order to provide recommendations for Board consideration. The Board's Investment Policy Statement should be updated to reflect the revised asset allocation.

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

Asset Allocation

The Board reviewed the status of the asset allocation of the permanent trusts as of June 30, 2017 in the following table:

Account/Asset Class	Long-Term Asset Allocation	6/30/17 Actual Allocation \$	6/30/17 Actual Allocation %
Large Cap US Equity	13.3%	\$ 550,237,483	13.3%
Mid/Small Cap US Equity	3.7%	\$ 151,388,486	3.7%
International Equity	12.0%	\$ 496,174,211	12.0%
Emerging Market Equity	3.0%	\$ 124,656,594	3.0%
Total Equities	32.0%	\$ 1,322,456,774	31.9%
Domestic Investment Grade	14.2%	\$ 575,622,408	13.9%
High Yield FI	3.0%	\$ 123,500,687	3.0%
International/Global FI	5.8%	\$ 237,593,280	5.7%
Total Fixed Income	23.0%	\$ 936,716,376	22.6%
Total Absolute Return	20.0%	\$ 825,593,022	19.9%
Commodities	3.0%	\$ 128,064,634	3.1%
MLPs	3.0%	\$ 128,027,576	3.1%
TIPS	2.0%	\$ 79,556,391	1.9%
Natural Resource Equities	2.0%	\$ 83,138,391	2.0%
Total Inflation Strategies	10.0%	\$ 418,786,992	10.1%
Core Real Estate	8.0%	\$ 348,306,361	8.4%
Core Plus Real Estate	7.0%	\$ 288,171,494	7.0%
Total Real Estate	15.0%	\$ 636,477,856	15.4%
Total Asset	100.0%	\$ 4,140,031,019	100.0%

Investment Updates

Prologis (Core Plus Real Estate: \$90.23 million, 2.2% of assets)

In July, shareholders of the Prologis Core Plus Real Estate fund approved the purchase of certain high quality logistics properties at a favorable price and also approved changes to the fund's investment guidelines and the legal structure. The changes include:

- Favorable pricing (transaction based on 12/31/16 values)
- A reduced average property life for the fund
- Broadening of the asset base
- Reduced concentration of customer base

After receiving a recommendation from RVK, the Commissioner voted on the Board's behalf in favor of the changes.

Harding Loevner (Emerging Market Equities: \$62.20 million, 1.5% of assets)

Effective October 1, 2017, Harding Loevner intends to change portfolio guidelines used in manage the Emerging Markets Equity strategy in which the Board invests.

The index provider, MSCI, is adjusting the composition of the indices against which this fund is benchmarked, and thus the guidelines need to be adjusted to reflect the new opportunity set. The increase in investible market capitalization of China relative to other markets, as well as easing of restrictions on access by foreign investors to the mainland, prompted the change.

Other guideline revisions seek to increase internal consistency and reduce complexity while reflecting other capitalization shifts within the relevant investment universe for the strategy. The revised geographic limits continue to provide for strong diversification across markets.

Northern Trust Asset Management

(Small Cap US Equities: \$82.83 million, 2.0% of PTF assets, TIPS Index: \$79.56 million, 1.9% of PTF assets, and Ultra-Short Bond portfolio: \$207.33 million, 100% of non-PTF assets)

Northern Trust announced that Stephen N. Potter, President of Northern Trust Asset Management (NTAM), was appointed as Vice Chairman with responsibilities including oversight of key strategic initiatives and the development of select clients and prospects around the globe. Succeeding Potter as the President of Asset Management is Shundrawn A. Thomas, currently Head of Funds and Managed Accounts Group. Both changes are effective October 1.

Mr. Thomas has had several management roles at Northern Trust including Chief Executive of Northern Trust Securities and Head of Corporate Strategy for Northern Trust Corporation. Prior to joining Northern Trust, Mr. Thomas served as a vice president at Goldman Sachs.

RVK believes Mr. Thomas has demonstrated his abilities since joining the firm, and that the firm's transition to new management may be beneficial. Additionally, RVK views Mr. Potter's continued involvement at NTAM as Vice Chairman as a positive. NTAM does not expect to make any changes to the portfolio management teams, thus there should be little impact on investment products.

Dimensional Fund Advisors (Emerging Market Equities: \$62.4 million, 1.5% of assets)

Earlier this week, DFA announced that Eduardo Repetto, co-CEO and co-CIO, will be leaving the firm in September 2017. Mr. Repetto has been with DFA for 17 years and has held his current dual roles since 2010. Gerard O'Reilly, current co-CIO, will assume the CIO role and will become co-CEO alongside Dave Butler, current co-CEO.

Mr. O'Reilly has been with DFA for 13 years and has served as co-CIO since 2014. Mr. Butler joined the firm in 1995 and was named co-CEO in February 2017.

RVK does not have any immediate concerns with the DFA management change. The short-term impact of this change is mitigated by the firm's use of a systematic investment process, the remaining depth of the investment team which consists of over 70 investment professionals and traders, and Mr. Booth's continued involvement with the firm.

Harvest Fund Advisors (Master Limited Partnerships: \$128.03 million, 3.1% of assets)

Blackstone announced that it has entered into an agreement to acquire Harvest Fund Advisors LLC ("Harvest"), an independent investment management firm with over \$10 billion in assets under management. Harvest invests in public master limited partnerships (MLPs) holding U.S. midstream energy assets as part of the permanent trusts' diversified inflation strategies portfolio.

Although RVK has not had the opportunity to review the purchase of Harvest in detail, it does not recommend any immediate actions, as the investment teams will remain in place. RVK will be looking into this purchase in more detail and the Commissioner will report any concerns based upon this review.

OPERATIONS**Administrative Rules Update**

House Bill 1300, as adopted by the 2017 Legislature, removed the Board's previous exemption from the Administrative Agencies Practice Act (AAPA) in North Dakota Century Code Ch. 28-32. The bill's effective date is January 1, 2018.

In the drafting rules the Department has referenced the following:

- 1) North Dakota Century Code Ch. 28-32;
- 2) North Dakota Legislative Drafting Manual – 2017;
- 3) North Dakota Legislative Council Administrative Rules Drafting Manual – 2008;
- 4) Administrative Rules 2017 presentation – Vonette Richter, Legislative Council Code Reviser;
- 5) Office of Attorney General Administrative Rules Manual – 2016; and
- 6) Advice from the Board's Assistant Attorneys General.

Under the authority of the Constitution and statutes, the Board has at least 85 existing sets of rules, policies and procedures related to management of land, oil and gas leasing, coal, easements, land sales and auctions, a summary of which, the Board reviewed.

Because of the Board's previous exemption to AAPA, many existing documents contain a mix of rules, policies, and procedures. Verbiage that is operational or referencing procedural tasks or responsibilities should not be included in administrative rules. As such, an effort is underway to parse each existing document, phrase-by-phrase, into the following categories:

Probable Placement

Definitions

Administrative Rule:	General statements adopted by the Board to make the law it enforces or administers more specific or to govern the Board's organization or procedure. An agency may adopt a rule only after the legislature has enacted a law granting this authority to the agency. A Board rule that is adopted under the rulemaking provisions of N.D.C.C. ch. 28-32, Administrative Agencies Practice Act, has the force and effect of law.
Board Policies:	Policies and procedures which offer guidance to the Department in carrying out duties and functions, informal cases of delegation of authority to the Commissioner or the Department, and adoption of price schedules or fees. Any changes to these rules will be reviewed by the Board. These are not reviewed or approved by the Legislature.
Department Policy:	Policies adopted by the Commissioner to clarify operations within the Department. These include division level policies/procedures to clarify operations specific to each division.

Language identified as suited to administrative rules is revised into the form and style of administrative code, and will be provided to the Board for review, published, subjected to hearings, and ultimately presented for administrative rules committee consideration.

The Department is receiving continued project assistance from Assistant Attorneys General and has engaged retired Surface Management Division Director, Mike Brand to assist in formatting and compiling.

The Department plans to present proposed administrative rules for Board review by the end of 2017 and for consideration by the administrative rules committee within nine months of the January 1, 2018 effective date of the legislation.

Information Technology Project Update

The Department's 2017-2019 biennial budget appropriation includes \$3.6 million to replace legacy information technology systems.

Work is underway in the preparation of a Request for Proposals (RFP) necessary to procure information technology systems design and implementation services.

The Department is working to identify and categorize system requirements for presentation to potential vendors. Regular meetings are held with applicable staff from each operational division within the Department, the Information Technology Division (ITD) project manager, and a procurement officer from the State Procurement office. This effort involves prioritizing what had been identified as system requirements that were compiled during the 2016 business process modeling project into critical through wanted. Categories include:

Core	Needed at the outset to effectively conduct business
Essential	Necessary at some point, but could be implemented at a future date
Desired	Not required. May be valuable to certain stakeholders; however the product will function without the requirement

Vendors demonstrating the ability to satisfy large numbers of core requirements will score higher in the evaluation process.

Upon review and approval of the documents by the established Executive Steering Committee (ESC), the anticipated simultaneous release of RFPs relating to Unclaimed Property Management and Land and Asset Management Systems is targeted for September 2017.

Based on the BPM contractor estimate and the ITD preliminary estimates, the legislative approved \$3.6 million appropriation should provide sufficient resources to accomplish many of the project objectives.

The Office of Management and Budget (OMB) reviewed accounting software options and provided a waiver of the requirement to use PeopleSoft for the Department's revenue and trust accounting.

NDCC § 54-59-32 requires that an ESC be appointed to oversee each major state information technology project. The ESC includes a project sponsor, the director of OMB (or designee), the state Chief Information Office (or designee), the agency head, and a large project oversight analyst designated by the state CIO. State procurement professionals and staff from the Office of the Attorney General assist with contract negotiation and administration.

OTHER BUSINESS

Commissioner Search

By consensus, the closing date for applications for the Commissioner position was moved from August 22, 2017 to September 30, 2017. Governor Burgum indicated that the final candidates will be reviewed in early October.

R E P O R T S

The Summary of Total Assets for Period Ended May 31, 2017 was presented to the Board.

Report of Easements Issued by Land Commissioner 7/13/17 to 8/5/17

Report of Easements Issued by Land Commissioner 07/13/17 to 08/05/17

Granted to:	ROUGH RIDER ELECTRIC COOPERATIVE, INC., DICKINSON-ND
For the Purpose of:	Easement: Drop Line-Buried Electric Distribution Line
Right-of-Way Number:	RW0007002
Trust:	A – Common Schools
Legal Description:	BIL-143-101-16-NE4, SE4
Legal Description:	BIL-144-101-16-NE4, NW4, SE4, SW4
Granted to:	BASIN ELECTRIC POWER COOP INC, BISMARCK-ND
For the Purpose of:	Easement-Amend: Electric Transmission Line
Right-of-Way Number:	RW0007654
Trust:	A – Common Schools
Legal Description:	DUN-145-97-16-SE4, SW4
Granted to:	MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND
For the Purpose of:	Easement: Electric Distribution Line - Above Ground
Right-of-Way Number:	RW0007752
Trust:	A – Common Schools
Legal Description:	MCK-153-95-16-NW4, SW4 LESS PATENTED ACRES

Granted to:	MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND
For the Purpose of:	Easement: Drop Line-Electric Distribution Line
Right-of-Way Number:	RW0007753
Trust:	A – Common Schools
Legal Description:	MCK-153-95-16-NW4, SW4 LESS PATENTED ACRES
Granted to:	BASIN ELECTRIC POWER COOP INC, BISMARCK-ND
For the Purpose of:	Easement-Amend: Electric Transmission Line
Right-of-Way Number:	RW0007780
Trust:	A – Common Schools
Legal Description:	WIL-156-101-36-NE4, SE4
Legal Description:	WIL-156-99-36-SW4
Granted to:	GOODNIGHT MIDSTREAM BAKKEN LLC, DALLAS-TX
For the Purpose of:	Easement: Salt Water Pipeline
Right-of-Way Number:	RW0008027
Trust:	A – Common Schools
Legal Description:	MCK-153-94-36-NE4, NW4, SE4, SW4
Granted to:	MCKENZIE ELECTRIC COOPERATIVE INC, WATFORD CITY-ND
For the Purpose of:	Easement: Drop Line-Buried Electric Distribution Line
Right-of-Way Number:	RW0008086
Trust:	A – Common Schools
Legal Description:	MCK-150-97-36-SE4
Granted to:	EAST VALLEY INDUSTRIAL PARK LLC, WILLISTON-ND
For the Purpose of:	Easement Amend: Railroad Right-of-Way
Right-of-Way Number:	RW0008093
Trust:	A – Common Schools
Legal Description:	WIL-154-100-16-NE4, NW4
Granted to:	WESTERN AREA WATER SUPPLY AUTHORITY, WILLISTON-ND
For the Purpose of:	Easement: Potable Water Pipeline
Right-of-Way Number:	RW0008096
Trust:	A – Common Schools
Legal Description:	MOU-155-90-16-NE4
Granted to:	SELECT ENERGY SERVICES LLC, WILLISTON-ND
For the Purpose of:	Letter of Permission: Access to School Land for the purpose of a Temporary Surface Frac Water Pipeline
Right-of-Way Number:	RW0008104
Trust:	A – Common Schools
Legal Description:	MCK-150-95-16-NW4, SW4
Legal Description:	MCK-150-96-36-NE4, SE4
Granted to:	SELECT ENERGY SERVICES LLC, WILLISTON-ND
For the Purpose of:	Letter of Permission: Access to School Land for the purpose of a Temporary Surface Frac Water Pipeline
Right-of-Way Number:	RW0008108
Trust:	A – Common Schools
Legal Description:	MCK-152-95-16-NE4

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: **US FISH & WILDLIFE SERVICE, BISMARCK-ND**
For the Purpose of: Letter of Permission: Access to School Land to conduct fisheries sampling
Right-of-Way Number: RW0008103
Trust: A – Common Schools
Legal Description: SLO-136-102-16-SE4NW4, LOTS 1,2,3

Results of Online August Oil and Gas Mineral Lease Auction

An oil and gas mineral lease auction was conducted on www.energynet.com which concluded on August 1, 2017.

There were 180 tracts offered and all but fourteen received competitive bids. The highest bid per acre was \$10,030.00 for 0.16 net mineral acres in Williams County.

There were 45 bidders registered, 31 of which submitted bids in the seven-day auction. Bidders were from 12 states and Canada (CO, IN, MD, MN, MT, ND, NV, OK, PA, TX, WA and WY plus AB, Canada).

A total \$1,016,947.81 of bonus was collected from the auction.

August 2017				
	Mineral Acres	Total Bonus	Bonus/Acres	
BILLINGS	1078.20	\$ 329,786.40	\$ 305.87	
BOWMAN	923.80	\$ 10,027.99	\$ 10.86	
BURKE	610.76	\$ 238,879.92	\$ 391.12	
DIVIDE	959.44	\$ 173,078.24	\$ 180.40	
DUNN	640.00	\$ 4,960.00	\$ 7.75	
GOLDEN VALLEY	4150.99	\$ 33,465.31	\$ 8.06	
MCKENZIE	320.00	\$ 33,600.00	\$ 105.00	
MOUNTRAIL	3865.79	\$ 177,284.42	\$ 45.86	
RENVILLE	79.87	\$ 4,353.37	\$ 54.51	
STARK	80.00	\$ 2,240.00	\$ 28.00	
WARD	2522.06	\$ 7,667.36	\$ 3.04	
WILLIAMS	0.16	\$ 1,604.80	\$ 10,030.00	
GRAND TOTAL	15231.07	\$ 1,016,947.81	\$ 66.77	

A D J O U R N

There being no further business, the meeting was adjourned at 3:24 PM.

 Doug Burgum, Chairman
 Board of University and School Lands

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

**Minutes of the Meeting of the
Board of University and School Lands
September 29, 2017**

The September 29, 2017 meeting of the Board of University and School Lands was called to order at 9:00 AM in the Governor's Conference of the State Capitol by Chairman Doug Burgum.

Members Present:

Doug Burgum	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, Investments Division
Drew Combs	Director, Minerals Division
Levi Erdmann	Investment Analyst
Mike Humann	Director, Surface Division
Kristie McCusker	Legal Assistant
Catelin Newell	Office Manager
Gerard Schwan	Director, Grants and Claims

Guests in Attendance:

Leslie Bakken Oliver	Governor's Legal Counsel
David Garner	Office of the Attorney General
Hope Hogan	Office of the Attorney General
Shelly Peterson	North Dakota Long Term Care Association
Anthony Ford	Crowley Fleck PLLP
Josh Kevan	RVK
Amy Dalrymple	Bismarck Tribune
Ron Rauschenberger	PetroGulf
Steve Zenker	K-L/Zenker Ranch
Kelly Moldenhauer	K-L/Zenker Ranch
Launa Moldenhauer	K-L/Zenker Ranch

APPROVAL OF MINUTES

A motion to approve the minutes of the August 21, 2017 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

Grant to Statewide Automated Victim Information and Notification (SAVIN) Program

Within House Bill 1003, the 2017 Legislative Assembly redirected \$500,000 of grant funds reserved for law enforcement in the 2015-2017 biennium to be available instead for the Statewide Automated Victim Information and Notification (SAVIN) program during the 2017-2019 biennium. Section 8 of HB 1003 states that if the Attorney General does not realize rent savings by moving into the Job Service central office building, that the Land Board shall provide a grant of up to \$500,000 for the purpose of defraying the expenses of enhancing the SAVIN program.

The EIO received notification from the Attorney General's Office that it is unable to achieve rent savings because the available space in the Job Service Building is insufficient. The EIO recommended approval of a grant of \$500,000 to the Attorney General to defray expenses of enhancing the SAVIN program for the current biennium, as defined in NDCC Ch. 12.1-34.

Motion: The Board approves a grant of \$500,000 to the Office of Attorney General for the purpose of defraying the expenses of enhancing the statewide automated victim information and notification program in accord with House Bill 1003 adopted by the Sixty-fifth Legislative Session.

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

Bowman and Divide County Grants

Of the appropriation for oil and gas impact grants, in House Bill 1176, the 2015 Legislature provided up to \$8 million for grants to Bowman and Divide Counties for impacts of oil and gas development. The 2017 Legislature, in Senate Bill 2013, authorized the carryover of grants beyond the end of the 2015-2017 biennium in order to satisfy appropriations based on gross production tax revenues deposited in July and August 2017.

In August 2017 the Board authorized the announcement of the availability of a total of \$7,511,366 in possible grants to both counties. Applications from Bowman County and Divide County indicate plans for utilization of the funds. Both counties will perform improvements to roadways that have heavy oilfield traffic and to make the roadways safer for local citizens. The EIO recommended grants of \$3,755,683 each to Bowman County for reconstruction of the Marmarth Road and to Divide County for the paving of County Roads 11 and 14.

Motion: The Board approves a grant of \$3,755,683 to Bowman County and a grant of \$3,755,683 to Divide County from the Oil and Gas Impact Grant Fund for infrastructure projects related to oil and gas development impacts.

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

Nursing Homes Grant Recommendations

House Bill 1176 adopted by the 2015 Legislative Assembly appropriated up to \$4 million for nursing home, basic care facilities, home health care and hospice programs impacted by oil and gas development activities. Within Senate Bill 2013, the 2017 Legislature authorized the continuation of grant authority into the current biennium.

In June 2017, the Board approved grants which totaled \$487,366 less than the \$2 million that it had previously made available for this purpose. The Board then directed the EIO to conduct an additional grant round for the remaining portion of funds.

The supplemental grant round applied priority consideration to facilities that had not previously submitted in the initial grant round, but applications were accepted from all eligible Nursing Home and Basic Care facilities in oil and gas producing counties.

Eighteen applications were reviewed and scored based on seven factors:

- 1) Operated at a loss in either type of facility the last two fiscal year ends
- 2) Stopped or restricted admissions due to a staffing shortage
- 3) Has a high reliance on contracted staff
- 4) Realizes a significant staff turnover rate or has unfilled openings
- 5) Exceeds the direct care, other direct, or indirect care limit
- 6) Limited access to affordable housing
- 7) Limited access to affordable daycare

A summary of the grant round applications and the EIIO and advisory committee recommended grants amounts:

NURSING HOME / BASIC CARE GRANT - 2ND ROUND						
Applicant	City	App#	Project	Amount of Project	Amount Requested	Amount Recommended
ST. LUKE'S HOME	DICKINSON	A180065	STAFF EDUCATION	\$187,053	\$50,000	\$29,947
ST. BENEDICT'S HEALTH CENTER	DICKINSON	A180066	CAPITAL PROJECTS	\$50,000	\$50,000	\$26,947
MCKENZIE COUNTY HEALTH CARE SYSTEMS	WATFORD CITY	A180067	HOUSING SUPPLEMENT	\$203,688	\$150,000	\$30,947
MCKENZIE COUNTY HEALTH CARE SYSTEMS	WATFORD CITY	A180068	HOUSING SUPPLEMENT	\$203,688	\$50,000	\$29,947
REDWOOD VILLAGE	WILTON	A180069	WAGE INCREASES AND BUILDING UPGRADES	\$150,000	\$76,354	\$31,000
BETHEL LUTHERAN NURSING & REHAB CENTER	WILLISTON	A180070	SIGN-ON BONUSES & EDUCATION LOAN REPAYMENT	\$330,000	\$50,000	\$31,947
BETHEL LUTHERAN NURSING & REHAB CENTER	WILLISTON	A180071	SIGN-ON BONUSES & EDUCATION LOAN REPAYMENT	\$330,000	\$50,000	\$31,947
GOOD SAMARITAN SOCIETY - MOHALL	MOHALL	A180072	EMPLOYEE ENGAGEMENT PROGRAM	\$130,000	\$50,000	\$26,000
SOURIS VALLEY CARE CENTER	VELVA	A180073	WAGE INCREASES	\$50,000	\$50,000	\$17,947
GOOD SAMARITAN SOCIETY - BOTTINEAU	BOTTINEAU	A180074	EMPLOYEE ENGAGEMENT PROGRAM	\$150,000	\$50,000	\$36,000
GARRISON MEMORIAL HOSPITAL	GARRISON	A180075	EMPLOYEE TUITION ASSISTANCE	\$75,000	\$50,000	\$25,000
KNIFE RIVER CARE CENTER	BEULAH	A180076	WAGE INCREASES	\$123,000	\$50,000	\$35,000
RICHARDTON HEALTH CENTER	RICHARDTON	A180077	CONTRACT EMPLOYEES & ACCOUNTING SVCS	\$510,300	\$50,000	\$18,947
NORTHWEST HOSPITAL TAX DISTRICT	CROSBY	A180078	RESIDENT SAFETY PROJECT	\$50,700	\$50,000	\$20,947
TRINITY HOMES	MINOT	A180079	UNREIMBURSED COSTS	\$5,152,479	\$50,000	\$17,947
SENIOR SUITES AS SAKAKAWEA	HAZEN	A180080	WAGE INCREASES	\$94,490	\$50,000	\$30,000
MOUNTRAIL BETHEL HOME	STANLEY	A180081	UNREIMBURSED COSTS	\$528,514	\$50,000	\$25,947
SOUTHWEST HEALTHCARE SERVICES-LTC	BOWMAN	A180082	SIGN-ON AND SHIFT BONUSES	\$180,000	\$50,000	\$20,947
				\$8,498,912	\$1,026,354	\$487,364

Motion: In accord with House Bill 1176 adopted by the 64th Legislature, the Board approves grants to the identified oil and gas development impacted nursing homes and basic care facilities for the amounts indicated in the right-hand column in the preceding chart.

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

Upper Missouri District Health Unit Reallocation Request

In October 2015 the Board awarded grant G160214 for \$542,700 of Oil and Gas Impact Grant Funds to the Upper Missouri District Health Unit (Williston) for staffing, computer hardware and a software package, and building improvements.

The district health requested authority to utilize \$29,051 from the staffing allocation of its grant to instead be used for:

- 1) \$6,332.70 to purchase an autoclave and centrifuge.
- 2) \$19,279 to increase its software and hardware allocation for five years of subscriptions, and to allow connectivity with the North Dakota Immunization Information System.
- 3) \$3,439.44 to replace five portable refrigerator/freezer units to transport vaccines to schools, worksites, and health-related events.

The EIO recommended approval of the request to reallocate funds granted for staffing to be used for equipment and computer improvements.

Motion: The Board approves the reallocation of \$29,051 of grant G160214 to the Upper Missouri District Health Unit from staffing to instead be available for equipment and higher than anticipated software and hardware costs.

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

Northwest Narcotics Task Force Reallocation Request (Williams County)

In July 2015, the Board awarded \$646,460 to Williams County (G160122) for the Northwest Narcotics Task Force for salaries, overtime, equipment, housing costs, and supplies.

The grant allowed for hiring two task force officers but neither of these personnel were hired. A balance of \$507,651.84 remains of the grant, with \$330,467.52 of that for personnel costs. Williams County requested a reallocation of some of the salary dollars to purchase two pieces of equipment.

The EIO and the Bureau of Criminal Investigation (BCI) both recommended the request be approved including \$27,850 to purchase a TruNarc machine; a portable narcotics testing machine to provide quicker detection of drugs and keep officers from touching samples; and \$10,188.66 for the purchase of interactive video equipment to enhance agency coordination and training.

Motion: Within grant G160122 previously awarded to the Williams County for the Northwest Narcotics Task Force, the Board approves the reallocation of \$38,038.66 from salaries instead for equipment as requested and recommended.

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

City of Kenmare Reallocation Request

In July 2015, the Board awarded \$112,055 to the City of Kenmare (G160154) for its police department for salaries, a vehicle, housing assistance, and equipment costs.

The squad car was purchased, the housing allowances were fully expended in August 2017, and the equipment identified in the city's initial application were all acquired.

The city hired a fourth officer at the beginning of the grant period, however, another officer resigned and the city was unable to fill the position.

A balance of \$39,663.06 remains in the grant for salary and fringe benefits for one police officer, but the city budget will not support a four officer force after the grant funding period expires. The city requested authority to use the funds instead for continued housing allowance, specific equipment, including a radar detector, laptop computer, interior car lighting, body cameras and Tasers.

The director informed the Board that he intended to notify the City of Kenmare that the reallocation request is not supported by the EIO and BCI, and that the use of remaining \$39,663.06 is not authorized to be used for alternate purchases.

MINERALS MANAGEMENT

Mineral Title Dispute of Historic River Bed within the Fort Berthold Reservation

There is a competing claim to around 30,000 acres of land within the historic boundaries of the Fort Berthold Indian Reservation. The land is the bed of the Missouri River as the river existed prior to closing Garrison Dam. Development of minerals under the riverbed triggered the dispute. Over 170 wells are producing minerals from the disputed lands.

State title to the riverbed, and underlying minerals, is based on the equal footing doctrine, which provides, with some exceptions, that at statehood all states take title to the beds of navigable rivers and lakes within their borders. The State has consistently claimed title to the bed of the Missouri River up to the ordinary high watermark (OHWM), and in doing so it has never excluded from that claim any part of the river bordered by the reservation. Historically, the State's all-encompassing claim has often been made in briefs defending the State's ownership in legal disputes.

The dispute involves the Three Affiliated Tribes of the Fort Berthold Reservation (MHA Nation), the federal government through the Department of the Interior (DOI) and its Bureau of Indian Affairs (BIA), some allottees (individual tribal members), and the State of North Dakota.

The mineral acres within the historic river channel are leased in most cases by both the State and the MHA Nation or the BIA. Some operators took leases from both the state and the tribe/BIA. The State has 263 active leases in this area. Wells that produce the minerals in dispute are operated by seven companies: QEP Energy, WPX Energy, HRC Operating, PetroGulf, Slawson Exploration, Marathon Oil, and SHD Oil & Gas. Some operators suspend payment of royalties because of the title dispute, others pay royalties into escrow, and a few submit royalties to the State. It is unknown if the MHA Nation or the BIA receive royalties from their lessees.

In early 2015 leaders of the MHA Nation requested collaboration with the State to discuss the disputed mineral claim. Two meetings were organized by Indian Affairs Commissioner Scott Davis to review options to resolve the overlapping claims. Though no resolution was reached.

In October of 2015, letters were sent to operators under the Board's lease requesting payment of delinquent royalties to the State. In response, the DOI Assistant Secretary—Indian Affairs sent a letter to the Department of Trust Lands (DTL) asserting that the United States holds in trust the title of the Fort Berthold Reservation on behalf of the MHA Nation; and requested the State not collect royalties, but to instead place them into escrow.

At the suggestion of BIA officials, who wished to meet to discuss the dispute in the hope of resolving it by agreement, a meeting was held in Bismarck in June of 2016 involving tribal, regional and national BIA, and State officials. The general result of that discussion was a consensus to jointly request production and royalty payment information from the operators producing on disputed acres and to request that royalties be placed into 3rd-party escrow, rather than held in operators' suspense accounts. At the meeting, state representatives expressed a willingness to discuss a compromise to the title dispute, but MHA Nation Chairman Mark Fox said the tribe had little interest in resolving the dispute through a negotiated settlement. Earlier this year the tribe confirmed that its assertion of title is non-negotiable.

On January 19, 2017, a joint letter signed by BIA Director Loudermilk and including Commissioner Gaebe's name (without signature) was sent to six oil and gas operators requesting the status of leases within each spacing unit; number of acres within each lease; copies of title opinions; production statistics; royalties generated, etc.

The responses from oil and gas operators indicate that most of the royalty generated has not been paid to the MHA Nation, the BIA, or the State, but because of the title dispute, remain in suspense with companies or in escrow accounts. Collectively, the operators have reportedly suspended \$35.6 million of royalties.

Most of the Board's leases require disputed royalties to be escrowed with the Bank of North Dakota, and \$29 million has been deposited there.

These suspended and escrowed amounts, coupled with the \$41.8 million of rent and lease bonus received by the State attributable to the disputed minerals which would be returned if the State does not own the disputed minerals, means there is an estimated \$106.4 million presently in dispute, and more if future production is considered.

On January 18, 2017 the Solicitor of the U.S. Department of Interior issued an opinion regarding ownership of the disputed minerals. The opinion concludes that Congress intended that the bed of the Missouri River did not pass to North Dakota upon statehood and that under the 1984 Mineral Restoration Act the riverbed minerals are to be held in trust by the United States for the benefit of the MHA Nation.

According to federal law, DOI officials and divisions including the BIA, Bureau of Land Management (BLM), the Office of Natural Resources Revenue, and the Interior Board of Indian Appeals are required to abide by this Solicitor Opinion.

Notwithstanding the meetings with the MHA Nation, the preparation of the joint letter with the BIA, and a commitment from both to jointly work to get well operators to deposit royalties into escrow accounts, efforts to coordinate replies and to consider a joint escrow deposit agreement have effectively ceased.

Some oil and gas operators believe that as a result of the opinion, the BIA will take a more aggressive effort to collect royalties from federal lessees rather than allow them to continue to suspend or escrow royalties. It is believed that the DOI is resurveying the historic riverbed to establish the master survey used for BIA leasing.

The Commissioner recommended the Board enter executive session for consultation with legal counsel regarding potential litigation, negotiation strategy and efforts to avoid litigation.

EXECUTIVE SESSION

Motion: Under the authority of North Dakota Century Code Sections 44-04-19.1 and 44-04-19.2, the Board close the meeting to the public and go into executive session for purposes of attorney consultation to consult with the Board's attorneys relating to: Title Dispute of Historic Riverbed within the Fort Berthold Indian Reservation.

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

At 9:39 AM the Board entered executive session for the purposes outlined in its adopted motion.

EXECUTIVE SESSION

Members Present:

Doug Burgum	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
Kristie McCusker	Legal Assistant
Catelin Newell	Office Manager
Gerard Schwan	Director, Grants and Claims

Authorized Guests in Attendance:

Hope Hogan	Office of the Attorney General
Charles Carvell	Special Assistant Attorney General
David Garner	Office of the Attorney General
Leslie Bakken Oliver	Governor's Legal Counsel

The executive session adjourned at 10:51 AM and the Board returned to open session and the public was invited to return to the meeting. During the executive session, the Board consulted with its attorneys on title disputes related to the historic riverbed within the Fort Berthold Indian Reservation, and no formal action was taken.

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

Proposed Restructure of the International Equity Portfolio

In August, the Board approved a revised asset allocation for the permanent trust funds and directed the Commissioner to undertake an asset class review of both the international equity and fixed income portfolios.

During the meeting, RVK's Josh Kevan presented an assessment of the current allocation to non- US equities and provided recommendations related to the permanent trusts' international equity portfolio, including a change of the benchmark used to evaluate the performance of the international equity portfolio and adoption of a revised portfolio structure that includes an allocation to actively managed small cap stocks.

It was recommended that the Board change the benchmark for the broad international equity portfolio from the MSCI All Country World ex US Index to the MSCI All Country World ex US Investable Markets Index (IMI).

It is also recommended that the Board adopt a revised structure to the permanent trusts' international equity portfolio. The new structure would be part of implementing the recently adopted 2% increase in the trusts' allocation to international equities. The new structure would involve a search for one or more investment firms to actively manage a small cap developed market portfolio for the trusts.

The recommended structure is designed to:

- Improve both the risk and return profile of the overall international equity portfolio though a slight overweighting to both small cap developed market equities and emerging market equities relative to the MSCI All Country World ex US IMI.
- Provide broader international equity exposure/diversification through the addition of small cap developed market equities to the international portfolio.
- Increase the potential to outperform the benchmark over the current international equity portfolio through the addition of more active management in those markets where active management has historically worked well.
- Improve the risk/return profile of the permanent trusts' overall portfolio and increase the probability that the portfolio meets the trusts' long-term goals and objectives.

Motion: The Board

1. **approves a change to the benchmark used to evaluate international equity performance from the MSCI All Country World ex USA Index to the broader MSCI All Country World ex USA Investable Markets Index;**
2. **adopts a new structure within the permanent trusts' 17% allocation to international equities that includes a 10.7% passive allocation to large/mid cap developed equities, a 2.6% actively managed allocation to small cap developed market equities and a 3.7% actively managed allocation to core emerging market equities;**
3. **directs the Commissioner to work with its consultant, RVK, to conduct a search to identify a manager(s) to fill the new active small cap developed market equity allocation, and to provide the Board with a recommendation of one or more finalist candidates.**

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

The Investment Policy Statement Review and Update was tabled to be reviewed at a subsequent meeting.

Investment Updates

The status of the asset allocation of the permanent trusts as of August 31, 2017:

Account/Asset Class	Long-Term Asset Allocation	8/31/17 Actual Allocation \$	8/31/17 Actual Allocation %
Large Cap US Equity	13.3%	\$ 562,852,940	13.4%
Mid/Small Cap US Equity	3.7%	\$ 150,929,384	3.6%
International Equity	12.0%	\$ 510,965,648	12.1%
Emerging Market Equity	3.0%	\$ 133,659,821	3.2%
Total Equities	32.0%	\$ 1,358,407,793	32.2%
Domestic Investment Grade	14.2%	\$ 582,397,133	13.8%
High Yield FI	3.0%	\$ 124,741,755	3.0%
International/Global FI	5.8%	\$ 242,502,833	5.8%
Total Fixed Income	23.0%	\$ 949,641,721	22.5%

Total Absolute Return	20.0%	\$ 843,690,674	20.0%
Commodities	3.0%	\$ 136,553,411	3.2%
MLPs	3.0%	\$ 124,814,977	3.0%
TIPS	2.0%	\$ 80,775,267	1.9%
Natural Resource Equities	2.0%	\$ 85,152,586	2.0%
Total Inflation Strategies	10.0%	\$ 427,296,241	10.1%
Core Real Estate	8.0%	\$ 348,306,361	8.3%
Core Plus Real Estate	7.0%	\$ 288,171,494	6.8%
Total Real Estate	15.0%	\$ 636,477,855	15.1%
Total Asset	100.0%	\$ 4,215,514,284	100.0%

Lazard (US High Yield Fixed Income: \$125.1 million, 3.0% of assets)

Lazard announced the retirement of Tom Dzwil, lead portfolio manager of the Board's High Yield mandate with Lazard. Jeff Clark has replaced Tom in his role and Edith England was added to the team to assist with high yield research.

Impact of Hurricanes on Real Estate Investments

Through investments with various real estate funds, the Board has exposure to many individual properties located across the country. The following real estate funds own properties in areas affected by recent major hurricanes:

- UBS Trumbull Property Fund (\$167.6 million, 4.0% of assets)
- Morgan Stanley Prime Property Fund (\$180.7 million, 4.3% of assets)
- JP Morgan Income and Growth Real Estate Fund (\$121.5 million, 2.9% of assets)
- Prologis Targeted US Logistics Fund (\$90.2 million, 2.1% of assets)

Managers of several of these funds have communicated updates of the specific properties affected. To this point there is no report of significant financial impact to the trusts as a result of these storms.

Harvest Fund Advisors (Diversified Inflation Strategies: \$125.9 million, 3.0% of assets)

Harvest Fund Advisors, a manager of the Board's investment in Master Limited Partnerships (MLP's), has announced it is being acquired by Blackstone Group LP. In addition one of the founding partners, David Martinelli, has announced his retirement. The investment process will not change, staff incentives will remain intact, and the Harvest team will retain a significant portion of the cash flow of their operations.

Van Eck Global (Diversified Inflation Strategies: \$83.8 million, 2.0% of assets)

Van Eck Global, the manager of the permanent trusts' natural resource equity investment, recently announced that Chief Compliance Officer Janet Squitieri has resigned. Deputy Chief Compliance Officer Lrina Toyberman will be taking over Janet's position on an interim basis until a replacement is identified.

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

Land Sale Policy and Study of Land Exchange Options

Of the original 3.2 million acre land grant provided to the State at statehood for the common schools and specific trusts, by the 1970s, approximately 80% had been sold by the Board. In 1981 it adopted a position which limited land sales to smaller and isolated tracts, and to parcels that caused management problems, the Board has had a limited land sale policy since.

On March 26, 2015 the Board revised its land sale policy to:

1. clarify that the general policy is to not sell land, unless certain conditions are met;
2. added language requiring that sales of larger tracts be coupled with a provision of "no net loss" of acres;
3. removed language specifically related to rates of return and low potential for development as being reasons for sale consideration; and
4. added a provision to authorize selling land in higher value urban locations.

The provision of no-net-loss of “leasable trust land” was adopted to provide an option to consider the sale of tracts that are larger than 80 grassland acres and 40 crop acres to be offered for sale without reducing the trust’s leasable real estate holdings. It allows for either an exchange of land between the two parties or a donation of land to the trust from which the original land was sold. To date, the no-net-loss policy has not been used and no procedures have been developed to implement the policy.

Grant County Tracts

A number of times since 2006, Kelly Moldenhauer, a lessee of several trust tracts in Grant County- has approached the Department requesting to purchase three tracts he currently leases. Because these tracts do not fall within the parameters of the land sale policy, the requests have not been previously presented to the Board.

The following trust tracts leased by Mr. Moldenhauer within Township 136 North, Range 86 West: Section 28: NW4; Section 32: N2N2 Section 36: SE4 are tracts that he would like to nominate for purchase.

The NW4 of Section 28 was acquired through foreclosure in 1927. Access provided by the road provides for easy public access. The current land use is grassland. There is a livestock water well on the portion northeast of the road.

The N2N2 of Section 32 was acquired through foreclosure in 1935. Non-vehicular access to this tract is difficult, with the Heart River preventing access from the west while steep topography make access difficult along the section line from the east. The land use is grassland and there is currently no developed livestock water on this tract.

The SE4 of Section 36 is original grant land assigned to the common schools trust fund and has never been sold.

The land sale policy, while focused on the sale of smaller, difficult to manage tracts, permits consideration of land exchanges of larger pieces. The provision is complicated by statute which indicates that land is to be sold at competitive bid and by the fiduciary duty that trust value cannot be diminished.

In accordance with the Board’s Land Sale policy, the Commissioner asked for authority to investigate and develop the mechanics and policies that might permit a trade to occur.

Motion: The Board directs the Commissioner to investigate and explore procedural options to implement the Board’s no net loss of “leasable trust land” policy through land exchanges of like or equal acres and value.

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

The following items were presented to the Board: The Department of Trust Lands’ Land Sale Policy, History of Land Sale Policy, Aerial maps of the referenced tracts, and materials presented by Kelly Moldenhauer.

O P E R A T I O N S

The Common Schools Trust Fund Revenue Distribution History memo was tabled to be discussed at a subsequent Board Meeting.

Board of University and School Lands Meeting Dates For 2017-2018

North Dakota Century Code 15-01-03 states that the Board shall meet on the last Thursday of each month, unless it appears a quorum will not be present at which time it may be rescheduled. Special meetings of the Board may be held at any time at the written call of the chairman, the commissioner, or any two members of the Board.

The statutory schedule for the next 14 months:

- November 30, 2017
- December 28, 2017
- January 25, 2018
- February 22, 2018
- March 29, 2018
- April 26, 2018
- May 31, 2018
- June 28, 2018
- July 26, 2018
- August 30, 2018
- September 27, 2018
- October 25, 2018
- November 29, 2018
- December 27, 2018

Traditionally, the Board has combined its late November and December meeting dates into one meeting in early December.

O T H E R B U S I N E S S

Commissioner Selection Process

Governor Burgum reported that the closing date for applications is September 30, 2017 and that 26 applications had been received as of the meeting date. He indicated that Jodi Uecker will chair the search committee, which first meeting will be on October 6, 2017.

R E P O R T S

Report of Easements Issued by Land Commissioner (8/5/17 to 9/12/17)

Granted to:	TESORO HIGH PLAINS PIPELINE CO LLC, SAN ANTONIO-TX
For the Purpose of:	Easement: Gas Gathering Pipeline
Right-of-Way Number:	RW0008067
Trust:	A = Common Schools
Legal Description:	MOU-155-93-36-NW4, SW4

Granted to:	PETRO-HUNT LLC, BISMARCK-ND
For the Purpose of:	Easement: Salt Water Disposal Well - Extension
Right-of-Way Number:	RW0008081
Trust:	A = Common Schools
Legal Description:	MCK-153-96-36-NE4

Granted to:	ROCKWATER ENERGY SOLUTIONS, WILLISTON-ND
For the Purpose of:	Letter of Permission: Access to School Land for the purpose of laying a temporary surface frac water pipeline
Right-of-Way Number:	RW0008112
Trust:	A = Common Schools
Legal Description:	MOU-154-93-36-NW4, SW4

Granted to:	MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND
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(09/28/17)

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

Easement: Drop Line-Electric Distribution Line
 RW0007529
 A = Common Schools
 WIL-153-99-22-W2SE4 LESS ACRES CONDEMNED

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND

Easement: Drop Line-Electric Distribution Line
 RW0007632
 A = Common Schools
 WIL-154-95-16-RW0007632

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

TARGA BADLANDS LLC, HOUSTON-TX

Easement-Amend: Gas Gathering Pipeline
 RW0008109
 A = Common Schools
 MCK-150-95-16-NE4, NW4, SW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

BEAVER CREEK ARCHAEOLOGY, BISMARCK-ND

Permit: Planning & Preconstruction Survey
 RW0008118
 A = Common Schools
 WAR-155-84-1-SW4NW4 LYING N & E OF RIVER CENTERLINE

Granted to:

For the Purpose of:

Right-of-Way Number:
 Trust:
 Legal Description:

STARK COUNTY HWY DEPT, DICKINSON-ND

Letter of Permission: Access to School Land for the purpose of establishing a location along the Heart River to place a water pump and truck access for drawing water for nearby road work and dust control.
 RW0008121
 A = Common Schools
 STA-138-93-16-NW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

CARLSON MCCAIN INC, BISMARCK-ND

Permit: Planning & Preconstruction Survey
 RW0008122
 A = Common Schools
 WAR-155-84-1- SW4NW4 LYING N & E OF RIVER CENTERLINE

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND

Easement: Drop Line-Electric Distribution Line
 RW0007671
 A = Common Schools
 WIL-154-100-36-NW4, SE4, SW4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

BUCKHORN SWD SOLUTIONS LLC, GREENWOOD VILLAGE-CO

Easement: Salt Water Pipeline
 RW0008080
 A = Common Schools
 MOU-154-94-16-SE4

Granted to:

For the Purpose of:
 Right-of-Way Number:
 Trust:
 Legal Description:

ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT

Easement: Drop Line-Gas Gathering Pipeline
 RW0008020
 A = Common Schools
 WIL-154-100-16-SE4

Granted to:

ONEOK ROCKIES MIDSTREAM LLC, SIDNEY-MT

For the Purpose of: Easement: Drop Line-Gas Gathering Pipeline
 Right-of-Way Number: RW0008088
 Trust: A = Common Schools
 Legal Description: DUN-147-96-36-NE4

Granted to: ATWELL LLC, SOUTHFIELD-MI
 For the Purpose of: Permit: Planning & Preconstruction Survey
 Right-of-Way Number: RW0008124
 Trust: A = Common Schools
 Legal Description: WAR-155-84-1- SW4NW4 LYING N & E OF RIVER CENTER

Other Funds Managed by the Board – 2nd Quarter 2017

Strategic Investment and Improvements Fund 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 portion of the oil and gas production and extraction taxes collected by the State. Because the entire balance of this fund can be appropriated each biennium, it is invested in a conservative, short-term fixed income portfolio.

	6/30/17 Asset Balances	Yield/Total Return for Qtr. Ended 6/30/17
Strategic Investment and Improvements Fund		
Loan Guarantee – Fuel Production	\$ 17,222,000	0.39% Yield
Investments/Cash	322,617,000	0.35% Total Return
Total	\$ 339,839,000	

- During the quarter ended June 30, 2017, the SIIF declined in value by approximately \$34.8 million, primarily due to the transfer of \$172.1 million of emergency clause funding during the quarter.
- The primary sources of trust growth for the quarter were oil tax revenues (\$121.4 million) and mineral royalties (\$17.7 million). Interest income totaled approximately \$1.0 million for the quarter.
- The funds set aside to guarantee a loan for the Dakota Spirit AgEnergy biomass fuel production facility earned an annualized yield of approximately 0.39% during the quarter. The SIIF also received the annual loan guarantee fee of 0.25% (\$40,000) in June.
- The investment assets of the SIIF, Coal Development Trust Fund, and Capitol Building Fund are commingled in the Ultra-Short bond portfolio managed by Northern Trust.

School Construction Assistance Loan Fund (SCALF)

- The SCALF was created by SB 2039 in 2015 with a transfer of \$150 million of outstanding school construction loans from the SIIF. Control of the SCALF was transferred to the Bank of North Dakota (BND) in January 2017, when \$143,012,155.13 of school construction loans, \$1,147,621.82 of interest receivable and \$9,060,398.16 of cash were moved to the BND.

Coal Development Trust Fund

The Coal Development Trust Fund (CDTF) 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 funds not loaned to political subdivisions. As directed in the Constitution, the income earned by the

CDTF is transferred to the General Fund each year. The CDTF has historically been invested in a conservative short-term fixed income portfolio.

	6/30/3017 Asset Balances	Yield/Total Return for Qtr. Ended 6/30/17
Coal Development Trust Fund		
School Construction Loans	\$ 48,318,000	1.53% Yield
Coal Impact Loans	12,660,000	3.36% Yield
Investments/Cash	7,948,000	0.35% Total Return
Total	\$ 68,926,000	

- ♦ A total of \$10.27 million of school construction loans to the Richardton-Taylor, Flasher, Emerado, and Glenburn school districts were funded during the quarter ended June 30, 2017.

Capitol Building Fund

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 nearly 10,000 surface and 27,700 mineral acres it owns. Because the Fund can be appropriated by the legislature each biennium, it is invested in a conservative, short-term fixed income portfolio.

The Capitol Grounds Planning Commission (CGPC) has official control over the Capitol Building Fund; the Land Board is responsible for investing the assets, which it has done within the Northern Trust Ultra Short bond fund.

	6/30/17 Asset Balance	Total Return Qtr. Ended 6/30/17
Capitol Building Fund		
Investments/Cash	\$ 5,017,000	0.35% Total Return

- ♦ The 65th Legislature authorized carryover spending authority for the Capital Building Fund for the 2017-19 biennium:
 - \$1.4 million previously designated in 2015 for Capitol Building entrance and signage projects.
 - \$1.75 million for the new Governor's residence. This authority was approved by the carryover committee in June of 2017.
- ♦ During the quarter ended June 30, 2017, the Capitol Building Fund collected approximately \$222,000 of oil and gas royalties. Investment assets generated approximately \$17,200 of interest income during the quarter.
- ♦ \$1.64 million was transferred out of the fund to Facilities Management during the quarter ended June 30, 2017.

ADJOURN

There being no further business, the meeting was adjourned at 11:37 AM.

Doug Burgum, Chairman
Board of University and School Lands

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

**Minutes of the Meeting of the
Board of University and School Lands
October 26, 2017**

The October 26, 2017 meeting of the Board of University and School Lands was called to order at 9:00 AM in the Governor's Conference of the State Capitol by Chairman Doug Burgum.

Members Present:

Doug Burgum	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
Linda Fisher	Deputy Commissioner
Jeff Engleson	Chief Investment Officer
Drew Combs	Minerals Manager
Levi Erdmann	Investment Analyst
Peggy Gudvangen	Accounting Manager
Mike Humann	Surface Manager
Kristie McCusker	Legal Assistant
Catelin Newell	Office Manager
Gerard Schwan	Director of Grants and Claims

Guests in Attendance:

Leslie Bakken Oliver	Governor's Legal Counsel
David Garner	Office of the Attorney General
Hope Hogan	Office of the Attorney General
Ron Rauschenberger	Petrogulf
Chris E. Manning	Slawson Exploration
Lawrence Bender	Fredrikson & Byron
Brady Pelton	North Dakota Petroleum Council
Amy Dalrymple	Bismarck Tribune
Mindy Piatz	Brady Martz (via telephone)

APPROVAL OF MINUTES

A motion to approve both the minutes of the September 28, 2017 meeting and the amended minutes of the August 21, 2017 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

Authorization for Annual Cap of Airport Grants

In August 2017, the Board approved plans to proceed with a grant round for the Dickinson Airport for \$1.5 million and the Williston Airport for \$15 million, for a total of \$16.5 million. The North Dakota Aeronautics Commission, working as the Board's advisory committee, requested consideration to increase the maximum grant consideration for Williston Airport by an additional \$3.5 million.

There are sufficient funds to increase the amount available for airport grants in the current fiscal year:

- 1) \$11 million transferred into the Energy Impact Grant Fund in August 2017; and
- 2) \$2 million deposited in the Energy Impact Grant Fund in September 2017; and
- 3) \$13.9 million deposited in the Oil and Gas Impact Grant Fund for 2017-2019.

Under N.D.C.C. § 15-01-02, only 60% of appropriated grant funds may be expended annually during a biennium. The total of appropriated grant funding in Senate Bill 2013 for the 2017-2019 biennium is \$40 million, thus total grants in either fiscal year cannot exceed \$24 million.

Motion: The Board increases its previous authorization of \$16.5 million of possible grants to airports to \$20 million for the Williston and Dickinson Airports; and the Board directs the Energy Infrastructure and Impact Office to develop grant recommendations in concert with the North Dakota Aeronautics Commission which serves as the Board's advisory committee for this purpose.

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

Proposed Criteria for Contingency Grant Round

Section 10 of Senate Bill 2013 of the 65th Legislative Session allowed the use of unexpended funds to provide for grants and administrative costs during the 2017-2019 biennium. In June 2017, the Board approved the establishment of a contingency fund to utilize undistributed funds from previous biennia.

The Board has retired \$2.2 million of remaining balances of previously awarded grants. After grant status reports are collected in December 2017, the Board will have more funds available with the cancelation of unused portions of grants.

The EIIO projects \$400,000 of operations/administrative budget for the biennium.

Unutilized or committed funds in the Oil and Gas Impact Grant Fund:

June 30, 2017 ending balance:	\$2,115,537
Increases in July 2017	+107,069
Anticipated retirements as of January 2018	+500,000
Operations/administrative budget	<u>-400,000</u>
	\$2,322,606

The EIIO recommended grant criteria for the approximate \$2 million contingency of oil and gas impact grant funds as follows:

Funds are available for eligible political subdivisions (e.g., counties, cities, school districts, or other taxing districts) impacted by oil and gas development. Applications must be made by an appointed or elected government official and include a description of an unmet or unanticipated need. Evaluation of applications will be based upon:

- 1) Impact by current oil and gas development activity;
- 2) Shared local cost commitments will score higher and those projects seeking full funding from grants will score lower;
- 3) Applications that address the health, welfare, and safety of the public will score higher. Projects which do not address these factors will score lower;

- 4) Project contribution to sustained economic development or activity;
- 5) Ability to be accomplished within 24 months of the grant award; and
- 6) Provided bids or cost estimates from vendors.

Applications will be accepted until the Board announces the closing of the contingency round, or funds are depleted. The announcement will be posted to the EIO website and distributed to eligible taxing districts through the Western Dakota Energy Association.

The Board took no action but asked the Director to provide recommendations for an advisory committee that could suggest grant criteria and timelines.

MINERALS MANAGEMENT

Sovereign Lands' Submerged Minerals

On September 28, 2017, the North Dakota Supreme Court reversed the district court's decision and remanded *Wilkinson v. Board of University and School Lands*, back to the district court.

The Supreme Court held that:

1. Surface ownership could not be determined without the United States as a party to the action.
2. N.D.C.C. ch. 61-33.1 applied retroactively and the district court did not have an opportunity to determine if it applies and governs ownership of the minerals at issue;
3. A "takings" analysis must be conducted if the district court determines the State owns the disputed minerals; and
4. The district court erroneously made findings of disputed fact.

EXECUTIVE SESSION

Motion: **Under the authority of North Dakota Century Code Sections 44-04-19.1 and 44-04-19.2, the Board close the meeting to the public and go into executive session for purposes of attorney consultation to consult with the Board's attorneys relating to: provide guidance to legal counsel on *Wilkinson v. Board of University and School Lands*; and other pending or anticipated litigation concerning sovereign lands' submerged minerals.**

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

At 9:27 AM the Board entered executive session for the purposes outlined in its adopted motion.

EXECUTIVE SESSION

Members Present:

Doug Burgum	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
Linda Fisher	Deputy Commissioner
Drew Combs	Minerals Division Manager
Catelin Newell	Office Manager
Gerard Schwan	Director of Grants and Claims

Authorized Guests in Attendance:

Hope Hogan	Office of the Attorney General
David Garner	Office of the Attorney General
Leslie Bakken Oliver	Governor's Legal Counsel

The executive session adjourned at 9:41 AM and the Board returned to open session and the public was invited to return to the meeting. During the executive session, the Board provided its attorneys with guidance on *Wilkinson v. Board of University and School Lands*.

Oil and Gas Lease Extension Request Mountrail County 152-92-36: S2 & 151-91-6: SE4, E2SW4, Lots 6,7

On February 7, 2012, the Board issued two leases to Slawson Exploration Company, Inc. ("Slawson"), covering the Common Schools Trust Fund tracts' mineral interests in the SE/4 and SW/4 of Section 36, Township 152 North, Range 92 West. In addition, Davis Exploration LLC ("Davis") has Department issued leases of tracts held by the Strategic Investment and Improvements Fund (SIIF) in Section 6: SE4, E2SW4, Lots 6 and 7, Township 151 North, Range 91 West (collectively referred to as "the Leases"). The Leases are within a unit operated by Slawson for the Torpedo Unit, a five-section unit comprised of 3,106.02 acres. The Leases cover a total of 312.11 net mineral acres and were issued for a bonus payment of \$1,565,504.

On July 27, 2011, Slawson submitted six applications for permits to drill ("APDs") to the Bureau of Land Management (BLM). On May 8, 2015, Slawson submitted four more APDs to the BLM. The primary terms of the Leases expired on February 6, 2017. The BLM issued eight permits to Slawson on May 9, 2017.

Slawson notified the Department in November of 2016, indicating it was experiencing an abnormal delay in getting federal approvals for its location and drilling program. An update letter from Slawson was received January 10, 2017 on the described activities. At that time Slawson's out-of-pocket expenses on pad construction was \$475,000.

Based upon drilling activity, the Commissioner issued two six-month lease extensions, extending the primary term of the Leases from February 7, 2017 to January 31, 2018.

Slawson believes the most efficient and safest method of developing the minerals is to drill at least eight wells at once, rather than drilling only one well in order to obtain initial production to hold the Leases. The project currently has three wells drilled and uncompleted, which will be hydraulically fractured and completed later. After completion of the initial six, two additional wells are planned to be spud.

Slawson applied to add an additional two wells to the location, bringing the total number of wells to ten. However, the BLM has not yet approved the additional wells. Slawson has expended \$15,350,000 on the project, not including the cost of leases.

Based on its continuing drilling operations, Slawson requested an additional one-year extension, from February 1, 2018 through January 31, 2019, because it plans to complete the batch drill of at least eight wells. Slawson believes that without further federal delays, production can be obtained by late 2018.

It was recommended that the Board approve a one-year extension of the Leases subject to evidence of continuous drilling operations leading to production of oil and gas. The proposed fee for this was \$30 for the third extension and \$40 for the fourth extension.

Motion: The Board authorizes a one-year extension of the Leases located in Mountrail County Township 152 North, Range 92 West Section 36: S2 and Township 151 North, Range 91 West Section 6:SW4, E2SW4, Lots 6 & 7 from February 1, 2018 through January 31, 2019 as long as Slawson is conducting good faith drilling, testing, and completion operations as required under Section 8 of the Leases and Slawson provides monthly reports detailing its drilling operations to evidence its compliance with the terms of the Leases and pays a fee of \$70.00 per net mineral acre.

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

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

Investment Policy Statement Review and Update

Proposed changes to the Board's Investment Policy Statement (IPS) were reviewed. The proposed changes reflect the new asset allocation adopted for the permanent trusts in August 2017, an updated broad international equity benchmark, other updates intended to clarify distribution calculations, corrected references to the North Dakota Century Code, as well as changes because of 2017 legislation. There were also minor changes to formatting, grammar, and clarification of legal references recommended.

Motion: The Board approves the amended Investment Policy Statement as presented.

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

The amended Investment Policy Statement is available at the Department.

Search for International Small Cap Equity Manager

Previously, the Board approved a new benchmark for the permanent trusts' international equity portfolio; adopted an allocation to actively managed international small cap equities; and directed the Commissioner to work with RVK to conduct a search for a new active small cap international equity manager and to provide a recommendation of a candidate(s) for Board consideration.

The Department and RVK reported the search included a review of 149 international small cap products found in the eVestment Alliance database. Criteria used to perform an initial screen of the investment managers within the database were summarized for the Board:

Screening Criteria	Failing	Rationale for Criteria
Strategy Listed as Closed to New Investments	16	International small cap is a capacity constrained asset class, those strategies listed as closed should not be accepting new mandates.
No Five-Year Track Record	43	Generally when evaluating managers, the more data the better. In this asset class, requiring a 5 year track record strikes a balance between wanting to hire established managers and needing to review newer strategies with ample capacity.
Firm AUM < \$5 billion	29	Total firm AUM can serve as a proxy for firm stability. \$5 billion is a level that allows a firm to adequately staff and support an international investment team (including back office and trading), without eliminating qualified boutique managers.
Portfolio Manager (PM) Turnover > 50% and remaining PM < 20 yrs industry experience	9	PM turnover is not considered good, however, if the new PM(s) have 20 or more years of industry experience it was decided that those firms could continue to be included in the search.
Product AUM < \$300 million	69	Given the difficulty involved in trading international small cap equities, a minimum level of AUM provides comfort that the firm should be able to execute their trading strategy at an institutional level of assets.
3 Year Performance Consistency > Median	64	Consistency of performance is important. This sort eliminates those products that, on average, do not outperform peers over rolling three year time periods.
Calendar Year Returns > Median of the Peers in the Database	70	This screen uses consistency of calendar year returns to further screen out managers that do not outperform their peers on a regular basis.

Ten firms which met the applied criteria received Requests for Information (RFI) questionnaires. Additionally, three non-US small cap managers used by the State Investment Board (SIB) were included in the RFI due to the potential for fee savings.

Investing internationally via a commingled fund or mutual fund product reduces the amount of administrative time spent on tax, exchange, and custody issues and costs. Investing via a fund is believed to be the most cost effective way for the trusts to gain exposure to international markets. A number of the entities that responded did not have a commingled or mutual fund in which the trusts could invest.

Of the 13 investment firms that were asked to submit an RFI, eleven responded. The responses detailed: ownership structure, professional staff, investment philosophy/process, risk management, performance and fees. In coordination with RVK, applications were scored. Rankings, responses and fees were compared resulting in the selection of four candidates to further review:

- Barrings LLC, Charlotte, NC
- Quantitative Management Associates LLC, Newark, NJ
- Schroder Investment Management Ltd., London, England
- T. Rowe Price Group, Inc. Baltimore MD

Interviews will be arranged with these managers, with the objective to provide a recommendation to the Board to consider to manage a small cap international portfolio for the permanent trusts.

Investment Updates

Lazard (US High Yield Fixed Income: \$126.0 million, 3.0% of assets)

Partly in response to the retirement of lead portfolio manager Tom Dzwil, the Department's investment analyst Levi Erdmann and Marcia Beard from RVK visited the Lazard Asset Management offices in New York to review the Board's high yield portfolio. The meeting did not uncover any immediate concerns, however the role of this manager will continue to be reviewed as part of a more detailed analysis of the broad fixed income portfolio.

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

Proposed Burke Wind, LLC Wind Farm (Burke County: 36-161-91 and 16-161-92)

NextEra Energy Resources LLC (NextEra), applied for a Wind Energy Easement Agreement (easement) for its Burke Wind LLC, to place eight wind towers within section 36-161-91 and section 16-161-92 Burke County. The proposed Burke Wind Energy Center will contain approximately 82 wind towers and produce 200 megawatts of power.

The Department conducted an onsite inspection of the trust property, including the eight proposed wind tower locations, associated access road, collection lines and construction crane access paths. Wind tower locations were positioned in coordination with the Department to maximize the number of wind towers and minimize environmental interference on trust land.

When NextEra has secured agreements with a majority of the landowners within the project area, an application will be presented to Burke County Planning and Zoning Commission and the Burke County Commissioners for approval. Upon local approval, NextEra will submit an application to the Public Service Commission (PSC) for project approval.

NextEra has asked for confirmation that the Board will consider an easement for the Burke Wind Energy Center should the wind energy center be approved by Burke County and the PSC. If Burke County and the PSC approve the project, the Department would negotiate proposed easement terms with NextEra and present a draft easement agreement to the Board for its consideration.

Motion: The Commissioner is authorized to confirm by letter that the Board will consider a Wind Energy Easement Agreement with Burke Wind LLC regarding the location and potential use of trust land within the Burke Wind Farm; and upon Burke County and the Public Service Commission's approval of the project, the Commissioner is authorized to negotiate and submit a recommended easement and terms for Board consideration.

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

O P E R A T I O N S

Audited Financial Statements for the Year Ended June 30, 2017

Brady Martz Certified Public Accountants and Consultants completed its review of the financial statements of the Department of Trust Lands for the year ended June 30, 2017 and provided an opinion on the fair presentation of the financial statements. Mindy Piatz of Brady Martz reviewed the report with the Board.

The report identified no audit findings or recommendations.

The audited financial statement is available on the State Auditor's and the Department of Trust Lands' websites.

Common Schools Trust Fund Revenue and Distribution History

Educational and institutional trust distributions are based upon the growth in value of the trusts' financial assets over time. The Board reviewed the historical annual distributions from the Common Schools Trust Fund and the amount of income and assets available to make those distributions.

- **Statehood through FY 2009:** In most years up to 2009 “interest and income” including investment income and dividends, surface rentals and mineral rentals was distributed to the common schools. Revenues from minerals royalties and bonuses, easements, unclaimed property, etc., was deposited into the corpus, and could not be distributed.

The exception was during 1980 through 1984 when a portion of the collected mineral lease bonuses were distributed. A constitutional measure was adopted that ceased the spending of bonuses. The distributions including bonuses generated high payout rates in Fiscal Years 1980 through 1984.

- **FY 2010 to present:** Starting in Fiscal Year 2010 distributions are based on the growth in value of the trust fund over time as determined under the formula found in Article IX, Sec. 2 of the State Constitution. Revenues from all sources are deposited into the fund and the total financial value determines distributions.

Biennial distributions must be ten percent of the five-year average value of trust assets, excluding the value of lands and minerals. Equal amounts are distributed during each year of the biennium.

Oil and gas lease bonus and royalty revenues resulted in substantial growth in the Common Schools Trust Fund which increased by 300% over eight years. Strong investment markets have also been a big driver of growth since the 2008-2009 recession. Because the distribution formula is based on assets values over a previous five years, and the trust is experiencing substantial trust growth, the effective distribution rate has averaged 3% over past eight years. The growth in trust assets results in trust distributions growing by 331% from 2008-2009 biennium to the 2017-2019 biennium.

Performance Audit Status Update

The State Auditor’s performance audit report No. 3036 relating to the Energy Infrastructure and Impact Office, Unclaimed Property, and Trust Assets and Department Resources was published in April 2016. The Board reviewed a summary of progress on the various accumulated recommendations.

One issue identified during the performance audit involved improper Trust assignments to mineral parcels involving the Youth Correctional Center and the Ellendale Trust. Extensive efforts to review historical information to validate trust mineral ownership has been underway. This project involves retrieving documents from historical archives and comparing paper records to electronic data.

County record reviews will continue to be prioritized using oil and gas production statistics, followed by counties with coal production, and then counties with little or no anticipated current or historical financial impact. Nearly 700 hours of staff time has been expended in this effort. Additional errors have been identified; however, overall the impact of the discovery has been far less than what was encountered with the Youth Correctional Center and the Ellendale Trusts mis-assignment.

OTHER BUSINESS

Commissioner Hiring Process

Governor Burgum indicated that background checks are being performed on four applicants. Once background checks are complete, the finalists will be presented to the Board for interviews in a special meeting.

R E P O R T S

Summary of Investment Fees Paid in FY 2017

The report of investment fees and expenses paid during the fiscal year ended June 30, 2017 was reviewed by the Board.

The pooled investments of the permanent trusts had an average market value of \$3.91 billion and paid \$20,993,639 during the fiscal year, resulting in an average fee rate of 0.537% of the average assets. Net of fees, the permanent trust pool realized a total return of 9.65% in fiscal year 2017.

The pooled investments of the Coal Development Trust Fund, the Strategic Investment and Improvements Fund (SIIF), and the Capitol Building Fund had an average market value of \$335.3 million during the fiscal year and paid \$214,894 in investment management fees, an average fee rate of .064%. The SIIF/Coal/Capitol investment pool had a total return of 1.01% net of fees for the fiscal year.

Securities Lending Annual Report

A report describing the performance and status of the Board's securities lending program, as facilitated by Northern Trust, for the fiscal year ended June 30, 2017, was reviewed by the Board.

The Board's investment policy specifies that securities lending should utilize a high-quality and conservative collateral re-investment approach that safeguards the return of principal and maintains adequate daily liquidity to support trade settlement activity and portfolio restructuring activities.

Report of Easements Issued by Land Commissioner 09/12/2017 to 10/16/2017

Granted to:	ROCKWATER ENERGY SOLUTIONS, DICKINSON-ND
For the Purpose of:	Letter of Permission: Access to School Land for a temporary above ground frac water pipeline
Right-of-Way Number:	RW0008127
Trust:	A - Common Schools
Legal Description:	MCK-150-96-36-SE4

Granted to:	STANG FARMS, REGENT-ND
For the Purpose of:	Easement: Potable Water Pipeline
Right-of-Way Number:	RW0008115
Trust:	A - Common Schools
Legal Description:	HET-135-97-28-NE4

Granted to:	WPX ENERGY WILLISTON LLC, KILLDEER-ND
For the Purpose of:	Letter of Permission: Access to School Land for a temporary above ground frac water pipeline
Right-of-Way Number:	RW0008120
Trust:	A - Common Schools
Legal Description:	MOU-150-92-10-S2SW4

Granted to:	PETRO-HUNT LLC, BISMARCK-ND
For the Purpose of:	Easement: Raw Water Pipeline
Right-of-Way Number:	RW0008048
Trust:	A - Common Schools
Legal Description:	WIL-154-99-16-NE4, NW4, SW4

Granted to:	MEDORA GRAZING ASSOCIATION, MEDORA-ND
For the Purpose of:	Easement: Raw Water Pipeline
Right-of-Way Number:	RW0008131
Trust:	A - Common Schools
Legal Description:	BIL-138-101-36-SE4

Granted to:	CANTICLE PRODUCTIONS LLC, BISMARCK-ND
For the Purpose of:	Letter of Permission: Access to School Land or access for production filming purposes
Right-of-Way Number:	RW0008139
Trust:	A - Common Schools
Legal Description:	SLO-136-102-16-NE4, SE4, SE4NW4, LOTS 1,2,3, SW4
Granted to:	UNIVERSITY OF NORTH DAKOTA, GRAND FORKS-ND
For the Purpose of:	Permit: To conduct sampling of a coal outcrop
Right-of-Way Number:	RW0008125
Trust:	A - Common Schools
Legal Description:	SLO-136-102-16-NE4
Granted to:	ROCKWATER ENERGY SOLUTIONS, DICKINSON-ND
For the Purpose of:	Letter of Permission: Access to School Land for a temporary above ground frac water pipeline
Right-of-Way Number:	RW0008135
Trust:	A - Common Schools
Legal Description:	DUN-147-96-36-NE4, E2SE4
Granted to:	WEST DAKOTA WATER LLC, WILLISTON-ND
For the Purpose of:	Letter of Permission: Access to School Land for a temporary above ground frac water pipeline
Right-of-Way Number:	RW0008130
Trust:	A - Common Schools
Legal Description:	MCK-150-97-36-SE4, SW4
Granted to:	CONSOLIDATED TELCOM, DICKINSON-ND
For the Purpose of:	Easement: Communication Cable - Buried
Right-of-Way Number:	RW0008143
Trust:	H - State Hospital
Legal Description:	BOW-132-106-30-E2NW4, LOTS 1,2
Granted to:	GOODNIGHT MIDSTREAM BAKKEN LLC, DALLAS-TX
For the Purpose of:	Easement: Salt Water Pipeline
Right-of-Way Number:	RW0008111
Trust:	A - Common Schools
Legal Description:	MCK-149-96-16-NE4, NW4
Granted to:	SELECT ENERGY SERVICES LLC, WILLISTON-ND
For the Purpose of:	Letter of Permission: Access to School Land for a temporary above ground frac water pipeline
Right-of-Way Number:	RW0008145
Trust:	A - Common Schools
Legal Description:	MCK-149-95-36-LOTS 3,4

A D J O U R N

There being no further business, the meeting was adjourned at 10:51 AM.

Doug Burgum, Chairman
Board of University and School Lands

Linda Fisher, Secretary
Board of University and School Lands

(10/26/17)

**Minutes of the Meeting of the
Board of University and School Lands
November 7, 2017**

The November 7, 2017 special meeting of the Board of University and School Lands was called to order at 8:00 AM in the Governor's Conference of the State Capitol by Chairman Doug Burgum.

Members Present:

Doug Burgum	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:

Linda Fisher	Deputy Commissioner
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Guests in Attendance:

Leslie Bakken Oliver	Governor's Legal Counsel
Jodi Uecker	Governor's Office - Selection Committee Chairman
Tom Stromme	Bismarck Tribune
Amy Dalrymple	Bismarck Tribune
David Straley	North American Coal

ADMINISTRATIVE

Land Commissioner Interviews and Selection.

Following a brief overview by Jodi Uecker of the search committee process and prioritization of preferred candidate attributes, the Board interviewed Land Commissioner finalists Lance Gaebe, Jodi Smith and Doug Lee. Discussion of the three interviews led to the following action.

Motion: The Board reduce the finalist list to two by removing Doug Lee from consideration.

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

At the conclusion of further discussion of the candidate attributes for the remaining two candidates, Chairman Burgum called for a voice vote on candidate of choice for the position of Land Commissioner.

Action Record	Candidate of Choice
Secretary Jaeger	Lance Gaebe
Superintendent Baesler	Jodi Smith
Treasurer Schmidt	Jodi Smith
Attorney General Stenehjem	Lance Gaebe
Governor Burgum	Jodi Smith

A D J O U R N

There being no further business, the meeting was adjourned at 11:10 A.M.

Doug Burgum, Chairman
Board of University and School Lands

Linda Fisher, Secretary
Board of University and School Lands

**Minutes of the Meeting of the
Board of University and School Lands
November 22, 2017**

The November 22, 2017 special meeting of the Board of University and School Lands was called to order at 2:05 PM in the Governor's Conference of the State Capitol by Chairman Doug Burgum.

Members Present:

Doug Burgum	Governor (via telephone)
Alvin A. Jaeger	Secretary of State
Wayne Stenehjem	Attorney General
Kelly Schmidt	State Treasurer
Kirsten Baesler	Superintendent of Public Instruction (via telephone)

Department of Trust Lands Personnel present:

Linda Fisher	Deputy Commissioner
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Guests in Attendance:

Leslie Bakken Oliver	Governor's Legal Counsel (Via telephone)
Pam Sharp	Director, Office of Management and Budget (via telephone)
Hope Hogan	Assistant Attorney General
Mike Nowatski	Governor's Office

Land Commissioner Compensation, Transition Plan and Next Steps.

Motion: The appointment of Commissioner Jodi Smith be effective November 27, 2017. Further, that employment of Lance Gaebe be continued through December 6, 2017 and that he be provided a severance package equal to three months' salary plus the value of three months of State health insurance benefits.

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

Based upon research of compensation for department heads of comparable North Dakota state agencies, Office of Management and Budget Director, Pam Sharp recommended an annually salary of \$130,000 for the newly appointed commissioner. Superintendent Baesler joined the meeting during this discussion.

Motion: The salary for Commissioner Jodi Smith be set at \$124,000 annually with a review and possible salary increase at the completion of six months of employment.

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

A D J O U R N

There being no further business, the meeting was adjourned at 2:30 PM.

Doug Burgum, Chairman
Board of University and School Lands

Linda Fisher, Secretary
Board of University and School Lands

**Minutes of the Meeting of the
Board of University and School Lands
December 6, 2017**

The December 6, 2017 meeting of the Board of University and School Lands was called to order at 8:30 AM in the Governor's Conference of the State Capitol by Chairman Doug Burgum.

Members Present:

Doug Burgum	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:

Jodi Smith	Commissioner
Linda Fisher	Deputy Commissioner
Jeff Engleson	Chief Investment Officer
Drew Combs	Minerals Manager
Levi Erdmann	Investment Analyst
Lance D. Gaebe	Prior Commissioner
Peggy Gudvangen	Accounting Manager
Mike Humann	Surface Manager
Kristie McCusker	Legal Assistant
Catelin Newell	Office Manager
Gerard Schwan	Director of Grants and Claims

Guests in Attendance:

Leslie Bakken Oliver	Governor's Legal Counsel
David Garner	Office of the Attorney General
Hope Hogan	Office of the Attorney General
Charles Carvell	Office of the Attorney General
Kyle Wanner	ND Aeronautics Commission
Jared Wingo	ND Aeronautics Commission
Brady Pelton	North Dakota Petroleum Council
Marcia Beard	RVK
Amy Dalrymple	Bismarck Tribune
Tom Stromme	Bismarck Tribune
Brad Zenz	Quantitative Management Associates
Roy Henriksson	Quantitative Management Associates
Vlad Shutoy	Quantitative Management Associates

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 26, 2017, November 7, 2017 and November 22, 2017 meetings was made by Attorney General Wayne Stenehjem and seconded by Secretary of State Al Jaeger and the motion carried unanimously on a voice vote.

ENERGY INFRASTRUCTURE AND IMPACT OFFICE

2015-2017 Biennium Airport Grant

In House Bill 1176, the 2015 Legislative Assembly directed \$48,000,000 of grant funds reserved for airports within oil producing counties. Section 39 of Senate Bill 2015 then stated that \$3.2 million would be set aside for non-hub city airports:

HB 1176 SECTION 5.

1. \$48,000,000, or so much of the sum as may be necessary, for grants to airports impacted by oil and gas development. The director of the energy infrastructure and impact office, in consultation with the aeronautics commission, shall adopt grant procedures and requirements necessary for the distribution of grants under this subsection, which must include cost-share requirements. Cost-share requirements must consider the availability of local funds to support the project. Grant funds must be distributed giving priority to projects that have been awarded or are eligible to receive federal funding.

SB 2015

SECTION 39. LEGISLATIVE INTENT - OIL AND GAS IMPACT GRANTS TO AIRPORTS.

It is the intent of the sixty-fourth legislative assembly that of the funding designated for grants to airports impacted by oil and gas development included in subsection 1 of section 5 of House Bill No. 1176, as approved by the sixty-fourth legislative assembly, a grant award of at least \$39,000,000 be awarded to the airport in the hub city as defined under section 57-51-01 that received the highest total allocation under subsection 1 of section 57-51-15 for the period beginning September 1, 2013, and ending August 31, 2014, and a grant award of at least \$5,800,000 be awarded to the airport in the hub city as defined under section 57-51-01 that received the second highest total allocation under subsection 1 of section 57-51-15 for the period beginning September 1, 2013, and ending August 31, 2014. It is also the intent of the sixty-fourth legislative assembly that the grant awards designated under this section must be awarded without a local matching requirement.

The airports, other than those serving Williston or Dickinson, were allocated \$3.2 million. In May and October 2015 the Board approved grants to airports for \$1,798,071 and reserved the remaining appropriation of \$1,401,929 for future consideration.

The 2017 Legislative Assembly adopted Senate Bill 2013 authorizing the Board to grant any 2015-2017 appropriations in the current biennium. In August 2017 the Board approved the announcement of a grant round for non-hub city airports of up to \$1.3 million from the Oil and Gas Impact Grant Fund.

This grant round closes out the 2015-2017 biennium funding.

The North Dakota Aeronautics Commission, which serves as the Land Board's advisory committee on airport grants, evaluated the applications for ten general aviation projects received during this grant round. The Aeronautics Commission and the EIO recommend six grant awards. The matrix the six grant recommendations are based upon is available at the Department upon request.

Motion: The Board approves six grants totaling \$1,300,000 to the four airports listed in the preceding chart, in accord with House Bill 1176 as adopted by the 2015 Legislative Assembly.

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

Williston and Dickinson Airport Grants

Within Senate Bill 2013 as enacted by the 2017 Legislative Assembly, a new Energy Impact Grant Fund was created to supplement the Oil and Gas Impact Grant Fund for the 2017-2019 biennium. Sections 13 and 14 of SB 2013 authorize expenditure of grant funds for airports from the two separate grant funds:

SECTION 13. OIL AND GAS IMPACT GRANT FUND - AIRPORT GRANTS. The grants line item and the total special funds line item in section 1 of this Act include the sum of \$25,000,000 from the oil and gas impact grant fund for grants to airports, for the biennium beginning July 1, 2017, and ending June 30, 2019. Of the \$25,000,000, the board of university and school lands shall award a grant of \$20,000,000 to the Williston airport and a grant of \$5,000,000 to the Dickinson airport. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 14. ENERGY IMPACT FUND - WILLISTON AIRPORT GRANT. The grants line item and the total special funds line item in section 1 of this Act include the sum of \$15,000,000 from the energy impact fund for a grant to the Williston airport, for the biennium beginning July 1, 2017, and ending June 30, 2019. A grant may be awarded to the Williston airport only when any related federal funding is S. B. NO. 2013 - PAGE 4 committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

In October, the Board authorized possible grants to Williston and Dickinson airports of up to \$20 million during fiscal year 2018. The State Aeronautics Commission is the Board's advisory committee on this grant sector. The Commission recommends funding six grants to Dickinson and eleven grants to Williston airports, as detailed in the following chart:

Airport Energy Impact Award Recommendations - Fall 2017						
\$18,500,000.00	- Recommended Funding to Williston Basin International Airport (2017-2019)				Version: October 23rd, 2017	
\$1,402,065.00	- Recommended Funding to Dickinson - Theodore Roosevelt Regional Airport (2017-2019)				F - Federal Project	D - Deferred
\$1,300,000.00	- Recommended Funding to General Aviation Airports (2015-2017 Biennium Funds)				" - Completed	FE - Federally Eligible
All Grant Allocations will be approved on a <u>not to exceed the dollar amount approved</u> .						
The remaining grant allocation balance for each project will then return to the Energy Infrastructure and Impact Office to be used for future airport project allocations.						
COMMERCIAL AIRPORTS	PROJECT DESCRIPTION		PRIORITY	TOTAL PROJECT	STATE \$ REQUESTED	GRANT \$ RECOMMEND
DICKINSON	1. FAA 2017 AIP #38: Design Services for Parallel Taxiway D/Temp. Runway	F	56	\$711,111.00	\$71,111.00	\$71,111.00
	2. FAA 2017 AIP #37: Taxiway B Rehab and Widening *	F	55	\$2,222,300.00	\$222,230.00	\$222,230.00
	3. Runway 14-32 NAVAID Reimbursable Agreement	FE	47	\$296,915.00	\$267,224.00	\$267,224.00
	4. Runway 14-32 NAVAID Design and Coordination	FE	47	\$535,000.00	\$481,500.00	\$481,500.00
	5. Wetland Mitigation	FE	31	\$200,000.00	\$180,000.00	\$180,000.00
	6. Land Acquisition Preliminary Services	FE	26	\$200,000.00	\$180,000.00	\$180,000.00
	* 2017 Federal Grant Awards Totaled: \$ 2,640,070.00					
	Total Federal Grant Awards Total : \$ 11,703,207.00					
	Sub Total			\$3,965,326.00	\$1,402,065.00	\$1,402,065.00
WILLISTON	ENERGY IMPACT GRANT FUND					
	1. FAA 2015 AIP # 1: Construction New Airport - Phase I *	F	46	\$8,585,208.00	\$858,521.00	\$858,521.00
	2. FAA 2016 AIP # 2: Construction New Airport - Phase II *	F	46	\$30,938,302.00	\$3,061,852.00	\$3,061,852.00
	3. FAA 2017 AIP # 3: Construction New Airport - Phase III *	F	46	\$17,849,813.00	\$1,983,313.00	\$1,983,313.00
	4. Enbridge Pipeline Relocation (Design and Construction)		46	\$9,469,000.00	\$4,734,500.00	\$4,734,500.00
	5. OneOK Pipeline Relocation (Design and Construction)		46	\$4,437,280.00	\$2,218,640.00	\$2,218,640.00
	Energy Impact Sub Total					\$12,856,826.00
	OIL & GAS IMPACT GRANT FUND					
	6. Chevron Pipeline Relocation (Design and Construction)		46	\$55,124.00	\$27,562.00	\$0.00
	7. Runway 14/32 and Parallel Taxiway Strengthening (Change Order)		46	\$831,300.00	\$748,170.00	\$0.00
	8. Design Parallel Taxiway	FE	45	\$329,985.00	\$296,986.00	\$0.00
	9. Design Commercial Service Apron	FE	44	\$310,250.00	\$279,225.00	\$279,225.00
	10. Design General Aviation Apron and Taxiways	FE	44	\$380,750.00	\$342,675.00	\$340,234.00
	11. Design Crosswind Runway and Parallel Taxiway	FE	44	\$290,750.00	\$261,675.00	\$261,675.00
	12. FAA Reimbursable Agreement #4 and #5	FE	36	\$550,000.00	\$495,000.00	\$495,000.00
	13. Procure FAA NAVAIDS	FE	36	\$4,495,600.00	\$4,046,040.00	\$4,046,040.00
	14. Procure MALSR, ILS and DME Equipment	FE	36	\$1,267,579.00	\$1,140,821.00	\$0.00
	15. Design Airport Perimeter Security and Wildlife Fence	FE	31	\$247,104.00	\$222,394.00	\$221,000.00
	Oil & Gas Impact Sub Total					\$5,643,174.00
	* 2017 Federal Grant Awards Totaled: \$ 37,105,127.00					
	Total Federal Grant Awards Total: \$ 74,105,127.00					
	Sub Total			\$80,038,045.00	\$20,717,374.00	\$18,500,000.00
GENERAL AVIATION AIRPORTS	PROJECT DESCRIPTION		PRIORITY	TOTAL PROJECT	STATE \$ REQUESTED	GRANT \$ RECOMMEND

There are sufficient balances available in both funds in order to approve the recommendations of the ND Aeronautics Commission as shown in the following diagram:

2017-2019 Biennium Breakdown					
Grant Round	# Applications	Amount of Projects	Amount Requested	# Awards	Amount Awarded
O&G Williston Airport - 2018	10	\$8,758,442	\$7,860,548	6	\$5,643,174
O&G Dickinson Airport - 2018	6	\$3,965,326	\$1,402,065	6	\$1,402,065
EI Williston Airport - 2018	5	\$71,279,603	\$12,856,826	5	\$12,856,826
Totals	21	\$84,003,371	\$22,119,439	17	\$19,902,065.00
			Minus Adjustments		\$0.00
			Net Awards		\$19,902,065.00

As of: November 21, 2017

Available O&G today for granting	\$21,328,978	}	Remaining Allocations O&G Williston Airport \$14,356,826 O&G Dickinson Airport \$3,597,935 EI Williston Airport \$2,143,174 \$20,097,935 Contingency Grant \$2,000,000	
Available EI today for granting	\$13,000,000			
	\$34,328,978			
Remaining O&G collections	\$3,671,022			
Remaining EI collections	\$2,000,000			

Motion: **The Board approves six grants to Dickinson Airport and 11 grants to Williston Airport as listed in the preceding charts. These awards total \$19,902,065 in airport expansion projects, as authorized by the 2017 Legislative Assembly.**

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

Contingency Grant Advisory Committee Nominations

At its June 2017 meeting, the Board approved the establishment of a contingency fund to utilize undistributed funds from the 2013-2015 and 2015-2017 biennia. Section 10 of Senate Bill 2013 as adopted by the 2017 Legislature approved the use of unexpended funds to provide for grants and administrative costs during the 2017-2019 biennium:

SECTION 10. EXEMPTION - OIL AND GAS IMPACT GRANT FUND. The amount appropriated from the oil and gas impact grant fund for the energy infrastructure and impact office line item in section 1 of chapter 13 of the 2015 Session Laws and for oil and gas impact grants in section 5 of chapter 463 of the 2015 Session Laws is not subject to section 54-44.1-11. Any money deposited in the fund for taxable events occurring through June 30, 2017, and any unexpended funds from the appropriation are available for grants and administrative costs associated with the fund during the biennium beginning July 1, 2017, and ending June 30, 2019. (Emphasis added).

The Energy Infrastructure and Impact Office recommended the following members to serve on the Contingency Grant Advisory Committee:

Dan Kalil, Williston Township Supervisor – Williams County
 Jay Elkin, Stark County Commissioner – Stark County
 Gary Weisenberger, Mayor of Stanley – Mountrail County
 Justin Voll, Mayor of Watford City – McKenzie County
 Reinhard Hauck, Dunn County Commissioner – Dunn County
 Mark Spooner, Border Township Supervisor – Divide County
 John Bruce, Burke Central PSD Superintendent – Burke County
 Dave Mahon, Bowman PSD Superintendent – Bowman County
 Marcia Lamb, County Auditor – Billings County

EIIO Director Lance Gaebe recommends appointment of these community leaders to the Contingency Grant Advisory Committee, which would be asked to suggest grant criteria, timelines and potential grants for Board consideration.

Motion: The Board approves the Contingency Grant Advisory Committee members, listed above, to make recommendations to the Land Board on contingency Energy Infrastructure and Impact grants.

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

Pending Vacancy of EIIO Director

The Board has been notified they will need to appoint the next EIIO Director with Director Gaebe's departure.

INVESTMENTS

Introduction of a Recommended International Small Cap Equity Manager - Quantitative Management Associates (QMA)

During its August 2017 meeting, the Board approved a revised asset allocation for the permanent trusts and authorized an asset class reviews of the trusts' international equity. The Board revised the asset allocation to increase the trusts' exposure to international equities by two percent, and decreased fixed income exposure similarly.

	Previous Target Allocation	Adopted Target Allocation
US Equities	17%	17%
International Equities	15%	17%
Fixed Income	23%	21%
Absolute Return Strategies	20%	20%
Diversified Inflation Strategies	10%	10%
Real Estate	15%	15%
	100%	100%

In September 2017, the Board adopted a new structure for the trusts' 17% allocation to international equities that includes a 10.7% passive allocation to large/mid cap developed equities, a 2.6% actively managed allocation to small cap developed market equities and a 3.7% actively managed allocation to core emerging market equities. The Board also authorized a search to identify a manager(s) to fill the new active small cap developed market equity allocation, and to provide the Board with a recommendation of one or more finalist candidates.

(12/6/17)

During October and November, the Department staff worked closely with RVK to conduct a manager search. The search started with 149 international small cap products listed in the eVestment Alliance database. Quantitative sorts and screens reduced the number of firms to ten. These managers, plus three firms that currently manage international assets for the State Investment Board, were invited through a Request for Information (RFI) to submit strategy information and additional background about their company and product offerings.

After reviewing and scoring the eleven firms that responded to the RFI, RVK and the Department staff invited four investment firms to interview. Interviews were held at the Department of Trust Lands' offices on November 20th and 21st. Interviewees included Commissioner Gaebe, Jeff Engleson and Levi Erdmann; Marcia Beard and Joe Ledgerwood from RVK, as well as State Treasurer Schmidt.

The recommendation received today represents a unanimous decision of those who participated in the manager interviews.

RVK's Marcia Beard introduced Quantitative Management Associates LLC (QMA), the firm that is being recommended to manage the new international small cap equity mandate for the trusts.

QMA is a wholly owned, independently operated subsidiary of Prudential Financial, Inc. QMA, which was formed in 1975, has over 200 employees. The firm employs investment professionals from 19 countries, including 20 PhDs. Portfolio managers average 18 years of industry experience and 13 years at QMA. The firm's two areas of investment focus are quantitative equity strategies and dynamic asset allocation (another name for absolute return strategies).

QMA's non-US equity team employs four portfolio managers as well as eight dedicated small cap equity analysts. The team also has access to a team of ten research generalists. The four portfolio managers rotate responsibilities for the various international small cap products offered by QMA in order to give them exposure to various markets. The firm's research driven quantitative investment process uses carefully selected value, growth and quality factors to build a portfolio that will outperform over time, in a consistent manner, in both up and down markets.

After proposing an initial discounted fee of approximately 70 basis points, QMA proposed a lower fee that reflects the relationship Prudential currently has with the North Dakota State Investment Board. The lower effective fee of approximately 68 basis points (including fund expenses which are capped at 3 basis points) is approximately 25% lower than the next closest fee schedule proposed by any of the four finalists.

Motion: The Board authorizes the Commissioner to enter into an investment management agreement with Quantitative Management Associates LLC to manage an international small cap equity portfolio for the permanent trusts, subject to final review and approval of the contract by the Office of the Attorney General.

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

Brad Zenz and Rodolfo Martell of QMA presented their International Small Cap Equity plan to the Board. This presentation and RVK's recommendation memo are available at the Department upon request.

Quarterly Investment Reports – 3rd Quarter 2017

Marcia Beard from RVK reviewed the performance of the permanent trust funds' pool of investment assets for the period ending September 30, 2017. The report is prepared to enable the Board to monitor and evaluate the collective performance of the permanent trusts' investments and the performance of individual managers within the program.

The Permanent Trust Funds Performance Report and the Other Funds Managed by the Board Report are both available at the Department upon request.

Investment Updates

Asset Allocation

The status of the permanent trusts' asset allocation as of October 31, 2017.

Account/Asset Class	Long-Term Asset Allocation	10/31/17 Actual Allocation \$	10/31/17 Actual Allocation %
Large Cap US Equity	13.3%	\$ 578,013,672	13.4%
Mid/Small Cap US Equity	3.7%	\$ 161,202,275	3.7%
International Equity	12.0%	\$ 531,347,871	12.3%
Emerging Market Equity	3.0%	\$ 136,631,781	3.2%
Total Equities	32.0%	\$ 1,407,195,598	32.7%
Domestic Investment Grade	14.2%	\$ 604,410,252	14.0%
High Yield FI	3.0%	\$ 125,995,854	2.9%
International/Global FI	5.8%	\$ 237,052,202	5.5%
Total Fixed Income	23.0%	\$ 967,458,308	22.5%
Total Absolute Return	20.0%	\$ 852,123,962	19.8%
Commodities	3.0%	\$ 133,433,260	3.1%
MLPs	3.0%	\$ 125,061,072	2.9%
TIPS	2.0%	\$ 80,462,149	1.9%
Natural Resource Equities	2.0%	\$ 88,923,934	2.1%
Total Inflation Strategies	10.0%	\$ 427,880,415	9.9%
Core Real Estate	8.0%	\$ 354,830,504	8.2%
Core Plus Real Estate	7.0%	\$ 297,180,821	6.9%
Total Real Estate	15.0%	\$ 652,011,325	15.1%
Total Asset	100.0%	\$ 4,306,669,609	100.0%

State Street Global Advisors (Equity Index Products: \$1.18 billion, 27.4% of assets)

State Street Global Advisors (SSGA) manages three different equity index products for the permanent trust funds' investment pool, including a Russell 1000 product (\$578.0 million), a Russell Mid Cap product (\$71.7 million) and an MSCI World Ex-US product (\$531.3 million).

State Street Corporation (State Street) recently announced upcoming management changes at both SSGA, the money management firm, and at State Street, the parent company. Jay Hooley, current president of State Street will be retiring as president at the end of 2018, but will continue to serve as chairman through the end of 2019. Ron O'Hanley, current CEO at SSGA will move to State Street to serve as chief operating officer, until Mr. Hooley's retirement.

Replacing Mr. O'Hanley as president and CEO of SSGA will be Cyrus Taraporevala, who has 27 years of industry experience including the past 18 months at SSGA.

RVK believes this is a well thought out and long-term transition that likely was contemplated when Mr. Taraporevala joined SSGA in 2015. RVK does not anticipate any change in direction or strategy at SSGA as a result of this management change.

(12/6/17)

Harding Loevner (Emerging Market Equities: \$69.9 million, 1.6% of assets)

Harding Loevner recently announced a reverse share split, effective December 1, 2017, for the Institutional Emerging Markets Portfolio, Class II shares in which the permanent trusts invest, owners will receive 1 new share for each 1.758429 shares held at the time of the reverse split.

The total value of the trusts' investment will not change, only the number of shares and the value per share will adjust. The reverse split is being done to bring the net asset value of the fund in line with other institutional class shares.

Commissioner's Authority over Financial Assets – Board Resolution

Historically, when a new Commissioner is appointed, the Northern Trust Company and other investment advisors have asked for a Board resolution, or other formal documentation, acknowledging the appointment and identifying the person responsible for managing the Board's investment program.

The following resolution was proposed for adoption:

BE IT RESOLVED, that Jodi Smith was appointed as the Commissioner of University and School Lands on November 7, 2017. Her appointment was effective November 27, 2017. The Commissioner, and her designees, shall have the authority to represent the Board of University and School Lands in all activities involving the financial assets under its control, as provided for in state law and in accordance with Board policy.

Copies of the resolution will be sent to the Board's custodial bank and investment advisors, along with a letter of direction authorizing specific individuals within the Department designated to perform certain duties or functions under the various agreements.

The individuals that will be authorized to give direction to advisors and custodian include Commissioner Jodi Smith, Jeff Engleson, who has had this authority since 1993, and Levi Erdmann, who has had this authority since 2010. Multiple people are authorized to ensure that someone is available to act on investment related issues if necessary.

Checks and balances are in place to ensure that no individual, including the Commissioner, can initiate a transfer of funds out of the "investment system," without the transfer being verified by another.

Motion: The Board adopts the accompanying resolution validating Jodi Smith's appointment and authorizing her to manage transfers and transactions within the Board's investment program.

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

The signed resolution is available at the Department upon request.

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

Fall 2017 Surface Leasing Auction Results

Fall surface lease auctions were completed in November of 2017. The Commissioner, as authorized by the Board, has approved all surface leases.

Bid Approval of the Agricultural Lease of T152N, R51W, Section 16: N2 in Grand Forks County

On July 8, 2011 then-surface lessee Mike McEnroe, was notified by certified mail, that his lease on the NW4 of Section 16, Township 152 North, Range 51 West, Grand Forks County, was cancelled and that he would not be eligible to lease or use school trust lands for a “period of seven (7) years beginning August 1, 2011”. This suspension was initiated due to repeated lease violations and was done in accordance with the Board’s surface lease cancellation policy.

On October 5, 2017 the Department of Trust Lands conducted a Grand Forks County surface lease auction in the county seat of Grand Forks, as required by law. Mr. McEnroe attempted to register as a bidder; however, the auction software produced a message which indicated his ineligibility to participate. This exclusion prompted a telephone call to the Department for an explanation immediately prior to the auction. Information retrieved from an office database of “banned” bidders indicated the suspension expired in August 2017 and as such, verbal approval was given for Mike McEnroe to obtain a bidder number and the auction commenced.

The minimum bid of \$2,605 for the referenced tract was received from David Meagher. The lease was bid up between David Meagher and Mike McEnroe to Mike McEnroe’s high bid amount of \$5,100. No other bidders participated in competition for this tract.

Subsequent to the auction, a file copy of the certified letter was located and it revealed that the ban was effective through August 1, 2018, not 2017 as indicated in the database. Accordingly, Mike McEnroe’s check in the amount of \$5,100 was returned.

On October 26, 2017 a check in the amount of \$2,605 was received from David Meagher for the lease of the referenced tract. This amount reflects the Department established minimum opening bid.

According to NDCC § 15-04-10 all bids are subject to Board approval. As the auction was conducted in accordance with statute and a bid was received for the minimum opening rent, the Board could reject the bids that should not have been offered. It is unknown if another party besides the two active participants may have bid. Knowing the circumstances related to Mike McEnroe being allowed to bid in error, the Board has authority to reject his bids.

If the McEnroe bids are rejected, the opening bid offered by David Meagher, which is the required minimum bid would stand and a lease can be issued to David Meagher for \$2,605.00 subject to Board approval.

Motion: With respect to the agricultural lease of Township 152 North, Range 51 West, Section 16: N2 in Grand Forks County, the Board rejects Mike McEnroe’s bids and all bids subsequent to David Meagher’s initial bid and accepts David Meagher’s bid for the advertised annual rent minimum of \$2,605.00 and authorizes the issue of the lease to David Meagher.

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

(12/6/17)

Report of Easements Issued by Land Commissioner (10/16/17 to 11/27/17)

Granted to:	MOUNTRAIL-WILLIAMS ELECTRIC COOPERATIVE, WILLISTON-ND
For the Purpose of:	Easement: Electric Distribution Line - Above Ground
Right-of-Way Number:	RW0007403
Trust:	A – Common Schools
Legal Description:	MOU-158-89-36-NE4, SE4
Granted to:	ELKAN INC, WATFORD CITY-ND
For the Purpose of:	Easement: Raw Water Pipeline
Right-of-Way Number:	RW0008089
Trust:	A – Common Schools
Legal Description:	MCK-150-98-36-NW4, SW4
Granted to:	ABRAXAS PETROLEUM CORPORATION, SAN ANTONIO-TX
For the Purpose of:	Easement: Salt Water Pipeline
Right-of-Way Number:	RW0008101
Trust:	A – Common Schools
Legal Description:	MCK-150-97-36-SE4, SW4
Granted to:	MCKENZIE COUNTY, WATFORD CITY-ND
For the Purpose of:	Easement: Road Right-of-Way
Right-of-Way Number:	RW0008106
Trust:	A – Common Schools
Legal Description:	MCK-152-99-36-NE4
Granted to:	TARGA BADLANDS LLC, HOUSTON-TX
For the Purpose of:	Easement-Amend: Gas Gathering Pipeline
Right-of-Way Number:	RW0008109
Trust:	A – Common Schools
Legal Description:	MCK-150-95-16-NE4, NW4, SW4
Granted to:	WEST DAKOTA WATER LLC, WILLISTON-ND
For the Purpose of:	Easement: Raw Water Pipeline
Right-of-Way Number:	RW0008126
Trust:	A – Common Schools
Legal Description:	WIL-154-97-16-NW4
Granted to:	GOODNIGHT MIDSTREAM BAKKEN LLC, DALLAS-TX
For the Purpose of:	Easement: Salt Water Pipeline
Right-of-Way Number:	RW0008128
Trust:	A – Common Schools
Legal Description:	MCK-151-96-36-NE4, SE4, SW4
Granted to:	TARGA BADLANDS LLC, HOUSTON-TX
For the Purpose of:	Easement: Drop Line-Oil Gathering Pipeline
Right-of-Way Number:	RW0008141
Trust:	A – Common Schools
Legal Description:	MCK-150-97-36-SE4

Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:	ANDEAVOR FIELD SERVICES LLC, SAN ANTONIO-TX Easement: Drop Line-Gas Gathering Pipeline RW0008142 A – Common Schools MOU-154-93-36-SE4
Granted to: For the Purpose of: Right-of-Way Number: Date Issued: Trust: Legal Description:	QEP ENERGY COMPANY, DENVER-CO Permit-Amend: Access Road RW0008148 10/25/2017 A – Common Schools MOU-150-92-15-W2SW4
Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:	WESTERN AREA WATER SUPPLY AUTHORITY, WILLISTON-ND Easement: Potable Water Pipeline RW0008149 A – Common Schools MOU-154-89-16-SW4
Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:	WESTERN AREA WATER SUPPLY AUTHORITY, WILLISTON-ND Easement: Potable Water Pipeline RW0008150 A – Common Schools WIL-154-95-16-NE4
Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:	XTO ENERGY INC, FORT WORTH-TX On-lease Act. Amend: Horizontal Oil Well RW0008152 A – Common Schools DUN-148-96-36-SW4
Granted to: For the Purpose of: Trust: Legal Description:	WESTERN AREA WATER SUPPLY AUTHORITY, WILLISTON-ND Easement: Potable Water Pipeline A – Common Schools MCK-148-103-16-NE4, NW4
Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:	WESTERN AREA WATER SUPPLY AUTHORITY, WILLISTON-ND Easement: Easement Release RW0008157 A – Common Schools MCK-148-103-16-NE4, NW4
Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:	WESTERN AREA WATER SUPPLY AUTHORITY, WILLISTON-ND Letter of Permission: Access to School Land to lay a temporary above ground water pipeline RW0008170 A – Common Schools WIL-156-100-16-NE4, NW4
Granted to: For the Purpose of: Right-of-Way Number: Trust: Legal Description:	MBI ENERGY SERVICES, KILLDEER-ND Letter of Permission: Access to School Land to maintain one relay pump and one temporary surface lay flat frac water pipeline RW0008173 A – Common Schools DUN-146-94-16-NE4, NW4

Granted to: KINDER MORGAN, WILLISTON-ND
For the Purpose of: Permit: Temporary Construction
Right-of-Way Number: RW0008174
Trust: A – Common Schools
Legal Description: MCK-151-100-16-SE4

M I N E R A L S M A N A G E M E N T

Continental Resources, Inc. v. North Dakota Board of University and School Lands, et al., 8th Circuit District Court
Case No. 1:17-cv-00014
Honorable Daniel Hovland/Magistrate Charles Miller

In December 2016, Continental Resources, Inc. (Continental) brought an interpleader action against the Board of University and School Lands and the United States regarding certain lands underlying Continental operated wells located in McKenzie, Mountrail, and Williams Counties. This case addresses overlapping ownership claims by the State and the United States of minerals underlying the Missouri River. Continental is requesting the Court determine the property interests for the disputed lands so that Continental can correctly distribute the proceeds from the affected wells. Continental has claimed that there is “great doubt as to which Defendant is entitled to be paid royalties related to the Disputed Lands.” Currently, Continental is paying the United States its full royalty based on the acreage it claims. The remaining royalty, over and above what is due the United States, is being escrowed with the Bank of North Dakota pursuant to the Board’s rules.

The United States removed this action to federal district court on January 11, 2017. The Board filed its answer to the complaint on February 13, 2017. The United States filed its answer to the complaint on May 12, 2017. An Amended Complaint was filed by Continental Resources on September 14, 2017. The United States filed a Motion to Dismiss for Lack of Subject Matter Jurisdiction on October 18, 2017. In support of its motion, the United States alleges that it has not waived its sovereign immunity under the Quiet Title Act and the United States alleges that the interpleader action is moot under S.B. 2134. The Board has until December 20, 2017 to file a response to the Motion to Dismiss.

It is recommended that the Board enter into an executive session to receive its attorneys’ advice and guidance on the legal risks, strengths, and weaknesses of its response to the Motion to Dismiss.

EXECUTIVE SESSION

Motion: Under the authority of North Dakota Century Code Sections 44-04-19.1 and 44-04-19.2, the Board closed the meeting to the public and entered into executive session for purposes of attorney consultation to consult with the Board’s attorneys on litigation related to sovereign lands’ minerals, including:

- **Continental Resources, Inc. v. Board of University and School Lands, and the United States of America.**

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

At 10:05 AM the Board entered executive session for the purposes outlined in its adopted motion.

EXECUTIVE SESSION

Members Present:

Doug Burgum	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:

Jodi Smith	Commissioner
Linda Fisher	Deputy Commissioner
Allie Bement	Mineral Title Specialist
Drew Combs	Minerals Division Manager
Lance D. Gaebe	Prior Commissioner
Kristie McCusker	Legal Assistant
Catelin Newell	Office Manager

Authorized Guests in Attendance:

Hope Hogan	Office of the Attorney General
Jen Verleger	Office of the Attorney General
David Garner	Office of the Attorney General
Charles Carvell	Office of the Attorney General
Leslie Bakken Oliver	Governor's Legal Counsel

The executive session adjourned at 10:25 AM and the Board returned to open session and the public was invited to return to the meeting. During the executive session, the Board provided its attorneys with guidance on *Continental Resources, Inc. v. Board of University and School Lands, and the United States of America*.

Results of Online November Oil and Gas Mineral Lease Auction

On behalf of the Board, the Department conducted an oil and gas mineral lease auction which concluded on November 7, 2017 on <https://www.energynet.com/>.

There were 67 tracts offered and all received competitive bids. The highest bid per acre was \$826.00 for 60 net mineral acres in Dunn County.

There were 34 bidders registered, 19 of which submitted bids in the seven-day auction. Bidders were from 7 states (CO, IN, MT, ND, TX, WA and WY plus BC, Canada).

A total \$217,657.99 of bonus was collected from the auction.

O P E R A T I O N S

Information Technology Project Status Update

The Department's 2017-2019 biennial budget appropriation includes \$3.6 million to replace legacy information technology systems.

Department staff, with assistance of Office of Management and Budget procurement staff and Information Technology Department project management staff prepared two Requests for Proposals (RFP) with the objective of procuring design and implementation services for two programs; one for Land Management and Accounting and one for Unclaimed Property.

Upon review and approval by the Executive Steering Committee, organized under NDCC § 54-59-32, the RFPs for both projects were released on September 25, 2017.

Proposals for both projects have been received and are currently under review. Demonstrations will be scheduled and subsequent "sandbox" sessions will allow Department staff to test drive prospective systems to ensure required system features perform as expected.

R E P O R T S

The Quarterly Financial Report (Unaudited) for period ended September 30, 2017 was presented to the Board and is available at the Department upon request.

Chairman Burgum moved that the minutes reflect the Land Board's appreciation and gratitude for Commissioner Gaebe's service. Treasurer Schmidt seconded that motion and the motion carried unanimously on a voice vote.

A D J O U R N

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

Doug Burgum, Chairman
Board of University and School Lands

Jodi Smith, Secretary
Board of University and School Lands

The Energy Infrastructure and Impact Office recommended the following members to serve on the
Contingency Grant Advisory Committee:

Dan Kalil, Williston Township Supervisor – Williams County
Jay Elkin, Stark County Commissioner – Stark County
Gary Weisenberger, Mayor of Stanley – Mountrail County
Justin Voll, Mayor of Watford City – McKenzie County
Reinhard Hauck, Dunn County Commissioner – Dunn County
Mark Spooner, Border Township Supervisor – Divide County
John Bruce, Burke Central PSD Superintendent – Burke County
Dave Mahon, Bowman PSD Superintendent – Bowman County
Marcia Lamb, County Auditor – Billings County