

**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 EIO 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		

Initiation of Consideration of Grants to Airports

Senate Bill 2013 of the 65th Legislative Assembly appropriated grant funding of \$35 million to the Williston Airport and \$5 million to the Dickinson Airport construction. The appropriation included \$15 million from the newly created Energy Impact Grant Fund to be granted to the Williston Airport and a separate \$20 million to the Williston Airport; and \$5 million dedicated to the Dickinson Airport from the Oil and Gas Impact Fund.

The Aeronautics Commission and the EIO recommended the announcement of the availability of grants, with consideration capped at \$1.5 million for the Dickinson Airport and \$15 million for the Williston Airport out of the Energy Impact Fund.

Motion: The Board approves grant rounds for the Williston and Dickinson Airports with funds appropriated in SB 2013 adopted by the 65th Legislative Assembly. The Aeronautics Commission will assist the EIO in recommending grants for Board consideration up to \$16.5 million, but not to exceed available funds.

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		

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