

NORTH DAKOTA NATURAL RESOURCES TRUST
Board of Directors Meeting
US Fish & Wildlife Service
3425 Miriam Avenue
Bismarck, North Dakota
April 16, 2009

The North Dakota Natural Resources Trust (Trust) Board of Directors spring meeting started at 8:00 a.m., Thursday, April 16, at the US Fish and Wildlife Service, Bismarck, North Dakota. Attending the meeting were Directors Dick Kroger, Gary Melby, Duane Liffbrig, Scott Peterson, and Jack Olin. Director Genevieve Thompson was absent. Terry Steinwand, ex-officio member, North Dakota Game and Fish Department, also attended. Keith Trego, Terry Allbee, Merle Bennett, Karen Kreil, and Linda Roeder, Trust employees, were present.

Thursday, April 16, 2009

Dick Kroger called the meeting to order at 8:00 a.m., and we took roll call. Dick asked for deletions/additions to the agenda. Keith said Lyle Witham, Basin Electric Cooperative, would attend the afternoon meeting to present a project idea. Dick called for a motion to approve the agenda. Scott Peterson moved **“to approve the amended agenda”** and Gary Melby seconded. A voice vote was taken and the motion carried 5-0. Dick then called for a motion **“to approve the minutes.”** Jack Olin moved and Gary Melby seconded. A voice vote was taken and the motion carried 5-0.

Keith Trego updated the Board on the use of earnings. Confirmation was received from the Bureau of Reclamation (Bureau) and all our partners that the state contributions are spendable. Also there was conflicting language between the Bureau agreement and the enabling legislation. The agreement with the Bureau was modified to reflect these changes. Keith expressed his thanks to the Bureau for helping with the changes and adjustments.

Terry Allbee went over the history of the past business model and how the Trust sold investment shares to cover monthly expenses. The new business model will have two accounts to hold annual dividends, capital gains, and interest. Investment shares will not need to be sold to cover cash flow needs. The first account will collect the current year's income and the second will hold the next year's income while the first account is being spent.

Dan Devlin, SEI, joined the discussion concerning the new business model and reviewed the analysis SEI ran. SEI recommends the Trust sell Enhanced LIBOR opportunities and purchase Core Fixed income in all portfolios to reduce risk and improve return within fixed income. The long-term yields are more attractive in Core Fixed income. Discussion followed and Jack Olin moved **“to sell Enhanced LIBOR and invest into Core Fixed income.”** Duane Liffbrig seconded. A voice vote was called and motion carried 5-0. Further discussion followed and Duane Liffbrig moved and Scott Peterson seconded **“to acknowledge the change in our strategy of sweeping dividends and interest into a special account that's spendable for future needs.”** A roll call vote was taken and the motion carried 5-0.

Keith went on to explain how he has been working with Senator Dorgan's staff to amend language in the Trust's federal enabling legislation for more flexibility in the Trust's ability to use federal funds should there be a need. Several options were available, but Option 3 that adds language to establish an Operating Reserve Fund comprising up to 15 percent of the principle received was felt the closest to the Trust concept. Option 3 also allows the fund to be used to sustain current operations. Jack Olin moved and Gary Melby seconded **"to support changing enabling legislation to authorize up to 15 percent of the principal received in the future to an Operating Reserve Fund."** A roll call vote was taken and the motion carried 5-0.

Dan Devlin talked about one change SEI would like to make in the Trust investment policy. SEI is requesting new language in the policy for SEI to decide on behalf of the Trust when they should or should not re-balance the asset allocation based on many factors—liquidity, cost, volatility, and their assessment of the fixed income market versus the equity market. The new language would move the $\pm 2\%$ to $\pm 4\%$. Scott Peterson moved and Duane Liffbrig seconded **"that the Board formally support SEI's recommendation as it pertains to re-balancing of the asset allocation."** A roll call vote was taken and the motion carried 5-0.

Keith talked about where to put the earnings from the dividends and interest and suggested we would probably work with SEI and Dan and put into an SEI money market. A discussion followed concerning insurance of Trust accounts. Dan said all the Trust accounts are held under the Trust's name therefore they cannot be accessed by SEI or litigation. Jack Olin suggested letting the staff handle the changes while working with Dan. Dan said all the interest and dividend earnings will be put in a SEI cash/money market account. Sweeping funds will occur whenever income is earned.

Lynnell Rude, Mahlum and Goodhart, P.C., reviewed the 2008 Auditor's Report. This report is on file at the Bismarck Trust office. Scott Peterson moved and Gary Melby seconded **"to accept the audit report."** A voice vote was called and the motion carried 5-0. Discussion followed on requesting proposals for the next three-year audit contract. Terry explained the contract also covers the yearly tax preparation for the Trust. Duane Liffbrig moved **"to put the annual audit report out for RFP with a three-year contract."** Scott Peterson seconded the motion. Discussion continued as to when the process should take place. Terry said the process would be done as soon as possible. A voice vote was called and the motion carried 5-0.

Terry Allbee reviewed the first quarter actual income and expense report. He talked briefly about the different ways the staff has found to hold down expenses and work with other entities to generate income. The State Water Commission and the Garrison Diversion Conservation District have fulfilled their funding obligation to the Trust, as has the ND Game and Fish Department. At this time, spendable funds would carry the Trust close to the end of the year.

Keith briefly answered questions about an agreement with the Corps of Engineers and their implementation of restoration on the upper Missouri. They want projects identified and

coordination done, so the \$40,000 would be for staff work only. An NRCS-NRT agreement would have Trust staff help deliver EWP. A discussion with FSA for Trust staff to help with CRP applications was also held.

Keith gave background information to the Board on Basin Electric's wind farm project in Ward County. The project falls under Section 7 of the Endangered Species Act because it is in the whooping crane's migration corridor. Because Basin is using federal monies, they have to meet certain requirements, so what has been discussed between Basin and the Fish and Wildlife Service is wetland mitigation. Based on the discussion between Basin and the Fish and Wildlife Service, the Trust would provide the appropriate mitigation. Discussion followed.

Terry Allbee discussed the Smith Grove project. The total purchase price was \$492,000. There were 18 partners, including two new groups – financial and energy. Dedication of the property will take place at the Smith Grove WMA May 29, 2009. At the current time, all contributions have been received except for the last half of one partner's scheduled payment for this year.

Terry updated the Board on the Big Oxbow project. Ducks Unlimited did an appraisal on the largest tract. The appraisal came in at \$1,100/acre. The rest of the land value will be based on this appraisal. The landowners have applied for WRP, but there are restrictions within the new farm bill for this program. Another program, EWP, is available without a seven-year waiting period. All landowners, but one, have applied for the program.

Lyle Witham, environmental manager, Basin Electric Power Cooperative, discussed Basin's wind tower project and the role the Trust could have in purchasing easements for the wetland mitigation. Ron Rebenitsch, manager of Alternative Technologies at Basin, joined the meeting and discussion as well.

Karen Kreil reviewed the farm bill programs.

Karen also talked about the Conservation Innovation Grant (CIG) that the Trust received from NRCS for the biomass plots study that Arnie Kruse started. The grant will allow us to evaluate the economics of perennial biomass crop production, and it will allow us to continue the work from the first phase of the project – maintenance and harvest of the plots, yields, carbon sequestration, chemical analyses of the biomass itself, and soil sample analyses. The Trust has contracted with NDSU to do the economic analysis for us.

The Spiritwood Project – Great River Energy (GRE) is building a combined heat and power plant as part of the Spiritwood Industrial Park. They are constructing a 99 MW coal-fired power plant and hope to incorporate a 10 percent biomass stream along with the coal.

GRE received a grant from the Renewable Energy Council to evaluate the feasibility of the 10 percent biomass stream. This feasibility study should be completed by summer 2009.

Preliminary data from the analysis 1) conducted land cover assessment within 50-mile radius of Spiritwood facility; 2) estimate of annual biomass needed for a 10 percent supply is 69,932 tons/year average; 3) top five biomass resources available within a 50-mile radius and cost were corn stover at \$44/ton, grasses (CRP, switchgrass crop) at \$42/ton, wheat straw at \$44/ton, sugar beet foliage at \$37/ton, and corn cobs at \$45/ton; 4) biomass data was collected on moisture, BTU/lb., tons/yr., availability, alkalinity, processing, and delivered cost/ton; 5) densification technology operations were evaluated; and 6) processing issues were identified for the top five biomass resources.

The Trust prepared draft Best Management Practices for biomass production and harvest, as well as other conservation practices. These will be discussed during the April 17 project conference call.

NDSU and ND Farmers Union conducted producer focus group meetings in March to determine producer interest in supplying biomass feedstock for the Spiritwood project, to determine producer interest in developing and being a part of an organizational structure, and to discuss the types of contracts needed to make it work for producers. NDSU has developed a producer economic model that allows producers to input data from their biomass production, harvest, and transportation costs, as well as potential income. A full report on the producer focus group meetings will be received during the April 17 conference call.

Election of officers

Dick Kroger said he was no longer available to act as president and called for nominations. Gary Melby nominated Scott for president and moved **“that all nominations cease and cast a unanimous ballot.”** Duane Liffbrig seconded. A voice vote was called and the motion carried 5-0.

Scott Peterson moved **“to nominate Gary Melby as secretary-treasurer.”** Duane Liffbrig seconded. A voice vote was called and the motion carried 4-1.

Gary Melby moved and Duane Liffbrig seconded **“to nominate Jack Olin as vice-president.”** A voice vote was called and the motion carried 5-0.

Duane Liffbrig moved **“to railroad Jack”** and Scott Peterson seconded. A voice vote was called and the motion carried 5-0.

For Good of the Order

The December meeting date was changed from December 10 to December 17. The July meeting will be held in Bismarck.

Discussion turned back to the Basin wind project. Scott Peterson moved and Duane Liffrig seconded **“that Keith go ahead with the wind tower negotiations.”** A voice vote was called and motion passed 5-0.

Dick Kroger discussed his email where he was concerned with the long-term viability of the Trust financially, and that he is basically satisfied. He asked how the rest of the Board felt. The Board agreed that Keith and his staff should be congratulated on all their good, hard work.

Jack Olin asked that the Board information be sent at least a week before the meeting.

Scott Peterson moved and Jack Olin seconded **“to adjourn.”** A voice vote was called and the motion carried 5-0.

Submitted by /s/ Keith Trego Dated 7/17/09
Keith Trego, Executive Director

Approved by /s/ Scott A. Peterson Dated 16 July 09
Scott Peterson, President