

NORTH DAKOTA NATURAL RESOURCES TRUST
Board of Directors Meeting
ND Game and Fish Department
100 N. Bismarck Expressway
Bismarck, North Dakota
December 17, 2009

The North Dakota Natural Resources Trust (Trust) Board of Directors winter meeting started at 8:30 a.m., Thursday, December 17, at the ND Game and Fish Department, Bismarck, North Dakota. Attending the meeting were Directors Gary Melby, Duane Liffbrig, Scott Peterson, Jack Olin, Genevieve Thompson, Tom France, and Terry Steinwand, ex-officio member, North Dakota Game and Fish Department. Trust employees Keith Trego, Terry Allbee, Karen Kreil, and Linda Roeder were present. Also present were Merri Mooridian, Garrison Diversion Conservancy District; Dan Devlin and JP Cavaliere, SEI, Inc.; Scott Hettinger, Dennis Breitzman, and Greg Gere of the Bureau of Reclamation; Kevin Kading, ND Game and Fish Department; and Scott McLeod, Ducks Unlimited.

Thursday, December 17, 2009

Scott Peterson called the meeting to order at 8:30 a.m., and we took roll call. Scott welcomed our newest board member Tom France, National Wildlife Federation, who replaces Dick Kroger. Scott called for a motion **to approve the agenda**. Genevieve Thompson moved and Duane Liffbrig seconded. Terry Allbee requested the Fisheries Trust Fund be removed from the agenda, and Linda Roeder said that News Releases or Public Notices should be taken off the agenda. The chairman called for a voice vote and the motion carried 6-0. Jack Olin moved **“to accept the minutes of the July 16 meeting.”** Tom France seconded. The chairman called for a voice vote and the motion carried 6-0.

Recommendations/Special Reports

Dan Devlin, SEI, introduced himself and JP Cavalier to Tom France and provided SEI's investment history with the Trust. The credit side continues to improve as liquidity returns to the market, and the valuations within the fixed income market have improved. Dan and JP reviewed the investment report. The portfolio value as of December 16 was \$19,572,700 (assets at SEI plus contributions), a 21.7 percent rate of return.

Discussion followed concerning the 2009 contributions from the Dakota Water Resources Act (DWRA). The Trust has received \$2.9 million in contributions that are currently held in a money market account within the Federal Account. SEI recommended the Trust set a \$1,000,000 balance for an Operating Reserve Account and to invest the remaining balance in the Federal Account over a three-month period. JP presented the two asset allocation options for the Operating Reserve Account. Keith emphasized the spending policy as presented is \$500,000 from investment income, and additional spending will come from project income. Dan made a recommendation to accept Option B as the assets allocation for the Operating Reserve Account, as shown on page 17 of the SEI report. Finance Committee Chairman Gary Melby moved **“to**

approve SEI's recommendations." Jack Olin seconded. The chairman called for a voice vote and the motion carried. This report is on file at the Bismarck office of the ND Natural Resources Trust.

Terry Allbee presented the second half financial report. He thanked the Finance Committee for helping draft the 2010 budget. He reviewed the 2009 actual to budget report. When the markets fell, the Trust faced the potential inability to carry out their obligations. Keith worked with the partners of the DWRA on the spendable funds. Two things guide the Trust operation. One is the federal enabling statute and the second is the initial agreement with the Bureau of Reclamation in 1986. Inconsistencies between the federal legislation and the agreement found the agreement more restrictive. The Bureau modified the agreement to delete state contributions from being unspendable. With the modification signed, the Trust was able to 'sweep' the interest and dividends to continue their work.

Keith Trego also worked with Senator Dorgan's office to modify the language of the federal enabling legislation. They drafted language that says the Trust can spend principal. We can spend up to 105 percent of our previous year's operating costs. The Bureau has an obligation to work with the Trust to set up a repayment schedule if we choose that option. All these changes have made the Trust a much stronger organization for the future. We owe many thanks to the Bureau of Reclamation, the Garrison Diversion Conservancy District, State Water Commission, and Senator Dorgan and his staff for all their help. Terry explained the income-sweeping process and then reviewed the 2010 budget.

Keith reported on the Big Oxbow Project (Phase I). Ducks Unlimited did an appraisal on the Maurer-Taylor property in 2009. The American Foundation for Wildlife paid for the appraisal. Some landowners in the confluence did not want to sell, and one landowner auctioned three parcels on December 16, 2009. A friend of the Trust purchased one parcel (235 acres) and will hold it for the Trust and its partners to fund in Phase II.

Basin Wind Project – Details of the project have been finalized, the MOU has been signed, and the Trust has received Basin's money. We are putting meetings together with a variety of partners to discuss conservation strategies. Discussion followed. Minnesota Power and Nextera have contacted the Trust to do something similar. The difference between them and Basin's project is that they have not borrowed federal monies.

Farm Bill – There are no new developments. The most significant things for North Dakota are changes taking place in some of the continuous practices. This involves Game and Fish, Pheasants Forever, and other partners. Jesse Beckers, Pheasants Forever, was unable to attend. Kevin Kading, ND Game and Fish Department, and Scott McLeod, Ducks Unlimited, covered some of those practices.

Kevin gave a slide presentation on the Conservation Reserve Enhancement Program (CREP). Certain targeted watersheds will receive grass and trees on small 20-acres blocks.

There wasn't much activity in the last few years, so they are trying to enhance the program and make some revisions to make it a more viable program. River systems, riparian corridors, and feeder drainages will be targeted in the western part of the state. The main goal will be expiring CRP and installing new CRP. It will tie in with existing water projects on the landscape, and public access will also tie in with it. An Environmental Assessment will be done at some point. Stakeholders will have input. Then it goes to the State Technical Committee and, at some point, the game and fish director and the head of the Farm Services Agency will sign it.

Scott McLeod, Ducks Unlimited, talked about their conservation program biologists. One biologist at the Sheridan County Natural Resources Conservation Service (NRCS) office does conservation program delivery in Sheridan, Kidder, and Burleigh Counties. The second biologist is at the Napoleon Field Office and works in Logan, McIntosh, and eastern Emmons Counties. These biologists work with producers to make them aware of other conservation programs and options. They can develop a conservation plan to provide the most benefits to the producer, as well as wildlife, such as a prescribed grazing or haying regime on expired CRP. A discussion followed.

Terry reported on the NRCS WRP program easement monitoring and 2009 Trust activity. A cooperative agreement was signed with NRCS in late July and the field work was done from August to November. NRCS had 128 easements totaling 22,410 acres. One hundred and ten site visits were done by the Trust. The site visits were done to see if the grass was established properly and the stands were maintained, if structures put in place for the wetland restorations were still there or breached, if signs were posted, and if there were dump sites.

The WRP program was reorganized in the new farm bill. NRCS received 722 applications in 2009 for 89,000 acres, totaling \$76 million worth of offers. They funded \$22 million for 110 applications, or 15 percent of applicants, totaling 25,000 acres.

The Trust entered an agreement in March with the Corps of Engineers (COE) to help deliver Missouri River projects in North Dakota. The money is administered by the Fish and Wildlife Service. Once the federal budget is passed, the 2010 allocation with the COE will be finalized.

Keith talked about the Farm and Ranch Protection Program (FRPP). We completed three projects along the river north of Mandan. All FRPP contracts are written as permanent easements. The fourth easement in 2006 stopped because the IRS questioned the tax deductions taken because of North Dakota's 99-year easement restriction. To date, the IRS has not made a ruling. We are working on a potential easement with Neil Effertz on his property north of Bismarck.

Karen Kreil gave an update on biomass. The Spiritwood project is a multi-year partnership of the energy, agriculture, and conservation groups. Great River Energy (GRE) is building a 99 MGW coal-fired power plant. They plan to sell the waste heat and steam to co-

located industries. They will be using coal from mines north of Bismarck. The Trust's interest in the project comes from GRE's leadership and support of conservation. They hope to co-fire ten percent biomass from the surrounding area of the Spiritwood facility. Initially they will use crop residues, but there is potential to transition to dedicated energy crops. A feasibility study was completed in September 2009. This study was funded by the ND Industrial Commission. Two important findings of the study were biomass can be used to reduce greenhouse gases at a utility-scale power plant without raising electricity prices for customers and there is a strong potential for dedicated energy crops. Spiritwood had two new partners – Inbicon Cellulosic Biomass Refinery, a Danish company, and Otoka Energy, a Minnesota based renewable energy developer. However Otoka Energy recently withdrew, and GRE is seeking a third partner.

Evaluation of Perennial Herbaceous Biomass Crops in North Dakota – North Dakota is ranked first for dedicated energy crops. Conservation benefits include good energy input/output ratio, reduction of greenhouse gas emissions, carbon sequestration, reduction of soil and water erosion, and providing good wildlife habitat. There are ag and rural economic opportunities that perennial herbaceous biomass crops provide, such as additional income through carbon credits, they are lower risk than annual crops, and they are better for the environment.

The ND Industrial Commission and Renewable Energy Council Grant – This grant will continue to expand the biomass plots study. The total project cost is \$420,000. We requested \$280,000 through the grant, \$132,500 cash came from Trust partners, and an additional \$7,500 in in-kind match. The communication plan was completed, and we received the first payment of \$28,000.

Old Business

During the Finance Committee meeting with Trust staff prior to the board meeting, the executive director had asked the committee to consider recommending to the full board reinstatement of 2009 salary increases which were suspended due to the Trust's financial challenges caused by the market drop. Now, with numerous financial adjustments successfully completed, the Trust is once again in a strong financial position.

Gary Melby, Finance Committee chair, moved **“to reinstate increase for salaries in budget.”** Genevieve Thompson seconded and a voice vote was called. Motion carried.

Gary Melby moved **“to accept audit service of Mahlum & Goodhart, PC.”** Duane Liffriig seconded. A voice vote was called and the motion carried.

New Business

Genevieve Thompson gave an update on the Northern Plains Wind Energy Forum. A combination of energy and conservation agencies got together to recommend voluntary wind energy guidelines by consensus for citing wind energy in the right places. Currently, the guidelines are on hold until guidelines drafted by biologists specific to grouse, prairie chickens, and sharptails are completed and reviewed by a grouse science technical committee. National guidelines drafted by the Federal Advisory Committee should be ready in about three months. The northern Great Plains has been chosen by the American Wing Wildlife Institute for pilot mapping. The Forum is waiting to review and compare these documents before finalizing their guidelines. Discussion followed.

Genevieve Thompson moved **“to approve the 2010 budget as presented by staff.”** Duane Liffbrig seconded. A voice vote was called and motion carried.

The 2010 board meeting spring and summer dates are April 15 and July 15, respectively. The fall meeting date will be decided at one of these two meetings.

Genevieve Thompson moved **“to adjourn”** and Tom France seconded. Motion carried.

Submitted by /s/ Keith Trego Dated 4/15/10
Keith Trego, Executive Director

Approved by /s/ Scott Peterson Dated 15 April 10
Scott Peterson, President