

ND NATURAL RESOURCES TRUST
Board of Directors Meeting
April 21, 2004
Doublewood Inn
Bismarck, North Dakota

The spring meeting of the North Dakota Natural Resources Trust Board of Directors started at 8:00 a.m. Wednesday, April 21, 2004, at the Best Western Doublewood Inn in Bismarck. Directors present were Bruce Adams, Dick Kroger, Duane Liffbrig, Jack Olin, Scott Peterson, Genevieve Thompson, and Dean Hildebrand. Trust employees attending were Keith Trego, Arnie Kruse, Sharon Clancy, Terry Allbee, Merle Bennett, and Linda Roeder. Others attending the meeting were Maria Effertz-Hanson, Garrison Diversion Conservancy District; LeAnn Harner, LAND; Judy Carlson, ND Agriculture Department; Julie Prescott, State Water Commission; Greg Gere, Bureau of Reclamation; Brian Kramer, Farm Bureau; Steve Cochrane, ND Retirement and Investment Office, and Joe Cichy, Trust attorney.

Wednesday, April 21, 2004

Dick Kroger called the meeting to order and Linda took roll call. Dick noted a change in the agenda for the NAWCA background report. This report will be moved to the July meeting. There were no other changes. Duane Liffbrig moved and Jack Olin seconded **“to approve the agenda.”** A voice vote was called and the motion carried 5-0. Jack Olin moved and Duane Liffbrig seconded **“to approve the consent agenda”** consisting of the December 2003 minutes. A voice vote was called and the motion carried 5-0. (Genevieve Thompson was absent.)

Keith Trego talked briefly about the Conservation Initiative Grant Program and the possibility of the Trust submitting a proposal. The program is part of the EQIP program under the farm bill and is administered by the Natural Resources Conservation Service (NRCS). They are looking for ideas and grant submissions to improve natural resource issues on private lands. Five different areas for consideration are water and soil resources, atmospheric resources (carbon and biomass), grazing land and forest help, and wildlife habitat.

Keith talked about the Habitat Award given to the Trust by The Wildlife Society. The Greater North Dakota Association presented the Natural Resources Award to Keith in early February.

Greg Gere from the Bureau of Reclamation reported on federal contributions to the Trust. The Trust has received all funds allocated through the Garrison Diversion Reformulation Act of 1986. The Dakota Water Resources Act of 2000 authorized an additional \$25 million to the Trust. In 2002, the contribution to the Trust was \$350,000 and in 2003, the Trust received \$420,000. The federal contributions to the Trust for 2004 are estimated to be about \$300,000. Greg explained how the appropriations received by the Bureau are insufficient to cover all the needs of the Garrison Diversion Unit activities. Half way through their budget, the Bureau of Reclamation is short \$3.5 million. Under the best circumstances, contributions to the Trust will be delayed until the end of the fiscal year (September). In the worst case, funds may not be available at all this year. Discussion followed.

Keith and Greg also talked about a trust fund concept of putting money into an account that could be administered by the Trust but separate from other Trust activities. Earnings from that account would be used to assist the Game and Fish Department and Fish and Wildlife Service with their ongoing annual operation and management needs.

Arnie Kruse reported on the progress of the renewable energy coalition. The ND Agriculture Department set up the first meeting as an after effect of their October Renewable Energy Conference in Bismarck. There have been three meetings and bylaws have been developed. It is no longer called a renewable energy coalition, but a renewable energy partnership. The vision of the partnership is to transform North Dakota into the preeminent renewable energy state in the nation. The purpose is to advance renewable energy in North Dakota. Agriculture Commissioner Roger Johnson had sent a note to the partnership expressing his thoughts that the partnership should be inclusive not exclusive. To date, there have been 16-20 people at the three meetings representing the ND Forest Service, EERC - Grand Forks, ND Department of Commerce, REC, Corn Utilization Council, Corn Growers, Basin Electric, ND Biodiesel Task Force, ND Soybean Council, and Department of Agriculture. Arnie stated he is the only person that represents a natural resource conservation group.

The bylaws were set up based on the ag coalition bylaws. General voting membership dues were proposed at \$500 a year and nonvoting associate members \$200 a year. Arnie had moved to reduce the voting membership dues to \$50 a year and nonvoting associate members to \$20 a year, but dues were set at \$500 a year for voting members and \$100 a year for nonvoting members. Arnie also suggested the goals they had set for the partnership would not make them the preeminent renewable energy state in the nation, so they will take another look at the goals at the next meeting. This group is made up of four tasks. One is wind, corn ethanol, biodiesel, and biomass. Interim officers were elected at the last meeting. The group will be formalized in July. A membership drive is currently being done.

Arnie (biomass group) is promoting to set up a series of one-acre plots on each experiment station in North Dakota. Three of the plots would be of three varieties of switch-grass. One of the plots would be intermediate wheat grass, one tall wheat grass, and half of each of those plots would be seeded with alfalfa. Another thing Arnie is promoting is to urge the Department of Agriculture and Congress to set up the pilot plant in North Dakota.

Arnie asked the Board if they wanted to be a part of this group as a \$500 voting member, a \$100 nonvoting member, go our own way, or try to put another group together to work on grass-based ethanol production. A discussion followed. Duane Liffriig moved and Bruce Adams seconded **“to stay involved in the renewable energy partnership and express the Trust is strongly opposed to the \$500 membership fee. Authorize Arnie to continue to pursue getting plots and how to tie it in with conservation agriculture and the new farm bill.”** A voice vote was called and the motion carried 6-0. Bruce Adams amended the motion and Duane Liffriig seconded **“to let Arnie decide to join or not.”**

Sharon Clancy began by asking the Board if they would be interested in attending a picnic in June at the Tuebner farm. She also thanked the Board for extending the conservation agriculture program funding to 2005. Sharon reviewed her Conservation Agriculture Interim Report. This report can be found on the Trust web site at www.ndnrt.com under Special Reports and is on file at the Trust Bismarck office.

Keith briefed the Board on the FRPP easement. Closing took place March 8 and everything went well. The American Foundation for Wildlife holds the lease and will hold the lease for the next phase. We are starting on Phase II for the fiscal '04 federal budget and our budget for the upcoming year. The Trust is working with Clearwater Communications to get the fund raising off the ground and continues to look for new partners.

Merle Bennett gave a quick review of the confluence project. The American Foundation for Wildlife is the title holder. Merle talked about the Ochs' parcel of land across the river from Neu's Point that the Trust and its partners are hoping to acquire. A North American Wetland Conservation Act (NAWCA) grant has been applied for and the WRP money has been set aside for the project. More landowners in the confluence area are contacting the Trust in the interest of selling their lands.

Keith Trego introduced Steve Cochrane, executive director of the state retirement and investment office, and Joe Cichy, Trust attorney. Dan Devlin, SEI, joined the meeting by phone to review the Finance Committee (Bruce Adams, Scott Peterson, and Duane Liffrig) report on Investment Opinions. Keith went over some background information on the Trust investment history and process.

The Finance Committee identified six concerns of current investments. The two greater concerns are: 1) federal nonspendable contribution invested in mutual fund environment versus individual bonds, and 2) legal requirement from federal law.

The question of concern was, "Must investment of nonspendable federal funds be restricted to individual notes, bonds, bills, or other securities issued by or guaranteed by the US Treasury, or can nonspendable federal funds be invested in mutual funds which are made up of notes, bills, or other securities issued by or guaranteed by the US Treasury?" Upon review of documents provided, it is Joe Cichy's opinion that the principal concern was to protect the federal principle by investing in funds guaranteed by the US government. As long as these funds are protected by the US government, they can be individual funds or mutual funds since both types of investments provide that protection. The language does not limit investing to individual types of investments, but the limitation is that they be guaranteed by the US Treasury or by a US government agency.

Another question of concern, "Are the required balances in these accounts dictated by 'book' value (amount of initial contributions deposited by the Trust) or by 'market' value (the

market value of the securities within the accounts at any particular time)?" Joe Cichy's response to that question is that while the funds may drop below the 'book value' before money can be taken from either fund that specific fund must raise the fund to exceed the book value through income generated within the fund. Any amount exceeding the 'book value' would be considered earnings and eligible for expenditure at any time determined by the bond.

After reviewing the agreement between the Bureau of Reclamation and the ND Natural Resources Trust, Joe revised his opinion relative to the investment limitation language. The protection the federal government has is that if there are losses that reduce the corpus of the federal contribution below the amount of the contribution, then no investment income may be used from the fund until the corpus is restored to the amount of the federal contribution. However, the agreement does not discuss or mention how to determine fund value i.e., market value or face value. Based upon the language in the agreement with the Bureau, it is unclear whether mutual fund shares can be purchased or whether the Trust must be the owner of the government securities.

Discussion continued with Dan Devlin and Steve Cochrane answering any questions/concerns the Board had. Dan explained that with mutual funds the Trust would have better diversification and active manager oversight. Bruce Adams moved and Scott Peterson seconded **"to update our investment policy to use and implement some of the points discussed and to use Joe's opinion, 'it is not clear', as we move forward to try and simplify the investment policy."** Duane Liffrig moved and Scott Peterson seconded **"that the policy be amended to reflect that the Trust will invest a portion of the federal contribution in fixed income only and a portion of our assets above that portion of the fixed income amount of the federal contribution will all be invested in equities. Automatically review investments when we have 40% equity and 60% in fixed income, and that the legal requirements of the federal law as determined by legal counsel be a part of our investment policy."** A voice vote was called and the motion carried 6-0.

Terry Allbee introduced the auditors after reviewing the Audit Committee's (Duane Liffrig, Bruce Adams, and Scott Peterson) call for RFPs and selection of Senger, Mahlum and Goodhart, P.C., Mandan, North Dakota. The 2003 auditor's report was presented by Rhonda Mahlum and Lynnell Rude. Rhonda reported there were no exceptions to the report. She then reviewed how to read the financial statements and went over the report with the Board. A question and answer period followed. This report is on file at the Trust office in Bismarck.

Keith Trego reviewed the private foundation status of the Trust. The reason the Trust is considered a private foundation is because of its income source. If two-thirds of the income came from an outside source, our status would be a 501 (c)(3).

Linda Roeder reported the web page is very close to being launched.

Scott Peterson gave a Performance Evaluation Committee report. The Committee has an approved procedure in place for doing the evaluation of the executive director. The evaluation will be done before the July meeting.

The next agenda item was election of officers. Duane Liffbrig moved and Jack Olin seconded **“the present officers be nominated and reelected for the next year.”** The motion passed unanimously.

Bruce Adams expressed his appreciation for the invitation to attend SEI’s Global Symposium on Investing and Innovative Thinking in Florida. A report will be given during the July meeting.

Keith Trego talked about the July 13-14 Board meeting. He suggested we utilize our projects in the confluence area (Williston) by touring the property and holding the meeting at the Missouri-Yellowstone Confluence Interpretive Center. The Board was also invited to attend the Midwest Association of Fish and Wildlife Agencies meeting July 12 at the Lewis and Clark Interpretive Center in Washburn, North Dakota. Merle Bennett will give a presentation on the Missouri-Yellowstone Confluence Project. The Trust is sponsoring lunch at the Center. An evening dinner and social at Fort Mandan sponsored by Pheasants Forever will end the event. Preliminary plans for the Board meeting are to leave for Williston the morning of July 13 and start the meeting at 1:00 p.m. A tour of Fort Union and Fort Buford is also possible, as well as touring the Elkhorn Ranch on the return trip to Bismarck.

Meeting adjourned.

Submitted by /s/ Keith Trego Dated 8/17/2004
Keith Trego, Executive Director

Approved by /s/ Richard Kroger Dated August 9, 2004
Richard Kroger, President